Community Trust South
TE POU ARATAKI POUNAMU O MURIHIKU

Statement of Investment Policies and Objectives

of

Community Trust South

Date adopted: 24 July 2024

Date of next review: 24 July 2025

1 Introduction

1.1 ABOUT THIS DOCUMENT

This Statement of Investment Policy and Objectives (the "SIPO") prepared by the Trustees (the "Trustees") of Community Trust South (the "Trust") sets out the objectives, policies and beliefs governing decisions about investments in relation to the Trust's assets.

This document provides all parties involved in the management of the assets of the Trust (the "Portfolio") with a working document that clearly identifies the investment objectives, investment strategy, performance measurement criteria and the constraints to be observed.

The investment management process is to be implemented in accordance with:

- the Trust Deed; and
- the Trusts Act 2019

1.2 RESPONSIBILITIES

The Trustees are responsible for the investment of the Portfolio. The Trustees shall:

- determine the long-term objectives for investment of the Portfolio,
- determine the investment strategy for the Portfolio, including setting the benchmark asset allocation and trading ranges;
- determine the number of Investment Managers to be used and appoint the Investment Managers; and
- appoint an Investment Committee and an external Investment Advisor to perform the functions set out below;

The Investment Committee shall:

- make recommendations to the Trustees on the long-term objectives for investment of the Portfolio;

- make recommendations to the Trustees on the investment strategy for the Portfolio, which includes the benchmark asset allocation and trading ranges;
- make recommendations to the Trustees on the number of Investment Managers to be used and on the appointment of Investment Managers;
- determine the guidelines and constraints for the Investment Managers for the management of the assets;
- establish performance objectives for the Investment Managers;
- monitor the performance of the Investment Managers against their performance objectives;
- monitor the performance of the Portfolio against its long-term objectives;
- oversee that the Portfolio is invested in accordance with the SIPO; and
- review this SIPO at least every year.

The Investment Advisor shall:

- provide advice to the Trustees and the Investment Committee on:
  - the investment strategy for the Portfolio;
  - the selection of Investment Managers;
  - the performance of the Portfolio towards its long term objectives and the Investment Managers' performance against their performance objectives;
  - periodic rebalancing of the Portfolio relative to the benchmark asset allocation. For routine rebalancing the CEO has delegated authority to action rebalancing trades based on the advice of the Investment Advisor;
  - any changes that affect the way the Portfolio is or should be invested
- provide monthly reports to the Investment Committee assessing the performance of the Portfolio against its long-term objectives and the Investment Managers against their performance targets;
- participate with the Investment Committee in the regular review of this SIPO.

The Investment Managers shall:

- invest the assets of the Portfolio in accordance with the agreed mandates;
- provide such reporting as is agreed with the Trustees;
- advise the Trustees in writing of any changes in the investment objectives, guidelines or constraints of any pooled investment vehicle in which the Portfolio is invested;
- as requested by the Trustees, attend meetings of the Investment Committee to discuss investment performance.

The Chief Executive Officer (CEO) is responsible for the implementation of the investment strategy in accordance with the SIPO.

1.3 SIPO REVIEW

This SIPO will be formally reviewed at least annually, taking into account a number of factors including changes in investment markets and in investment opportunities, or changes to Investment Managers. An ad hoc review may be initiated if the Trustees deem it appropriate.

Any changes to the SIPO must be approved by the Trustees.

2 Description of the Trust

2.1 BACKGROUND

The Trust is a community owned grant-making organisation created from the community's former ownership of Trust Bank Southland. The sale of the shareholding in the Bank in 1996 formed the basis of the Portfolio.

The Trust supports charitable or non-profit groups and organisations in the Southland province and the Queenstown, Glenorchy, Arrowtown, Tapanui and Heriot areas, by giving grants, scholarships for projects and investing in organisations which benefit the community.

By investing prudently and being responsible when grant making, the Trust is expected to continue indefinitely.

2.2 ASSETS

The current assets available for investment are approximately $246m (as of 31 March 2024).

The capital base of the Trust was set at $158.46m as of April 1996. The capital base is adjusted each year to allow for the effects of inflation.

The current inflation adjusted capital base of the Trust is $305m (as of 31 March 2024).

2.3 TAXATION

The Trust's investment income is subject to taxation rules for Community Trusts and therefore the Trust does not expect to pay New Zealand income tax on the investment income earned on the Portfolio.

3 Investment Philosophy

The Trustees' investment philosophy is framed by a set of fundamental beliefs:

- There is a trade-off between risk and return when choosing between diversified investment strategies. Strategies with higher expected returns are expected to have higher risk.
- As the Trust is perpetual, it can maintain a long investment horizon and therefore accommodate a high level of risk tolerance. While short term volatility of returns is important in terms of influencing the perceived capacity of the Trust to maintain its expenditure, the real risk is whether the investments of the Trust will deliver long-term real returns at least equal to the level of overall spending, as specified in the Spending Policy.
- Diversification is a primary source of risk reduction.
- Asset allocation is the key determinant of long term investment performance in a diversified portfolio.
- It is hard to increase portfolio returns through tactical asset allocation, and very few investors can do it consistently, but prevailing market conditions do influence future returns.
- Exchange rates are not predictable in the short term but can be observed to trend around a long-term equilibrium.
- Investment returns are made up of income (dividend and coupon payments) and growth (capital gains), but it is the total return on the portfolio that matters in the long term.
- Long term investors can enhance returns through accessing a liquidity premium.
- Investment markets are not perfectly efficient, so skilled active managers can theoretically provide higher gross returns than a passive approach over the long term.
- The role of bonds in a well-diversified portfolio is to provide regular income and liquidity and to reduce volatility.

4 Investment Objectives

4.1 INVESTMENT POLICY OBJECTIVES

- To generate sufficient returns (from dividend and interest income and from capital gains) to allow the Trust to meet its budgeted distributions and expenses, as specified in the Spending Policy.
- To grow the Portfolio value in excess of inflation in order to restore it to the inflation-adjusted capital base level over the long term.
- Once the inflation-adjusted capital base has been restored, the Trustees will seek to build, and then to maintain, an "investment fluctuation reserve" over and above the inflation-adjusted capital base. The Trustees will seek to maintain the investment fluctuation reserves at an optimal level of 10% above the inflation-adjusted capital base.

4.2 INVESTMENT PERFORMANCE OBJECTIVES

The primary performance objective is to achieve a total return (after investment management fees) which is 4.0% in excess of inflation, as measured by the CPI, over rolling 10-year periods.

The Trustees acknowledge that this is a long-term objective and the Portfolio will be subject to short term volatility. A negative return can be expected to occur one year in every five years on average.

A secondary objective is to achieve a total return (after investment management fees) which exceeds the Benchmark Return (outlined in Section 4.3 below) by 0.6% p.a. over rolling five-year periods.

4.3 BENCHMARK RETURN

The benchmark return is calculated as the return (before tax and investment management fees) that would have been earned had the assets been invested according to the Benchmark Asset Allocation outlined in Section 5.2 and each asset class had earned the return of the index specified in Section 4.4 below.

4.4 ASSET CLASS BENCHMARKS & PERFORMANCE OBJECTIVES

The benchmarks and performance objectives for asset classes are as follows:

Asset Class	**Benchmark***	**Excess Return Objective (after fees)**
Domestic Shares	S&P/NZX 50 Index	Benchmark plus 1.5% p.a.
NZ Private Equity	10% p.a.	0%
Global Private Equity	MSCI AC World (net) + 3%	Benchmark plus 0% p.a.
Global Shares	MSCI All Country World Index (net)	Benchmark plus 1% p.a
Property	Listed – FTSE EPRA/NAREIT Developed Index Unlisted – CPI + 4%	Listed – Benchmark plus 1% p.a. Unlisted – Benchmark plus 0% p.a.
Infrastructure	Listed – FTSE Developed Core Infrastructure Index Unlisted – CPI + 4%	Listed – Benchmark plus 1% p.a. Unlisted – Benchmark plus 0% p.a.
NZ Cash	S&P/NZX Bank Bills 90-Day Index	Benchmark plus 0% p.a.
NZ Bonds	S&P/NZX Composite Bond Index	Benchmark plus 0.4%
Global Bonds	Bloomberg Global Aggregate Index	Benchmark plus 0.4%
Private Credit	S&P/NZX Bank Bills 90 Day + 4%	Benchmark plus 0% p.a.
NZ Loan	3.8% p.a.	0%

*Where applicable, the associated currency hedging policy is as set out in Section 6.2. These benchmarks may differ from those used by the appointed Investment Managers.

Performance will be considered unsatisfactory if the Performance Objective is not met over the life of the product for a Private Equity fund or over rolling 10 year periods for a Private Equity fund which does not have a closed end, over rolling 12-month periods for Cash, and over rolling three-year periods for all other asset classes.

5 Investment Strategy

5.1 INVESTMENT MANAGERS

The Trustees' policy is that external investment professionals (the "Investment Managers") will manage the Portfolio and the Trustees have appointed a range of Investment Managers in specialist sector mandates. The Investment Managers have been selected for each sector based on their perceived ability to meet the performance targets.

The Trustees take advice from the Investment Committee and the Investment Advisor in the selection and monitoring of the Investment Managers.

5.2 BENCHMARK ASSET ALLOCATION

Given the objectives and the nature of the Trust, the capital will be invested based on the following long-term Benchmark Asset Allocation.

Sector	Benchmark	Range
Growth Assets	**70%**	**60% - 80%**
Domestic Shares	10%	5% - 15%
NZ Private Equity*	10%	0% - 20%
Global Private Equity*	5%	0% - 10%
Global Shares	30%	25% - 35%
Infrastructure/Property	15%	10% - 15%
Income Assets	**30%**	**20% - 40%**
NZ Cash	5%	5% - 10%
NZ Bonds	5%	0% - 10%
Global Bonds	5%	0% - 10%
Private Credit	7%	5% - 10%
NZ Loan	8%	0% - 10%

**The private equity allocations have a broader trading range, than would otherwise be the case, due to the illiquid nature of these investments*

The asset allocation of the Portfolio will generally be maintained within the ranges indicated in the table above in regular market conditions. However, if the Trust is divesting out of a particular investment during a period of distressed market conditions, the divested amount may be held in cash, bonds or an approved low risk alternative for a period of up to 6 months (i.e. an extended transition period) before either being reinvested into the same sector, or a potential revision of the SIPO. Distressed market conditions are defined as a fall of greater than 10% in any index set out in section 4.4 over a period of three months or less. Under these circumstances, any variation of up to 10% of capital outside the above permitted trading ranges caused by this extended transition is permissible.

5.3 TACTICAL ASSET ALLOCATION

The asset allocation of the Portfolio will generally be maintained within the ranges indicated in the table above.

The Trustees will not seek to enhance Portfolio returns through the use of Tactical Asset Allocation, however prevailing market conditions may be taken into account when implementing portfolio changes or managing cash flows.

5.4 PERMITTED INVESTMENTS

Subject to the Responsible Investment Policy set out in Section 6.1, the Investment Managers may invest in a broad range of Shares, Fixed Interest Investments, Property, Infrastructure and Cash. Securities may be listed or unlisted, and the Investment Managers may borrow, short-sell securities and use Derivative Products. Each Investment Manager will operate within their own individual investment mandate approved by the Trustees.

5.5 INVESTMENT STRATEGY REVIEW

The Trustees, with advice from the Investment Committee and the Investment Advisor, review the appropriateness of the Investment Strategy on an on-going basis.

The Benchmark Asset Allocation will be formally reviewed at least every three years. An ad hoc review may be initiated if the Trustees deem it to be appropriate as a result of factors such as changes in investment markets or in the objectives of the Trust. The Benchmark Asset Allocation was last updated in June 2023.

6 Investment Policies

6.1 RESPONSIBLE INVESTMENT POLICY

The Trust is the kaitiaki of the funds for the people in our area in perpetuity. As such, the Trust has a financial as well as social responsibility to its stakeholders. The Trust invests responsibly and integrates Environmental, Social, Governance and Te Tiriti o Waitangi (ESGT) factors that impact on society and the planet into its investment decision-making and aims to have ownership practices aligned with the expectations of its stakeholders.

As all investments create impact, the Trust:

- aims to minimise harm,
- seeks positive impact while generating wealth.

The Trust recognises that its commitment to, and embedding of, Te Tiriti o Waitangi across all its mahi is a journey and there will be an evolution and progression over time as understanding and partnerships grow. The Trust recognises that the implications for investments of its commitment to Te Tiriti o Waitangi is an area where greater understanding is needed. The Trust will engage with the Investment Advisor and others with the knowledge and expertise to grow knowledge in this area. As the Trust embarks on this mahi it will take an approach which reflects its commitment to participation, partnership, and protection under Te Tiriti o Waitangi.

The Trust strongly believes that climate change is an urgent global issue to address and supports actions to help deliver a more sustainable future. As such, the Trust targets the transition of its investments to achieve net zero portfolio greenhouse gas emissions (GHG) by 2050 or sooner (referred to below as “Net Zero 2050”). The Investment Adviser will report on GHG emissions where data is available. Where practicable, interim milestones will be set and monitored against, with regular reviews for alignment with the target.

Where possible, the Trust seeks to be an active owner and incorporate sustainability issues into its ownership policies and practices by working collaboratively with its Investment Managers and / or other investors to:

- Engage with portfolio companies both directly and indirectly to change behaviours;
- Align with governance best-practice by exercising voting rights;
- Use the expertise of specialist providers of research and proxy voting services;
- Advocate on issues that improve societal outcomes.

The Trust takes a pragmatic approach to responsible investment and encourages further evolution in pursuit of continuous improvement. To ensure its portfolio is efficiently managed and highly diversified, the Trust may invest via Investment Managers' pooled products. In doing so, the Trust recognises that:

- the Trust has limited influence over the ownership of securities within such pooled products; and
- at times, there may be ownership in securities of companies or activities that some stakeholders may not approve of. Generally, these positions will be a very small fraction of the overall portfolio. There is often no cost-effective way of identifying and excluding these companies from the investment universe of several thousand companies. The Trust will engage with Investment Managers and seek investment options that minimise the risk of investing in companies that do not meet the Trust's responsible investing standards.

6.2 CURRENCY HEDGING POLICY

The Trustees believe that within the Global Shares portfolio, some currency exposure is desirable as it can lead to increased diversification; however, for New Zealand based investors there has historically been a premium to be earned by hedging currency exposure.

Foreign currency exposure introduces an additional source of risk to offshore assets. Currency hedging should primarily be used to manage the impact of currency fluctuations on Portfolio returns over time.

6.2.1 Global Private Equity Investments will generally be left unhedged due to the inability to estimate with any precision the timing or magnitude of cash distributions, in addition to lagged valuation of private assets.

6.2.3 Global Property/Infrastructure, Global Bonds and Private Credit will be 100% hedged.

The Trust's currency hedging policy is set out below.

Asset Class	Hedging target
Domestic Shares	N/a
NZ Private Equity	N/a
Global Private Equity	No hedging
Global Shares*	50%
Global Infrastructure/Property	100%
NZ Cash	N/a
NZ Bonds	N/a
Global Bonds	100%
Private Credit	100%
NZ Loan	N/a

* Emerging Markets Equity held by the global equity managers will be unhedged as the trading volume and liquidity of hedging instruments in these markets leads to a less efficient and higher overall cost of hedging.

6.3 MARKET AND CREDIT RISK MANAGEMENT POLICY

Market risk is mitigated by having a Benchmark Asset Allocation for the Portfolio which is consistent with the objectives for the Trust.

Assets are diversified across a range of asset classes and a wide range of securities is required to be held by each Investment Manager, resulting in a diversified portfolio with limited risk to any single investment.

Except where there is a clear strategic advantage (for example in the Private Equity portfolio), the Trust should hold no more than 2% of the equity of any one company and it would be expected that no holding in a single company should equal more than 2% of the market value of the Portfolio, though if several equity managers hold the same company, the overall exposure may exceed 2% on occasion.

The Trust may consider Impact Investments with a market or credit risk over the limits indicated within the SIPO. Risk characteristics of potential Impact Investments are considered and compared to the overall risk of the Trust's investments. Any increase in risk to the overall investment portfolio by making the Impact Investment is carefully considered and weighed against the expected ESGT Impact.

6.4 REGIONAL INVESTMENT POLICY

In allocating the Portfolio between, and within, the investment sectors it is recognised that the Trust has made a commitment to invest up to $25m with Invest South and that this investment forms part of the Portfolio's allocation to the NZ Private Equity sector. These funds are to be invested in accordance with the Memorandum of Understanding between the Trust and Invest South.

Impact Investments will generally be regional by nature and will increase the geographical concentration risk of investments. This risk will be considered as part of the Impact Investing Policy.

6.5 IMPACT INVESTING POLICY

In fulfilling its purposes, the Trust may choose to consider Impact Investments as part of its support for the community, to extend the impact of the Trust over and above the traditional grant making and to use the Trust's assets to support the Trust's strategic priorities. Impact investing can be an effective way of leveraging the Trust's investment assets to also provide benefit to the community.

Impact investments are investments made with the intention to generate a measurable positive Social or Environmental Impact alongside an Investment Return.

Total Impact Investments will not exceed 10% of the value of the Portfolio and will be included as part of the Strategic Asset Allocation.

The Trust may consider Impact Investments with returns below the investment performance objectives set out in the SIPO. However, the present value of Social or Environmental Impact accruing from an Impact Investment would need to exceed the present value of any lost Investment Return.

The Trustees may periodically quantify and consider this present value of the Social or Environmental Impact across some or all impact investments when evaluating the achievement of the primary performance objective of the overall investment portfolio as specified in Section 4.2.

7 Performance Measurement

7.1 MONTHLY MONITORING

The performance of both the Trust towards its long-term objectives and the Investment Managers against their performance targets will be monitored monthly by the Investment Advisor with the assistance of the Investment Managers.

The reports will consider the following:

- the investment performance of the Portfolio relative to the long-term investment objectives of the Trust;
- the investment performance of the Investment Managers against the agreed targets;
- an assessment of the performance of the Investment Managers relative to other New Zealand based wholesale Investment Managers;
- the asset allocation of the Portfolio relative to the agreed Benchmark Asset Allocation; and
- any other information that would assist the Trustees in understanding further the performance of the Portfolio or the Investment Managers.

7.2 SATISFACTORY PERFORMANCE

The Investment Managers' performance is to be measured over rolling periods and will take in account matters considered relevant by the Trustees including the specific strategy undertaken by each Investment Manager. The Trustees do not guarantee that any Investment Manager will be appointed for any specific time, irrespective of this measurement period.