

STATEMENT OF INVESTMENT POLICY AND OBJECTIVES

MARCH 2021

Auckland Foundation Statement of Investment Policy and Objectives

Introduction

Auckland Foundation is a New Zealand registered charitable organisation established to provide a trusted vehicle through which individuals, families and community groups can channel their philanthropic funds to build a permanent legacy for the communities they serve. The Foundation manages all the administrative functions and compliance required of donors to make giving easy and perpetual. As a charity, Auckland Foundation is tax exempt under current New Zealand law. Auckland Foundation is intended to be a perpetual Foundation for the long-term benefit of the citizens of the Auckland region.

The Foundation's goal is to grow the funds under management through donor contributions and investment returns to provide a sustainable and growing programme of grants to community causes and projects. This document is intended to provide transparency and discipline around the investment of the Foundation's funds, and to guide Trustees and staff in achieving the Foundation's objectives and meeting their fiduciary obligations.

Objectives

The objectives of this Statement are to:

- (i) Formulate the policies and objectives that provide for the prudent investment of the financial assets of Auckland Foundation in accordance with its purpose and values;
- (ii) Maintain the real value of the capital of the Foundation;
- (iii) Maximise the total return from the investments consistent with a prudent level of risk and a diversified mix of asset classes and geographies while seeking efficiencies in management fees where appropriate;
- (iv) Set the Foundation's return target, net of tax and charges, as being the rate of inflation as determined by the CPI plus 4% per annum averaged over rolling 5 year periods, which we believe is the right balance between risk and return;
- (v) Ensure there is sufficient liquidity to fund a sustainable level of grant-making in accordance with policies set by the Board from time to time;
- (vi) Set out management roles and responsibilities for proper governance of the Foundation's investments.

Investment Beliefs

Auckland Foundation's investment strategy is driven by the following investment beliefs:

- (i) Strong governance and well-defined transparent decision-making processes enable sound investment outcomes;

- (ii) Investment activity is complex and needs to be undertaken by skilled professionals subject to Trustee oversight and clear mandates;
- (iii) Investment markets are generally efficient over time and therefore low-cost passive products have a role where appropriate;
- (iv) Investment for growth requires taking some risk but this can be managed through broad diversification among and within asset classes and through a managed asset allocation;
- (v) Responsible investors should have regard to the environmental, social and governance standards implicit in their investment choices.

Investment Principles and Policies

- (i) Auckland Foundation's investment horizon is long term and therefore a certain amount of volatility can be tolerated provided there is sufficient liquidity to meet granting needs. The asset allocation must be appropriate to balance the need for long-term growth with the need to fund a sustainable granting programme;
- (ii) Auckland Foundation may approve one or more Investment Managers to provide donors with appropriate options to achieve their philanthropic goals;
- (iii) Investment Managers managing low cost, passive investment strategies are expected to perform in line with their benchmark indices, net of fees over the medium to long term;
- (iv) Investment Managers managing active strategies are expected to out-perform their benchmarks, net of fees, over the medium to long term;
- (v) Investment management fees must be transparent and reasonable;
- (vi) The Board will agree an asset allocation with the relevant Investment Manager to achieve our return target with an acceptable level of risk;
- (vii) The asset allocation should be rebalanced by the Investment Manager from time to time back to its long-term setting to maintain the benefits of diversification without incurring additional or unintended cost;
- (viii) Tax will not drive investment decisions, however Investment Managers should respect the value of the Foundation's tax-exempt status;
- (ix) The Board and the Investment Managers will agree consistent and commonly accepted benchmarks to be used to measure individual fund manager performance over short, medium and long terms, as well as for the funds as a whole;
- (x) Auckland Foundation will report regularly to its donors on the performance of the portfolio against the agreed benchmarks;
- (xi) Environmental, Social and Governance (ESG) considerations should be integrated into the Foundation's investment decision making processes to the extent reasonably possible. The Foundation's benchmark for ESG good practice is the United Nations Principles of Responsible Investment.

Investment Management

Auckland Foundation aspires to best practice investment processes. The Foundation recognises the need to engage professional Investment Managers to optimise the risk adjusted return on the funds and implements a robust procurement process when selecting and monitoring professional managers.

Donations are invested and monitored following a clear and transparent process which is overseen by management and the Investment Advisory Committee and reported to the Board.

All investments must be held securely by a reputable custodian which is independent of the Investment Manager and the Foundation.

Roles and Responsibilities

Office	Role and Responsibilities
AF Board of Trustees	<ul style="list-style-type: none"> - Holds ultimate fiduciary responsibility and accordingly must approve strategy through the SIPO - Determines income for the purposes of grant distribution - Sets delegations and authorities - Approves appointment and termination of Investment Managers
AF Investment Advisory Committee	<ul style="list-style-type: none"> - Oversees investment and implementation and ongoing compliance with the SIPO and third-party investment agreements - Makes recommendations to the Board of Trustees - Manages the Investment Management Review process and makes recommendations to the Board of Trustees
AF Management	<ul style="list-style-type: none"> - Executes investment management delegations and authorities - Monitors investment performance and compliance
Investment Managers	<ul style="list-style-type: none"> - Implement investment research and security selection decisions for the assets to give effect to the strategy for which they were appointed
Custodial Services	<ul style="list-style-type: none"> - Hold AF investments securely and independently of the Investment Manager and the Foundation
Registry Services	<ul style="list-style-type: none"> - Provide investment accounting and administrative services

Investment Categories

Auckland Foundation receives donations that have different grant making objectives. To accommodate this there are two investment categories; a Pass Through Account and an Endowment Fund.

Category 1: Pass Through Account

These assets are held in cash and short-term deposits and are generally expected to be applied within 12 months. Auckland Foundation monitors and manages the Pass Through Account to optimise and maintain the short-term value. Auckland Foundation's objective for the Pass Through Account is to achieve the best possible return, consistent with the short-term goals of donations pending application. Periodically this category will be used to preserve the nominal value of funds while a longer-term investment strategy accumulates in size and reaches our minimum investment and tranche amounts (see below).

Category 2: Endowment Funds

These assets have a long-term investment horizon consistent with endowment funds. The assets are invested in a strategy that achieves both a level of income generation to support long-term grant making and provides the potential for capital growth to help overcome the negative impact of inflation over time.

Endowment funds may make regular grants or choose to grow until they meet agreed criteria that allows them to grant effectively. Where endowment funds are established in perpetuity, Auckland Foundation's Board will have a distribution policy that will help guide the granting and distributions.

The estimated level of drawings from the Category 2 Accounts will be recommended by the Board and reviewed annually.

Category 2 Account Performance Metrics

Time Horizon: Long Term

Return Objective: The funds will aim to return 3% - 5% p.a. net of tax and charges, over the Consumer Price Index (currently assumed at 2% p.a.).

Risk Appetite: Using an 8% volatility measure it is expected that for 68% of the time (one standard deviation or 7 out of 10 years of the return) the fund will likely return between -1% and 15%. This is +/- 8% of the assumed return above. Two standard deviations, or 95% of the time, it is expected the funds will return between -9% and +23%.

Mandates

Investments will be governed by the terms of an Investment Management Agreement between Auckland Foundation and each Investment Manager.

Reviews

This Statement of Investment Policy and Objectives should be reviewed at least every three years from the date of its adoption by the Board.

Version Number

Version 4 reviewed in March 2021 and approved in March 2021.

Certified as having been approved by the Board of Auckland Foundation

Signed:



Date:

11 May 2021

Name:

Ian Short

Position:

Interim Chair