

The University of Auckland Foundation

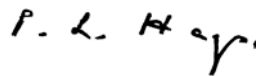
Current Use Investment Pool

Statement of Investment Policy and Objectives

Adopted by the Trustees on: 3rd December, 2010



Signature



Signature

The University of Auckland Foundation Current Use Investment Pool Statement of Investment Policy and Objectives

1. General

This document has been created to identify the process that the Trustees have gone through to establish their investment objectives and strategy for The University of Auckland Foundation *Current Use Investment Pool (CUIP)*. The Trustees are aware that they are subject to New Zealand (NZ) legislation, particularly the Trustee Act 1956 and the Prudent Person rules of that Act and the Certificate of Incorporation. Appendix B summarises the relevant parts of the Certificate of Incorporation and Trustee Act 1956.

The Trustees have delegated the following powers to the Foundation's Investment Committee:

1. Interviewing, recommending as to selection, and monitoring of investment consultant(s);
2. Interviewing, recommending as to selection, and monitoring of fund manager(s);
3. Recommending as to approval and monitoring of SIPO(s).

This Statement of Investment Policy and Objectives (**SIPO**) provides all parties involved in the investment management of the CUIP's assets with a working document that clearly identifies the investment objectives, strategy and constraints, and the performance measurement criteria.

The Trustees will review this SIPO on a regular basis taking into account a number of factors including any changes in investment markets and investment opportunities, managers and the Trustees' risk/return expectations.

2. Nature of Liabilities and Risk

2.1 Structure of Liabilities - Investment Funds

Current Use Investment Funds represent capital which will be distributed, generally within a period of 36 months after its receipt in accordance with the wishes of donors. It provides funding for student

scholarships, research fellowships, construction costs of educational facilities, professional salaries and such like. Within the CUIP are many separate donations, of varying age, which are individually named, accounted for, and allocated their share of the CUIP return. Like all other funds of the Foundation, investment returns on the CUIP funds are zero-rated for income tax.

Liquidation of Capital

The CUIP liquidates capital to meet the distribution wishes of donors and beneficiaries.

Outflows (Available Income)

The policy of the CUIP is to pay distributions following authorisation by the Trustees.

3. Investment Objectives

3.1 Investment Policy Objectives

The Trustees' investment policy objectives are, in order of decreasing importance, to:

1. Ensure that the CUIP's investments comply with all legal requirements and in particular the requirements of the Trustee Act 1956.
2. Ensure that there is adequate liquidity to meet distribution requirements.
3. Minimise investment risk by appropriate diversification of the CUIP's assets within and across the classes of cash, term deposits, bank backed short-dated securities and NZ Bond Funds.
4. Maximise the return to the CUIP pool, without undermining the three previous investment policy objectives, while still having a high probability of an original donation retaining its nominal value by the time it is to be distributed.

3.2 Investment Performance Objectives

The Trustees have established the following investment performance objectives:

Primary Objective

The CUIP return (net of investment manager fees) is to match or exceed the change in the NZ Consumer Price Index as issued by the Reserve Banks of NZ (CPI) over rolling twelve-month periods;

Secondary Objective

The CUIP return (net of investment manager fees) is to exceed the return of the benchmark 90-Day Bank Bill index, measured over rolling five-year periods.

3.3 Managers' Performance Objectives

The managers' performance objectives are as follows:

| Manager | Asset Class | Performance Target (after fees) |
|-----------------------|-------------------------------------|--|
| Foundation | NZ Cash & bank backed term deposits | above Index |
| AMP Capital Investors | NZ Bonds | 0.5% pa above Index |

The manager's net of fees return will be measured against a *Performance Target* (see table above) over rolling five-year periods for NZ Bonds and rolling 12-month periods for NZ Cash.

Future manager replacements and appointments will be approved by and noted in the minutes of the Board of Trustees.

A manager's performance will be considered unsatisfactory if the Performance Target as measured over rolling five-year periods for NZ Bonds and rolling 12-month periods for NZ Cash is not met.

For periods where CUIP funds are invested in products or deposits that pay interest on maturity then performance will be measured on an "on-target" approach.

The indexes used to assess the managers' performance are shown in Appendix A.8.

In addition to the above criteria, the investment manager's performance is expected to be consistently in the top half and ideally in the upper quartile when measured against their peers in the Aon Investment Update (or acceptable equivalent) over rolling five-year periods for NZ Bonds and rolling 12-month periods for NZ Cash.

4. Investment Strategy

4.1 Long Term Strategy

The Trustees have formulated an investment strategy that is intended to achieve the two investment objectives.

The assets of the CUIP will, where appropriate, be diversified across various institutions with varying maturity dates, to reflect the CUIP's liabilities and performance objectives. The strategy will be reviewed from time to time and as circumstances warrant.

The current strategy is set out in the following table and has resulted from considering the expected return versus risk associated with NZ Cash/NZ Bond funds, as reproduced in Appendix C.

| Asset Class | Allocation | Range |
|--|-------------------|--------------|
| Cash and bank backed term deposits: | | |
| - remaining term to maturity up to 730 days inclusive (Class I Securities) | 80% | 60-100% |
| - remaining term to maturity from 731 to 1827 days inclusive (Class II Securities) | 10% | 0-20% |
| NZ Bonds (Class III Securities) | 10% | 0-20% |
| Total Assets | 100% | |

4.2 Review of Allocation and Ranges

The appropriateness of the allocation and ranges will be formally assessed at least once a year and kept under review to reflect any fundamental changes in the investment environment and changes to the CUIP's investment policy.

4.3 Allocation Policy

The weighting to any NZ Bond product provider may represent 100% allocation of the total asset class (Class III Securities).

Unless the Trustees instruct otherwise:

- From time to time, when large distributions are made (out of Class I Securities), Class I Securities could fall below 60% of the CUIP. In that circumstance, rebalancing will be achieved, not by liquidating Class II or Class III Securities but rather, by applying all subsequent new cash (from gifts, income, and redeemed term deposits) to Class I Securities until it is above 60% of the CUIP.

In an attempt to add value in excess of the benchmark return, and with due regard to the liquidity and distribution requirements of the CUIP, the Trustees can use their discretion to go underweight or overweight the asset class, within the allowed ranges, taking into account appropriate leading indicator models and other suitable information as they see fit.

The following table shows for each asset class the current Investment Vehicle and Manager.

| Asset Class | Investment Vehicle | Manager |
|-------------------------------------|----------------------------|-----------------------|
| NZ Cash & bank backed term deposits | Various bank term deposits | The Foundation |
| NZ Bonds | NZ Fixed Interest Fund | AMP Capital Investors |

5. Constraints

The following constraints will apply.

Legal Requirements: The investment of the CUIP assets will comply with all legal requirements, and in particular with the Trustee Act 1956 (Prudent Person Legislation) and the Certificate of Incorporation.

Liquidity: The CUIP must hold sufficient investments that are readily marketable so that there is sufficient liquidity to meet payments as they fall due.

Derivatives: The use of futures, options and other synthetic investments is not permitted within Class I and Class II Securities. In the case of Class III Securities, the use of futures, options and other synthetic investments is permitted wherever their use is consistent with the objectives of the CUIP to protect value, change asset allocation and/or duration, and any other lawful use, always abiding by these investment constraints. In particular, derivatives will not be used in a speculative manner which would gear the funds and at all times all long

positions are to be fully covered by cash or liquid securities and any short positions must be matched by physical securities.

Pooled Funds: Where the Trustees determine that an appropriate investment vehicle is a pooled investment arrangement, it is recognised by the Trustees that the strict interpretation of these investment constraints may not be possible or desirable. Where such a pooled arrangement is utilised the manager of that pooled arrangement shall be required to disclose to the Trustees as soon as practicable details of any investment that materially falls outside these constraints so that the Trustees can reassess the ongoing suitability of the pooled Investment vehicle.

Bank Cash & Term Deposits: Any issuer of Class I and Class II Securities, including Registered Banks, must be rated at least A-1 by Standard and Poor's (or equivalent).

NZ Bonds: The maximum exposure to securities issued or guaranteed by entities (other than those issued or guaranteed by the NZ Government or Reserve Bank of NZ) shall be:

| | |
|--------------|-----|
| AAA to BBB- | 85% |
| A+ to BBB- | 45% |
| BBB+ to BBB- | 15% |

The maximum exposure to securities issued or guaranteed by any one entity (including associated entities), (other than those issued or guaranteed by the NZ Government or Reserve Bank of NZ) shall be:

| | |
|--------------|-----|
| AAA | 10% |
| AA+ to AA- | 8% |
| A+ to A- | 6% |
| BBB+ to BBB- | 4% |

If the above exposure limits are breached the Manager shall advise the Foundation immediately the event occurs and advise a strategy for getting back within the allowed limits.

The Manager will advise the Foundation immediately the fund's total exposure below BBB including non-rated securities (but excluding government and quasi government non-rated securities) exceeds 5%. Each quarter the Manager will advise the Foundation of its exposure (if any) to BBB+ and lower rated securities, including non-rated securities.

No securities rated lower than BBB- (by Standard and Poor's or an equivalent rating agency) will be purchased. If a bond's credit rating falls below BBB- then the manager must advise the Foundation immediately the event occurs and advise a strategy for exiting the bond that is in the best interests of the Foundation.

Unrated securities shall not be purchased, except for local authority securities which have been allocated a Manager rating A- or higher. Investment in international investments and/or foreign currency denominated investments is not permitted.

Investment in collateralised debt obligations or collateralised loan obligations is not permitted but the bond fund may invest into credit default swaps. The bond fund is permitted to invest in direct loans which comply with the Manager's strict risk policy criteria.

International Bonds: The trustees have considered the inclusion of International Bonds within the CUIP and have concluded that the volatile nature of International Bonds does not meet the prudent investment guidelines given the objectives of the Current Use Investment Pool.

Australasian Equities: The trustees have considered the inclusion of Australasian Equities within the CUIP and have concluded that the volatile nature of Australasian Equities does not meet the prudent investment guidelines given the objectives of the Current Use Investment Pool

Property: The trustees have considered the inclusion of Property within the CUIP and have concluded that the illiquid and long-term nature of property does not meet the prudent investment guidelines given the objectives of the Current Use Investment Pool

Maximum Holdings: The CUIP's maximum percentage investment in issuers of Class I, II, & III Securities shall be set from time to time by the Trustees taking into account the overall credit and manager risk to the Foundation's funds in their entirety.

Associated Companies: The maximum holding requirement is to include associated companies of the institution or Registered Bank.

Unlisted Shares: The trustees have considered the inclusion of Unlisted Shares within the CUIP and have concluded that the illiquid and long-term nature of Unlisted Shares does not meet the prudent investment guidelines given the objectives of the Current Use Investment Pool.

Agreement to deviate from the Investment Guidelines: The manager/s may request from the Trustees, in writing, permission to go outside the agreed guidelines. Any such request will detail the reasons for such a request.

6. Investment Performance Monitoring

6.1 General

The principal goals of performance monitoring are to:

- assess the extent to which investment objectives are being achieved;
- compare the performance of the CUIP's appointed managers against the performance of other relevant professional managers and market indexes;
- ascertain the existence of any particular weakness in the managers; and
- allow the Trustees to continually assess the ability of the managers to successfully meet the CUIP's objectives.

Returns on the assets within the CUIP will be monitored by the Trustees in relation to the allocations and the agreed Indexes. Refer to Appendix a, paragraph A.8.

Manager returns will also be compared with those achieved by a suitable peer group, such as a group of comparable professional wholesale fund managers.

Each manager will be assessed in relation to a set of performance objectives relevant to their portfolios. Section 3.3 sets out the performance targets for the CUIP manager. The performance of the CUIP managers will be monitored quarterly.

The investment manager/s role will be reviewed by the Trustees on a regular basis. Factors taken into account in these reviews will include investment style, resources, organisational strength, investment performance relative to objectives, and any other factors considered relevant to the manager's continuing ability to meet its investment performance objectives and the overall investment objectives of the CUIP.

7. Reports and Meetings

The investment manager/s will report at least quarterly in accordance with a format agreed with the Trustees. The investment manager/s will attend meetings of the Trustees as required to discuss strategy, portfolio activity performance, or any changes of key personnel.

8. Allocation of Responsibilities

| Function | Responsibility |
|--|---------------------------------|
| Set Investment Objectives | Trustees/Consultant |
| Develop Investment Strategy <ul style="list-style-type: none"> - level of risk - broad policy guidelines - taxation implications - number of investment managers | Trustees/Consultant |
| Determine Procedures <ul style="list-style-type: none"> - cashflows, rebalancing | Trustees/Foundation Manager |
| Selection of Investment Managers <ul style="list-style-type: none"> - both initial and ongoing - establish performance objectives | Trustees/Consultant |
| Negotiation of Agreements with Service Providers | Trustees/Consultant |
| Set Investment Manager Benchmarks and Mandates | Consultant/ Investment Managers |
| Monitor Investment Consultant | Trustees |
| Maintain Knowledge of Investment Environment | Trustees/Consultant |
| Monitor Compliance | Consultant |
| Security Selection and Portfolio Management <ul style="list-style-type: none"> - in accordance with Investment Management Agreement/Trust Deed/instruction from Trustee/investment policy | Investment Managers |
| Regular Investment Reports | Consultant/Investment Managers |
| Investment Advice <ul style="list-style-type: none"> - significant events and changes - performance monitoring | Consultant |
| Evaluate Investment Manager performance | Trustees |
| Review Investment Managers | Trustees/Consultant |
| Implementation of rebalancing | Trustees/Foundation Manager |
| Currency Management | n/a |
| Review of SIPO | Trustees/Consultant |

Appendix A – Manager Mandates

A.1 International Equities

No mandate has been given to any International Equities' manager/s.

A.2 Currency Management Strategy

No currency management strategy has been approved as all investments of the CUIP are to be denominated in NZ dollars

A.3 Australasian Equities

No mandate has been given to any Australasian Equities' manager/s.

A.4 New Zealand Bonds

The manager is to invest in a pooled NZ Bond product that itself invests directly in NZ Fixed Interest Securities.

The manager's performance target is to achieve a return after expenses of at least 0.5% pa above the ANZ NZ Government Stock Gross Index, measured over rolling five-year periods.

AMP Capital Investors have been appointed the manager.

A.5 International Bonds

No mandate has been given to any International Equities' manager/s.

A.6 Cash & Term Deposits (Class I and Class II Securities)

The manager will invest in cash, cash equivalent investments, and term deposits of five years or less duration, with organisations with a level of security rated at least A-1 by Standard & Poor's (or equivalent). No borrowing, other than borrowing for mismatch of settlement transactions, is permitted without the Trustees' written consent.

The performance target is to achieve a return in excess of the ANZ 90 Day Bank Bill Index, measured over rolling 12-month periods.

The Foundation is the Class I & II Securities manager.

A.7 Fees

The fees for the structure are as follows:

| Asset Class | Fee (Basis Points) |
|------------------------------------|---------------------------|
| Cash | 25 |
| Term deposits | 0 |
| Bank backed short dated securities | 25 |
| New Zealand Bonds | 35 |

A.8 Indexes

| Asset Class | Index |
|------------------------------------|-------------------------------------|
| Cash | ANZ 90 Day Bank Bill Index |
| Term deposits | ANZ 90 Day Bank Bill Index |
| Bank backed short dated securities | ANZ 90 Day Bank Bill Index |
| NZ Bonds | ANZ NZ Government Stock Gross index |

Appendix B - Trustee Requirements

Certificate of Incorporation dated 28 November 2002

4. The Trusts

Application of the Trust Fund

1.1 The Trustees shall hold the Trust Fund exclusively for the Charitable Purposes with power (subject to clause 5) to:

(a) Accumulate the income of the Trust Fund that has not been applied toward the Charitable Purposes at the end of the Academic Year as an addition to the capital of the Trust Fund, and

(b) Apply in their discretion any part of the income and capital of the Trust Fund (to the extent of the whole if they think fit) toward the Charitable Purposes.

“Charitable Purposes” means every purpose that is charitable at law in New Zealand and includes:

- (a) The advancement of knowledge and the dissemination thereof by teaching and research,
- (b) Assisting Students to pursue courses of study at the University,
- (c) The general advancement of the University.

Trustee Act 1956

SECTION 13B Duty of Trustee to Invest Prudently

Subject to sections 13C and 13D of this Act, a trustee exercising any power of investment shall exercise the care, diligence, and skill that a prudent person of business would exercise in managing the affairs of others.

SECTION 13C Duty of Certain Persons to Exercise Special Skill

Subject to section 13D of this Act, where a trustee's profession, employment, or business is or includes acting as a trustee or investing money on behalf of others, the trustee, in exercising any power of investment, shall exercise the care, diligence, and skill that a prudent

person engaged in that profession, employment, or business would exercise in managing the affairs of others.

SECTION 13D Provisions in Trust Instrument Relating to Duty of Investing Trustees

13D (1) [Contrary intention in trust instrument] The duty imposed on a trustee by section 13B or section 13C of this Act shall apply to a trustee if and so far only as a contrary intention is not expressed in the instrument, if any, creating the trust or any Act, and shall have effect subject to the terms of that instrument or Act.

13D (2) [Rules of law to apply] Any rules and principles of law relating to any provision in an instrument that purports to exempt or limit the liability of a trustee in respect of any breach of trust, or to indemnify a trustee in respect of any breach of trust, shall remain in force and apply in respect of any provision in a trust instrument that expresses a contrary intention for the purposes of subsection (1) of this section.

SECTION 13E Matters to Which Trustee May Have Regard in Exercising Power of Investment

Without limiting the matters that a trustee may take into account, a trustee exercising any power of investment may have regard to the following matters so far as they are appropriate to the circumstances of the trust:

- (a) The desirability of diversifying trust investments;
- (b) The nature of existing trust investments and other trust property;
- (c) The need to maintain the real value of the capital or income of the trust;
- (d) The risk of capital loss or depreciation;
- (e) The potential for capital appreciation;
- (f) The likely income return;
- (g) The length of the term of the proposed investment;
- (h) The probable duration of the trust;
- (i) The marketability of the proposed investment during, and on the determination of, the term of the proposed investment;
- (j) The aggregate value of the trust estate;
- (k) The effect of the proposed investment in relation to the tax liability of the trust;
- (l) The likelihood of inflation affecting the value of the proposed investment or other trust property.

SECTION 13M Court May Take into Account Investment Strategy in Action for Breach of Trust

In considering whether a trustee is liable, in respect of any investment made by that trustee, for any breach of trust in respect of any duty -

- (a) To exercise the care, diligence, and skill that a prudent person of business would exercise in managing the affairs of others; or
- (b) To exercise the care, diligence, and skill that a prudent person engaged in a profession, employment, or business that is or includes acting as a trustee or investing money on behalf of others would exercise in managing the affairs of others, -

the Court may, if it thinks it appropriate, take into account -

- (c) Whether the trust investments have been diversified, so far as is appropriate to the circumstances of the trust; and
- (d) Whether the investment was made pursuant to any investment strategy formulated in accordance with the duty referred to in paragraph (a) or paragraph (b) of this section, as may be applicable.

Prudent Person Rule

"Prudence is a test of conduct and not performance. Neither the overall performance of the portfolio, nor the performance of individual investments should be viewed as central to the enquiry. Prudence should be measured primarily by the process through which investment strategies and tactics are developed, adopted, implemented and monitored. Prudence is demonstrated by the process through which risk is managed, rather than by labelling of specific investment risks as either prudent or imprudent.

If the test of prudence is to be found in the process by which investment choice is exercised, it follows that documents must be kept to record that process for future use in the event of challenge. Careful documentation of all relevant factors bearing on the decision should be observed.

The need for prudence applies not only to new investments, but also in the regular review of existing investments."

SOURCE: New Zealand Law Society Seminar, 1988.

Appendix C: Associated Risk Return for CUIP mix.

The following analysis, provided by the Foundation's appointed asset consultant Aon in August 2010, shows the expected risk/return associated with various cash and New Zealand bond portfolios.

| | | | | | | | |
|------------------------------------|-----|-----|-----|-----|-----|-----|-----|
| Cash | 100 | 90 | 80 | 70 | 50 | 20 | 0 |
| NZ Bonds | 0 | 10 | 20 | 30 | 50 | 80 | 100 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Expected Return * | 6.0 | 6.1 | 6.2 | 6.3 | 6.7 | 6.9 | 7.1 |
| Risk (std deviation) | 1.4 | 1.4 | 1.5 | 1.7 | 2.1 | 2.9 | 3.5 |
| Prob of a return less than: | | | | | | | |
| 0% | 0 | 0 | 0 | 0 | 0 | 1 | 3 |
| 1% | 0 | 0 | 0 | 0 | 1 | 3 | 5 |
| 2% | 1 | 1 | 1 | 1 | 3 | 6 | 9 |
| 3% | 4 | 3 | 4 | 5 | 7 | 12 | 15 |
| 4% | 14 | 13 | 13 | 14 | 17 | 21 | 23 |
| 5% | 36 | 34 | 32 | 31 | 31 | 32 | 33 |

** includes 0.5% pa expected manager net value add*