

STATEMENT OF INVESTMENT POLICY AND OBJECTIVES (SIPO)

1. INTRODUCTION

The purpose of this Statement of Investment Policy and Objectives (SIPO) is to provide all parties involved with the University of Auckland Foundation (the Foundation) with a document that sets out the objectives and policies that govern investment decisions relating to the Foundation's Current Use Investment Pool (CUIP).

The objectives and policies of the Foundation's Endowment Investment Pool (EIP) are detailed in a separate document.

Trust Deed

The Trust Deed provides the Trustees of the Foundation with broad authority to invest the CUIP's assets.

The CUIP will be invested in a manner which considers the requirements of the Trusts Act 2019.

Responsibilities

The Trustees are responsible for the objectives and policies set out in the SIPO, however, implementation and oversight is delegated to the Investment Staff and Investment Committee, respectively.

Effective Date

This SIPO takes effect from 5th June 2020.

Review Dates

The Trustees will review this SIPO in detail every three years or more frequently if there is a significant change in the Foundation's circumstances.

2. FINANCIAL OBJECTIVES

The CUIP will be invested in a broad range of diversified investments designed to achieve the following objectives:

- Maintain the CUIP's real¹ capital
- Ensure adequate liquidity to meet distribution requirements
- Maximise the total amount of distributions that can be financed by the investments of the CUIP, subject to a prudent level of portfolio risk
- Minimise probability of loss through appropriate diversification

¹ Real capital has been adjusted for changes in value due to inflation, as measured by the consumer price index

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3. INVESTMENT OBJECTIVE

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

As a secondary objective, the CUIP return (net of investment manager fees) is to exceed the return of the CUIP Benchmark, as set out in 7.3, measured over rolling three-year periods.

4. STRATEGIC ASSET ALLOCATION

The Strategic Asset Allocation Targets for the CUIP are categorised under four asset classes:

Table 1: Strategic Asset Allocation and Rebalancing Ranges

| Asset Classes | Policy Target | Policy Ranges |
|------------------------|---------------|---------------|
| Term Deposits | 50% | 40 – 60% |
| NZ Fixed Interest | 20% | 15 – 25% |
| Global Fixed Interest | 20% | 15 – 25% |
| Private NZ Real Estate | 10% | 5 – 15% |

4.1 Term Deposits and Fixed Interest investments should provide stable, defensive returns, liquidity, and protection against adverse market conditions. To ensure a defensive profile, the vast majority of the allocation to both New Zealand and Global Fixed Interest will be invested in sovereign and investment grade fixed interest securities, as set out in 5.3.

4.2 Private NZ Real Estate will provide a differentiated source of return to the portfolio, primarily in the form of rental income and to a lesser extent capital growth. This allocation will be invested in high quality stable yielding assets with low development risk and no leverage. This allocation will increase the illiquidity of the portfolio; hence a smaller allocation is stipulated.

4.3 The Strategic Asset Allocation serves as a guide to target asset allocations. However, there may be times when asset classes are over- or underweight relative to target allocations.

5. CONSTRAINTS

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

5.2 Bank Cash & Term Deposits: Any issuer of Class I and Class II Securities, including Registered Banks, must be rated at least A– by Standard and Poor’s (or equivalent). The following bank maxima apply at initiation for CUIP Term Deposits:

| Tier | Maximum issuer exposure | Inclusions |
|------|-------------------------|---|
| One | 35% | ANZ, Westpac, BNZ, ASB, Rabobank & Kiwibank |
| Two | 10% | NZ-registered, non-Tier 1 bank |

5.3 Bonds: The following limits are imposed across the combined New Zealand and Global Fixed Interest allocations:

| Bond rating | Maximum exposure | Maximum exposure to any one underlying corporate entity |
|----------------|------------------|---|
| AAA to A- | 100% | -- |
| AAA | -- | 10% |
| AA+ to AA- | -- | 8% |
| A+ to A- | -- | 6% |
| BBB+ to BBB- | 20% | 4% |
| BB+ to unrated | 5% | 1% |

6. REBALANCING POLICY

6.1 The objective of rebalancing is to keep the CUIP’s portfolio asset allocation at or near its policy weights to maintain the benefits of a diversified asset allocation that has been designed to achieve the stated investment objectives, without incurring additional unintended risks.

6.2 Rebalancing transactions have been delegated to the Foundation’s Investment Staff. Certain asset classes may be underweight or overweight relative to the Strategic Asset Allocation based on relative valuations and current investment opportunities. Such allocations would be allowed to vary from the Target within the Policy Range for each asset class as set out in Table 1. If an asset class moves outside of its policy range then it will be rebalanced back inside the range as soon as is reasonably practicable.

6.3 To avoid incurring unnecessary transaction costs, rebalancing actions should be timed to coincide with cash flows to the extent reasonably possible.

7. PORTFOLIO BENCHMARKING

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7.1 The CUIP’s portfolio, asset classes and managers will be benchmarked to relevant indices for performance evaluation.

7.2 Investment Objective Benchmark: The return target of the portfolio is to match or exceed the change in the NZ Consumer Price Index as issued by the Reserve Bank of NZ over rolling twelve-months.

7.3 CUIP Benchmark: To evaluate whether the portfolio has performed in line with expectations, the returns of the CUIP will be measured against the CUIP benchmark which is composed of indices reflecting the asset classes weighted in proportion to the Strategic Asset Allocation as set out in Table 1. See Table 2 for a reference to asset class benchmarks.

Table 2: Composition of the CUIP Benchmark

| Asset Classes | Benchmark |
|------------------------|---|
| Term Deposits | S&P/NZX NZ 90-day Bank Bills Index |
| NZ Fixed Interest | 50% Bloomberg NZBond Composite Bond 0+ Yr Index / 50% S&P/NZX Short End Swap Index |
| Global Fixed Interest | Bloomberg Barclays Global Aggregate Bond Index (NZD hedged) |
| Private NZ Real Estate | Investment Property Databank (NZ) Index |

8. MANAGER CONCENTRATION LIMITS

8.1 To provide reasonable assurance that no one manager could have a disproportionately negative impact on the CUIP’s aggregate results, exposure to any single actively managed fund should be considered on an aggregate basis across both the CUIP and EIP portfolios. Exposures to be limited to:

- 10% of the combined EIP and CUIP assets for a Private NZ Real Estate Fund. These funds can have a higher illiquidity profile relative to the other asset classes and are higher risk due to greater correlation with the broader NZ economy.
- 15% of the combined EIP and CUIP assets for a Fixed Interest fund. These funds characteristically have lower risk which enables larger positions to be taken.
- No single firm (excepting the Foundation itself or the University of Auckland as an agent as a manager of any CUIP assets), regardless of the mix of the underlying assets, should manage more than 20% of the combined EIP and CUIP asset pool.
- In addition, on an aggregate basis combined EIP and CUIP investments should not constitute more than 10% of a pooled fund’s assets under management².

² The limit applies at the strategy/fund level, not the individual investment vehicle level

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8.2 The Investment Committee may at its discretion make exceptions to these limits, for example, for the purposes of averaging in, testing a new asset class or manager, or building a relationship