# THE DON STEWART MEMORIAL TRUST

## STATEMENT OF INVESTMENT POLICY AND OBJECTIVES

SEPTEMBER 2021

ADOPTED BY THE TRUSTEES ON:

SIGNED:



**Auckland**
2 Burns Ave, Takapuna
PO Box 33-1318 Takapuna 0740
p: +64 9 486 3144
auckland@eriksensglobal.com

**Wellington**
Level 9, 111 The Terrace
PO Box 10-105 Wellington 6143
p: +64 4 470 6144
wellington@eriksensglobal.com

## CONTENTS

1. Introduction....3
2. Return....5
3. Risk....5
4. Liquidity....7
5. Legal....8
6. Time Horizon....8
7. Taxation....8
8. Unique Circumstances....8
Appendix: Glossary....13

# 1. INTRODUCTION

This Statement of Investment Policy and Objectives (**SIPO**) directs all investments of the Don Stewart Memorial Trust (hereafter known as the **Trust**), as determined by the Trustees, in accordance with the Trust's purpose:

- In recognition of the life, achievements, and ambitions of Donald Andrew Stewart the Trustees have established this Trust to provide other members of the community with opportunities to realise their goals and potential. The Trustees declare that they will hold the Trust funds in trust to meet the charitable objectives and purpose of the Trust.

- The objectives and purpose for which the Trust funds shall be applied and used exclusively towards, are:
  (a) from capital and income, support the provision of the recreational and sporting fields and facilities at College Rifles Park which are to be made available for the use and benefit of the community as an open space for welfare, leisure and recreation, alongside sporting activities, including for any replacement, upgrade and future community development;
  (b) From income, the promotion and encouragement of educational / vocational training plus health and welfare advancement; and
  (c) such other charitable objectives which the Board may from time to time identify and determine,

  provided that all objectives and purpose shall be limited to New Zealand.

- The objectives shall be met through the provision of grants, each to be called the "Don Stewart and Supporters Memorial Grant". The specific details of the grants, including application criteria, shall be established and approved in each case by resolution of the Trustees.

The SIPO is the key written document setting out the expectations, principles and goals the Trustees have regarding the investment of the Trust's assets, and helps ensure effective communication between the relevant stakeholders.

## A. EFFECTIVE DATES

This SIPO takes effect from 1 September 2021.

Future reviews will take place each calendar year or sooner if there is a material change in the Trust's circumstances. Thus the next date for formal review shall take place no later than August 2022.

## B. BACKGROUND

The Don Stewart Memorial Trust is a charitable trust established in 2020 as a long term legacy in remembrance of Don (Grumpy) to support College Rifles in providing sporting fields and facilities for its members and the community and also promote member wellbeing.

As of September 2021, the Trustees are:

- Mark Hutton (Chair);
- Julie-Ann Coney;
- Peter Kempson; and
- Brian Maitland.

Other relevant documents that should be referred to along with the SIPO:

- Don Stewart Memorial Trust Deed.

The broad investment return objectives for the Trust's investment portfolio are:

- Maintain the real value of the funds;
- Pay necessary grants to support the sporting fields and facilities, plus member welfare as required; and
- Make incremental capital and / or income in line with the objectives, noting the risk tolerance of the Trust is low given it is a custodian of gifts from Don Stewart, College Rifles and future supporters.

The Trust funds will be sourced from:

- $250,000 from the kind donation of CROBA old boy Don Stewart;
- $250,000 from College Rifles;
- Up to a further $250,000 from donations / bequests from College Rifles Supporters;
- No-interest loans, targeting $250,000

The Trust was initially established with $500,000 of funds and is looking to raise additional funds. Initially targeting $250,000, accumulating at $25,000 per year for the next 10 years and $250,000 from no interest loans over the next 2 years. The Trustees believe achieving a minimum attractive return during this low interest rate environment will attract a number of future donations from supporters.

The current investments of the Trust are as follows:

- $250,000 Southland Building Society 6.75% Capital Bonds, a redemption option on 30 November 2022 and final redemption on 30 November 2027;
- $150,000 First Mortgage Trust Fund, funds available on call;
- $106,000 Fletcher Building 5.00% Bonds, matures 15 March 2023;
- $100,000 capital commitment, $10,000 called to date. Investment period to 28 May 2024;

The two bonds purchased have an optional 3 business day liquidity undertaking. It was agreed by the Trustees to maintain a medium-low risk investment profile, with distributions planned as follows:

- From capital and income, funding for the sporting fields and facilities at College Rifles Park, including for any replacement, upgrade and future community development. This distribution will likely trigger on the replacement of the field turf which is not expected prior to 2030;

- From income, distributions for the promotion and encouragement of educational / vocational training plus health and welfare advancement. These distribution(s) will be made annually and is set at a minimum of $2,500 for the first year.

The Trustees in future may also accept additional investment funds from College Rifles which will also be invested under the terms of this SIPO.

## 2. RETURN

a. The return objective is NZ Consumer Price Index (CPI) + 4% p.a. over rolling 3-year periods (net of fees, gross of taxes).

b. The average return objective for the current debt securities and deposits is 5.0%; The current list of approved debt securities and deposits are SBS Bank, First Mortgage Trust and Fletcher Building.

c. The return objectives for the chosen investment managers ("Investment Managers") are as follows:

| Investment Manager | Fund | Objective (p.a.) |
|---|---|---|
| Castle Point | 5 Oceans | RBNZ Official Cash Rate (OCR) + 3% |
| Harbour | Income | RBNZ OCR + 3.5% |
| Continuity Capital | Private Equity Fund No. 6 | 15% |

Note: These objectives were correct as at the date of this SIPO, but are subject to be changed without notice by Investment Managers.

## 3. RISK

a. The Trust should be managed in a manner consistent with the objectives and constraints laid out in this SIPO. The Trustees acknowledge there are many ways to define risk. The Trustees specifically recognise the following:

3.a.1. The Trust is subject to the following non-exhaustive list of major investment risks: inflation risk; interest rate risk; currency risk; credit risk; financial risk; liquidity risk; and operational risk.

3.a.2. Investors should be getting paid over longer timeframes to take risks. The more risk you accept, the more return you should require from an investment, and vice versa.

3.a.3. The risk of each investment should be measured separately, as well as how it changes the risk/return characteristics of the Trust overall.

3.a.4. Regarding the capital structure of a venture, equity investors take the most risk, and they can expect to reap the greatest reward if things go to plan. However, equity investors are last in line when things do not go as planned.

3.a.5. The Trust's capital and income returns will fluctuate, and this will impact the level of income that is available for distributions and project funding. The Trust's capital base and any revenue reserve will also be affected. Recipients of distributions and project funding will therefore be subject to investment risk.

b. The Trustees have determined the outcomes they are most comfortable with. This has allowed any significant divergences in risk tolerance by the Trustees to be reconciled along with a consistent risk adjusted approach to investment decisions. The Trustees have agreed upon the following techniques to help achieve the Trust's objectives at a level of risk deemed acceptable:

3.b.1. The Trustees have adopted a risk profile which will ultimately result in a portfolio with targets as per the table below:

| Trust Assets | Allocation % |
|---|---|
| Growth | 40 |
| Income | 60 |

It is accepted by the Trustees that the current debt securities and deposits will be maintained, based on current market conditions. As such it may take 2 years to achieve the adopted portfolio risk profile depending on the success of the various fund raising initiatives.

It is accepted by the Trustees that during the course of investing there will be times where there are negative returns as a result of market movements or other external factors.

3.b.2. Investment risk will be limited by appropriate diversification and managed both within and between asset classes. The core idea of diversification is that spreading wealth amongst lowly correlated assets reduces the risk of loss. The important principle for investors to understand is how risk gets added to (or subtracted from) an existing portfolio, rather than what risk an investment opportunity represents on a stand-alone basis.

3.b.3. The risks identified in 3.a.1 are managed daily by the Investment Managers listed in Section 2.c. The Investment Consultant also considers these issues at a strategic level.

3.b.4. Not more than 20% of the Trust's assets may be invested in securities related to, or guaranteed by, a single entity without specific consideration & approval by the Trustees (unless it is a clear guarantee from a nation with a Standard & Poor's {or Moody's / Fitch equivalent} long term rating of at least AA-).

It is accepted by the Trustees that the current debt securities and deposits will be maintained, based on current market conditions. As such it may take 2 years to achieve the target asset allocations depending on the success of the various fund raising initiatives.

3.b.5. For currency risk, the Trust's position is to not adjust the exposures of its third-party funds, with a preference for New Zealand assets and foreign debt investments being fully hedged to the New Zealand dollar.

3.b.6. For the purposes of the following constraints regarding derivatives, "Portfolio" is taken to mean the portion of the Trust's investments under the management of an individual Investment Manager.

Each Investment Manager is entitled to make use of derivative contracts to:

- protect the capital value of portfolios
- gain exposure to appropriate markets, including foreign currencies
- reduce transaction costs
- improve liquidity

Each Investment Manager must not use derivatives, physical securities or any combination of the two to produce financial exposures that would result in the significant leverage of the Portfolio. That is, the Portfolio's net exposure to investment markets must generally match the value of the Portfolio's physical assets. "Leverage" means expanding the effective value of the investment exposure, such as, for example, using a mortgage to purchase a higher valued house so that the value of the investment (asset) may be several times the value of the equity. Derivatives offer an alternative to borrowing to achieve the same result. Derivatives should only be used to produce financial exposures which would otherwise be obtained with physical securities in the absence of leverage. (NOTE: Any approved Investment Manager whose fund documentation explicitly allows for leverage and uses it as part of their stated investment strategy is excluded from having to comply with this point.)

## 4. LIQUIDITY

a. The Trust's investments will be managed with a view to ensuring that it has sufficient liquidity to meet expected cash flow requirements by:

- Having investments where at least 50% of the Trust is available within 3 business days under normal market conditions.
- Having a liquidity plan covering known and likely cash flows for the following 6 calendar months.
- Undertaking a liquidity stress test, at least once every 3 years, which models the impact of extreme but plausible outflows outside the control of the Trustees. The next review is scheduled for July 2024.
- Relying on the relevant Investment Manager(s) and/or Investment Consultant to advise on expected cashflows associated with illiquid investments, where applicable.

The Trust's known and likely approximate liquidity flows are in the range of $5,000 to $10,000 per year. These outflow amounts should ordinarily be sourced from future donations, income investments with Fund Managers and capital growth.

## 5. LEGAL

a. The Schedule of Trustees Powers of the of the Deed of Trust Establishing the Don Stewart Memorial Trust gives the Trustees the broad authority to invest the assets of the Trust.

b. The Trust is a New Zealand registered Charitable Trust.

c. The Trustees should invest the assets of the Trust in good faith and in its best interests, in accordance with requirements of the Trusts Act 2019, the Charitable Trusts Act 1957, the Charities Act 2005 and other relevant legislation.

## 6. TIME HORIZON

a. The time horizon(s) of the Trust's material liabilities are:

The Trust has a long term time horizon, with the aim being for its investments to grow moderately in real terms over the next ten year period, whilst paying current beneficiaries in providing funding for College Rifles sporting fields and facilities for its members and the community and also promote member wellbeing.

b. The performance of the Trust overall will be assessed over a rolling 3-year time horizon but actively monitored quarterly.

c. Investment funds managed by Investment Managers will be assessed:

- Based on the individual rolling timeframes that they specify, or in the absence providing a plausible one set by the Trustees; and
- Over shorter timeframes where there has been a very material deviation from what could reasonably be expected.

## 7. TAXATION

a. The Trust is a charitable trust under the Charities Act 2005, and as such is not subject to NZ taxation.

b. The Trust is subject to non-New Zealand taxation on non-residents, which in most jurisdictions means taxation on income, not capital gains.

c. Ideally the chosen managed investment funds should have Portfolio Investment Entities ("PIE") status, everything else being broadly equivalent because such funds are tax efficient.

## 8. UNIQUE CIRCUMSTANCES

### A. RESPONSIBLE INVESTING

8.a.1. The Trustees have signalled their low tolerance for investments including armaments, gambling, tobacco, adult entertainment, alcohol and the extraction of fossil fuels, given the Trust's position in the community and its strong ties to the welfare of the next generation of young New Zealanders.

8.a.2. Most of the Trust's investments are via managers in fund structures with other investors, which means pragmatic decisions are required to implement the RI policy. In general, the managers will subscribe to the Principles of Responsible Investment ("PRI").

## B. INVESTMENT BELIEFS

8.b.1. Higher returns are associated with greater risk.

8.b.2. Diversification reduces risk and therefore should be used to the maximum practical extent. Residual risks must be managed in some other way.

8.b.3. Strategic asset allocation is the major determinant of variation in portfolio returns.

8.b.4. Active management may return a premium over time but requires skill and information.

8.b.5. Markets have a strong behavioural element.

8.b.6. Historical performance should not be extrapolated into the future.

8.b.7. Socially responsible investment ("SRI"). Investments should preclude:

- Armaments;
- Gambling;
- Tobacco;
- Alcohol; and
- Extraction of fossil fuels.

8.b.8. The Trust's investments may be via managers in fund structures with other investors, which means pragmatic decisions are required to implement the SRI policy. In general, the managers will subscribe to the Principles of Responsible Investment ("PRI"): https://www.unpri.org.

## C. GOVERNANCE

8.c.1. The **Trustees** will be responsible for the following:

- Taking decisions on investment strategy, having regard to the overall circumstances of the Trust and advice of the Investment Consultant, and complying with the Deed of Trust and all applicable legislative requirements.

- Putting in place appropriate governance, management structures and processes in line with the Trust given both the types of investment assets under management, and adherence to good practice.
- Reviewing and approving this SIPO, including the instructions to the Investment Managers and Investment Consultant.
- Determining the appropriate number of Investment Managers, and selecting and changing those Investment Managers, as appropriate on the advice of the Investment Consultant.
- Approving relevant internal and external benchmarks for assessing financial/investment performance on the advice of the Investment Consultant.
- Providing cash flow information to an Investment Manager with respect to future deposits and redemptions, when requested to do so by the Investment Consultant.
- Providing the Investment Consultant with valuation and cash flow information to allow for the creation of quarterly investment reporting. The Trust's Financial Year ends on 31 December.
- Manage liquidity risk as detailed in section 4.
- Undertaking rebalancing, if required and having regard to the advice of the Investment Consultant.
- Assessing the performance of the Investment Consultant and other investment related service providers, as appropriate.

8.c.2. The **Investment Consultant** will be responsible for providing advice as referred to above and the following services:

- Review this SIPO at least once each calendar year or sooner if there is a material change in the Trust's circumstances.
- Quarterly fund performance review and monitoring against agreed targets in respect of the Trust's investible assets as well provision of an economic and investment market commentary. The quarters for reporting purposes will be 31 March, 30 June, 30 September and 31 December. The principal goals of performance monitoring are to:
    - Assess the extent to which the Trust's investment objectives are being achieved.
    - Allow the Trustees to continually assess the ability of each Investment Manager to successfully meet the Trust's objectives.
    - Monitor Investment Managers' performance quarterly with a view to an annual evaluation of rolling three-year results.
    - Review Investment Managers' roles on a regular basis. Factors considered in these reviews will include investment style, resources, organisational strength, investment performance relative to objectives, and any other factors considered relevant to the Investment Managers' continuing ability to meet the applicable investment objective.
    - Provide quarterly reporting in a format agreed between the Investment Consultant and the Trustees.
    - Assess the level of overall direct and indirect fees, typically on an annual basis.
- Provide information on socially responsible investment issues in the Trust on a timely basis after 30 June and 31 December each year, subject to receiving information from the relevant Investment Managers.
- Undertaking such other actions as may be agreed with the Trust from time to time, including recommending rebalancing to take into account market movements or cash flow requirements.

8.c.3. Each **Investment Manager** will be responsible for the following:

- Managing its portion of the Trust's investments in accordance with the investment management agreements and/or governing documents referred to in the application form(s).
- Selecting securities within each asset class, subject to the constraints imposed in relevant fund documentation and in any applicable legislation.
- Investment Managers must notify the Investment Consultant and the Trust promptly of the reasons for any significant deviation to their mandate and the date or dates of the deviation occurring.
- Supplying to the Trustees and Investment Consultant any reports of the Trust's investment funds performance results in advance of regular meetings and at the Trustees' request, participating in those meetings to review the written reports. The reports shall contain such information and in such format as agreed with the Trustees, but must contain sufficient information to enable the annual accounts and any necessary tax calculations to be produced.
- Participating, when required by the Investment Consultant, in the annual review of this SIPO.

## D. ASSET ALLOCATION

8.d.1. The Trust's asset allocation will be monitored over the long-term against the Benchmark Portfolio set out in the following table. The appropriateness of this Benchmark Portfolio will be periodically monitored to reflect any fundamental changes in the investment environment and changes to the Trust's investment policy. The Trustees have determined that the investable assets will be managed under a multi-manager structure.

| Fund | Benchmark % | Target Ranges % |
|---|---|---|
| Castle Point 5 Oceans | 45 | 0 – 90 |
| Harbour Income | 45 | 0 – 90 |
| Continuity Capital PE Fund No. 6 | 10 | 0 – 40 |
| **Total Fund** | **100** | |

It is accepted by the Trustees that the current debt securities and deposits will be maintained, based on current market conditions. As such it may take 2 years to achieve the adopted portfolio asset allocation depending on the success of the various fund raising initiatives.

8.d.2. Subject to the asset allocation in 8.d.1, additional funds and deposits can also be placed with any New Zealand registered bank subject to:

- It having a minimum long term credit rating of A-/A-/A- with one or more of Standard & Poor's / Moody's / Fitch respectively. Should there be differences between multiple ratings for a bank the lowest will be used. Rating information can be found here: https://www.rbnz.govt.nz/regulation-and-supervision/banks/prudential-requirements/credit-ratings

- Preferably not with a branch of an overseas incorporated bank.
- It likely having at least $1 Billion of retail deposits, thus requiring it to be covered by the Reserve Bank of NZ's Open Bank Resolution policy.
- No more than 30% of the Trust being placed with any one of these banks.

As at the date of this SIPO, the following banks comply with 8.d.2:

- ANZ Bank New Zealand Limited
- ASB Bank Limited
- Bank of New Zealand
- KiwiBank Limited
- Rabobank New Zealand Limited
- TSB Bank Limited
- Westpac New Zealand Limited

8.d.3. During approved transitions between Investment Managers, portfolio weightings can be outside the above target ranges for a short period of time.

8.d.4. Best endeavours will be made by the Trustees on the advice of the Investment Consultant as to how to keep the Trust allocations within target ranges as at quarter end, or if they are already outside, how to bring them back within the ranges in a cost effective and timely manner. The Trustees will undertake rebalancing whilst considering the competing objectives of minimising cost (including by using portfolio inflows and outflows to rebalance) and the variance of the investment fund's weighting in the Trust post trade to its benchmark weight.

The exposures to the various asset classes will be monitored, considering the underlying exposures in any pooled investment vehicles and the impact of futures and options on an effective exposure basis.

## APPENDIX: GLOSSARY

*Active management*; A decision by an investment manager to materially vary the investment allocation in a portfolio / fund away from its benchmark (see separate entry). This could be because of a belief in one or more of manager skill improving the risk adjusted returns, the desire to consider socially responsible investment factors or tax optimisation.

*Asset allocation*; A decision about investment risk and return made by allocating parts of the overall investment to different kinds of investments, such as growth and income assets (see separate entries). "Strategic" asset allocation means defining target allocations for different asset classes, and rebalancing as required (not all multi-asset class funds do this). "Dynamic" asset allocation refers to the adjustment of asset class allocations given perceived market conditions in an attempt to add value or lose less capital; in some cases it is used interchangeably with "tactical" asset allocation.

*Benchmark*; Some sort of reference against which an investment's performance can be measured. Well known benchmark providers include Standard and Poor's and MSCI.

*Bond*; a loan, typically to a company, bank or government, for which there are many lenders.

*CPI*; Consumer Price Index, a measure of inflation.

*Credit rating*; An assessment of how likely a borrower is to repay a loan. Well known credit rating agencies include Standard and Poor's & Moody's.

*Derivative*; A financial product / contract that takes its performance from some other assets. Used in risk management.

*(fund) Distribution*; Money withdrawn from an investment.

*Diversification*; Not "putting all your eggs in one basket." The most basic (and a highly effective) way to reduce investment risk. The trick comes in knowing what kinds of risks can and should be diversified.

*Endowment*; An investment portfolio where withdrawals typically go to a non-profit cause. Often such portfolios aren't taxed and typically make payments (also called distributions) at least once a year. Many are also designed with no specific end date in mind and try to maintain the value of the portfolio after withdrawals and inflation.

*Equity*; See separate entry for "stock".

*Futures*; An agreement to buy or sell something at a set price and at a set time in the future. A kind of derivative (see separate entry). Used in risk management.

*Governance*; The things that are done to direct / manage an investment portfolio. It can be thought of as both the policies and documents which reflect and direct decisions, as well as the behaviours of different stakeholders, e.g. boards, investment committees, external investment managers etc. The more time, money and breadth / depth of experience that can be applied to governance, the better the investment portfolio's long-term results are likely to be.

*Income Assets*; Generally, investments where most or all of their return is expected to come from income / interest / dividends, as opposed to capital gains or losses. Typically includes cash, bonds and some kinds of shares / stocks. Also called defensive assets.

*Investable assets*; Assets that are designed to generate income.

*Growth (assets)*; Equity (see separate entry) style of investments including listed shares / stock (see separate entry), international and emerging shares and some kinds of "alternatives" (i.e. investments which aren't shares / stocks, bonds or cash). The opposite of "income assets" (see separate entry).

*Leverage*; An investment strategy which involves using borrowed money. Confusingly, this can be done not only by taking out a loan, but also using derivatives (see separate entry) and the way an investment is structured.

*Liquidity*; The degree to which an investment can be sold quickly without needing to take a significant loss on it. For stock (see separate entry) of major companies this could be very high – i.e. less than a second on a stock exchange. For some "alternative" investments the process can take years.

*(Reserve Bank of NZ's) Open Bank Resolution policy*; a NZ government scheme to improve the chance of depositors getting at least some of their frozen money out of a bank in a short timeframe, should it collapse. It's not a government guarantee. For more information see: https://www.rbnz.govt.nz/regulation-and-supervision/banks/open-bank-resolution

*Options*; Provides the right, but not the requirement, to buy or sell something at a fixed price and within a certain time. A type of derivative (see separate entry).

*(branch of an) Overseas incorporated bank*; A group of banks operating in NZ who are regulated in a different way to domestic banks.

*Perpetuity*; Expected to be around forever, or at least a much longer timeframe than most people in investment markets focus on.

*Pooled investment vehicles*; Legal structures where you invest alongside other investors; the opposite of an investment mandate where you are the only investor.

*Portfolio Investment Entities*; A NZ legal structure designed to reduce the level of tax paid by many investors.

*(in) Real terms*; Investment returns after taking out the effect of inflation.

*Rebalancing*; Making changes to an investment portfolio to get the makeup of assets back towards your preferred mix.

*(investment) Risk,* including the following major ones;

- *Inflation* – The risk that an investor's money won't be enough to meet their goals, given the loss of value of money over time due to inflation
- *Interest rate* – Unexpected rises and falls in interest rates reduces the value of some investments
- *Currency* - Investing in a foreign country, and then having the value of that currency become worth less compared to your domestic currency
- *Credit* – Money lent out, (e.g. via cash, bonds etc), not being paid back in part or full
- *Financial* – Failure to get back money invested in owning a share of a business, i.e. stock (see separate entry), due to it failing or underperforming. Has some similarities to credit risk
- *Liquidity* – See Separate entry
- *Operational* – The risk that an investment doesn't work as expected because a person has made an error. For example, if you invest in a fund and it isn't priced properly, that is operational risk.

*Statement of Investment Policy and Objectives ("SIPO")*; The document that brings together the who/what/when/where /why as to how to manage an investment portfolio. Called an Investment Policy Statement ("IPS") outside of NZ.

*Responsible Investing ("RI");* Considering environmental, social and governance ("ESG") factors as part of the investment process.

*Stock*; also known as "equity" or "share", i.e. part ownership of an investment.

*Stress Test*; A process of modelling an extreme but plausible investment situation and then analysing its likely effect on the investment portfolio. The idea is then to make changes to investments to reduce the size of losses should the extreme situation occur.

*Uncorrelated*; Two or more investments that behave quite differently from each other return wise. Uncorrelated investments provide extra diversification (see separate entry) in the client's portfolio.

*Volatility*; A measure of the variation of returns on an investment around a long-term average. Lower volatility is better because it provides clients with more predictability when they need funds to meet their needs. Not to be confused with credit risk (see separate entry) which is the risk of permanently losing part or all of the money in an investment.