Nikau
FOUNDATION

Distribution Policy

Adopted by Board on 26 September 2023

Everybody Eats Charitable Trust. Image credit: photos by Alex McVinnie (@alexmcv)

Our approach to distribution

1.1 It is a challenge that many foundations face – how to ensure consistent annual funding for good causes when markets and returns on investments fluctuate. Acknowledging this, Nikau Foundation adopted this distribution policy in 2020, which ensured that grants can be sustainably distributed even in the face of uncertain economic conditions. Since its adoption, it has been put to the test, especially during the 2022 economic downturn which has seen negative returns across all asset classes. Unlike other foundations, Nikau has been able to continue to make significant grants to its community.

Purpose

1.2 The purpose of this Distribution Policy is to determine annually the amount of funds available for distribution for each endowment fund with the intention of preserving the capital value in real terms of the fund over the long term while smoothing the amounts available for distribution.

Distributions

1.3 The amount available for distribution as grants in relation to each financial year in accordance with this policy will be calculated using the formula in the Appendix.

1.4 A separate calculation will be performed for every endowment fund that has exceeded its granting threshold during the financial year for which the calculation is being performed. The granting threshold will be $75,000 of capital value unless otherwise agreed.

1.5 A distribution from a fund may not cause the balance of the fund capital to fall below its granting threshold. In any case where the calculation produces an amount that would cause the fund to drop below the granting threshold, the distribution amount will be reduced to the extent that the threshold is maintained, unless otherwise approved by Board on a case-by-case basis.

1.6 For the first distribution of a new fund under this policy, the value of D_{t-1} shall be the distribution rate multiplied by the value of invested funds at the end of the previous year (i.e. $R \times V_{t-2}$).

1.7 The Chief Financial Officer will carry out this calculation at the commencement of each financial year once the allocations of income to the endowment funds, and all endowment fund reconciliations are completed (this will generally be prior to the completion of the audit).

Carrying forward from prior years

1.8 Any amount available for distribution under this Policy in a previous financial year that has not been spent in that financial year will be carried forward to the current financial year, as will any overspend.

Ring-fencing of investments

1.9 Where the Board considers that specific investments held for the benefit of one endowment fund would, if pooled, distort the risk profile, amount available for distribution, liquidity, or risk of other funds, the Board may, by resolution, ring-fence those investments from other endowment funds and may set the date from which ring-fencing will apply.

1.10 Ring-fenced investments would generally exhibit one or more of the following characteristics:

i. Specifically gifted or otherwise be required by the donor to be held, either as a particular asset or particular asset class, including social investment at below market yield.

ii. Yield out of line with market yields.

iii. Be illiquid.

iv. Exhibit a risk-return profile significantly different from Nikau's other investments.

v. If pooled, would impact materially on the amount available for distribution by other Nikau funds.

1.11 When an asset is ring-fenced the Board will determine the basis of distributions related to that asset and all grants and all investment returns will be tracked separately to the Fund's account, whether investment returns are earned by way of gross income, net profit, revaluation or realisation on sale or transfer.

1.12 Where the Board considers that the rationale for ring-fencing no longer applies the Board may, by resolution, direct that ring-fenced assets be brought back into the general investment pool and the Board will determine, at that time, the re-entry valuation of the assets to be brought into the pool.

Departure from General Policy

1.13 If grounds arise for departing from this Policy in a particular financial year (e.g. exceptional events affecting the Foundation's investment returns), departure from the Policy may only be made after agreement has been obtained by the full board.

Version History

CHANGES	DATE	UPDATED BY AND AUTHORITY
Board approved	13 September 2020	
Amended	6 December 2021	Board resolution
Board approved	26 September 2023	
Next review	September 2026	

Roles and Responsibilities

Chief Financial Officer	• Responsible for the annual calculations of funds available for distribution
Audit, Risk & Investment Committee	• Review and approval of the annual Funds Available for Distribution calculations prior to submission to the board • Note compliance with this policy • Review of this policy on a triennial basis
Board of Trustees	• Approval of this policy • Approval of temporary deviations to this policy

APPENDIX 1

Formula for calculation of distributions in each financial year

The amount available for distribution in a Financial Year in accordance with this Policy will be calculated as follows:

Distribution = $W \times D_{t-1} \times [1 + \delta] + [1 - W] \times V_{t-1} \times R$

W = weight applied to the previous year's distribution. Currently set at 0.5

D_{t-1} = Distribution last year ($m)

δ = The rate of inflation in the last year

V_{t-1} = Value of invested funds at the end of last year

R = Distribution Rate (%). Currently set at 3.5% (real)

The amount calculated above will be adjusted for Significant Deposits received during a current financial year. Significant deposits will be deducted from the value of the invested funds at the end of the last year (V_{t-1}) and an amount of one twelfth of the Distribution Rate (R) multiplied by the value of the deposit will be added to the distribution amount for each full month that the Significant Deposit is invested.

Any Significant Withdrawals will be added to the value of the invested funds at the end of last year (V_{t-1}) and an amount of one twelfth of the Distribution Rate (R) multiplied by the value of the withdrawal will be deducted from the distribution amount for each full month remaining in the financial year after the withdrawal occurred. This adjustment cannot be greater that the calculated distribution amount.

A Significant Deposit is defined to be $100,000 and includes the establishment of a new fund.

A Significant Withdrawal is defined to be $100,000 and excludes grants paid.

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