



Statement of Investment Principles and Objectives

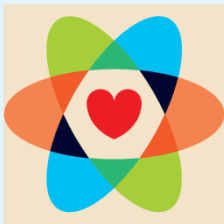
Adopted by Board on 3 October 2022

About Nikau Foundation

Operating in Wellington Te Whanganui-a-Tara since 1991, Nikau Foundation has the objective of growing generosity. The community foundations model builds reliable funding streams to create long-term community transformation.

All gifts we receive are responsibly invested and grown, with the ongoing investment returns distributed in grants to community organisations, initiatives, and projects throughout the Wellington region.

Our Values



Ethical

We approach every aspect of our work with transparency, fairness and integrity.



Transformative

We create meaningful change in our communities by building reliable funding streams and practising effective grant-making.



Inclusive

We value the diversity in our communities and strive to build a culture of respect and inclusion,



Flexible

We offer a tailored approach to giving, allowing donors to give to the people and places they love. We are adaptable to the changing needs of our communities and region.



Collaborative

With deep roots in the community, we work to maximise our impact through relationships and partnerships.

Community Foundations of New Zealand

Nikau Foundation is one of 17* community foundations operating throughout Aotearoa New Zealand to effect positive change, locally. It is our goal to build reliable funding streams to support and uplift our communities, forever.

Community Foundations of New Zealand (CFNZ) is the national body supporting and uniting all community foundations throughout Aotearoa.

*at the time this SIPO was adopted.



Nature of Nikau Foundation

Nikau Foundation:

- Was established by a Trust Deed dated 20 December 1991 as amended from time to time
- Is a registered charity. Our charity registration number is CC24793
- Is tax exempt
- Is corporate trustee of other Foundations
- Exists in perpetuity
- Has a balance date of 30 September

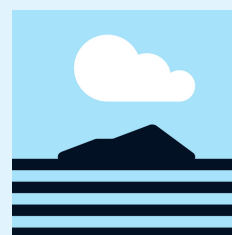
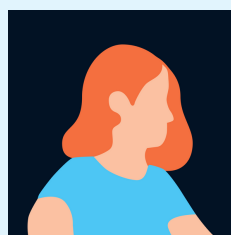
Governance

The Board of Trustees will be responsible for the following:

- Reviewing and approving this SIPO
- Reviewing the asset allocations and investment performance on at least a quarterly basis
- Approving the appointment of Investment Managers

The Audit Risk and Investment Committee (ARIC) will be responsible for:

- Reviewing this SIPO, including the instructions to the Investment Managers and providing changes to the SIPO to the Board for its review and approval
- Determining the appropriate number of Investment Managers and making recommendations to the Board when changes are required
- Reporting to the Board on at least a quarterly basis
- Formally reviewing the mandates of the appointed Investment Managers at least every five years



Each Investment Manager will be responsible for the following:

- Managing the funds allocated to them 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 this document and any applicable legislation
- Where the Investment Manager's portion of the investment fund consists partly or wholly of a portfolio of individual securities, the Investment Manager's investment management agreement shall include explicit reference to the constraints or guidelines referred to in this SIPO as these relate to the Investment Manager
- Where the Investment Manager's portion of the investment fund consists wholly of units in a pooled fund or funds, the Investment Manager shall undertake to advise Nikau Foundation of any variations that may arise from time to time between the operation of such pooled fund(s) and the constraints or guidelines in this SIPO as these relate to the Investment Manager
- Supplying any reports of the fund's performance results in advance of regular meetings and on request, participating in those meetings to review the written reports. The reports shall contain such information and in such format as agreed with Nikau Foundation but must contain sufficient information to enable the annual financial statements to be produced
- Managing the investment fund in a manner that is consistent with the tax status of Nikau Foundation
- Providing a quarterly statement of compliance with this SIPO and investment agreements noting any breach(es) and action taken to remedy the breach(es)
- Participating, when required in the annual review of this SIPO



Investment Principles:

The Board of Trustees believe:

- Strong governance leads to better investment decisions
- Higher returns are associated with greater risk
- Prudent diversification within a portfolio may reduce volatility if diversification opportunities are available otherwise risk must be managed
- Asset allocation is important and is a major determinant of portfolio returns
- Active management may return a premium over time but requires skill and information
- Markets have a strong behavioural element
- Historical performance is a poor guide to future performance
- Engaging Investment Managers will maximise the probability of producing superior investment outcomes and improve governance

In situations requiring direct investment, the following matters are important:

- To understand value and how it will be created
- To understand how the investment will be protected if events unfold differently to that expected or priorities change
- Thinking and acting like an investor and considering the following key elements:
 - Understanding the likely future outcomes
 - Understanding cash flows as indicators of economic reality
 - Consideration of acceptable risk levels
 - Estimation of the value of money over time
 - Consideration of the next best alternative to the investment on offer
 - The value of the information they have about the potential investment
 - The potential to reduce risk through diversification

Investment Risks:

The Board has determined that the appropriate level of risk for the Nikau Foundation is that of a **Balanced** investment profile. As a proxy, a portfolio of 60% growth assets and 40% income assets reflects the level of volatility accepted by the Board.

Risk and return are related. The Board recognises the need to accept risk in order to meet its long-term investment return objectives. Key risks include:

Market Risk – the risk of market downturns. This is mitigated by taking a long-term view of markets and through diversification of assets.

Inflation – the risk of losing the purchasing power of distributions. This is mitigated long-term through allocations to assets that appreciate in real terms over time and through seeking additional returns from active investment management.

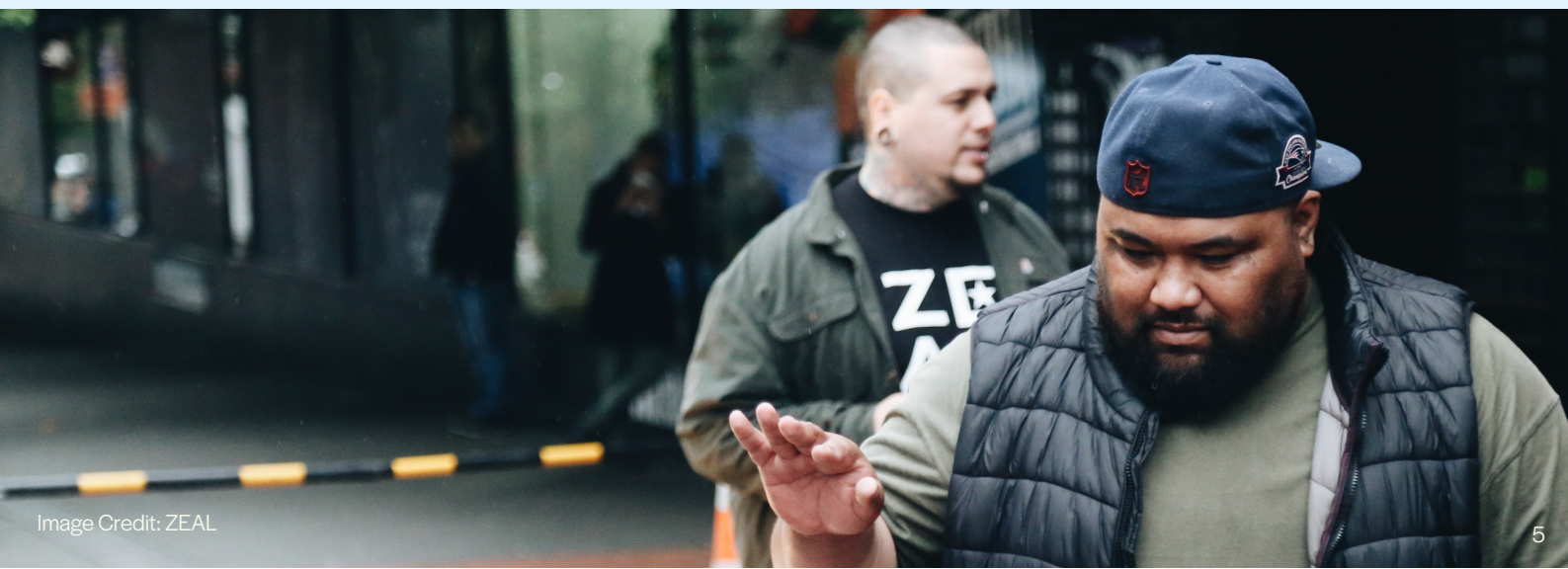
Interest Rate Risk – the risk of losing capital when interest rates rise. Mitigated through diversification and active management of bond portfolios.

Currency Risk – the risk of losing value on offshore assets when the NZ dollar appreciates against foreign currencies. Mitigated through taking a longer-term view and having a diverse basket of foreign currencies.

Credit Risk – the risk of loss through corporate defaults. Mitigated by limiting allocations to non-investment grade credit and through diversification.

Liquidity Risk – The risk of not being able to convert an investment to cash when required. Mitigated through predominately investing in listed securities and sound budget forecasting.

Operational Risk – The risk of losing money through errors, omissions and/or fraud. Mitigated by performing thorough due diligence on Investment Managers and funds and ensuring that Investment Managers have appropriate professional indemnity insurance.



Investment Objectives:

The broad investment objective is to produce returns over the longer term that meet or exceed the required level of annual distribution.

Specifically, the investment return objective is:

- To achieve an average rate of return of at least 3.5% p.a. after fees, expenses, inflation and tax (if any) over the longer term. This includes expenses incurred in investment funds, from investment platforms and the operational expenses of Nikau Foundation.

The investment risk objectives are to:

- Preserve the capital value, in real terms over the longer term
- Provide the liquidity necessary to meet all of Nikau Foundation's cash requirements
- Diversify market and security risk within and across asset classes

Investment governance objectives are to:

- Comply with all applicable legislation requirements in taking investment decisions
- Ensure Nikau Foundation's assets are invested in a prudent manner

Investment Manager objectives are to:

- Exceed the Benchmark Return on a rolling three-year basis after fees and expenses
- Manage the risk of the portfolio to be consistent with a Balanced strategy of 60% Growth Assets and 40% Income Assets



Asset Allocation:

The Board has determined that the assets are to be managed in two portfolios being:

- **The Securities Portfolio** - a portfolio of predominantly listed securities managed by external Investment Managers
- **The Direct Asset Portfolio** – a portfolio of unlisted assets resulting from bequests or investment on authority of the Board.

The ranges and types of assets included in these portfolios are:

Portfolio	Range	Strategy Assets
Securities Portfolio	65% to 100%	May include: <ul style="list-style-type: none"> • Company shares • Listed property • Listed infrastructure • Exchange traded funds • Listed investment trusts • Sovereign bonds • Corporate credit • Cash
Direct Assets Portfolio	0% to 35%	May include: <ul style="list-style-type: none"> • Direct Property • Direct Infrastructure • Private Equity • Venture Capital • Alternatives • Absolute Return Funds • Impact Funds

The Securities Portfolio is managed by two Investment Managers. The allocation between the managers is:

Investment Manager	Target Mix %	Range
Craigs Investment Partners	50%	45 - 55
Harbour Asset Management	50%	45 - 55

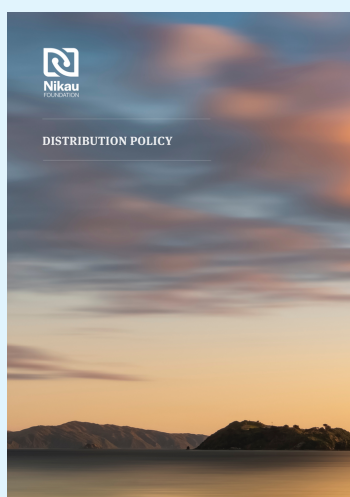
Each Investment Manager manages its portfolio according to the following benchmark allocations and ranges proposed by the Managers and approved by the Board as set out in Appendix A.

Investment Policies



Responsible Investment Policy

The Board has a Responsible Investment Policy. Investment Managers are expected to adhere to this policy.



Distribution Policy

The Board has a Distribution Policy.

Nikau Foundation's policies can be found at nikaufoundation.nz/financials-and-policies.

Direct Assets Policy

Direct assets may be held by Nikau Foundation within the portfolio limits specified in this SIPO.

Specifically, direct property investments shall:

- Be from donor bequests. No direct investment into direct property is authorised by the Board
- Have tenant types that comply with the Responsible Investment Policy
- Be managed by reputable property managers selected through an appropriate selection process and reviewed for performance on an ongoing basis.
- Be properties graded no worse than Category B.
- Be a safe environment for tenants including having adequate earthquake resilience.

Any property bequests falling outside of this policy will be sold as soon as practical. Complying property will be assessed on a case-by-case basis with a view to sale over time.

Other direct assets must be via unlisted managed funds or limited partnerships.

Rebalancing Policy

The portfolios will be monitored against asset allocation targets and ranges. The Investment Managers are expected to maintain portfolio allocations within the ranges specified in this SIPO. Nikau Foundation will manage the allocation between Investment Managers in accordance with the limits specified within this SIPO. Rebalancing is not to be used for tactical purposes.

Derivatives Policy

The use of derivatives is permitted subject to effective exposures being fully collateralised by cash and the gross exposure of any particular fund not exceeding the value of its physical holdings.

Portfolio Monitoring:

The Audit, Risk and Investment Committee will review Investment Manager performance on at least a quarterly basis and provide a report to the Board.

Each Investment Manager is expected to provide sufficient information for monitoring purposes including:

- Monthly investment returns before tax and fees for each asset class managed and for the total portfolio under their management
- Annual Controls reports issued by independent auditors as well as bridging letters for any period outside of the report's date
- Asset allocations of the portfolio under their management at the end of each month
- Benchmark returns for each asset using the market indices specified in Appendix A
- Benchmark returns for the portfolio under their management using the market indices specified in Appendix A and their benchmark mix specified in this SIPO

Version Control

Version	Date of Adoption
Version 6 - this SIPO	3 October 2022
Version 5	4 April 2022
Version 4	21 April 2020
Version 3	17 February 2020
Version 2	20 April 2015
Version 1	18 November 2014

Appendix A - Asset Allocations, Hedging and Benchmark Indices

The benchmark asset allocations and ranges for each Investment Manager are set out below. The benchmark return for each Manager is the asset-weighted return of the benchmark indices shown in the tables. Foreign currency hedging policies are also set out below. Investment returns of the Manager will be compared to their respective benchmark returns, adjusted for fees and any tax leakage, to determine the value added from active investment strategies.

Craigs Investment Partners

Asset Class	Benchmark Mix %	Range %	Benchmark Index
New Zealand Shares	12	2 - 22	S&P/NZX 50 Ex-REIT Index (Total Return)
Australian Shares	11	1 - 21	S&P/ASX 200 Accumulation Index (unhedged)
Global Shares	35	25 - 45	MSCI World Index (50% hedged to NZD)
Australasian Listed Property	2	0 - 7	60% S&P/NZX All Real Estate Index 40% S&P/ASX 200 Real Estate Index
Alternatives ¹	0	0 - 5	As agreed with Trustees
Growth Assets	60	50 - 70	
NZ Fixed Interest	20	10 - 30	S&P/NZX Investment Grade Corporate Bond Index
Global Fixed Interest	17	7 - 27	Bloomberg Barclays Global Aggregate Bond Index (NZD hedged)
Cash	3	0 - 8	S&P/NZX Bank Bills 90-Day Index
Income Assets	40	30 - 50	

¹Private Equity Funds as approved in advance of investment

Asset Class	Benchmark Hedge Ratio %	Range
Australian Shares ¹	0	N/A
Global Shares	50	25 - 75
Global Fixed Interest	100	90 - 110

¹Australian Dollar Exposure

Harbour Asset Management

Asset Class	Benchmark Mix %	Range %	Benchmark Index
Australasian Shares	19	9 - 29	S&P/NZX 50 Index
Global Shares	36	26 - 46	MSCI All Country World Net Index (50% hedged to NZD)
Listed Property	5	0 - 10	S&P/NZX All Real Estate Index.
Growth Assets	60	50 - 70	
NZ Fixed Assets	25	10 - 40	Bloomberg NZ Bond Composite 0+Yr Index
Global Fixed Interest	10	0 - 20	Bloomberg Barclays Global Aggregate Bond Index (NZD hedged)
Cash	5	0 - 12.5	S&P/NZX Bank Bills 90-Day Index
Income Assets	40	30 - 50	

Asset Class	Benchmark Hedge Ratio %	Range
Australian Shares ¹	50	0 - 100
Global Shares	50	25 - 75
Global Fixed Interest	100	90 - 110

¹Australian Dollar Exposure



T 04 381 2224
info@nikaufoundation.nz
www.nikaufoundation.nz

PO Box 24-220
Manners Street
Wellington 6142
