

Acorn Foundation

Investment Policy Statement

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Acorn Foundation Investment Policy Statement

This Investment Policy Statement sets out the investment objectives of the Acorn Foundation and the way the investments will be managed to meet those objectives.

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Defined Terms

"Acorn Foundation Investment Beliefs"	means the investment beliefs found on the Foundation website
"Custodian"	means the appointed custodian of the Acorn Fund.
"Foundation"	means the Acorn Foundation.
"Foundation's Vision"	means the Foundation Vision found on the Foundation website
"Fund"	means Acorn's investment Fund.
"FUM"	means the total sum of Acorn's funds under management.
"Investment Return"	means return from investment activities including dividends, interest, distributions, realised and unrealised gains/losses from holding investments and foreign exchange realised or unrealised gains/losses.
"Investment Manager"	means the appointed managers of the Acorn Fund.
"IAC"	means Investment Advisory Committee.
"IAC Chair"	means the chairperson of the IAC.
"Investment Policy Statement" or "IPS"	means the Foundation's Investment Policy Statement.
"Real Income"	means interest income and dividend flow after adjusting for inflation.
"Social Impact Investment"	means any form of investment (equity or debt) that has the purpose to provide community, social or environmental benefit in addition to expected financial return.
"Strategic Asset Allocation"	means a mix of assets for the Fund that is intended to be in place for the long-term.
"Tactical Asset Allocation"	means short-term alterations to a strategic asset allocation to reflect market conditions and expectations of future risks and returns.
"Trustees"	means the Acorn Foundation Trustees.



1.0 Background

The Acorn Foundation is a charitable trust set up to inspire generosity in the Western Bay of Plenty region and provide ongoing support for the charities and community groups that operate in the region.

Except for “pass through” giving, donors set up a “fund” that is perpetual in nature, with the return generated from investment assets purchased with this capital, utilised to fund charities in the region. These individual donor funds are pooled for investment management purposes (“the Fund”), and invested in accordance with this Investment Policy Statement, which aligns with the purpose.

The Foundation’s pooled Fund is projected to grow indefinitely into the future. The goals and objectives of the Foundation are strongly linked to the performance of the Fund. Returns generated by the Fund will be utilised by the Foundation to:

1. Pay distributions to the nominated charities of the Foundation; and
2. Pay administration and third-party expenses of the Foundation.

The Foundation shall appoint Investment Managers to provide advisory, transaction, management or custodial services (or a combination of these).

Investments shall be within the agreed allocations of this IPS and shall recognise that the Foundation is not a taxpayer.

2.0 Investment Policy Statement

This Investment Policy Statement (“IPS”) identifies the key factors bearing upon decisions for the Fund and provides a set of written restrictions/guidelines for the management of its assets.

This IPS is reviewed and approved at least on a biennial basis by the Foundation Trustees.

The IPS should be read in conjunction with the separate Acorn Foundation Investment Beliefs document.

3.0 Roles and Responsibilities

3.1 Trustees of Acorn Foundation

The Trustees have the ultimate authority over and responsibility for the Fund.

It is acknowledged that the Trustees have the power *to invest all or any part of the Trust Fund in any way permitted by law and in such manner and upon terms as the Board thinks fit* [Clause 10.1 (e) of the Deed of Trust].

To assist in the performance of their duties and to ensure that the Fund meets its objectives, the Trustees will:

- Appoint an IAC;



- Receive the IAC's recommendations with respect to the Fund's IPS and approve (or amend) the IPS, as appropriate, on a biennial basis; and
- Review all other reports and recommendations of the IAC with respect to the Fund.

3.2 Investment Advisory Committee

The IAC acts under a delegated power (Clause 13 of the Deed of Trust) where the delegation does not prevent the exercise of any power or the performance of any duty by the Board.

The IAC will:

- On a biennial basis, or more frequently if appropriate, review the Fund's IPS and make appropriate recommendations to the Trustees;
- Formulate recommendations to the Trustees regarding the selection, engagement or dismissal of an Investment Manager, a Custodian and any other specialist consultants;
- Formulate specialised instructions and mandates for any Investment Manager including any restrictions on the type of assets that may be held in the Fund or the choice of asset mix. These instructions and mandates will derive from, reflect and be consistent with the provisions of this IPS;
- Ensure all Fund investments are made with, and have access to, suitable due diligence and research from an appropriately qualified advisor, should the Investment Manager not be able to provide such advice.
- Monitor the Fund performance and its compliance with the IPS and report on these matters to the Trustees on a quarterly basis;
- Monitor the Investment Manager's performance and compliance with the IPS as well as compliance with any instructions and mandates the Investment Manager has been given;
- Take appropriate steps to resolve conflict of interest issues as provided for in Section 12 of this IPS.

The IAC shall make recommendations to Trustees on the appointment of a consultant, advisor, Custodian, Investment Manager, or administrator who will provide the IAC with information and advice to support:

- Fund asset allocation;
- Fund investment selections and Structures;

that meet the objectives of the Foundation, within the parameters of the IPS.

Specifically, in recommending any appointment the IAC will be considerate of:

- Mitigating risk and maximising return, having regard to the return objectives of the Foundation;
- Providing advice and guidance on asset allocation on a regular basis (at least quarterly), and on any relevant investment matter;
- Meeting regularly with the Chair of the IAC; and
- Reviewing the objectives and strategies outlined in this document and consult with the IAC on recommended adjustments.



3.3 Investment Decision-making

All decisions shall be made by way of simple majority of the IAC members (in person or by email). However, the IAC Chair shall be able to make urgent decisions on investments which meet the IPS (up to a limit of \$200,000), where it is not practicable to obtain IAC input. The IAC Chair shall, immediately following the decision/investment, advise the IAC of the Chair's actions.

3.4 Custodian

Custody of the Fund's assets, with the exception of bequeathed assets that sit outside the IPS, will be delegated to a trustee company or other financial institution similarly recognized as a depository for securities.

The Custodian will report to the Foundation and will:

- Provide safekeeping for Fund assets;
Process authorised transactions as directed by the IAC or via an appointed and authorised Investment Manager
- Collect interest, dividends, distributions and the proceeds of cash equivalent and fixed income instrument maturities;
- Inform the Investment Manager of pending corporate actions (e.g. name changes, mergers, etc.) and process instructions related to such matters;
- Deposit and transfer funds and payment of expenses as directed by the Foundation;
- Maintain a record of all transactions;
- Provide regular reports to the Foundation and to the IAC as provided for in Section 9 of this Investment Policy Statement;
- Provide the Foundation, the Investment Manager and other agents of the IAC with information required to fulfil their duties, or as directed by the IAC; and
- To the extent possible, provide applicable information as may be required by the Foundation's auditor.

4. Investment Objectives

4.1 Return on Investments

The long-term investment objectives of the Fund are:

- To preserve the nominal value of the Fund, with a preference for maintaining the real value over time;
- To generate sufficient return within the Fund on a rolling annual basis to:
 - Cover the administration expenses of the Fund, including the Investment Manager;
 - Contribute to the operating expenses of the Foundation; and
 - Provide sufficient long term returns to enable the Foundation's charitable distributions.



- The expected long-run gross return objective of the Fund, based on the asset allocation is 5.2%. Return volatility means this will not be achieved every year, but this is the target on a rolling 5-year basis, measured on weighted average FUM over that period.

4.2 Risk Tolerance

The IAC and the Trustees of the Foundation acknowledge the long-term investment objectives of the Fund and understand and accept that short-term investment market volatility may impact Fund valuations in the short term.

The Fund shall seek to minimise investment risk, to the extent possible, in achieving the Fund objectives, recognising the benefit of charitable status with respect to taxation.

The expected long-run annual risk (as measured by the standard deviation) of the Fund is based on the asset allocation detailed in Section 6.1.

5. Investment Constraints

5.1 Legal and Regulatory Status

The Acorn Foundation is a registered Charitable Trust. Its year-end is 30 June.

5.2 Taxation Status

The Foundation is registered with the Inland Revenue as a Charitable Trust. The Fund is exempt from income tax.

5.3 Investment Time Horizon

The Foundation is perpetual in nature, and therefore the Fund enjoys a long-term investment horizon.

5.4 Liquidity and Income Requirements

The Fund requires sufficient liquidity to support its annual distribution requirements.

The IAC must ensure there is sufficient Fund liquidity to support the distributions as determined by the Trustee.

5.5 Socially Responsible Investing

The Fund will be managed with a Socially Responsible Investment Framework which reflects the Foundation's Vision.

6. Asset Mix

A Fund's asset mix is the proportion within which various asset classes are represented in the Fund. In general, the greater a Fund's allocation to growth assets (equities) relative to income assets (fixed interest and cash), the greater the potential for increased return and inflation protection, but with greater investment risk. Conversely the greater the allocation to income assets relative to equities, the greater the Fund's



potential for generating consistent returns, with reduced investment risk but with risk of inflation affecting real returns (but being protected against deflation).

Alternative assets (hedge funds, private equity funds, commodities and other financial assets) can offer lower correlation with growth or income assets (reducing Fund risk) and increased diversification.

Control of the Fund's Asset Allocation is, in the medium term, the principal means of controlling its risk and return characteristics.

6.1 Recommended Asset Mix

The following Strategic Asset Allocation reflects the Foundation's investment objectives and corresponding risk profile.

Asset Allocation positions that differ from the Strategic Asset Allocation may be taken from time to time, if deemed prudent considering market conditions and valuations with the objective of meeting the performance objectives, within the risk management parameters. However, the Fund shall remain invested within the ranges in each asset class as set out below.

Table 1: Long Term Strategic Asset Allocation

Asset Class	Long-term Strategic Asset Allocation Benchmark		Range Minimum	Range Maximum
NZ Equities	20.0%		15.0%	25.0%
Australian Equities	16.0%		12.0%	20.0%
Property Equities	12.5%		7.0%	15.0%
Global Equities	19.0%		14.0%	24.0%
Alternative Assets	7.5%		4.0%	10.0%
Total Growth Assets	75%		65.0%	80.0%
Fixed Interest	20%		15.0%	30.0%
Cash and TDs	5%		0%	15.0%
Total Income Assets	25%		20.0%	35.0%

It is intended that international growth investment assets are unhedged, whilst international income investments are hedged.

Eligible investments within each asset class are agreed between the IAC and any Investment manager such that in combination they meet the overall risk tolerance of the Fund.



6.2 Asset Allocation Review

The Strategic Asset Allocation shall be formally reviewed annually, during the first calendar quarter.

The Tactical Asset Allocation will be assessed quarterly and adjusted as required, with the objective of meeting the long-term performance objectives of the Fund and acknowledging the risk profile of the Fund as set out in the Investment Policy Statement.

7. Investment Management Guidelines

7.1 Eligible Investments – Definitions and Constraints

7.1.1 Cash and Fixed Income

The primary role of the Fixed Income and Cash allocation is to provide regular income and the preservation of capital.

Investment parameters

- The fixed interest component of the Fund shall comprise a range of floating and fixed interest securities, cash and short-term bank deposits.
- The fixed interest component of the Fund shall hold a diversified range of securities. These may include (but are not limited to) New Zealand Government stock, local authority stock, corporate bonds, term deposits, secured loans, mezzanine financing, subordinated debt, inflation-linked, interest rate swaps, floating rate notes (FRN) and forward rate agreements (FRA). The securities may be in NZD or foreign currency but must be hedged to NZD.
- The major component of the fixed interest allocation shall be in securities that are investment grade or better.
- New Zealand Local authority bonds are deemed to be investment grade for the purpose of this policy.
- Total exposure to New Zealand Government Stock may be up to 100% of the Fund. Total exposure to a New Zealand registered bank with a credit rating of AA- or better may be up to 20% of the fixed interest component of the Fund. All other total exposures across any one entity or its subsidiaries shall not exceed 15% of the fixed interest component of the Fund.
- For the purpose of this policy, perpetual notes are not classed as fixed interest securities.

7.1.2 New Zealand and Australian Equities

Overview

The primary goal of the New Zealand and Australian equity holdings is to provide sustainable income, growth in income over time, or capital growth. The best risk-adjusted returns come from holdings in quality companies purchased



at reasonable prices. To this end, the Fund shall focus on stocks with characteristics that include:

- Sustainable business and earnings;
- Quality management and governance;
- Attractive cash flow return on invested capital;
- Operate in a favourable sector;
- Potential for earnings growth;
- Sound financial position; and
- A reasonable valuation.

Investment parameters

- Investments shall be confined to publicly listed, widely held securities trading on recognised stock exchanges.
- Exposure to New Zealand and Australian equities shall be made up of holdings in direct equities, index funds and exchange traded and unlisted managed funds.
- The majority of this allocation shall be held in large cap stocks (i.e., members of the NZX 50 Index for New Zealand equities and ASX 200 Index for Australian equities).
- The New Zealand and Australian holdings shall complement each other and provide appropriate diversification.

7.1.3 Global Equities

Overview

The primary objective of the global equities holdings is to provide capital growth, sustainable income or growth in income over time. It is acknowledged that this allocation has foreign currency risk.

Parameters

Exposure to global equities shall be obtained through either index funds, managed funds, direct equities, or a combination of these options.

The role and makeup of each of the global equity allocation is to:

- Provide exposure to large multinational businesses with significant exposure to global markets.
- Provide an income distribution via dividends, and the prospect for capital growth.
- Access higher offshore growth rates.
- Provide, through index funds, a cost-effective core exposure to global markets.
- Provide a tax effective means of accessing active managers.



7.1.4 Property Allocation

Overview

The primary objective of the Property allocation is to provide sustainable income and growth in income over time.

Parameters

- Both local and global listed and unlisted property vehicles (LPVs) shall be included in the property allocation.
- Preference shall be given to those vehicles that hold real property, are appropriate leveraged and are not primarily development vehicles, with a track record of distribution growth.

7.1.5 Alternative Investments

Overview

The primary objective of alternative assets is to provide investment returns that are less correlated to listed financial market returns. In this regard, they provide important diversification of systematic risk, as well as return contribution.

Examples of alternative assets include infrastructure, private equity, private debt, venture capital, hedge funds, direct real estate, agricultural or horticultural partnerships, commodities, loans, mortgages, foreign exchange, Social Impact Investments and any other financial assets that the IAC approves from time to time. The Trustees and the IAC accept that some of these investments are by their nature more illiquid than other asset classes.

Parameters

- Each alternative asset investment must be assessed on its merits for inclusion in the Fund. Important attributes will include transparency of process and purpose, experience of the management team, appropriate governance, access to liquidity, track record of success, location, valuation methodology, implied duration of the fund, investment and reinvestment period, diversification contribution to the overall Fund.

7.2 Additional Constraints – Inclusions and Exclusions

- Derivative securities may be held in the Fund for hedging of risk and asset allocation purposes.
- No borrowing to fund investments.



8. Performance Standards

8.1 Investment Returns

The Fund's investment performance will be measured against the objective of the Fund. Performance measurement will be reported quarterly.

Fund volatility will be measured and reported on a quarterly basis.

The Fund will be evaluated in terms of:

- Ability to achieve its risk adjusted investment target over a 5-year period without exceeding risk constraints;
- Performance consistency relative to the Fund's stated strategy and long-term real return target;
- Compliance with the provisions of this IPS and any amendments thereto as well as any specialised instructions and mandates issued by the IAC;
- The provision of satisfactory reporting and client service; and
- Investment Manager performance.

8.2 Risk Exposure

The Fund's risk exposure, as measured by the standard deviation of its returns, will be evaluated on a quarterly basis, or more frequently as necessary.

9. Reporting and Service

9.1 Investment Manager

On a quarterly basis and within 30 days of the end of the calendar quarter, the Investment Manager will provide the IAC with:

- A valuation of the Portfolio as at the end of the quarter, including the market value of each security or pooled fund;
- Data and commentary on the Investment Manager's investment performance relative to the mandate's stated strategy and long-term real return target, for the most recent quarter as well as for annual periods as agreed;
- Commentary on the Investment Manager's forward-looking investment views and plans for the Fund;
- Reporting on the volatility of the Fund during the quarter;
- Commentary on the investment strategy and tactics employed over the past quarter;
- Information pertaining to changes in ownership of the Investment Manager or senior management personnel and/or ownership structure, if any; and
- Information pertaining to changes to the Manager's investment style, process or discipline.

The Investment Manager will be available for meetings with the IAC on a quarterly basis, or more frequently if required by the IAC, and will be available for discussion and consultation on an ad-hoc basis. In addition, the Investment Manager will be available for meetings with the Trustees as requested.



9.2 Custodian

The Custodian will provide the Foundation with statements monthly. These statements will include, at a minimum, a summary and a detailed listing of assets held in the Portfolio as well as a listing of transactions (including deposits, withdrawals, receipt of interest and dividends, purchases, sales, corporate actions and fees paid) that occurred in the Portfolio during the reporting period.

The Custodian's reports will provide the book value and current market value of each asset held in the Portfolio, and categorize securities by issuer type, market sector and/or industry, as appropriate.

10. Appointment and Termination of the Investment Manager

The IAC may recommend the appointment an Investment Manager for the Fund, an Asset Class or a strategy within an Asset Class.

The IAC may recommend the termination an Investment Manager when one or more of the following circumstances prevail:

- The Investment Manager has deviated from its stated and agreed on strategy without a reasonable rationale, and without approval from the IAC;
- There has been a change in the Investment Manager's key investment personnel;
- The Investment Manager's performance has been unsatisfactory;
- The Investment Manager's reporting and client service are unsatisfactory;
- The IAC has concerns regarding the Investment Manager's ethics; or
- For any other reason the IAC deems appropriate.

11. Review of the Manager

The IAC will review the performance of the Investment Manager annually.

The criteria for the review will include, but shall not be limited to:

- Performance of the investment Fund against return and risk targets;
- Quality and timeliness of reporting by the Investment Manager to the IAC;
- Brokerage, fees and costs; and
- Overall contribution of the Investment Manager to the Foundation and its investment Fund and philanthropic objectives.

The IAC shall report to the Acorn Foundation Trustees on an annual basis, its assessment of the performance of the Investment Manager, including clear views with respect to ongoing engagement.



12. Conflict of Interest

Where any party to this IPS has a conflict of interest, it must advise the IAC of the relationship and extent of such conflict. The IAC will then determine the appropriate course of action.

13. Adoption of Investment Policy Statement

The Trustees of the Foundation adopted this Investment Policy Statement effective

_____ **2021**

by way of resolution at this meeting on _____ 2021.

Chair - Lesley Jensen

Trustee



Acorn IPS Review History

2007 (June)	Target 55% Income / 45% Growth Ethical investment requirement included
2009 (Nov)	Review. Performance objective set to achieve a return after tax, fees and inflation of 6% per annum (inflation expectation 2%) Target 65% Income / 35% Growth
2012 (Feb)	Review
2014 (Feb)	Review. Minimum target return of 4.7% before inflation (inflation expectation of 0.5%)
2016 (Sept)	Review. Minimum target return of 4.7% - 6.2% before inflation Target 50% Income / 50% Growth long term, with a tactical short-term target of 45% Income / 55% Growth. Tactical target to be reviewed quarterly SRI criteria to specifically exclude alcohol, armaments, tobacco, pornography and gambling Maximum 7.5% allocation to alternative assets Clearer definition of characteristics of desirable stocks
2018 (Mar)	Review. Target return of 6% before inflation on a rolling 5 year basis Target 40% Income / 60% Growth long term Social impact loans introduced as an asset class but to be held outside the Fund Manager's portfolio. Initially to be set at 1% of the FUM but increasing to a maximum of 5% over 5 years Investment beliefs added
2019 (May)	Amended to make clarifications of responsibility regarding Social Impact Loans and/or Investments
2020 (March)	Clarification re appointment of a sub-manager to advise on specific asset classes Clarification of the treatment of returns from Alternative Assets



2021 (May)

Review and simplification of the IPS
Investment Beliefs separated out as a standalone document
Asset Allocations revised to target 75% Growth, 25% Income