



Statement of Investment Policy and Objectives

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AUCKLAND WAR MEMORIAL MUSEUM

1. Introduction

This Statement of Investment Policy and Objectives (“SIPO”) prepared by the Trust Board of Auckland War Memorial Museum (“AWMM”) sets out the objectives, policies and beliefs governing the decisions regarding investment of the Auckland War Memorial Museum’s special purpose funds, hereinafter the “Investment Fund”.

The Trust Board is aware that they are subject to New Zealand legislation, particularly the Prudent Person rules of the Trustee Amendment Act 1988 and the Auckland War Memorial Museum Act 1996.

2. Financial Characteristics of the Investment Fund

2.1. The Investment Fund comprises monies accumulating in:

2.1.1. The Asset Replacement Reserve: funded by that part of the annual levy identified as depreciation-related, received from the Auckland Council to be expended on Museum assets;

2.1.2. The Museum’s Reserves: funded from activities and donations, which are available to be expended at the Trust Board’s discretion;

2.1.3. The Endowment Fund: funded from donations, bequests and fundraising activities for the general purposes of the Museum, with the obligation to invest the sums received and provide for expenditure at the Trust Board’s discretion;

2.1.4. The Trusts and Bequests Fund: funded from donations and bequests for restricted purposes with the obligation to invest the sums received to provide for expenditure as specified by the donors and approved by the Trust Board.

2.1.5. The Investment Fund does not include monies accumulating in the Museum’s operating reserves.

2.2. The Museum is a registered charity and is exempt from New Zealand income tax. Investments are to be made in securities for which income taxes on investment returns are minimised.

3. Financial Objectives

The Investment Fund’s long-term objectives are to:

3.1 Maintain the real value of Trusts and Bequests Fund into perpetuity.

3.2 Provide a return that meets the principles of the Asset Replacement Reserve (ARR).

3.3 Enable a stable level of spending over time.

3.4 Maintain equity between present and future generations into perpetuity.

4. Investment Beliefs

The Trust Board’s approach to investing is framed by a set of clearly defined over-arching principles which are regarded as fundamental and constant. These drive investment decisions. The Trust Board’s intention is to manage the Investment Fund’s portfolio in accordance with these principles, regardless of cyclical ebbs and flows in the capital markets, and this documentation of these principles is intended to ensure continuity of purpose and implementation. The Trust Board’s investment beliefs are:

4.1. Strong governance and well-defined decision making structures enable sound investment decision making.

4.2. The investment horizon is long-term and setting an asset allocation that is appropriate to the objectives and risk tolerance is the most important decision to be made as it is the primary driver of long-term success.

4.3. An allocation to equities is required to support spending while preserving the purchasing power of the Investment Fund portfolio.

4.4. A portfolio broadly diversified across and within asset classes improves the risk to return ratio over time.

4.5. Active managers can add value over benchmarks, however in some markets/asset classes, manager structures that include a passive approach may be more appropriate.

4.6. Costs matter and in some asset classes low-cost passive strategies can be blended with higher cost active strategies to minimise the overall cost of investing. The primary goal is to maximise net of fees returns at an acceptable level of risk.

5. Investment Objectives

5.1. The Fund is first managed to an acceptable risk level. The Trust Board acknowledges the resulting return will vary based on risk taken and market factors.

5.2. The Fund will be managed so that there is greater than 95% probability of achieving a positive nominal return in any cumulative five year period.

5.3. In order to achieve the desired level of spending while preserving and enhancing the Investment Fund's purchasing power over time, the real (i.e. inflation-adjusted) return target for the Investment Fund's portfolio should be equal to or greater than the spending rate.

5.4. The investment objective is to achieve a return net of fees in excess of inflation (as measured by CPI) plus 3.0% over a market cycle (defined as rolling 7-year periods).

5.5. The Trust Board recognises that the 3.0% real return target is a long-term target and will not be achieved in every measurement period.

6. Spending Policy

6.1. The ideal spending policy ensures a balancing of priorities, whereby the current needs of AWMM are not sacrificed in favour of the future needs, nor are future needs sacrificed to those of the present.

6.2. The Investment Fund's spending policy for Trusts and Bequests is to have available for spending 3.0% per annum.

6.3. This spending policy does not apply to any of the Asset Replacement Reserve, Museum's Reserve's or Endowment Fund monies.

7. Risk Management

7.1. The Trust Board seeks to maximise total return of the Investment Fund at an acceptable level of risk in order to meet the stated Financial Objectives, Investment Beliefs and Spending Policy needs.

7.2. Risk is multifaceted.

7.3. There are many sources of risk that the Trust Board, Investment Staff, and Investment Advisor monitor and manage when investing the Investment Fund, including: operational risk, market risk, credit risk, liquidity risk, currency, and derivatives exposure.

7.4. The use of derivatives as part of the investment strategy is permitted for the following reasons:

7.4.1. For Investment Managers, under the terms of individual investment guidelines, to achieve desired

asset characteristics or returns, or to control or manage portfolio risk where the Investment Manager is responsible for monitoring and ascertaining the creditworthiness of any third parties involved in derivative transactions;

7.4.2. To manage risk or hedge against movements in interest rates, values or prices in relation to permitted investments and movements in foreign currency exposures held within the fund;

7.4.3. To achieve transactional efficiency or reduce the transactional cost of achieving exposures.

8. Target Asset Allocation Policy and Policy Ranges

Exhibit 1

Asset Class	Target Policy	Policy Ranges
Growth Assets	35.0%	25.0% - 50.0%
Australasian Equity	12.5%	10.0% - 20.0%
Developed Market Equity	20.0%	15.0% - 25.0%
Emerging Markets Equity	2.5%	0.0% - 5.0%
Diversifiers	10.0%	5.0% - 15.0%
Absolute Return	10.0%	5.0% - 15.0%
Real Assets	5.0%	0.0% - 10.0%
Income Assets	50.0%	30.0% - 70.0%
Australasian Bonds	35.0%	30.0% - 40.0%
Global Bonds	12.5%	0.0% - 15.0%
Cash	2.5%	0.0% - 15.0%

8.1. Growth Assets include both Global Developed Market and Emerging Market listed equities as well as Australasian listed equities. Equities have historically outperformed other asset classes and are therefore the Investment Fund's growth engine. It is recognised that a portfolio biased to Growth Assets could be severely impacted during periods of unanticipated inflation or prolonged

deflation. The objective of the allocations to Real Assets and Income Assets is to protect the portfolio during such environments. All three of these allocations should offer portfolio diversification benefits that would moderate portfolio volatility.

8.2. Diversifiers represent strategies that are included in the portfolio to mitigate volatility inherent in the allocation to Growth Assets. Investments may include long/short equity hedge funds, absolute return funds, and other diversification strategies. Diversifiers aim to dampen volatility while attempting to improve the risk/return profile and should exhibit limited correlation with other asset classes and an equity beta of less than one.

8.3. Real Assets are included to provide insurance from an unexpected spike in inflation. This asset class consists of listed real assets such as Commodities, Listed Property/Real Estate Investment Trusts (REITs), Inflation Linked Bonds, Listed Natural Resource Equities and unlisted real assets such as private Real Estate, and Timberland. The Trust Board will focus on listed sub-asset classes.

8.4. Income Assets are included to provide insurance against a prolonged economic contraction. In order to fulfil its deflation hedging role, a significant proportion of the allocation to both Australasian and global bonds will be invested in high quality fixed interest securities.

8.5. The Target Policy Portfolio (Exhibit 1) serves as a guide to target asset allocations. However, there may be times when the Trust Board overweights/underweights certain asset classes relative to their target allocations or initiates exposure to other asset classes opportunistically on the basis of relative valuations and current investment opportunities.

9. Rebalancing Policy

9.1. Rebalancing occurs as the result of one of the following three defined guidelines in order to obtain the benefits of diversification and maintain an asset allocation that is aligned with the stated investment objectives, without incurring additional unintended risks:

9.1.1. At least annually, to target or explicitly to the desired over/underweights within the stated range.

9.1.2. Quarterly, in the context of liquidity, transaction costs, or tactical considerations.

9.1.3. Within the context of the Investment Fund's cash flow cycle, expected cash flows should be considered in rebalancing towards target or within the stated range based on desired over/underweights.

9.2. Rebalancing priority should be directed primarily toward keeping broad asset classes of Growth, Diversifiers, Real Assets and Income Assets within their respective stated policy ranges. Individual investment portfolio rebalancing within the broad asset class ranges is secondary to that objective and should be reviewed in the context of liquidity, transaction costs, or tactical considerations.

10. Portfolio Benchmarks

10.1. Appropriate benchmarks are established to accurately measure performance of the Investment Fund's portfolio at the total portfolio level, the asset class composite level, and the manager level.

11. Currency Hedging

11.1 Foreign currency exposure introduces additional diversification and volatility to the Investment Fund's portfolio.

11.2 The currency hedging policy limits the Investment Fund's total unhedged foreign

currency exposure to 30% of total assets to reduce currency risk.

11.3 The currency hedging policy will be implemented by asset class.

11.4 Currency exposure introduces additional volatility to the portfolio, which is a source of risk for the globally-oriented portfolio. Currency hedging should primarily be used to manage the impact of currency fluctuations to portfolio returns over time.

11.5 Where possible hedging will be implemented at the manager level.

11.6 The Trust's currency hedging policy is set out below as Exhibit 2.

11.7

Exhibit 2

Asset Class	Policy Target	Hedging Policy
Global Equities	20.0%	75% Hedged
Emerging Market Equities	2.5%	Unhedged
Diversifiers	10.0%	75% to 100% Hedged
Real Assets	5.0%	Unhedged
Global Bonds	12.5%	100% Hedged

12. Responsible Investment Policy

12.1 The Auckland War Memorial Trust Board investment decisions must be consistent with its mandate, which is to manage the Fund in a prudent and commercial manner consistent with:

- Meeting the Trust board's obligations under its Act;
- Best-practice portfolio management;
- Maximising return without undue risk to the Fund as a whole;
- Avoiding prejudice to New Zealand's reputation as a responsible member of the world community;

- Considering investments that provide positive social returns in addition to the required financial return;
- Balancing the financial objectives of the Museum with the goal of creating an overall portfolio consistent with the Museum's core social values and mission;
- The primary goal of the Investment Fund being to generate a sustainable stream of distributions to support the Museum's needs.

12.2 The Trust Board, with support from the Investment Advisor, will uphold these goals by working with fund managers that adhere to the Museum's social values without adversely impacting investment performance. The Investment Committee will:

- Seek to include responsible investment (RI) managers in all manager searches in investment analyses and decision making processes;
- Favor such managers that demonstrate reasonably comparable investment characteristics (i.e., competitive performance, fees, team stability, etc.) relative to their non-RI peers.
- Consider whether investment activities are consistent with relevant international standards, New Zealand legislation, or other Crown actions;
- Integrate consideration of environmental, social and governance (ESG) issues;
- Seek appropriate disclosure and transparency on ESG issues by the entities in which the Museum invests.

13. Responsibilities

13.1 The **Trust Board** is responsible for the general oversight of the Investment Fund, including:

13.1.1 Approving the Statement of Investment Policy and Objectives (SIPO);

13.1.2 Delegating to the Investment Committee and Investment Staff certain responsibilities for the

day-to-day management of the Investment Fund as specified below;

13.1.3 Periodically reviewing results of the Investment Fund.

13.2 The **Trust Board** has established an **Investment Committee (IC)** and has delegated the following responsibilities to it:

13.2.1 Recommend the approval of the SIPO and monitor its continuing applicability;

13.2.2 Periodically review the Investment Fund's Target Asset Allocation Policy and Policy ranges to ensure that these are aligned with the Fund's long-term objectives;

13.2.3 Approve suitable portfolio benchmarks for the Investment Fund to measure the asset class, manager and total portfolio performance;

13.2.4 Recommend to the Trust Board for approval investment manager selection and portfolio positioning within the objectives and policies established in the SIPO.

13.3 The Director and CFO shall be a member of the Investment Committee ex officio.

13.4 The AWMM **Investment Staff** shall be responsible for:

13.4.1 Assisting with the implementation of the investment decisions made by the Investment Committee and Trust Board;

13.4.2 Managing the Investment Fund's relationships with external service providers, including but not limited to: Investment Advisor, investment managers, Custodians, and Auditors;

13.4.3 Keep investment managers informed of the projections of future funds available for investment or alternatively of investment funds expected to be withdrawn.

13.5 The Trust Board has appointed an **Investment Advisor**. The role of the Investment Advisor is to:

13.5.1 Define and clarify spending requirements, investment objectives and risk tolerance;

13.5.2 Recommend investment objectives;

13.5.3 Determine Target Policy Asset Allocation options for the Investment Fund portfolio and define acceptable policy ranges for rebalancing and tactical purposes;

13.5.4 Establish benchmarks to measure the performance of the portfolio;

13.5.5 Determine a suitable currency hedging policy;

13.5.6 Review and recommend changes to the SIPO;

13.5.7 Determine appropriate manager structure per asset class;

13.5.8 Determine an implementation funding schedule and timeline;

13.5.9 Conduct manager research and due diligence on specific managers, facilitate manager introductions, and recommend investments for inclusion in the portfolio;

13.5.10 Actively monitor and review appointed investment managers. Communicate to the IC or Investment Staff any issues affecting the Investment Fund portfolio. Provide guidance on prudent action as required;

13.5.11 Attend and present in-person at quarterly IC or Trust Board meetings;

13.5.12 Prepare discussion materials for the quarterly meetings addressing investment performance, risks to existing investment funds and

managers, appropriateness of the portfolio exposure, the current market environment impacting asset class valuations and its impact on the Museum's portfolio, and other ad-hoc, relevant investment topics;

13.5.13 Prepare monthly flash investment performance measurement reports and detailed quarterly investment performance measurement reports covering the Investment Fund's portfolio.

13.5.14 Provide assistance relating to the responsible investment policy including a full portfolio ESG exposure look-through analysis screen for 'undesirable' investments at least annually.