Rātā Foundation



STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES

EMPOWERED TO THRIVE

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Rātā Foundation

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He Mihi – Greeting

Ka Hua Te Rātā

Tūia Tūia Tūia

Rūia Rūia Rūia

Ka hua Te Rātā

Ka Rongo te ao

Ka Rongo te pō.

Kia Tū Tika Tū Pono Tū Aroha

Kia Tūhono!

Hui ē tāiki ē!

The whakataukī ‘Ka Hua Te Rata’ can be interpreted as, ‘The Rātā tree bears fruit.’ Symbolising the idea of productivity, growth and the concept of hard and honest work leading to positive outcomes. It can be used to encourage perseverance and dedication in various pursuits. In this case, The Rātā Foundation aspires to be a good Te Tiriti and Māori partner and have this manifest itself through a purpose of integrated values and an aligned and sustainable financial investment approach.

Ngā Whāinga Haumitanga – Investment Objectives

Rātā strives for an equitable and sustainable society under the korowai of Te Tiriti o Waitangi.

To achieve this purpose, Rātā will invest into the communities it serves with an aim to maximise our long-term community impact, either directly through our investments or indirectly via the distribution of the income we earn. The effective management of our investment portfolio is vital in fulfilling this objective.

Rātā aspires to weave Māori principles into the organisation (a rāranga Māori organisation), a good Te Tiriti and Māori ally and have this reflected through a purpose-integrated, values-aligned and sustainable investment approach.

E pātuki te manawa o te Rātā, he oranga mō te iwi.
The heartbeat of the Rātā sustains the people.

This whakataukī (proverb), gifted by Te Rūnanga o Ngāi Tahu to the Rātā Foundation, links our purpose and our investment goals to people. Rātā will invest in a way that is consistent with this whakataukī.

Ngā Whāinga Haumitanga – Investment Goals

To deliver our investment objectives, we will strive to maximise financial prosperity but not ahead of our purpose, the well-being of te ao (the planet) and ngā tāngata katoa (all peoples). We seek to invest sustainably, leaving our natural, human, and cultural resources stronger and healthier because of our activity.

We have the long-term goals to:

- **Contribute to social and environmental sustainability:** We actively strive to create a more socially and environmentally sustainable world through our portfolio and the investment decisions we make.
- **Invest with a correct mindset:** Operating the portfolio with an intergenerational mindset that prioritises the collective good and looks holistically at our investment activity. We will integrate elements of reciprocity and responsibility into our actions, recognising our commitment to the well-being of our community over generations.
- **Have stable and growing income:** Ensuring that Rātā maintains a stable and growing income for distribution. This income will enable us to achieve our community investment aspirations and honour our commitments to the communities we serve.

In Appendix 1, Rātā will set specific responsible investment and financial aspirations that detail what we will strive to achieve to meet these objectives.

Ngā Mātapono Haumitanga – Investment Guiding Principles

Ka pū te ruha, ka hao te rangatahi.
The old net is exhausted, and the new net goes fishing.

At Rātā, we will use our strategic advantages and our investment beliefs to guide our investment work.

This approach will provide us with a competitive advantage, offering improved risk-adjusted returns, enabling us to sustainably generate wealth, contribute to the communities we serve, and operate aligned to our purpose.

Strategic Advantages

Rātā has a unique combination of strategic advantages. We see our strategic advantages as being:

1. **We can think long term** – we are a sustainable, intergenerational organisation that intends to invest for the long term. We do not expect to trade and move in and out of investments quickly.
2. **We are a wealth holder for the community** – our story is that our purpose is solely for the community's benefit. The greater the value we generate from our investments, the better off the community will be directly (by using the asset) or indirectly (by increasing the community funding we can provide).
3. **We value relationships and partner well** – our relationships are well established with key potential partners, including Community Trusts, iwi, and government entities. We also seek to make new relationships and partners that are beneficial for both parties.
4. **We can be an ESG leader** – Rātā has the scale to be an ethical leader with our investments. We can use our platform to shape thinking in the sector including thinking more inclusively and broadly about the whenua (land), hapori (community) and indigenous values.
5. **We administer a significant amount of pūtea** (fund) – we are an institutional investor that can access deals and opportunities because of our scale. We have a lot of investment options available to us.
6. **We have a strong brand and reputation** – we are a respected entity in our sector and community. We are stable and known for being a reliable long-term supporter.

Our Investment Values

Our values are shaped by our whakapapa, purpose and commitments as investors. We have been influenced in our beliefs as responsible and good ethical investors by our community as well as our Māori partners and their generosity in growing our māramatanga (understanding) of Te Ao Māori.

- Tiakitanga – invest with an intergenerational mindset, focusing on achieving collective good ahead of the individual benefit for the long-term.
- Whanaungatanga – place relationships at the centre of the work we do and engage regularly on investments – kanohi ki kanohi (face to face).
- Manaakitanga – seek out opportunities that create positive social impact and contribute to the wellbeing of communities. Show respect for the indigenous investment knowledge, capability and skill of iwi and the contribution to developing our thinking. Weaving in the concept of reciprocity, recognising our responsibilities to contribute back to the communities we serve and those that we partner with.
- Whakapapa – discover and acknowledge our origin. Focus on investments that preserve resources and create a legacy for future generations.
- Tikanga – align investment decisions with the ethical and sustainable practices that respect our community and Māori values and customs.

- Kotahitanga – be open to partnering to support our partner's financial investment strategies and find joint investment opportunities that fit our collective investment needs.

Our Investment Philosophy

We philosophically believe it is essential to harmonise philanthropic mission and endowment management. We philosophically believe in:

- Applying the understanding and knowledge gained from our relationship with Māori to our investment philosophy is more likely to achieve our purpose of looking after people and the planet while creating value and growing capital over the long term.
- Being highly ethical investors, integrating ESG considerations into our investment decision-making processes and taking a wide lens, including where practicable indigenous perspectives, of the impact of our investments.
- Using our strategic advantages to invest will allow us to improve our long-term risk-adjusted returns and better align with our beliefs.
- Generating measurable positive social and environmental impact alongside a financial return.
- Knowing both the investments we make and the partners we invest with.
- Continuing to learn, evolve our thinking and be pragmatic in achieving our objectives.

In managing the portfolio our beliefs are that:

- The SAA is the primary driver of value in the portfolio.
- Markets will revert to the mean over time and in well researched developed markets there is limited opportunity for net returns to exceed the average market return.
- A return premium may be earned by committing capital to illiquid investments.
- Passive strategies are favoured unless there is a clear basis that active management will outperform.
- Manager selection is likely to have limited impact on long-term results providing the manager is in the upper quartile of performance.
- There may be opportunity to find niche opportunities or strategies to deliver improved medium-term results.
- Timing the market is difficult and while market aware Rātā won't invest in an effort to time the market.
- Active management allows for greater alignment to the Rātā purpose and ESG aspirations.

Appendix 2 section 2, contains our investment approach. Rātā will align our objectives, beliefs, and philosophy to create a cohesive set of actions.

Ngā Kaupapahere Haumitanga - Investment Policies

Rātā has formulated investment policies that outline how we will implement our investment strategy. These policies ensure our adherence to our investment tikanga.

Appendix – Investment Policies cover:

1. Rātā Investment Aspirations
2. Investment Approach
3. ESG Investment Targets
4. Spending Distribution and Reserves Policy
5. Strategic Asset Allocation
6. Direct Investment
7. Community Loans and Local Venture Investments
8. Allocation of Responsibilities
9. Manager Selection
10. Carbon and Biodiversity Commitments
11. Engagement and Exclusions
12. Proxy Voting
13. Liquidity Policy
14. Rebalancing
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16. Derivatives
17. Benchmarking and Performance Management
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19. Review

Appendix – Hītori – Rātā History

Ka mua, ka muri.
Look back in order to move forward.

The hītori of the Rātā Foundation is relatively young but our connection to the community is deep, strengthened by the support of the many who have contributed to our past and inspired us on our journey.

Our hītori is the ultimate expression of who we are and creates the foundation from which we endure and places Rātā in a wider context, linking us to the people, places, and history of the past, through our funding communities of Canterbury (Waitaha), Nelson, Tasman, Marlborough (Te Tauihu o Te Waka-o-Maui), and the Chatham Islands (Rekohu / Wharekauri).

As part of the 12 Aotearoa New Zealand community trusts, our genesis can be traced to 1810 when the Rev. Henry Duncan in rural Scotland envisaged an institution in the form of a savings bank that would exist for the benefit of the local community – firstly by providing ubiquitous banking services, and then by distributing profits that would support and empower the community to thrive.

Formal records cite origination in August 1962, with the opening of the Canterbury Savings Bank, although our connection to the community may go as far back as 1856 to the Canterbury Permanent Building Society.

In November 1962, the Canterbury Savings Bank made its first investment, a £20,000 loan, to the Christchurch Drainage Board. By November 1962, the bank had over £1,000,000 in deposits and was making loans and mortgages to the local community, funding civic infrastructure and homes. The profits of the investments, just over £1,629, were then tagged to be distributed to the community as grants.

Over the years, the Canterbury Savings Bank expanded its operations beyond Christchurch and Canterbury to serve a broader customer base. The bank expanded into Marlborough (1964) and Nelson (1965) and became one of the leading financial institutions in the region.

Before the 1980s, trustee banks in Aotearoa New Zealand were typically owned by the government or operated as government-owned entities. The government's involvement in the trustee banking sector ensured the security and stability of these financial institutions. In 1984, Canterbury Savings Bank changed names to Trustee Bank Canterbury and then Trust Bank Canterbury in 1986. Trust Bank Canterbury was one of the 12 Trustee Banks around the country.

In May 1988, the Central Government restructured the banking sector, creating the Trust Bank Canterbury Community Trust. A network of Community Trusts was created across Aotearoa New Zealand.

The Canterbury Savings Bank was converted from a mutual institution to a public company. Trust Bank Canterbury Community Trust held the shares of Trust Bank Canterbury on behalf of its funding community of Canterbury, Nelson, Marlborough, and the Chatham Islands. This change in ownership structure allowed for the sale of shares to the public and marked a significant transition in the bank's history.

The Auckland region left the group in 1987. Taranaki and Westland soon followed in 1988. The remaining nine regions were rebranded as Trust Bank. In 1996, the Trust Bank shares were sold to Westpac, and the capital was distributed, endowing Trust Bank Canterbury Community Trust with $371m, and with some accumulated reserves from the bank, the Trust had $420m in assets. It was at that time the Trust changed its name in 1997 to The Community Trust. In 2001, the Chatham Islands were included within the region covered by the Community Trust. A further name change occurred in 2004, renaming to the Canterbury Community Trust.

In 2015, we changed our name and visual identity from Canterbury Community Trust to Rātā Foundation to better reflect a better sense of belonging to all four of our funding regions. The name was inspired by the Southern Rātā tree. This ancient species is well known for its brilliant red flowers that provide one of the most colourful displays in the Aotearoa New Zealand forest. This name positioned us as an enduring foundation, or trunk, which supports an abundance of branches, leaves, and flowers – the community we serve.

Our name changed but our core purpose of growing our pūtea and community investment remained the same. In recent years Rātā has continued and extended that tradition to better define our purpose, ensuring we are constantly striving for an equitable and sustainable society under the korowai of Te Tiriti o Waitangi. With a Board of Trustees governed by people from our local community, investing and growing our community's capital prudently, and tailoring our community investment programme to provide significant inter-generational benefits for the communities we serve.

Investment Approach

For the Rātā Foundation, ensuring we have the resources necessary to address equity and sustainability in our community is a priority. We are mindful that getting those resources to where they are most needed requires thoughtful management of our investment resources and ongoing engagement with our community, stakeholders, and funding partners.

To look forward and grow our investments, so we can make the most impact, we need to look back to understand the best way forward to shape our ongoing strategic investment policy objectives.

In 1997, funds were primarily invested in a managed fund comprising Aotearoa New Zealand and global equities and global fixed interest exposure. A small amount was invested in community loans, property, and government securities.

The asset allocation at that time was:

- 30% equities.
- 35% fixed interest.
- 35% cash.

Since then, we have continued to operate an investment portfolio.

Frank Russell and Company, later Russell Investments, were our initial financial advisors. In 2002, the advisor was changed to Forsyth Barr, and again changed in 2010 to Mercer with whom we remain today. Our investment intent at that time was to diversify, mainly offshore, with 61% of funding in 1997 being held internationally. Rātā still holds significant international investment, with the allocation to offshore markets having risen to over 77% by 2022.

The Trustee's risk appetite and the advice received have influenced changes in the balance of investments over time. Initial conservative approaches have transitioned towards a more growth-focused approach, emerging as a more sophisticated understanding developed and the markets themselves grew.

Some key events that impacted our investment strategy over time have been:

- In 2002, in response to the stock market downturn of the time, Trustees shifted the international equity allocation to cash and Aotearoa New Zealand bonds. Doing this had the effect of stabilising the Trust investment returns and allowed for continued distribution.
- By 2010 the Trust still invested over 50% in cash and Aotearoa New Zealand Fixed interest.

Rātā maintained its conservative investment approach until 2018. At that point, 65% of Trust assets were in income assets (cash and bonds) and 35% in growth assets such as equities. The effect of this was to dampen volatility, missing the potential losses but also high levels of growth during that period.

In 2018 the trustees reviewed the long-run potential performance due to this approach and reset the allocation to enable higher growth levels. Trustees realised from this and looking at our investment history, that staying focused on the long-term horizon is critical to continued growth. Taking a responsible level of risk was critical for Rātā to best meet our community's needs and grow our pūtea and distribute more grants through our community investment programme.

The Trust used the 2018 market volatility to transition to an increased growth allocation, building our global equity and private markets portfolio. This transition ended at a 70-80% growth asset and 20-30% income asset allocation.

In 2023, trustees set a new vision for the future of our investments based on the learnings from our history. This new whakapapa investment philosophy offers another way to think about investing that considers our history, relationships, knowledge of our community, tikanga and aspirations alongside financial, economic, social, and environmental elements.

Hītori of this document

This Statement of Investment Policies and Objectives (SIPO) has been 36 years in the making and builds on the compliance documents previously adopted by Trustees.

Over the last six years, Rātā has intentionally fostered meaningful connections with Māori within our region to enhance our understanding and influence the direction of our development. We prioritised engagement that was kanohi ki te kanohi (face-to-face) to develop relationships and taking time to grow our cultural awareness and understanding.

Since 2017, Rātā has sought to develop an enhanced investment framework that offers financial returns that better align with our social purpose.

In 2021, Trustees put in place a new deed that added the consideration of the principles of Te Tiriti in decision-making. This document provides a framework to discharge the obligation Rātā has.

We have developed this document using the māramatanga (understanding) gained from our hapori Māori (Māori community), other Community Trusts, and investment partners.

A key influence on our investment philosophy has been to look to successful Māori and other indigenous approaches to see what could be learnt and applied in our context. By putting this lens across our investment thinking it has enhanced our own understanding of what drives Rātā and we believe will grow and enhance our ability to empower our communities to thrive.

Inā kei te mōhio koe ko wai koe, i anga mai koe i hea, kei te mōhio koe kei a anga atu koe ki hea.
If you know who you are and where you are from, you will know where you are going.

Appendix – Ngā Kaupapahere Haumitangi – Investment Policies

1. Rātā Investment Aspirations

Responsible Investment Aspirations

Rātā strives to achieve excellence in Environmental, Social, and Governance (ESG) performance. We will positively impact our stakeholders, community and planet, fully incorporating ESG principles into our investment strategy and activity.

Rātā realises the implementation of being a highly ethical and responsible investor is an ongoing, complex and constantly evolving activity. We will regularly review the objectives, goals and policies related to ESG issues (ESG targets, carbon and biodiversity commitments, manager selection, engagement and exclusions, proxy voting) we have set for ourselves. Section 3 and 10 contains our up-to-date commitments.

Rātā is committed to being true to ourselves as investors and incorporating diverse thinking, including indigenous thinking, into our ESG investment approach and activity.

Rātā will look to add Indigenous considerations (ESG-I) more specifically and deliberately into its investment philosophy. This has previously been part of the social factor, however Rātā wants to elevate this and be more deliberate in including this in our approach and gives life to the part of our purpose “under the korowai of Te Tiriti o Waitangi”. We are still discovering what this means and how we will need to evolve, but we will seek to do so as our understanding grows.

Financial Aspirations

Rātā has set the following financial goals for the investment portfolio:

- Maintain the value of the Rātā capital base in inflation-adjusted terms[1].
- Achieve a real (i.e. net of inflation) return after investment and operating expenses (and tax, if any) of at least the amount per annum specified in the spending policy over rolling ten-year periods.
- Have sufficient reserves to buffer market volatility so that funds can be consistently distributed while maintaining the Real Capital Base. We understand that our role in the communities we serve is to be a financially stable supporter.
- Invest to deliver the best possible risk-adjusted returns over the long term.
- To invest in a way to achieve Net Zero by 2050, or sooner, and a 50% carbon reduction from 2022 by 2030.[2]

[1] “Inflation adjusted”, in this context, relates to changes in the NZ Consumers Price Index (CPI).

[2] We will measure this triennially to make sure we are on track.

2. Investment Approach

Investing as an ethical and highly responsible investor

Rātā will act as a highly ethical investor in its strategy development and execution. To deliver on our specific ESG aspirations, we will:

1. Integrate ESG issues into all investment analysis and decision-making processes. We will look to include indigenous thinking overtime and become ESG-I considerate investors.
2. Use ESG considerations, including compliance with our exclusions, as a core part of our appointment and retention of fund managers administering our funds.
3. Engage with appointed managers on ESG matters, and disclosure of their ESG-related policies and actions to implement them is required. We will use our influence to create positive change where these don't meet our expectations.
4. Share our investment journey and activities to promote our progress towards being a responsible and ethical investor.
5. Keep current and educate ourselves with ESG trends, metrics and best practices.

Rātā actions in support of these goals:

- A signatory to the Principles for Responsible Investment (PRI) since April 2008.
- Holds membership to RIAA (Responsible Investment Association Australasia).
- A signatory to Funders Commitment on Climate Action.
- Set a carbon reduction policy and targets, monitor ESG metrics for the portfolio and set targets for improvement.
- Where practical, allocate capital to highly ESG-aligned investments and assets or where we have material influence over the ESG factors of the investment.
- Rātā will seek further opportunities to collaborate with and engage in relevant groups.

Relationships with Māori are central to ethical and responsible investing

Rātā is grateful for the strong relationships formed with Māori communities, hapū and iwi within our takiwā (region). We continue to learn and to have our thinking shaped by these relationships in developing a mahi tika approach to investing.

Rātā seeks to be a recognised investment partner alongside Māori, supporting aspirations of Māori. We will invest with, through, and into kaupapa Māori where there is an opportunity to do so. We believe these investments will yield financial returns and contribute to the social, cultural, environmental, and economic well-being of the hapori Māori.

We will actively seek partnerships with kaupapa Māori[3] entities, respecting their self-determination and supporting their economic development goals. Our investment commitment is rooted in partnership, sustainability, and shared prosperity. We will continue to shape our investment approach by the contemporary pragmatism of Māori.

We commit to cultivating ongoing engagement with Māori stakeholders and hearing their voices. We will regularly review and adjust our investment strategies to better align with the aspirations of the hapori Māori.

[3] Māori institution that incorporates the knowledge, skill, attitude and values of Māori society.

Investing through relationships

Ehara taku toa i te toa takitahi, engari he toa takitini – Paterangi (Ngāti Kahungunu)
We cannot succeed without the support of those around us.

The Rātā investment strategy is founded on partnerships. At Rātā, our approach to selecting partners is rooted in a commitment to creating meaningful and sustainable impact within our communities. Our investment strategy is to invest with, and through others, into listed and unlisted investments. Rātā will target a high level of alignment between the Rātā beliefs and those of its partners. We work collaboratively with our partners to achieve our goals.

We want partners that prioritise:

- Similar aspirations to Rātā and want to partner for a more equitable and sustainable society.
- Having demonstrable environmental sustainability.
- Upholding social justice, diversity and fair labour practices.
- Positively impact communities and promoting human rights.
- Measuring the impact they are having on people and the planet.
- Having transparent governance structures, ethical leadership and robust accountability mechanisms.

Partnership with Rātā is more than a financial commitment; it signifies a desire for a collaborative journey toward positive social change. For Rātā, a partnership is a dynamic relationship built on trust, shared values, and a mutual commitment to making a positive difference.

Managing our investments in line with our beliefs

To deliver our objectives, we will invest by:

- Having a solid understanding of, and influence over, the investments we make and fund managers we partner with.
- Using active and passive fund management approaches on a by-asset class basis. When deciding on an approach, we will consider data that validates which approach creates the most value over time. If choosing an active approach, we will be clear on how the manager appointed will deliver on creating this value.
- Closely observing the performance of our investment strategy and fund managers over the long term while also recognising the importance of short-term monitoring for staying informed.
- Appointing Investment Advisors to assist in the design and implementation of the investment strategy and policies.
- Having sufficient capability and capacity to govern and manage the investments we make including using independent Investment Committee members to provide continuity and to supplement Trustee expertise.
- Acting as effective fiduciaries and recognising that fiduciary responsibility does not end with maximising return and minimising risk.
- Sharing our story to encourage our managers to improve their cultural capability.

3. ESG Investment Targets

Our unwavering commitment to integrating ESG considerations into every aspect of our decision-making process underscores our ESG Targets. By aligning our investments with these, we aim to drive positive impact while mitigating risk and enhancing long-term value for our communities.

Rātā will use ESG ratings of its fund managers, as determined by its investment advisor, to measure the level of integration of ESG factors into the investment strategies utilised.

For investments able to be rated using Mercer's ESG rating system, Rātā aims to maintain a weighted average Mercer ESG rating of less than 2.5.

Where these ratings are unavailable, Rātā will assess the measurable factors such as carbon intensity, governance practice and social impacts and decide on ESG quality compared to similar or expectations of similar investments. Assessment of ESG factors associated with any direct investment will occur at the time of investment decision and will be regularly reviewed.

4. Spending, Distribution and Reserves Policy

Real Capital Base

The **Capital Base** of Rātā was set at $371.422m on 31 December 1996.

The Real Capital Base shall be increased by an amount equal to the Real Capital Base at 31 March for the previous year multiplied by the annual percentage change in the CPI for the year. This approach ensures the Real Capital Base retains its purchasing power over time.

If income is insufficient to make this adjustment, the Accumulated Income Reserve will be reduced accordingly.

The Real Capital Base shall be reduced proportionally if the Trustees agree to make a distribution or distributions from the Real Capital Base.

The Capital Base and plus any inflation forms the **Real Capital Base**.

Spending Policy

Rātā spending policy is 4.5% per annum[4] (the amount specified in the distribution policy plus operational costs of 0.75% per annum).

This allocation is set as the spending policy percentage applied to the lesser of:

- The Real Capital Base as at the end (31 March) of the last completed financial year, or,
- The Unaudited Asset Value as at 31 December of the previous year (three months before the start of the financial year being budgeted for).

Using the lesser of the two values is designed to protect the real capital value of the portfolio in the event of a severe market downturn since the end of the last completed financial year.

Distribution Policy[5]

3.75% per annum will be allocated to distribution.

The Trustees set a distribution budget before each financial year (1 April to 31 March).

[4] Spending and distribution policies are applied for 10-year modelling of the portfolio. Final budgets and actual amounts may vary slightly as Trustees will set budgets annually taking into account the portfolio past and expected performance.

[5] This distribution policy is the intended long-term policy. Annually Trustees may adjust this target to accommodate for unusual factors e.g. Christchurch Earthquakes of 2010 and 2011.

Reserves Policy

Annual net income, being revenues less operating costs, will be prioritised (in order) as follows:

1. The amount required for spending to meet distribution payments.
2. An amount committed to the inflation reserve to maintain the Real Capital Base.
3. The Accumulated Income Reserve to offset income fluctuations in future periods.

Rātā will establish the following reserves to facilitate the achievement of its distribution policy:

Accumulated Income Reserve

Each year, any income not distributed or added to the Real Capital Base, shall be committed to the Accumulated Income Reserve after distributions and the adjustment to the Real Capital Base. This reserve will help offset income fluctuations in future periods. Rātā can use this reserve to meet distribution requirements during years with low or negative investment returns without recourse to the Real Capital Base.

There is no fixed target for the value of the Accumulated Income Reserve. In the ordinary course of events, a balance between two and four years annual spending (distribution plus operational expenses) is thought to provide sufficient comfort to the Trustees that it can maintain its grants policy through a full investment cycle.

When the Accumulated Income Reserve is more than four times the annual spending for over six months, Trustees may, but not must, reconsider their position. They will seek advice on what to do next, which could involve changing the investment strategy, giving out more money, raising the capital base, and/or other choices.

An Accumulated Income Reserve that has less than -12 months spending, for more than two consecutive quarters, signals to Trustees that it may be appropriate (but is not necessary) to review its position. If Trustees elect to do so, they will take advice on the appropriate course of action, including adjusting the investment strategy, decreasing distributions and/or other options.

5. Strategic Asset Allocation (SAA)

The following table summarises the SAA adopted by the Trustees. This SAA allows for a short-term interim range (2-3 years) transition to the longer-term target allocation as Rātā adds a significant allocation to direct investment by 2027. This SAA is expected to deliver on the spending and reserving policy over at least the next 10 years.

Asset Class	Target Allocation (%)	Target Range (%)	Interim Range (%)
Trans-Tasman Equities	5.0	3 – 7	3 – 12
Global Developed Market Equities	20.0	16 – 24	16 – 27
Global Emerging Market Equities	3.0	2 – 4	2 – 4
Total Listed Equities	**28.0**	**22 – 34**	**22 – 40**
Private Equity	10.0	0 – 15	0 – 15
Hedge Fund of Funds	-	-	0 – 10
Unlisted Property	6.0	3 – 9	3 – 15
Unlisted Infrastructure	8.0	4 – 12	4 – 15
Direct Investments	30.0	0 – 35	0 – 35

Asset Class	Target Allocation (%)	Target Range (%)	Interim Range (%)
Total Growth Assets	**82.0**	**78 – 86**	**65 – 86**
Aotearoa New Zealand Bonds	-	-	0 – 5
Global Bonds	8.0	6 – 10	5 – 10
Private Debt	6.0	0 – 8	0 – 8
Cash	4.0	2 – 8	2 – 8
Total Income Assets	**18**	**14 – 22**	**14 – 35**

The Trustees acknowledge that fully implementing an asset allocation strategy, which includes direct investments, will require time. A transition period from the previous portfolio to the target portfolio is necessary.

The Trustees acknowledge that during this transition period, the allocation of the Rātā investments will be a variance from the new target allocation and ranges. We have designed the interim allocation ranges in the table above to accommodate this transition, including the planned exit of existing investments in the Hedge Fund of Funds and Aotearoa New Zealand Bonds asset classes. The interim ranges will deliver on the objective i.e. CPI+4.5%. The intent is that once implemented the direct investment will provide a return above this target and enable increased distribution over time.

When needed, we will sell existing investments to fund new direct investments. This approach ensures the actual asset allocation moves towards the new target asset allocation. Throughout the transition, we will monitor the actual position versus the target at least monthly.

6. Direct Investment

The intent of this policy is to use direct investments to grow the real capital base while increasing distribution to the community over time and getting a clearer alignment with our purpose and ESG aspirations. Rātā will shift up to 30% of its portfolio into direct investment. The specific goals of the direct investment strategy are to:

1. Improve our portfolio 10-year average financial returns above the portfolio performance objective and increase the probability of distributing 3.75% or more.
2. Get greater alignment between our investments and our strategic advantages.
3. Have greater control of the alignment between our investments and purpose.

To implement this strategy, Rātā will:

- Make co-investments with highly capable Fund Managers.
- Partner with other like-minded investors to invest together.

Direct Investments include Aotearoa New Zealand based private equity and infrastructure managers who offer co-investment opportunities. Global Private Equity, Unlisted Infrastructure and Unlisted Property managers are not part of this direct investment strategy, regardless of whether those funds include investments in Aotearoa New Zealand.

In making these investments, Rātā will set filtering criteria based on the assets being invested in, the counter and co-investment parties, portfolio fit, investment size, level of management required and financial return.

In considering these investments, some expectations are:

1. The investments combined will achieve the benchmark return as set in section 17.

2. Individual investments will achieve a return that exceeds the level of risk being taken.
3. An illiquidity premium of 3-4% over the listed market equivalent will be applied as an expected rate of return for these investments.[6]
4. Rātā will be a minority holder. Ownership is likely between 5% and 25% of the company directly invested in. If investing through a consortium, the consortium can have a shareholding greater than 25%, providing Rātā is less than 25% on a look-through basis[7].
5. A minority discount from a controlling majority value is estimated at 25-30%[8] but needs to be determined on a case-by-case basis.
6. To balance diversification with having sufficient governance and management capacity to provide oversight, Rātā will invest ideally in five direct investments (either direct or via a fund manager, including co-investment), implying an allocation of 6% (c.$40million) of the total portfolio per investment.

The areas of investment Rātā will favour are:

- Aotearoa New Zealand domiciled private market funds (equity and credit) that offer co-investment opportunities with the following characteristics:
    - Have a minimum allocation of $20m, including fund and co-investment allocation.
    - An opportunity (through the size of placement in the fund) to get preferential access to co-investment opportunities.
    - Our allocation make up not more than 20% of the fund.
- Businesses operating in sectors that are attractive to Rātā:
    - Financial services – a low capital demand industry to invest in, significant regulatory upside potential, attractive industry structure, cashflows are relatively stable and build on our understanding of the financial investment sector. Strong industry tailwinds – KiwiSaver is growing, with growth occurring by recurring net contributions.
    - Infrastructure (including Government and Council assets) – long-run assets, usually associated with some public good and alignment to government.
    - Investments that align and contribute to Rātā's strategic pou objectives of housing, health, environment and education.
- Attractive characteristics of funds and businesses that Rātā will look for in making direct investment:
    - Investment partners are aligned to the purpose, values and investment philosophies of Rātā.
    - Active governance participation is not required.
    - Operating revenues are stable and there is evidence of a positive financial track record plus opportunity to add value.
    - The business has an enterprise value, or fund has a size >$80m[9].
    - The business is not in a distressed state.
    - The investment meets our ESG expectations and/or is at an acceptable ESG standard for the business's sector.

These favoured areas will be reviewed as part of the direct investment strategy review or if specific market conditions change to warrant an earlier review.

A separate direct investment implementation plan is in place to operationalise this strategy. The Investment Committee received and noted the current plan in November 2023.

[6] Given listed markets return between 6-8% (Mercer supplied data) a nominal targeted internal hurdle rate is 10-12%

[7] 25These percentages link to The Companies Act provisions and the rights afforded by this legislation.

[8] Based off advice from Direct Capital

[9] On the basis of $20m invested and not exceeding 25% total shareholding

7. Community Impact Investments

Local Impact Investments are debt or equity placements which generate both risk-adjusted financial returns and non-financial benefits that contribute to Rātā Foundations purpose of striving for an equitable and sustainable society under the korowai of Te Tiriti o Waitangi.

Local Impact Investments are limited to investments which predominately benefit Rātā Foundation funding regions.

Investment Portfolio fit

Local Impact investments blend financial and social outcomes and as such they sit outside of our Strategic Asset Allocation. The total commitment to Local Impact Investments will not exceed more than 5% of Rātā Foundation's total equity at the time of decision

These investments will not be included in monthly or quarterly monitoring by the Foundations investment advisor due to the availability of performance and valuation data.

Management will monitor performance and report this to the Investment Committee as appropriate, the timing of which will differ between investments. Benchmarks will not be applied to Local Impact Investments, however performance will be measured against expected returns in the investment case.

Criteria

In all circumstances:

Any Local Impact Investment must:

- Primarily benefit at least one of Rātā Foundation's funding regions
- Enable a partnership with Rātā Foundation which provides benefit aligned with our strategic direction.

An organisation can have a grant approved and a Local Impact Investment awarded for the same project in the same year, provided all necessarily criteria for both are satisfied.

Acceptable risk-adjusted financial returns will differ across investments depending on their nature, however the minimum hurdle rate for any Local Impact Investment is defined as the percentage in our spending policy (currently 4.5%) per annum.

Management may utilise a portion of the Community Investment allocation budgeted to bring the annual return on a debt placement up to the minimum hurdle rate return if the proposed interest rate is the only factor resulting in a failed screen.

All Local Impact Investments require a decision from the Board at a properly convened meeting with a recommendation from the Investment Committee. Management does not have any delegation to approve Local Impact Investments.

Unless non-compliance is expressly permitted by the Board of Trustees:

- No individual Local Impact Investment will make up more than 20% of the total allocation at the time of decision
- Local Impact Investments may be equity investments or debt placements. To limit concentration risk:
    - Equity investments are no more than 20% of the total equity of the venture
    - Debt placements (excluding property investments) do not result in a debt-to-equity ratio exceeding 30%.
    - Debt placements for property investments will not exceed the following LVRs:
        - 70% for development (physical construction post consent) of residential housing
        - 60% for non-development (pre-construction, including supporting infrastructure) of residential housing
        - 50% for commercial property, development or non-development

8. Allocation of Responsibilities

The Trustees are supported to consider investment matters, make decisions and bring relevant recommendations to the full Board by an Investment Committee and management team.

The Investment Committee operates under terms of reference established by the Board. In the Terms of Reference, the Investment Delegations Framework outlines the responsibilities and decision-making powers of the Board, Investment Committee and Management Team. The Terms of Reference will be reviewed and updated as necessary.

The Chief Executive (CE) leads the management team. The responsibilities allocated to the CE relating to investments are in the Investment Committee Terms of Reference. The team assisting the CE to meet these expectations includes the Chief Financial Officer (CFO) and appropriate external financial advisors as needed. The CE is accountable for their contributions to the management of the investment work of Rātā.

The Governance Manual appendix states the delegations for the CE.

Independent Investment Committee members are appointed to support the effective governance of the investment portfolio. The specific needs of Rātā for these roles will be described in a role description. Periodically, the Investment Committee and Rātā Board will carry out a review of these roles and the effectiveness of them. This review can be internal or involve an external independent review.

9. Manager Selection

External investment professionals (Fund managers) will be appointed to manage most of the Rātā asset classes. Rātā will internally manage the Community Loans and Local Venture Investments. Both internal and external managers will manage direct investment and cash.

Fund managers may use either passive or active management approaches. Where applicable, any manager and/or sector reviews will consider the role of passive management and the case for use of active management. The Investment Committee decides the approach on an asset class basis based on the beliefs above.

Where the markets are well established and researched, passive approaches are likely to achieve greater returns over the long term at a lower fee. However, passive approaches follow markets, making implementation of our ESG and responsible investment approach more challenging.

Active management is likely to be used where there is a reasonable expectation that, in the aggregate, over the longer term, the active manager(s) will add value above the benchmark return after accounting for fees and risks taken, and to get better alignment with our purpose.

Fund Management Allocations

The Trustees interest in any managed pooled fund shall not exceed 10% of the fund manager's total funds under management invested in the strategy across all vehicle types (including segregated mandates), unless the Investment Committee specifically authorise a larger investment.

The merits of manager diversification will be considered when allocating capital within different asset classes on a case-by-case basis.

Manager Appointment

Rātā appoints fund managers based on their alignment and contribution to our investment objectives and beliefs.

The process Rātā uses to appoint a fund manager is as follows:

1. Independent advisor (Mercer) will provide a long list of potential fund managers.
2. The CFO and Independent Advisor shortlist the managers based on the criteria below.
3. With the support of the CFO and Independent Advisor, as required, the CE will interview and possibly visit the preferred fund manager before making a final appointment decision.
4. The Investment Committee will ratify the decision. The committee will verify that the process has been followed, the criteria have been met, and that there is no other information to consider.

The critical criteria for selecting and appointing fund managers are:

- Alignment to the Rātā purpose and fit to the portfolio, investment advisor rating, ESG credentials, return expectations, risk considerations, fees, and passive and active alternatives.

The secondary criteria are:

- First impressions, company details, staff tenure, manager commitment to Aotearoa New Zealand and Rātā, fund size and deal flow, geographic exposure and impact on liquidity.

Manager Termination

Rātā values our investment relationships and is a long-term investor. When things don't go right, i.e., if returns are below expectation or the fund manager's beliefs or behaviours don't align with our expectations, we will first try to engage, understand, and seek improved outcomes.

If the situation doesn't improve, the Investment Committee may terminate the relationship.

Managers will be terminated if:

1. A manager is put on "watch" for poor performance, and poor performance continues.
2. A manager has seriously breached our expectations or operates grossly inconsistent with our values.
3. Implementing new strategies within the portfolio or improving efficiency in managing the existing portfolio is needed.

Managers can be put on watch by:

1. Investment Committee members resolving to put a manager on watch.
2. The Independent Investment Advisor (performance related or personnel issues) and CFO (belief and behaviour issues) identify underperforming managers.
3. The Chief Executive following an engagement with the manager.

The process Rātā uses to terminate a manager is as follows:

1. The CFO will inform the Investment Committee of the rationale for reviewing the fund manager's appointment and a recommendation to terminate or maintain the appointment of the fund manager. This recommendation will include the preferred alternative for the funds under the manager and the cost to transition.
2. The Investment Committee will decide to terminate the manager.
3. The CFO will manage the transition in a timely manner.

10. Carbon and Biodiversity Commitments

Rātā aims to transition our investments to achieve a net zero portfolio by 2050 and enable real economy emissions reductions.

Rātā recognises that its investment portfolio is the primary channel through which it can influence climate outcomes, given the significant impact of financed emissions relative to its operational footprint. Establishing robust investment-focused initiatives is therefore critical to translating the organisation's net zero ambition into tangible outcomes.

This is a continued work in progress but we will over time look at the continued development of metrics and targets, strategic asset allocation, engagement with asset managers, and targeted portfolio engagement, that will enable Rātā to measure and manage financed emissions, identify and mitigate transition and physical risks, and actively prioritise low-carbon and climate-aligned investments.

Implementing these actions will strengthen portfolio resilience, improve alignment with internationally recognised net zero frameworks, and provide the data and insights necessary to guide both capital allocation and stewardship decisions. Embedding these initiatives early ensures a structured, credible, and measurable approach to achieving the 2050 net zero target.

Our priorities are to:

1. Reduce portfolio emissions
2. Drive climate solutions through investment
3. Manage climate-related risks
4. Grow our climate competency

What we will action

Between now and the end of FY30, Rātā has some key initiatives targeted to complete:

Metrics and Targets

Prioritise scoping financial and non-financial metrics to be used to understand the base line portfolio performance for our assets under management.

This should be informed by Partnership for Carbon Accounting Financials (PCAF) and could include:

- Portfolio financed emissions
- % of portfolio with net-zero science-based targets
- AUM exposed to fossil fuels and emissions-intensive sectors, by asset class
- AUM aligning or aligned with a net zero pathway
- Emissions/$m invested

Once completed we will develop near-term and long-term portfolio targets informed by the:

- SBTi Net-Zero Standard for Fis
- IIGCC Net Zero Investment Framework
- UN Net-Zero Asset Owner Alliance Target-Setting Protocol

Strategic Asset Management

- Undertake scenario analysis across all asset classes to identify climate-related risks and opportunities.
- Develop near-term and long-term targets to reduce transition and physical risk exposure over time.

Asset Manager Engagement

- Engage asset managers to understand what support can be provided to inform climate-related metrics of funds and investments.
- Scope and confirm metric(s) to be used to measure proportion of managers with net zero position by 2050.
- Develop asset manager engagement strategy to ensure all managers achieve a net zero position by 2050.
- Engage asset managers to outline Net Zero commitment and expectations for alignment.
- Begin incorporating explicit net zero and transition plan requirements in manager expectation letters.

Portfolio Engagement

- Strengthen initial due diligence for direct investments to incorporate climate-related risks, adaptation potential, and alignment with transition objectives.
- Develop portfolio engagement strategy to support engagement with emissions-intensive companies by evaluating transition plans and proxy voting.

Nature / Biodiversity

Rātā has yet to consider nature / biodiversity as part of its ESG and Carbon objectives. Rātā intends to look at nature / biodiversity as a specific issue for its portfolio in the future.

Reporting and sharing information

Rātā joined other Community Trusts and philanthropic funders In 2022, in signing the Funder Commitment to Climate Action. We are committed to considering and reporting our efforts to reduce our negative impacts on our environment, and our role in supporting others to reduce theirs.

Rātā will also look at partnering and collaborating with other initiatives that support reducing emissions and to which we can contribute to meet our Carbon-Neutral, and Net-Zero commitments.

11. Engagement and Exclusions

Engagement

Rātā values engagement with its fund managers and the investment industry. Consistent with our engagement approach with our communities, our investment engagements will be purposeful to achieve one or more of the following outcomes[10]:

- Informing decisions – to provide investment advisors, fund managers, and experts opportunities to contribute to decision-making processes.
- Share knowledge – to share understanding with the investment community on a specific theme or issue to increase knowledge and change behaviours.
- Strengthening relationships – to build new relationships and/or improve relationships with the investment community.

Rātā encourages dialogue and discussion on any issues raised through engagement. Rātā may engage directly on its own or collaboratively with other institutional investors such as Community Trusts, other signatories to the Principles of Responsible Investing (PRI), members of the Responsible Investment Association of Australasia (RIAA), or similarly minded collectives of investors.

Rātā uses engagement to stay abreast of developing practices in responsible investment and monitors relevant literature and research with the goal of continuous improvement.

Exclusions

Rātā will seek to **fully exclude** from its investment portfolio any company that has reported revenue (or estimated revenue) from the following areas:

[12] Taken from the Community Investment engagement models based on the Capire Engagement Triangle Capire | Giving every person a voice | Capire Engagement Triangle 2022.

- Gambling
- Cluster munitions11
- Adult entertainment
- Nuclear weapons12
- Tobacco
- Whaling

Rātā also has **negligible tolerance** in the following areas of investment and will seek to exclude but recognises that a pragmatic approach may be needed after looking at the specific circumstances of investment in the portfolio.

- Civilian Automatic Weapons13
- High carbon fossil fuels
- Alcohol HVW – Manufacture, Distribution and retail
- Alcohol LVW – Manufacture
- Animal cruelty including non-medical testing using animals
- Human rights abuses

Rātā has a **low tolerance** for some areas of investment but recognise exclusion is likely to be highly problematic or difficult for a range of reasons including complex undisclosed international supply chains, poor reporting, disclosure and record keeping or highly co-mingled funds.

- Animal testing – medical
- Modern slavery and labour rights
- Alcohol LVW – Indirect Distribution and retail
- Rights of indigenous people (UNDRIP)

In developing these positions Rātā also:

- Recognises the complexities and the trade-offs between cost, data availability, and reputational risk;
- Favours a collaborative approach with other aligned investors.
- Sees ongoing engagement and information sharing with the Responsible Investment sector as important and where will actively collaborate directly or indirectly (through a specialist advisor) with fund managers.

Implementation

While Rātā strives to align our portfolio with our exclusion aspirations, we recognise that the complexity and practical realities of the investment landscape may sometimes require us to make pragmatic and principled decisions that may not fully meet our aspirations.

Rātā invests largely in pooled fund vehicles both domestically and internationally. Rātā will seek managers with high ESG credentials and that their funds comply with our exclusions policy. Rātā relies on third-party providers of ESG research in determining manager suitability and fund compliance with our exclusions policy.

Where an investment, fund or manager has been found to breach our exclusions policy we will follow a process of:

[11] Cluster Munitions Convention Signed by Aotearoa New Zealand in 2008

[12] Aotearoa New Zealand Nuclear Free Zone, Disarmament, and Arms Control Act 1987

[13] Arms (Prohibited Firearms, Magazines, and Parts) Amendment Act 2019.

1. Review of the details of the breach – if the breach is found to be factual and is a full exclusion breach, we will give ourselves 6 months to exit from this investment.
2. Where a found breach is found and Rātā has negligible or low tolerance for then the Investment Committee will assess this holding against the following criteria:
    - Whether excluding the investment supports our purpose of striving for an equitable and sustainable society under the korowai of Te Tiriti o Waitangi.
    - If the investment causes substantial and irreparable harm to society or the environment.
    - Whether New Zealand legislation, regulation, or government commitments prohibit certain products or activities or if they aim to significantly reduce or render obsolete such products or activities in the foreseeable future.
    - The materiality of the issue, both for Rātā and inside the fund.
    - The impact of the exclusion on the portfolio's expected investment risk and return.
    - Our stakeholders' perspectives.
    - The impact of investment on the reputation of Rātā and our stakeholders.
    - The efficacy of other responsible investment approaches (e.g. engagement, either individually or collaboratively) in addressing the issue of concern. Exclusion will only be considered as a last resort.

Rātā may consider and update as necessary additional reasons for exclusion or products or services to be excluded.

At the end of this consideration, the Investment Committee will either:

a) Grant a permanent exclusion,

b) Grant a temporary exemption with a specified period of time the exclusion will apply, or

c) Divest from the investment.

A list of exemptions will be published and updated on our website as these are made.

12. Proxy Voting

Because of the pooled investment vehicles and fund structures, Rātā has very few opportunities to vote as a shareholder or using a proxy. Where it does it will vote in accordance with our investment objectives, guiding principles and our exclusion policy.

Rātā will seek to influence the voting behaviours of the managers it invests with by issuing a letter giving guidance on its expectations of proxy voting. This guidance letter will be aligned to our purpose and the responsible investment approach including exclusions that we adopt.

Rātā will also seek information on how the manager has enacted this guidance and seek performance reports on its voting activity.

13. Liquidity Policy

Rātā requires liquidity to meet payment obligations that include:

- Community grants and loans.
- Operational expenditure.
- Investment commitments include the settlement of forward foreign exchange contracts and calls on committed capital to private market funds.

The Trustees require a high degree of confidence that the liquidity demands of Rātā can be met even during times of extreme market volatility.

At the same time, the Trustees recognise that Rātā has a high capacity for including investments with relatively low levels of liquidity. These investments can help Rātā achieve its performance objectives by further diversifying the sources of return and risk across the investment portfolio.

Rātā liquidity requirements are met by balancing investing in highly liquid and illiquid investments (defined below) within the following liquidity framework. The Trustees recognise that the liquidity of assets (i.e. how quickly we can turn them into cash) can change under periods of market stress. The Rātā investment portfolio is expected to fit within the framework below under normal market conditions.

Liquidity requirements are factored into the SAA design.

Liquidity Level	Highly Liquid	Moderately Liquid	Illiquid
Time to Cash	Less than 1 week	1 week to 1 year	More than 1 year
% of Portfolio	At least 40%	Up to 60%	Up to 50%

14. Rebalancing

On the advice of the CFO and investment advisor, the CE is delegated the responsibility of rebalancing Rātā investments to maintain compliance with the SAA.

- The exposures to the various asset classes will be monitored against targets and allocation ranges monthly by the investment advisor.
- The fund will be rebalanced towards target weights and within the specified ranges when any asset class position is outside the applicable range in accordance with the agreed protocol.
- The regular cash flow requirements of Rātā provide an opportunity to assist in rebalancing the fund towards target weights by sourcing the outflows from the overweight asset class(es) and directing any inflows to the underweight asset class(es).
- There are expected to be no draw downs or investments made to rebalance the allocation of unlisted assets.

Rātā recognises that holding one or more asset allocation position outside the ranges specified in the SAA for longer than three months may be appropriate under exceptional circumstances.

In these cases, approval will be sought from the Investment Committee.

15. Currency Hedging

The overall level of foreign currency exposure is an important consideration when determining the Rātā SAA. After taking advice from its Investment Advisor, the Trustees have determined that the benchmark foreign exchange positions are:

- 50% hedging of the combined allocation to global developed and emerging market equities.
- 100% hedging of global private equity, unlisted property, unlisted infrastructure, global fixed interest and private debt.

Foreign currency hedging positions are expected to be maintained between 10% of these target hedging levels.

Where foreign currency hedging is used, the Trustees have elected to hedge their foreign currency exposure passively and to use specialist external managers to implement the required hedges.

16. Derivatives

The net exposure of Rātā to investment markets will not exceed the value of the underlying assets.

Where applicable, each fund manager is entitled to make use of derivative contracts within the parameters outlined in the relevant governing documents. These will typically be for the purposes of:

- Altering the portfolio's asset allocation (including country and/or currency allocations) within the given exposure ranges.
- Hedging exposure to foreign currency or other investment risks
- Reducing transaction costs and improving liquidity by using derivative contracts to take a position which would otherwise have been taken by buying or selling physical stock.

17. Benchmarking and Performance Management

Investment Performance Monitoring

The principal goals of performance monitoring are to:

- Assess the extent to which Rātā investment objectives are being achieved.
- Compare the performance of appointed fund managers.
- Ascertain the existence of any weaknesses in the fund manager or their product(s)
- Assess the ability of the fund managers to meet the objectives of Rātā.

The Investment Committee will monitor performance relative to the benchmark. The benchmark is a performance monitoring tool that reflects the Trustees' adopted SAA.

Benchmarks

Benchmarks are a way to compare how well an investment strategy works for the whole fund, an asset class or a manager. The main idea of benchmarks at an asset class or manager level is they should be copyable – that is, it should be possible to make a portfolio of securities that matches (or almost matches) what is in the benchmark. Where this is not possible (e.g. private equity, direct investment, unlisted infrastructure, hedge funds), the best proxy, peer, or absolute return (e.g. cash or inflation plus) benchmarks are used to track performance. It is understood that manager performance can differ a lot from these benchmarks, especially over short periods.

The risk and return characteristics of the benchmarks used for the fund and individual asset classes must be broadly consistent with those considered in the analysis used to construct the SAA.

Fund Performance

The absolute fund performance will be compared to the objectives of the fund i.e. CPI + Spending policy.

The relative performance of the fund will be compared a composite passive growth and income portfolio on a weighted basis that matches the actual average weighting of the portfolio over the time period.

This approach seeks to measure whether our investment approach is effective and whether our combination of active, passive and direct approaches is adding value.

Asset Class Performance

Performance will be by relative comparison to the benchmarks for individual asset classes as follows:

Asset Class	Index
Aotearoa New Zealand Equities[14]	S&P/NZX 50 Index without Imputation Credits
Australian Equities	S&P ASX200 Accumulation Index (50% hedged to NZD)
Global Developed Equities	MSCI World Accumulation Index with net dividends reinvested (partially hedged to NZD)[15]
Emerging Market Equities	MSCI Emerging Markets Free Float Index
Aotearoa New Zealand Unlisted Property	IPD Quarterly NZ Property Index (lagged)
Australian Unlisted Property	MSCI/Mercer IPD Australia Core Wholesale Property Fund Index (lagged and 100% hedged to NZD)
Private Equity	S&P/NZX Bank Bills 90-day Index plus 6%p.a.
Direct Investment	S&P/NZX Bank Bills 90-day Index plus 6%p.a.
Unlisted Infrastructure	NZ Consumer Price Index plus 6% p.a.
Alternatives – Hedge Funds	HFRI FOF: Market Defensive Index (100% hedged to NZD)
Aotearoa New Zealand Bonds	Bloomberg NZ Bond Composite 0+ Year Index
Global Bonds	Bloomberg Global Aggregate Index (100% hedged to NZD)
Private Debt	S&P/NZX Bank Bills 90-day Index plus 3% p.a.
Cash	S&P/NZX Bank Bills 90-day Index

NZX = Aotearoa New Zealand Stock Exchange
ASX = Australian Stock Exchange
S&P = Standard & Poors
HFRI = Hedge Fund Research, Incorporated
MSCI = Morgan Stanley Capital International
IPD = Investment Property Databank

Where composite benchmarks are used these will be aggregated from Allocations to Australian Equities, Aotearoa New Zealand Unlisted Property, Alternatives – Hedge Funds and Aotearoa New Zealand Bonds do not form part of the long-term target SAA. However, the benchmarks above will be used for interim monitoring purposes so long as allocations to these asset classes are maintained during the transition to the target SAA.

[14] This includes Australasian (Trans-Tasman) Equity mandates with some discretion to invest in Australian Equities

[15] A 50% NZ dollar currency hedge is targeted across Global Developed and Emerging Market Equities. In practice this is achieved by implementing a hedge on Global Developed Equities that equates to 50% of the sum of the allocations to Global Developed and Emerging Market Equities.

Manager Objectives

Asset Class	Objective per annum (measured over three-year rolling periods)
Aotearoa New Zealand Equities	To exceed the performance benchmark by 2.5%
Australian Equities	To exceed the performance benchmark by 2.00%
Global Developed Equities (active)	To exceed the performance benchmark by 1.50%
Global Developed Equities (passive)	To broadly match the benchmark with a tracking error of up to 0.2%p.a.
Emerging Market Equities	To exceed the performance benchmark by 1.50%
Aotearoa New Zealand & Australian Unlisted Property	To exceed the performance benchmark
Private Equity and Direct Investment	To exceed the performance benchmark
Unlisted Infrastructure	To exceed the performance benchmark
Alternatives – Hedge Funds	To exceed the performance benchmark
Aotearoa New Zealand Bonds	To exceed the performance benchmark by 0.50%
Global Bonds	To exceed the performance benchmark by 0.50%
Private Debt	To exceed the performance benchmark
Cash	To exceed the performance benchmark by 0.20%

Investments excluded from regular investment performance monitoring

Any investments made under the Community Loans Policy, Local Venture policies, or the internally managed operational cash are excluded from the regular investment performance monitoring process outlined above. These investments are subject to regular review under their respective policies.

18. Reporting

Report	Purpose	Content	Author	Audience	Frequency	Date due
Monthly Dashboard	To assist in understanding the portfolio and build confidence to engage.	Summary of the portfolio and the outcome of the previous month's financial performance	CFO	Inv. Com.	Emailed Monthly	15th of the month
Quarterly Dashboard	Inform the Investment Committee of the portfolio performance against the strategy.	Key metrics for the quarter on performance	CFO	Inv. Com.	Quarterly	Mid-May, Aug, Nov, Feb
Mercer Quarterly	Provide the Investment Committee with market	Detailed fund manager	Mercer	Inv. Com.	Quarterly	35 business

Monitoring Report	surveillance as it relates to the portfolio.	individual performance. General market awareness information				days from quarter end
Summary quarterly report	Inform the Trustees of relevant performance data.	A CE / IC Chair summarised version of the quarterly dashboard and Mercer monitoring report.	IC via CFO	Board	Quarterly	Board meeting following IC meeting
Mercer review reporting	To independently review the performance of Mercer both as an advisor and fund performance	Performance data and evaluation of Mercer	Chief Executive	Inv. Com.	Bi-annually	Jul 24
Issue-specific report	To make decisions on specific items to do with: 1. The portfolio policies 2. Delegated tasks	The detail needed to make decisions	Mercer		Each IC meeting	As needed
Annual Investment Report	Present our annual investment results publicly	The completed template was developed in 2022.	Mercer/CE	Public via Board and IC	Annually	About August

19. Review

The SIPO will be formally reviewed at least every five years, or more often, if material changes and market conditions warrant.

Individual investment policies contained in the appendices will be reviewed as needed but at least on a regular cycle, as shown in the table below. As the understanding of Rātā grows it will review needing to have a specific to its investment Tiriti o Waitangi policy.

Policy	Review Lead	Frequency	Last Review	Next Review
Strategic Asset Allocation	CE	Triennial	Nov 2023	Due
Spending, Distribution and Reserves Policy	CFO	Triennial [16]	Mar 2023	Due
Responsible Investment Framework	CFO	Triennial	2026	2029
ESG Targets	CFO	Triennial	2026	2029
Carbon and biodiversity commitment	Chief Executive	Every 5 years	Mar 2026	Mar 2031

[16] Can be triggered by reserving policy not being met

Manager Selection	CFO	Triennial	Nov 2023	Due
Engagement and exclusions	CFO	Every 5 years	2026	2031
Proxy voting	CFO	Every 5 years	2026	2031
Liquidity Policy	CFO	Every 5 years	2023	2028
Rebalancing	CFO	Every 5 years	2015	Overdue
Currency Hedging Policy	CFO	Every 5 years	May 2022	2027
Direct Investments	CE	Biennial	Dec 2026	2028
Community Impact Investments				
Local impact investment (incorporating community loans and local ventures)	CFO	Every 5 years	2025	2030
Benchmarking and performance management	CFO	Every 5 years	Nov 2021	Due
Monitoring and Reporting	CFO	Every 5 years	May 2023	2028

Rātā Foundation

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