

Statement of Investment Policy and Objectives (SIPO)



Anglican
Diocese of Dunedin
www.calledsouth.org.nz



Dunedin Diocesan Trust Board



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1. Introduction

Purpose

The Dunedin Diocesan Trust Board (the “DDTB”) is an authorised Trust Board within the meaning conferred on that term by the Anglican Church Trusts Act 1981. It holds real property and investment funds on trust for the Diocese of Dunedin, its parishes and other diocesan institutions.

This Statement of Investment Policy and Objectives (“SIPO”), prepared by the board of the DDTB, sets out the framework for governing investment of the two Funds which DDTB is authorised to operate (the “Funds”).

Effective Date and Reviews

This SIPO takes effect on 14 November 2023.

The investment committee of the DDTB will review this SIPO at least annually to ensure it remains appropriate for the risk profile and objectives of the DDTB.

Capital Base

The current assets of the Funds, subject to this SIPO, as at 31 July 2023, aggregate approximately \$39m.

Taxation

The DDTB is a registered charity (CC36214) and exempt from New Zealand tax.

Definitions

The Income Fund is an investment fund the primary purpose of which is to provide regular income to investors with returns provided on a quarterly basis. It operates in accordance with this SIPO and Statute 26 of the Statutes of the Diocese of Dunedin.

The Growth Fund is an investment fund that focuses on growing the underlying asset base of its investors. It operates in accordance with this SIPO and Section 26 of the Statutes of the Diocese of Dunedin.

Direct property is real property held by the DDTB as part of the Income Fund.

Other property is property held on behalf of parishes and other Diocesan institutions.

2. Roles and responsibilities

The DDTB

The Board has ultimate authority over and responsibility for the Funds. The Board shall appoint an investment subcommittee to manage the investment of funds on its behalf in accordance with this SIPO. The extent to which the investment subcommittee may exercise powers conferred on the Board shall be set out in terms of reference for the investment subcommittee from time to time issued by the Board.

The Investment Committee

The key responsibilities of the investment committee are to:

- a. Establish and review the SIPO, taking into account the investment objectives and risk profile of the DDTB;



- b. Monitor the performance of the Funds;
- c. Monitor compliance with the SIPO;
- d. Consider and approve (if appropriate) investment recommendations made by the Investment Adviser(s) unless discretion for investment decisions has been delegated to the Investment Adviser(s) under a discretionary investment services mandate;
- e. Ensure that investments and actions are not contrary to any Statute or regulation;
- f. Optimise net returns for investors within the context of the risk and investment profile of each fund;
- g. Report and make recommendations to the Board;
- h. Ensure all recommendations are free from bias and conflicts of interest.

Investment Adviser(s)

The responsibilities of the Investment Adviser(s) are to:

- a. Provide the investment committee with advice on appropriate asset allocation (both long-term and tactical positions), investment strategy and investment policies;
- b. Attend meetings with the investment committee as reasonably required.

3. Investment philosophy and beliefs

The DDTB's approach to investment of the Funds is framed by a set of clearly defined beliefs:

- a. Risk and return are related. Higher returns are associated with greater risk;
- b. Broad diversification among asset classes is the cornerstone of modern portfolio management. The differing characteristics of the varying asset classes provide risk-reducing benefits from diversification when they are aggregated into a total portfolio;
- c. Asset allocation has a greater impact on investment returns than decisions concerning which specific securities to invest in;
- d. Periodic rebalancing back to the long-term strategic asset allocation is a necessary discipline for maintaining an appropriate risk-return profile;
- e. Active management may return a premium over time but requires skill, good knowledge, and sound research;
- f. Investment markets are broadly efficient, but they also have a strong behavioural element;
- g. Negative investment return years should be expected from time to time and will not invalidate the maintenance of the longer-term investment objectives;
- h. Environmental, social and governance ("ESG") factors have an important role to play in investments and should be integrated into the selection and monitoring of investments;
- i. Investors should focus on net returns, as costs matter;
- j. Mission aligned impact investment shall be a consideration in accordance with the policy of the General Synod of the Anglican Church in New Zealand.



4. Objectives

Investment Objectives

The primary investment objectives underlying the investment policy for each of the Funds are:

- providing and building an ongoing income stream for distribution to Income Fund investors;
- maintaining the capital base of the Income Fund;
- growing the capital base of the Growth Fund over and above CPI;
- maximising the real rate of return subject to each Fund's agreed risk profile.

Return Objectives

The return objective of the Growth Fund is to achieve a total return of 2.4% after inflation, tax and investment expenses, on average over rolling five-year periods.

The return objective of the Income Fund is to achieve a gross income return of 2.0% over the official cash rate.

The Board recognises that the return objectives are long term objectives that will not be achieved in every measurement period and in some years, the returns may be negative.

Distribution Policies

The Board has a total return focus for the Income Fund and as such, distributions are permitted from both income (i.e., interest and dividends) and realised capital gains which together are "Investment Earnings". Nevertheless, distributions are primarily made from interest and dividends, with realised capital gains set aside in a reserve that is available in times of particularly low earnings or loss. A primary objective for the Fund is to maintain the Capital Base on a face value basis, and therefore, only investment earnings in excess of costs are available for distribution.

No distributions will be made from the Growth Fund. The returns to investors in the Growth Fund will be achieved by the increase in the value of units in the Fund.

5. Strategic asset allocation

Income Fund

The investments of the Income Fund will be diversified across different asset classes. The Board recognises that asset allocation is the primary driver of long-term returns and have determined that the Income Fund will follow the asset allocation principles of a Balanced Income portfolio with an underweighting in international equities having considered the DDTB's risk profile and investment objectives.

The Income Fund is invested with the assistance of Craig's Investment Partners (CIP), who maintain and advise on the management of a cash, property, bond and equity portfolio. The DDTB has direct loan arrangements with Diocese and non-Diocese related entities, and has one directly owned commercial rental property.

| Asset class | Benchmark Allocation | Minimum | Maximum |
|----------------------|----------------------|---------|---------|
| New Zealand equities | 25% | 15% | 40% |
| Australian equities | 10% | 0% | 20% |



| | | | |
|---------------------------------|------------|-------------|-------------|
| International equities | 5% | 0% | 10% |
| Australasian property | 5% | 0% | 10% |
| Alternative assets ¹ | 0% | 0% | 10% |
| Total growth assets | 45% | 30%* | 50%* |
| New Zealand Fixed Income | 35% | 20% | 70% |
| International Fixed Income | 0% | 0% | 5% |
| Mortgages ¹ | 15% | 0% | 20% |
| Cash ² | 5% | 0% | 40% |
| Total income assets | 55% | 50%* | 70%* |

* These are a minimum and maximum band for total growth assets and total income assets, not a sub-total of the individual asset class bands

¹ These investments are managed by the DDTB

² These investments are either held and managed directly by the DDTB or managed with the assistance of CIP

All other investments are managed with the assistance of CIP

Growth Fund

The investments of the Growth Fund will be diversified across different asset classes. The trustees recognise that asset allocation is the primary driver of long-term returns and have determined that the Growth Fund will follow the asset allocation principles of a High Growth portfolio having considered and taken into account the DDTB's risk profile and investment objectives.

The Growth Fund is invested with the assistance of Craig's Investment Partners.

| Asset class | Benchmark Allocation | Minimum | Maximum |
|----------------------------|----------------------|-------------|--------------|
| New Zealand equities | 24% | 14% | 34% |
| Australian equities | 26% | 16% | 36% |
| International equities | 37% | 27% | 47% |
| Australasian Property | 3% | 0% | 10% |
| Alternative assets | 0% | 0% | 10% |
| Total growth assets | 90% | 70%* | 100%* |
| New Zealand Fixed Income | 7% | 0% | 20% |
| International Fixed Income | 0% | 0% | 5% |
| Alternative assets | 0% | 0% | 5% |
| Cash | 3% | 0% | 30% |
| Total income assets | 10% | 0%* | 30%* |

* These figures are a minimum and maximum band for total growth assets and total income assets, they are not a sub-total of the individual asset class minimum / maximum figures.



6. Investment policies

Responsible Investment Policy

The Board wishes to ensure the Fund's investments meet generally accepted ethical and ESG standards, including the ten principles of the United Nations Global Compact (see Appendix 2). The investment committee and the Investment Adviser(s) will incorporate ESG considerations into investment analysis, recommendations and decision making. Refer to section 8 for Excluded Investments.

Rebalancing Policy

The Board recognises that an asset allocation that is materially different to the Benchmark Allocations represents a departure from the agreed risk-return profile for the Funds.

The actual asset allocation of the Funds is permitted to vary from the Benchmark Allocation, within the specified minimum-maximum range. The investment committee is responsible for managing the Funds within the specified ranges (in aggregate and by asset class) and any breach:

- must be notified to the investment committee as soon as practicable after discovery of the breach; and
- must be remedied within five business days of discovery.

The investment committee will periodically rebalance the portfolios towards the Benchmark Allocations, taking into account any tactical over- or under-weight positions.

Currency Policy

The currency policy for the Funds is as follows:

- International Fixed Income (if any) will be 100% hedged to NZD;
- International Equities will be unhedged, but the trustees have discretion to direct the investment committee to implement hedging within a range of 0-100%;
- Hedging of Alternative Assets denominated in foreign currency will be considered by the Investment Adviser on a case-by-case basis.

Other

Derivative securities are permitted where required to give effect to the Currency Policy.

Borrowing is not permitted.

7. Investment guidelines

Permitted Investments

The Funds can be invested in:

- Cash and cash equivalents, in NZD and foreign currencies
- Term deposits
- Fixed income securities, both domestic and global, including central / local government bonds, non-government bonds, either directly or via investment funds
- Mortgages on property owned by third parties not associated with the Diocese



- Mortgages on property owned by Diocesan entities
- Equities, i.e., shares in publicly listed companies on recognised stock exchanges, directly or via exchange traded funds ("ETF") or investment funds
- Property, via listed property vehicles or investment funds
- Direct property
- Alternative assets - limited to private equity, venture capital, and infrastructure investments - via investment funds

Excluded Investments

The Funds will exclude direct or indirect investments in companies that:

- Clearly do not meet commonly accepted ESG principles,
- Are primarily engaged in the manufacture of weapons of war, manufacture or marketing of tobacco or recreational drugs,
- Utilise any form of child labour, forced labour, or otherwise do not uphold human rights,
- Are inconsistent with the Five Marks of Mission of the Anglican Church of NZ:
 - To proclaim the Good News of the Kingdom
 - To teach, baptise and nurture new believers
 - To respond to human need by loving service
 - To seek to transform unjust structures of society, to challenge violence of every kind and to pursue peace and reconciliation
 - To strive to safeguard the integrity of creation and sustain and re-new the life of the earth
- Breach the United Nations Global Compact

The Investment Adviser(s) will seek to give effect to the exclusions when investing in ETFs or investment funds. However, the Board recognises that it may not be practical or feasible to give full effect to the exclusions when investing in ETFs or investment funds. In this case, the ETF or investment fund should be as closely aligned as possible to the Responsible Investment Policy set out in clause 7.

Cash

Cash and cash equivalents will comprise deposits with, or securities issued by, the major registered New Zealand trading banks or their wholly owned subsidiaries. Term deposits up to 90 days are classified as cash. Cash may be held in multiple currencies.

New Zealand Fixed Income

The role of New Zealand Fixed Income in the portfolio is to provide security of income and capital. The New Zealand Fixed Income component of the Fund shall hold a diversified range of securities, via direct investment or investment funds. These may include (but are not limited to) New Zealand Government bonds, local authority bonds, corporate bonds, term deposits greater than 90 days, inflation-linked bonds, floating rate notes and capital bonds.

Investment in non-government securities must meet the following guidelines:

- At least 60% of the NZ Fixed Income portfolio should be invested in investment grade (BBB- or above) securities



- No holding of a single issue should exceed 10% of the market value of the income assets of the relevant Fund
- No holding in a single entity should exceed 25% of the market value of the income assets of the relevant Fund

International Fixed Income

The role of International Fixed Income in the portfolio is to provide diversification of exposures and access to longer duration instruments. It is expected that investment in International Fixed Income will be via funds rather than direct investment. Investments in International Fixed Income must be consistent with the DDTB's risk profile.

New Zealand and Australian Equities

The role of New Zealand and Australian Equities is to provide sustainable income, growth in income and capital growth. The portfolio will be diversified across industry sectors and geographies. The New Zealand and Australian holdings shall complement each other to provide further diversification.

No equity holding in a single company should exceed 15% of the market value of the New Zealand or Australian Equities portfolio, as applicable.

International Equities

The role of International Equities is to provide capital growth and growth in income. The portfolio will be diversified across industry sectors and geographies via direct investments, ETFs or investment funds.

No equity holding in a single company should exceed 20% of the market value of the International Equities portfolio.

No investment in any one ETF or investment fund shall exceed 30% of the market value of the International Equities portfolio, unless otherwise authorised by the Board.

Australasian Property

The Australasian Property portfolio will consist of:

- New Zealand or Australian listed property vehicles.
- at least 3 listed property vehicles.

Mortgages and Loans

Mortgage investments provide regular returns with good security backing. Mortgage investments may be made as follows:

- 1st Mortgage security over prime property of up to 70% of the value of the property or amount recommended by an approved registered valuer, whichever is the lesser.
- 2nd Mortgage security over prime property where the 1st and 2nd mortgage combined is not more than 85% of the value of the property or amount recommended by an approved registered valuer, whichever is the lesser.

Mortgage interest rates shall be consistent with the market and reflect the level of security provided. Except for cases in which the rate of interest has been fixed for a period of time rates shall be adjusted both upwards and downwards in conjunction with the Official Cash Rate as determined by the Reserve Bank of New Zealand.

Not less than one month's prior written notice of changes in rates shall be given to each mortgagor.



In exceptional circumstances, the Board may agree with a mortgagor to fix the mortgage interest rate for a period not exceeding three years. Factors that shall be taken into account when contemplating fixing interest for a mortgagor are:

- The strength of the security provided for the debt
- The competitiveness required to keep a desirable mortgage in place
- The mechanisms to be utilised to establish market fixed rates for the period contemplated ensuring robust benchmarking with trading banks and other 2nd mortgage lenders
- Whether the mortgagor is a Diocesan entity
- The extent to which the arrangement may provide a discount to the mortgagor
- That any discount is not inconsistent with mortgage interest rate policy set out in this SIPO

The rationale for contemplating such an arrangement and the methodology utilised to establish the rate shall be comprehensively documented.

At the conclusion of any fixed interest period the interest rate on the mortgage shall revert to the relevant floating rate for the mortgagor.

Alternative Assets (Growth Fund)

Alternative Assets can provide investment returns that are less correlated to financial market returns. In this regard, they can offer diversification benefits to the Growth Fund. Investment in Alternative Assets is expected to be via a fund or other pooled investment vehicle. Each Alternative Asset investment must be assessed on its merits with regard to risk, reward and liquidity.

Mission Aligned Investing

Mission aligned investments are those that further one or more of the five marks of mission which are set out elsewhere in this SIPO. Each mission aligned investment must be assessed on its merits with full regard to:

- the asset allocation profile adopted by this SIPO
- the risk appetite of the DDTB
- the income and/or growth expectations of investors
- the strength and viability of the investment vehicle

Mission aligned investments will include inter alia:

- the provision of a discounted interest rate on mortgage loans to Diocesan entities
- the provision of commercial property to the Diocese at a discounted rental

Where an investment is a mission aligned investment the returns expected may be discounted as follows:



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| Mission Aligned Investment | |
| Mortgages | Between .50% and 1.5% less than non Diocesan entities |
| Commercial Property Rentals | Between 10% and 15% less than market value |

These discounts shall be at the lesser end of the range when interest rates are low and at the higher end of the range when interest rates are high.

Exposure Limits

The following exposure limits apply across the total portfolio:

- Exposure to a single issuer (across all asset classes) shall not exceed 20% of the market value of the Fund
- Exposure to a single industry (across all equities) shall not exceed 25% of the market value of the total equities portfolio
- Cash funds should not exceed \$3,000,000 in any one institution.

8. Reporting and monitoring

Measuring Performance

Actual investment returns and volatility will be assessed against the Investment Objectives and benchmark returns (weighted to the Benchmark Allocation). The following benchmark indices will be used for measuring performance:

| Asset class | Benchmark |
|----------------------------|--|
| New Zealand equities | S&P/NZX 50 Gross Index (without Imputation Credits) |
| Australian equities | S&P/ASX 200 Accumulation Index (NZD) |
| International equities | MSCI World Index (NZD) |
| Australasian property | 60% S&P/NZX All Real Estate Index 40% S&P/ASX 200 Real Estate Index |
| Alternative assets | As agreed with Investment Adviser |
| New Zealand fixed income | S&P/NZX Investment Grade Corporate Bond Index |
| International fixed income | Bloomberg Barclays Global Aggregate Bond Index (100% hedged) |
| Cash | S&P/NZX Bank Bills 90-Day Index |

Reporting

The Investment Adviser(s) will provide monthly reports including, at a minimum:

- Market value of the portfolio
- Statements of portfolio holdings, income, transactions and contributions/withdrawals.

The Investment Adviser(s) will also provide an annual tax report covering those securities held in custody.



Management will provide monthly reports and financial statements to facilitate monitoring of:

- Liquidity & cash requirements of the DDTB
- Asset allocation against agreed investment profile targets
- Financial performance of the funds and the DDTB against budget
- Cash earnings and realised capital gains

Monitoring

The Board will monitor the investment performance of the Funds and the Investment Adviser(s).

The Investment Adviser(s) will report to the investment committee quarterly the actual management expense ratio for the Fund (sum of all fees charged by the Investment Adviser(s) divided by the market value of the portfolio at the end of the DDTB's financial year). The investment committee will monitor the management expense ratio(s) for reasonableness.



Appendix 1: SIPO revision history

| Date | Comment | Author |
|------|---------|--------|
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Appendix 2: Ten Principles of the United Nations Global Compact

Human Rights

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| 1 | Businesses should support and respect the protection of internationally proclaimed human rights; and |
| 2 | make sure that they are not complicit in human rights abuses. |

Labour

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| 3 | Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; |
| 4 | the elimination of all forms of forced and compulsory labour; |
| 5 | the effective abolition of child labour; and |
| 6 | the elimination of discrimination in respect of employment and occupation. |

Environment

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| 7 | Businesses should support a precautionary approach to environmental challenges; |
| 8 | undertake initiatives to promote greater environmental responsibility; and |
| 9 | encourage the development and diffusion of environmentally friendly technologies. |

Anti-Corruption

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| 10 | Businesses should work against corruption in all its forms, including extortion and bribery. |
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Source: <https://www.unglobalcompact.org/what-is-gc/mission/principles>