

**New Zealand Methodist
Trust Association**

**Statement of investment
policies and objectives**

New Zealand Methodist Trust Association

1 Purpose of the Document

The purpose of this Statement of Investment Policies and Objectives (SIPO) is to support the Board of the New Zealand Methodist Trust Association (the Association) to invest, manage and monitor the Association's financial assets (the Investment Fund). The purpose of the Investment Fund is to provide income and capital yield on the available monies of the Methodist Church of New Zealand entrusted to the Association.

This SIPO defines the key responsibilities and the operating parameters within which the investments and their ongoing management are to be maintained. This SIPO at all times encourages the use of methodologies and processes that reflect industry best practice to encompass the principles of good corporate governance and reflect the aims and objectives of the New Zealand Methodist Trust Association.

2 Purpose of the Association

The Association exists to receive monies which are ultimately the property of the Conference of the Methodist Church of New Zealand (the Church) and to collaboratively invest those funds for the benefit of the Church. The Association may not receive deposits that are not ultimately the property of the Conference of the Methodist Church of New Zealand.

The Association is a registered charitable trust under the provisions of the Charitable Trust Act 1957 and is also a registered charity CC22486 with the New Zealand Charities Commission. The Association shall function at all times to maintain and protect the charitable nature and status of the Association.

As the Association is an internal Investment Fund for the Methodist Church of New Zealand, it currently is not required to produce investment statements or prospectuses for intending deposits as the Association and the deposits are jointly and severally owned by the Conference of the Methodist Church of New Zealand. The Association shall function at all times to maintain and protect this ownership and reporting status.

The operation of the Association shall be governed by the Laws of New Zealand and, where not inconsistent with New Zealand secular law, the Association shall follow the Laws and Regulations of the Methodist Church of New Zealand and relevant Conference decisions.

The Board shall act as trustees in the investment and management of the funds entrusted to the Association by the Church.

3 Operation of the Association

The New Zealand Methodist Trust Association offers investment funds to the Church providing for an interest only return with limited exposure to capital revaluations (Income Fund); and a capital exposed fund providing interest and a share in the movement in the capital values of the Association's equity investments (shares, property and trading, equity funds, hedge and venture

capital funds) as determined by annual revaluation on the balance date of the Fund (Growth and Income Fund).

The Association operates investment pools for each of the Funds that may be open from time to time and invests the monies available in each fund against the appropriate mix of assets as set out in the Asset Allocation agreed by the Board from time to time and expressed in this SIPO.

The income earned by each fund after the deduction of direct expenses and each fund's proportionate share of the general expenses of the Association is apportioned across the investors in each fund in the proportion that their investments in that fund for each financial quarter represent of the total fund for that quarter.

In the capital exposed Growth and Income Funds the movement in the value of the equity assets as measured by valuation at 30 June each year and compared to the valuation at 30 June the preceding year, adjusted for purchases and sales during the year, is apportioned to the depositors in that fund in the ratio that their income distributions for the year bear to the total income distribution for that fund for the year (accumulated on a quarter by quarter basis).

The Board of the Association may determine, from time to time, how many individual Income and Growth and Income fund the Association operates.

The Association may manage its investments directly through staff employed or seconded to the Association for that purpose or through contracted fund managers who may be resident in New Zealand or overseas, from time to time, and in such proportions or allocation of funds as the Association shall from time to time determine.

The association may hold its investments in whole or in parts in its own name or in the name of managers or custodians retained for the purpose.

4 Investment Committee

The Association may appoint an Investment Committee from within its own membership together with other appointees to provide a more regular review and assessment of the performance of the Association's assets. The Investment Committee shall operate solely in the terms of such authority as the Association shall from time to time delegate.

5 Distributions to the Church

The Association will make quarterly distributions of income for the quarters ending 31 March, 30 June, 30 September and 31 December in each year and annual allocations of capital value adjustments as detailed above as at 30 June.

6 Primary Investment Objectives

The primary investment objectives which underlie the Association's investment policies are:

- to ensure each fund's assets are invested in a prudent manner
- to achieve over the long-term returns greater than the risk-free rate of return
- to maximise the real rate of return subject to each fund's acceptance of risk
- to achieve long-term asset value growth for the capital exposed funds of the Association

7 Investment Positions

The Association considers that:

- superior investment returns are derived from long-term asset allocation positions and that the Methodist Trust Association is to be considered a long-term investor rather than a trader in securities.
- whilst value growth can be obtained from strategic positioning, frequent changes in the allocation of investments or the composition of the investments held can involve significant transactional costs.
- to optimise investment returns risk must be sufficiently diversified across asset classes, sectors and industries, liquidity risks quantified and constrained, and currency risks managed.
- the Association considers that there is little discernible value to the Church in the appointment of fund managers and external investment advisors on a net of fees return basis.
- the Association has a history of managing its own investment programme and considers this to be in the long-term interests of the Church.

8 Performance Objectives

8.1 Income Funds

Investments held by the Income funds shall:

- optimise income returns over multi-year time periods
- provide appropriate liquidity to meet expected repayment requests and to pay income distributions on a quarterly basis
- maintain positive real returns on an annual basis, with investment returns to exceed the nominal risk-free rate of return (including inflation) as measured by the average 90 Day Bank Bill Rate, as published by the Reserve Bank of New Zealand.

8.2 Growth and Income Funds

The Growth and Income Funds' overall investment performance objectives are to achieve:

- appropriate liquidity to meet expected repayment requests and to pay income distributions on a quarterly basis
- long-term returns through a combination of income returns and capital appreciation at least equal to the nominal risk-free rate of return (including inflation) plus 2% over rolling three-year periods
- an income return equal to at least the nominal risk-free rate of return (including inflation) as measured by the average 90 Day Bank Bill Rate, as published by the Reserve Bank of New Zealand.
- a positive annual return with 75% confidence i.e. a failure to meet a positive return over no more than one year in four.

9 Investment Strategy

9.1 Income Pool

Asset category	Benchmark	Expected range
Liquidity	10%	0-45%
Income	70%	20-90%
Growth	20%	10-25%
By individual asset class*		
Cash and Deposits (call or with maturity of 90 days or less)	10%	0-45%
Bonds or other debt instrument (with maturity dates greater than 91 days)	70%	20-90%
Australasian High Yield shares	10%	0-15%
Property	10%	5-15%
Foreign Currency Hedging		
International Bonds	100%	80-105%
Australian Equities & Cash	100%	80-105%

** subject to the prudential investment guidelines and requirements*

In respect of the above strategy:

- it is intended that the assets will be managed in the context of the benchmark weightings with appropriate rebalancing back to benchmark as required.
- for Australian high yield shares, the currency is to be fully hedged back to the New Zealand dollar.
- if fixed interest investments not domiciled in New Zealand dollars are held, the position is to be fully hedged back to the New Zealand dollar.

9.2 Growth and Income Pool

Asset category	Benchmark	Expected range
Liquidity	5%	0-45%
Income	35%	10-40%
Growth	60%	40-80%
By individual asset class*		
Cash and Deposits (call or with maturity of less than 90 days)	5%	0-15%
Bonds or other Debt instruments (with maturity dates greater than 91 days)	35%	20-50%
Equities	25%	20-50%
(Australasian)	(12%)	(5-30%)
(International)	(10%)	(5-30%)
(Unlisted Equities, Funds invested in Private Equity, Venture Capital, Alternative Investment strategies)	(3%)	(0-5%)
Property	35%	20-40%
Foreign Currency Hedging		
International Bonds	100%	80-105%
Australian Equities & Cash	50%	0-100%
Global Equities, Funds & Cash	50%	0-100%

* subject to the prudential investment guidelines and requirements

In respect of the above strategy:

- it is intended that the assets will be managed in general accord with the benchmark weightings with appropriate rebalancing back to benchmark on an annual basis as requested by the Board.
- currency risk will be hedged back to New Zealand dollars generally to a position between 50% and 100% of the foreign exchange exposure, with the benchmark position being 50% hedged.
- currency exposure will be measured by the best assessment of the actual exposure. For equities (which may include some NZ listed securities) this will generally be each company's functional reporting currency, although the portfolio manager may determine a currency that they believe better represents the true currency risk. For funds the currency used will be determined by the portfolio manager, with reference to the fund's largest geographic exposure.
- fixed interest investments not domiciled in New Zealand dollars are to be fully hedged back to New Zealand dollar values.
- The Board of the Methodist Trust Association may agree to foreign exchange management for a portion of the foreign exchange exposure of between 50% and 100% by specific contractual arrangement with approved foreign exchange consultants.

10 Investment Guidelines and Requirements

The following investment guidelines and requirements have been set for prudential reasons to ensure there is an adequate level of security in the management of the investments. The investment guidelines and requirements relate to the day-to-day management of the assets and in each case can only be deviated from by a specific decision of the Board.

10.1 Shares

Investments (except as noted below) must be confined to publicly listed, widely-held securities trading in recognised markets. For clarification, in New Zealand this would mean securities listed on the main board of the New Zealand Stock Exchange.

The Fund should not hold more than 3% of the capital of any one company.

No direct holding in a single company should equate to over 7% of the market value of the assets of the Fund.

Alternative Investments and Direct equities will involve, by their nature, investments in illiquid and closely held securities. This is reflected in the reduced allocation to this class of investment.

10.2 Property

Direct property investments will be made in New Zealand property in terms of the benchmark allocation for the each of the Income Fund and the Growth and Income Fund.

Indirect investment in property through listed companies and REITs shall be allocated as “equities”.

10.3 Bonds & Mortgage Loans

Bond investments are not limited to government guaranteed investments and are not limited to bonds that are formally rated.

All bond investments must be well diversified. At least 90% of such investments must have a level of security equal or better than that implied by a security with a Standard and Poors BBB- investment grade credit rating. Debt issued by New Zealand territorial authorities, local authority trading enterprises and/or state owned enterprises that are not formally rated shall be measured and reported as if they held a credit rating equivalent to Standard and Poors BBB-. All security holdings with a security level below this BBB- security level must be disclosed to the Board.

No holding of a single government issue should exceed 10% of the market value of the assets of the Fund.

Total holdings in a single non-government entity or in a government with a credit rating below that of the New Zealand Government should exceed not 10% of the market value of the assets of the Fund.

No investments in direct mortgages may be made, other than mortgages or loans to related Church parties subject to all such advances being approved by a resolution of the Investment Committee and ratified at a later meeting of the Board. Loans to any single borrower shall not exceed 10% of the market value of the assets of the Fund and the aggregate of all such related party lending shall

not exceed 20% of the market value of the Fund. All related party lending shall be secured by legally enforceable security agreements.

Bonds will not be valued by “marking to market”. Discounts and premiums will be amortised over the term of the bond and the bonds valued at their book value following the latest interest payment and amortisation adjustment.

10.4 Cash

Cash and cash equivalent investments should be invested with organisations with a level of security equal or better than a Standard and Poors A1 rating or a Moody's equivalent rating.

Securities issued by companies listed on the New Zealand Stock Exchange and included in the NZX50 Index with a Standard and Poors rating of A2 or Moody equivalent may also be purchased.

Short term debt issued by unrated local authorities and local authority trading enterprises (LATES) shall be deemed to carry a rating equivalent of a Standard and Poors rating of A2 and may also be purchased.

10.5 International

All investments (bonds, equities, etc) should be confined to widely held securities trading in recognised markets throughout the world.

Custodial Services, as determined by the Board from time to time shall be used to hold title to all international securities except where the issuers do not support custodial arrangements.

10.6 General

All monies must be invested prudently and shall be invested in accordance with the constitution and within the requirements of any applicable legislation.

Borrowing for the management of short-term cash flow transactions is permitted. However, borrowing for this purpose in any investment sector may not exceed 5% of the market value of the assets of that sector. Borrowing for other purposes is prohibited.

Investment assets other than those contemplated by this policy statement are not permitted without the prior approval of the Board.

Total holdings in any one organisation or company shall not exceed 20% of the market value of the assets of the Fund.

Futures, options, and synthetics maybe used for the prudential investment of assets of the Fund provided that such investments are not used for gearing purposes, subject to any such investment being specifically approved by the Investment Committee and ratified by the next meeting of the Board.

Underwriting commitments may be entered into in respect of any securities, provided that should the securities underwritten be required to be taken up, they would meet the investment criteria otherwise applicable to the Fund and would be within the investment limits set for that type of security.

10.7 Pooled investments

The Association recognises that, with any externally managed pooled investment, compliance with the investment guidelines and requirements may not be possible or in the overall best interests of the Fund. Where such an investment vehicle is used, the manager of the pooled arrangement shall be required to disclose to the Board, as soon as practicable, details of any investment that materially falls outside these guidelines and requirements so that the Board can continually reassess the overall suitability of such investment vehicle. Where the pooled investment vehicles are publicly listed investment funds that report on their portfolios annually, such reports will be accepted as the required disclosure.

11 Delegated Authorities

The Board has the overall responsibility for the management of the Association. The responsibility for day-to-day management of the Investment Funds is delegated to the Executive Officer.

The delegations contained in this document may be amended or revoked at any time by the Board in its absolute discretion.

Table of Delegated Authorities:

Asset Category	Executive Officer	Board
Cash and Deposits	All allowed by SIPO	
Bonds and Other Debt Instruments	All allowed by SIPO	
Equities (incl. listed funds)		
- Australasian	All allowed by SIPO	
- International	All allowed by SIPO	
- Alternative & Venture Capital	Recommend to Board	Authorised by Board
- Unlisted & Second Tier Markets	Recommend to Board	Authorised by Board
Equity Rights Issues & Placements	All allowed by SIPO	
Equity New Issues	All allowed by SIPO	
Direct Property	Recommend to Board	Authorised by Board
Loans	Recommend to Board	Authorised by Board
Not Specified in the SIPO	Recommend to Board	Authorised by Board

12 Responsible Investment

The Board acknowledge that the Church has adopted Guidelines for Socially Responsible Investment (adopted Conference, 7 November 2012).

Subject to the requirements of New Zealand Law and in particular the Trustee Act 1956, the Board accepts and endorses the principles that guide the Church's Guidelines for Socially Responsible Investment and shall endeavour to ensure that, based on information and evidence reasonably available to the market, the investments of the New Zealand Methodist Trust Association will comply with the intent and spirit of the Guidelines for Socially Responsible Investment.

13 Monitoring and Review

The Investment Committee and the Board shall at each properly convened meeting, receive a full report on the holdings of each fund, including for fixed interest, the amount invested, face value, maturity date coupon, and yield for each investment and for shares, the name of each company, the number of share held, the currency involved, the book value (or cost) and market value at the close of business for the previous month in New Zealand dollars. Property assets should be identified by address and the current book value disclosed.

Each meeting of the Board shall receive management accounts to the end of the previous month and shall also receive each quarter the calculations supporting the income (and each year the capital) distribution to depositors.

The returns provided to depositors by the Association will be measured against:

Income pools	the 90 day bill rate and 10 year government stock rate
Equities	NZ balanced super funds

14 Fees and Costs

The Board shall at all times ensure that the costs of administration of the Association are fair and reasonable and provide for the appropriate level of resourcing for the Association.

15 Review of the SIPO

The current allocation and actual mix of investments will be considered at each Investment Committee and Board meeting.

The Strategic Asset Allocation will be formally reviewed annually and all changes minuted.

The SIPO will be formally reviewed at least tri-annually and the decisions minuted. Any changes to the SIPO will result in a new edition being printed.

A copy of the current SIPO will be provided to all Board members.