

THE UNIVERSITY OF AUCKLAND FOUNDATION

STATEMENT OF INVESTMENT POLICY AND OBJECTIVES (SIPO)

ADOPTED AT THE BOARD OF TRUSTEES MEETING OF 13TH SEPTEMBER 2013

1. INTRODUCTION

This is a Statement of Investment Policies and Objectives (the "Statement" or "SIPO") that governs the management of investment assets of The University of Auckland Foundation (the "Foundation") and is approved by the Investment Committee of the Foundation (the "Committee") and the Board of Trustees of the Foundation (the "Board" or the "Trustees"). The definitions of terms, which are not otherwise defined in the SIPO, can be found in the most recent version of the Foundation's Policy Manual.

It is anticipated that this Statement will be in effect until modified. The Committee and the Board will revise the SIPO at such time as they determine it is advisable to do so in order to better meet the Foundation's investment objectives. However, the Committee will review this SIPO no less than every three (3) years to ensure its continued appropriateness and will recommend any changes to the Board. It is the intent of this Statement to be both sufficiently specific to be meaningful and yet flexible enough to be practical and enduring.

The Trustees are aware that they are subject to New Zealand legislation, particularly the Trustee Act 1956 and the Prudent Person rules of that Act and the Certificate of Incorporation and Trust Act 1956.

2. LIABILITIES AND RISK

2.1 Named Funds

Endowment Funds represent "in perpetuity" capital which must, in the long run, be protected from inflation but also provide income for student scholarships, research fellowships, professional salaries and such like. Within the Endowment Investment Pool ("EIP") are many separate endowment donations called Named Funds, of varying age, which are individually named, accounted for, and allocated their share of EIP return. The older donations usually have had more time to build up retained investment returns to raise their balance over and above their initial nominal value.

2.2 Liquidation of Capital

The EIP does not liquidate capital of the Named Funds, except in a few minor instances where the donor has allowed a small use of capital if there is not enough income available.

3. RESPONSIBILITIES

3.1 The Trustees have delegated the following powers to the Foundation's Investment Committee:

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- 3.1.1 Interviewing, recommending as to selection and monitoring of investment consultant(s);
- 3.1.2 Interviewing, recommending as to selection and monitoring of investment fund managers(s);
- 3.1.3 Recommending as to approval and monitoring of SIPO(s).

4. FINANCIAL OBJECTIVES

- 4.1 Ensure that the EIP investments comply with all legal requirements, particularly the requirements of the Trustee Act 1956.
- 4.2 Ensure that EIP assets are invested in a prudent manner.
- 4.3 Minimise investment risk by appropriate diversification of the EIP assets within and across each asset class.
 - 4.3.1 *Minimise investment returns volatility.*
- 4.4 Provide a reasonably consistent income stream to the University that in conjunction with a policy of retaining investment surpluses, results in a high probability of the original endowment retaining its purchasing power over the long-term.
 - 4.4.1 *Maintain real value of fund in perpetuity.*
 - 4.4.2 *Minimise spending volatility.*

5. SPENDING POLICY

5.1 Spending Policy for entities invested in the EIP, other than the Foundation itself

At the discretion of those entities, though with their understanding that if they spend at a higher rate than the Foundation they may reduce their chances of achieving the Investment Objectives outlined in "6" below.

5.2 Spending Policy for the Foundation

Spend 4% of the previous December 31 ending market value in the first year, provided the Named Fund is not underwater. For Named Funds that have made at least one year's distribution, spend previous year's distribution amount grown by inflation (CPI) provided the Named Fund is not underwater.

5.3 Long-Term Spending Policy for the Foundation

For Named Funds that have made at least five years of distributions, 70% of the previous year's distribution grown by inflation, 30% of the long-term spending rate

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(4% of the previous 12 quarters average ending market value) provided the specific donation agreement or deed associated with the Named Fund allows for this distribution.

6. INVESTMENT OBJECTIVES

- 6.1 In order to achieve the desired level of spending while preserving and enhancing the Foundation's purchasing power over time, the real (i.e., inflation-adjusted) return target for the portfolio should be greater than the spending rate.
- 6.2 The Trustees have established the following investment performance objectives:
- 6.2.1 Primary Investment Objective:**
The EIP Return (net of investment manager fees) is to match or exceed the change in CPI over rolling 5-year periods
- 6.2.2 Secondary Investment Objective:**
The EIP Return (net of investment manager fees) is exceed the change in CPI by at least 5% per annum over rolling 5-year periods
- 6.3 The Trustees and Committee recognise that the primary and secondary investment objectives are long-term targets and will not be achieved in every measurement period.
- 6.4 The base currency of the Fund is in New Zealand dollars and all performance measures are to be calculated therein.

7. INVESTMENT STRATEGY

7.1 Long-Term Policy Asset Allocation and Policy Ranges

The assets of the EIP will, where appropriate, be diversified across the different asset classes to reflect the EIP's liabilities and investment objectives. The Long-Term Policy Asset Allocation and Policy Ranges will be reviewed from time to time as circumstances warrant or no less than every three (3) years to ensure its continued appropriateness.

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ASSET CLASSES	Policy Asset Allocation (%)	Policy Range (%)
Public Growth Assets	55.0	
Australasian Equity	15.0	10 - 20
Global Equity	35.0	30 - 40
Emerging Market Equity	5.0	0 - 10
Diversifying Assets	5.0	
Absolute Return	5.0	0 - 10
TOTAL GROWTH ASSETS	60.0	45 - 65
Deflation Hedge Assets	40.0	
New Zealand Government Bonds	12.5	7.5 - 17.5
Global Fixed Income	10.0	5 - 15
Term Deposits (Class II)	10.0	5 - 15
Cash (Class I)	7.5	0 - 20
TOTAL INCOME ASSETS	40.0	35 - 55
Total	100.0	

7.2 Rebalancing Policy

7.2.1 The weighting to each asset class within the EIP will be within a tolerance of +/-5% beyond which action will be taken to rebalance the affected asset classes back to the Policy Asset Allocation target.

7.2.2 The weighting to Total Income Assets has a minimum allocation of 35%. The Policy Asset Allocation target is 40% and the allocation to Total Income Assets may be up to 15% over this target (i.e. 55%).

7.2.3 The weighting to Total Growth Assets has a maximum of 65%. The Policy Asset Allocation target is 60% and the allocation to Total Growth Assets may be up to 15% below this target (i.e. 45%).

7.2.4 Unless the Trustees instruct otherwise:

7.2.4.1 New Cash will be applied to the most underweight asset classes within two months of its receipt, and

7.2.4.2 If one asset class moves outside of its Policy Range then the asset class will be rebalanced back to the Policy Asset Allocation target as soon as is reasonably practicable.

7.2.5 The Policy Asset Allocation serves as a guide to long-term target asset allocation. However, at times the Trustees may also decide to underweight or overweight certain asset classes relative to the Policy Asset Allocation on the basis of relative valuations and current investment opportunities. In such

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instances, the Trustees may stipulate a different Tactical Target for a specific asset class, which should be within the allowable Policy Ranges.

8. CURRENCY HEDGING POLICY

8.1 Currency Hedging Policy Rationale

The Foundation's Currency Hedging Policy seeks to reduce total portfolio volatility from exposure to foreign exchange rate risk by managing the EIP's total portfolio foreign currency exposure via hedging strategies.

8.2 Currency Hedging Policy Objectives

The EIP is to maintain 70% exposure to New Zealand Dollar and constrain foreign currency exposure to 30% or less of the portfolio's assets value.

8.3 Currency Hedging Asset Class Guidelines

8.3.1 Global Equity (exclusive of Australian Equity) foreign currency exposure is 50% *hedged* back to the New Zealand dollar with an acceptable range of 45% to 55%.

8.3.1.1 *Rationale:* In most environments, currency volatility will have less impact on an equity portfolio than on other less volatile asset classes (e.g. fixed income), simply because the volatility of equities exceeds that of less volatile asset classes.

8.3.2 Australian Equity foreign currency exposure is 50% hedged back to the New Zealand dollar with an acceptable range of 0% to 100% implemented at the discretion of the investment manager.

8.3.2.1 *Rationale:* The foreign currency exposure would be gained via AUD, a currency that has higher correlation to NZD than other foreign currencies.

8.3.3 Dedicated Emerging Markets Equity *is to be unhedged to the NZD.*

8.3.3.1 *Rationale:* Currency exposure is part of the long-term investment thesis in this asset class. It is costly to hedge emerging markets currencies (hedge to higher yields; volume of contracts)

8.3.4 Global Fixed Income is to be 100% *hedged* at all times to the New Zealand dollar with an acceptable range of 97% to 103%.

8.3.4.1 *Rationale:* The benefit of currency hedging is greater in lower volatility asset classes, such as Fixed Income and helps to preserve the characteristics of fixed income as a hedge to prolonged periods

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of deflation or economic contraction. It is also not costly to hedge the predominant currencies in this asset class.

8.4 Currency Hedging Policy Roles and Responsibilities

8.4.1 Setting the Currency Hedging Policy

The Investment Committee reviews Currency hedging analysis and recommendations from the Advisor (currently Cambridge Associates) and determines a Currency Hedging Policy recommendation to the Board of Trustees. Policy changes require approval by the Board of Trustees, with recommendation from the Investment Committee.

8.4.2 Implementation

Given the Foundation's size and limited internal resources, the Foundation should use New Zealand Dollar hedged investment vehicles where available and appropriate, otherwise custodian currency management services and currency overlay manager options should be reviewed by the Investment Committee.

8.4.3 Oversight Currency Hedging Policy Implementation

Investment Staff

8.4.4 Process to change Currency Hedging Policy

The Investment Committee reviews Currency Hedging Policy analysis and guidance provided by the Advisor (currently Cambridge Associates) and recommends changes to the Currency Hedging Policy to the Board of Trustees. Policy changes require Board approval with recommendation from the Investment Committee, as noted above.

9. PORTFOLIO BENCHMARKS

9.1 The primary investment objective of the EIP (net of investment manager fees) is to produce a return that matches or exceed the change in CPI over rolling 5-year periods and the secondary investment objective of the EIP (net of investment manager fees) is to produce a return that exceeds the change in CPI by at least 5% per annum over rolling 5-year periods. The primary portfolio benchmark would evaluate the performance of the Fund against these objectives.

9.2 A secondary portfolio benchmark is to understand whether the EIP has performed in line with expectation given the allocation to each asset class in the portfolio. To evaluate this, the returns of the Fund will be measured against a custom Blended Benchmark composed of indices reflecting the allocation to each asset class in the

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Policy Asset Allocation. For some asset classes, the most appropriate benchmark will represent a blend of indices. The portfolio should be evaluated against the secondary portfolio benchmark over rolling 3- to 5-year periods.

10. CONSTRAINTS

10.1 Legal Requirements

The investment of the EIP assets will comply with all legal requirements, and in particular with the Trustee Act 1956 (Prudent Person Legislation) and the Certificate of Incorporation.

10.2 Liquidity

The EIP must hold sufficient investments that are readily marketable so that there is sufficient liquidity to meet payments as they fall due.

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10.3 Derivatives

10.3.1 The use of futures, options, and other synthetic investments is permitted wherever their use is consistent with the objectives of the EIP to protect value, change asset allocation, and /or duration, and any other lawful use, always abiding by these investment constraints.

10.3.2 In particular, derivatives will not be used in a speculative manner which would gear the funds and at all times all long positions are to be fully covered by cash or liquid securities and any short positions must be matched by physical securities. Where an absolute return or hedge fund strategy is included, the Trustees recognise some deviation from this constraint may be required.

10.4 Pooled Funds

10.4.1 Where the Trustees determine that an appropriate investment vehicle is a pooled investment arrangement, it is recognised by the Trustees that the strict interpretation of these investment constraints may not be possible or desirable.

10.4.2 Where such a pooled arrangement is utilised the manager of that pooled arrangement shall be required to disclose to the Trustees as soon as practicable details of any investment that materially falls outside these constraints so that the Trustees can reassess the ongoing suitability of such a pooled investment vehicle.

10.5 Cash

10.5.1 Bank Cash and Term Deposits

Any issuer of Class I and Class II Securities including Registered Banks, must be rated by one of the agencies and must be rated at least A by Standard and Poor's; A2 by Moody's; and A by Fitch at purchase. Should an issuer fall below the minimum credit rating of at least: A by Standard and Poor's; A2 by Moody's; or A by Fitch, then the EIP is prohibited from acquiring additional issues from the issuer or increasing its exposure to this issuer. The investment staff must immediately communicate the downgrade to the Investment Committee. The Investment Committee would decide if it is necessary to exit the position and timing for exit. If there is further decline in the issuer following the initial downgrade below A by Standard and Poor's; A2 by Moody's; and A by Fitch, the EIP is required to exit the position, with the Investment Committee to decide the timing of the exit.

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Credit Rating Table

Moody's		S&P		Fitch		
Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	
Aaa	A-1	Aaa	A-1	Aaa	F1	Prime
Aa1	A-2	Aa1	A-2	Aa1	F2	
Aa2	A-3	Aa2	A-3	Aa2	F3	
Aa3	P-1	Aa3	A-3	Aa3	F3	High grade
A1	P-2	A1	A-3	A1	F3	
A2	P-3	A2	A-3	A2	F3	
A3	P-2	A	A-2	A	F2	Upper medium grade
Baa1	P-2	BBB+	A-2	BBB+	F2	
Baa2	P-3	BBB	A-3	BBB	F3	
Baa3	P-3	BBB	A-3	BBB	F3	Lower medium grade
Ba1	Not prime	BB+	B	BB+	B	
Ba2		BB		BB		
Ba3		BB-		BB-		
B1		B+		B+		
B2		B		B		
B3		B-		B-		
Caa1	Not prime	CCC+	C	CCC	C	Substantial risks
Caa2		CCC				Extremely speculative
Caa3		CCC				Default imminent with little prospect for recovery
Ca		CC				
C		C				
/	Not prime	D	/	DD	/	In default
/		D	/	DD	/	

Allowed in Current SIPO Bank Cash and Term Deposits Guidelines.

Sources: http://en.wikipedia.org/wiki/Bond_credit_rating

10.5.2 Cash held by Investment Managers

Each Investment Manager may hold cash and will advise the Trustees of the cash holding through the monthly reporting.

11. PORTFOLIO MONITORING

11.1 The EIP will be monitored on a continual basis for consistency of each manager's investment philosophy, return relative to objectives, investment risk as measured by asset concentrations, exposure to extreme economic conditions, and market volatility. Portfolio results will be reviewed by the Committee on a quarterly basis, but results will be evaluated over rolling 3-to-5 year periods or a full market cycle, whichever is longer. However, the Committee will regularly review managers in order to confirm that the factors underlying performance expectations remain in place. The Committee will also take into account manager concentration risk and must make an explicit decision to allow any single manager (excepting the

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Foundation itself as a manager of EIP assets), regardless of the mix of the underlying assets, to manage more than 20% of the EIP.

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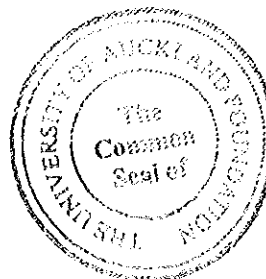
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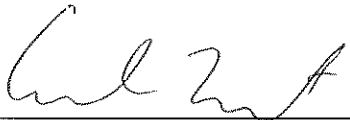
11.2 Each Investment Manager will report the following information quarterly: total return net of all commissions and fees and additions and withdrawals from the account. Separate accounts will also provide current holdings at cost and at market value, and purchases and sales for the quarter. Managers may be required to reconcile records of holdings, transactions, and dividend/interest income with the Fund's custodian on a quarterly basis. Regular communication concerning investment strategy and outlook is expected. Additionally, managers are required to inform the Foundation of any significant change in firm ownership, organisational structure, professional personnel, account structure (e.g., number, asset size and account minimums), or fundamental investment philosophy.

Each Investment Manager will attend meetings with the Trustees as and when required to discuss strategy, portfolio activity, performance, or any changes to the investment team or organisation.

DATED the 13th day of September 2013

THE COMMON SEAL of)
THE UNIVERSITY OF AUCKLAND)
FOUNDATION INC.)
Was affixed in the presence of:)





Trustee



Trustee