Eastern & Central
Community Trust Inc.

Statement of Investment Policies and Objectives

Adopted 27 January 2017

Eastern & Central Community Trust Inc.

Statement of investment policies and objectives

This statement summarises the current investment policies of the Trustees. It is the intention of the Trustees to review and update, as appropriate, the policies to reflect the changing investment markets, Trust characteristics and the Trustees' requirements.

The statement is set out as follows:

1. Introduction

Background

1.1 The Trust is a community trust which provides charitable, cultural, philanthropic and recreational donations to community groups in the Gisborne District, Hawke's Bay, Tararua, Wairarapa, Manawatu and Horowhenua. The Trust is expected to continue indefinitely.

Current assets

1.2 The current assets of the investment fund (31 October 2016) are approximately $167m of which $146m represents the adjusted capital base (up from $90m on 1 April 1997) and $17m the investment fluctuation buffer. The nature of the existing investments places no restrictions on the investment policies.

Primary objectives

1.3 The primary objectives underlying the investment policies for the Trust are:

- to ensure that the investment fund is invested prudently;
- to provide inter-generational equity with regard to grant levels over time;
- to ensure that money is available for donations, as required, to meet the needs and donations policies of the Trust;
- to maintain the value of the investment fund's capital base in real terms and to grow such capital value at a level equal to the population base growth of the region. Real in this context relates to changes in the Consumer Price Index (CPI);
- to maximise the funds available for donations.

Investment beliefs

1.4 The beliefs of the Trustees that underpin the investment policies to achieve the primary objectives are set out in appendix A.

Investment fluctuation buffer

1.5 The Trustees recognise the risks associated with fluctuations in the underlying market values of the different investments. Accordingly, the Trustees operate an investment fluctuation buffer relative to the adjusted capital base to smooth out the impact of temporary short-term asset value fluctuations on the ability of the Trust to make donations (see section 6).

Donations policy

1.6 Subject to demand and the appropriateness of the applications, each year, it is intended to budget to make total donations equal to 4% of the capital base at the start of the year. The 4% target assumes that the overall assets are not below the level of the adjusted capital base.

1.7 However:

(i) the donations budget and the operating expenses should not exceed the net realised income budget projected for the year;

(ii) the target donations level in any year will be reviewed:

- should the market value of the assets fall in value below 105% of the adjusted capital base, and;
- if the actual realised income is ±10% above or below the realised income budget.

(iii) Should the investment fluctuation buffer exceed 125% of the capital base, consideration will be given to making special donations and/ or adjusting the "normal" donations level and/ or adjusting the capital base.

Taxation

1.8 The balance date of the Trust is 31 March. The Trust's investment income is subject to the normal taxation rules for charitable trusts of this nature and under legislation is a non-taxpayer. As such, the Trust does not expect to pay income tax.

Risk management

1.9 It is noted that the Trust's assets are exposed to different investment risks that will lead to variations in the actual versus expected returns over short and long term periods. To reduce the potential negative effects of these risks on the Trust's donations under its donations policies, the Trustees have put in place a risk management policy. Details of the key risks and the current risk management policies are summarised in appendix B.

1.10 As part of this policy the Trustees operate a tactical asset allocation policy, an investment fluctuation policy and a currency management policy. In addition, the following general policies apply:

- The Audit & Risk Committee meets bi-monthly and investment performance and outlook, is a specific agenda item.
- The Audit and Risk Committee meet a minimum of three times per year to review and amend the Risk Register, Appendix B outlines the current risks associated with funds management and investment.
- A comprehensive monthly/ quarterly/ annual investment reporting process applies.
- Independent advisors are used.
- Professional investment managers are used.
- The investment policies are subject to an annual review.
- The movement of money requires two authorised signatures and is subject to internal control processes.

1.11 The risk management policies are reviewed each year in light of the Trust's overall strategies to confirm their ongoing appropriateness.

Alternative Investments

1.12 The Trust may invest in assets outside the traditional asset classes of cash/ bank deposits, bonds, property and listed shares. Such assets may include private equity, venture capital and special opportunity investments. Where such investments are made, they will fall within the appropriate asset category of the overall investment strategy under section 3.

Temporary departures

1.13 The Trustees recognise that from time to time it will be appropriate to make a departure from the investment policies set out in this statement. Such departures require the prior approval of the Trustees.

1.14 Where a temporary departure is approved, as a consideration of the approval, the Trustees will set a timeframe for that temporary departure to be reviewed. Such timeframe shall normally be no longer than 12 months.

2. Performance objectives

Return requirements

2.1 The return requirements of the Trustees are:

Income

2.1.1 To generate sufficient actual income each year to let the Trust donate 4% of the adjusted capital base at the start of the year and to meet the Trust's costs.

2.1.2 For the 2016/2017 financial year this is \$5.5m plus \$1.7m respectively.

Growth

2.1.3 To preserve the Trust's capital base over the medium to long-term and to grow the capital to protect it and the level of future donations for future generations.

Risk

2.2 In achieving the return objectives, the Trustees will:

Liquidity

2.2.1 Ensure that the Trust is not forced to sell an asset, at a loss, to be able to make a budgeted or unexpected grant.

Minimum return

2.2.2 Tolerate an occasional "bad" year, such that the income available for donations and costs falls to \$5m in 2016/2017 dollars. Any shortfall in the income will be funded out of cash holdings.

3. Investment strategy

3.1 Given the objectives and nature of the Trust, the assets will be invested based on the following long-term allocation. The allocation will be reviewed as circumstances change and will be reassessed as appropriate. The next review is due on or prior to 31 December 2019.

Asset class*	Long-term investment strategy: Allocation based on current assets ($167m)		Long-term investment strategy: Allocation based on current inflation adjusted capital base plus 25%	
	($m)	(%)	($m)	(%)
Liquidity				
Cash	10.0	10%	10.0	6%
Income				
Cash	0.0	0%	0.0	0%
NZ bonds	40.0	19%	40.0	24%
Overseas bonds	10.0	11%	10.0	6%
	50.0			
Growth				
Listed shares	87.0	59%	125.0	60%
Unlisted shares (private equity)	20.0	1%	2.0	4%
	107.0			

* subject to the prudential investment guidelines set out in section 4 and the smoothing policy in section 5.

3.4 In respect of the above strategy:

- The allocation of capital between the asset classes is based on the dollar amounts and not percentages;
- Current assets, equal to any distributions approved but not paid, will generally be held in cash or fixed interest, as appropriate, outside the above investment strategy;
- It is intended that the assets will be managed in dollar terms relative to level of the allocation applied to the inflation adjusted capital base;
- Appropriate rebalancing will be undertaken as required, in the context of the cash flow requirements, the level of the assets relative to the optimal level and the risk management policy. If the assets within an asset class increase/ reduce by more than 5% of the total assets, then consideration will be given to rebalancing;
- The allocation to overseas bonds is the residual of the total bond portfolio. The allocation of the total bond portfolio will give priority to NZ bonds where suitable bonds can be obtained in accordance with the policies;
- The listed shares include listed property securities as appropriate;
- Capital not allocated to unlisted shares will be invested as part of the listed shares.

Currency management

3.5 The strategic policy of the Trustees is for the risks associated with currency movement in respect of overseas shares to be 50% hedged, on average. At times, however, the hedging level will be up to 100% and at other times down to 0%.

3.6 The actual hedging level will be set based on:

Currency level relative to the long-term "average" level	Medium term trend/momentum	
	Upwards	Downwards
Above +2 standard deviations	50% hedging	0% hedging
+1 to +2 standard deviations	50% hedging	0% hedging
0 to +1 standard deviations	75% hedging	0% hedging
-1 to 0 standard deviations	100% hedging	25% hedging
-2 to -1 standard deviations	100% hedging	50% hedging
Below -2 standard deviations	100% hedging	50% hedging

3.7 The rationale behind the currency management policy is set out in appendix C.

4. Investment guidelines and requirements

4.1 The following investment guidelines and requirements have been set for prudential reasons to ensure there is an adequate level of security in the investments. They relate to the normal day-to-day management of the assets. In each case, they can be deviated from, as appropriate, by a decision of the Trustees.

Listed shares

4.2 Investments should be focused on 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 NZ Stock Exchange.

4.3 The Trust should not hold more than 2% of the equity of any one company.

4.4 No direct holding in a single company should equate to over 3% of the market value of the Trust's assets.

Property

4.5 No direct property investments may be made.

Bonds

4.6 Bond investments are not limited to government guaranteed investments.

4.7 All non-government and government guaranteed investments with a credit rating below that of the NZ Government, as measured by the Standard & Poors or equivalent rating measure, should be targeted to be well diversified.

4.8 The overall credit grade of the portfolio should be equivalent to a Standard & Poors A-credit rating. All security holdings with a security level below the A- security level must be notified to the Trustees.

4.9 No holding of a single government issue should exceed 20% of the market value of the Trust's assets.

4.10 No holding in a single non-government entity should exceed 3% of the market value of the investments of the Trustees.

4.11 No investments in direct mortgages may be made.

Cash

4.12 Other than bank deposits, cash and cash equivalent investments, with a maximum duration of 365 days, shall be invested with organisations with a level of security equal to, or better than, a Standard & Poors A1 rating or a Moody's P1 rating.

Bank deposits will be in Banks approved by the Trustees.

In respect of cash assets, total exposure to any one bank shall not be more than the greater of 40% of the cash holdings or $6m. However, it is recognised and accepted that where more than one manager holds cash assets the aggregate exposure to one bank may be above $6m.

Private equity

4.13 Investments into private equity companies or funds of private equity companies must be approved by the Trustees.

4.14 No private equity investment in a start-up company will be made.

General

4.15 All investments must be prudent investments.

4.16 Where an investment manager is appointed.

(a) No constraints are placed on a manager's ability to raise cash for the management of short term cash flow transactions, provided that borrowing for this purpose in any investment sector may not exceed 5% of the market value of the assets of that sector held by that manager, without disclosure to the Trustees. Borrowing for other purposes is prohibited.

(b) No investment manager appointed by the Trustees may:

(i) hold, without prior disclosure to the Trustees, any investment in its own company, its parent or any subsidiary and must disclose any investment in associated companies;

(ii) delegate to another investment manager.

(c) Futures and options may be used by a manager, at its discretion, for the prudential investment management of the Trust's investment fund under its management provided that such investments are not used for gearing purposes.

(d) The investment manager is delegated full discretion to exercise all voting rights, including, but not limited to, voting proxies. Investment managers must exercise these voting rights in the best interests of the Trust.

4.17 Where the investment manager has been appointed but is relinquished of its duties, the General Manager will manage the assets, in consultation with the Audit & Risk Committee, until the new investment manager is appointed.

4.18 Investments in assets other than those contemplated by this policy statement (including antiques, art, stamps, gold, silver, commodities or venture capital investments) are not permitted.

4.19 With the exception of cash assets, total holdings in any one company shall not exceed 3% of the market value of the Trust's investment fund.

Pooled investments

4.20 Where the Trustees determine that an appropriate investment vehicle is a pooled investment arrangement, it is recognised by the Trustees that the strict application of the investment guidelines and requirements may not be possible, or be in the overall best interests of the Trust. Where such a vehicle is used the manager of the pooled arrangement shall be required to disclose to the Trustees, as soon as practicable, details of any investment that materially falls outside the guidelines and requirements so that the Trustees can continually reassess the overall suitability of such an investment vehicle.

5. Investment fluctuation buffer

5.1 The following sets out the detail and background to the Trust's investment fluctuation buffer policy. It forms part of the Trust's wider Risk Management Policy.

5.2 The Trustees recognise that the Trust's investment policies contemplate an asset allocation across market areas which will experience market volatility. Accordingly, to ensure that the "capital base" and donations are insulated from these fluctuations, the Trustees maintain an "investment fluctuation buffer" above the "capital base".

5.3 Of the assets of the Trust, $90m was set to be the "capital base" of the Trust at 1 April 1997. The then remaining assets formed the investment fluctuation buffer.

5.4 The capital base is reviewed each year in light of the level of inflation and economic and population growth of the Eastern & Central region. It is intended that over a rolling 5-year period the capital base will be adjusted for such effects so the Trust provides for intergenerational equity. The guideline will be to adjust the capital base by the increase in the national CPI.

5.5 Also, the Trustees will monitor the level of the investment fluctuation buffer. Specifically:

- Where at any time the investment fluctuation buffer falls to a level that is less than 5% above the capital base (measured at the end of the previous year), specific advice will be taken on the investment outlook to determine what, if any, action needs to be taken in terms of either the investment strategy or the donations policy to protect the long-term value of the capital base.

- Where, at any time, the investment fluctuation buffer exceeds the level of 25% of the capital base, such surplus shall be taken into account by the Trustees in applying their donations policy and in building up the capital base. It is recognised that the target level of future donations is based on the capital base.

5.6 The historical capital base and the investment fluctuation buffer are:

$m

1 April	Capital base	Investment buffer		Total assets
1997	90.00	19.00	(21%)	109.00
1998	92.70	28.05	(30%)	120.75
1999	95.48	42.90	(45%)	138.38
2000	98.35	50.60	(51%)	148.95
2001	101.30	30.72	(30%)	132.02
2002	104.33	17.70	(17%)	122.03
2003	104.33	4.55	(4%)	108.88
2004	105.53	12.10	(11%)	117.63
2005	106.73	13.49	(13%)	120.22
2006	109.13	33.04	(30%)	142.17
2007	113.93	31.40	(28%)	145.33
2008	118.73	17.31	(15%)	136.04
2009	122.33	-4.77	(-4%)	117.56
2010	125.93	15.93	(13%)	141.86
2011	129.53	15.92	(12%)	145.45
2012	133.13	4.03	(3%)	137.16
2013	136.73	10.84	(8%)	147.57
2014	140.33	9.72	(7%)	150.05
2015	143.93	20.50	(14%)	164.43
2016	145.23	20.73	(14%)	165.96

6. Investment advisor

Appointment of investment advisor

6.1 The Trustees believe that an investment advisor should be appointed to assist the Trustees develop their investment policies, to help evaluate the performance of the investment managers, and to provide strategic research and market information. The role and accountabilities of the investment advisor are set out below.

6.2 The investment advisor, appointed under 6.1, shall be responsible and accountable for:

- assisting the Trustees review and develop the Trust's investment policies;
- evaluating the ongoing appropriateness of the long-term investment strategy relative to the investment objectives;
- monitoring the investment managers' performance in terms of the Trustees' evaluation policy;
- proactively advising the Trustees in the way in which the Trust's assets should be invested given market changes, including legislation changes and trends.
- ensuring that the investment managers manage the assets under their care in terms of the mandate;
- proactively advising the Trustees on the need for changes to their policies or the implementation of their policies.

Performance evaluation

6.3 The investment advisor shall be evaluated, as required, by the Trustees in terms of the advice and service given and the suitability of the resources available to continually assist the Trustees. It is expected that a performance review will be undertaken on an annual basis, and a formal evaluation will occur, in the absence of a specific need, on a five yearly basis. The next formal review is due on or before December 2017.

Reporting

6.4 In terms of its responsibilities the investment advisor is expected to provide independent reports:

- monthly:
  - a consolidated report showing asset levels, returns and strategies of the managers.
- quarterly, or more frequently as required or requested, covering:
  - the managers' performance and analysis of the performance;
  - "market intelligence" in terms of changes to the manager that may have an impact on the quality of the future performance.

With a view to identifying the potential for:

- an unacceptable risk occurring;
- poor future performance;
- sudden and unexpected events that may lead to unacceptable outcomes.

7. Investment managers

Appointment of investment managers

7.1 The Trustees' policy is that external professional investment managers should be appointed to manage the non-cash investments for both the domestic and overseas markets.

7.2 Where an investment manager is appointed on a discretionary basis, a mandate documents the Trustees' requirements in terms of performance evaluation, reporting, and the investment guidelines and requirements appropriate for that manager within the guidelines for the Trust as a whole.

7.3 The Trustees may change investment manager(s) from time-to-time as they see fit at their sole discretion.

Performance evaluation

7.4 Each investment manager's performance will be monitored quarterly and formally evaluated annually against:

(a) the performance objectives set out in the manager's mandate and the evaluation criteria; and

(b) such other objectives as set by the Trustees for the investment manager from time-to-time.

Reporting

7.5 Each investment manager will be required to prepare and submit written and verbal reports as follows:

(a) the reporting requirements as set out in the manager's mandate as appropriate; and

(b) as requested by the Trustees:

- details of the manager's investment management structure, decision making process, investment philosophy, and investment personnel;
- recommendations on the manager's mandate;
- such other information that is required by the Trustees in their day-to-day activities which it is reasonable to ask the manager to provide.

Investment managers and mandates

7.6 The current mandates and external investment managers/ professionals are:

Cash	-	Self-managed
New Zealand bonds	-	Forsyth Barr
Overseas bonds	-	Pimco
Listed shares	-	50% Forsyth Barr & 50% Elevation Capital
Currency on overseas shares	-	Self-managed using the services of BNZ

A

7.7 The current products of managers that are invested in are:

Unlisted shares	-	Pioneer Capital PCP II & III,
	-	Waterman Fund 3LP,
	-	Morrison, Public Infrastructure Partners II LP
	-	Direct Capital Fund V

Appendix A - Investment beliefs

The investment beliefs that underpin the investment policies include:

1. We get a better return over time by:
   - 1.1 Taking a long-term view;
   - 1.2 Be willing to make decisions;
   - 1.3 Focusing on managing costs;
   - 1.4 Keeping things simple and avoiding complex investments;
   - 1.5 Managing risks;
   - 1.6 Aligning the income and growth of the investments with the needs of the Trust.

Returns

2. The long-term return is determined primarily by the investment strategy.

3. The short-term return is primarily driven by market events.

4. There exists an equity, property and bond risk premium and the risk premium is material. The risk premium only emerges over the long term

5. Differences in returns relative to benchmarks are explained more often by policy and not skill and judgement.

6. The only returns that matter are the after costs net returns. Costs matter.

7. Some investors have specific and inflexible time frames. It is possible to exploit these

Risk

8. Markets are generally efficient.

9. Risk and return are related in the long term.

10. Risk leads to short term volatility.

11. Risk is best managed by diversification. Diversification lowers risk.

12. You are not rewarded long-term for something that can be diversified away.

13. Illiquidity is a risk that is compensated by the market.

14. Risk factors are not constant over time.

15. "Fair" value is driven long-term by fundamentals.

16. The value of an asset returns to its fair value over time, but actual values may be away from fair values for long periods of time.

Currency

17. Currency trends around a long-term equilibrium, unless there is a fundamental market change.

18. Currency rates are not predictable in the short term.

Appendix B - Risk management policy

Details of the key risks faced by the Trust and the current risk management policies are:

Risk	Definition	Trust's management policies
Interest rate risk	The risk that the value of a security, particularly a bond, will temporarily decrease in value as a result of a rise in interest rates.	• Bonds are generally held to maturity. Such temporary decreases are therefore unrealised and ultimately reverse. • Bond holdings are targeted to be diversified by maturity date. • The cash levels are set allowing for the expected income to minimise the potential need to sell a bond to meet grant needs.
Re-investment risk	The risk that interest, or dividends, received from an investment may not be able to be re-invested in such a way that they earn the same rate of return, or more, as the investment that generated them. Also, that at the time an investment matures, interest rates have fallen preventing the capital to be re-invested at the same yield.	• Interest and dividends are generally paid to the Trust's cash portfolio for donations not re-investment purposes. • Bonds are structured with the aim of maximising diversification by duration and minimising the level of investments that mature at any point in time. • New investments can be deferred if current interest rates are low.
Default risk	The possibility that an issuer of a bond will fail to make a principal and/ or interest payment in a timely manner on the due date.	• Bond investments are targeted at a level of security equivalent to "investment grade". • Investments are diversified over a range of companies, industries and maturities. • Exposure to any one issuer is limited. • The reporting requirements require commentary on the potential for default.
Currency risk	The risk that changes in exchange rates will reduce the value of the assets in NZ dollar terms.	• Currency risks from shares are managed under the currency management policy. • Where the outlook is uncertain and negative, currency risks are generally fully hedged. • Currency risks from bond investments are fully hedged. • Capital invested offshore is not required to be bought back to NZ on a specific date.
Timing risk	The risk that investments are made as the market is about to fall, or sold as the markets are about to rise.	• Money is moved into new investments of volatile asset classes over time in multiples typically no more than 5%.

Type of risk	Definition	Trust's management policies
Inflation risk	The risk that inflation increases the size of the requests for donations. The risk that a high level of inflation makes unexpected significant demands for capital base increases.	• Part of the assets are invested in shares and property that provide a natural hedge against inflation over the long-term. • The Trustees look to regularly increase the capital base over time to maintain it in real terms.
Market volatility	The risk that the investments will decrease in value, with general market movements, over the short-term.	• Investments are split across the asset classes and diversified across countries, industries and companies. • Cash holdings are set to limit the need to realise assets and therefore market volatility, does not impact on budgeted short-term donations. • The investment fluctuation buffer helps minimise the impact of market volatility on the donations policy. • The assets of the Trust above the 125% of the capital base are invested in cash/ bond assets. • Cash holdings are increased as opportunities arise to ensure that assets need not be sold for donations.
Market downturn risk	The risk that the markets suffer a severe and prolonged period of negative performance.	• Cash and bonds assets are held to ensure that donations can be maintained short-term. • Assets are diversified across the asset classes and across the economic regions of the world. • Interest and dividends are taken as cash and not automatically reinvested. • The Trustees seek specific independent advice on the market outlook as required, but at least annually.
Manager risk	The risk that the discretionary active decisions of a single manager prove to be wrong or that the manager fails.	• Where discretionary decisions are delegated, a specific mandate documents their application. • The exposure to any single manager is limited. • A passive approach is adopted for property and share investments. • Assets are held separate to a manager's own assets and under trust.

Appendix C - Currency management policy

1. The following sets out the background to the Trust's currency management policy in respect of the overseas share exposure. It forms part of the Trust's wider Risk Management Policy.

Background

2. The Trust's assets are exposed to fluctuations in value due to movement in exchange rates. To reduce the potential negative effects of this risk, on the Trust's donations the Trustees manage the currency risks under the currency management policy.

3. The strategic policy of the Trustees is for the risks associated with currency movement in respect of overseas shares to be 50% hedged, on average. In simple terms over a 20 year period the expected average level of hedging is 50%. At times, however, the hedging level will be up to 100% and at other times down to 0%. The Currency Management Policy provides a framework for moving between 0% and 100%.

4. It is also noted that the time horizons of the Trust are different to those of the average investor and market participant. Generally the Trust has a longer-term view and is more flexible. The management of the currency exposure policy also looks, from time to time, to capture the return opportunity that this difference presents as part of the Trust's tactical policy.

5. Therefore, a key motivation of the currency management policy is to reduce the impact of the short-term volatility of the NZ dollar on the value of the overseas shares and, because of the Trust's position as an investor, to enhance performance by capturing part of the gains available from currency movements.

Currency management policy

6. The currency policy of the Trustees is based on the principles and beliefs of:

    - Over the long-term the return from currency is "nil" or small[1] and therefore the exchange rate oscillates around the expected long-term average or fair value level. Unlike shares or bonds, there is not an expected positive average return for an investor who simply buys and holds.
    - Determining today, the exact value of the NZ dollar at a future date is impossible but unlike exporters/ other investors the Trust is not required to focus on any particular date. In contrast, determining the likely value that will occur at some unknown future point in the next 5 years is reasonably achievable.
    - The Trust is in a position where it can take a long-term view if it needs to if other policies (i.e. the investment fluctuation policy and the overall investment strategy) ensure appropriate liquidity.
    - The Trustees wish to err on the conservative side and recognise that being hedged or unhedged changes the overall pattern of returns between income and growth achieved from the overseas share portfolio.
    - Having an exposure, on average, to foreign currencies is important in the management of the consequences or risks of unexpected inflation.

[1] In effect it is small and positive relating to the risk premium built into the NZ interest rates.

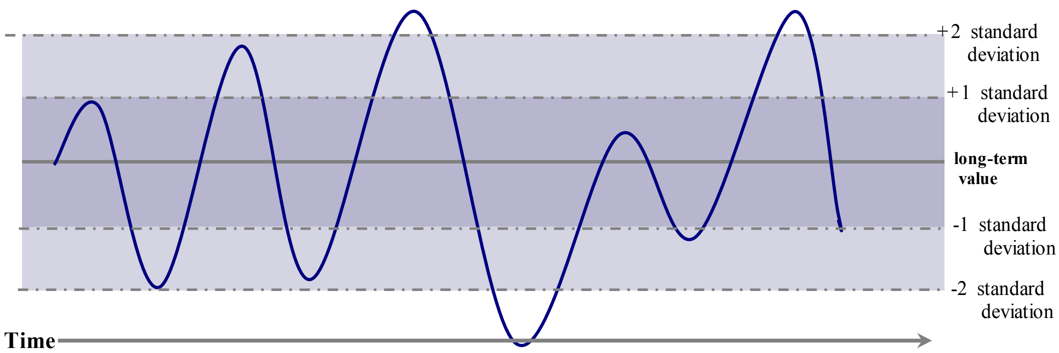
7. The currency management policy of the Trustees is to set a "current" hedging level, in the context of a strategic policy to be, on average, 50% hedged that takes into account:

- the current financial position of the Trust and therefore short-term income needs.
- the medium term currency outlook in the context of the medium to long-term outlook. The Trust very rarely focuses on the very short-term or the very long-term, but is always conscious of the range of possibilities.
- other risk management considerations.

8. The policy and its application is relatively complex but can be summarised as:

> *"when the exchange rate is at a perceived extreme level (e.g. very high or very low) it makes sense to be unhedged/ hedged and then wait for it to fall or rise, before reversing the position. The Trust is in a position where it can afford to wait several years if necessary for the markets to correct and does not have liquidity or cash flow issues that can't be managed by other means.*
>
> *Using the NZ:US dollar as an example if the exchange rate moves up to ±20% around the average in a cycle over 10 years, and the Trust captures half of the potential benefits, it results in a further 0.5% to 1.0% p.a. return over the 10 year period. The additional return arises because the Trust need not be hedged or unhedged at any point of time and can wait for the market to recover if its position is wrong short-term".*

9. Diagrammatically (from a stylised perspective) the exchange rate movement can be considered to look like:



10. Most of the time, the exchange rate will vary around the long-term position within ± 1 standard deviation and can move up or down irrespective of where it is at that time. It is rare (typically less than 5% of the time) that it gets to ± 2 standard deviations. At a ± 2 standard deviation level, economic forces tend to push it back towards the long-term value.

11. The ideal currency hedged position, solely from a return point of view, is to be unhedged when the NZ dollar is depreciating and to be hedged when it is appreciating.

12. The above is a simple view. In practice its application is not as precise or uniform. Grant level considerations (e.g. investment fluctuation buffer level, proximity to balance date etc.) results in different positions. Also, the risk management policy would not normally result in a dramatic shift or change.

13. In assessing the medium term trend/ momentum a 12 to 18 month view is taken, while recognising that significant short-term movements are not uncommon

Appendix D - Alternative investments & special opportunity investment policy

Details of the Trustee's policy for processing alternative and special investment opportunities are:

1. Definitions

An alternative investment means an investment in any asset class other than equities, bonds, cash or property, that would be held and managed by an appointed professional institutional investment manager for the Trust. For example, farm land.

A special opportunity investment is an investment that falls outside a current mandate given to an appointed investment manager but within the wider SIPO and which is likely to have better return characteristics than the investments within the mandate. For example the ability to take a larger position on a private equity investment by co-investing alongside the private equity fund.

2. Limit on amount of funds to be in alternative investments

The amount of funds placed in alternative investments shall at no time exceed 10% of all funds of the Trust under investment. Where capital is allocated to the category of alternative investments, it shall be allocated to cash, bonds, property or shares, as appropriate, and the investment strategy under 3.1 shall be adjusted accordingly.

3. Policy to deal with alternative investment proposals

3.1 For all alternative investment and special opportunity proposals received by the Trust other than those involving direct investment:

3.1.1 The proposal shall be received and considered by the GM. If the GM is of the opinion that it may be appropriate, the GM shall obtain advice from the Trust's Investment Advisor. The proposal shall then be forwarded to the Audit & Risk Committee for discussion, then to the Full Board with the Audit & Risk Committees', GM's and Investment Advisor's recommendations and any other advice received. For a proposal to go to the Audit & Risk Committee, it requires the support of both the GM and the Investment Advisor.

3.1.3 The full Board shall not adopt any such recommendation without first:

3.1.3.1 Receiving and considering the advice of the Trust's Investment Advisor.

3.1.3.2 Considering whether it is necessary to obtain further specialist advice. Such further specialist advice shall be obtained where

the proposal is outside the sphere of expertise of the Trust's Investment Advisor.

3.1.3.3 Considering whether it is necessary to retain a "devil's advocate" advisor to put forward the contrary view to that being given by the Investment Advisor.

3.1.3.4 Receiving and considering any such further advice sought.

3.2 For direct investment proposals – being investments which are to be held directly by the Trust rather than held and managed by appointed professional institutional investment managers for the Trust, the process under 3.1 shall be followed but that the GM and Investment Advisor must specifically address as part of their advice the appropriate custody and governance arrangements.

3.3 It is noted that for the immediate future, neither the GM nor the Investment Advisor is expected to be proactively looking for alternative investment opportunities.

4. The duty of prudence

4.1 At all stages of the process Trustees shall remind themselves of and shall exercise the standard of care required of them. In particular, they shall:

> "exercise the care, diligence and skill that a prudent person of business would exercise in managing the affairs of others."

Appendix E - Temporary departures from this statement and current decisions

Temporary departures

Current temporary departures as at 27 January 2017 are:

- nil.

Banks

The current approved banks for bank deposit purposes are:

ANZ
ASB
BNZ*
Kiwibank
SBS (trading as HBS Bank)
TSB Bank
Westpac
Rabobank
Heartland Bank

* Where the NZ dollar has risen and at the time that a new bank deposit is made the hedging gains are above $2m, no further deposits may be made at BNZ.

Appendix F - Investment manager mandates

The current mandates for each of the managers are attached:

Cash
New Zealand bonds
Overseas bonds
Listed shares mandate
Currency on overseas shares

Cash sector mandate

January 2017

Manager: Self-managed

Purpose: To manage the liquidity and cash flow requirements of the Trust to help efficiently manage the distribution programme.

Assets: The intended long-term average allocation is $10.0m and will normally range from year to year between $3m and $14m. As at 31 October 2016 the assets under the mandate were $17.20m, 10.3% of the investable assets.

Permitted investments:

Cash and cash equivalent investments with a maximum duration of 365 days.

Benchmark: The benchmark for performance evaluation purposes shall be NZX NZ Call Index.

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 investments. They relate to the day to day management of the assets and in each case can be deviated from, as appropriate, by a decision of the Trustees.

- Cash and cash equivalent investments should be invested with organisations with a level of security equal or better to a Standard and Poors short-term A1 credit rating or a Moody's P1 credit rating.
- Investments will be managed with regard to the timing of the distribution policy of the Trust.
- The maximum exposure to any one investment organisation should not exceed 3% of the Trust's total assets.
- Advice must be given to the Trustees prior to the prematurely breaking of an investment before the maturity date.
- No borrowing is permitted without the Trustees' prior written consent.

Performance objective:

The annualised return after investment expenses over every one year period should be in excess of the return of the NZX NZ Call index.

Reporting requirements of the institutions with whom the funds are invested:

- Monthly: Within one week of the end of each month:
    - details of the current investments and the overall asset values
    - details of the cash flow received and paid during the month
    - such other information as reasonably required by the Trustees.

New Zealand bond sector mandate

January 2017

Manager: Phil Williams, Forsyth Barr

Purpose: The purpose of this mandate is to document the Trust's policies in respect of the management of its NZ bond holdings.

Background: This policy documents the mandate for the NZ bond portfolio.

The overall purpose is to establish and maintain a diversified portfolio of NZ bonds focusing on non-government securities but including, where appropriate, government securities. The purpose of the bonds is to provide a regular and predictable income stream, which together with the Trust's other investment income will help ensure that the Trust's minimum intended grant level can be met.

It is intended that bonds purchased are held to maturity. It is not expected for a bond to be sold, where to do so would realise a capital loss unless there are specific reasons to do so. However, bonds may be sold as they approach maturity if a gain can be realised and it helps manage the investment risks particularly interest rate risk.

Because bonds will be generally held to, or near to, maturity a key requirement will be the security of the organisation issuing the bond and also the ability of the issuer to meet all payments. The focus will be bonds with a level of security equivalent to the financial position of a bond that had a BBB- or better investment grade.

Assets: The intended long-term average allocation is $40.0m but is expected to range from year to year between $30m and $50m. As at 31 October 2016 the assets under the mandate were $31.34m.

Cash flow: Cash flows (i.e. coupons) will be paid to the cash mandate of the Trust. In normal circumstances the proceeds from maturities will be reinvested.

Permitted securities:

The permitted securities under the Mandate are NZ bond and cash investments. For the purposes of the Mandate these are defined as:

- Any fixed interest securities:
    - of, or guaranteed by, the NZ Government;
    - of a corporate or bank constituted by, or under, the laws of NZ;
    - of a local authority or other governing body constituted by or under NZ law;
- Any convertible or non-convertible securities of a corporation which provide an appropriate predetermined net rate of dividend or interest. Note convertible securities that are subject to imputation are unlikely to provide an appropriate net rate of dividend or interest;
- NZ dollar securities issued or guaranteed by foreign governments;
- Mortgage and other financial asset backed securities where such securities are not backed by other financial assets and where such mortgages and securities are not leveraged;
- Deposits with a bank;

- Bills of Exchange that have been accepted or endorsed by a bank;
- Certificates of Deposit issued by a bank whether negotiable, convertible or not;
- Promissory notes;
- Floating rate notes;
- Products investing in the above underlying investments.

For the avoidance of doubt, it does not include NZ issued bonds where the capital is invested in derivatives and/ or other financial securities where the bond has the appearance of a "fund" of investments.

Hybrid & perpetual securities:

Hybrid securities are generally classified as "equity" for an initial period (typically 5 or 10 years) and then revert to subordinated bonds. The level of security of hybrids is above that of equity, but below all other bonds. The total duration is often 25 or 30 years, but there is an expectation that they will be repaid early (i.e. at the end of the period where they count as equity). However, it is not certain that they will be repaid early as while they may cease to be classified as "equity" they may still be a cheap form of funding.

The exposure to hybrid securities will be limited to $8m of the bond portfolio. In all cases, for Hybrid securities to be held in the portfolio the approval of the Trustees is required. The preferred hybrid investments include businesses that have long term assets and barriers to entry (eg. infrastructure assets), as opposed to businesses in the service industries. Preference will also be given to securities that count as Tier 2 capital.

Perpetual securities have no fixed maturity date and are expected to continue indefinitely. In many cases the issuer has the right to redeem them at any time after an initial period. The exposure to perpetual securities will be limited to $2m of the bond portfolio. In all cases, for perpetual securities to be held in the portfolio the approval of the Trustees is required.

Optimal portfolio:

The optimal portfolio where there is a positive yield curve and interest rates are equal or better than the average rate over an interest rate cycle, is a portfolio of 30 non-finance company bonds each with a $2m exposure with security equivalent to a S&P BBB rating. Each year, two ten year bonds would be purchased and held to maturity.

It is recognised that:

- not all bond securities are formally rated. Where a bond is not formally rated it may still form part of the portfolio if its security level is assessed as being equal to an equivalent BBB- or better investment grade bond.
- The yield curve is not always positive. When it is not positive slopping, the duration of the bonds purchased will be shorter than ten years and will be at the point that is appropriate for the environment.
- The current market favours the issuance of 5 year bonds and there are few ten year bonds available.
- On average half the time the interest rates will be below the average yield.

Where the "optimal portfolio cannot be achieved, it is recognised that the bond portfolio will be structured to maximise the ability of the Trust to generate income at the required level to support the grants.

Duration:

There is no required duration of the portfolio. However it is noted that if the portfolio held a bond of each duration in a ten year period, the average duration would be 4.3 years. Therefore, if circumstances support it, when a new bond is bought it should ideally move the overall portfolio's then duration, towards or above the target duration. Likewise, from time to time, a bond may be sold to maintain the target duration. It is recognised that at times, based on the actual securities available in the market, the duration will be well below the target duration. It is also recognised that the stated average duration is to help manage interest rate risk and is not a specific requirement.

Credit grade:

Where it is not possible to purchase 30 securities and a higher exposure is required to one or more securities, the exposure should be kept to as close to $2m as practical, but in no instance should the exposure of a single issue exceed the higher of:

Grade[1]		$m
AAA		$4.7m
AA		$3.5m
A		$2.5m
BBB		$2.0m

[1]. Including unrated securities assessed to be of equivalent grade.

In addition the maximum exposure to an issuer that is not guaranteed by the government is $5m.

Investments in unrated securities are permitted provided the key financial ratios of the debt issuer, indicate adequate security from both a capital and coupon perspective. The broker is expected to calculate and provide details of ratios in respect of:

- Debt to equity
- Interest rate coverage
- Free cash flow

In each case the relevant ratios will be assessed based on the current position and averaged over the last 5 years (when data is available), and will be shown relative to a defined standard ratios that are appropriate for the nature of the industry of the issuer.

Where an investment is unrated and the financial ratios demonstrate a high level of security, but may not be sufficient to meet the BBB- security level and there are no other investments to meet the optimal portfolio requirements, such investment may be purchased but the exposure limited to $0.5m provided that no more than 10% of the bond portfolio falls into this category.

Number of securities:

It is recognised that the number of securities will vary depending on what is available. Ideally it is intended that the portfolio will hold 30 securities but will normally range between 20 and 35 securities for practical and administrative reasons.

Specific securities and process:

Specific securities to be purchased or sold will be recommended by the manager, reviewed for compliance by the investment consultant, and signed off by the General Manager.

Reporting: **The manager is expected to provide information and reports as follows:**

- Monthly
  - A listing of the portfolio showing the value on a yield to maturity basis and the current market realisable value.
  - The value listing should include details of the maturity profile and coupon levels of the securities together with the yields and credit rating.
  - Details of any material change in credit grade/ security.
  - Such other information as it is reasonable for the Trustees to expect.
  - Advise the Trust of any significant changes to the investment portfolio immediately.

The reports should be sent to the Trust's General Manager and copied to the Trust's investment consultant.

The manager is expected to be available to present to the Trustees, the General Manager and the Investment Consultant at all reasonable times throughout the year. It is expected that the manager will present to the Trustees once a year and to the General Manager and investment Consultant twice a year at times to be agreed.

Overseas bond sector mandate

January 2017

Manager: As appointed by the Trustees from time to time. The current managers include:

- Pimco through its NZD Hedged Global Strategy Fund

Assets: $17.64m approximately (31 October 2016)

Cash flow: Other than interest income, which may be automatically reinvested, cash flow will arise from capital rebalancing which is expected to occur every six to 12 months to maintain the assets under the mandate at the level determined by the Trustees as part of their overall bond portfolio.

Permitted investments:

Subject to the investment guidelines and requirements, the permitted investments are:

- Overseas bonds and cash and related derivative instruments including options and futures. For the purpose of the Mandate these are defined as:

- Overseas bonds:
  - Bonds and other fixed interest securities and money market instruments issued or guaranteed by central, provincial or municipal governments or corporations;

- Cash:
  - Deposits with a bank
  - Bills of Exchange that have been accepted or endorsed by a bank
  - Certificates of Deposit issued by a bank whether negotiable, convertible or not
  - Promissory notes
  - Floating rate notes

- Derivative instruments:
  - Futures;
  - Swaps;
  - Interest rate agreements
  - Forward rate agreements
  - Options (either exchange traded or over-the-counter)

- Products investing in the above underlying investments including products managed by the Manager or a related body corporate of the Manager.

With the exception of Australian bonds that may be held directly as part of the NZ bond portfolio, it is the intention of the Trustees that the implementation of this mandate will be through products that invest in the permitted investments.

Benchmark:

The benchmark for the mandate is the Citigroup World Broad Investment Grade Hedged to NZ dollars.

Performance objective:

The overall return after investment expenses should, on a three yearly basis, be at least equal to the return of a portfolio invested in accordance with the benchmark.

Performance evaluation:

The performance of the manager will be monitored and formally evaluated annually having regard to the mandate, the financial markets, and the performance objective.

Investment guidelines and requirements:

The following investment guidelines and requirements have been set for prudential reasons. They relate to the day-to-day management of the investment fund and in each case can be deviated from, as appropriate, by a decision of the Trustees.

Bonds

- Investments are not restricted to government stock/ sovereign debt.
- All non-government guaranteed investments should be well diversified. At least 90% must have a level of security equal or better than a Standard & Poors AA- credit rating. All security holdings with a security level below this AA- security level must be disclosed to the Trustees.
- No holding in a single government entity or organisation should exceed 20% of the market value of the assets under the mandate.
- No holding of a single non-government issue should exceed 3% of the market value of the assets under the mandate.
- No investments in direct mortgages should be made.

Cash

- Cash and cash equivalent investments should be invested with organisations with a level of security equal to or better than a Standard & Poors A1 rating or Moody's P1 credit rating.

Currency

- Risks arising from currency associated with overseas bond investments shall normally be hedged and may be managed within a hedging range of 95% to 105%.

General

- All investment must be prudent investments and shall be made in accordance with the Trustees' requirements and within the requirements of the applicable legislation.

- No constraints are placed on a manager's ability to raise cash for the management of short-term cash flow transactions. However, borrowing for this purpose in any investment sector may not exceed 5% of the market value of the assets of that sector held by that manager, without disclosure to the Trustees. Borrowing for other purposes is prohibited.

- Any appointed investment manager may not:

  - hold, without prior disclosure to the Trustees, any investment in its own company, its parent, or any subsidiary, and must disclose any investment in associated companies;

  - delegate to another investment manager.

- Futures and options may be used by a manager, at its discretion for the prudential investment management of the investment fund provided that such investments are not used for gearing purposes.

- 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 Trust and would be within the investment limits set for that type of security.

Pooled investments:

The Trustees recognise that the assets under the mandate are invested via a pooled investment arrangement and the strict application of the investment guidelines and requirements may not be possible or in the overall best interests of the Trust. Accordingly the manager shall be required to disclose to the Trustees, as soon as practicable, details of any investment that materially falls outside the guidelines and requirements so that the Trustees can continually reassess the overall suitability of such investment vehicle.

Reporting requirements:

The reporting requirements include:

- Monthly (and at other times requested by the Trustees or the investment advisor): Within one week of the end of each month:

  - details of the current investments and the overall investment values

  - details of the cash flow received and paid during the month;

  - such other information as reasonably required by the Trustees.

- Annual: Within six weeks of the end of each year:

  - full financial statements and audit information/ certificate for the financial year.

All reports will be provided to the Trust's General Manager and copied to the Trust's investment consultant.

Liaison requirements:

Any appointed manager shall be required to make its investment personnel available for attendance at Trustees' meetings, at times to be mutually agreed. In normal circumstances this is expected to occur on an annual basis. In addition the manager agrees to make available such personnel for liaison with the Trustees, by telephone, at any reasonable time.

Listed share sector mandate

January 2017

Managers: Richard Burton, Forsyth Barr
Chris Swasbrook, Elevation Capital

Purpose: The purpose of this mandate is to document the Trustees' policies in respect of its listed share holdings. This mandate forms part of the overall investment policies of the Trustees.

Background: The Trustees' objective is to appoint two managers which will each construct a portfolio of approximately 50 shares with an emphasis on the sustainability and predictability of their revenue and therefore the Trust's income over the medium term. The managers will have a similar level of assets.

Within the practical constraints of size and liquidity, the holding level of a particular share should be set to maximise the benefits of diversification. This will typically mean individual share holdings will be of similar levels to avoid additional concentration risks. However, lower exposures to a particular share may be held where two or more shares selected are in a similar industry, or for a particular purpose in place of a single share.

While it is expected that shares will be held on a long-term basis (5 plus years), as opposed to a short term trading basis, a share will be sold to meet the cash flow needs of the Trust or when the outlook for the share changes and it becomes unlikely to meet the future dividend and growth return needs of the Trust.

Assets: The current assets under the mandate are NZ$99.23m (31 October 2016). The assets will vary over time based on the cash flow needs of the Trust. There is expected to be an element of reinvestment of capital every 12 to 18 months.

Cash flow: Dividend income will be paid to the Trust's cash portfolio throughout the year.

Permitted investments:

Subject to the investment guidelines and requirements below, the permitted investments are shares and associated investments listed on the "main boards" of the Stock Exchanges around the world.

Shares that may be purchased must be in accordance with the guidelines and requirements. There is an expectation that the shares will generally produce sustainable and increasing dividend income over the long-term. Shares will be bought based on their dividend and revenue outlook, assessed value, ability to preserve capital, liquidity and diversification considerations.

Number of shares:

The target number of shares will be the higher of 50 and the assets under the mandate divided by 1.25% of the assets of the Trust calculated as at 31 March each year. The actual number of the shares is expected to be with 10% of the target but not less than 50.

Country and industry allocation:

There is no specific country or industry allocation.

The country and industry allocations will be an outcome of the selection and investment process. It is expected and understood that at times the overall country allocation may have a bias to Australasia, given the information advantage and the higher dividend levels generally available. It is also understood that the industry exposure will have a bias to companies that make/ produce/ provide real products and services.

It is expected that the portfolio construction stage will ensure appropriate industry diversification.

Return requirement:

The return relevant to the Trust is the return net of transaction costs, custody fees, and net of tax slippage. This return must enable the grants budget to be met and for the capital base of the Trust to be protected against the impact of inflation.

Short-term, the make-up of the overall return split between income and capital movement is important, as the Trust requires immediate income for distribution purposes. In this context the minimum income return requirement is a return of 4.0% each year.

Long term, the total overall return should protect the Trust's overall capital against the impact of inflation. The total return therefore should be equal or above the general market return.

Benchmark:

There is no specific market index that acts as a benchmark. The investments and portfolio construction should be such that the investments collectively achieve the return requirements.

Portfolio performance evaluation:

The performance of the portfolio will be monitored and formally evaluated annually having regard to the mandate, the financial markets, and the performance objective.

It is noted that the performance of the New Zealand market is normally measured in terms of the NZX market indices, the Australian market in terms of the ASX market indices and the global markets in terms of the MSCI indices. Collectively these reflect the average return potentially available.

The returns of the Trust will be looked at relative to these recognising that the Trust is primarily after a sustainable and increasing income stream and avoiding permanent losses. The Trust is less concerned about short term market volatility. Short-term greater emphasis (70%) will therefore be placed on the dividend component of the market return with less emphasis (30%) on the market movement. Long-term equal emphasis will be placed on dividend income and market movement.

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 investments. They relate to the day-to-day management of the portfolio and in each case can be deviated from, as appropriate, by a decision of the Trustees.

- Investments should be confined to widely held securities trading on the "main boards" of the different global stock exchanges. The value should also be at a discount to the general industry transaction values.
- Holdings are not confined to ordinary shares but can be in any listed hybrid equity security issued by a company, which the Trustees are able to invest, and which is consistent with these investment guidelines. Without limiting the scope of the above, these could include redeemable preference shares, specified preference shares, partly paid shares and convertible notes. However it is expected that the focus of the portfolio will be ordinary shares.
- 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 guidelines otherwise applicable to the mandate and would be within any investment limits set for that type of security.
- Shares that are purchased are expected to demonstrate the following characteristics ("**Investment criteria**"):
  - A current share price that is at a discount to the assessed fair market valuation. For instance on a discounted cash flow basis and P/E ratio basis;
  - Earnings that have, on average, upwards earnings momentum and where there is a high level of predictability that will support the dividend payments and where the dividend payments are met from cash and not borrowings;
  - Are in industries and sectors that are expected to provide products and services that will remain in demand for at least the next ten years;
  - Are in companies that have a history of innovation within the context of the industry that operate in;
  - Will contribute to the overall dividend income of the portfolio in terms of long term sustainability and increasing level.
- Liquid assets are permitted for cash flow management. They should generally not exceed 5% of the value of the portfolio and may only be invested in cash management accounts and/or overnight deposits with registered banks.
- All transactions that occur in accordance with these investment guidelines should be at the fair market price, or below, prevailing at the time the transaction takes place.
- Voting rights shall be exercised and exercised in the best interests of the Trust.
- It is expected that the portfolio will have low to moderate activity. The activity is not for the purposes of short term trading. It is not expected that a share will be bought unless it is expected to be held long term.

- It is expected that the turnover of the portfolio, in the normal course of events, will be no more than 20% p.a.. The 20% guideline is not expected to create a restriction on the sale of a share that ceases to meet the diversification and future dividend income requirements.
- The risks arising from the exposure to foreign currencies will be managed separately under the Trustees' currency management policy as part of the risk management policy. Currency management is not part of this mandate.

Process:

In terms of the selection and review of the shares the following process will be followed.

- A managers/ broker will be used to identify approximately 50 shares that meet the investment criteria and to make recommendations.
- From the recommendations the proposed portfolio will be constructed and presented to the Trustees. The Trustees will provide a governance role.
- The manager/ broker will then implement the portfolio.
- Throughout each year the portfolio will be monitored relative to the objectives. Rebalancing will occur where a share has risen by more than was expected such that the concentration risk is more than 50% above the average level.
- At frequencies of about 18 months, the manager/ broker will be asked to make recommendations as to the make-up of the portfolio against the investment criteria on the basis of a 75 share portfolio. Where a share held does not feature on the 75 list a recommendation would be made to the Trustees to replace that holding.

In terms of the process and portfolio:

- Where a share held reduces or increases in value by more than 40% over six months, or 25% within a month, the holding in that share will be reviewed. It is expected that the Trust's holding of an individual share will not be more than 3% of the total share portfolio.
- For the avoidance of any doubt:
  - The "low activity" guideline is not expected to create a restriction on the sale of a share that ceases to meet the diversification and/ or future dividend income requirements;
  - The requirement for a specific review if a share moves by ±40% over six months, or, ±25% in a month, does not mean that the share should not be reviewed sooner;
  - Shares are not required to be held on an equally weighted basis, but the Trustees are expected to be advised of any concentration risks within the portfolio.

Shares do not need to fall outside the manager's/broker's notional 75 share portfolio to be replaced. Shares can be replaced at any time when the manager/ broker considers that that they are no longer optimal to positively contribute to the return objectives. Falling outside the 75 share portfolio simply acts as an automatic review

Currency Mandate on the overseas share and overseas bond exposure

January 2017

Manager: Self-managed

Assets: No specific assets are allocated to this mandate, instead the manager will be instructed to implement particular currency hedging positions from time to time to implement the Trust's currency management policy.

Investment strategy:

No benchmark applies to the mandate.

Investment guidelines:

The strategy will use three months forward contracts to hedge the reported currency exposures. All contracts must be as a result of a decision of the Trustees.

Reporting: The reporting requirements include:

- Monthly report, within approximately 10 working days of the end of each month:
  - Details of the Portfolio Value;
  - Details of all realised gains/ losses during the period;