



Waitaha Group Holdings Limited  
Statement of Investment Policy and Objectives  
September 2018

## 1. Introduction

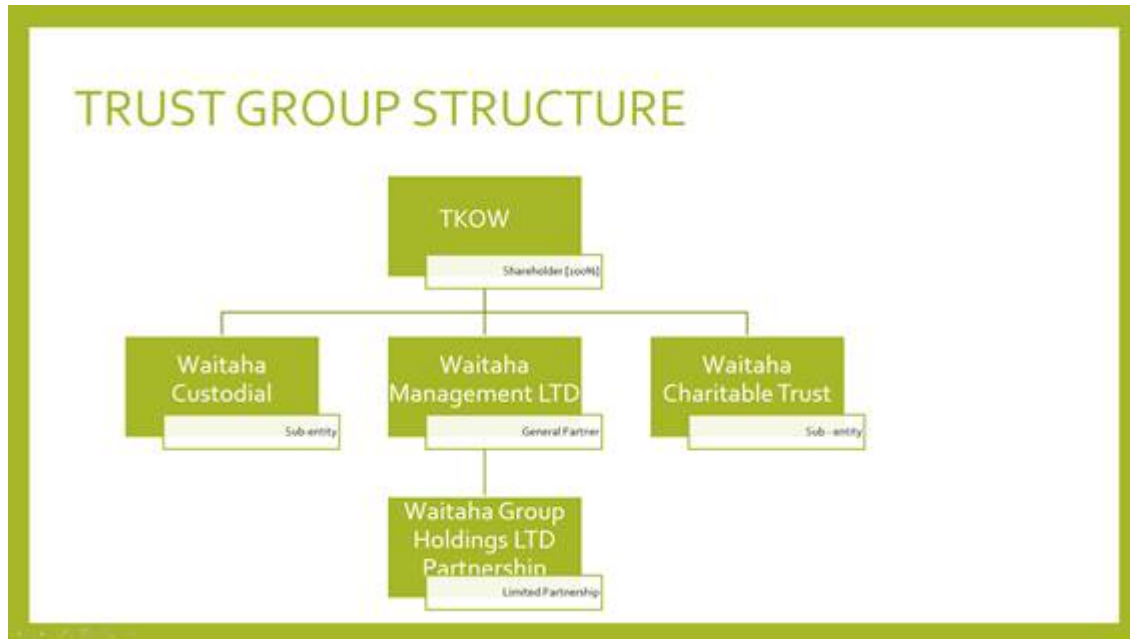
1.1. This document records the Statement of Investment Policy and Objectives for Waitaha Group Holdings Limited, covering the following areas:

- Responsibilities
- Group structure including WGHL and Te Kapu O Waitaha (TKOW)
- TKOW strategic context – vision, mission, values and strategic principles
- Waitaha Group Holdings Limited (WGHL) strategic direction – vision and long-term objectives
- Investment principles
- Investment policies – target return, distribution policy, capital allocation and debt policy
- Strategic implementation – key focus areas
- Risk Management
- Investment strategy and policy review
- 10-year implementation plan
- Investment matrix for assessing investments within SIPO asset allocation framework

1.2. Waitaha Group Holdings Limited Responsibilities

- Identify and recommend the appointment of non-trustee directors for approval by TKOW
- Annual Plan and development and ongoing reporting of the SIPO to TKOW
- Final SIPO and future amendments must be approved by the Board of TKOW
- Regular monitoring of the performance of WGHL management, including investment performance and compliance with the SIPO
- Identifying and assessing any investment proposals and recommending any that meet the definition of a major investment to TKOW for approval
- Reporting to TKOW on a quarterly and annual basis
- Reporting and communicating to TKOW, on the performance and plans of WGHL
- Reporting and communicating to TKOW in a manner that allows it to assess whether WGHL is responsibly investing in a manner that protects the mana and reputation of TKOW.

## 2. Group Structure



## 3. Te Kapu Ō Waitaha Strategic Context

This investment strategy and its implementation by WGHL will be guided by TKOW's long-term objectives outlined below.

### 3.1. Te Kapu Ō Waitaha Vision

*“Ruia he kākano ka tupu, ā konei nga hua. Āpopo he ngāherere ora!”*

### 3.2. Te Kapu Ō Waitaha Mission

*“To deliver on Trust strategic commitments in a manner that successfully benefits Waitaha whanau, iwi”*

### 3.3. Te Kapu Ō Waitaha Values

*“Protect, preserve, and promote the health, wealth, and wellbeing of Waitaha”*

## 4. Te Kapu Ō Waitaha Values

Te Kapu Ō Waitaha are guided by;

### 4.1. Tikanga

- Waitaha tikanga underpins the decisions as an integral responsibility of the Board and its' employees

### 4.2. Mana

- A high degree of personal integrity and ethical behaviour to all Board decisions

### 4.3. Kaitiaki

- The Board will pursue knowledge and ideas that support what Waitaha value most

## 5. Waitaha Group Holdings Strategic Direction

Guided by TKOW values above, WGHL purpose and long-term strategic objectives are set out below.

### 5.1. Purpose

***“Create wealth to grow opportunities for Waitaha”***

### 5.2. Long-term Objectives

5.2.1. WGHL has the following long-term goals:

- **Commercial Excellence** – achieve leading sector risk-adjusted returns on investment in areas where Waitaha can excel
- **Sustainable Growth** – achieve continual long-term asset and distribution growth via investment returns
- **Leadership** – lead and exert rangatiratanga through successful performance

## 6. Investment Principles

### 6.1. Disciplined Approach

WGHL will take a long-term commercially disciplined approach to its investment decisions and will only invest in the right opportunities and will only invest where it believes it can generate appropriate risk-adjusted returns on capital.

### 6.2. Focus on Direct Investment

Direct investment involves allocating capital directly into assets and taking a more active role in the management of asset returns. This is distinguished from investing with external fund managers who perform this investment role.

6.2.1. Direct investment will be focused on areas where WGHL enjoys a competitive advantage and/or access to:

- Achieve preferential returns over utilisation of externally managed funds
- Better grow a local footprint / prominence and connect with iwi members

- Build relationships with other key entities such as the Crown and affiliated iwi, that can contribute to the long-term success of TKOW.

6.2.2. Direct investment is more complex and requires capability and this will drive implementation models including use of partners and timelines for investment. The policy governing WGHL direct investment process is discussed further below.

### 6.3. Partnership Approach

WGHL will seek to partner with other like-minded entities, enabling access to a greater range of investment opportunities and to larger scale investments which are more likely to have the required quality of structure, governance and management.

### 6.4. Balanced Portfolio

WGHL will seek a balanced portfolio that generates the necessary cash flow to sustain good practice dividends but also provides for long-term capital growth

### 6.5. Be a Responsible Investor

WGHL will uphold and promote TKOW values and strategic principles in its investment practices, particularly in relation to cultural, social and environmental responsibilities.

### 6.6. Sector Approach

WGHL will consider a sector approach to investing insuring competitive advantage and building of core strengths not limited to these sectors;

- Property
- Horticulture and Agriculture
- Tourism

## 7. Investment Policies and Approach

### 7.1. Target Return Policy

Long-term (10-year) target return

7.1.1. To achieve long-term sustainability of cash yield and growth, WGHL has determined a long-term total investment return target of 7.0% comprising:

- Net Operating Profit before tax Return on Equity of 4.5%
- Growth in Equity (capital return) of circa 2.5%

Short-term (5-year) target return

7.1.2. Given the relatively recent settlement timing, WGHL assets are predominantly held in land with a defensive bias until it develops and implements its direct investment

strategy. WGHL short-term, 5-year total investment return target on average, is therefore lower at 6.0% comprising:

- Net Operating Profit before tax Return on Equity of 3.5%
- Growth in Equity (capital return) of circa 2.5%

The undertaking of any investment proposals that constitute a major transaction in accordance with TKOW Charter (pg6) requires the prior approval of TKOW or it's beneficiaries as outlined below;

- The acquisition of, or an agreement to acquire, whether contingent or not, Property by that member of the TKOW group, the value of which is more than half the value of the trust's asset before acquisition; or
- The disposition of, or an agreement to dispose of whether contingent or not, property by that member of the TKOW group the value of which is more than half the value of the trust's assets before disposition; or
- A transaction that has or is likely to have effect of that member acquiring rights or interests or incurring obligations or liabilities the value of which is more than half the value of the Trust's assets before the transaction; or
- The disposition of any schedule lands meaning those parcels of land resolved by unanimous resolution of Trustees to be of special character and cultural value that they are to be deemed included in the fifth schedule of TKOW charger from time to time, and are not to be disposed of or removed from the fifth schedule without a special resolution of the registered members of the Trust.

## 7.2. Distribution Policy

### Long-term policy

7.2.1. In the long-term, WGHL will target annual distributions of between 1.5% and 2% per annum of equity market value

7.2.2. Distributions will be subject to a cap of 50% of Net Operating Profit before tax

### Short-term (5-year) distributions

7.2.3. In the short-term, the proposed distributions to TKOW over the following-years are as follows:

Year	\$Distribution	Projected % equity	Projected % Net Operating Profit
2019	• \$500,000	1.70%	57%
2020	• \$500,000	1.60%	50%
2021	• \$500,000	1.60%	47%
2022	• \$653,000	2.00%	56%
2023	• \$676,000	2.00%	53%

7.2.4. The above distributions are based on the assets held within WGHL. A value breakdown is provided in **Appendix 2**

7.2.5. The above annual distribution has been projected on the basis of financial sustainability from 2019, and then increased by 2% per annum for each of the following years through to 2023. As highlighted in the table, overtime the distributions track towards WGHL long-term policy distribution targets – 50% cap of Net Operating Profit before tax.

### 7.3. Asset Allocation Policy

7.3.1. To facilitate WGHL managing both its short-term distribution obligations and long-term growth return targets, asset investments are classified into the following categories:

Asset Category	Asset Characteristics	Asset Examples
Income Assets	Dependable income stream, with low volatility	Cash / term deposits
	Low capital growth	Managed income funds
		Commercial property leases Crown leases (schools)
Operating / Growth Assets	Income has material volatility and good capital growth	Managed growth funds
		Tourism
		Land-based agribusiness
		Property development
Long-term Growth Assets	Limited income expected in short to medium term	Land-banking
	Strong capital gain but over medium to long term	Forestry
		Managed Private Equity and Venture Capital Funds

7.3.2. WGHL will seek to allocate investment assets consistent with the following overall portfolio allocation targets:

Asset category	Target Portfolio Allocation
Income Assets	40% - 60%
Growth Assets	20% - 40%
Long-term Growth Assets	10% - 20%

7.3.3. These targets will act as a 5-year guide, and annual plans will be utilised to stress test and ensure the dividend is sustainable. The business case process for acquisitions will also include updating the impact on asset allocation guidelines, long run (normalised for long run expectations) net operating profit and worst-case scenario testing

## 7.4. Direct Investment Policy

7.4.1. Direct investments are those investments where WGHL or its investment partners has direct influence over investment governance / management. These investments are contrasted from passive investments, which are managed by an external asset manager. WGHL will implement rigorous investment and management processes for any direct investment ensuring it utilises appropriate skills and experience and undertakes extensive research and due diligence on the investment opportunity. This will include:

1. Developing a strong understanding of the long-term attractiveness of the sector
2. Preliminary screening of opportunities against the principles / criteria of this investment strategy / policy including strategic alignment with TKOW long-term strategy, including values and strategic principles
3. Initial high-level investigation / feasibility review of opportunity
4. Presentation of opportunity to WGHL Board for approval to progress to due diligence
5. Comprehensive due diligence including:
  - Valuation and assessment against hurdle return rate
  - Investment structuring
  - Robust operational management plan i.e. in-house, joint venture / partner, contracted specialist support
  - Ensure adequate experienced and expert governance and management capability
  - Risk review
  - Exit strategy or deadlock provisions (if in partnership)
6. Presentation of comprehensive business case and due diligence to WGHL Board for approval

## 7.5. Investment in Passive Investment Asset Classes

7.5.1. Investments in externally managed funds will be monitored and allocated prudently. This will include ensuring that fund managers and funds are regulated, best in class and that allocations are market condition appropriate including monitoring:

- Fund size (redemptions)
- Asset allocation



- Exposure levels by credit rating, issuer and market
- Key management changes
- Annual performance against reference portfolio and against risk-comparable competitor funds
- Fees and costs disclosures
- Conflicts of interest disclosures

7.5.2.WGHL shall not place more than 50% of its total net assets with one asset manager.

## 7.6. Debt Policy

7.6.1.Debt levels will be determined on an asset (or asset category) case by case basis. There is no target debt level but total debt across all underlying assets must always be below 25% of the market value of assets.

7.6.2.Debt cannot be utilised to invest in externally managed portfolio fund investments.

7.6.3.Debt can be utilised for direct investments at individual asset class level (without guarantee back to WGHL) and the appropriate level of debt will be determined on a case by case basis taking account of:

- WGHL existing capital structure and short to medium term capital requirements
- Commercially appropriate debt levels for that asset class and industry
- Impact of asset's capital structure on WGHL operating cash flow volatility and cover for distributions and interest payments

7.6.4.Where possible, debt will be held on a non-recourse basis, secured by specific assets, consistent with this policy.

## 7.7. Foreign Currency Policy

7.7.1.Holdings of offshore fixed interest (bonds) are to be at least 80% hedged back to NZ dollars at all time. WGHL will not make speculative foreign exchange or commodity derivate transactions.

7.7.2.Any deviation from the preferred hedging level will require the Board's approval.

# 8. Strategic Implementation – Key Focus Areas

## 8.1. Build Portfolio of High Quality Direct Investments

WGHL long-term goal will be to build a portfolio of circa 5 – 10 high quality direct investments of up to \$5m equity value each, developed and invested on a disciplined staged basis over the coming 5 – 10 years. This will be modelled against an approved Investment Matrix and Framework.

WGHL initial focus on direct investment opportunities will be where it has competitive advantages that have non-complex operating management capability requirements or where this capability can be accessed easily from partners.

## 8.2. Manage Externally Managed Funds, Reducing Weighting Overtime to Finance Direct Investments

8.2.1. WGHL will remain an investor in externally managed funds and monitor funds and allocation prudently

8.2.2. Overtime WGHL will reduce its holding in externally managed funds to finance its direct investments in accordance with this investment strategy and matrix.

## 8.3. Develop Investment Relationships

8.3.1. WGHL will develop investment relationships and seek to partner with other like-minded entities, enabling access to a greater range of investment opportunities and larger scale investments which are more likely to have the required quality of structure, governance and management.

8.3.2. Examples of potential aligned investors with whom WGHL will continue to build relationships (without any type of formal commitment) and may include:

- Other iwi
- Quayside Holdings
- Te Tumu Paeroa/ the Māori Trustee
- Other Māori partners
- Major commercial operators and advisors
- Central (provincial growth fund)  
Local Government

## 8.4. Build Capability

### 8.4.1. Investment excellence

WGHL is focused on investment excellence, which requires being rigorously commercial and agile, with strong, efficient processes and governance in place. To this end, WGHL will continuously review its core investment and governance processes, including:

- a) Governance framework, including shareholder agreement, financial delegated authorities and board / trustee governance reporting
- b) Investment strategy and policies
- c) Treasury management
- d) Operational performance and cost efficiency – benchmarked against best practice.

## 9. Risk Management

- 9.1. WGHL assets are exposed to different investment risks that may lead to variations in the actual versus expected returns. The key risks applying to WGHL are outlined in **Appendix 1** together with mitigation strategies to reduce potential negative effects. The management of these risks constitutes a core part of WGHL ongoing investment operations. The risks in the table and associated mitigation strategies will also be formally reviewed as part of the review of this investment strategy / policies document.
- 9.2. In addition to the specific mitigations listed in Appendix 1, WGHL overall investment risk profile is managed through portfolio diversification consistent with the asset allocation policy set out above.
- 9.3. As part of the assessment and approval of new asset investment opportunities, the impact of material investments to the overall asset portfolio allocation will be modelled to verify that sufficient asset and operating cashflow diversification is maintained to sustain distributions, including under downturn scenarios

## 10. Investment Strategy and Policy Review/ Approval

- 10.1. This investment strategy and policy has been approved and adopted by the board of WGHL and approved by the trustees of TKOW.
- 10.2. Any and all changes to this policy must be made at the request of the board of directors of WGHL and approved by the Board of TKOW.
- 10.3. At a minimum the SIPO will be formally reviewed and represented for approval within three years of the last approval.
- 10.4. Any anticipated change to the SIPO will be communicated on a no surprises basis to trustees.

## APPENDIX 1: KEY RISKS & MITIGATION PLAN

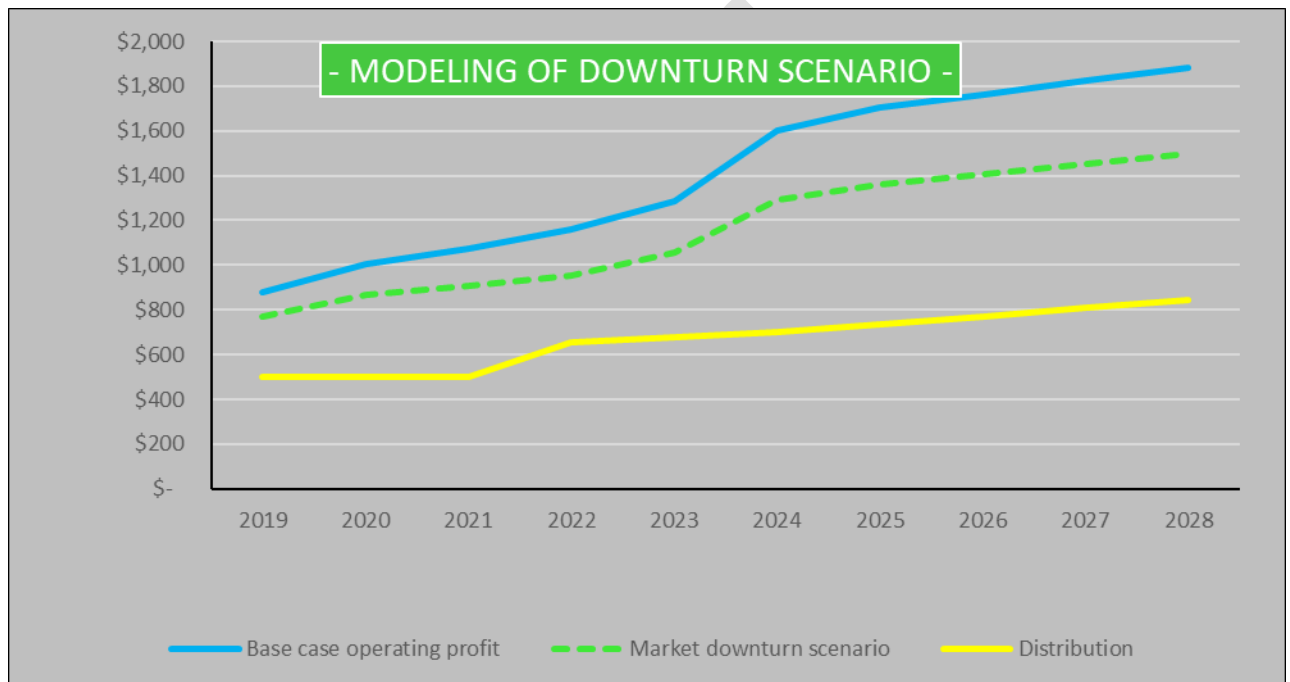
Risk	Description	Mitigation
Market volatility	The risk that the investments will decrease in value with general market movements over the short- term.	Investments are diversified, long-term focus. Operating cash levels are managed to make the need to realise an investment remote.
Market downturn risk	The risk that the markets suffer a severe and prolonged period of negative performance.	Due diligence. Portfolio diversification. Invest in markets with strong long-term prospects. Initial investments weighted towards traditional hard asset.  Cash levels are set to ensure that investments are not required to be liquidated to meet operational requirements meaning that any temporary reduction in values is not realised.  The Board seeks specific independent advice on market outlook to aid decision making.
Operational risk	The risk that a component of operations will lead to operational / reputational loss	Ensure governance representatives have a strong commercial background. Regular reporting back TKOW Board / trustees
Key Person / Management Risk	The risk that a key person in the operation of the business, including a business partner leaves reducing the earning capability or prospects of the	Due diligence. Partnering to ensure invest in scale with strong management
Timing Risk	The risk that investments are made as the market is about to fall, or sold as the markets are about to rise.	Due diligence / diversified portfolio / long-term focus in markets with strong long-term prospects / treasury management / flexible investment & exit strategies to avoid market slumps where possible
Re-investment risk	The risk that at the time an investment matures, interest rates have fallen preventing the capital to be re-invested at the same yield	Investments are structured to maximise diversification by duration and minimise the level of investments that mature at any point in time
Default risk	The possibility that an issuer of a bond / deposit will fail to make a principal and/or interest payment in a timely manner on the due date.	Bond / deposit investments are restricted to investment grade or better, or its equivalent. Investments are diversified over a range of companies, industries and maturities. Exposure to any one issuer is limited.
Interest rate risk	The risk that the value of a bond will temporarily decrease in value as a result of a rise in interest rates.	Bond holdings are diversified by maturity date. At least some of the investment in bonds will be held to maturity, meaning temporary decreases are unrealised.
Currency risk	The risk that changes in exchange rates will reduce the value of the assets.	A limit is placed on the level of unhedged holdings in foreign currency.
Manager risk	The risk that the discretionary active decisions of a single adviser prove to be wrong of that the manager fails	The exposure to any single adviser is limited through a choice of fund managers with robust systems and scale Assets are held separate to the adviser's own assets under trust i.e. no co-mingling of funds
Debt servicing risk	The possibility that returns from the investment OR movements in interest rates, expiry of swaps or other debt instruments mean any debt funding of the investment is no longer covered by the underlying returns.	Debt policy, with debt threshold restrictions / policies to manage risk. Debt structuring and matching debt to income streams Well balanced portfolio with mix of debt and equity funded investments. Insolvency remoteness. Budgeting for market movements and cashflow under downturn scenario

## APPENDIX 2: FINANCIAL PROJECTIONS

Summary of Financial Projections								
CASH FLOW		Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
<b>Income Assets</b>								
Interest		\$ 137	\$ 144	\$ 154	\$ 165	\$ 114	\$ 146	
Income funds		\$ 550	\$ 308	\$ 213	\$ 66	\$ 67	\$ 72	
Investment property		\$ 179	\$ 306	\$ 370	\$ 436	\$ 503	\$ 605	
Other income assets		\$ -	\$ 175	\$ 213	\$ 286	\$ 360	\$ 528	
<b>Income from Income Assets</b>		<b>\$ 866</b>	<b>\$ 933</b>	<b>\$ 950</b>	<b>\$ 953</b>	<b>\$ 1,044</b>	<b>\$ 1,352</b>	
<b>Growth Assets</b>								
Growth funds		\$ 210	\$ 148	\$ 154	\$ 161	\$ 167	\$ 348	
Horticulture		\$ -	\$ 125	\$ 179	\$ 234	\$ 241	\$ 280	
Other primary sector		\$ -	\$ -	\$ -	\$ 25	\$ 51	\$ 142	
Other growth assets		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
<b>Income from Growth Assets</b>		<b>\$ 210</b>	<b>\$ 273</b>	<b>\$ 333</b>	<b>\$ 420</b>	<b>\$ 459</b>	<b>\$ 769</b>	
<b>Total net asset earnings</b>		<b>\$ 1,076</b>	<b>\$ 1,206</b>	<b>\$ 1,283</b>	<b>\$ 1,373</b>	<b>\$ 1,503</b>	<b>\$ 2,121</b>	
<b>Corporate overhead</b>		<b>\$ (200)</b>	<b>\$ (204)</b>	<b>\$ (208)</b>	<b>\$ (212)</b>	<b>\$ (216)</b>	<b>\$ (239)</b>	
<b>Net Operating Profit before Tax</b>		<b>\$ 876</b>	<b>\$ 1,002</b>	<b>\$ 1,075</b>	<b>\$ 1,161</b>	<b>\$ 1,286</b>	<b>\$ 1,882</b>	
<b>Net Operating Profit Return on Equity</b>		<b>3.0%</b>	<b>3.3%</b>	<b>3.4%</b>	<b>3.6%</b>	<b>3.8%</b>	<b>4.5%</b>	
<b>Total Investment Return</b>		<b>5.5%</b>	<b>5.7%</b>	<b>5.8%</b>	<b>6.0%</b>	<b>6.2%</b>	<b>7.1%</b>	
<b>Distribution - TKOW</b>		<b>\$ 500</b>	<b>\$ 500</b>	<b>\$ 500</b>	<b>\$ 653</b>	<b>\$ 676</b>	<b>\$ 845</b>	
<b>Distribution % of equity</b>		<b>1.7%</b>	<b>1.6%</b>	<b>1.6%</b>	<b>2.0%</b>	<b>2.0%</b>	<b>2.0%</b>	
<b>Distribution % of Operating Profit</b>		<b>57%</b>	<b>50%</b>	<b>47%</b>	<b>56%</b>	<b>53%</b>	<b>45%</b>	
BALANCE SHEET		Opening	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10
<b>Income assets</b>								
Cash deposits		\$ 4,570	\$ 4,793	\$ 5,120	\$ 5,506	\$ 3,811	\$ 2,196	\$ 5,576
Income funds		\$ 11,000	\$ 6,165	\$ 4,257	\$ 1,321	\$ 1,341	\$ 1,361	\$ 1,466
Investment property		\$ 2,560	\$ 5,098	\$ 6,175	\$ 7,267	\$ 8,377	\$ 9,502	\$ 10,237
Other income assets		\$ -	\$ 2,500	\$ 3,038	\$ 4,083	\$ 5,144	\$ 6,221	\$ 6,702
		<b>\$ 18,130</b>	<b>\$ 18,556</b>	<b>\$ 18,590</b>	<b>\$ 18,178</b>	<b>\$ 18,673</b>	<b>\$ 19,281</b>	<b>\$ 23,981</b>
<b>Growth assets</b>								
Growth funds		\$ 6,000	\$ 4,240	\$ 4,410	\$ 4,586	\$ 4,769	\$ 4,960	\$ 6,035
Horticulture		\$ -	\$ 2,500	\$ 3,575	\$ 4,682	\$ 4,823	\$ 4,967	\$ 5,759
Other primary sector		\$ -	\$ -	\$ -	\$ 500	\$ 1,015	\$ 1,545	\$ 2,917
Other growth assets		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
		<b>\$ 6,000</b>	<b>\$ 6,740</b>	<b>\$ 7,985</b>	<b>\$ 9,768</b>	<b>\$ 10,607</b>	<b>\$ 11,473</b>	<b>\$ 14,711</b>
<b>Long-term growth assets</b>								
Long-term growth assets		\$ 5,155	\$ 5,016	\$ 4,867	\$ 4,708	\$ 4,537	\$ 4,355	\$ 5,549
		<b>\$ 5,155</b>	<b>\$ 5,016</b>	<b>\$ 4,867</b>	<b>\$ 4,708</b>	<b>\$ 4,537</b>	<b>\$ 4,355</b>	<b>\$ 5,549</b>
<b>Total assets / equity</b>		<b>\$ 29,285</b>	<b>\$ 30,312</b>	<b>\$ 31,441</b>	<b>\$ 32,654</b>	<b>\$ 33,817</b>	<b>\$ 35,108</b>	<b>\$ 44,241</b>
KEY METRICS		Opening	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10
Net Operating Profit ROE			3.0%	3.3%	3.4%	3.6%	3.8%	4.5%
Total Return %			5.5%	5.7%	5.8%	6.0%	6.2%	7.1%
<b>Investment portfolio mix (equity):</b>								
- Income Assets		62%	61%	59%	56%	55%	55%	54%
- Growth Assets		20%	22%	25%	30%	31%	33%	33%
- Long-term Growth Assets		18%	17%	15%	14%	13%	12%	13%

### APPENDIX 3: SCENARIO MODELING – DOWNTURN

SCENARIO MODELLING										
Current base case										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Net Operating Profit	\$ 876	\$ 1,002	\$ 1,075	\$ 1,161	\$ 1,286	\$ 1,604	\$ 1,707	\$ 1,764	\$ 1,822	\$ 1,882
Net Operating ROE	3.0%	3.3%	3.4%	3.6%	3.8%	4.6%	4.6%	4.6%	4.5%	4.5%
Current downturn margin scenario										
Net Op Profit - downturn	\$ 772	\$ 866	\$ 908	\$ 951	\$ 1,057	\$ 1,293	\$ 1,360	\$ 1,405	\$ 1,450	\$ 1,497
Net Op ROE - downturn	2.5%	2.8%	2.8%	2.8%	3.0%	3.5%	3.5%	3.5%	3.4%	3.4%
Distribution	\$ 500	\$ 500	\$ 500	\$ 653	\$ 676	\$ 702	\$ 736	\$ 771	\$ 808	\$ 845



## APPENDIX 4: PORTFOLIO ALLOCATION PROJECTIONS

