

# WEL Energy Trust

## Statement of Investment Policy and Objectives

Adopted by the Trustees with effect from February 28 2017

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# 1. Introduction

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## **About the WEL Energy Trust**

WEL Energy Trust (“the Trust”) was formed in 1993 and continues until 2073 unless terminated sooner. It was established for the benefit of its capital and income beneficiaries and is governed by a Trust Deed effective from May 26, 1993.

## **Purpose of the WEL Energy Trust: Growing investment for our community**

‘Growing investment for our community’ is an appropriate interpretation of the purpose of the Trust under the Trust Deed. This involves taking a balanced view of intergenerational benefit which relates to investment in the community in the present, over the life of the Trust, as well as of the capital value of the Trust’s asset at the termination of the Trust.

## **Purpose of the SIPO**

The purpose of this Statement of Investment Policy and Objectives (“SIPO”) is to provide all parties involved in the investment management of the WEL Energy Trust (“the Trust”) with guidance on how the assets of the Trust are to be managed. It sets out the investment governance and management framework, philosophy, strategies and objectives of the Trust. The SIPO covers the following areas:

- Governance: the responsibilities in the investment process of the various parties
- Investment objectives
- Investment beliefs
- Investment strategy and Implementation
- Risk management
- Review and monitoring procedures

## **Effective date**

This SIPO takes effect from  
February 28, 2017.

## 2. Governance

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The Trustees' powers and discretions are defined in the Trust Deed.

The consequent responsibilities of the various parties currently involved in the management of the Trust's assets are outlined below. The assets of the trust are split into three parts:

- Core infrastructure holding (WEL Networks Limited)
- The Investment Portfolio (financial investments)
- Mission Related Investments (investments with social and financial objectives)

### 2.1 Trustees

#### 1. Governance

- i) Establishing the SIPO and reviewing the SIPO on an annual basis.
- ii) Ensuring the SIPO is adhered to.
- iii) Appointing and regularly reviewing the appointment of all external parties identified in this SIPO.
- iv) Performing such audits of the processes and controls of the investment manager and the core infrastructure holding as they feel is necessary for them to obtain assurance that the Trust's assets are being managed appropriately.
- v) Monitoring the investment results in line with the criteria defined in this SIPO, in order to determine whether the Investment Manager has performed satisfactorily relative to the objectives.
- vi) Approving the funds and strategies offered or proposed by the Investment Manager, having regard to their broad parameters and structural features.
- vii) Advising the Investment Manager and other relevant parties (including some that may not be listed in this SIPO) of any material changes to either or both the design and operation of the Trust which could affect their role.
- viii) Communicating the results of the Trust's performance to the community.

#### 2. Investments

- i) Establishing the investment objectives of the Trust and ensuring these remain appropriate.
- ii) Establishing and reviewing the Strategic Asset Allocation ("SAA").
- iii) Establishing and reviewing the investment beliefs.
- iv) Establishing benchmarks against which performance will be monitored.
- v) Establishing the rebalancing policy, having regard to the levels of risk that are appropriate.

- vi) Establishing and reviewing a comprehensive work plan for managing the Trust's investment portfolio.

## **2.2 Investment Manager**

The Investment Manager of the Trust's investment portfolio is to be appointed by the Finance Subcommittee, and reviewed annually.

1. Advising the Trustees on all matters contained in the section 2.1.2, Investments, above.
2. Advising the Trustees of any changes that may affect the way that the Trust's investment portfolio is or should reasonably be invested.
3. To the extent possible, offering funds or advising on suitable third party products for each applicable asset class, consistent with the fundamental strategy determined by the Trustees.
4. In its sole discretion, appointing underlying fund managers utilised by the funds and undertake ongoing monitoring of the agreements and mandates with the underlying managers.
5. Conducting operational due diligence on the underlying fund managers.
6. Maintaining the actual asset allocations of the investment portfolio within the specified rebalancing ranges in accordance with the rebalancing policies set out in the SIPO.
7. Performing efficient implementation of any fund manager and asset class transitions.
8. Presenting its research on investment strategy, as applicable.
9. Providing quarterly reporting to the Trustees, covering general market commentary, asset allocations and returns (actual and benchmark) in a format agreed with the Trustees.
10. Participating with the Trustees in the regular review of the SIPO.

## **2.3 Trust Manager**

1. Providing details of monies available for investment in the investment portfolio or funding requirements to the Investment Manager from time to time.
2. Investing or divesting from the funds/third party products as instructed by the Investment Manager from time to time.

## 3. Investment objectives

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### **Core infrastructure holding**

The investment objective of the investment portfolio is to

- Provide a long-term return that exceeds inflation by a percentage to be determined during 2016/17 through consultation with the company and as part of the Trust's 5 year strategic planning process.
- While keeping the risk of a reduction in the value of the investment by more than 20% to a minimum. This level of risk is to be reviewed annually in concert with the investment in the Company.

### **Investment Portfolio**

The investment objective of the Investment Portfolio is to

- Provide a long-term net return that exceeds inflation by 1.75%.
- While keeping the risk of a reduction in the value of the investment by more than 20% to a minimum.

The return objectives are expressed net of tax and investment fees. The risk and return parameters may vary over time as economic conditions change.

See Appendix A for further information on the performance expectations for the assets.

### **Mission Related Investments**

The investment objectives of the Mission Related Investments, such as social loans and impact investments are to be developed by the Trust with support from the Investment Manager.

## 4. Investment beliefs

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The Trustees' investment beliefs guide the investment of the Trust's assets and, together, constitute the investment philosophy of the Trust. The Trustees' beliefs are grouped in two sections:

1. Beliefs related to the Trust's ownership of WEL Networks Limited; and
2. Beliefs about investing more generally.

These investment beliefs represent a set of propositions that, while they cannot be proven, reflect current investment theory, individual investment experience and personal judgment.

### **Beliefs regarding WEL Networks Limited**

#### ***Success of the company***

The company is a successful business if it

- Is as profitable and efficient as comparable businesses that are not owned by the Crown; and
- Is a good employer; and
- Exhibits a sense of social responsibility by having regard to the interests of the community and by endeavouring to accommodate or encourage those interests when able to do so.

#### ***Controlling interest***

It is not necessary for the Trust to be the 100% shareholder of the Company in order for it to be a successful business. However, the Trustees believe that retaining a controlling interest in the Company is beneficial in ensuring the Company retains a strong sense of social responsibility.

Trustees must ensure that they receive an adequate flow of timely information to enable them to make use of their controlling interest in the Company.

#### ***Non-core business***

With emerging technologies, it is prudent for the Trust to support new market opportunities with an 'eyes open' approach, to ensure the company can maximise development opportunities. However, diversification by the company into other infrastructure assets is not the same as the Trust holding a diversified investment portfolio.

### **Investment Beliefs**

#### ***Governance***

Governance should ensure alignment of interest between the Trust and the managers of its assets. A good and prudent process that avoids emotional decisions will help to maintain public confidence. The Trustees' role is strategic in nature and entails oversight rather than selecting individual securities and projects.

#### ***Strategic Asset Allocation***

The Strategic Asset Allocation is the key determinant of whether or not investment objectives are achieved. A prudent Strategic Asset Allocation cannot be determined with a purely quantitative approach.

### ***Risk***

Risk is multi-faceted and cannot be expressed in a single measure. Investors with a long-term focus can manage risk with greater success.

The Trust has an obligation to operate efficiently to balance risk and return in its investment portfolio. Low risk does not necessarily equal prudent investment.

### ***Diversification***

Diversification allows risk to be mitigated and spread across a range of factors. However, there are limits to diversification given the costs involved and scenarios in which it may be less effective.

A diversified investment strategy will help ensure the sustainability of the Trust for the benefit of the beneficiaries in the long term.

### ***Market timing***

Market timing is not a reliable way of investing, as, in the short term, returns are largely unpredictable. Staying invested in the market with a disciplined approach is a more rewarding investment strategy.

### ***Currency***

Currency exposures must to be considered as part of the strategic asset allocation.

### ***Liquidity***

Concentration of illiquid assets must be managed to ensure sufficient availability of cash to meet the Trust's expectations.

### ***Environmental, Social and Governance (ESG)***

Engaging as long term owners with a focus on sustainability and good corporate governance reduces risk over time and may positively impact returns. Given their strategic role the Trustees will often not be able to engage directly but should ensure that the managers of the Trust's assets are.

Responsible Investors must have concern for environmental, social and governance factors because they are material to long-term returns.

### ***Mission Related Investment***

Mission Related Investments have a focus on creating positive social or environmental impacts in the Trust's community. They may individually and collectively not reflect the Trustees' other investment beliefs, for example, with regard to risk and diversification. This is acceptable provided that any Mission Related Investments represent a small portion of the total portfolio of the Trust.

## 5. Investment strategy and Implementation

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### Asset Allocation

The Trustees, having taken advice from the Investment Manager, set the investment strategy based on the objectives outlined in section 3 and the investment beliefs covered in section 4.

The investment strategy is expressed as an overall strategic asset allocation (SAA) and as a strategic asset allocation for the investment portfolio. It includes a currency hedging policy.

#### Overall Allocation

Asset Type	Target allocation
Core infrastructure holding	80-99%
Investment Portfolio	1-20%
Mission Related Investments	1-5%

The core infrastructure holding currently comprises the following:

- 100% holding in WEL Networks Limited

The Investment Portfolio will comprise of the following asset classes

- Global equities (predominantly, shares listed on recognised stock exchanges throughout the world), and
- Global fixed interest (predominantly, medium- to long-term debt securities issued by governments and corporates throughout the world).

The Mission Related Investments will comprise

- Up to \$2 Million in 'Impact Investing' or 'Mission Related Investment' in the form of Community Loans, but this may include other investments that seek to generate a positive social or environmental impact consistent with the Trust's mission in addition to providing a financial return.

### Strategic Asset Allocation (SAA) of the Investment Portfolio

The SAA of the Investment Portfolio is based on the objectives of the Trust and on advice provided by the Investment Manager.

Asset class	Strategic allocation
Global equities	50%
<b>Total growth assets</b>	<b>50%</b>
Global fixed income	50%
<b>Total income assets</b>	<b>50%</b>

### **Performance Benchmarks**

The Trustees have adopted the asset class performance benchmarks set out in Appendix A.

### **Currency Hedging Strategy**

Investing in offshore assets introduces foreign currency risk, which can be mitigated through currency hedging. The Trustees' currency hedging policy is to have a target hedging ratio of 100%, which means that currency movements should have a minimal impact on the value of the investment portfolio when measured in New Zealand dollars. The actual foreign currency position may deviate due to market drift and active management by the asset class managers.

### **Active Asset Allocation**

The Trust does not look to deviate tactically from the SAAs shown above.

### **Approach to Investment Management in the Investment Portfolio**

The Trustees have outsourced the appointment of asset class managers to the Investment Manager. This means that upon agreement of the SAAs with the Trustees, the Investment Manager appoints the asset class managers it considers to be best placed to execute the strategy.

## 6. Risk management

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### Rebalancing

The following rebalancing ranges around the target asset allocations apply:

<b>Asset class</b>	<b>Rebalancing range</b>
Global equities	± 3%
<b><i>Total growth assets</i></b>	<b>± 3%</b>
Global fixed interest	± 3%
<b><i>Total income assets</i></b>	<b>± 3%</b>

Rebalancing will be formally assessed at the end of each calendar quarter. In the case of strong market movements, the Investment Manager may increase the frequency of rebalancing.

### Gearing

The Trust does not borrow at a total portfolio level, or within the Investment Portfolio, against its assets.

### Diversification

An appropriate level of diversification across securities, sectors, asset classes and countries must be maintained in the Investment Portfolio.

## 7. Review and monitoring procedures

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### **General policy**

All aspects of the investment process and all external parties involved will be reviewed by the Trustees on a regular basis (at least every 3 to 5 years).

### **SIPO**

The SIPO will be reviewed no less frequently than annually, or sooner if appropriate due to events including but not limited to material changes in: overall allocation, strategic asset allocations, relevant government policy, the Trust's governance model, the parties to this SIPO or market conditions.

Any changes to the SIPO must be approved via ordinary resolution by the Trustees.

### **Investment strategy**

The SAAs are to be reviewed, in principle, every three years, or more frequently if there are significant changes to the economic and commercial environment. In principle these reviews should align with the three-yearly revaluation of the core assets of WEL Networks Limited.

The Trustees will conduct the review in the context of advice received from the Investment Manager and will take into account any changes to relevant government policy, or market conditions.

Any changes to the SAAs must be approved via ordinary resolution by the Trustees.

Any changes related to the core infrastructure holding must be communicated to the Governance Board of the holding prior to resolution.

### **Investment Manager**

The Investment Manager's rolling 3-year performance will be regularly assessed:

- at the overall investment portfolio level; and
- at an asset class level.

The performance benchmarks and outperformance targets set down in Appendix A will serve as a guide in this process.

### **Performance report**

The Investment Manager prepares a performance report every quarter for the attention of the Trustees. The report consolidates asset values in the Investment Portfolio and details the performance at both asset class and total portfolio levels.

## Appendix A: Performance benchmarks and outperformance targets

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### Core infrastructure holding

Performance benchmarks will be determined in consultation with the Company as part of the 2016/17 Review of the investment in WEL Networks.

### Investment portfolio

Russell Investments is the Investment Manager and is mandated by the Trust to manage the strategies and products in the different asset classes in line with the investment strategy. The performance benchmarks and outperformance targets of the products and strategies are set down in the table below.

Asset class	Benchmark	Outperformance target % p.a.	Tracking error % p.a.	Timeframe
Global equities	Russell Global Large Cap Index, \$NZ hedged	2	3-4	3 years
Global fixed interest	Barclays Global Aggregate Index \$NZ hedged	1	1.75	3 years

### Mission Related Investments

Performance benchmarks for Mission Related Investments are to be developed with regard to the specific investments under consideration.