

WEL Energy Trust

Statement of Investment Policy and Objectives



Adopted by the Trustees with effect from 22 August 2023

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1. Introduction

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: Ensuring WEL Networks is a successful business and 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.

In 2022 the Trust adopted a new Community Investment Strategy. The intention is that all dispositive decisions, both philanthropic and of an investment nature, are aligned with those of the UN’s Sustainable Development Goals that the Trust has chosen to focus on.

WEL Energy Trust is an active owner of WEL Networks Limited, imposing and monitoring ESG-based targets on the company. It currently applies a “responsible investor” filter to both its investment in the company and to its portfolio of non-core investments.

The Trust has intentionally moved away from the typical (and more traditional) grant/investment dichotomy. It sees its role in its Community, the Community Trust and Energy Trust communities as facilitating and illustrating co-ordinated use of different forms of financial capital and non-financial resources to support innovation to realise systemic change – blended value creation.

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 22 August 2023.

2. Governance

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)
- For clarity, Mission Related Investments are divided into two categories: Impact Investments and Concessionary (Social) Impact Investments as defined in section 5.

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 managers 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 managers has/have performed satisfactorily relative to the objectives.
- vi. Approving the funds and strategies offered or proposed by the Investment Adviser, having regard to their broad parameters and structural features.
- vii. Advising the Investment Adviser 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.

2.2 Investment Committee

- i. Advising the Trustees on all matters contained in the section 2.1.2, Investments, above, as related to the financial investment portfolio.
- ii. Establishing and reviewing a comprehensive work plan for managing the Trust's investment portfolio. This includes an annual review of investment in WEL Networks Ltd, review of the financial portfolio and of any Mission Related Investments.
- iii. Advising the Trustees of any changes that may affect the way that the Trust's financial investment portfolio is or should reasonably be invested.
- iv. Providing information on investment consultancy fees for third parties to assist with review of the investments..
- v. Identifying and providing information about investment opportunities and any concerns to the Trust.
- vi. Providing quarterly reporting to the Trustees, covering general market commentary, asset allocations and returns (actual and benchmark) in a format agreed with the Trustees.
- vii. Participating with the Trustees in the regular review of the SIPO and recommending changes to the SIPO.

2.3 Trust Manager / Chief Executive Officer (CEO)

- i. Investing monies available for investment in the investment portfolio and fulfilling funding requirements from time to time.
- ii. Investing or divesting from the funds/third party products as instructed by the Trustees from time to time.
- iii. Working with the investment committee and external advisors to conduct an annual review of the Trust's Investment in WEL Networks Ltd., as per the requirements of the Trust Deed
- iv. Working with the investment committee and external advisors to conduct due diligence on Mission Related Investments, and to ensure appropriate reporting on returns.
- v. Performing efficient implementation of any fund manager and asset class transitions with the support of the Investment Adviser.

2.4 Investment Adviser (Makao Investments Limited)

- i. Strategic advice on governance, asset allocation and manager selection,
- ii. Ongoing quarterly reporting,
- iii. Manager monitoring,
- iv. Rebalancing and cashflow advice.

3. Investment Objectives

Core Infrastructure Holding

The investment objective is to:

- Achieve the objectives set in the Owners Expectation Manual
- Provide a long-term return (before discounts) for the regulated business in line with the regulatory returns available for lines companies in New Zealand.
- For unregulated investments the future return expectations must compensate for the additional risk this creates, unless there are non-financial goals that the Trust requires to be achieved

While keeping the risk of a reduction in the value of the investment in WEL Networks Ltd by more than 20% to a minimum. This level of risk is to be reviewed annually in concert with the investment in the Company.

Financial Investment Portfolio

The investment objective of the Investment Portfolio is to

- Provide a long-term net return that exceeds inflation by at least 4.5%
- While keeping the risk of a reduction in the value of the investment by more than 25% 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 community loans and impact investments are to be developed by the Trust with support from the Finance Subcommittee and Investment Committee and external advisors as appropriate.

Mission related investments will be made in accordance with the Trust's 3-year Community Investment Strategy. The amount to be allocated into Mission Related investment will be reviewed annually by trustees as part of the Annual Planning Process, within the parameters set in this SIPO, and the Trust Deed.

Mission Related investments will have measured risk, return and impact expectations. Where an investment is made to further the Trust's mission that provides a sub-market rate of return, careful consideration will be given to how to offset this shortfall.

4. Investment Beliefs

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

As per the Trust Deed, 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.

The Trust's strategy advocates "*taking a holistic or 'multiple bottom line' approach to investment, with consideration of both profit- related and socially-oriented goals.*" This refers to both social and environmental outcomes. Trustees believe they have a shareholder advocacy role to continue to find ways for the WEL group to positively impact our region, including:

- Successful Company/ Efficient Network
- Electricity Consumer Benefit
- Community Benefit (social and environmental)

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

Intergenerational Equity

The Trust believes that it has to treat current and future generations in the community fairly and will take this into account when making important decision on its investments.

Our core belief is that the best way to achieve “even-handedness” in distributions to different beneficiaries is for community investment to support regional priorities that have broad social and environmental impact.

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.

The Trust’s investment portfolio as a whole (including the core investment in WEL Networks Ltd and any Mission Related investments) should be considered when managing risk.

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 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. Liquidity is a key consideration as the Trust moves towards increasing involvement in Mission Related investments.

Responsible Investing and Environmental, Social and Governance factors (ESG)

Engaging as long-term owners with a focus on sustainability and good corporate governance reduces risk over time and may positively impact 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.

'Prudent' investment and the 'fiduciary duty' do not always require the maximisation of return according to its risk profile for each individual investment. For example, an investment made for the purposes of furthering a Trust's core purposes or strategic programmes that provides a sub-market rate of return may still be prudent if there is careful consideration of the investment and how to offset this shortfall.

5. Investment Strategy and Implementation

Asset Allocation

The Trustees, having taken advice from the Investment Committee and, if required, external parties, 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) for all assets other than the Core Infrastructure Holding. It includes a currency hedging policy.

Overall Allocation

Asset Type	Target allocation
Investment Portfolio	70-90%
Mission Related Investments*	10-30%
<i>*Mission Related Investments exclude Momentum Foundation long term loan</i>	

The core infrastructure holding currently comprises the following, however excluded from the above Asset Allocation:

- 100% holding in WEL Networks Limited

Mission Related Investments include two categories:

1. **Impact Investments** - which give rise to measurable and beneficial societal and/or environmental impact in the Trust's region AND have a reasonable financial return which means they can be considered sound investments within a balanced portfolio. An example in this category might be an investment in organic waste processing for the region with an income return of 5% or community lending with the same return.
2. **Concessionary (Social) Impact Investments** which are investments that:
 - 2.1 have one or a combination of features which means that it does not qualify as a prudent investment as that term is traditionally understood, whether it be due to the risk of loss of capital, a low or nil income return (when compared with a market rate of return based on the risk profile of the investment), an unusually long term for return of capital, low liquidity and/or some combination of the above or some other negative feature; but

- 2.2 measurable and beneficial societal and/or environmental impact in the Trust's region. Examples in this category would include an investment in a social housing project in the Waikato which has an almost guaranteed return of capital (due to the repayments coming from the Ministry of Social Development by way of rent subsidy once the accommodation is rented) but an income return of around 2% or a long term loan to establish a beneficial community venture at no interest.

Mission Related Investment could be through:

- Loans
- Patient Capital
- Loan Guarantee
- Equity Investment
- A combination of the above

Strategic Asset Allocation (SAA)

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

Asset class	Strategic allocation	Rebalancing range
Cash	5%	5%
Global fixed income (sovereign)	5%	1%
Impact Debt	10%	-
Defensive assets	20%	4%
Impact equity	10%	-
Global equities unhedged	22.5%	3%
Global equities hedged	22.5%	3%
New Zealand equities	10%	2%
Global listed infrastructure	15%	2%
Growth assets	80%	4%

Performance Benchmarks

The Trustees have adopted the 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 roughly 50% of global equities and 100% of global fixed income and global listed infrastructure. The actual foreign currency position may deviate due to market drift and active management by the investment managers.

Active Asset Allocation

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

Rebalancing

Rebalancing will be assessed quarterly, based on advice from the Investment Adviser. The illiquid nature of Mission Related Investments (Impact Debt and Impact Equity) may result in a situation where rebalancing to the strategic weights is not immediately possible.

Environmental, Social and Governance (ESG) Policy

Consideration of ESG factors is a minimum for the Trust, as we seek to move towards contributing to solutions where possible. Responsible Investors must have concern for environmental, social and governance factors because they are material to long-term 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.

There is value and fit with the Trust Purpose and Mission in the Trust moving beyond just ESG screening and employing a **Responsible Investment Strategy** including¹:

1. Negative/exclusionary screening
2. Positive/best-in-class screening
3. Norms based screening
4. Integration of ESG Factors
5. Sustainability themed investing
6. Impact/Community Investing
7. Corporate engagement and shareholder action

¹ Seven strategies for responsible investment as detailed by the Global Sustainable Investment Review 2016

6. Risk Management

Rebalancing

Rebalancing will be considered quarterly by the Investment Committee on advice from the Investment Adviser.

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 non-Mission related financial Investment Portfolio.

7. Review and Monitoring Procedures

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 revaluation of the core assets of WEL Networks Limited.

The Trustees will conduct the review in the context of advice received from the Investment Committee 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 WEL Networks Directors of the holding prior to resolution.

Investment Managers

The investment managers' rolling 3-year performance will be regularly assessed against appropriate benchmarks.

Performance Report

The Investment Adviser prepares performance reports every quarter for the attention of the Investment Committee and Trustees.

Appendix A: Performance Benchmarks and Outperformance Targets

Core Infrastructure Holding

Performance benchmarks will be determined in consultation with the Company annually as part of Letter of Expectation / Strategic Directions Document communication process.

Investment Portfolio

The Investment Adviser will use a weighted average of the individual asset class benchmarks to report on the overall investment portfolio in the quarterly reports.

Mission Related Investments

Performance benchmarks for Mission Related Investments are to be developed by the Trust with regard to the specific investments under consideration in consultation with the Finance Subcommittee, Investment Committee and external advisors, as required.

Trustee Signature Page

Trustee Name

Signature

Rachel Afeaki



Alan Chew



Natasha Harvey



Jan Johnston



Matt Silverton



Jamie Strange



Michael West


