



GREYTOWN
TRUST LANDS
Growing the Community since 1871

Statement of Investment Policies and Objectives (SIPO)

as at 31 July 2023

1. Introduction

This statement of Investment Policy and Objectives (the “SIPO”) prepared by the Trustees (the “Trustees”) of Greytown District Trust Lands Trust (the “Trust”) sets out the objectives, policies and principles governing the Trust’s investment decisions.

It is based on investment principles that the Trustees of the Trust regard as fundamental relevant and constant. The Trustees intent is to manage the Trust’s portfolio in accordance with these principles, regardless of cyclical ebbs and flows in the capital markets. This document is intended to ensure continuity of purpose and implementation regardless of changes in the composition of Trustees.

This SIPO takes into account the requirements of the Greytown District Trust Lands Act 1979 (the Act) and the Trusts Act 2019.

2. Nature of the Trust

Since its inception in 1871, the Trust has held real estate assets for the benefit of the Greytown community in the manner contemplated by its Act. The Trust makes grants from its retained earnings across a range of community sectors, including education, sport, culture & heritage as well as qualifying individuals.

The Trust is governed by a board of Trustees, six in total, elected for a period of 6 years.

3. Trust Objectives

The Trust’s long term objectives are to:

- 3.1. Maintain, enhance and grow its portfolio of income generating assets.
- 3.2. Ensure targeted and sustainable levels of distribution to its beneficiaries.
- 3.3. Maintain equity between present and future generations.

4. Investment Principles

The Trust’s approach to investing is framed by a set of overarching principles that drive investment decisions including:

- 4.1. Strong governance and well defined decision-making criteria to enable sound investment decisions.
- 4.2. Setting policy for the allocation of investment assets appropriate to the Trust’s long term investment horizon, its objectives and risk tolerance capacity is the most important decision to be made because it is a primary determinant of long term investment success.
- 4.3. A diversified portfolio both across and within asset classes improves the risk to return ratio over time.
- 4.4. Costs matter and in some asset classes low cost passive strategies for example fixed interest, and bond and indexed funds can be blended with higher costing active strategies like property redevelopment and traded equity to minimise the overall cost of investing. The primary goal is to maximise returns net of fees and management costs, at an acceptable level of risk.
- 4.5. As a responsible investor the Trust needs to have regard to the environmental, social and governance (ESG) policies and performance of the entities it invests in.
- 4.6. To give effect to these principles:
 - 4.6.1. The Trustees are conscious that the Trust exists in perpetuity with a long investment horizon while needing to provide a steady and sustainable stream of funds for distribution across the Community. Therefore the investment objectives need to strike an appropriate balance between these different time horizons.
 - 4.6.2. While historically the Trust invested exclusively in directly held real estate assets to prudently manage a level of risk and reward appropriate to the purpose of the Trust an increased level of asset diversification is required. This is being achieved through an externally managed

diverse portfolio of listed and other financial securities balanced between fixed income and growth assets.

4.6.3. Liquidity needs to be managed so as to ensure that funds are available when needed for grants, operations and maintenance. Given the relatively illiquid nature of the directly managed property portfolio this means that the required liquidity must be met from rental cash flows, cash at the bank or the fixed interest components of the externally managed fund.

5. Review Investment Policy and Objective

This policy shall be reviewed annually, once asset revaluations have been finalised.

6. Investment Objectives and Benchmarks

6.1. The Trust's investment objective for its non-real estate investments is to achieve a return equal to or greater than 150 basis points over the NZ Government 90 day bank bill rate Bond rate. As at 31.3.2023 this equated to 7% (5.5% + 1.5%).

6.2. The Trust's investment objective/hurdle for its real estate assets is to achieve annual returns equal to or greater than the Smart Shares NZ Property ETF annual return. Smart Shares is a NZX Group Company, the NZ Property ETF (exchange traded fund) invests in NZ's leading listed real estate entities, covering all commercial real estate sectors. As at 31.3.2023 the annual return for the fund was -1.31% after fees and tax at 28% - 0.78% after fees. The return does not include unrealised revaluation gains/losses.

6.3. The Trustees recognise the investment hurdles are long term targets and may not be achieved in every measurement period and may be over reached in others.

7. Target Policy Portfolio

7.1. The long term target portfolio composition for the Trust's total investment portfolio as at 31 July 2023 is:

Sector	Policy Target (2022-25)
	Amounts based on \$17,410,952 (portfolio & cash)
Direct Real Estate	63.7% (\$11,085,000) <i>Excluding Community lands</i>
Balanced Managed Fund	36.3% (\$6,325,952)
Cash*	Included in managed fund
* These amounts will be dictated by the business plans for each asset (capex cash flow requirements)	

7.2. As and when funds are released from the sale of Direct Real Estate the allocation of funds to the Balanced Managed Fund will be increased to approximately 50% of the investable funds (total assets excluding community lands).

7.3. The Trustees recognise the policy targets are long term and will be subject to reweighting periodically as asset valuations improve/decline over time along with projected annual portfolio capex spend.

8. Rebalancing Policy

8.1. The Trustees recognise that directly investing in commercial real estate restricts its ability to respond to opportunities in the short term given its relative illiquidity.

8.2. Short term over/under weights +/-10% are not viewed as material, the Trustees are concerned with medium – long term performance, benchmarked as previously noted (6.2).

9. Current Market Factors – 2023-24

- 9.1. At the time of this SIPO update there is a mix of global and local factors that together provide challenging conditions for investors. These factors include the flow on effects of the Covid pandemic, the wars in Europe, East – West tensions across the Pacific and continuing tensions in the Middle East. Locally the responses to climate change, adverse major weather events and changes in economic settings have all added complexity to the mix.
- 9.2. As a long term investor the Trust has achieved a position where it has a level of asset diversity that should enable it to sustain a reasonable level of returns and cash flows to continue the funding of its grants program while preserving and extending its investable capital base.
- 9.3. Continuing work is required to ensure that adjustments are made in its property portfolio to ensure that quality properties are held in profitable sectors with appropriate geographic diversity and that they deliver acceptable risk weighted rates of return.

This may require leverage of the directly held property assets by borrowing up to approximately 35% of their current value.

As part of this work different means to access property investment opportunities will be reviewed to establish the likely costs, benefits and risks, compared to direct property ownership. Those different means may include, but not be limited to, listed property investments, syndicated offers and special partnerships.

- 9.4. The managed funds mandate for the external service provider provides discretion for the provider to continuously adjust the composition of the portfolio to maintain the mix of securities required to meet the mandated balance and performance.

The exercise of the discretion occurs within guidelines set by the providers experienced Investment Committee.

The guidelines are developed from continuous research. The provider maintains detailed investment controls that are actively managed. The benefits of this are that the Trust has access to a scale of research and investment monitoring and management capability that it could not readily access by other means.

- 9.5. In responding to the investment opportunities and risks, given the complexity and changeability of current market conditions some divergence from targets and planned settings is to be expected.