

Impact Investment Policy

Introduction

Foundation North has a globally diversified investment portfolio with considerable assets that are held on behalf of the communities of Auckland and Northland. Foundation North aims to prudently leverage a portion of its portfolio to support its mission and seeks to use some of its investment tools to support the communities of Auckland and Northland.

The Board of Trustees (the “Board”) has identified an impact investment asset class within Foundation North’s overall investment portfolio.

Foundation North’s Statement of Investment Policies and Objectives (“SIPO”) provides the overarching investment framework for all assets, including impact investment.

The Board has delegated responsibility for all matters relating to the Foundation’s investment activities to the Investment Committee.

Unless otherwise stated, the SIPO and the Investment Committee Charter apply to impact investment. In the event of any conflict between these documents and this Impact Investment Policy, the SIPO and Investment Committee Charter prevail.

This Impact Investment Policy (the “Policy”) sets out the objectives, principles and roles/responsibilities specifically in relation to the Foundation’s impact investment allocation.

In addition, the Impact Investment Procedures and Guidelines should be read in conjunction with this Policy. These Guidelines outline the investment process and decision-making; as well as due diligence, monitoring, and other requirements for impact investment.

Our Approach

Foundation North recognises that impact investment is a new and emerging market in New Zealand and the quantity and quality of investment opportunities are growing over time. A flexible approach to impact investing will be taken, which balances the need for pragmatic implementation with a careful management of exposure to risk.

Over time, this Policy will be reviewed to reflect the Foundation’s priorities as well as developments in the impact investment market.

Impact Investment Allocation

The current allocation and benchmarks for impact investment are set out in the SIPO.

Impact Investment Objectives

Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.¹

Foundation North's impact investment objectives are:

- To be consistent with the Foundation's long-term investment objectives as stated in the SIPO; and
- To further the Foundation's funding strategy to enhance the lives of people in Auckland and Northland.

Impact Investment Principles

Foundation North's impact investment is based on the following principles:

1. The portfolio will consist primarily of investments that further the Foundation's funding strategy. The portfolio may also include, by exception, investments that are not directly aligned to the Foundation's funding strategy if the intended impact is likely to benefit Auckland and/or Northland.
2. The expected financial return will vary by individual investment. However, there is an expectation of a net positive return over the investment period (i.e. after internal and external costs and expenses). (The Foundation acknowledges that impact investments that are not expected to generate a net positive return may be better supported with grant funding.)
3. The Foundation is prepared to accept that some impact investments will have a higher level of risk than some of its commercial investments within the wider portfolio, and there may be less opportunity for diversification within the impact investment portfolio (due to size and limited availability of investment opportunities). At the same time, all effort will be made to assess and mitigate risks on individual investments and, in time, with diversification within the portfolio.
4. Investments can be made through (but not limited to):
 - a. Direct investment (including shares, fixed income securities, loans)
 - b. Co-investment
 - c. Partnerships
 - d. Contracting external investment managers
 - e. Externally managed investment product, including where Foundation North is the seed investor
5. The time horizon for impact investment is over the medium- to long-term, and results will be similarly assessed over a longer-term horizon. This is because:
 - a. The social or environmental outcomes of such investments, as well as the ability to identify and determine the expected impact, requires analysis over a longer timeframe;
 - b. Impact investment is a nascent activity in New Zealand; and
 - c. The nature of impact investments is illiquid.
6. The Foundation is committed to measuring the impact of its impact investments, as well as the financial returns. Transparency of process and reporting are crucial to ensure internal and external stakeholder confidence in the Foundation's impact investments.

¹ This is the generally accepted definition of impact investment, as per the Global Impact Investment Network. See: https://thegiin.org/assets/Core%20Characteristics_webfile.pdf

7. All applicable fiduciary, prudence and due diligence requirements; as well as all applicable laws, rules and regulations, will be complied with.

Roles and Responsibilities

Board of Trustees

The Board has ultimate responsibility for the Foundation's investment assets and portfolio, including impact investment.

Investment Committee

The Board has delegated responsibility for all matters relating to the Foundation's investment activities to the Investment Committee. *These responsibilities are set out in the Investment Committee Charter and are the responsibilities of the Investment Committee for impact investment.*

Specifically, for impact investment, the Investment Committee's responsibilities also include:

- Recommending to the Board any investment and divestment (and other related) decisions in relation to direct impact investment;
- Oversight of impact investment operations including the structuring of deals, due diligence and other related activity for direct impact investments;
- Any other duties as shall be referred to the Investment Committee from time to time by the Board.

As set out in the Investment Committee Charter, an objective of the Investment Committee is also to provide a formal forum for free and open communication between the Board and staff, and to improve efficiency by allowing for delegated issues to be discussed in enough depth. This is important for impact investment.

Management

The CEO has responsibility to implement the Foundation's impact investment activity in accordance with this Policy. This includes the day-to-day management and operations of impact investment as a programme of work, including:

- Supporting the Investment Committee in carrying out its responsibilities in relation to impact investment;
- Regular reporting to the Investment Committee on impact investment including portfolio performance (impact and financial), risks, outcomes and related activity;
- Designing, implementing and maintaining internal procedures that are aligned to the intent of this Policy;
- Developing the impact investment pipeline and coordinating impact investment operations such as sourcing, due diligence (including of investments and fund managers) and evaluation;
- Ongoing investment and portfolio monitoring and evaluation, including for impact and financial returns;
- Contracting with third party service providers (excluding fund managers);
- Maintaining and monitoring internal expenses against budget;
- Any other duties as determined by the Investment Committee from time to time.

For further detail, refer to the Impact Investment Procedures and Guidelines.

In accordance with the Investment Committee Charter, the CEO is also responsible for drawing the Committee's immediate attention to any material matter that relates to the Foundation's investment portfolio including impact investment.

Key Features of Impact Investment Portfolio

Allocation from the Foundation's investment portfolio	As set out in the SIPO
Investment time horizon	As set out in the SIPO
Minimum expected return of the portfolio, net of all costs and expenses	As set out in the SIPO
Investment area (geographic)	At least 80% in Auckland and Northland (as a % of the total impact investment allocation)
Impact target	At least 80% directly aligned to Foundation North's funding strategy (as a % of the total impact investment allocation)
Target number of investments	No specified target. Impact investment should be implemented and aligned with the diversification objectives in the SIPO and this Policy
Single impact investment limit	10% of total impact investment allocation
Single impact investment fund limit	No specified limit. Considerations include alignment of the fund to this Policy
Single sector limit (e.g. social housing)	30% of impact investment allocation
Investment limit into a single organisation	10% of impact investment allocation
Total fixed income-like investment	Maximum 100% of impact investment allocation
Total equity-like investment	Maximum 50% of impact investment allocation
Total real estate and infrastructure investment	Maximum 30% of impact investment allocation
Leverage	Not allowed
Derivatives	Not allowed

Impact Investment Policy Review

The Investment Committee will review this Policy as required, but no less than every 2 years.

Policy Approval Date

30 March 2019.