

TREASURY POLICY

APRIL 2020

Adopted by the trustees of

The Christchurch Catholic Diocesan Development Fund

On 29 April 2020

and

The Roman Catholic Bishop for the time being of the Diocese of Christchurch

On 29 April 2020

TREASURY POLICY

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1. INTRODUCTION

The Catholic Diocese of Christchurch (**the CDC**), The Christchurch Catholic Diocesan Development Fund (**the CDF**) and The Mount Magdala Charitable Trust (MMCT) (collectively referred to as 'the Diocese' unless referred to separately in the context of this document) undertakes borrowing, investment and risk management activity (in total referred to in this document as **treasury activity**). The Diocese's treasury activities are carried out within the requirements of The Code of Canon Law and the Norms of the Diocese as adopted from time to time, the trust deed of the CDF, the trust deed of the Mt Magdala Trust and this Treasury Policy Document. Underpinning these requirements are the provisions of civil law, in particular the Reserve Bank Act 1989 and the Trustee Act 1956. While parts of the Diocese's activities are not subject to the provisions of the Trustee Act, the Diocese has decided in accordance with its rules and as a matter of good management when exercising its powers relating to all investments, to invest in accordance with the provisions of the Act. This states under section 13E¹ the matters to which a trustee may have regard in exercising powers of investment under a trust. The complete wording from the section is included as Appendix 2.

The CDF is also regulated by a variety of legislation including the Financial Service Providers (Registration and Dispute Resolution) Act 2008; the Non-bank Deposit Takers (Declared-out entities) Regulations 2015; the Financial Markets Conduct Act 2013; the Financial Advisers Act 2018; and the Anti-Money Laundering and Countering Financing of Terrorism Act 2009. This legislation places a number of obligations on the CDF in terms of its systems, processing and reporting. Where these obligations relate to treasury activity they are included in this policy. Under the Financial Market Conduct Act the CDF is required to appoint a Supervisor and Covenant Trustee Services Limited (CTSL) has been appointed. The CDF has entered into a Debenture Trust Deed with CTSL, which includes further compliance obligations. The CDF is a member of the Insurance & Savings Ombudsman Scheme.

The MMCT was established following the settlement of a claim from the Sisters of the Good Shepherd from sale proceeds of land provided in trust to the sisters for particular purposes. These purposes were no longer being met therefore some proceeds from the sale of that property were returned to the bishop. The conditions of the settlement required the funds to be placed in a charitable trust (MMCT) for the benefit of women and children, family and whanau in the diocese of Christchurch. MMCT makes distributions from income in accordance with its trust deed.

This treasury policy document provides the policy framework for all of the Diocese's treasury activities and defines key responsibilities and the operating parameters within which borrowing, investment and risk management activity is to be carried out. The scope of this policy covers treasury activity for the CDC, the CDF and MMCT. This treasury policy document is reviewed and updated at least on an annual basis.

¹ The Trustee Act 1956 No. 61

Borrowing

The CDC has current debt with the CDF in relation to the provision of additional classroom space largely due to roll growth across the diocesan school network. Funding to repay these loans is derived from attendance dues charged to the parents or guardians of pupils attending Diocesan schools.

Other initiatives over the course of time might be funded from loans: earthquake recovery repairs and rebuilds, additions to school's buildings due to roll growth, the provision of Diocesan administrative facilities and property investment are all possibilities to consider.

The favoured vehicle for providing loan finance for all Diocesan development is the CDF, however the extent of the borrowing required may necessitate borrowing from a retail banking institution.

Investments

The Diocese manages a significant portfolio of investments comprising equity investments, property and financial investments. Because of differing risk profiles the financial investments of the CDC, the CDF and MMCT are separately managed. Following a settlement with the CDC Insurers, ACS (NZ) Ltd, the CDC is holding considerable sums in trust for earthquake recovery purposes. These trust funds are separately invested in various term deposits, and reported on as the CDC Number 2 Account. An investment advisor is retained by the diocese to provide advice, complete investment transactions through a custodial service and report on portfolio performance at agreed intervals. The Diocese's investment policy is discussed in Section 4.

Policy Setting and Management

The Diocese approves policy parameters in relation to its investment, lending and borrowing activities.

The Bishop has overall responsibility for the operations of the Diocese. He has delegated responsibility for the financial and administrative operation of the Diocese to the Diocesan General Manager (**GM**). The GM has sub-delegated the day-to-day financial operations of the CDC, the CDF and MMCT to the Manager - Finance & Support Services. Financial operations include management of borrowing, lending and investments.

The Diocese's borrowing; lending, investments and cash management activities are managed centrally through its finance function.

The finance function is broadly charged with the following responsibilities:

- Provide appropriate finance, in terms of both maturity and interest rate, and manage the Diocese's borrowing programme to ensure funds are readily available at margins and costs favourable to the Diocese.

- Develop and maintain professional relationships with the financial markets in general and the Diocese's main relationship bank in particular.
- Manage the Diocese's investments within its strategic objectives and ensure that surplus cash is invested in liquid and credit worthy instruments.
- Manage the impact of market risks such as interest rate risk and liquidity on the Diocese's borrowing and investments.
- Maintain overall interest cost and revenues within budgeted parameters.
- Manage the overall cash and liquidity position of the Diocese's operations.
- Provide timely and accurate reporting of treasury activity and performance.

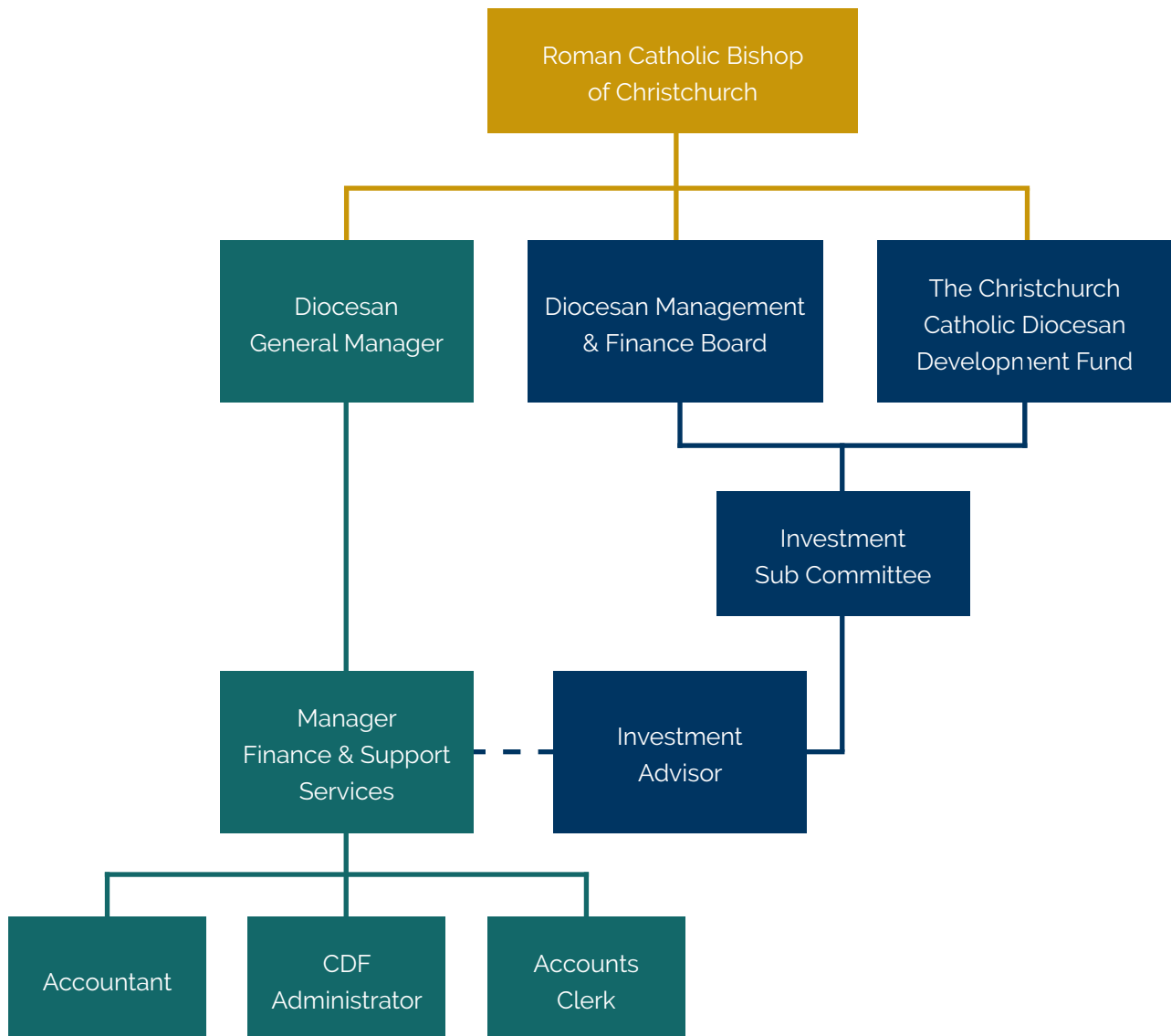
Philosophy

The Diocese acknowledges that there are various financial risks such as interest rate risk, liquidity risk and credit risk arising from its borrowing, lending and investment activities. The Diocese is a risk averse entity and does not wish to incur additional risk from its treasury activities.

The Diocese's treasury function is a risk management function focused on protecting the Diocese's budgeted interest costs and interest income and stabilising the Diocese's cash flows. The Diocese does not undertake any treasury activity which is unrelated to its underlying cash flows or is purely speculative in nature.

2. STRUCTURE

Treasury Organisational Structure



Treasury Responsibilities

The key responsibilities of the above positions are as follows:

The Diocesan Management and Finance Board

The CDF Board of Trustees

- Approve borrowing and investment management policy (treasury policy) documents.
- Approve amendments to various control limits, bank facilities, approved instruments and treasury policy.
- Consider and approve or decline loan applications for Catholic objectives in accord with the trust deed of the CDF.
- Approve the treasury policy document on a three yearly basis.

Investment Sub-Committee

- Review the treasury policy on at least a three-year basis and make recommendations for amendment or otherwise to the Diocesan Management & Finance Board and the CDF.
- Review the treasury process through standard reporting.
- Monitor portfolio performance through standard reporting.
- Consider recommendations for investments outside this policy document.
- Approve use of risk management instruments.

Investment Advisor

- Make recommendations on investment transactions, to the Manager - Finance & Support Services, within investment allocation parameters.
- Review asset allocation parameters quarterly.
- Recommend investment and risk management strategy to the Manager - Finance & Support Services for approval.
- Provide recommendations to the Manager - Finance & Support Services for amendments to the Treasury Policy document.
- Operate custodial service.
- Perform investment transactions as directed by the Diocese from time to time.
- Provide reports as required by this policy document.
- Meet with the Investment Sub-committee on a quarterly basis.

Diocesan Financial Administrator (GM)

- Overall responsibility for all activities relating to implementation of approved treasury policy.

Manager - Finance & Support Services

- Management responsibility and oversight of treasury policy, activities, processing and reporting.
- Approve recommendations from Investment Advisor.
- Report treasury activities to Diocesan Finance and Management Board, the CDF Trustees and the Investment Sub-committee of those respective bodies.
- Recommend amendments to the treasury policy and procedures for approval by the Investment Sub-committee.
- Responsible for keeping GM informed of significant treasury activity and market trends.
- Manage the Diocese's relationship with its principal bankers and investment advisors.

Accountant (CDC)/Management Accountant (CDF & MMCT)

- Approve recommendations from Investment Advisor in the Manager - Finance & Support Services's absence.
- All processing and reporting for MMCT
- Complete treasury transaction processing, reconciliations and reporting on a monthly basis
- Arrange settlement of approved treasury transactions.

CDF Administrator

- Daily reconciliation of the CDF bank account.
- Complete monthly rolling cash flow forecast.

Accounts Clerk

- Daily reconciliation of the CDC main bank account.
- Complete monthly rolling cash flow forecast.

3. BORROWING

General Policy

The Diocese exercises its powers to borrow through the Roman Catholic Bishop of Christchurch, acting in accord with civil law and canon law.

The favoured vehicle for providing loan finance for all Diocesan development is the CDF however where the level of borrowing necessitates, an external retail banking institution may be used

Borrowings by the CDF are authorised by the trustees in terms of the trust deed.²

Liquidity and Credit Risk Management

Liquidity is defined as the degree to which an asset can be bought or sold in the market without affecting the asset's price. Given that the CDF has exposure to a large number of depositors who may withdraw funds in a short period of time, it is advisable the portfolios maintain a liquidity cushion.

A liquidity cushion is simply a reserve of funds containing money market highly liquid assets. While the CDC maintains an overdraft facility, it is not envisaged that this facility would make up part of the liquidity cushion. It would however provide flexibility for short funding requirements in need. The value of the liquidity cushion would be calculated on a liquidity ratio.

The liquidity ratio is determined by the net movement of deposits (deposits less withdrawals) over a given period, and the total amount of funds deposited. The historical data since 2003 suggests a liquidity ratio across each portfolio of 10% is appropriate.

Security

From time to time, with prior Diocesan approval, security may be offered by providing a charge over one or more of the Diocese's assets.

Repayment

The Diocese repays borrowings from general or special purpose reserves.

² Deed of Trust, CDF, dated 21st December 1967
as revised by Deed of Variation dated 18th February 2008

4. INVESTMENT POLICY

Investment Mix

The Diocese maintains investments in the following financial assets:

- Loan advances.
- Property investments.
- Equity investments.
- Financial investments.

General Policy

The Diocese's philosophy in the management of investments is to optimise returns in the long term while balancing risk and return considerations. The Diocese recognises that as a responsible organisation that derives its income substantially from donations, bequests and managing investment returns, any investments that it does hold should be low risk, giving preference to conservative investment policies and avoiding speculative investments. It also recognises that lower risk generally means lower returns. The Diocese endeavours to ensure that a significant portion of its investment portfolio is inflation proofed through investing in an appropriate level of growth equities as part of its overall investment strategy.

The Diocese holds financial investments, which are managed as three distinct and separate portfolios of financial assets under the umbrella of the CDC, the CDF and MMCT. While these organisations have separate objectives, given the nature of the funds and their differing risk profiles, each has a common overriding objective:

In its financial investment activity, the Diocese's primary objective when investing is to generate income while protecting the investment's capital value and minimising the risk of capital loss. Accordingly, only credit worthy counter parties are acceptable. The Diocese's policies on managing credit risk are set out on pages 15, 17.

Within the credit constraints contained in those pages, the Diocese also seeks to:

- Optimise investment return.
- Ensure investments are liquid and sufficiently flexible.
- Diversify the mix of financial investments.
- Manage potential capital losses due to interest rate movements if investments need to be liquidated before maturity.

Loan Advances

The CDF is the vehicle authorised to make loan advances.

The purpose of the fund is ***'to make provision for the continued expansion, advancement and improvement of Catholic objectives in the said Diocese and for that specific purpose to acquire freehold and leasehold properties and to arrange finance for such acquisitions and for buildings and the extensions and renovations of existing buildings and other improvements to properties.'***³

'Catholic objectives' is defined as ***'to provide for and enable the advancement of the Mission of the Catholic Church in the Diocese of Christchurch as determined by the Bishop from time to time'***.

Accordingly the trustees will consider only loans that comply with the purposes of the CDF Trust Deed, and interest rates charged on these loans to meet Catholic objectives will be generally sacrificial and reviewed according to the following policy adopted by the trustees:

'Loans for Catholic objectives should be concessionary in relation to the market.'

Loan interest rates should reflect the degree of risk.'

The risk categories be:

- ***Loans to parishes (internal loans).***
- ***Other secured loans.***

The lending rates be:

- ***Base rate plus a margin for overhead and risk.***
- ***The difference in interest rates between parish and other loans to be maintained at 50 points.***
- ***The Board will regularly review loan rates; at least quarterly in respect of existing loans, and at the time of each new application.'***⁴

Disposition of Revenue

Interest is taken into the CDF trading account and profits are distributed to the CDC at the discretion of the trustees of the fund.

Risk Management

The primary risk is that the borrower defaults on the payment of interest and principal amounts owing to the CDF. The CDF takes security for any loans provided to non diocesan entities

Should loan repayments go into arrears, the trustees take immediate steps to retrieve the monies owing.

³ Deed of Trust, CDF, dated 21st December 1967
as revised by Deed of Variation dated 18th February 2008

⁴ Adopted by resolution of the trustees 5th June 2001

Management/Reporting Procedures

The trustees review performance (see Performance Measurements in Part 8) of these investments on a regular basis to ensure objectives are being achieved and that interest and principal repayments are being made in accordance with the loan agreement.

Specific Policy

The CDF intends to hold loan investments until maturity.

Equity Investments

- The CDF.

Nature of Investment and Rationale for Holding

While not strictly an equity investment in a commercial sense the Diocese holds equity in the trust.

In the event of termination of the trust fund, the trust deed provides, in clause 24:

'The CDF may be terminated at any time if an order shall be made or an effective unanimous resolution passed by the Trustees for the winding up of the CDF, or if a decision in favour of the termination of the CDF is made by the said Bishop and conveyed in writing to the Trustees. The said Bishop if desiring to exercise that right shall give six (6) months notice to the Trustees of his intention to exercise it and at the expiration of such notice the CDF shall be determined. In the event of a termination by resolution of the Trustees, all the records, assets and liabilities of the CDF will be taken over by the said Bishop.'

The Bishop is the beneficiary of the trust.

While the purpose of the trust is explained on page 9, in terms of providing low interest loans for Catholic objectives, what is not evident is the substantial contribution from profits that the trustees disburse from time to time to fund the Bishop's pastoral operations. These disbursements are at the discretion of the trustees.

The fund will continue until such time as a decision is made to terminate the fund in accord with clause 24 of the trust deed.

Disposition of Revenue

The Trustees of the CDF have adopted a policy that CDF equity be maintained at a minimum of \$3m or 10% of depositors' funds, whichever is the greater. In addition the CDF must maintain the covenants as required under the debenture trust deed. With these considerations in mind the Trustees determine the level of distribution to the Bishop. Unrealised gains in investment revaluation (above original costs) do not form part of the distribution.⁵

⁵ Refer Management and Finance Board recommendation dated 27th August 2008

Proceeds from any distribution are taken into the Diocese's Investment Trading Account and along with other investment income is allocated to the Bishop's pastoral agencies according to priorities and needs determined as part of the budget process.

Risk Management

The trust deed provides '*the said Bishop in his secular capacity as a Corporation Sole hereby undertakes to guarantee the repayment of all monies obtained and provided by the CDF.*'⁶

Investment risks are managed according to this policy document. The trustees have adopted a conservative and lower risk investment profile. In addition the CDF has adopted a Risk Management Plan as required under the Debenture Trust Deed with CTSL.

Management/Reporting Procedures

The trustees approve the budget annually by March for the following financial year. Annual reports are prepared by June and received and reviewed by the CDC. The Bishop appoints trustees in accord with the provisions of the trust deed.

Property Investments

All land, including parish and school land, is vested in the name of the Roman Catholic Bishop of the Diocese of Christchurch, as corporation sole.⁷ Under canon law, land held for parish purposes is owned by the parish and any proceeds from the sale of that land would be held by the parish.⁸ This section deals with land which is held by the CDC in general.⁹

The CDC has landholdings, which have been acquired in a number of ways. Any surplus land is either leased or held intending to be sold, at market valuation, or at any agreed value satisfactory to the CDC.

Rationale for Holding

The CDC's overall objective is to only own property that is necessary to achieve its strategic objectives. The CDC reviews property ownership through assessing the benefits of continued ownership in comparison to other arrangements, which could deliver the same results. This assessment is based on the most financially viable method of achieving the delivery of the Bishop's pastoral programme. The CDC generally follows a similar assessment criterion in relation to new property and land investments.

⁶ Deed of Guarantee and Indemnity dated 18th February 2008

⁷ The Roman Catholic Bishops Empowering Act 1997, Section 6

⁸ The Code of Canon Law, canons 515 and 532

⁹ The Code of Canon Law, canons 368, 373 and 393

Disposition of Revenue

Property rentals are charged either at commercial levels or discounted according to the use of the property and the parties involved. In some cases no rental is charged at all but responsibility for meeting the costs of maintaining the property and the fixed costs in connection with land ownership will be passed on to the lessee, all income including rentals and ground rent from property are taken into the CDC general account.

The CDC approves any disposition of property or landholdings. Sale proceeds are taken to the general account and used in achieving CDC objectives.

Risk Management

The capital value of property and land is impacted by changes in economic and financial factors e.g. business confidence, growth, and interest rates. The CDC manages this by only holding property according to its needs and selling down its surplus landholdings when it is prudent to do so and at a value satisfactory to the CDC.

Management/Reporting Procedures

The Diocesan Management and Finance Board reviews the performance of the CDC property investments through regular reporting.

Specific Policy

The property and landholdings portfolio is reviewed annually. All surplus landholdings and property are disposed of at market valuation or at a price satisfactory to the CDC.

Financial Investments

Introduction

Because of differing risk profiles and differing objectives the financial investments of the CDC, the CDF and MMCT are separately managed as distinct portfolios. An investment advisor is retained to provide advice, complete investment transactions through a custodial service and report on portfolio performance at agreed intervals.

Strategy

Since the Diocese is a non-taxpayer it is not driven to aggressively seek risk in order to achieve return. Non-taxpayer status means that investment in fixed interest can derive a greater benefit than a taxpayer could expect from the same investment. As such investments by the Diocese should include a high weighting in this sector.

The Role of the Investment Advisor

The investment advisor will make recommendations for investment within the Asset Allocation guidelines set out in Part 6. The CDC will provide the Advisor with one month's notice of any change in investment policy or the need to make material capital reductions in the portfolio.

The Advisor will submit, on a quarterly basis, a report on the Asset Allocation guidelines subject to the prevailing macro economic conditions.

Given the wide bandwidths in the Asset Allocation model, it is unlikely that macro economic conditions would change sufficiently to warrant any material amendment.

Revenue distributions will be made from income and the Advisor will be given reasonable notice of capital distribution requirements. A portion of the income equivalent to New Zealand's CPI Index may be retained in the portfolio to protect the real capital.

Instructions to carry out investments will be given by a person duly authorised by the Diocese (refer appendix 3) in accordance with recommendations previously submitted by the Advisor. The Advisor will arrange for the sale or purchase of investments and forward corresponding contract notes and Security Transfer forms for completion (where required). All securities will be held in the name of Portfolio Custodians Limited as trustee for the Diocese.

Sale proceeds and purchase settlements will be made in accordance with New Zealand Stock Exchange regulations.

The Investment Advisor will conduct training workshops with trustees and members of the Diocese as required and at least once per year. The purpose of the workshops is to outline and explain the various Investment instruments and processes used in the application of this policy.

The Catholic Diocese of Christchurch (the CDC)

Nature of Investment

The CDC invests in approved financial assets within the constraints outlined in Part 6 of this policy; the CDC invests in the following instruments:

- New Zealand Government and Semi Government Securities.
- New Zealand Corporate Debt Issues.
- Registered Bank Investments.
- Cash Management accounts for settlement purposes.
- First registered Mortgages.
- New Zealand Equities.
- Australian Equities.
- International Equities.
- International Bonds.
- Alternative Assets.
- The Christchurch Catholic Diocesan Development Fund.

Rationale for Holding

The CDC primarily holds financial investments to earn revenue used in funding the Bishop's pastoral initiatives and to internally fund capital expenditure relating to new works and assets, thereby reducing the need for CDC to borrow externally. The CDC also maintains a portfolio of financial investments for the reason of:

- Investing proceeds from the sale of assets.
- Investing amounts allocated to general and special fund reserves e.g. conditional legacies.
- Investing funds allocated for approved future expenditure.
- Investing surplus cash and working capital funds (see Part 5).

Disposition of Revenue

Interest is taken to the Investment Trading Account. Interest earned is allocated to the Bishop's pastoral agencies according to priorities and needs determined as part of the budget process.

Risk Management

Investment Objectives

- To preserve the real value of the capital.
- To generate income.
- To achieve capital growth.
- To achieve a high degree of liquidity.

The CDC's primary objective when investing is the protection of its investment. Accordingly, only credit worthy counter parties are acceptable. Credit worthy counter parties are selected on the basis of their current Standard and Poors (S&P)¹⁰ rating which must be adequate or better. Credit ratings are monitored on a quarterly basis by the Investment Advisor from updated S&P advices.

It is acknowledged that some unrated debt issues do offer attractive returns and security. Accordingly unrated debt issues will form a portion of the CDC's investment portfolio. Credit worthiness on this portion of the portfolio is monitored by the Investment Advisor from company research and market data.

The following principles capture the above objectives and form the key assumptions of the operating parameters contained in Part 6 – SIPO Exposure Limits:

- **Credit risk is minimised by placing maximum percentage limits for each broad class of issuer within prescribed issuer and portfolio limits.**
- **Liquidity risk is minimised by ensuring that all investments must be capable of being liquidated in a readily available secondary market. Furthermore, the CDC maintains; at least 30% of the investments with a maturity of less than one year, which provides a liquidity cushion.**

¹⁰ Refer to Appendix 3 for ratings definitions

Interest Rate Risk Management

The CDC's investments give rise to a direct exposure to a change in interest rates, impacting the return and capital value of its investments. The effect of this is to be managed by a mix of portfolio duration and placing limits on the amount of exposure credit issuers.

Management and Reporting Procedures

The GM approves the investment strategy, recommended by the Manager - Finance & Support Services. During the annual budget round the Manager - Finance & Support Services recommends a formal investment strategy to the GM. Thereafter, the GM approves the investment strategy on a quarterly basis, as recommended by the Manager - Finance & Support Services who after seeking appropriate advice from the Investment Advisor evaluates the CDC's cash flow forecasts, the outlook for interest rates, and the shape of the yield curve.

The Investment Sub-Committee reviews the performance of its financial investments through regular reporting (see Performance Measurement – Part 8).

Specific Policy

The CDC reviews its investments portfolio annually and manages the portfolio according to the objective performance measures determined during the annual budget round.

The Christchurch Catholic Diocesan Development Fund (the CDF)

Nature of Investment

As the CDF accepts deposits and makes advances it is acknowledged that the CDF should only be exposed to minimum levels of risk. For this reason it is appropriate that the surplus funds not required immediately for loans for Catholic objectives be entirely allocated to fixed interest investments. Therefore the CDF invests in approved financial assets within the constraints outlined on page 21 of this policy; the CDF invests in the following instruments:

- *New Zealand Government and Semi Government Securities.*
- *New Zealand Local Body Securities.*
- *New Zealand Corporate Debt Issues*
- with a S&P investment grade rating or its equivalent.
- *New Zealand Corporate Debt Issues - unrated.*
- *New Zealand Registered Bank Deposits.*
- *Cash Management accounts for settlement purposes.*
- *First Registered Mortgages.*
- *Offshore Fixed Interest Funds*
- *Any other investment approved by the Catholic Development Fund Trustees.*

Rationale for Holding

The CDF primarily holds financial investments to provide loan finance at less than market rates to fund '*Catholic objectives*' in terms of its trust deed, thereby reducing the need for CDC and other Catholic agencies and Orders to borrow externally, and as a secondary function to generate a surplus which is available for distribution to the Bishop to fund his pastoral programme. The CDF also maintains a portfolio of financial investments for the reason of:

- Investing surplus cash and working capital funds (see Part 5).

Disposition of Revenue

Interest is taken to the CDF income account and offset against interest paid on depositors' funds and other operational expenses of the CDF. Surpluses are distributed to the Bishop from time to time according to resolution of the CDF Trustees.

Risk Management

Investment Objectives

- To protect the real value of the capital.
- To provide a sustainable income stream to apply to the work of the Diocese.

The CDF's primary objective when investing is the protection of its investment. Accordingly, only credit worthy counter parties are acceptable. The Trustees do not entertain investment in equities. Credit worthy counter parties are selected on the basis of their current Standard and Poors (S&P) rating which must be investment grade or better. Investment in unrated debt issues are made on a case by case basis where company research is available to support the basis of a recommendation to invest into the issue. Credit ratings are monitored by the Investment Advisor and from updated S&P ratings.

The following principles capture the above objectives and form the key assumptions of the operating parameters contained in Part 6 – SIPO Exposure Limits:

- **Credit risk is minimised by placing maximum percentage limits for each broad class of issuer within prescribed issuer and portfolio limits.**
- **Liquidity risk is minimised by ensuring that no less than 10% of the portfolio is capable of being liquidated within 3 working days. Furthermore, the CDF maintains, a liquidity ratio as required by the Debenture Trust Deed with CTSL.**

Interest Rate Risk Management

The CDF's investments give rise to a direct exposure to a change in interest rates, impacting the return and capital value of its investments. The effect of this is to be managed by a mix of portfolio duration and placing limits on the amount of exposure to credit issuers.

Management and Reporting Procedures

The GM approves the investment strategy, recommended by the Manager - Finance & Support Services. During the annual budget round the Manager - Finance & Support Services recommends a formal investment strategy to the GM. Thereafter, the GM approves the investment strategy on a quarterly basis, as recommended by the Manager - Finance & Support Services who after seeking appropriate advice from the Investment Advisor evaluates the CDF's cash flow forecasts, the outlook for interest rates, and the shape of the yield curve.

The Investment Sub-Committee reviews the performance of its financial investments through regular reporting (see Performance Measurement – Part 8).

Specific Policy

The CDF reviews its investments portfolio annually and manages the portfolio according to the objective performance measures determined during the annual budget round.

Mt Magdala Charitable Trust (MMCT)

Nature of Investment

The MMCT invests in approved financial assets within the constraints outlined on page 20 of this policy; the MMCT invests in the following instruments:

- New Zealand Government and Semi Government Securities.
- New Zealand Corporate Debt Issues.
- Registered Bank Investments.
- Cash Management accounts for settlement purposes.
- First registered Mortgages.
- New Zealand Equities.
- Australian Equities.
- International Equities.
- International Bonds.
- Alternative Assets.

Rationale for Holding

The MMCT primarily holds financial investments to earn revenue to be distributed in accordance with the trust deed.

Disposition of Revenue

Interest is taken to the MMCT's revenue. Surplus interest (after allowing for inflation protection/ capital growth and operating expenses) is distributed to grant recipients as determined by the Hoatu Fund Committee.

Risk Management

Investment Objectives

- To preserve the real value of the capital.
- To generate income.
- To achieve capital growth.
- To achieve a high degree of liquidity.

The MMCT's primary objective when investing is the protection of its investment. Accordingly, only credit worthy counter parties are acceptable. Credit worthy counter parties are selected on the basis of their current Standard and Poors (S&P)¹¹ rating which must be adequate or better. Credit ratings are monitored on a quarterly basis by the Investment Advisor from updated S&P advices.

It is acknowledged that some unrated debt issues do offer attractive returns and security. Accordingly unrated debt issues will form a portion of the MMCT's investment portfolio. Credit worthiness on this portion of the portfolio is monitored by the Investment Advisor from company research and market data.

The following principles capture the above objectives and form the key assumptions of the operating parameters contained in Part 6 – SIPO Exposure Limits:

- Credit risk is minimised by placing maximum percentage limits for each broad class of issuer within prescribed issuer and portfolio limits.
- Liquidity risk is minimised by ensuring that all investments must be capable of being liquidated in a readily available secondary market. Furthermore, the CDC maintains; at least 30% of the investments with a maturity of less than one year, which provides a liquidity cushion.

Interest Rate Risk Management

The MMCT's investments give rise to a direct exposure to a change in interest rates, impacting the return and capital value of its investments. The effect of this is to be managed by a mix of portfolio duration and placing limits on the amount of exposure credit issuers.

¹¹ Refer to Appendix 3 for ratings definitions

Management and Reporting Procedures

The GM approves the investment strategy, recommended by the Manager - Finance & Support Services. During the annual budget round the Manager - Finance & Support Services recommends a formal investment strategy to the GM. Thereafter, the GM approves the investment strategy on a quarterly basis, as recommended by the Manager - Finance & Support Services who after seeking appropriate advice from the Investment Advisor evaluates the CDC's cash flow forecasts, the outlook for interest rates, and the shape of the yield curve.

The Investment Sub-Committee reviews the performance of its financial investments through regular reporting (see Performance Measurement – Part 8).

Specific Policy

The MMCT reviews its investments portfolio annually and manages the portfolio according to the objective performance measures determined during the annual budget round.

5. CASH MANAGEMENT

From time to time, the Diocese has daily cash flow surpluses and borrowing requirements due to the mismatch of daily receipts and payments. All cash inflows and expenses pass through bank accounts controlled by the finance function. The Diocese completes annual and rolling monthly cash flow forecasts, which form the basis of all cash management activity.

Generally, any cash to be invested for longer than three months is covered by Part 6 of this policy.

Cash management activities must be undertaken within the following parameters:

- Cash management instruments are limited to:
 - Call deposits with registered banks.
 - The investment advisor's Cash Management accounts for settlement purposes.
 - Negotiable instruments with a maturity of less than three months.
 - Term deposits with registered banks (less than three months).
Not recommended if early break penalties are enforced.
- Cash may only be invested with approved counter parties as detailed in Part 6.
- If practical, a targeted minimum of \$250,000 is invested at call for the CDF and \$200,000 for the CDC. MMCT does not have its own transactional bank account, transactions are processed through the CDC bank account and recovered through the investment portfolio.
- An optimal daily range of no more than \$5,000 is targeted for in the Diocese's current accounts.
- The Diocese has an uncommitted \$200 bank overdraft facility with Westpac. Overdraft facilities are utilised as little as practical.

Interest rate risk management on cash management balances is not permitted.

6. ASSET ALLOCATION LIMITS

The Diocese ensures that all financial investments, interest rate risk management as well as any foreign exchange activity is undertaken with institutions that are of high quality credit to ensure amounts owing to the Diocese are paid fully and on due date. This does not limit the Diocese in investing in other assets, other than financial investments.

More specifically, the Diocese minimises its credit exposure by:

- **Limiting total exposure to prescribed amounts and portfolio limits and in the case of the CDF no exposure to equity investments.**
- **Timely and rigorous compliance monitoring.**

The following tables summarise asset allocation ranges and exposure limits for credit and counterparty risk relating to cash and fixed interest investments for each of the funds of the CDC, the CDC Number 2 Account, CDF and MMCT.

Tactical asset allocation is to be used mainly as a risk minimisation tool. It provides the ability to move to a higher weighting in defensive assets and lower weighting in growth assets when a cautious view is held regarding prospective returns across financial markets.

The CDC

Risk Profile

The Roman Catholic Diocese of Christchurch Diocesan Fund (Diocese Fund) is to be considered a long-term balanced investor seeking long term growth and income predominantly from listed debt and equity markets. The investment portfolio is required to comply with the Strategic Asset Allocation and Fixed Income exposure limits as detailed below and within the organisations Moral and Pastoral Policy in Part 7. As a general rule the portfolio will have 50% of its assets in growth securities and 50% in Income securities.

Strategic (Base) and Tactical Asset Allocation

ASSET ALLOCATION Asset Classes	Strategic Asset Allocation	Tactical Range Limits ¹	Benchmark Index Representing Asset Class
Cash & Term Deposits of a Fixed Maturity	5.0%	0% - 30%	S&P/NZ X 90 Day Bank Bill Index
NZ Fixed Interest	30.0%	0% - 80%	S&P/NZ X A-Grade Corporate Bond Index
Global Fixed Interest - <i>NZ\$ Hedged</i>	15.0%	0% - 25%	Barclays Global Aggregate Bond Index - <i>Hedged to \$NZ</i>
Income Assets	50.0%	30% - 60%	
NZ Listed Property	2.5%	0% - 25.0%	S&P/NZ X All Real Estate Index
NZ Equities	12.5%	0% - 25.0%	S&P/NZ X 50 Portfolio Index
Australian Equities	12.5%	0% - 25.0%	S&P/ASX 200 Index - <i>Unhedged</i>
Global Equities	20.0%	0% - 50.0%	MSCI All Country World Index - <i>Unhedged</i>
Private Equity ²	2.5%	0% - 15%	<i>Illiquid investments - no market pricing available</i>
Total Equities	47.5%		
Growth Assets	50.0%	40% - 70%	

¹ The Tactical Range Limits have been determined from historic market behaviour to contain deviation in performance of the portfolio from the strategic asset allocation benchmark, particularly the risk of underperforming the benchmark. Breaches to these limits should be avoided longer term to keep the portfolio from taking on risk-return characteristics that are materially.

² Private Equity is an extension of exposure to listed equities. These investments are typically made through fund managers and are illiquid, as the manager will dictate when investment is made and distributions are returned to investors.

Fixed Income

EXPOSURE LIMIT FRAMEWORK		(% of Income Assets)				(% of Total Portfolio)	
Asset Class / Issuer Category	Credit Rating	Max Exposure to Credit Rating ¹	Max Exposure to Single Entity ¹			Strategic Asset Allocation ²	Tactical Range Limits ²
1. Cash & Term Deposits of a Fixed Maturity						5%	0% - 30%
NZ and Australian Banks	A- or better	100%	13.3%				
2. NZ Fixed Interest						30%	0% - 80%
NZ Corporates	AAA	100%	17.5%	30%	40%		
	AA+, AA, AA-	80%	20.0%				
	A+, A, A-	65%	13.0%				
	BBB+, BBB, BBB-	35%	7.0%				
	Sub-Investment Grade or Unrated	25%	4.0%				
	(amount that can be sub-ordinated unrated debt) ⁵	7%	1.5%				
Local Authorities "Credit Rated", or where rates are sued as security, or security is provided by a debenture / guarantee		50%	13.0%				
State Owned Enterprises (SOEs)	BBB- or better	50%	13.0%				
NZ Government / Guaranteed Bond	A- (average) or better	100%	100%				
3. Offshore Fixed Interest (NZ\$ Hedged)						15%	0% - 25%
Global Bond Funds ³	A- (average) or better	25%					
Income Assets						50%	30% - 60%

Notes:

¹ Exposure limits are a percentage of investment in **Income Assets** (i.e. Cash, NZ and Global Fixed Rate Interest Investments).

² Asset allocation and tactical range limits are percentages of total **portfolio** value as defined in the strategic asset allocation in the SIPO.

³ The maximum exposure limit could be fully allocated to any of the JBWere recommended global bond funds.

⁴ The unrated exposure limit has been increased to account for the existence of good quality issues that are not formally rated.

⁵ Within the universe of unrated issues, consideration could be given to investing in sub-ordinated debt if JBWere has access to research on the underlying company.

The CDC Number 2 Account

Risk Profile

The CDC Number 2 Account (Earthquake Fund) is funded by the funds received as part of the global settlement of insurance following the Christchurch Earthquakes. The capital funds and interest accrued from investments are intended to be used to rebuild the Diocese infrastructure. These funds are to be invested in accordance with the Strategic Asset Allocation and Fixed Income exposure limits as detailed below and within the organisations Moral and Pastoral Policy Part 7). There is to be a strong focus on capital preservation and income.

Benchmarking

At an Asset Class level, the management of this portfolio is restricted to Cash and Fixed Interest investment with a focus on matching liquidity requirements to cash flow (drawdown requirements). Performance is to be benchmarked against the average New Zealand Bank three-month term deposit rate as these funds are expected to be utilised in the short term.

Strategic (Base) and Tactical Asset Allocation

ASSET ALLOCATION Asset Classes	Strategic Asset Allocation	Tactical Range Limits ¹
Cash & Term Deposits of a Fixed Maturity	30.0%	0% - 50%
NZ Fixed Interest	50.0%	20% - 70%
Global Fixed Interest - <i>NZ\$ Hedged</i>	20.0%	0% - 30%
Income Assets	100.0%	

Fixed Income

EXPOSURE LIMIT FRAMEWORK		(% of Income Assets)				(% of Total Portfolio)	
Asset Class / Issuer Category	Credit Rating	Max Exposure to Credit Rating ¹	Max Exposure to Single Entity ¹			Strategic Asset Allocation ²	Tactical Range Limits ²
1. Cash & Term Deposits of a Fixed Maturity						30%	0% - 50%
NZ and Australian Banks	A- or better	100%	33.3%				
2. NZ Fixed Interest						50%	20% - 70%
NZ Corporates	AAA	100%	25.0%	30%	40%		
	AA+, AA, AA-	80%	20.0%				
	A+, A, A-	65%	13.0%				
	BBB+, BBB, BBB-	35%	6.0%				
	Sub-Investment Grade or Unrated	0%	0.0%				
	(amount that can be sub-ordinated unrated debt) ⁵	0%	0.0%				
Local Authorities "Credit Rated", or where rates are sued as security, or security is provided by a debenture / guarantee		50%	13.0%				
State Owned Enterprises (SOEs)	BBB- or better	50%	13.0%				
NZ Government / Guaranteed Bond	A- (average) or better	100%	100%				
3. Offshore Fixed Interest (NZ\$ Hedged)						20%	0% - 30%
Global Bond Funds ³	A- (average) or better	30%					
			Income Assets			100%	0

Notes:

¹ Exposure limits are a percentage of investment in **Income Assets** (i.e. Cash, NZ and Global Fixed Rate Interest Investments).

² Asset allocation and tactical range limits are percentages of total **portfolio** value as defined in the strategic asset allocation in the SIPO.

³ The maximum exposure limit could be fully allocated to any of the JBWere recommended global bond funds.

⁴ The unrated exposure limit has been increased to account for the existence of good quality issues that are not formally rated.

If any counter party's credit rating falls below the minimum specified in the above tables then immediate steps are taken to reduce the credit exposure to that counter party to zero. If it is inappropriate to reduce the exposure at that time due to liquidity or price then the exposure needs to be monitored by the Investment Advisor and reported to the Investment Committee on a regular basis. The GM has delegated authority to approve new financial investments.

The CDF

Risk Profile

The Roman Catholic Diocese of Christchurch Development Fund (Development Fund) is a deposit taking entity and seeks to invest the funds to produce a return to be used for the improvement of Catholic objectives. These funds are to be invested in accordance with the Strategic Asset Allocation and Fixed Income exposure limits as detailed below and with the organisations Moral and Pastoral policy in Part 7, with a strong focus on capital preservation and income.

As the Development Fund is a deposit taker it must comply Debenture Trust Deed a copy of which can be found on the CDF Website under the following link; <https://cdf.org.nz/wp-content/uploads/2017/10/Debenture-Trust-Deed-2016.pdf>

Benchmarking

The Performance of this portfolio is measured against the cost of the deposits. This cost of funds is then divided to reflect the number of days in the reporting period and then the performance of the portfolio is measured against it. The aim of the portfolio is to earn a return over and above the cost of funds. The average duration is measured against the average maturity of the term deposits issued by the Fund. This structure is in place to match the average duration of the liabilities (being the term deposits issued by the Development Fund) with the average duration of the investments. This is to ensure that the Fund does not take on too much duration risk (interest rate risk).

Strategic (Base) and Tactical Asset Allocation

ASSET ALLOCATION Asset Classes	Strategic Asset Allocation	Tactical Range Limits
Cash & Term Deposits of a Fixed Maturity	35.0%	0% - 60%
NZ Fixed Interest	60.0%	20% - 90%
Global Fixed Interest - <i>NZ\$ Hedged</i>	5.0%	0% - 15%
Income Assets	100.0%	

Fixed Income

EXPOSURE LIMIT FRAMEWORK		(% of Income Assets)				(% of Total Portfolio)	
Asset Class / Issuer Category	Credit Rating	Max Exposure to Credit Rating ¹	Max Exposure to Single Entity ¹			Strategic Asset Allocation ²	Tactical Range Limits ²
1. Cash & Term Deposits of a Fixed Maturity						35%	0% - 60%
NZ and Australian Banks	A- or better	100%	33.3%				
2. NZ Fixed Interest						60%	20% - 90%
NZ Corporates	AAA	100%	25.0%	30%	40%		
	AA+, AA, AA-	80%	20.0%				
	A+, A, A-	65%	13.0%				
	BBB+, BBB, BBB-	35%	6.0%				
	Sub-Investment Grade or Unrated	25%	4.0%				
	(amount that can be sub-ordinated unrated debt) ⁵	7%	1.5%				
Local Authorities "Credit Rated", or where rates are sued as security, or security is provided by a debenture / guarantee		50%	13.0%				
State Owned Enterprises (SOEs)	BBB- or better	50%	13.0%				
NZ Government / Guaranteed Bond	A- (average) or better	100%	100%				
3. Offshore Fixed Interest (NZ\$ Hedged)						5%	0% - 15%
Global Bond Funds ³	A- (average) or better	15%					
			Income Assets			100%	0

Notes:

¹ Exposure limits are a percentage of investment in **Income Assets** (i.e. Cash, NZ and Global Fixed Rate Interest Investments).

² Asset allocation and tactical range limits are percentages of total **portfolio** value as defined in the strategic asset allocation in the SIPO.

³ The maximum exposure limit could be fully allocated to any of the JBWere recommended global bond funds.

⁴ The unrated exposure limit has been increased to account for the existence of good quality issues that are not formally rated.

If any counter party's credit rating falls below the minimum specified in the above tables then immediate steps are taken to reduce the credit exposure to that counter party to zero. If it is inappropriate to reduce the exposure at that time due to liquidity or price then the exposure needs to be monitored by the Investment Advisor and reported to the Investment Committee on a regular basis. The GM has delegated authority to approve new financial investments.

The MMCT

Risk Profile

The Mt Magdala Charitable Trust is to be considered a long-term balanced investor seeking long term growth and income predominantly from listed debt and equity markets. The investment portfolio is required to comply with the Strategic Asset Allocation and Fixed Income exposure limits as detailed below and within the organisations Moral and Pastoral Policy in Part 7. As a general rule the portfolio will have 50% of its assets in Growth securities and 50% in Income securities.

Strategic (Base) and Tactical Asset Allocation

ASSET ALLOCATION Asset Classes	Strategic Asset Allocation	Tactical Range Limits ¹	Benchmark Index Representing Asset Class
Cash & Term Deposits of a Fixed Maturity	5.0%	0% - 30%	S&P/NZ X 90 Day Bank Bill Index
NZ Fixed Interest	30.0%	0% - 80%	S&P/NZ X A-Grade Corporate Bond Index
Global Fixed Interest - NZ\$ Hedged	15.0%	0% - 25%	Barclays Global Aggregate Bond Index - Hedged to \$NZ
Income Assets	50.0%	30% - 60%	
NZ Listed Property	2.5%	0% - 25.0%	S&P/NZ X All Real Estate Index
NZ Equities	12.5%	0% - 25.0%	S&P/NZ X 50 Portfolio Index
Australian Equities	12.5%	0% - 25.0%	S&P/ASX 200 Index - Unhedged
Global Equities	20.0%	0% - 50.0%	MSCI All Country World Index - Unhedged
Private Equity ²	2.5%	0% - 15%	Illiquid investments - no market pricing available
Total Equities	47.5%		
Growth Assets	50.0%	40% - 70%	

¹ The Tactical Range Limits have been determined from historic market behaviour to contain deviation in performance of the portfolio from the strategic asset allocation benchmark, particularly the risk of underperforming the benchmark. Breaches to these limits should be avoided longer term to keep the portfolio from taking on risk-return characteristics that are materially.

² Private Equity is an extension of exposure to listed equities. These investments are typically made through fund managers and are illiquid, as the manager will dictate when investment is made and distributions are returned to investors.

Fixed Income

EXPOSURE LIMIT FRAMEWORK		(% of Income Assets)				(% of Total Portfolio)	
Asset Class / Issuer Category	Credit Rating	Max Exposure to Credit Rating ¹	Max Exposure to Single Entity ¹			Strategic Asset Allocation ²	Tactical Range Limits ²
1. Cash & Term Deposits of a Fixed Maturity						5%	0% - 30%
NZ and Australian Banks	A- or better	100%	33.3%				
2. NZ Fixed Interest						30%	0% - 80%
NZ Corporates	AAA	100%	17.5%	30%	40%		
	AA+, AA, AA-	80%	20.0%				
	A+, A, A-	65%	13.0%				
	BBB+, BBB, BBB-	35%	7.0%				
	Sub-Investment Grade or Unrated	25%	4.0%				
	(amount that can be sub-ordinated unrated debt) ⁵	7%	15%				
Local Authorities "Credit Rated", or where rates are sued as security, or security is provided by a debenture / guarantee		50%	13.0%				
State Owned Enterprises (SOEs)	BBB- or better	50%	13.0%				
NZ Government / Guaranteed Bond	A- (average) or better	100%	100%				
3. Offshore Fixed Interest (NZ\$ Hedged)						15%	0% - 25%
Global Bond Funds ³	A- (average) or better	25%					
			Income Assets			50%	30% - 60%

Notes:

¹ Exposure limits are a percentage of investment in **Income Assets** (i.e. Cash, NZ and Global Fixed Rate Interest Investments).

² Asset allocation and tactical range limits are percentages of total **portfolio** value as defined in the strategic asset allocation in the SIPO.

³ The maximum exposure limit could be fully allocated to any of the JBWere recommended global bond funds.

⁴ The unrated exposure limit has been increased to account for the existence of good quality issues that are not formally rated.

⁵ Within the universe of unrated issues, consideration could be given to investing in sub-ordinated debt if JBWere has access to research on the underlying company.

7. MORAL AND PASTORAL POLICY ON INVESTMENT

The Bishop accepts that the Investment Trustees may sacrifice returns on the funds invested in order to comply with the Church's moral policy. Before any considerations of return on investments, the Church's first loyalty is to God. Although it is a moral and legal fiduciary responsibility of the trustees to ensure an adequate return on investment for the support of the network of the church, their stewardship embraces broader moral concerns. Therefore, the Church may not assist, or profit from, activities that are illicit in terms of the moral law.

The basis for this policy is drawn from the United States Conference of Catholic Bishops Socially Responsible Investment Guidelines (USCCB) found here,

<http://www.usccb.org/about/financial-reporting/socially-responsible-investment-guidelines.cfm>

Values and Principles;

- Do no Harm
- Active Corporate Participation
- Promote the common good

The Roman Catholic Diocese of Christchurch seeks to invest in companies that support and sustain people in a socially just manner and who conduct business in an environmentally sound way.

The Screening Process

The Catholic Diocese of Christchurch is committed to incorporating responsible investment considerations into its investment decision-making processes. Our approach to responsible investment is to seek close alignment of our values with the following Ethical Investment Policy put in place, which is predominately based of the US Conference of Catholic Bishops' socially responsible guidelines. The ability to implement this policy is a factor in the appointment of our investment adviser.

The Board has resolved to use reasonable endeavours to avoid investment in entities that meet the following criteria of prohibited activities at or above the threshold level where relevant:

ESG Controversies

Issue	Exclusion	Nature of involvement	Threshold
Racial and Gender Discrimination	Labour Rights Controversy Flag	Discrimination & Workforce Diversity Flag: This indicator measures the severity of controversies related to a firm's workforce diversity. Factors affecting this evaluation include, but are not limited to, a history of involvement in discrimination-related legal cases, widespread or egregious instances of discrimination on the basis of sex, race, or ethnicity, resistance to improved practices, and criticism by NGOs and/or other third-party observers.	<1
Promoting Human Dignity	Human Rights Controversy Flag	This ESG pillar is an assessment of controversies (if any) related to a firm's impact on the communities in which it does business. Factors affecting this evaluation include whether a company is involved in controversies related to support for controversial regimes, freedom of expression and censorship, and other human rights abuses and adverse impact on a community.	<1
Labour Standards/ Sweat Shops	Labour Rights Controversy Flag	This ESG pillar is an assessment of controversies (if any) related to a firm's employee relations and supply chain. Factors affecting this evaluation include whether a company is involved in controversies related to labor-management relations, employee health & safety, collective bargaining & unions, discrimination and workforce diversity, and management of supply chain employee relations standards.	<1
Protecting the Environment	Environment Controversy Flag	This ESG pillar is an assessment of controversies (if any) related to a firm's impact on the environment. Factors affecting this evaluation include whether a company is involved in controversies related to land use and biodiversity, toxic spills and releases, energy and climate change, water management, operational non-hazardous waste, environmental impact of products and service, and management of supply chain environmental impact.	<1

Ethical Exclusions

Issue	Exclusion	Nature of involvement	Threshold
<i>Protecting Human Life</i>	Abortion	Any tie	True
<i>Curbing Pornography</i>	Adult Entertainment	Maximum percentage of revenue	5%
<i>Protecting Human Life</i>	Contraceptives	Any tie	True
<i>Protecting Human Life</i>	Embryonic Stem Cells/ Human Cloning	Stem Cell Research: <ul style="list-style-type: none"> Embryonic Fetal Tissue Use of Fetal Cell Lines Enabling Technology 	True
<i>Reducing Arms Production</i>	Weapons	<ul style="list-style-type: none"> Bio/ Chemical – Maximum percentage of revenue Conventional – Maximum percentage of revenue Nuclear – Maximum percentage of revenue Depleted Uranium Weapons – Manufacturer Cluster Munitions – Manufacturer Landmine – Manufacturer 	0% 5% 0% True True True
<i>Affordable Housing/ Banking</i>	Predatory Lending	CRA Rating	Needs to improve
<i>Tobacco Use (external to USSCB guidelines)</i>	Tobacco	Producer	True

Implementation for Direct Security Investments

JBWere will use reasonable endeavours to screen out directly held security investments in the investment portfolios involved in the prohibited activities as described in the ethical and ESG controversy exclusion tables above. JBWere will rely on data from third party agencies when screening these directly held security investments, which according to the investment guidelines agreed upon in the Statement of Investment Policy and Objectives (SIPO), will apply to the asset classes of Cash (NZ registered banks), New Zealand Fixed Interest, New Zealand Equities (including listed Property), Australian Equities and Global Equities.

Implementation for Indirect Pooled investments

In relation to indirect pooled investments (i.e. via investment in collective investment vehicles), JBWere will from time to time use reasonable endeavours to screen for and avoid indirect exposure to entities involved in the prohibited activities as described in the ethical and ESG controversy exclusion tables above. Where identified and measurable, exposure to entities involved with these prohibited activities will be limited to an accumulated materiality representation threshold of 10% of the total value of each of these pooled investment products.

Disclosures

The screening of prohibited activities by JBWere is provided 'as is' without warranty of any kind (express or implied). JBWere makes no guarantee or warranty as to the correctness, completeness, reliability, timeliness, availability or fitness for a particular purpose of the third-party screening services used to provide the screening.

Although JBWere's information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the ESG Parties), obtain information from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness of any data provided by them. None of the ESG Parties makes any express or implied warranties of any kind, and the ESG Parties hereby expressly disclaim all warranties of merchantability and fitness for a particular purpose, with respect to any data provided by them. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data provided by them. Further, without limiting any of the foregoing, in no event shall any of the ESG Parties have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

8. PERFORMANCE MEASUREMENT

Measuring the effectiveness of the Diocese's treasury activities is achieved through a mixture of subjective and objective measures. The predominant subjective measure is the overall quality of treasury management information. The CDC the CDF and the Investment Sub-committee have prime responsibility for determining this overall quality. Objective measures are as follows:

1. Borrowing:

- Adherence to policy.
- Unplanned overdraft costs.
- Comparison of actual monthly and year to date interest costs v budget borrowing costs.

2. Equity Investments:

- Adherence to policy.
- Comparison of financial ratios to budgeted ratios as per the Annual Budget.

3. Property Investments:

- Adherence to policy.
 - For commercial property investments:
 - Comparison of actual gross and net income to budgeted gross and net income.
 - Comparison of actual rental yield to budgeted rental yield.

4. Loans Advances:

- Adherence to policy.
- % of loan instalments overdue.

5. Financial Investments:

- Adherence to policy.
- Comparison of actual monthly and year to date income v budget income.
- Investment performance is to be benchmarked against a suitable performance standard for each portfolio as described in Section 6. There is no readily acceptable benchmark for a diversified investment portfolio and it will be necessary to apply a compilation of the NZX 50 Index, Australian All Ordinaries Index, overseas equity indices, and measures appropriate to the monitoring of fixed interest returns.
- The Investment Sub-committee approves the appropriate weighting of the benchmark portfolio at the budget round.

9. REPORTING & MEETINGS

Reports

The following reports are produced:

Report Name	Frequency	Prepared by	Recipient
Treasury Spreadsheet	Monthly	Accountant Management Accountant	Manager - Finance & Support Services
Bank Reconciliation Cash flow report	Daily	CDF Administrator Accounts Clerk	Manager - Finance & Support Services (monthly)
Portfolio Valuation	Monthly	Investment Advisor	Manager - Finance & Support Services Accountant Management Accountant
Portfolio Performance	Quarterly	Investment Advisor	Manager - Finance & Support Services Diocesan Management & Finance Board CDF Trust Board Investment Sub-committee
Asset Allocation Parameters	Quarterly	Investment Advisor	Investment Sub-committee
Balance and Interest Rate Analysis ¹² (CDF Only)	Monthly	CDF Administrator	Manager - Finance & Support Services Management Accountant Investment Advisor CDF Trust Board
Financial Statements	Monthly	Accountant Management Accountant	Manager - Finance & Support Services Diocesan Management & Finance Board CDF Trust Board
Overdue Loans Instalments(CDF Only)	Monthly	CDF Administrator	Manager - Finance & Support Services

¹² This report identifies in respect of the CDF only: cost of deposits, return on loans, return on funds and operating margin

Report Name	Frequency	Prepared by	Recipient
Investment Strategy	Quarterly	Investment Advisor	Manager - Finance & Support Services
Audit report (CDC & CDF Only)	Annually	The Diocese's Auditors	Audit Sub-committee of Diocesan Management & Finance Board and CDF Trust Board

Meetings

The Diocesan Management & Finance Board meet monthly & the CDF Trust Board meet bi-monthly and review and approve the current period's treasury reports provided by the Investment Advisor and the finance team:

- investments within allocation limits,
- portfolios valuations.

The Investment Sub-committee meets as required and quarterly to review the following information provided by the Investment Advisor:

- a review of all the markets where the portfolio is invested,
- a recommended strategy for future investment,
- summary of investment portfolio,
- statement of income,
- statement of funds,
- actual performance compared to agreed benchmarks. This will comprise:
 - total performance,
 - sector performance,
 - portfolio valuation for each asset sector.

The Investment Sub-committee comprises of the Chairperson and one other member of the Diocesan Management & Finance Board and the Chairperson of the CDF Trust Board.

Attendance of Advisors

The Advisor will meet with the Investment Sub-committee quarterly and as required.

10. DELEGATED AUTHORITIES & KEY INTERNAL CONTROLS

Delegated Authorities

Activity	Responsibility
Alter policy document	CDC & CDF
Authorise bank facilities	CDC & CDF
Open/close bank accounts	Cheque signatories
Cheque signatories	As approved by CDC & CDF
Approve recommendations from Investment Advisors	GM and Manager - Finance & Support Services acting jointly or in the absence of any one of those officers acting jointly with the Accountant or Management Accountant
Approve investment strategy	GM
Approve loan advances	CDF
Arrange loans advances	Manager - Finance & Support Services
Manage financial investments	Manager - Finance & Support Services
Transfers of stock/register new debt issues	Portfolio Custodians Limited

Key Internal Controls

The Diocese's systems of internal controls over treasury activity include:

- Adequate segregation of duties among the core treasury functions of deal execution, confirmation, settling and accounting/reporting. There are a small number of people involved in treasury activity and accordingly strict segregation of duties is not always achievable. The risk from this is minimised by the following processes:
 - A documented approval process for treasury activity.
 - Regular management reporting.
 - Organisational, systems, procedural and reconciliation controls to ensure:
 - All treasury activity is bona fide and properly authorised.
 - Checks are in place to ensure the Diocese's accounts and records are updated promptly, accurately and completely.

More specifically, key internal controls are as follows:

General

Organisational Controls

- The Manager - Finance & Support Services has responsibility for establishing appropriate structures, procedures and controls to support treasury activity.
- All borrowing, investment, cash management and risk management activity is undertaken in accordance with approved delegations authorised by the Diocese.

Cheque and Electronic Banking Signatories

- Signatories approved by the Diocese.
- Dual signatures are required for all cheques and electronic transfers.
- Cheques must be in the name of the counter party crossed "Not Transferable Account Payee Only" via the Diocese's bank accounts.

Authorised Personnel

- The Investment Advisor is supplied with a list of personnel approved to undertake transactions, standard settlement instructions and details of personnel able to receive confirmations (see Appendix 3).

Recording of Deals

- Monthly reports are received within the first week of each month detailing transactions and total portfolios at the end of the previous month.
- Transaction reports are checked by the Accountant/Management Accountant against approved recommendations, contract notes and expected interest.
- Accountant/Management Accountant follows up any discrepancies with Investment Advisors.
- Journal entries are prepared from transaction reports and are entered into accounting system by the Accountant or Management Accountant.

Settlement

- All investments mature into the bank account of Portfolio Custodians Limited and ultimately are paid into the Diocese's bank accounts in accord with the cash management procedures of the Investment Advisor and the cash requirements of the Diocese.

Reconciliations

- Any discrepancies arising during bank statement reconciliation are dealt with by the CDF Administrator or the Accounts Clerk and signed off by the Manager - Finance & Support Services.
- The Manager - Finance & Support Services reviews the monthly reconciliation of the treasury spreadsheet to the general ledger, carried out by the Accountant/Management Accountant.

Borrowing

In addition to the controls listed in Part 3, the following controls apply to borrowing:

- Borrowing activity is authorised by the CDC or the CDF.

Investments

In addition to the controls listed in Part 4, the following controls apply to investments:

- Investment activity is undertaken within counter party limits specified in Part 6 of this policy.
- All deliverable certificates of investment (e.g. bank bills) are held by Portfolio Custodians Ltd.
- Portfolio Custodians Ltd forwards contract notes to the Diocese.

11. OTHER RISKS AND CONTROLS

Legislation Risk

There is a risk of non-compliance with various legislation particularly for the CDF. To mitigate this the following processes have been implemented:

- a) A compliance checklist has been compiled in consultation with the CDF solicitor.
This checklist is reviewed and updated regularly by the CDF Administrator.
- b) All brochures are vetted by the CDF solicitor to ensure compliance prior to distribution.

Legislative changes may occur and be missed by the Diocese. As mitigation, the Diocese subscribes to a legislation tracking service and collaborates with other dioceses and exchanges views on any items detected that have potential to affect operations. Submissions are made where appropriate.

Market Risk

Market risk is the risk of loss arising from adverse movements in interest rates offered to depositors with the CDF. The following measures are in place to minimise that exposure:

- The maximum term for deposits is 12 months.
- Deposit interest rates are reviewed regularly (at least monthly).

System Failure

The CDF utilises the Melbourne Catholic Development Fund bureau for the use of Ultracs software that processes the transactions and provides the data storage. The following actions alleviate the problem of a system failure other than through the internet being unavailable.

- The system is hosted externally from CDF Melbourne with TAS (a technology partner within the financial services industry) improving security and connectivity
- There is a backup facility in Melbourne with regular testing of disaster recovery processes. CDF Melbourne has a separate disaster recovery site, and uses TAS's shared SD-WAN infrastructure at that site.
- A six monthly vulnerability audit is undertaken.
- TAS undertakes audits every 6 months across all its processes.
- The TAS end of FY audit is based on ASAE3402 undertaken by Deloitte.
- The TAS end of calendar year audit is based on PCI DSS and is undertaken by Vectra.

- Internal vulnerability checks (a full credentialed scan using Nessus) are run every week.
- External scans are run daily using Tenable.io.
- Remediation of issues found during these scans depends on the criticality of the issue found.
- Issues assessed as critical are remediated within 30 days as required by PCI DSS – sometimes much faster depending on the amount of testing required and the impact of the fix.
- Other issues are remediated depending on the system patching cycle.
- In general, Windows systems are on a 30 day patch cycle, while Unix systems are on a 6-month cycle. Some other infrastructure is on a 12-month cycle.

APPENDICES

APPENDIX 1

Trustee Responsibilities as per Section 13E of Trustee Act

Matters to which trustee may have regard in exercising power of investment

Without limiting the matters that a trustee may take into account, a trustee exercising any power of investment may have regard to the following matters so far as they are appropriate to the circumstances of the trust:

- a) The desirability of diversifying trust investments:
- b) The nature of existing trust investments and other trust property:
- c) The need to maintain the real value of the capital or income of the trust:
- d) The risk of capital loss or depreciation:
- e) The potential for capital appreciation:
- f) The likely income return:
- g) The length of the term of the proposed investment:
- h) The probable duration of the trust:
- i) The marketability of the proposed investment during, and on the determination of, the term of the proposed investment:
- j) The aggregate value of the trust estate:
- k) The effect of the proposed investment in relation to the tax liability of the trust:
- l) The likelihood of inflation affecting the value of the proposed investment or other trust property.

APPENDIX 2

What is a Credit Rating?¹⁴

A credit rating is a current assessment of the creditworthiness of a borrower, or the creditworthiness of a borrower with respect to a particular debt security or other financial obligation.

This assessment is based on a comprehensive, defined rating methodology and rating criteria. Credit ratings are judgements of borrowers' creditworthiness based on relevant risk factors, expressed by a letter-grade rating symbol, which markets have come to depend on as reliable, user-friendly tools for differentiating credit quality. Essentially, a credit rating is a trusted gauge of potential risk that investors and counterparties can use to supplement other important decision making factors.

Because investors and counterparties trust rating agency assessments of creditworthiness, a credit rating – impartial, consistent, and timely – expands the ability of borrowers to readily issue debt in international and domestic credit markets. Aside from issuing debt, a company can also use a credit rating whenever it needs to establish its creditworthiness or financial standing, such as bidding on projects and commencing negotiations with banks, landlords, suppliers, or other long term contractors.

Credit ratings provide a consistent measure of credit quality. Across the globe, investors and counterparties have the security of knowing that any borrower or issue with a credit rating is judged as having the same credit strength as all other borrowers or issues with that same rating. In addition ratings incorporate an historical record that can help investors identify credit trends associated with particular issuers or issues.

The major credit rating agencies used in New Zealand and Australia are Standard and Poor's ("S&P") and Moody's.

'Investment Grade' Ratings

For S&P the market uses the term investment grade to identify issuers or securities rated "BBB-" and above. That is, companies with S&P ratings between AAA and BBB- are considered "investment grade".

¹⁴ Source Bancorp Treasury Services Ltd, Treasury Risk Management Seminar Notes, prepared by D.M. Rankin & E.A. White July 2002

Long-Term Issuer Credit Ratings¹⁵

AAA

An obligor rated 'AAA' has **EXTREMELY STRONG** capacity to meet its financial commitments. 'AAA' is the highest Issuer Credit Rating assigned by Standard & Poor's.

AA

An obligor rated 'AA' has **VERY STRONG** capacity to meet its financial commitments. It differs from the highest rated obligors only in small degree.

A

An obligor rated 'A' has **STRONG** capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.

BBB

An obligor rated 'BBB' has **ADEQUATE** capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.

▪ Standard & Poor's and Moody's Rating Comparisons

S&P	MOODY'S
AAA	Aaa
AA+	Aa1
AA	Aa2
AA-	Aa3
A+	A1
A	A2
A-	A3
BBB+	Baa1
BBB	Baa2
BBB-	Baa3

¹⁵ Source, <http://www.standardandpoors.com/portal/site/sp/en/au/page/article/2,1,1,4,1204840817021.html#ID489>

APPENDIX 3

Authorised Personnel

Payment Authority (Electronic or Cheque)

CDC & CDF

- Diocesan Financial Administrator
- Manager - Finance & Support Services
- Management Accountant
- Accountant
- CDF Administrator

Any two of the above.

Authority to give Investment Instruction to Investment Advisors

CDC & CDF

- Diocesan General Manager
- Manager - Finance & Support Services
- Management Accountant
- Accountant
- A member of the Investment Sub-committee

Any two of the above.

NOTES

Lined area for notes, consisting of multiple horizontal lines.

