Statement of Investment Policy and Objectives

April 2024

Investing
In Our
Community

TRUST
HORIZON

Contents

1. Glossary of Terms

Asset classes - Broad groupings of financial securities such as shares, bonds and cash, usually split into domestic and overseas categories.

Diversification - Spreading investment over a range of asset classes, sectors, regions and securities with the aim of reducing risk.

ESG (Environmental, Social and Governance) - An approach to investment that takes into account factors such as environmental and social issues.

Hedging - An investment that offsets the risk/return from another investment. A typical example is hedging currency risk when an investment is dominated in a foreign currency.

Impact investments - Investments made into companies, organisations, and funds with the intention to generate a measurable social impact alongside a commercial return. Impact Investments may include (but are not limited to) direct ownership of property, public or private equity, loans, shares or investments in social enterprises, cash investments with a specific purpose, or guarantees.

Liquidity - A measure of the ease by which investments can be redeemed.

Correlation – a measure of how two assets move in relation to each other. Two assets perfectly positively correlated move in the same direction and have a score of 1.0

Risk – the volatility of returns of a particular asset or investment.

Risk profile – the ability and willingness of an individual or organisation to suffer investment losses.

2. Introduction

About the SIPO

The purpose of this Statement of Investment Policy and Objectives (SIPO) is to provide all parties involved in the investment programme of Trust Horizon (the Trust) with guidance on how the investments are to be managed. The SIPO sets out the investment governance, strategies and objectives for the investments of the Trust. It covers the following areas:

- Governance: the responsibilities of the various parties involved in the investment process.
- Investment Objectives: the risk and return objectives of the investments.
- Investment Strategy: the strategic asset allocation and rebalancing ranges.
- Investment Policies: policies relevant for the implementation of the strategy.

- Risk Management Policies: policies and measures for managing the investment risk.
- Monitoring and Review: review and monitoring procedures for oversight.

About the Trust

Purpose

The Trust was established to enable the trustees to apply the Trust Fund for or towards energy related purposes as detailed in the Trust Deed.

Governing Law

The principal laws that apply to the undertaking of the Trust are the Trusts Act 2019 and the Charities Act 2005.

Tax Status

Following the registration by the Trust as a Charity (Registration number CC38748), the Trust became exempt of tax.

3. Governance

The Trustees' powers and discretions are defined in the Trust Deed. The consequent roles and responsibilities of the various parties involved in the management of the Trust's assets are outlined in sections 3.1. to 3.3 below.

For the purpose of investment governance, management and monitoring, the Trust's investments are split into three parts: the core infrastructure holding in Horizon Energy Distribution Limited (the Company), Impact Investments and a Diversified/Liquid Portfolio.

3.1. Trustees

The Trustees are responsible for:

Governance

i. Updating and reviewing this SIPO on a regular basis;

ii. Monitoring the compliance of the investments with the SIPO;

iii. Appointing the Directors of the Company;

iv. Appointing and reviewing performance of all external parties involved in the selection and management of Impact Investments and the Diversified/Liquid Portfolio.

Investments

i. Reviewing the investment beliefs periodically (at least every three years);

ii. Defining and reviewing the investment objectives;

iii. Establishing and reviewing investment and risk management policies;

iv. Defining the benchmarks against which the investment performance should be monitored.

3.2. Chief Executive

The Chief Executive is responsible for:

i. Identifying options that fit within this SIPO and governance framework;

ii. Management of short term cashflow such as deposits, cash or other liquid assets;

iii. Maintaining an investment review calendar;

iv. Coordinating the investment agenda for the Trustees; and

v. Engaging with all external parties on operational matters.

3.3. Investment Advisers

Investment Advisers are responsible for:

i. Providing ongoing advice and recommendations on the portfolio construction and allocations across -asset classes and geographies;

ii. Reporting on investment risk, macro-economic performance as well as individual investment performance and portfolio positioning;

iii. Providing necessary due diligence, supporting documentation and analysis on fund managers or individual investments;

iv. Conducting analysis on other attractive opportunities and help position for access; and

v. Educating and building the investment knowledge of the Trustees.

4. Investment Objectives

Overall objectives

The Trustees have an obligation to ensure that the Trust Fund is able to meet the terms of the Trust Deed both now and in the future.

The investment objectives of the Trust are designed to complement the main purpose of the Trust by providing ongoing funds for granting into energy related purposes. These are to:

i. Ensure sufficient funds are invested to maintain at least the real value of the Trust in perpetuity; and

ii. Maintain equity between present and future beneficiaries through allocation of funds to granting or investing.

iii. Exceed the New Zealand Consumers Price Index by 4% per annum over the long term.

iv. Experience a negative return in nominal terms no more frequently than one year in every five.

The needs of the community will vary over time so a rigid policy of distribution to reinvestment has not been set. Investment performance that is not distributed by way of granting will be reinvested for future societal benefit.

Company Investment objectives

The financial investment objective for the Company is to provide a consistent long-term dividend return that exceeds inflation by an appropriate margin and reflects shareholder risk. It is governed by the Statement of Corporate Intent (SCI) for both financial and non-financial objectives of the Trust.

Impact Investments objectives

Impact Investments have the objective of achieving positive, measurable, social and environmental impact alongside an acceptable financial return. Impact Investments will by their nature deliver potentially below market returns, if the social and environmental returns are significantly material. The financial investment objective of the Impact Investments is to provide a long-term return that over the investment timeframe exceeds inflation, after fees.

Impact investments are expected be cash flow positive, for the company invested in, after 5 years.

The Trust also has an objective to achieve non-financial objectives for the Impact Investments.

Diversified/Liquid Portfolio Investment objectives

The objective of the Diversified/Liquid Portfolio is to provide liquidity when required (ability to sell or trade at short-notice) and to reduce the overall risk of the portfolio, whilst contributing to the overall investment objectives.

Fees and transaction costs should be minimised.

5. Investment Philosophy

The Trustees hold the following investment beliefs that guide the strategy and implementation of the investment programme.

Investment Beliefs

Governance

The Trustees' role is to focus on the long-term investment strategy and its impacts. Secondary investment decisions should be outsourced to suitably qualified persons or organisations, where possible.

Appropriately qualified advisers should be used whenever decisions are deemed material.

Diversification

It is generally prudent and desirable to maintain a diversified investment portfolio. However, the investment in the Company, the regional scope and focus of the Trust, and its associated Impact Investments will limit the level of diversification the Trust is able to achieve. The continued 100% investment in the Company offers significant regional impact and financial benefits by way of the Group's Charitable status, not available through other diversified investments.

Market timing and performance

Market timing is not a reliable way of investing, as in short-term returns are largely unpredictable. The Trust should be a long-term investor that adheres to its investment strategy and policies.

Evidence shows that strategic asset allocation will be the main driver of overall investment performance in a diversified portfolio rather than manager performance. This is reflected in the Trust's passive and low-cost approach to managed-fund investing.

Risk Profile

The Trust has a moderate to high risk profile which is reflected in the higher returns expected from a concentrated investment in the Company. Similarly, the Trust is comfortable making higher risk Impact Investments with the possibility of low returns and/or impairment. The Trust has an inter-generational time horizon, and can invest capital over longer time horizons than a typical investor to manage risk and volatility.

Impact Investments

It is difficult to achieve market investment returns and also have a positive impact in the community. The Trustees will seek a financial return from Impact Investments that is commensurate with the opportunity (early, growth, mature) and the Trust's wider objectives.

Non-financial impacts should be measured and reported to holistically assess the Impact Investment portfolio.

Risks associated with early and growth stage Impact Investments can be reduced through co-investing.

The Trust takes a holistic or Kaitiakitanga approach to investment preferring to invest (and provide philanthropic grants) towards the right-hand side of the responsible and ethical spectrum (see Appendix B – Responsible Investment Framework).

Environmental, Social and Governance factors (ESG)

The principles of Triple Bottom Line reporting and investing in businesses with strong Environmental, Social and Governance (ESG) considerations reduces investment risk and should drive sustainable long-term investment returns.

Intergenerational equity

Current and future generations in the community should be treated fairly and the Trustees will take this into account whenever they make material decisions on investments.

6. Investment Strategy

Strategic Asset Allocation and Rebalancing Ranges

Company and Impact Investments

Asset	Strategic range
Company	75-100%
Impact Investments	0-25%
Diversified/Liquid Portfolio	0-25%

These strategic ranges are for general guidance only, as the Trust understands that it is difficult to rebalance between these investments on an ongoing basis.

Diversified/Liquid Portfolio

Asset class	Strategic range	Target Weight
Total defensive assets	60-80%	70%
Total growth assets	20-40%	30%

The Trust will use an investment adviser and/or investment manager to advise on a more detailed split of asset classes for the Diversified/Liquid Portfolio. Rebalancing may be required to maintain the strategic ranges set above. If frequent rebalancing occurs (ie more than once per year) then the strategic ranges should be revisited.

Benchmarks

Company

Regulated Performance: S&P/NZX New Zealand Government Bond Index + 2% per annum, and

Unregulated Performance: S&P/NZX 50 Index (excluding imputation credits) + 3% per annum.

To make a like-for-like comparison to the benchmark a nominal tax amount will be included for the Company.

Impact Investments

Primary benchmark: S&P/NZX 50 Index (excluding imputation credits) for equity investments. Non-equity investments will be benchmarked against suitable asset class in Appendix A.

Secondary benchmark: The impact of Investments in the portfolio will be assessed against ESG measures defined at the time of investment.

Diversified/Liquid Portfolio

Primary benchmark: Peer Group median of similar risk funds over a 5 year period, otherwise an asset-based composite.

7. Investment Policies

7.1. General policies

The Trustees and any external parties appointed should have regard to Environmental, Social and Governance (ESG) and charitable alignment factors in investment decision-making.

7.2. Company

The Trustees acknowledge that they do not have direct control over the activities of the Company. However, the Trustees have informed the Company through the Statement of Corporate Intent of its financial and ESG expectations. They are embodied generally by the following:

i. The Company should have regard to the interests of the community and Trust when considering investments;

ii. The Trust requires the Company to protect the core regulated electricity lines business from any risk attributable to other businesses it owns;

iii. The Company should work towards ensuring that profits from the regulated lines business are unencumbered and available for dividend payments to the Trust, regardless of the performance of the unregulated businesses;

iv. If the Company invests in businesses that are not regulated, the future return expectations must compensate for the additional risk this creates;

v. Investment in unregulated business are expected to result in increased dividend payments to the Trust.

7.3. Impact Investments

i. The Trust should not invest in any impact investment that is not expected to meet the performance benchmarks set (based on its investment stage);

ii. The Trust should collaborate with other impact investors to reduce the cost of due diligence, analysis and risk of investing whenever possible;

iii. The Trust requires the recipients of impact investment capital to regularly measure and report both financial performance and wider non-financial impacts.

7.4. Diversified/Liquid Portfolio

i. The selection of individual securities should be outsourced to investment or fund managers.

ii. Where possible the portfolio should align with ESG considerations.

iii. The Diversified/Liquid Portfolio should comprise of at least 50% of investments that can be liquidated within a week in the normal course of business.

8. Risk Management Policies

The following risk management policies apply to all investments.

i. Diversification: Excluding the Company shareholding, the Trust should seek to diversify its assets to the extent that this is possible;

ii. Currency risk: The Trust targets to hedge at least 50% of foreign currency investments;

iii. Liquidity risk: The liquidity of an investment must be considered prior to investment. The Trust must ensure sufficient liquid investments are available to meet expected cash outflows;

iv. Borrowing: The Trust's borrowing should not exceed 20% of the total equity of the Trust and have regard to Company borrowing/facility implications. The Trust and the underlying investment managers are not allowed to borrow for the purpose of creating leverage in the Diversified/Liquid Portfolio.

v. Material incident: Any fraud, bribery, insider trading, material security breach or other material incident at an external provider or within an investment controlled by the Trust should result in an immediate investigation of the provider or investment.

Monitoring

Company

The investment in the Horizon Energy Group is monitored primarily through quarterly reporting from the Company and at least twice-yearly shareholder update meetings. The process that is to be followed is detailed within the Statement of Corporate Intent (SCI) that is agreed between the two parties each year. Annual performance analysis is undertaken following the receipt of the yearly accounts and audit report, with independent valuation of the Company undertaken every 3 years.

Impact investments

All impact investments should report progress at least twice a year, with an annual detailed update on financial performance and impact.

In the initial stages impact investments will be financially monitored against the objective of the company invested in becoming cash flow positive within the expected timeframe.

Once the impact investment has turned cash flow positive, performance will be measured by assessing the growth in the Trust's equity value against the benchmark.

Diversified/Liquid Portfolio

The monitoring of the Diversified/Liquid Portfolio will be performed by a review of the quarterly investment reports and by annual updates from the investment adviser.

Trust property

The monitoring of the value of the property held is undertaken with a two-yearly independent valuation and market rental review comparison.

SIPO Review process

The SIPO will be reviewed at least every three years or sooner, if updates are required.

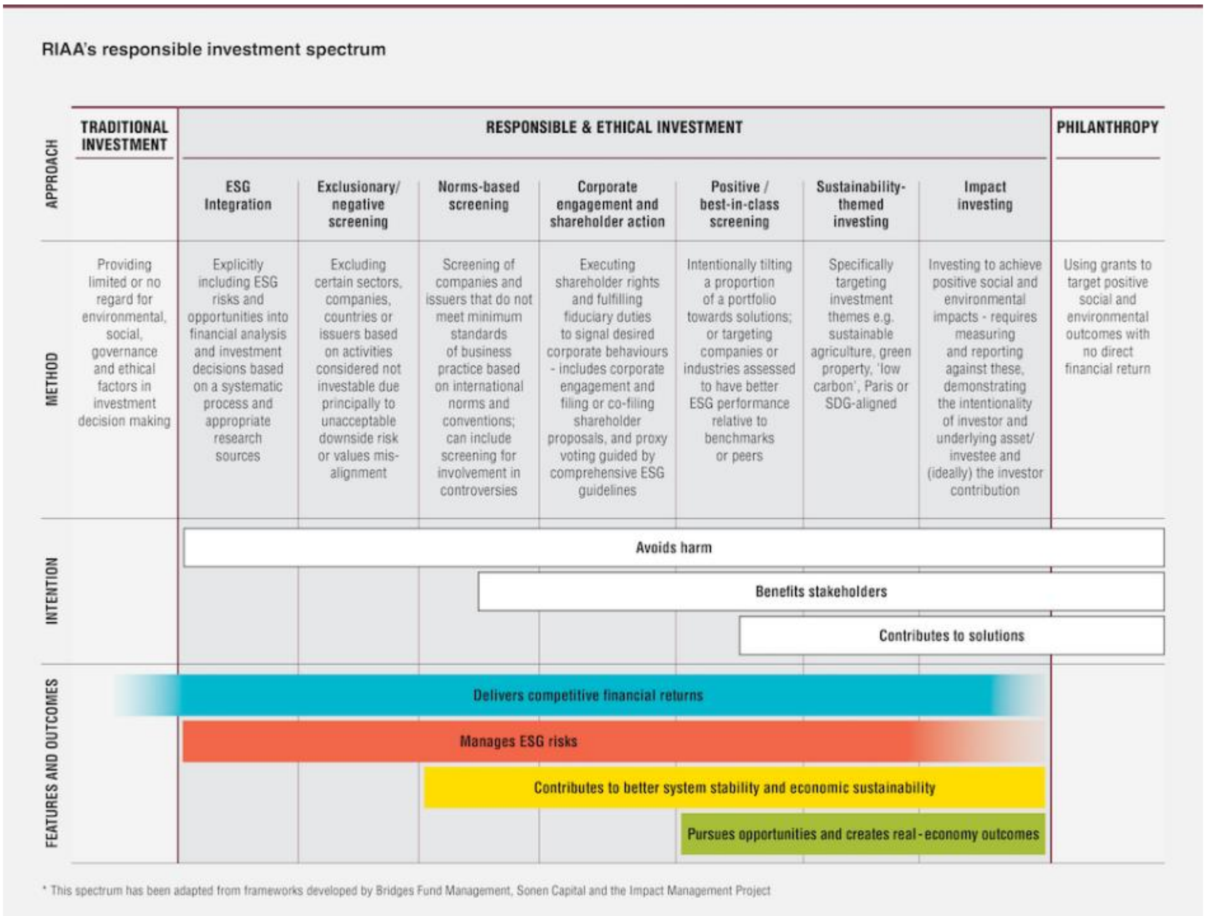
Appendix A - Diversified/Liquid Portfolio benchmarks

Asset class	Benchmark
Global fixed income	Bloomberg Global Aggregate Index NZD Hedged
New Zealand fixed income	Bloomberg NZ Bond Composite 0+Y Index
Global equities	MSCI All Country World Index [hedged to NZD]
Trans-Tasman equities	S&P/NZX 50 Index
Cash	S&P/NZX Bank Bills 90-Day

Peer Group	Benchmark
Kiwisaver Funds	MJW Investment Survey

Appendix B – Responsible Investment Framework

Source: https://responsibleinvestment.org/what-is-ri/ri-explained/



Appendix C – Investment Timing Framework

Stage	Investment timeline	Potential for additional investment	Investment return expectations	Indicative financial return	Environmental, Social and Governance example expectations
Mature	min. 3-5 years	Significant capital expansion, dependent on debt-facilities (infrequent)	Immediately, through regular dividend or income payment	Income and Equity combined similar to other companies in industry	Stable employment, with extra or high value job creation, additional economic growth (expansion of local industry), innovation in clean energy/climate change/sustainability
Growth	5 – 10 years	Periodic capital expansion and possibly operating costs	Equity growth, 5+ years onwards dividend or income payment	Equity growth, YoY return expected to be higher than for a similar mature company	New employment creation 10+ jobs, additional economic growth (expansion of local industry), innovation in clean energy/climate change/sustainability
Early Stage	>10 years	Very likely until cashflow positive, fund both capital expansion and operating costs	Equity growth, 10+ years onwards dividend or income payment	Volatile YoY equity growth/decline Higher possibility of complete loss of investment	New employment creation 20+ jobs, significant economic growth (new local industry), innovation in clean energy/climate change/sustainability

Change History:

Summary of Change	Date
Initial release	April 2021
Updated to reflect outcomes of SIPO review	April 2024