



INVESTMENT COMMITTEE

POLICY TITLE:	IMPACT INVESTMENTS
Date of Adoption:	May 2026
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Version:	8.0
Authorised:	IC Minor / Board Material Change

1. OBJECTIVES

- To provide a framework to assist the Trust in the identification and evaluation of Impact Investments.
- To provide a framework for managing the Trust's Impact Investment portfolio.
- To provide guidance to applicants on the process and the criteria for Impact Investments.
- To ensure Impact Investments comply with applicable legislation.

The Board has agreed on the fundamental principles of this policy and has delegated responsibility for the implementation and monitoring and minor updating of this policy to the IC Committee.

This policy must be read in conjunction with other Trust policies.

2. BACKGROUND

BayTrust operates a globally diversified investment portfolio with considerable assets that are held on behalf of the community. **The purpose of investing a portion of this portfolio in Impact Investments** is to align with and increase the Trust's impact around its Purpose without materially compromising its overall investment returns **and** to address issues that granting is unable or ineffective in positively impacting. It is acknowledged that Impact Investments can be a tool to create system change which is aligned with BayTrust's Purpose of **Bold Meaningful Change**.

Impact Investments are included as part of the Trust's Strategic Asset Allocation (SAA) within the Trust's SIPO. This policy sits alongside the Trust's SIPO and is referred to within the SIPO. This policy also adheres to the principles of Te Tiriti o Waitangi adopted within the SIPO, and Trustees commit to impact investing (where able) in a way that is consistent with the Te Tiriti o Waitangi and aligns with its intentions for climate neutrality in its operations.

The allocation to growth and defensive Impact Investments as a percentage of the total portfolio is outlined in the SIPO and is reviewed at regular intervals (along with the other asset classes) by the Trust and its Investment Advisors as part of its investment work plan. Further, the financial risk and return characteristics of the Trust's Impact

Investments are included (to the extent that this is possible) as part of the Trust's regular SAA and SIPO discussion and review.

Additionally, BayTrust believes that its historically conservative granting approach has resulted in a significant buffer over its inflation-adjusted base capital compared to the average of the other 9 comparable Community Trusts. This buffer provides additional capacity to absorb potential risks associated with impact investments, supporting the Trust's ability to pursue greater impact while maintaining prudent risk management.

The Trust's buffer above the average reserves of other Community Trusts will be monitored annually (usually at the Nov IC post the community trust annual results being released) to help mitigate additional risks associated with impact investments (e.g., impairments or capital loss). The expectation is that, even if the impact investment portfolio were impaired by 50% the loss would remain below this buffer. If lower impact investment returns reduce the buffer over time, the Trust will consider reducing its impact investment allocation accordingly.

BayTrust may also encounter potential investment opportunities that straddle the line between a **true** impact first investment (where the impact is deliberate in its intention to achieve a measurable social/environmental impact) and an investment that produces significant social good, but the primary intention is to produce a financial return. There are also some traditional investments that demonstrate impact. BayTrust will consider each potential investment opportunity that presents on its various merits, utilising a portfolio approach as outlined in this policy.

BayTrust recognises that investments within the Impact Investment Portfolio can fall into three categories:

- High Impact – or impact first investments with intentional and measurable approaches and can be concessionary (where the financial reward is less than market) and/or patient capital (capital that is risk tolerant to mobilise other investment into a deal/project).
- Impactful - investments that “produce significant social good” or “demonstrate impact” but where the primary intention is to produce a financial return. These investments can be mission aligned (to BayTrust's purpose or mission) or ecosystem building (investments that contribute to the impact investment ecosystem).
- Traditional with impact - Investments that are impactful that meet the financial risk/return requirements of a broader portfolio. These investments provide risk adjusted returns that are appropriate for consideration within the broader portfolio outside of the specific impact allocation.

Regard will be given during investment decisions as to where the investment would fit. Reporting will be provided on an annual basis as to how each investment fits within each allocation in order to monitor the overall portfolio.

Definitions:

Impact – refers to the long-term, systemic, and often broader effects of the impact investment on individuals, communities, or systems. Impact is the lasting change or transformation that the investment aims to contribute to, such as improvements in social, economic, or environmental conditions. Impact is typically measured over a longer time frame and can be positive or negative, intended or unintended.

Outcomes – are the specific changes or effects that occur because of the outputs generated by the impact investment. These could include changes in behaviour,

knowledge, skills, or access to resources for the target population or beneficiaries. Outcomes are the intended positive changes that the investment aims to achieve.

Outputs – refer to the tangible products, services, or activities directly resulting from an impact investment. These can include things like the number of products sold, services provided, people employed, or facilities built. Outputs are the immediate, measurable results of the investment.

Impact Investments are investments made with the intention to generate a measurable **social** or **environmental impact** alongside a **financial** return.

Financial returns can include, but are not limited to interest, dividends, capital gains, or other monetary return.

Non-financial impact refers to social or environmental impact, defined as a measurable benefit(s) provided to the BOP community or environment that aligns with BayTrust's Purpose, Mission and Values.

\$1m Social Enterprise Support Allocation (SES) – is the name given to the \$1m allocated to support small social enterprises. This allocation will allow more impact investments on a small scale of between \$50,000 and \$500,000 to be considered.

3. IMPACT THESIS

Portfolio Mission:

Intentions

Through the Trust's **Impact Investment Portfolio**, BayTrust seeks to make investments that can demonstrate both a social and/or environmental impact, align with our purpose and provide a financial return. The impact needs to be measurable and align with BayTrust's overall identified priorities, while the financial return should reflect the financial risk of the investment along with the social or environmental impact.

To align with the Trust's Purpose, Mission and Values the requirements is to deliver social/environmental impact principally in the Bay of Plenty ('BOP'), however there is also potential for BayTrust to invest in impact investments that provide impact outside the BOP region where the investment:

- returns an appropriate risk adjusted market return;
- can be seen to assist in the development of the impact investment eco-system within NZ;
- is climate related, with climate change knowing no boundaries;
- has the potential for the impact to "trickle down" to BOP communities.

Motivation

BayTrust believes that impact investments offer a method to increase the impact to the BOP community in addition to our granting programmes, where our granting is not effective and to reflect and align our purpose with our investments. The Trust seeks to support, through investment, activities that address issues relevant to BOP communities and welcome's innovative approaches to complex social and environmental issues

Mission, Purpose and Values

The Trust's Mission, Purpose and Values will all be reflected in any impact investment consideration.

The **Trust's Mission** is widely defined in clause 4 of BayTrust's Deed as to 'benefit the community in the BOP'.

The Trust's Purpose: “To accelerate bold, meaningful change to assist our BOP communities and environment to flourish”.

The Trust's internal values **and granting priorities of:** Community Wellbeing, Tu Maori Mai, Healthy, Secure and Affordable Housing, and Kaitiakitanga will be considered in making investment recommendations and decisions.

The Trust will also incorporate environmental, social and governance (ESG) (as defined in the Trust's SIPO) considerations in its impact investment process.

- *Impact investments need to be able to show they are on the path to be climate neutral/positive and sustainable and be in alignment with the below:*
 - *resources must not be used at a pace faster than the rate at which they regenerate;*
 - *use of non-renewable resources must not be used faster than the rate at which their renewable substitutes can be put in place;*
 - *the emission of pollution and wastes must not be faster than the rate at which natural systems can absorb them, recycle them, or render them harmless.*

Impact investments are required to demonstrate that they operate consistently with Te Tiriti o Waitangi.

4. PURPOSE

Portfolio Objectives:

BayTrust seeks an impact investment portfolio that will:

- achieve increased impact in the BOP,
- help support and build the impact investing eco-system to attract additional investment funds (preferably from mainstream investors) to increase the scale and impact of investments addressing community issues,
- meet the desired impact investment financial return and risk characteristics.

However, BayTrust may also consider investment where the impact is largely outside of the BOP region, but there are other significant benefits to the impact investment eco-system or downstream benefits to the BOP and they align with our overall portfolio intentions and principles.

BayTrust will also consider other options for creating an impactful proposition e.g. grant funding or external support.

Recognition is given to the nature of BayTrust, deriving our initial corpus from community assets, and therefore it is necessary to serve the whole of the BOP population and to keep priority areas and targeted populations broad. While impact investments could seek impact in any of BayTrust's priority funding areas, they are most likely to be suitable for solutions in:

- *Kaitiakitanga*
- *Healthy, Secure and Affordable Housing*
- *Sustainable Employment and Inclusive Growth (as a subset of Community Wellbeing)*
- *Tū Māori Mai (achieved through investment with Māori in other areas and partnership with Iwi etc.*

Funding Priority Area	Target Population/Issue	Target Business Model	Target Impact
<i>Healthy, Secure and Affordable Housing</i>	✓ Those people / communities residing in sub-standard or inadequate housing	✓ Investment in public, emergency, and affordable housing developments ✓ Programmes that seek to improve home ownership statistics for vulnerable sectors ✓ Supporting the creation of new housing models that will affect system change ✓ Support investment mechanisms that enable the attraction of commercial capital to address housing issues (BOP HEF)	✓ Reduction in homelessness. Improved family wealth, community health and wellbeing. ✓ Increased stability of families living in steady accommodation ✓ Increased housing on Māori land
<i>Community Wellbeing – (Sustainable Employment)</i>	✓ Deprived communities with high deprivation and low employment Regions seeking to improve the quality of job offerings to its citizens	✓ Inclusive Growth economic development opportunities that create sustainable employment opportunities for vulnerable sectors that	✓ Improved standard of living, greater community cohesiveness,

<i>and Inclusive Economic Growth)</i>	✓ Promote inclusive economic development, and the creation of sustainable employment opportunities ✓ Encourage or support the creation and enhancement of social enterprise ✓ Encourage greater productivity of Māori resources (whenua, awa and moana)	also are at least environmentally neutral	decreased inequity
<i>Kaitiakitanga</i>	✓ Community-led environmental initiatives ✓ Activities that support communities to sustainably manage their natural resources	✓ Environmentally sound and productive agricultural/ horticultural or business models that seek to remedy damage or improve environmental outcomes	✓ Water quality improvement ✓ Increased pasture conversion to wetland ✓ Ha's land utilising reduced nitrogen methods ✓ Green communities with lower environmental footprint ✓ Native forest carbon farming
	✓ Programmes or initiatives that seek to address climate change implications, including culture change, leadership and awareness	✓ Innovative models that seek to reduce emissions or find alternative operating methods that are not environmentally damaging ✓ Investment into nature carbon solutions	✓ Reduced greenhouse gas emissions ✓ Carbon forests that sequester carbon
	✓ Waste reduction	✓ Waste utilisation businesses ✓ Organisations that are seeking to create a circular economy	✓ Reduced waste to landfill
<i>Tū Māori Mai</i>	✓ Housing deprivation ✓ Underutilisation of Māori assets	✓ Investment into BOPHEF ✓ Investment into solutions positively affecting Māori housing and home ownership ✓ Investment in organisations that assist Māori landowners to improve profitability on their land.	✓ Improved housing statistics for Māori ✓ Improved economic conditions for Māori

5. PORTFOLIO MANAGEMENT APPROACH

BayTrust will utilise a portfolio approach to managing its Impact Investment portfolio and assess potential new investments against the following portfolio targets:

- **Target social/environmental impact for impact investment portfolio: Significant: $\geq$ to 8 on BayTrust's Impact Assessment Framework (see Appendix A).**
- **Target financial return for impact investment portfolio now that the portfolio is comparatively larger and more diversified is set to match the mainstream portfolio long term return target 5.00% real. This rate is updated annually as part of the Trust's SIPO and SAA review.**
- **Target financial risk for impact investment portfolio: Risk of permanent loss of investment = Low as determined by BayTrust's impact investment financial risk matrix (see Appendix B).**

For investments that fit the criteria for the \$1m SES allocation (i.e. \$500,000 or under in value) it is accepted the risk profile may be higher, and the return target lower.

The portfolio management reflects the following principles:

Balance: Investments within the portfolio will endeavour to be balanced between those that return a below market return with high impact (concessionary and patient impact investments) and those that have a lower impact but provide a higher commercial return (Impactful and traditional with Impact Investments). This will be done through modelling the Trust's current portfolio against the above three targets and the effect the introduction of a potential new investment will have on the portfolio overall.

Risk tolerance: The Trust is prepared to accept that some impact investments will have a higher level of risk than the commercial investments the Trust holds, and there is less opportunity for diversification within the impact investment portfolio (due to size and limited availability of investment opportunities). At the same time, all effort will be made to assess, quantify, and mitigate risks on individual investments, and these will be highlighted as part of the decision-making process. Risk will be managed further through diversification within the portfolio where possible, by considering investments across the geographic region, across sectors within the region and investment types.

Review of existing Assets: The Trust will review its existing assets on a quarterly basis with comments and updates passed on to the IC. If an investment is deemed to be in distress or is in a liquidation/receivership stage, then a review of that investment is undertaken at the next meeting. The review will consider what is the cause of the distress, what learnings can be taken from the investment and what improvements could be made to processes and policies to lessen the chance of future unfavourable investments.

Generally, our risk tolerance will reflect the Risk Appetite Statement as follows:

	Low appetite for risk						High appetite for risk
	1	2	3	4	5	6	7
Up to \$500k Impact Investment.						X	
	Statement: Impact investments provide impact alongside a financial return. Where the investment required is not significant in comparison to the Trust's total portfolio, the Trust has a higher risk appetite.						
	Approach: utilisation of the SES allocation for these lower value investments.						
From \$500k up to \$2m II without security				X			
	Statement: Impact investments provide impact alongside a financial return. Where the investment required is significant in comparison to the Trust's total portfolio, the Trust has a lower risk appetite, but recognises that the level of DD increases in proportion to the amount of the investment. Where no security over the assets can be given, there is a lower appetite for risk.						
	Approach: Commitment to increasing the Trust's Impact Investment portfolio through investments that demonstrate impact and a reasonable level of risk where they are not able to offer security. It is recognised that all investments have risk, some of which can be ameliorated by the scale and intensity of the due diligence process relevant to the size of the investment and the perceived risks involved. In the investment decision the Trust will recognise the importance of the impact being generated and the risks inherent to the investment.						
From \$500k up to \$2m with security						X	
	Statement: Where the investment required is significant in comparison to the Trust's total portfolio, there is a lower risk appetite, but recognise that the level of DD increases in proportion to the amount of the investment and the provision of security will increase the Trust's appetite for risk. The Trust is therefore more open to investments with more apparent risk where, if failure occurred, the Trust has some ability to recoup its investment.						
	Approach: Commitment to increasing the Trust's impact investment portfolio through investments that demonstrate impact and a reasonable level of risk recognising this can be somewhat offset through security over assets. It is recognised that all investments have risk some of which can be ameliorated by the scale and intensity of the due diligence process relevant to the size of the investment and the perceived risks involved. In the Trust's investment decision, it will recognise the importance of the impact being generated and the risks inherent to the investment.						

Further Implications: When considering potential investments, consideration will be given to the suitable vehicle for holding ownership of the asset, implications on management and Trustee time in managing the investment and the complexity of the investment.

Impact Assessment: BayTrust will use the impact assessment framework (see Appendix A) to identify and assess the potential impact of an investment as part of the due diligence process. This is supported by more granular assessment frameworks for each outcome area that the investment is targeting to determine the scale of the impact.

Impact Measurement: To understand how impact investments are creating impact, it is essential to attempt measurement of that impact, and this is often achieved through the monitoring of outcomes that are expected to lead to impact. BayTrust will move carefully and respectfully when attempting direct measurement of impact, working alongside investees to encourage their impact measurement activities to enable the improvement, measurement and reporting of impact. BayTrust will continue to develop and refine tools and investigate methodologies in this space to reflect developments in standard practice for the impact investing eco-system. BayTrust will accept outcome measures as proxy for impact measures where measurement of impact is considered impractical or too costly.

Impact reports will be formulated on an annual basis and provided to Trustees at the June meeting.

Where practical impact terms will be embedded in the term sheet, agreement, or loan document.

Level of Desired Financial Return: The desired net financial return of the Trust's Impact Investment portfolio has been set at the *mainstream portfolio long term return target (5.00% real and reviewed alongside the SIPO on an annual basis)*.

Measurement and Level of Desired Financial Risk: The key financial risk that the Trust is concerned about is the **permanent loss of investment capital associated with any one Impact Investment**. The Trust's **Impact Investment Financial Risk Matrix** (Appendix B) is used to quantify this risk, noting that there will always be elements of subjective analysis in coming up with an investment's overall risk rating.

For example, the Trust will need to assess the ability of the organisation to execute its business model considering historical performance as well as any external, market, political or regulatory impacts that may disrupt the financial performance of the investment.

Extensive analysis of potential risks is considered during the due diligence process, and these are highlighted to Trustees to assist their decision making.

Note that the risk of the project not delivering on the social outcomes is contained in the social impact assessment rating, with reputation risk covered off as part of the due diligence on the impact investment.

Investment Treatment at Maturity: Investments held within the II portfolio may have a limited time frame or reach their term as the impact has been created and BayTrust may choose to exit the investment to create impact elsewhere. The treatment of each investment at the "maturity" stage will be on a case-by-case basis with the general options of retaining the investment within the II portfolio, transferring to another portfolio, seeking repayment or selling. Ability to exit will be considered as part of the due diligence process and impact analysis. Consideration will also be given to the effect of change of ownership on the impact within the entity. Consideration will also be given to any potential effect on impact through exit.

Performance Management: The performance of each investment from a return, impact and risk perspective will be monitored on an ongoing basis. Any major changes to risk profile, impact or financial return expectations will be notified to the investment committee.

An annual report comparing actual versus expected return/risk/impact on the portfolio (and individual assets) will be provided to the IC meeting and the Board after financial year end, with a quarterly report highlighting any change to risk/concerns to the investment committee.

Revaluation: Assets held within the impact investment portfolio are required to be revalued at balance date to reflect fair value for accounting purposes. However, for internal reporting on the current value of assets, the methodologies utilised are as follows:

- a) Loans – balance remaining with no fair value adjustment. Such adjustment is considered to be a timing difference and not material at this level of our investments.
- b) Funds – at cost plus/minus reported gains/losses and fees.
- c) Equity – held at cost unless a formal revaluation by the company invested in has been undertaken or recent share transactions that demonstrate a different value. If there is evidence that the current value may be significantly different from the cost, then a valuation exercise may be undertaken for accounting and internal reporting purposes.
- d) Bonds – at cost with no fair value adjustment. Such adjustment is considered to be a timing difference and not material at this stage of our investments. However, if the face value of the bond is considered to be impaired, a revaluation may occur.

Revaluation of some assets can be undertaken on a quarterly basis if this information is available. Where there is evidence of impairment, revaluation will be assessed immediately and updated as soon as practical.

Roles and Responsibilities: As the bulk of the impact investment portfolio is managed internally, the roles and responsibilities fall as follows: -

Impact Investment Manager – to manage due diligence, seek investments for consideration that fit within this policy's intentions, seek to promote, and nurture potential investments that seek to create system change, liaise with external parties and investee re due diligence and deal flow, revise policy, conduct impact/ risk/ return assessments, support investees and the social enterprise/impact investment eco-system, manage the portfolio overall, and report on all factors to the CEO.

Impact and Sustainability Manager - to manage the impact reporting and associated impact assessment systems, provide support and advice re impact measurement and management.

Finance & Office Services Manager – to manage the transactions for the outstanding loans, accept repayments, facilitate drawdowns, and generally provide administration for the portfolio investments. Ensure investments comply with legislation that covers loan balances, specifically AML acts as identified elsewhere in this document.

External Advisors – provide external expertise advice and due diligence functions that feed into reports provided to the investments committee to aid decision making.

Chief Executive Officer – to manage the Impact Investment Manager, provide oversight of all processes and actions and liaise with the investment committee.

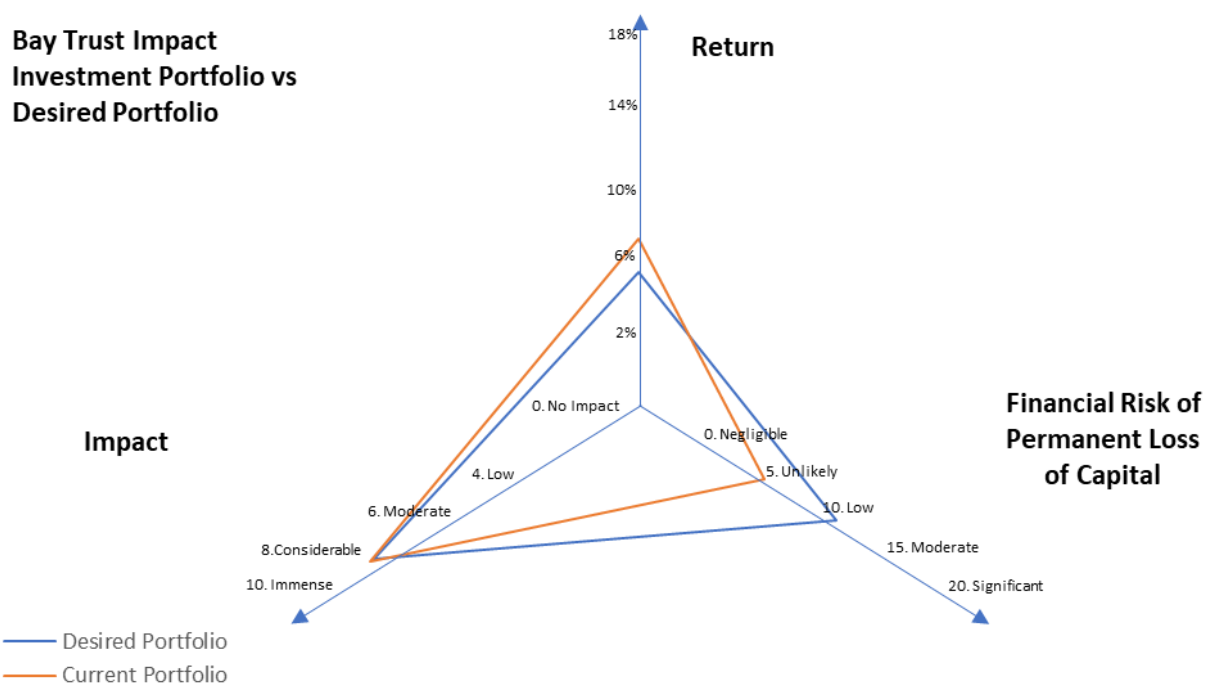
Investment Committee – to make decisions on recommendations provided by the CEO/IIM within their delegated authority as per the terms of reference for the committee and/or provide recommendations to the BayTrust Board for consideration as per the investments committee terms of reference. Decisions may be made on applications to the \$1m SES allocation. To review this policy in line with the CEO and the Board.

BayTrust Board – to examine the recommendations provided by the investments committee and approve or decline.

Trust's Investments Advisors – provide overall guidance on the Trust's allocation to impact investments within the SIPO as the Trust's investment advisor and to assist with due diligence if required on any fund structured impact investments.

The portfolio management approach is further illustrated as per the below:

Illustration of Current Portfolio v a Potential Desired Portfolio



6. POLICY

The Trust will consider proposal requests (as well as actively seek out potential impact investments) including direct investment or direct ownership of assets that demonstrate alignment with the portfolio mission as stated above.

The size of the potential investment affects the level of due diligence required.

- Investments fitting the criteria for the **\$1m SES allocation** for smaller investments will be assessed according to the due diligence requirements for that fund. These are generally investments between \$50,000 and \$500,000.
- Investments between \$500,000 and \$1m may be evaluated internally, or subject to due diligence by an independent advisor dependent on their complexity.
- Investments over \$1m will be subject to enhanced due diligence by an independent advisor.

In all cases, an appropriate level of quantitative and qualitative analysis should be conducted relative to the complexity, liquidity and risk associated with the proposed investment. A risk analysis should be reported at the front of the DD report and make mention of risks related to climate change and global epidemics.

The Trust will consult with its own legal and accounting advisors on the appropriate agreements/documentation for each deal.

BayTrust may consider impact investments from or relating to: non-profit or charitable groups, social businesses, iwi/hapū entities and formal groups/organisations/companies/partnerships or funds that align with the Trust's impact investment thesis.

The decision to proceed with any impact investment will be made in line with the impact investment portfolio management approach. Regard may also be given to a balance in regional spread, industry or sector, and type of social impact sought.

Generally, a single impact investment/organisation should not comprise greater than 1% of the Trust's Investment portfolio to be equitable to other potential impact investments and to limit concentration risk.

The Trust will undertake a level of consideration and due diligence relative to the size, complexity, and perceived risk of any investment. It is likely that an investment decision could take up to six to twelve months from the time of initial approach to commitment. Potential investees will be made aware of this time frame.

Where practical and in agreement with the investee, BayTrust will seek to appoint or ratify a member to the governance board of the investee for the period of the investment where the investment is worth 1% or more of the Trust's capital base, or where BayTrust has a material interest (>20% of the debt or equity) in the investor.

Impact Investment opportunities will be reviewed by staff through the below two-stage process:

Investments over \$500,000

A two-stage approach may be undertaken dependant on the nature of the project and the timing required for a decision. If only one stage is used, all factors will be covered in the due diligence report.

Stage 1 – Initial Scoping Assessment

First Stage Objective: to provide enough information to IC members to assess the suitability of the proposition for inclusion in the impact investment portfolio before committing resources to a full due diligence exercise. This stage focusses primarily on assessing the projects fit with the portfolio, the impact within the project, and an initial examination of feasibility. If the proposal does not satisfy these criteria, then no further investment of time and resources will occur.

Information to be provided by applicant:

1. A high-level summary of the potential investment, what field (industry, geographic region) it is in and what stage the project is at, what is the driver of the project or the need it is addressing.
2. Deal structure – how will financial returns be paid; how will the investment be exited. What are the relevant timeframes, for project commencement, call on funds etc.
3. What are the social or environmental impacts envisaged from this investment, how will they be measured and reported to investors?
4. What other investors have committed/are interested in this investment, and what stage are those discussions at?

Staff to conduct the following internal DD in Stage 1

1. **Financial Feasibility Test** – assess the financial feasibility of the concept, the financial risk and return, high level risk analysis, methodology for paying returns and exit pathway.
2. **Impact Test** – assess the impact of the investment through the impact assessment template completed by investee and complete a ranking through the assessment scorecard.
3. **Portfolio Test** – assess if the investment aligns with BayTrust's target areas, its portfolio mission, intentions, and policy guidelines. Assess if it addresses an identified need, does it fit with the Trust's portfolio and complete portfolio modelling. Assess geographic/sector spread, diversity, and potential for scale up of impact on an existing investment.
4. **Other Factors** – assess uniqueness of proposal, and if the investment enables a project that would not otherwise be able to proceed. Assess the value to the investee of BayTrust's involvement, as a signal to other investors. Assess opportunity/need for non-financial support for the project e.g., introductions to other investors or grant support to improve the robustness of the proposal, the group to become more investment ready or cover social aspects of the project that are not generating revenue.

Staff recommendation to the IC made at this point to proceed to full DD, or decline based on the following criteria:

- The proposition fits with the portfolio;
- The impact appears to be evident;
- The concept appears sound;
- then continue to full DD.

As part of any staff recommendation to continue to full DD, staff will also consider and make recommendations to the IC on:

- Which external party (if required) is best to complete the DD?
- What factors require clarification?
- What areas should the DD focus on?

Stage 2 – Full Assessment

Upon endorsement to proceed to the full assessment stage, alternatively a proposition may go straight to this stage, due diligence is completed utilising the checklists and processes as developed and upgraded from time to time. The intention is to undertake a comprehensive examination of the proposal that will enable staff to report to the Trustees and Trustees to make an informed, rational, and intelligent decision on whether to invest given the information to hand and the expected risk of the investment. A staff recommendation to invest or not will be discussed and ratified by the IC before being tabled to the full Trust Board for decision. Where possible DD will be undertaken by a person/agency that has expertise in the investment area.

1. Key Proposition – detailed analysis of:

- a) the investment vehicle and its fit;
- b) conditions around the investment, security, structure, timeframes, distributions, pay-out of financial returns, tradability of investment and exit strategy; and
- c) track record of investee organisation.

2. Impact Assessment/management:

- a) detailed examination of impact, identifying beneficiaries, how the solution will work, identification of data to support issue being addressed, trade-off between financial and social impact and its effect on the business model, sustainability of impact, reporting of impact; and
- b) completion of full impact assessment.

3. Deal Structure:

- a) likelihood of all required funds being raised;
- b) suitability of structure for all parties, review of proposed agreement documents;
- c) legal, taxation and fiduciary compliance; and
- d) ongoing management issues, reporting and relationship management.

4. Business Context:

- a) market - assessment of demand, group's knowledge of the market, key challenges, marketing strategy and understanding of distribution;
- b) competition – others in market, barriers to entry, unique proposition of this investment;
- c) business model – proof of concept, history of trading, technology implications;
- d) structure – fit with business model, suitability for BayTrust investment; and
- e) community connection – group's links to the community, alignment with community intentions and ambitions, utilisation of locals.

5. Organisational Capacity:

- a) strategies/planning - strategic plans, planning skills;
- b) management capability – organisational structure, key person skills, HR practices;
- c) governance capability – skills, experience, policies;
- d) operational viability - sustainability, processes and capacity;

- e) history – quality in past, operating history; and
- f) intellectual property – IP ownership and control.

6. Financial Assessment:

- a) future performance – detailed review of modelling, sensitivity analysis, IRR, NPV assumptions, cashflow analysis; and
- b) past performance – review previous performance, financial health, compliance with accounting standards.

7. Risk:

- a) financial risk, major project risks, risk of impact/mission drift, reputational risk, policy or government change implications;
- b) climate change risks including weather events, potential for site degradation and weather pattern changes. Economic downturn risk including exposure to global pandemic implications, and labour force implications;
- c) the DD report will identify and assess all potential risks and highlight these to Trustees via a concise statement to be included at the front of the DD report.

7. \$1M SES ALLOCATION (FOR SMALLER/HIGHER RISK INVESTMENTS)

The \$1m support allocation has been developed as a part of the impact investment portfolio with specific aims of supporting the growth of the social enterprise/impact investment ecosystem in the BOP through smaller impact investments of ~50k to \$500k. The allocation will also provide flexibility to assist with smaller loans and less complex lending.

It is accepted that potential losses of capital invested may occur due to the nature of the investments. The fund is expected to help support and grow small investments so that they may develop to the size that BayTrust would invest through the standard impact investment portfolio.

When an investment fits within this range, the following applies:

- a) a simpler due diligence process that aligns to that employed for large grants;
- b) a simpler contractual process;
- c) decisions can be made by the investment committee;
- d) investment may be accompanied by a grant or other support to help progress the venture;
- e) investments with a higher risk profile (higher than the standard portfolio either from a risk of loss or capital or from lower returns) may be contemplated with such risks identified and highlighted to Trustees;
- f) a focus on providing support and guidance on impact measurement and management (IMM) and the right finance model to suit the venture, while aligning with the mission and intent of the impact investment policy overall;
- g) potential investments may be innovative in nature, may be smaller and low risk impact loans and may come from for not-for-profit or organisations with a for-profit structure

where impact is embedded in their mission, constitutional documents, and governance practices.

Decision Making

The investment committee has delegated authority from the BayTrust Board to make investment decisions for this fund in alignment with the proposed fund limits.

Support

Assistance may be provided to any potential investee on an as needed basis to:

- scope the proposal;
- develop impact measurement and management;
- improve internal capability of management or governance;
- seek other support and investment;
- manage the enterprise on an ongoing basis to increase impact.

Other Investors

BayTrust will continue discussions with other investors to increase the amount of funds applied to this sector of the social enterprise eco-system and amplify the impact of this strategy.

8. IMPACT LOANS POLICY STATEMENT

Where the impact investment is made by way of a loan, then the following will also apply:

Term: Loan terms will be at the discretion of Trustees and will generally follow standard commercial practice for similar loan types.

Interest Payable: Loans may be offered at the Trust's sole discretion on the following terms:

- interest payable at such a rate as is agreed between the Trust and the applicant with the default rate being 1% above the official cash rate, and with the rates to be reviewed annually on the 01 April or the date of their anniversary. Such rate reviews are able to be actioned by the CEO where they comply with the policy.
- interest may be charged on a straight-line basis, or a table mortgage arrangement may be used, with preference for table mortgage payments.
- penalty rates in the event of default will be included and be comparable to market penalty rates for similar loans.

Principal Sum: The Trust will consider loans within prudent limits taking account of the organisation's ability to repay and the value of securable assets (where applicable); the organisation's other debt and its overall net asset position. The Trust may also consider interest only terms.

- the loan may be drawn down in instalments by agreement.
- the loan may be repaid using a table mortgage arrangement.

Security: Security is required as the Trust's first preference with a first charge by way of mortgage being the Trust's preference, but the Trust may also consider other appropriate agreements (e.g., a second mortgage or guarantees from related persons or entities) if a first charge is not available.

Repayments: Upon such terms as may be agreed with the applicant but normally by equal monthly instalments of principal and interest (where applicable) over the term of the loan. Quarterly or annual payments may also be considered.

The Trust may consider nil repayments during the term of a loan where full repayment at the end of the loan term is planned for and can be assured. Alternatively, the Trust may consider suspending payments for a period at the beginning or during, the life of the loan if such suspension is necessary to ensuring the success of the project and where it does not materially increase the Trust's investment risk.

Loan Costs: The Trust shall use its appointed solicitors to prepare all security documents but may prepare in-house the appropriate loan agreement or acknowledgement of debt.

Legal Advice: Applicants will be advised to seek independent legal advice with such advice being at their own cost and contractually will be required to provide the Trust with assurance (by way of a BayTrust approved form) that they have not relied on BayTrust advice in relation to any potential investment.

Conditions within agreement: BayTrust would look to protect loan investments over \$500,000 through conditions within the agreement that, amongst other conditions, provide the power of BayTrust to:

- a) where practical and in agreement with the borrower, BayTrust will seek to appoint or ratify a member to the governance board of the Borrower for the period of the investment where the investment is worth 1% or more of the Trust's capital base, or where BayTrust has a material interest (>20% of the debt or equity) in the Borrower.
- b) require an independent governance and operational review to be undertaken by the group at least every five years, or at such period as stipulated by BayTrust.
- c) attend regular, diarised meetings at the BayTrust CEO/ GM or Chair of the Borrower level (12 monthly).
- d) have a no "surprises policy", with a requirement for the Borrower to advise BayTrust of any major changes to financial position, governance, management or key staff or any other factor that could affect the security, or ability to repay the loan.
- e) review and vary the amount of the loan on the anniversary of the agreement if substantial concerns are raised concerning governance or direction of the Borrower such that the impact of the investment, the security for the loan, repayment ability is jeopardised or the reputation of BayTrust is at risk.
- f) Take a first-ranking, all-obligations mortgage(s) over the Borrower's property.
- g) require the Borrower to deliver to the lender:
 - a. **Annual Reports** - as soon as practicable (and in any event within 120 days) after the last day of each of its financial years, its statement of financial position and statement of financial performance for the relevant financial year, including report of impact performance; and
 - b. **Insurance** – from time to time, within 7 days after request by the Lender, a certificate of currency evidencing full replacement insurance in respect of the properties with the Lender's interest as mortgagee noted on the policy; and

- c. **Other Financial Information** - from time to time, within 7 days after request by the Lender, such information about its organisation, assets and financial condition as the Lender may require.
- h) **Inspection:** permit the Lender or any person authorised by the Lender, upon reasonable notice and at reasonable times, to inspect its premises, books, board minutes, documents and records; and
- i) **Default for Material Change** – an event or series of events (whether related or not), occurs which, in BayTrust’s sole opinion, may cause a material adverse change in the ability of the Borrower to meet its obligations under this Agreement.

Completion of documentation: Loan funding is to be released only after the loan documentation and securities (if required) have been completed by all parties.

Loan documentation. Loans can be approved by the CEO subject to a full business case being approved by Trustees and the Trust’s solicitors reviewing the loan documentation.

Compliance with Legislation: All relevant aspects of the Financial Service Providers (Registration and Dispute Resolution) Act 2008 (version as at 1 September 2022) and the Credit Contracts and Consumer Finance Amendment Regulations 2023 & Responsible Lending Code 2023, the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 and any other applicable legislation must be adhered to including full disclosure to all parties (see BayTrust’s AML/CFT Compliance Manual for detailed compliance processes and procedures).

Financial Advice: Neither BayTrust nor any of its Trustees or employees can provide financial advice to the applicants on the Trust’s impact loans, with the applicants being advised to seek their own independent financial advice. This term is to be documented in both the application form and the final loan agreement.

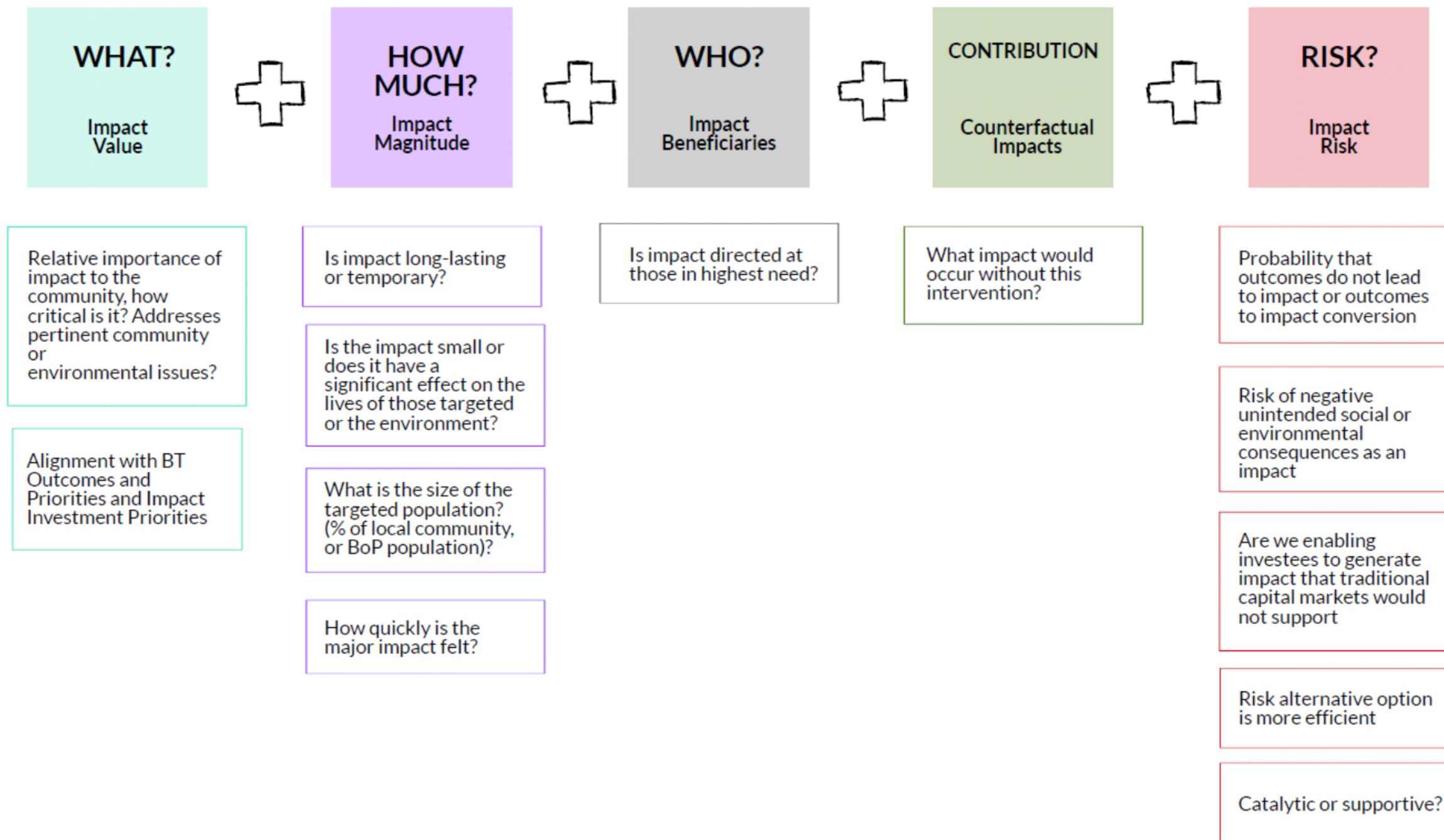
Administration: The Trust’s Finance and Office Manager shall run a suitable diary system to ensure that all loan payments are made on time and may issue reminder notices one month in advance of any principal and/or interest repayments falling due when payments are made on an annual basis.

A **report** on loan balances, pending applications, repayments, and any other relevant matters including any risks associated with non-payment will be provided to Trustees on a quarterly basis.

9. REFERENCES

- Statement of Investment Policy and Objectives (SIPO)
- AML/CFT Compliance Manual
- Appendix A - BayTrust’s Impact Investment Framework
- Appendix B - BayTrust’s Financial Risk – Impact Investment Matrix

BayTrust Impact Investment Impact Assessment Framework Overview



BayTrust's Financial Risk – Impact Investment Matrix

Financial Risk of Permanent Loss of Investment Capital = Likelihood*Severity						
Severity of Default Risk	5. Catastrophic	5	10	15	20	25
	4. Significant	4	8	12	16	20
	3. Moderate	3	6	9	12	15
	2. Low	2	4	6	8	10
	1. Negligible	1	2	3	4	5
		1. Improbable	2. Remote	3. Occasional	4. Probable	5. Frequent
		Likelihood of Default Risk				
		Significant	Moderate	Low	Unlikely	Negligible