
Foundation Series Funds

Statement of Investment Policy and Objectives

Effective Date 22 January 2024

Issued by FundRock NZ Limited

A. Description of the Managed Investment Scheme

The Foundation Series Funds (Scheme) is a managed investment scheme. The Scheme offers the Foundation Series Diversified Funds, consisting of the Foundation Series Balanced Fund and the Foundation Series Growth Fund; and the Foundation Series Core Equity Funds, consisting of the Foundation Series US 500 Fund, the Foundation Series Total World Fund, the Foundation Series Hedged US 500 Fund and the Foundation Series Hedged Total World Fund. All funds provide investors with broad exposure to a range of assets and are collectively referred to as the 'Funds'.

The Foundation Series Diversified Funds provide investors with access to two low cost portfolios diversified across asset classes (e.g. cash, bonds and equities) in both New Zealand and internationally.

The Foundation Series Core Equity Funds provide investors with access to low-cost portfolios that hold US and international shares through exchange-traded funds (ETFs).

The Funds are managed with the objective of performing broadly in line with each Fund's benchmark.

B. Roles and Responsibilities

FundRock NZ Limited (FundRock, we, us, our) is the licensed manager (Manager) of the Scheme. The Manager's key roles and responsibilities are:

- preparation of disclosure material;
- promotion and distribution of the Funds;
- establishing, reviewing and maintaining this Statement of Investment Policy and Objectives (SIPO);
- the ongoing management and oversight of the Funds. This includes appointing, managing and monitoring specialist providers for administration and investment management; and
- monitoring investment performance and outcomes.

FundRock has appointed InvestNow Saving and Investment Service Limited (InvestNow) as the investment manager for the Funds and they are responsible for making decisions about what the Funds invest in. The Funds are invested in accordance with this SIPO. The Funds may invest in passively and actively managed underlying funds (including ETFs) selected by InvestNow.

InvestNow also participates in reviewing this SIPO.

Key administration functions for the Scheme, being registry, fund accounting, and unit pricing, are currently performed by Adminis NZ Limited.

Public Trust, is the Scheme's Supervisor. The Supervisor is responsible for supervision of the Manager and the Scheme, including:

- acting on behalf of Fund investors in relation to the Manager and any contravention of the Manager's issuer obligations;
- supervising the performance by the Manager of its functions and the financial position of the Manager and the Scheme; and
- holding the Scheme property or ensuring that the assets are held in accordance with applicable legislative requirements. Adminis NZ Limited has been appointed by the Supervisor as Custodian for the Funds.

C. Investment Philosophy

InvestNow's investment philosophy is based on the following beliefs:

- both active and passive investment strategies can play valuable roles within portfolio construction;
- strategic asset allocation is an important component in determining long-term investment returns and the trade-off between risk and return;
- diversification across a range of geographic regions, asset classes and securities is an important risk mitigation factor;
- regular rebalancing is beneficial to ensure appropriate risk tolerances are maintained so long as this is undertaken in a cost effective way;
- fees reduce returns to investors and are an important consideration; and
- taxation can also be a drag on returns and structuring of investment matters.

The Funds have been structured to incorporate these investment beliefs.

Within the Diversified Funds, each of the funds invests in the same range of underlying funds, while for the Core Equity Funds, each of the funds invest into a single underlying ETF.

For the Diversified Funds, in order to achieve the desired risk/return trade-off for each of the funds, the relative weightings of each asset class is adjusted.

For example, the Foundation Series Balanced Fund, which targets moderate returns and risk will hold a higher proportion of lower risk assets such as cash and fixed interest than the Foundation Series Growth Fund. Conversely, the Foundation Series Growth Fund, which targets higher returns and risk will hold a lower proportion of lower risk assets and a higher proportion of higher risk assets such as shares than the Foundation Series Balanced Fund.

For the Core Equity Funds, the funds target higher returns and to achieve this objective, aim to be fully invested in higher risk assets (shares via ETFs).

D. Fund Investment Objectives and Strategies

The investment objectives and strategies for the Funds are:

Foundation Series Balanced Fund

Investment objective

The Fund aims for mid-range long-run returns by investing in a diversified portfolio with a balance of income and growth assets. The Fund is managed with the objective of performing broadly in line with the return of its investment benchmark.

Investment benchmark

The weighted average return (before tax, fees and other expenses) of the asset class benchmark indices (as set out in the table below).

Investment Manager

InvestNow is the investment manager for the Fund. InvestNow selects underlying funds and/or appoints investment managers. Related parties of InvestNow may be appointed to manage a portion of the Fund. Details of the Fund's underlying specialist managers and portfolio configuration can be obtained by contacting InvestNow or the Manager.

Authorised investments

The Fund invests in the asset classes in the table below. As at the date of this SIPO, all investments (excluding cash which may also be held directly) are held via underlying funds, although the Funds can invest directly in securities (including derivatives).

Asset Class¹	Benchmark Asset Allocation %	Range %²	Benchmark Index
Cash and cash equivalents	2%	0% - 10%	Bloomberg NZBond Bank Bill Index
New Zealand fixed interest	12%	0% - 20%	Bloomberg NZBond Composite 0+ Yr Index
International fixed interest	26%	10% - 40%	Bloomberg Global Aggregate Index (100% hedged to NZD)
Total income assets	40%		
Australasian equities	20%	10% - 30%	S&P/NZX 50 Index (gross and including imputation credits)
International equities	40%	25% - 55%	MSCI World Net Index (50% hedged to NZD)
Total growth assets	60%		

¹ Accrued fund expenses and other fund liabilities are excluded for the ranges in this table. If we invest in a suitable fund to gain exposure to an asset class in this table, we do not look through to the underlying asset class exposure of that fund. The suitable fund is regarded as being 100% invested in the relevant asset class.

² Excludes daily impact of cash flows and borrowing for short-term liquidity purposes.

Rebalancing policy

InvestNow and FundRock monitor the Fund's asset allocations daily, and will use the daily cashflows into and out of the Fund to reweight asset classes as required. If the allocation between income and growth assets deviates more than 5% from the benchmark asset allocation, the Fund will be rebalanced. In addition, if an asset allocation moves outside its range the Fund will be rebalanced.

Tactical asset allocation policy

The Fund does not aim to increase returns by actively over-weighting or under-weighting asset classes.

Currency hedging policy

The Fund targets being:

- 100% hedged to New Zealand dollars for international fixed interest; and
- 50% hedged to New Zealand dollars for international equities.

The allowable range of currency exposure for international equities is +/- 10%.

Other

The Fund can borrow up to 10% of the aggregate value of its investments but only for the purposes of providing short-term liquidity (i.e. to temporarily fund redemptions, settle securities trades or pay expenses).

Foundation Series Growth Fund

Investment objective

The Fund aims for high long-run returns by investing in a diversified portfolio weighted towards growth assets but with some income asset exposure. The Fund is managed with the objective of performing broadly in line with the return of its investment benchmark.

Investment benchmark

The weighted average return (before tax, fees and other expenses) of the asset class benchmark indices (as set out in the table below).

Investment Manager

InvestNow is the investment manager for the Fund. InvestNow selects underlying funds and/or appoints investment managers. Related parties of InvestNow may be appointed to manage a portion of the Fund. Details of the Fund's underlying specialist managers and portfolio configuration can be obtained by contacting InvestNow or the Manager.

Authorised investments

The Fund invests in the asset classes in the table below. Investment can be either directly in securities (including derivatives) or via a suitable fund.

Asset Class³	Benchmark Asset Allocation %	Range %⁴	Benchmark Index
Cash and cash equivalents	2%	0% - 10%	Bloomberg NZBond Bank Bill Index
New Zealand fixed interest	3%	0 % - 15%	Bloomberg NZBond Composite 0+ Yr Index
International fixed interest	15%	5% - 25%	Bloomberg Global Aggregate Index (100% hedged to NZD)
Total income assets	20%		
Australasian equities	26%	16% - 36%	S&P/NZX 50 Index (gross and including imputation credits)
International equities	54%	39% - 69%	MSCI World Net Index (50% hedged to NZD)
Total growth assets	80%		

Rebalancing policy

InvestNow and FundRock monitor the Fund's asset allocations daily, and will use the daily cashflows into and out of the Fund to reweight asset classes as required. If the allocation between income and growth assets deviates more than 5% from the benchmark asset allocation, the Fund will be rebalanced. In addition, if an asset allocation moves outside its range the Fund will be rebalanced.

³ Accrued fund expenses and other fund liabilities are excluded for the ranges in this table. If we invest in a suitable fund to gain exposure to an asset class in this table, we do not look through to the underlying asset class exposure of that fund. The suitable fund is regarded as being 100% invested in the relevant asset class.

⁴ Excludes daily impact of cash flows and borrowing for short-term liquidity purposes.

Tactical asset allocation policy

The Fund does not aim to increase returns by actively over-weighting or under-weighting asset classes.

Currency hedging policy

The Fund targets being:

- 100% hedged to New Zealand dollars for international fixed interest; and
- 50% hedged to New Zealand dollars for international equities.

The allowable range of currency exposure for international equities is +/- 10%.

Other

The Fund can borrow up to 10% of the aggregate value of its investments but only for the purposes of providing short-term liquidity (i.e. to temporarily fund redemptions, settle securities trades or pay expenses).

Foundation Series US 500 Fund

Investment objective

The Fund aims for high long-run returns by investing in an ETF that invests in shares of the largest companies listed on stock markets in the United States. The Fund's objective is to perform broadly in line with the return of its investment benchmark before fees and tax over the long-term.

Investment benchmark

The Fund's investment benchmark is the Morningstar US Target Market Exposure TR NZD Index.

Investment Manager

InvestNow is the investment manager for the Fund. InvestNow selects underlying funds and/or appoints investment managers. Related parties of InvestNow may be appointed to manage a portion of the Fund. Details of the Fund's underlying specialist managers and portfolio configuration can be obtained by contacting InvestNow or the Manager.

Authorised investments

The Fund invests in the asset classes in the table below. As at the date of this SIPO, all investments (excluding cash which may also be held directly) are held via underlying ETFs, although the Funds can invest directly in securities (including derivatives).

Asset Class⁵	Benchmark Asset Allocation %	Range %⁶
Cash and cash equivalents	0%	0% - 10%
International equities	100%	90% - 100%

Rebalancing policy

As a single-sector fund, there is no need for a rebalancing policy.

Currency hedging policy

The Fund does not undertake any currency hedging.

Other

The Fund can borrow up to 10% of the aggregate value of its investments but only for the purposes of providing short-term liquidity (i.e. to temporarily fund redemptions, settle securities trades or pay expenses).

⁵ Accrued fund expenses and other fund liabilities are excluded for the ranges in this table. If we invest in a suitable fund to gain exposure to an asset class in this table, we do not look through to the underlying asset class exposure of that fund. The suitable fund is regarded as being 100% invested in the relevant asset class.

⁶ Excludes daily impact of cash flows and borrowing for short-term liquidity purposes.

Foundation Series Hedged US 500 Fund

Investment objective

The Fund aims for high long-run returns by investing in an ETF that invests in shares of the largest companies listed on stock markets in the United States. The Fund's objective is to perform broadly in line with the return of its investment benchmark before fees and tax over the long-term. The Fund aims to have all foreign currency exposure hedged to the New Zealand dollar.

Investment benchmark

The Fund's investment benchmark is the Morningstar US Target Market Exposure TR Hedged NZD Index.

Investment Manager

InvestNow is the investment manager for the Fund. InvestNow selects underlying funds and/or appoints investment managers. Related parties of InvestNow may be appointed to manage a portion of the Fund. Details of the Fund's underlying specialist managers and portfolio configuration can be obtained by contacting InvestNow or the Manager.

Authorised investments

The Fund invests in the asset classes in the table below. As at the date of this SIPO, all investments (excluding cash which may also be held directly) are held via underlying ETFs, although the Funds can invest directly in securities (including derivatives).

Asset Class⁷	Benchmark Asset Allocation %	Range %⁸
Cash and cash equivalents	0%	0% - 10%
International equities	100%	90% - 100%

Rebalancing policy

As a single-sector fund, there is no need for a rebalancing policy.

Currency hedging policy

The Fund targets being 100% hedged to New Zealand dollars for international equities.

The allowable range of currency exposure for international equities is +/- 10%. BNZ have been engaged to implement the currency hedging arrangements for the Fund.

Other

The Fund can borrow up to 10% of the aggregate value of its investments but only for the purposes of providing short-term liquidity (i.e. to temporarily fund redemptions, settle securities trades or pay expenses).

⁷ Accrued fund expenses and other fund liabilities are excluded for the ranges in this table. If we invest in a suitable fund to gain exposure to an asset class in this table, we do not look through to the underlying asset class exposure of that fund. The suitable fund is regarded as being 100% invested in the relevant asset class.

⁸ Excludes daily impact of cash flows and borrowing for short-term liquidity purposes.

Foundation Series Total World Fund

Investment objective

The Fund aims for high long-run returns by investing in an ETF that invests in shares of large, mid-sized and small companies listed on international stock markets. The Fund's objective is to perform broadly in line with the return of its investment benchmark before fees and tax over the long-term.

Investment benchmark

The Fund's investment benchmark is the Morningstar Global All Cap Target Market Exposure NR NZD Index.

Investment Manager

InvestNow is the investment manager for the Fund. InvestNow selects underlying funds and/or appoints investment managers. Related parties of InvestNow may be appointed to manage a portion of the Fund. Details of the Fund's underlying specialist managers and portfolio configuration can be obtained by contacting InvestNow or the Manager.

Authorised investments

The Fund invests in the asset classes in the table below. As at the date of this SIPO, all investments (excluding cash which may also be held directly) are held via underlying ETFs, although the Funds can invest directly in securities (including derivatives).

Asset Class ⁹	Benchmark Asset Allocation %	Range % ¹⁰
Cash and cash equivalents	0%	0% - 10%
International equities	100%	90% - 100%

Rebalancing policy

As a single-sector fund, there is no need for a rebalancing policy.

Currency hedging policy

The Fund does not undertake any currency hedging.

Other

The Fund can borrow up to 10% of the aggregate value of its investments but only for the purposes of providing short-term liquidity (i.e. to temporarily fund redemptions, settle securities trades or pay expenses).

⁹ Accrued fund expenses and other fund liabilities are excluded for the ranges in this table. If we invest in a suitable fund to gain exposure to an asset class in this table, we do not look through to the underlying asset class exposure of that fund. The suitable fund is regarded as being 100% invested in the relevant asset class.

¹⁰ Excludes daily impact of cash flows and borrowing for short-term liquidity purposes.

Foundation Series Hedged Total World Fund

Investment objective

The Fund aims for high long-run returns by investing in an ETF that invests in shares of large, mid-sized and small companies listed on international stock markets. The Fund's objective is to perform broadly in line with the return of its investment benchmark before fees and tax over the long-term. The Fund aims to have all foreign currency exposure hedged to the New Zealand dollar.

Investment benchmark

The Fund's investment benchmark is the Morningstar Global All Cap Target Market Exposure NR Hedged NZD Index.

Investment Manager

InvestNow is the investment manager for the Fund. InvestNow selects underlying funds and/or appoints investment managers. Related parties of InvestNow may be appointed to manage a portion of the Fund. Details of the Fund's underlying specialist managers and portfolio configuration can be obtained by contacting InvestNow or the Manager.

Authorised investments

The Fund invests in the asset classes in the table below. As at the date of this SIPO, all investments (excluding cash which may also be held directly) are held via underlying ETFs, although the Funds can invest directly in securities (including derivatives).

Asset Class ¹¹	Benchmark Asset Allocation %	Range % ¹²
Cash and cash equivalents	0%	0% - 10%
International equities	100%	90% - 100%

Rebalancing policy

As a single-sector fund, there is no need for a rebalancing policy.

Currency hedging policy

The Fund targets being 100% hedged to New Zealand dollars for international equities.

The allowable range of currency exposure for international equities is +/- 10%. BNZ have been engaged to implement the currency hedging arrangements for the Fund.

Other

The Fund can borrow up to 10% of the aggregate value of its investments but only for the purposes of providing short-term liquidity (i.e. to temporarily fund redemptions, settle securities trades or pay expenses).

¹¹ Accrued fund expenses and other fund liabilities are excluded for the ranges in this table. If we invest in a suitable fund to gain exposure to an asset class in this table, we do not look through to the underlying asset class exposure of that fund. The suitable fund is regarded as being 100% invested in the relevant asset class.

¹² Excludes daily impact of cash flows and borrowing for short-term liquidity purposes.

E. Investment Policies

Taxation

The Funds have elected to be Portfolio Investment Entities (PIEs) and are therefore taxed under the PIE regime.

The taxation implications of an investment method, such as holding assets directly or investing in a managed investment scheme, are taken into account when determining the most appropriate approach for the Funds. Note that taxation is not the sole consideration when choosing an investment method and other factors taken into account include cost and implementation feasibility.

Liquidity

The liquidity risk of the Funds is assessed with reference to liquidity of the underlying assets and securities. The Manager then establishes an appropriate application and redemption frequency for the Funds. The Funds invest predominantly in liquid securities so have daily applications and redemptions. Market conditions can, however, change resulting in some assets becoming difficult to sell. Therefore, if the Funds were to experience liquidity problems the Manager may defer or suspend redemptions for a period of time.

Related-party transactions

Related-party transactions, other than the types permitted under the Financial Markets Conduct Act 2013 (FMCA) are prohibited.

The Funds may enter into transactions with related parties if permitted under section 174 of the FMCA or consented by the Supervisor under section 173(2)(a). Examples of such transactions include:

- The Funds invests in other managed investment schemes. If these schemes are managed by related parties (for example where the Funds invests in an underlying fund that FundRock is also the manager of), and investment is permitted under section 174 of the FMCA, they are permitted investments of the Funds.
- Parties related to the Funds, may, from time to time, invest in the Funds.

The Manager will report all transactions by related parties to its Supervisor in accordance with section 173(2) of the FMCA.

Trade allocations and transactions

If the Funds invest directly in securities, the investment manager must have best execution, brokerage and soft dollar policies governing their investment management activity on behalf of the Funds.

Other relevant policies

Summaries of the key relevant policies are set out below.

Pricing and Asset Valuation Policy

The purpose of this policy is to set out how FundRock manages its unit pricing and asset valuation obligations, and the way in which FundRock exercises its discretions authorised by the Trust Deed and the establishment documentation for the Funds.

This policy also links to FundRock's outsourcing policy reflecting that we outsource functions including registry, fund administration and unit pricing to third parties. In particular, the policy governs how FundRock selects, monitors and undertakes ongoing due diligence on third party providers.

Within the bounds of what is reasonable and practical, our goals are to:

- have unit prices that reflect fair, realisable value of underlying assets and liabilities;
- ensure equitable treatment of investors entering, exiting or remaining in a Fund;
- have a consistent and objective process for determining unit prices; and
- comply with our governing documents, offer documents and applicable laws.

Conflicts of Interest and Related Party Transactions Policy

The Conflicts of Interest and Related Party Transactions Policy sets out the principles and procedures relating to identifying, recording and managing conflicts of interest within FundRock. The policy applies to all of FundRock’s directors, relevant officers, senior management and employees. The policy provides guidance on:

- What is meant by a conflict of interest.
- What constitutes a related party transaction.

The core policy statement is:

‘As a licensed manager of Managed Investment Schemes, FundRock must act honestly and in the best interests of the Scheme participants. FundRock recognises that in order to satisfy this duty, it and its Staff must put the interests of Scheme participants ahead of those of itself or Staff members.’

FundRock investment management policy

The Manager’s policies and procedures in relation to appointing and monitoring investment managers. In particular, the policy covers:

- investment management governance;
- investment manager selection and appointment; and
- investment manager monitoring and compliance.

F. Investment Performance Monitoring

FundRock, with the advice of InvestNow, monitors investment performance of the Funds on a monthly basis. Performance is measured and assessed on the following basis for 1, 3 and 5 year periods:

- gross return;
- net of charges and gross of tax;
- net of charges and gross of tax at highest investor PIR (28%);
- benchmark index return;
- performance relative to benchmark;
- annualised standard deviation of net return;
- annualised standard deviation of benchmark index return; and
- annualised tracking error.

FundRock reports performance to the Supervisor and also to the FundRock board.

The FundRock board has responsibility for oversight of investment manager performance. The FundRock board aims to meet at least quarterly.

G. SIPO Monitoring and Review

The FundRock board is responsible for governance oversight of the SIPO.

The Manager's compliance processes include periodic policy reviews. SIPOs are reviewed annually by FundRock management with the outcomes of the review reported to the FundRock board. In addition, FundRock management may initiate an ad hoc review, with examples of events that could lead to this being:

- the investment manager recommending changes to the SIPO;
- a change in roles and responsibilities; or
- a permanent change in risk and return characteristics of the relevant market.

SIPO reviews take into account the views of FundRock and the Fund's investment manager and if required the views of external experts.

The Manager can make changes to the SIPO in accordance with the Trust Deed and the FMC Act. Before making changes to the SIPO, the Manager will consider if the changes are in the best interests of investors and consult with the Supervisor. Any changes to the SIPO require FundRock board approval. The Manager will give notice to investors before implementing any material SIPO changes.

The Manager is responsible for monitoring adherence to the SIPO and reporting any breaches to the FundRock board and the Supervisor.

This SIPO was approved by the FundRock board on 22 January 2024 and takes effect on 22 January 2024.

The current version of this SIPO is available on the schemes register at www.companiesoffice.govt.nz/disclose.