

SELECTION, REVIEW AND MONITORING OF DELEGATED INVESTMENT MANAGERS

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A. Introduction and scope

Nikko Asset Management New Zealand Limited (“Nikko AM NZ”) is the licensed manager of the Nikko AM NZ Investment Scheme, a registered scheme making regulated offers of financial products (“retail funds”) and the manager of the Nikko AM NZ Wholesale Investment Scheme, an unregistered scheme offering wholesale financial products (“wholesale funds”) (together, “the Funds”). Public Trust is the independent trustee and supervisor. These Funds are governed by the Trust Deed effective 1 July 2016 by Nikko AM NZ and Public Trust.

This document addresses the selection, review and monitoring of delegated offshore investment managers for Nikko AM NZ.

Nikko AM NZ provides investment management services for domestic assets (equities, fixed interest and cash) through its Auckland-based investment team and has contracted offshore managers to manage global equities and fixed interest.

In addition, Nikko AM NZ is a distributor for JP Morgan Alternative Asset Management. This arrangement falls outside the scope of this policy.

As a subsidiary of a global investment management group based in Tokyo, Japan, Nikko AM NZ has ready access to research, materials, evaluation conclusions and static information on investment managers providing global knowledge and views. This knowledge enables confident delegation of portfolio management to investment managers with representation in major global markets.

Such appointments occur after thorough market search and selection process to identify an investment manager with an aligned investment philosophy.

Investment consultants may be utilised to substantiate conclusions, provide a peer review, or possibly be engaged to provide independent recommendations.

B. Purpose

The purpose of this policy is to define the management practices for the:

- selection of offshore investment managers;
- monitoring the effectiveness of services received from offshore investment managers;
- formal evaluation of progress towards achieving performance objectives;
- escalation procedures for delegations in place in event of sustained under delivery or failure.

The Investment committee is responsible for appointing external managers and may use Nikko Asset Management Group resources to assist in appointing appropriate manager partners.

The search and selection process requires an evaluation of investment managers, which includes:

- assessment of investment content: research on philosophy, people, process;
- initial feasibility assessment: collection of information on fees, legal and marketing matters;
- initial operational assessment: collection of information on operational issues;
- interviews and assessment of Request for Proposal responses from selected potential managers;
- on-site due diligence exercise for selected potential managers.

C. Monitoring regime for the delegated offshore investment manager

Nikko AM NZ Operations manage the day-to-day relationship with all delegated managers in accordance with the formal terms and conditions in contractual documentation established at engagement. Managing the relationship with each delegated manager includes establishing and maintaining a framework to allow effective monitoring of service delivery. This framework requires:

- the establishment of an agreed communications protocol including an obligation on the delegated manager to communicate formally with Nikko AM NZ at the required levels of seniority;
- the regular delivery of portfolio data, market commentary, portfolio activity, self-compiled (or outsourced) mandate compliance, self-compiled (or outsourced) performance measurement, and associated management reports directly to Nikko AM NZ's required delivery channels;

- direct receipt of portfolio data, portfolio activity and liquidity reports from the custodian;
- daily monitoring by Nikko AM NZ of independently computed portfolio returns compared to the return of an appropriate market index; and
- the evaluation of the purchased services occurs continuously by the receipt of the services in the normal course of business operations.

The Investment Committee formally monitors each delegated manager's investment performance. Such monitoring includes:

- receipt of regular reporting of portfolio investment returns achieved measured relative to investment performance objectives and agreed risk budgets over appropriate time periods; and
- receipt of regular market commentary and portfolio activity.

Each delegation is subject to a review cycle that is at least triennial. The primary review focuses on the progress towards achieving the investment performance objective and the agreed formal review cycle set at relationship commencement.

E. Escalation procedures for delegations in place in event of sustained under delivery or failure

In the event of service under-delivery from a delegated manager experienced during the normal course of business, Nikko AM NZ Operations will request in writing to the manager to improve the identified service quality problem.

Key performance indicator negative trends identified in the Investment Committee reporting become an agenda item for discussion with appropriate course of action determined by the Investment Committee. Performance indicators measured over longer time periods are of most relevance to an assessment of achieving investment portfolio objectives.

Persistent under delivery or chronic failure is addressed via the course of action promulgated in the contractual documentation.

If necessary, a replacement investment manager will be sought via the search and appointment process.

Nikko AM NZ will respond to under delivery or failure by considering consequences and impacts on customers, the business, data integrity and security with the objective of ensuring business is always in position to provide contracted services to customers and discharge its duties as Scheme manager.

F. Policy ownership and review

The revision or abolishment of this policy shall reside with the Investment Committee. It is to be reviewed every two years.

Version Control	Reasons for Change	Author/Editor	Date
Version 2.1	Approval of review	Nikko AM NZ Board of directors	7 June 2016
Version 2.0	Review and update	CRD Committee	6 May 2016
Version 1.0	Inaugural policy	Investment Committee	16 December 2014