Mercer

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New Zealand Defence Force KiwiSaver Scheme

Statement of Investment Policy and Objectives

16 June 2025

This replaces the SIPO registered on Disclose 30 October 2024.

A business of Marsh McLennan

Contents

1. Background

Introduction

This Statement of Investment Policy and Objectives (SIPO) applies to the New Zealand Defence Force KiwiSaver Scheme (Scheme).

Principal purpose

The principal purpose of the Scheme is to provide retirement benefits directly to individuals who are members of the Defence Community.

Manager

Mercer (N.Z.) Limited (Mercer or Manager).

Licensed Supervisor

Trustees Executors Limited (Supervisor).

Funds

The Scheme offers five multi-sector, diversified Funds which invest in a broad range of asset classes and two single sector Funds which invest in one asset class.

The current list of Funds is set out in the table below:

Multi-sector, diversified funds	Single-sector funds
Conservative	Cash
Moderate	Shares
Balanced	
Growth	
High Growth	

SIPO Review

The SIPO is to be reviewed annually although reviews may be completed before this. In the event of a major change to the purpose of the Scheme or a major event impacting the Scheme’s investments, Mercer may consider an earlier review.

Any review will be carried out by Mercer in conjunction with the Supervisor and will consider the investment objectives of the Scheme and take account of any changes in the investment outlook which may affect the relative value and role of the different asset classes.

In addition, New Zealand Defence Force as the Participating Employer:

- may request the Manager to review the SIPO
- is to be consulted on material changes to the SIPO
- may give input on the broad objectives for a Fund

Mercer is responsible for approving the SIPO. Any material changes to the SIPO will be advised in the Scheme's annual report.

SIPO Amendments

The investment approach set out in this SIPO may change from time to time. You can contact us at nzdf@mercer.com or call 0800 333 787 for the latest information.

The SIPO may be altered by Mercer from time to time subject to the requirements of the Financial Markets Conduct Act 2013 (FMCA). Mercer may amend or replace this SIPO only after giving prior written notice to the Supervisor.

Mercer must provide a copy of the SIPO (or any alteration to the SIPO) to the Supervisor as soon as reasonably practicable prior to the SIPO or alteration taking effect and must lodge the SIPO as required by the FMCA.

Availability of this SIPO

The most current version of this SIPO is available on the register entry for the Scheme on the Disclose website at www.disclose-register.companiesoffice.govt.nz.

2. Roles and Responsibilities

Manager

Mercer is responsible for the investment of the Scheme's assets, in accordance with legislative requirements, the Trust Deed, the Product Disclosure Statement (PDS) and this SIPO.

The Manager's responsibilities include to:

- maintain the investment governance framework including effective investment policies;
- establish investment philosophy and investment process;
- set investment objectives and risk tolerance for the Funds;
- determine investment strategy for each Fund. This includes the Benchmark Asset Allocation, ranges, other limits and appropriate indices;
- implement investment strategy; and
- monitor fund investment performance relative to objectives and compliance with strategy limits.

The investment governance framework represents the totality of systems, structures, policies, processes and people utilised to address the Manager's investment related responsibilities.

The Board has ultimate responsibility for the proper investment of the Scheme. In order to most effectively discharge its responsibilities, however, Mercer has adopted a delegated decision-making structure.

The Board contracts certain functions to other Mercer related entities and external parties in order to meet its responsibilities. Mercer adopts a manager of manager's approach which involves delegating to investment managers within each asset class in order to implement the investment strategy. Certain administrative and operational functions are also delegated.

Mercer implements the investment strategy for the Scheme by investing the Scheme's assets in the Mercer Investment Trusts New Zealand (MITNZ). The manager of the MITNZ is Mercer and Trustees Executors Limited is the trustee. Further detail on the investment structure is shown in Section 3 – Investment Structure.

Mercer maintains a conflicts management framework to help manage potential issues that may arise as a result of delegation to related parties. Further detail is shown in Section 7.

Supervisor

The Supervisor is responsible for supervision of the Manager and the Scheme, including:

- acting on behalf of the Scheme's members 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's assets or ensuring that the assets are held in accordance with applicable legislative requirements.

3. Investment Structure

Mercer implements the current investment strategy for the Scheme by investing the Scheme's assets in the MITNZ.

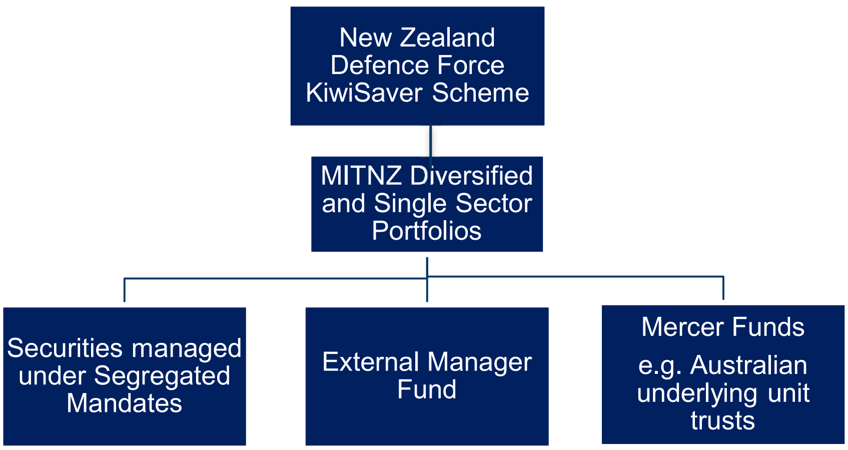
The MITNZ is a series of wholesale unit trusts which incorporates a range of single sector and diversified multi-sector portfolios. In its capacity as Manager of the Scheme, Mercer is responsible for determining and selecting the appropriate MITNZ products to achieve the objectives of the Scheme's Funds.

The MITNZ trusts are currently invested in a mix of:

- portfolios of securities managed by Investment Managers under delegation and governed by investment management agreements with Mercer. The securities managed are held under a segregated mandate managed by the relevant Investment Manager;
- Funds managed by Mercer entities, including Mercer Australia's multi-manager funds and
- managed funds offered and managed by other Investment Managers.

Mercer may change the Scheme's investment strategy from time to time, following consultation with the Supervisor. The Investment Managers and mandates of the MITNZ can be changed by Mercer, from time to time. Changes may occur where a review of a particular Investment Manager and/or asset class dictates that change is necessary or desirable in the interests of investors.

For the sake of clarity, the statements above reflect that the review of asset classes and the underlying Investment Managers will occur predominantly at the MITNZ level.



4. Investment Philosophy and Process

Mercer's global investment philosophy articulates the underlying assumptions and convictions that guide how Mercer supports investors' investment needs across research, advice and solutions.

Our investment approach is governed by a set of guiding principles across governance, risks and value - with our investors' objectives at the core.

Investor objectives

- Investment success hinges on clearly defined investment goals.
- An investor's true risk lies in not being able to meet their primary objective.
- Aligning governance processes is essential for driving investment performance.

Strong governance

- Robust and high-quality governance processes are fundamental to achieving successful investment outcomes.
- Strong governance becomes even more essential during periods of stress.
- Establishing clear accountability for results promotes disciplined decision-making and risk-taking.
- Effective stewardship plays a crucial role in improving investment outcomes.

Rewarded risk

- Asset allocation is the most important factor influencing risk and return outcomes
- While risk and return are related, the relationship can vary over time.
- Understanding how risks interact is critical to making informed investment choices.
- Investors should focus on the risks that matter most to their specific circumstances.
- Integrating financially material sustainability transition and socio-economic risks into investment decision-making can potentially enhance portfolio resilience.

Maximise value

- Strategic asset allocation serves as the primary driver of value creation.
- Active management can be employed when the expected return benefits justify the associated risks and fees.
- For long-term investors, private markets can offer certain advantages over public markets.
- Dynamic asset allocation can add value to investment strategies.
- Investing to solve long-term systemic issues may provide opportunities to improve risk-adjusted returns.

Investment Process

Setting the investment strategy

Mercer has established a range of Funds with different risk/reward profiles to suit the needs of a wide range of investors.

Mercer determines an appropriate investment strategy for the Scheme as a whole and for each individual Fund. Setting the investment strategy is a continual process that aims, first and foremost, to ensure alignment between agreed investment objectives and the structure of the individual Fund.

The methodology used by Mercer to develop the investment strategy for each Fund involves, as a first step, consideration of:

- expected risk and return relative to the Fund’s objectives;
- the overall composition of the Fund’s investments including the adequacy of diversification;
- the liquidity of selected investments having regard to expected cash flow requirements;
- availability and reliability of valuation information;
- expected tax consequences; and
- associated costs of investing and any other relevant matters.

The investment strategy is then formulated with reference to the Fund’s risk and return objectives (plus the further considerations listed above) and in a manner that utilises the benefits of diversification within and between asset classes. The Fund's Benchmark Asset Allocations are then set and modelled on a continuing basis to assess their ongoing appropriateness in the light of expected market conditions and the asset allocation’s ability to deliver on the particular Fund’s investment objectives.

Strategic Asset Allocation involves setting a Benchmark Asset Allocation for the long-term (but subject to reviews). Asset allocation may be adjusted with the aim of adding value to the performance of this Benchmark Asset Allocation through Dynamic Asset Allocation as described below.

The investment strategy for each Fund is regularly reviewed to ensure an appropriate balance between risk and return and to maximise the likelihood of achieving the Fund's stated objectives. Asset allocation modelling is undertaken to assess the impact of potential changes on each Fund. Mercer formulates capital markets forecasts and employs proprietary modelling tools to support these processes.

This analysis is used to test the appropriateness of each Fund by estimating, among other metrics, the likelihood that the Fund will achieve its performance objectives, expected return, expected volatility and the probability of a negative return.

Mercer also stress-tests each Fund to assess how they might perform under different scenarios.

Reviewing the investment strategy

Mercer undertakes a formal strategy review at least every three years. Any recommended changes are supported by detailed analysis setting out the rationale for changes and the expected impact on Fund characteristics. In the interim, Mercer performs a “health check” which reviews the investment strategies for each Fund to gauge whether the agreed investment objectives and strategy remain appropriate and in the best interests of investors. At least one such health check is conducted in-between the formal triennial reviews.

Potential enhancements considered in formal reviews and health checks may include:

- the addition of a new asset class or a new type of investment;
- incorporation of new Mercer research;
- investment environmental factors including significant market events; and
- long-term market/industry trends and the outlook for growth.

The primary aim of any adjustment to a Fund's investment strategy is to improve the balance between risk and return and maximise the chance of achieving the stated objectives.

Key considerations include:

- the degree of diversification;
- appropriate levels of liquidity, to facilitate daily pricing;
- availability of commercially attractive fees with an emphasis on value, via cost effective investment structures;
- transparency and reliability in asset valuation;
- the competitive environment, peer performance/offerings and member demands; and
- product viability.

These investment strategies are reflected in the Benchmark Asset Allocation and ranges for each Fund, as set out in Section 6.

Dynamic Asset Allocation

The Funds, excluding the Cash fund, are subject to a Dynamic Asset Allocation (DAA) process designed primarily for risk control, capital preservation, and incremental value-add.

DAA assessments are conducted on a regular basis and involve two stages. First, each asset class is assessed to determine whether it warrants being under or over-weighted based on a broad range of factors. Secondly, position size (i.e. the extent to which the asset class weight is 'tilted' within the benchmark ranges) is determined based on the level of conviction as to the expected value such tilts will add, and dictates the Target Allocation. This DAA approach aims to produce a more stable pattern of returns for the relevant Fund, especially during unstable market periods.

Manager Selection

Mercer focuses on selecting Investment Managers who are specialists within their particular investment markets and who have demonstrated capability and conviction in portfolio construction and the execution of investment strategies. A formalised process of screening potential managers, including a detailed assessment of their ability and performance, is coupled with on-going monitoring and formal performance reviews. The aim is to achieve a level of returns meeting or exceeding the objectives set, from time to time, for each Fund and which is consistent with the risk profile of each Fund.

5. Objectives

There are two types of investment objectives:

- Each Fund has a Benchmark it is aiming to outperform which may be either an appropriate market index or a composite index.
- Each multi-sector, diversified fund is aiming to achieve the applicable net real return objective. In setting these objectives. Mercer takes into consideration a range of risk-based factors.

The FMCA requires managers to disclose information on the past performance of their funds in quarterly fund updates. The performance of an appropriate market index must be included alongside that information.

The market index must be a 'broad-based securities market index or indices' which is:

- (i) widely recognised and widely used in the financial markets; or

  (ii) administered by a person other than the manager of the Scheme or any associated persons; and
- appropriate in terms of assessing movements in the market in which the specified fund invests.

For each Fund, the objective is to outperform the Benchmark return over periods of one year or greater.

The Benchmark return for each Fund is calculated using the return for each relevant market or peer group index (shown in Section 6) and the Benchmark Asset Allocation weights of each Fund (also shown in Section 6). Each index return for the relevant period is multiplied by the weight for that asset class.

Return based objectives

In setting investment objectives, Mercer recognises the risk of inflation eroding the value of future returns. It has therefore set the return objectives for all multi-sector, diversified funds with reference to the achievement of a certain level of real return over a given timeframe.

More specifically, each multi-sector, diversified fund has an investment objective to earn the applicable target net real rate of return (shown after tax and investment related fees, in excess of inflation as measured by consumer price index increases) specified in the table below.

The objectives are reviewed from time to time and may be changed to ensure reasonableness.

Multi-sector, diversified funds	Target net real return# (% p.a.) (after fees, after tax) *	Investment Timeframe
Conservative	1.00	At least 3 years
Moderate	1.50	At least 5 years
Balanced	2.00	At least 8 years
Growth	2.50	At least 10 years
High Growth	3.00	At least 13 years

*Tax at 28% Prescribed Investor Rate

#The target net real return should not be treated, or relied upon as a forecast, indicator or guarantee of any future returns or performance for a Fund. The value of each Fund may rise and fall.

Risk based objectives

In conjunction with the Investment Objectives, Mercer utilises a multi-dimensional approach when building or assessing diversified portfolios in order to better manage the risks inherent in the Funds.

The five risk factors considered are:

- probability of meeting objectives;
- volatility;
- frequency of a negative return;
- severity of the worst negative returns; and
- concentration in sources of risk.

6. Investment Strategy

Benchmark Asset Allocation

The table below shows the Benchmark Asset Allocation and Ranges for the Funds.

Diversified funds	Conservative		Moderate		Balanced		Growth		High Growth	
Asset Class/Sector	**Range (%)**	**Target (%)**	**Range (%)**	**Target (%)**	**Range (%)**	**Target (%)**	**Range (%)**	**Target (%)**	**Range (%)**	**Target (%)**
Trans-Tasman Shares	0-10	5.0	0-19.5	10.5	4-24	14.0	12-32	22	13-33	23.0
Overseas Shares		13.5		23.0		38.0		47.5		60.5
Emerging Markets Shares		1.5		2.5		4.0		5.5		6.5
Total Global Shares	5-20	15.0	15.5-35.5	25.5	32-52	42.0	43-63	53.0	57-77	67.0
Total Shares (excluding listed Real Assets)		20.0		36.0		56.0		75.0		90.0
Listed Property Shares		-		2.0		2.0		2.5		2.5
Listed Infrastructure Shares		-		2.0		2.0		2.5		2.5
Total Real Assets	0-10	-	0-10	4.0	0-10	4.0	0-12	5.0	0-12	5.0
NZ Sovereign Bonds		25.0		18.5		10.0		5.0		1.0
Overseas Sovereign Bonds		19.0		16.0		14.0		7.5		1.6
Global Credit		16.0		13.5		12.0		6.5		1.4
Total Fixed Interest	35-65	60.0	30-60	48.0	18-48	36.0	7-27	19.0	0-10	4.0
Total Cash*	20-50	20.0	5-30	12.0	0-20	4.0	0-15	1.0	0-15	1.0
Total		100		100		100		100		100

Growth Investments	5-35	20.0	20-50	40.0	40-70	60.0	60-90	80.0	75-100	95.0
Defensive Investments	65-95	80.0	50-80	60.0	30-60	40.0	10-40	20.0	0-25	5.0

*Cash may include a range of cash related investments including (i) on call cash deposits; (ii) term deposits; (iii) bank bills; (iv) notes; and (v) bonds.

Single Sector funds	Cash		Shares	
Asset Class/Sector	Range (%)	Target (%)	Range (%)	Target (%)
Trans-Tasman Shares	-	-	16-36	26.0
Overseas Shares		-		66.5
Emerging Markets Shares		-		7.5
Total Global Shares		-	64-84	74.0
Total Shares (excluding listed Real Assets)		-		100.0
Total Cash*	100-100	100	0-10	-
Total		100		100
Growth Investments	0-0	0	90-100	100
Defensive Investments	100-100	100	0-10	0.0

*Cash may include a range of cash related investments including (i) on call cash deposits; (ii) term deposits; (iii) bank bills; (iv) notes; and (v) bonds.

Currency Hedging

Asset Class/Sector	Benchmark (%)	Active Management Range (%)
Overseas Shares (ex-Emerging Markets)[1,2]	50	0-100
Real Assets[3]	100	-
Global Fixed Interest[3]	100	-

[1]hedged to NZ$ such that total overseas shares (ex-Emerging Markets) are 50% hedged on an after-tax basis for a 28% taxpayer. The level of currency hedging for overseas shares is managed between 0% and 100% (on an after-tax basis) and may change over time depending on Mercer's view of the relative strength (or weakness) of the New Zealand dollar.

[2]Allocation to Emerging Markets is unhedged to New Zealand dollars.

[3]100% hedged to NZ$ on an after-tax basis for a 28% taxpayer.

Actual hedge levels may also vary from benchmark due to a range of factors including market movements and cash flows.

Mercer considers currency hedging is an essential part of any long-term investment strategy. Mercer also believes that an active approach to currency hedging is appropriate for some portfolios and therefore manages the level of currency exposures in those Funds which are subject to the Dynamic Asset Allocation process. This implies that certain Funds will not maintain the same level of currency hedging at all times.

Currency hedging is essentially protection against changes in currency exchange rates. Those overseas assets that are not hedged will have exposure to currency exchange rate movements resulting in a benefit when the New Zealand dollar goes down and decrease in value when the New Zealand dollar goes up.

Mercer sets a benchmark level of currency hedging for each overseas asset class, as detailed in the table above (Currency hedging). Where permitted, the Dynamic Asset Allocation process can determine the target level of currency exposure. This is then monitored as detailed under the heading of 'Rebalancing' in Section 7.

Asset Class Benchmark Indices, Tax Treatment and Hedging

The table below details indices for each asset class that are used to calculate the Benchmark return that the Funds will be measured against. It also details the current tax treatment, the current NZD strategic hedging level and whether the index is a market index or peer group index.

The Benchmark return for each Fund is calculated using the return for each relevant market index or peer group index and the Benchmark Asset Allocation weights of each Fund. Each index return for the relevant period is multiplied by the weight for that asset class.

Asset Class	Benchmark Indices	Current tax treatment	Current NZD Strategic Hedging Level (after tax)[2]	Market Index (M) or Peer Group Index (P)
Trans-Tasman Shares	S&P/NZX 50 Index with Imputation Credits	-[1]	-	M
Unhedged Overseas Shares	MSCI World Index with net dividends reinvested in NZD	FDR	0%	M
Hedged Overseas Shares	MSCI World Index with net dividends reinvested (100% hedged to NZD on an after-tax basis)	FDR	100%	M
Emerging Markets	MSCI Emerging Markets Index with net dividends reinvested in NZD	FDR	0%	M
Listed Property	FTSE EPRA/NAREIT Developed Index (with net dividends reinvested) (100% hedged to NZD on an after-tax basis)	FDR	100%	M
Listed Infrastructure	FTSE Developed Core Infrastructure 50/50 Index with net dividends reinvested (100% hedged to NZD on an after-tax basis)	FDR	100%	M
New Zealand Sovereign Bonds	S&P/NZX NZ Government Bond Index	CV	-	M
Overseas Sovereign Bonds	JP Morgan Global Government Bond Index (100% hedged to NZD on an after-tax basis)	CV	100%[3]	M
Global Credit	Bloomberg Global Aggregate Corporate Index (100% hedged to NZD on an after-tax basis)	CV	100%[3]	M
Cash	S&P/NZX Bank Bill 90-Day Index	CV	-	M

[1]NZ Equities dividends are taxed on a PIE basis, Australian Equity exposure is taxed on a PIE or FDR basis depending on the stock.

[2]Currency hedging is implemented on an after-tax basis. For some asset classes or strategies, the level of hedging may be higher than 100% on a pre-tax basis, due to the method in which the underlying assets and hedges are taxed. The rate of tax is assumed to be at 28%. Pretax returns will be monitored using gross hedging ratios.

[3]Hedging applies to AUD exposure where underlying assets are fully hedged to AUD.

Tax Treatment

The Funds operate as Portfolio Investment Entities ("PIEs") with Mercer calculating and paying tax on investment income that needs to be paid on behalf of Scheme members under the PIE tax rules.

The Scheme pays tax on behalf of its members at 10.5%, 17.5% or 28% depending on each member's prescribed investor rate.

The Scheme has elected to use the exit payment method whereby the PIE tax for the year ending 31 March for members who remain in the PIE is paid by the end of the month following the end of year (i.e., 30 April). Where a member fully exits the PIE the tax will be paid by the end of the month following the month of exit.

Investment Manager List

Details of the current Investment Managers appointed to invest the MITNZ portfolios are available by contacting Mercer on 0800 333 787.

7. Investment Policies

Mercer has adopted a range of investment policies to support its investment governance framework. Key among these are the following:

Investment Performance Monitoring Policy

The various components of the investment monitoring process are outlined below.

The principal goals of investment performance monitoring are to:

- monitor the returns of each Fund relative to its investment objectives and over the timeframes nominated in Section 5 of this SIPO;
- assess the extent to which the Fund’s investment objectives are being achieved and are expected to be achieved going forward;
- monitor the performance of individual asset classes against suitable industry standard benchmark indices and, particularly the asset class indices outlined in Section 6;
- monitor investment risks associated with each Fund and ascertain the existence of any particular weakness/concerns with the investment strategy, Investment Manager or the Investment Manager’s products utilised; and
- allow Mercer to continually assess the ability of each Investment Manager to successfully meet the objectives set for that manager.

Mercer is responsible for reviewing the performance of the appointed Investment Managers. Such monitoring is undertaken on a regular basis. Factors taken into account in these reviews will include investment style, resources, organisational strength, investment performance relative to objectives, product structure, and any other factors considered relevant to the Investment Manager’s continuing ability to meet the applicable investment objective. Returns will also be compared with returns earned by a suitable peer group, such as a group of other professional investment managers.

Reporting on performance against each Fund's objectives and compliance with benchmarks is monitored on a monthly basis. Exceptions, including unexpected performance dispersion or negative outcomes are highlighted in this reporting, and any recommended remedial actions are noted.

Rebalancing Policy

Mercer rebalances the asset allocation of a Fund in order to maintain an actual asset allocation that is sufficiently close to that of the Target Asset Allocation for the Fund and in a manner that remains within the ranges permitted by this SIPO.

For each Fund and in the event that either the minimum or maximum asset allocation is exceeded (for example, as a result of market depreciation or appreciation or due to significant cash-flows), Mercer must, amongst other things, within 5 business days of being aware of the range being exceeded, re-weight the Fund to be within the permitted ranges. If the reweighting does not occur within this time frame, then Mercer must make a report to the Supervisor. Mercer is also required to provide quarterly reports to the Supervisor in connection with each Fund's adherence to its permitted asset allocation.

While market movement is one of the key triggers for rebalancing, other events that will invoke rebalancing include:

- a change in Mercer's Dynamic Asset Allocation views;
- a funding requirement for currency hedging gain/losses;
- the addition or deletion of new asset classes (typically as part of a broader review of investment strategy); and
- the receipt of large application/redemption requests (this is expected to be rare given the level of broad-based participation in the Scheme and the general long-term nature of the membership profile).

Liquidity Management

Mercer maintains a liquidity management plan which describes the principles and processes governing liquidity management within the investment strategies of the Funds.

Mercer's policy in regard to the liquidity of the Funds is to ensure that all Funds are able to meet their obligations, including having available funds to meet:

- member withdrawals and transfers between Funds;
- fees and expenses;
- taxation payments; and
- re-balancing requirements.

Liquidity is available through each Fund holding suitable levels of liquid assets, being investment in cash and listed securities. Liquid assets are typically those assets that can be redeemed in 30 days in "normal" conditions without materially moving the price.

The procedures used by Mercer to manage liquidity for the Funds address the following key areas:

- the daily liquidity monitoring process which aims to proactively identify any potential liquidity issues;
- liquidity stress testing which considers a range of factors that may impact on liquidity, including market movements and forecasted cash flow requirements; and
- the maintenance of a range of tools to respond to a liquidity event (depending on the severity and duration of the event).

Derivatives

This policy covers the use of derivatives by the Funds through its multi-manager investment approach. As an extension, this policy covers the external investment managers which Mercer has appointed to manage the Funds' assets via discrete investment portfolios.

For the purpose of this policy a derivative is defined as a transaction or arrangement which results in a financial asset or liability, the value of which depends upon, or is derived from, the value of other assets, liabilities or indices. A derivative may include, but is not limited to, forward agreements, futures contracts, options contracts, warrants, swaps, share ratios, spot and forward currency transactions, currency options or over-the-counter options.

For clarity, the use of derivatives in itself is not considered to involve the use of leverage. Mercer Funds do not use debt (or borrowing) for the dominant purpose of investing in derivatives or hedge funds. Any net economic exposure that may result from the use of derivatives is managed as outlined in this policy.

Specific purposes for which derivatives may be used include:

Prudent Portfolio Management

The use of derivatives allows investment managers to manage portfolios in more prudent and efficient ways, including:

- improving transaction efficiency and costs;
- managing duration within fixed income portfolios;
- implementing changes in asset or asset class exposures.

Hedging

Mercer considers currency hedging is an essential part of any long-term investment strategy. Mercer also believes that an active approach to currency hedging is appropriate for some portfolios and therefore manages the level of currency exposures in those funds which are subject to the Dynamic Asset Allocation process.

Currency hedging is essentially protection against changes in currency exchange rates. Those overseas assets that are not hedged will have exposure to currency exchange rate movements resulting in a benefit when the New Zealand dollar goes down, and decrease in value when the New Zealand dollar goes up.

Mercer sets a benchmark level of currency hedging for each overseas asset class. Where permitted, the Dynamic Asset Allocation process can determine the target level of currency exposure.

Return Generation

Derivatives may be used for purposes of return generation, including:

- creating long and short positions in underlying physical securities;
- accessing investment opportunities which may otherwise have barriers to invest such as high purchase or carry cost, or low liquidity; and
- increasing the diversification of portfolio returns, achieved through broader market exposures generated from fewer portfolio positions.

Risk Management

Derivatives may be used for purposes of risk management, including:

- covering short term market exposures during transitions; and
- reducing tracking error within portfolios.

Conflicts of Interest / Related Parties

Conflicts Management Policy

Mercer has a Conflicts Management Policy to ensure that Mercer maintains effective systems, controls and procedures to identify and manage conflicts in accordance with our stated principles and to provide for appropriate oversight of conflicts and their management.

This enables Mercer to manage the business effectively whilst also meeting customer and other stakeholder expectations; adhering to regulatory requirements; and operating in accordance with the Marsh McLennan Code of Conduct.

A Conflicts of Interest Summary Policy is available on the Disclose register.

Sustainable Investment

At Mercer, we take our Sustainable Investment Policy into account when managing our investments, believing that sustainable investment approaches are consistent with an objective to create and preserve long-term investment capital, where relevant and aligned with achieving investment objectives.

The Sustainable Investment Policy for Mercer is available at https://www.nzdfsavings.mil.nz/documents.html and on the Disclose register.

Mercer's Sustainable Investment Policy is informed by our global philosophy and principles, updated in 2024 here, and our local experience implementing and evolving our sustainable investment approach for over a decade.

We have principles to guide our implementation approach, summarised into four techniques:

- Integration of environmental, social and governance (ESG) factors in relevant investment decisions may potentially enhance portfolio resilience. This includes appointing investment managers who assess and reflect ESG risks and opportunities when they select investments and construct their portfolios.

- Stewardship, via engagement with investment managers, companies and policymakers and/or via proxy voting at listed company annual general meetings, may improve investment outcomes by leveraging investor rights and influence. Engagement may be undertaken with companies or policymakers via appointed investment managers, collaborative initiatives and/or directly by us.

- Exclusions that seek to avoid investment in, or remove or reduce exposure as much as practicable to, certain companies or securities with involvement in defined products or business activities may help respond to stakeholder expectations where integration and stewardship are considered to be insufficient.

- Investment in themes, which may provide additional opportunities to improve risk-adjusted returns. This technique is only applicable to Sustainable Funds and therefore not currently applicable to any Funds in the New Zealand Defence Force KiwiSaver Scheme (refer to the Sustainable Investment Policy section on Sustainable Funds – Investment in Themes).

Mercer also publishes a Sustainable Investment Report which provides a summary of sustainable investment activity.

Exclusions

Exclusions involve seeking to avoid investing in, as well as removing or reducing exposure as much as practicable to, certain companies with involvement in defined products or business activities.

Exclusions can be used to respond to evolving societal norms and expectations, including New Zealand Government policy positions, especially where integration and stewardship are considered to be insufficient or not applicable.

Exclusions may be implemented either as rules-based, pre-defined criteria (such as the Exclusions Criteria defined below) or an escalation response for specific holdings related to an engagement process (as described in the “Stewardship” section of the Sustainable Investment Policy). The below documents our approach to rules-based exclusions.

As described below, our application of exclusions is generally determined by the asset class and nature of the holdings, and are subject to the operational limitations and exceptions:

Exclusions only apply to Directed Investments. If a Directed Investment meets an Exclusions Criteria, our investment managers will generally be expected to divest the Directed Investment in a reasonable period of time and as market conditions allow.

Exclusions Criteria

As at the date of this SIPO, appointed investment managers are required to apply the following exclusions to the Directed Investments of the Funds (Exclusions Criteria), unless an operational limitation as noted below, or other factors beyond our reasonable control, mean they are not possible to apply.

Exclusion	Exclusions Criteria
Controversial weapons	Companies that manufacture whole weapons systems, or delivery platforms, or key components that were developed or are significantly modified for use in cluster munitions, anti-personnel landmines, biological or chemical weapons or nuclear weapons (regardless of revenue). Companies with involvement* in the production or retailing of automatic or semi-automatic civilian firearms or ammunition (regardless of revenue).
Tobacco	Companies with involvement* in the production of tobacco, manufacture of nicotine alternatives or tobacco-based products (regardless of revenue), including subsidiaries and joint ventures. Nicotine alternatives and tobacco-based products include, for example, nicotine vaping products such as ‘vaping’ devices and e-cigarettes. Any other company that derives greater than 50% of revenue^ from tobacco-related distribution, wholesale or retail, and services such as marketing or supplying products necessary for production.
Russian assets#	Defined as: • Sanctioned Russian entities and related entities of sanctioned entities; • Equity – issues of publicly held companies with Russia as the country of incorporation or where the security has a primary listing in Russia (including ADRs/GDRs), including their subsidiaries • Fixed income – issuers captured in equity screening (as above) by country of incorporation, plus Russian sovereign bonds and bonds issued by Russian government-related entities (Rouble or foreign currency denominated);

	• Cash holdings in Russian currency; • Russian FX exposure; • Private markets assets domiciled in Russia; • All secondary issues of excluded securities; and • Derivatives having a Russian asset as primary exposure.

* Involvement is determined by a third party ESG research provider, currently ISS ESG, typically assessed based on revenue derived from defined activities (no revenue thresholds) or in the case of expansion metrics assessed based on capital expenditure.

^ Revenue is gross revenue in the last full financial year or, where not available, net revenues based on available company filings.

[#] Mercer has instructed its investment managers to divest any existing exposure to Russian securities as market conditions allow and to prohibit any new investments in Russian securities. This may mean that some Funds still retain exposures to Directed Investments in Russian securities, as Mercer seeks to divest in a manner that promotes the best interests of investors.

This above is a summary of exclusions under the Sustainable Investment Policy and exceptions may apply. Details of exceptions are found in the Sustainable Investment Policy for Mercer at https://www.nzdfsavings.mil.nz/documents.html and on the Disclose register.

The investment approach set out in this Statement of Investment Policy and Objectives may change from time to time. You can contact us at nzdf@mercer.com or call 0800 333 787 for the latest information.

8. Glossary

Active Management is an investment strategy in which the investor seeks to outperform a given benchmark.

Asset Classes are the names given to the different financial categories or sectors in which your money may be invested. The major asset classes include shares, real assets, fixed interest, cash and alternative assets. These asset classes can be broken down further for example to include New Zealand or overseas shares, New Zealand or overseas sovereign bonds, or listed property investments. All asset classes have different risk and return characteristics.

Certain asset classes, such as property, and infrastructure contain both growth and defensive characteristics. Mercer uses the equity and debt distinction as the primary differentiator between growth and defensive investments respectively.

Benchmark Asset Allocation details the long term percentage target holding of each asset class for each Fund.

Board means the board of directors of Mercer.

Cash may include a range of cash related investments including: (i) on call cash deposits; (ii) term deposits; (iii) bank bills; (iv) notes; and (v) bonds.

Defence Community includes current and past members of the New Zealand Defence Force, Veterans and the relatives of any of them.

Derivatives include currency exchange contracts, interest rate swaps, warrants, share market index futures, commodity futures, share options and similar financial instruments.

Directed Investments are investments where we can direct and control our exposure to individual securities via our appointed investment managers, including through individually managed portfolios of securities. Directed Investments do not include our investments in pooled vehicles (including managed investment schemes and exchange traded funds) where we cannot direct or control our exposure to individual securities within the pooled investment. Directed Investments also do not include some forms of derivatives.

Dynamic Asset Allocation or **DAA** means adjusting asset class weights of the SAA up or down to reflect a range of factors primarily for risk control, capital preservation, and incremental value add. This creates a Target Allocation. DAA is also known as a tactical asset allocation.

FDR means Fair Dividend Rate.

Fund means an investment fund offered under the Scheme's product disclosure statement.

Hedging generally refers to the process of protecting investments against, or reducing the risk of, a loss. For example, in the context of currency, the value of overseas investments is affected by rises or falls in the value of the New Zealand dollar (e.g. if the New Zealand dollar rises in value, then overseas investments in New Zealand dollar terms will reduce in value.) The Manager and underlying Investment Managers can use various techniques to minimise the effect of currency movements on overseas investments – this is currency hedging.

Investment Manager, where appointed by Mercer, is a party responsible for buying and selling securities in a MITNZ fund.

Manager means the entity who is responsible for the investment of the Scheme's assets in accordance with the Trust Deed and for ensuring this SIPO is adhered to.

MITNZ refers to Mercer Investment Trusts New Zealand a series of wholesale unit trusts of which Mercer is the manager and Trustees Executors Limited is the trustee.

Multi-sector, diversified fund is a Fund with exposure across more than one asset class in order to gain diversification benefits or to spread the risk.

PIE (Portfolio Investment Entity) are types of savings or investment funds that have special tax advantages in that the income attributed to a member is taxed at the member's prescribed investor rate (PIR).

Prescribed Investor Rate means the tax rate that investments in the Scheme can be taxed at. The rates are 10.5%, 17.5% or 28%, depending on the individual investor's taxable income. For more information, see https://www.ird.govt.nz/roles/portfolio-investment-entities/find-my-prescribed-investor-rate.

Real Assets include listed property and listed infrastructure. These assets are expected to generate returns that are different to shares, and therefore offer increased diversification to the relevant Fund.

Scheme means the New Zealand Defence Force KiwiSaver Scheme.

Single-sector fund is a Fund that invests in just one asset class or sector.

SIPO means this Statement of Investment Policy and Objectives.

Strategic Asset Allocation involves setting a Benchmark Asset Allocation for the long term (but subject to reviews).

Supervisor is an entity independent of the Manager, responsible for supervising the performance of the Scheme and the Manager.

Target Allocation means the asset allocation being targeted to implement Dynamic Asset Allocation, taking account of each Fund's Strategic Asset Allocation and ranges.

Trust Deed is the formal agreement between the Supervisor and the Manager that outlines their respective powers, requirements and responsibilities in respect of the governance of the Scheme.

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