

**Futurity Investment Group  
Limited (Futurity)**

**Statement of Investment  
Policy & Objectives**

**The Education Fund (New  
Zealand) – PR19 (Rule 62)**

# Revisions to this SIPO

The SIPO was approved by the Board on 29 June 2022 on the basis of the investment strategy and objectives for the Fund outlined in the current BRD 1: Investments. This SIPO is an extract of BRD 1, as it relates to the Fund.

The following is a list of dates on which the Investment Committee has approved updated versions of this SIPO:

**- 26 July 2017**

**- 20 August 2018**

**- 20 June 2019**

**-17 August 2020**

**-08 February 2021**

**- 29 June 2022**

# Section 1: Introduction

The purpose of this Statement of Investment Policy & Objectives (**SIPO**) is to document the investment objectives and policies of the Futurity Investment Group Limited (Futurity) with respect to The Education Fund (New Zealand) – PR19 (Rule 62) (the **Fund**).

It describes the investment objectives and policies that apply to the Fund, together with the procedures for monitoring and reviewing the investment managers.

A copy of this SIPO will be provided on the Disclose Register for the Fund and any amendments to this SIPO will also be added to the Disclose Register.

These policies and objectives may be reviewed and changed, as appropriate, to reflect changing capital markets, portfolio characteristics, government regulations and Futurity's requirements from time to time by the Investment Committee and the Board.

## 1.1 The Fund and Futurity's structure

The Fund is a registered 'managed investment scheme' for the purposes of the Financial Markets Conduct Act 2013 (New Zealand) (**FMCA**). Futurity has a Board of Directors and an Investment Committee which includes representatives from the Board of Directors.

Details of the Investment Committee's responsibilities are outlined in a Committee Charter and some key elements are summarised in the table in Section 3.1 below. On behalf of the Board, the Investment Committee is primarily responsible for setting Futurity's investment objectives and policies, and for implementing strategies that aim to achieve these investment objectives.

# Section 2: Investment Objectives and Strategy

## 2.1 Investment Objectives & Strategy

The Investment Strategy for the Fund is to provide market related returns using a range of investment funds managed by professional fund managers to achieve a conservative balanced risk profile.

### Liquidity

- We will aim to have sufficiently liquid assets to meet all expected cash flow requirements in all reasonably anticipated circumstances.

### Currency

- We will consider and adopt currency hedging strategies for all of our overseas investments. These strategies will reflect the nature of the investments.
- The risks arising from currency exposure would dominate the returns of the fixed interest portfolio, so for this reason this allocation will be 100% hedged.
- We will be prepared to accept some foreign currency risk in equities. We believe that risk arising from exposure to emerging market currencies is likely to be better rewarded than exposure to developed market currencies.

## 2.2 Benefit Fund Rule requirements

Investments are to be in accordance with the Benefit Fund Rules for the Fund, as outlined below.

Definition of 'Authorised investments' in Rule 62.2:

**“Authorised investments** in relation to this Fund means:

- (a) Loans secured by a mortgage:
  - (i) of freehold or leasehold land; or
  - (ii) of a lease or licence of such land that is issued under the *Land Act 1958*;
- (b) Australian fixed and floating interest bearing securities;
- (c) International fixed and floating interest bearing securities;
- (d) Cash and deposits at call, bank deposits, floating rate notes, indexed bonds, bank accepted and bank endorsed bills of exchange, negotiable certificates of deposit, certificates of deposit or equivalent;
- (e) Shares or related equity instruments in corporations listed on the official list of a recognised Australian stock exchange;
- (f) International Shares or related equity instruments in corporations listed on the official list of a recognised international stock exchange;

- (g) Units in a trust that is a registered managed investment scheme;
- (h) Units in a wholesale investment trust that is a managed investment scheme;
- (i) Freehold properties including fixtures and equipment, acquired for the sole purpose of leasing to State, Territory and Federal Governments for educational purposes; and
- (j) Derivative instruments for the purposes of hedging and managing currency risk. Hedging may be achieved through the use of futures, exchange traded options, over-the-counter options, forward rate agreements and interest rate swaps or similar instruments provided that these instruments are used solely for the purpose of protecting Members' funds and managing the currency risk rather than for speculative purposes.

In the case of debt instruments, only securities from issuers which have a credit rating of investment grade BBB- or higher or equivalent from an independent rating agency and in the case of short term securities and cash, only securities from issuers which have a short term credit rating of investment grade A-3 or equivalent from an independent rating agency."

Asset allocation ranges permitted under Rule 62.30:

Type of Investment	Minimum Percentage of Fund %	Maximum Percentage of Fund %
Australian Shares	0	40
International Shares	0	40
Property and Infrastructure	0	20
Australian Fixed Interest	0	70
Mortgage Securities	0	10
International Fixed Interest	0	70
Cash and Deposits at Call	0	100

In order to aim to achieve the objectives described above, the Investment Committee and the Board have set the following benchmarks and portfolio structures for the Fund:

**Any changes to these items in the Rules for the Fund will be by way of Benefit Fund Meeting of members of the Fund.**

Asset Class	Strategic Asset Allocation
<b>Equities</b>	
<b>Australian Equities</b>	0.0
International Equities	38.0
Emerging Market Equities	0.0
Global Listed Infrastructure	0.0
Unlisted Property	0.0
<b>Growth Assets</b>	38.0
<b>Fixed Interest Securities</b>	
Australian Fixed Interest	0.0
International Fixed Interest	60.0
<b>Cash</b>	
New Zealand Cash and deposits at call	2.0
<b>Defensive Assets</b>	62.0
<b>Total</b>	100.0

### 2.3 Currency Hedging

Futurity believes that, while there may be the potential benefits from an exposure to foreign currency, particularly in emerging markets, Futurity can also benefit from partially hedging its foreign currency exposures. Futurity's long term strategic targets for currency hedging of international investments is summarised below:

- The long term strategic benchmark is for a 50% foreign currency exposure for developed market international equities.
- The long term strategic benchmark is for a 100% foreign currency exposure for emerging market equities.

All other asset classes (i.e. global investment grade credit, property and infrastructure) will be fully hedged.

## 2.4 Taxation

The Benefit Fund portfolios' investment income is subject to the normal Australian taxation rules for corporations. Futurity is a resident in Australia for taxation purposes. Accordingly, Australian taxation laws apply to the NZ Benefit Funds. For the avoidance of doubt, all income is taxed in Australia under Australian taxation laws.

## 2.5 Ethical Considerations

Futurity is a signatory to the United Nations Global Compact. As Such, Futurity shall invest with investment managers which are signatories to either / or the United Nations Principles for Responsible Investment (UNPRI) and United Nations Global Compact (UN GC) for greater than 90% of Futurity's total funds under management. This shall be reviewed annually by the Investment Committee.

Futurity's Investment Policy calls for the use of professional investment managers and provides such managers with broad investment guidelines however recognises that it is not practical to be consulted on each investment decision made by the managers.

However, the Board requests that management are active in managing Futurity's investments so that Futurity does not intentionally agree to invest in companies that:

- Create, encourage or perpetuate militarism;
- Engage in the manufacture and/or use of armaments in contravention of the Geneva Convention;
- Unfairly exploit labour;
- Contribute to the inhibition or exploitation of human rights generally; and
- Illegally exploit the environment.

Futurity acknowledges that ethical considerations are somewhat subjective. However, it appreciates that the appointed investment managers take these matters into consideration in selecting, retaining or realising investments, to the extent that they are considered consistent with the investment objectives.

# Section 3: Investment Management Arrangements

## 3.1 Delegation of Investment Management Responsibilities

External professional investment managers will manage the Funds' assets: the exception being the In House Manager function for selected funds. The managers will have responsibility for the investment of the assets within specified constraints. Managers will be expected to display the skill and expertise expected of a professional investment manager within their agreed mandates and in accordance with documented guidelines.

External managers may be utilised by appointment to manage a discrete portfolio of assets on behalf of Futurity within specified constraints or assets may be invested in pooled funds offered by professional fund managers or from platforms available in the marketplace. Where appropriate, the Investment Committee may appoint a number of investment managers in a single asset class in order to achieve diversification and thereby reduce risk.

The table on the following page outlines the broad delegation of duties between the Board, the Investment Committee and the Head of Investments.



	Board	Investment Committee	Group Investment Manager
<b>POLICY</b>			
Determine Investment Beliefs	✓		
Review Board Policy (BRD1): Statement of Investment Objectives and Policy	✓		
Investment Objectives	✓		
Asset Allocation		✓	
Investment Policies	✓		
External Appointment/Advice		✓	
Annual September Policy Review	✓		
<b>STRATEGY</b>			
Review Asset Allocation		✓	
Rebalancing			✓
Cash Flow Direction			✓
Appoint/Terminate Managers		✓	
Approve Custodians		✓	
Determine Authorised Investments for Management Fund	✓		
Determine Authorised Investments for Subsidiaries	✓		
Review Quarterly Performance / Benchmarking		✓	
Stress Testing		✓	
<b>MANAGEMENT</b>			
Review & Adjust Tactical Asset Allocation		✓	
Monitor Managers			✓

## **Interim Investment Committee Meeting**

The Board recognizes that investment markets can be influenced by events which act to increase uncertainty and add risk to the investment portfolios. Accordingly, a 'trigger' has been established whereby management, in the first instance, will contact the Investment Committee Chair. The Chair shall determine to convene a meeting or a communication to Investment Committee members. Management will consider if liquidity requirements, withdrawal patterns, portfolio mix, buy and sell spreads, ESG/Sustainability require any out of cycle reviews.

### **Trigger**

The 'trigger' will be a cumulative five-day decline, in the S&P500 and/or the ASX200, of greater than 5.0%.

## **3.2 Derivatives**

Futurity has not invested directly in derivatives and does not intend to do so. However, external investment managers and asset transition managers may be permitted to use futures, options and other derivative instruments to assist with the effective management and risk control of the benefit fund assets provided that these instruments are used to reduce transaction costs, gain market exposure and to protect the Fund. Derivative instruments must not be used for any speculative purposes.

Derivatives may be used by Futurity to the extent that the use of derivatives is included and approved in the style of the Investment Manager appointed by the Investment Committee and where the use of derivatives is clearly disclosed.

## **3.3 Strategic Asset Advice**

From time to time Futurity takes advice from appropriate specialists in relation to Strategic Asset Allocation and associated topics.

# Section 4: Monitoring of Investment Managers

The Investment Committee recognises the importance of an ongoing process of monitoring the investment managers to ensure they continue to demonstrate a sufficient level of skill to meet the Fund's objectives. The Investment Committee will monitor the extent to which managers give effect to the policies set out in this SIPO.

The Investment Committee must satisfy itself that the performance objectives, benchmarks and measurement timeframes for its investments in pooled funds are appropriate for the Fund's objectives. Where investments are made in discrete mandates, Investment Management Agreements are to clearly specify the performance objectives of the manager's mandate, by specifying an appropriate performance benchmark and timeframe against which the manager's performance is to be measured.

## 4.1 Qualitative Monitoring

The Investment Committee recognises that monitoring of performance alone is not sufficient to assess the future capability of the managers. The Investment Committee believes that peer comparisons are a valuable part of qualitative monitoring. Futurity may retain advisors, to monitor the quality of the investment managers on the Investment Committee's behalf to ensure they continue to have the appropriate skills and capabilities necessary to outperform in the future.

## 4.2 Meetings with Managers

Presentations by investment managers to Futurity's investment team should generally take place at least annually or as requested to discuss performance, process or other issues.

The Investment Committee may require additional investment manager presentations if circumstances dictate that an amendment is warranted.

## 4.3 Selection Criteria

Investments will be selected by applying such prudent standards of judgement as would be compatible with the skill and expertise of a professional in the business of portfolio management.

Where Futurity invests part of its assets in a pooled arrangement, restrictions relating to the diversification within the pool will be governed by the benefit fund rules. The Investment Committee will give due regard to these documents, including any restrictions on exposures to individual securities or assets, prior to making an investment in such pools.

Managers will be selected (or deselected) based on a range of criteria, including:

1. PERFORMANCE METRICS

- Benchmark and objectives, Risk objectives, Standard risk measure

## 2. INVESTMENT TEAM

- Key persons, Leadership, Stability, Experience, Capacity, Remuneration, Ownership, Location, Ethos, Manager skills

## 3. INVESTMENT STRATEGY

- Style, Alignment, Approach, Investment beliefs, Asset allocation, Investment process, Size (FUM), Capacity, Liquidity, Portfolio construction and composition, Risk Management, Limits, Structure and objectives, Currency and exposures, Hedging

## 4. INVESTMENT ORGANISATION

- Organisation, Structure, Business overview, Financial standing, Reputation, Scale, Products, Integration with the broader manager's business (Risk, Governance, Trading & Compliance), Any conflicts of interest

## 5. PAST PERFORMANCE

- Relative, Objectives, Benchmark, Volatility, Consistency, Peer group comparison

## 6. ESG

- How they consider ESG/Sustainability, what they capture (Climate risk, Modern Slavery), How they incorporate and demonstrate, UNPRI, UN GC.

## 7. FEES

- Management fees, Indirect fees, Performance fees, Relative to peer group comparison, Fee rebates, Fee disclosures

## 8. FUND REPORTING

- Legal documentation eg PDS, Custodian with a GS007, Reporting frameworks and timeframes, Portfolio holdings disclosures, Service structure, Online access, Futurity Investment Manager Operational Questionnaire

## 9. DERIVATIVES AND GEARING

- Hedging exposures, any ability to gear the Fund, Style of exposures, Implementation of hedging

## 10. RESEARCH RATING

- Zenith, Lonsec, Morningstar, WTW, JANA, Frontier

For active managers, Futurity will seek to invest with managers that are expected to have competitive and sustainable advantages with respect to their investment professionals, approach, insight generation and portfolio management. Managers should also exhibit firm and team stability, have an appropriate opportunity set and demonstrate alignment with Futurity.

### 4.4 De-selection Criteria

Managers may be replaced if they fail to meet investment performance objectives and/or qualitative requirements agreed with the manager and/or the Board or Investment Committee believes that the manager is not capable of achieving the objectives in the future (by virtue of a loss of confidence in the manager's ability to, at a minimum, satisfy the selection criteria contained in Section 4.3 – Selection Criteria).

# Section 5: Bonus Rate Declaration Policy

At the end of each financial year or such shorter period as may be required, the Investment Committee shall review and recommend Bonus Rates for approval by the Board. The Investment Committee has been authorised by the Board to review and approve all quarterly bonus rates.

## Investment linked contracts

In determining the bonus rate for balanced funds (investment linked contracts) upon the advice of the actuary, the proposed bonus rate as calculated will be left as is or be rounded to a lower multiple of 5 basis points. The process rounds down on the basis that any undistributed surplus from the prior period is included in the pool for the current period. In this way, there is no subjective component to the considerations and the classification of these funds as 'investment-linked accounts' can be retained for the purposes of the Life Insurance Act. Adjusting the bonus rates by a figure which is determined on purely a subjective basis could potentially compromise the 'investment-linked' nature of balanced funds & require them to be reclassified as 'investment accounts', which cannot declare negative bonus rates.

For benefit funds which declare bonus rates for shorter periods, such as on a quarterly basis, the above rounding is applied after the actuary withholds a 5 basis point buffer to protect the fund against the risk of relying on unaudited data, with any excess due to rounding used to fund any adjustments, primarily to the tax position. Following completion of the benefit fund's annual audit, an annual bonus rate may still need to be determined for miscellaneous adjustments to the accounts, such as franking credits, at year end. This annual bonus rate would be determined after taking into account actual fees and tax incurred, movements in the reserve accounts and quarterly or other bonuses already credited.

# Section 6: Updates and Changes to this Statement

This SIPO, and the objectives, strategy and policies contained herein, is to be reviewed by the Board or Investment Committee as appropriate (expected to be on an annual basis).

This SIPO is intended to be effective for an indefinite period. However, changes may need to be made and should be considered if:

- a. there is a major change in the circumstances of Futurity
- b. there is a major change to the Benefit Fund rules for the Fund
- c. changes are made to Government regulations relating to Futurity's investments for the Fund
- d. changes are made to Futurity's investment arrangements
- e. fundamental long term social, political or economic restructuring occurs.

This SIPO was adopted by the Investments Committee at a meeting on 29 June 2022 and reflects the strategy and objectives currently approved by the Board under BRD 1: Investments.

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