
Westpac Premium Investment Funds

Statement of Investment Policy and Objectives

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 **BT** Funds Management

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Background

This Statement of Investment Policy and Objectives (**SIPO**) sets out the investment governance and investment management framework, philosophy, strategies and objectives of the Westpac Premium Investment Funds (**Premium Investment Funds**).

The SIPO is subject to change from time to time. Changes will be advised in the annual report for the Premium Investment Funds. Where required by the trust deed or law, you will receive prior notification of any material change to an investment strategy or objective.

The most current version of this SIPO is available on the schemes register at disclose-register.companiesoffice.govt.nz (**Disclose**).

Throughout the SIPO, we use "BTNZ", "we", "our" or "us" to refer to the manager (**Manager**), BT Funds Management (NZ) Limited. Words defined in the Product Disclosure Statement (**PDS**) have the same meaning when used in the SIPO.

This document has been prepared pursuant to section 166 of the Financial Markets Conduct Act 2013 (**FMCA**) and a section of the document has been prepared for the purposes of meeting clause 7 of the Financial Markets Conduct (Market Index) Exemption Notice 2018.

1. Description

The Premium Investment Funds is a managed investment scheme for the purposes of the FMCA.

The Premium Investment Funds has eight investment funds available for investment (each a **Fund** and together the **Funds**):

- Enhanced Cash Fund
- New Zealand Diversified Bond Fund
- Corporate Bond Fund
- International Diversified Bond Fund
- Australasian Diversified Share Fund
- International Diversified Share Fund
- Property Fund
- Alternative Strategies Fund

BTNZ is the Manager of the Premium Investment Funds and a licensed manager of registered schemes under the FMCA. Our contact details are available on Disclose.

We are responsible for the overall investment management of the Funds including implementation of the investment strategies. Each Fund has a specific investment strategy and objective and invests in a specific asset class.

2. Investment Philosophy

Investment management style and strategy

Our investment philosophy is based on the broad principles of diversification and active management, backed by a research driven approach focused on identifying and managing risk and sourcing value added opportunities.

We believe markets are somewhat inefficient and portfolios can be positioned in a manner to take advantage of opportunities that occur, which is why our philosophy is generally to apply an active approach to investment selection.

The current specialist funds and underlying specialist investment managers utilised for each Fund can be found on westpac.co.nz and on Disclose.

Investment management structure and governance

Investment management activities are managed by BTNZ Investment Solutions (**Investment Solutions**). The responsibilities of Investment Solutions include benchmark asset allocation, specialist fund/manager selection and portfolio implementation.

We use specialist investment managers to manage the day to day security selection decisions. These specialist investment managers may be us or third parties selected by us. Further information can be found on page 9.

A BTNZ Investment Committee (**BTIC**) has been established to oversee the investment management activities and is responsible for reviewing investment performance, outcomes and processes. The BTIC meets quarterly or more frequently as required.

3. Investment Objectives

The investment objective for each Fund is set out below.

Enhanced Cash Fund

The Fund aims to provide stable returns over the short term by investing primarily in cash and cash equivalents.

New Zealand Diversified Bond Fund

The Fund aims to provide capital growth over the short to medium term by investing primarily in a range of New Zealand fixed interest assets.

Corporate Bond Fund

The Fund aims to provide capital growth over the short to medium term by investing primarily in a range of New Zealand fixed interest assets issued by corporate entities.

International Diversified Bond Fund

The Fund aims to provide capital growth over the short to medium term by investing primarily in a range of international fixed interest assets.

Australasian Diversified Share Fund

The Fund aims to provide capital growth over the long term by investing primarily in a diversified portfolio of listed New Zealand and Australian equities.

International Diversified Share Fund

The Fund aims to provide capital growth over the long term by investing primarily in a diversified portfolio of listed international equities.

Property Fund

The Fund aims to provide capital growth over the long term by investing primarily in a diversified portfolio of listed New Zealand and International property equities.

Alternative Strategies Fund

The Fund aims to provide capital growth over the long term by investing in vehicles such as hedge funds and absolute return funds.

4. Investment Strategy

Benchmark asset allocation and ranges

Each Fund invests primarily in a single asset class as detailed in the table below. All Funds except the Enhanced Cash Fund will hold up to 10% of their assets in cash and cash equivalents for liquidity purposes.

Fund	Asset Class	Benchmark Asset Allocation
Enhanced Cash Fund	Cash and cash equivalents	100%
New Zealand Diversified Bond Fund	New Zealand fixed interest	100%
Corporate Bond Fund	New Zealand fixed interest	100%
International Diversified Bond Fund	International fixed interest	100%
Australasian Diversified Share Fund	Australasian equities	100%
International Diversified Share Fund	International equities	100%
Property Fund	Listed property	100%
Alternative Strategies Fund	Other (alternative investments)	100%

While derivatives may be used in each asset class, the use of derivatives may be more extensive in the International Diversified Bond Fund and the Alternative Strategies Fund.

We evaluate expected volatility based on a full investment cycle. As the risk indicator utilised in any PDS (or fund update) is calculated based on only 5 years of past performance data, (which is not a full investment cycle), in some cases it might differ if calculated using a longer timeframe. If the relevant period had unusually low or unusually

high volatility, the risk indicator may provide a less reliable indication of the potential future volatility of the fund.

Benchmark Market Indices for the Funds

Each Fund has a benchmark market index against which BTNZ measures performance. The table below shows these indices for each Fund (as at the date of this SIPO).

Fund	Benchmark Index
Enhanced Cash Fund	S&P/NZX Bank Bills 90-Day Index
New Zealand Diversified Bond Fund	S&P/NZX NZ Government Bond Index
Corporate Bond Fund	S&P/NZX 3 Year Swap Index
International Diversified Bond Fund	Bloomberg Barclays Global Corporate 1-10 year Index (100% hedged to NZD) Bloomberg Barclays Global Treasury 1-20 year Index (100% hedged to NZD)
Australasian Diversified Share Fund	S&P/NZX 50 Index Gross
International Diversified Share Fund	MSCI All Country World ex-Australia Net Index (69% hedged on a before tax basis to NZD)
Property Fund	S&P/NZX All Real Estate Gross Index FTSE EPRA/NAREIT Developed Index NTR (139% hedged on a before tax basis to NZD)
Alternative Strategies Fund	HFRX Global Hedge Fund Index (100% hedged on a before tax basis to NZD)

The benchmark indices may be updated or amended by BTNZ at any time.

More information on the relevant market indices can currently be found at the following web pages:

- S&P/NZX: us.spindices.com/regional-exposure/asia-pacific/new-zealand
- Bloomberg Barclays: index.barcap.com
- MSCI: msci.com/indexes
- HFRX: hedgefundresearch.com
- FTSE: ftserussell.com

The market indices and those web pages may change, or may be renamed or replaced from time to time without notice to you.

Additional information on the benchmark index for the Alternative Strategies Fund

The Alternative Strategies Fund (**Fund**) uses the HFRX Global Hedge Fund Index (100% hedged on a before-tax basis to NZD) (**peer group index**) as a benchmark index against which performance of the Fund is measured. The peer group index is based on the performance of a group of funds that invest in a particular sector, administered by Hedge Fund Research, Inc. (**HFR**). Established in 1992, HFR has been a provider of hedge fund data and analysis to investors, asset managers and service providers for over 20 years.

The peer group index is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies, including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral,

event driven, macro, merger arbitrage, and relative value arbitrage. The strategies are asset weighted based on the distribution of assets in the hedge fund industry.

The peer group index is likely to be useful to investors as it provides a collective sector index for the types of investments that the Fund invests in.

More information about HFR, and the peer group index, can be found at hedgefundresearch.com.

Permitted Investments

Each Fund has a specific investment strategy and invests “primarily” in a specific asset class as detailed on page 6. Each Fund invests directly, or through investments in managed funds. Further information setting out the permitted investments for each Fund is in the Appendix.

5. Investment Management Policies

This section outlines the key policies that are relevant to achieving the investment objectives of the Premium Investment Funds.

Currency hedging policy	<p>Objective of currency hedging The objective of hedging currency is to reduce, eliminate or alter the effects of foreign exchange movements on assets not held in New Zealand dollars.</p> <p>Currency strategy For most Funds, exposure to foreign currencies is generally fully hedged back on a before tax basis to the New Zealand dollar.</p> <p>The exceptions to this policy are listed below:</p> <p>Australasian Diversified Share Fund: Exposure to foreign currencies may be actively managed, and will vary from time to time.</p> <p>International Diversified Share Fund: Exposure to foreign currencies is generally 69% hedged back on a before tax basis to the New Zealand dollar, but may be actively managed, and will vary from time to time.</p> <p>Property Fund: Exposure to foreign currencies is generally fully hedged back on an after tax basis to the New Zealand dollar.</p> <p>Implementation Implementation of currency hedging is undertaken by BTNZ and/or the specialist managers we access. Hedging by BTNZ is implemented via forward foreign exchange contracts, options or swaps.</p> <p>Where foreign currency hedging is not actively managed, monitoring of the actual currency exposure against targets will generally occur daily.</p>
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Derivatives policy	<p>Derivatives may be used by the Funds as a risk management tool or as an alternative to investing in a physical asset. Derivatives may be held directly or indirectly and can provide an exposure to an underlying asset which is similar to which would be obtained by buying or selling that asset.</p> <p>It is our policy not to invest directly in derivatives to gear the Funds (that is, to obtain greater exposure to markets than the net asset value of a Fund). If for any reason a Fund becomes geared through its direct investments, we will realign the Fund as soon as practicable to remove any gearing. The managed funds that the Funds invest into may, however, use gearing and have the ability to use derivatives more extensively.</p>
Liquidity management policy	<p>We monitor each Fund's liquidity levels in order to meet obligations during normal market conditions. This includes having available funds to meet unitholder withdrawals, taxation payments, fees and expenses. BTNZ seeks to manage liquidity risk by generally investing in liquid markets and securities.</p>
Conflicts of interest policy	<p>Westpac New Zealand Limited (Westpac NZ) has a conflicts of interest policy that applies to BTNZ, its directors and staff. The policy covers the systems and processes that BTNZ and Westpac NZ follow to identify, manage and mitigate conflicts.</p>
Risk management policy	<p>All investments have investment risk, which is the risk of negative or lower than expected returns on your investment. Investment Solutions regularly reviews risk management, including portfolio and manager risk. Our investment philosophy based on appropriate diversification and active management seeks to mitigate investment risk. For more information on the risks relevant to the Funds see the 'Other Material Information' document on Disclose.</p>
Responsible investment policy	<p>Responsible investment, including environmental, social, and governance considerations, is taken into account in the investment policies and procedures of the Funds as at the date of this SIPO. You can obtain an explanation of the extent to which responsible investment is taken into account in those policies and procedures at westpac.co.nz.</p>

Other relevant policies

The following policies are also relevant to the management of the Premium Investment Funds and can be found in the 'BTNZ Proxy Voting, Trade Allocation and Execution policy' document on Disclose:

- Trade allocation and trade execution policies
- Voting policies & proxy policies.

6. Investment Performance Calculation and Monitoring

Performance for each Fund is generally calculated each business day and a report is distributed to key BTNZ investment personnel. Additionally, weekly and monthly performance summary reports are prepared by Investment Solutions and are reviewed internally. Performance is monitored over monthly, quarterly, half-yearly and annual periods, as well as rolling two, three, five, seven and ten year periods (where applicable). Performance is measured on an absolute return basis, as well as relative to each Fund's benchmark returns, information ratios and ex-post tracking errors.

Investment Solutions regularly monitors the performance of the specialist investment managers that are accessed by the Funds.

7. Investment Strategy Review

The specialist investment managers that we access are each required to offer a well-defined, robust investment philosophy and process. We regularly monitor the relevant funds and managers, reviewing matters such as investment performance, portfolio holdings, compliance, changes to key investment personnel and business factors. The managed funds that we access and the specialist investment managers may be changed at any time without notice to investors. Details of the managed funds we have chosen to invest into and the underlying specialist investment managers we access can be found in the 'Other Material Information – Underlying Investment Managers' document on Disclose.

8. Compliance with and review of the SIPO

Investment Solutions monitors compliance with the SIPO for each Fund on a day to day basis.

Investment Solutions and other BTNZ personnel may at any time propose amendments to the SIPO. These proposed amendments are reviewed by relevant stakeholders, (including the Supervisor and the BTIC). BTNZ (on the recommendation of the BTIC) may amend the SIPO after giving prior written notice to the Supervisor.

The BTIC will review this SIPO annually (or more frequently if required).

Appendix: Permitted investments by Fund

Enhanced Cash Fund

Securities that are short term or short term in nature and denominated in New Zealand dollars or have had all their cash flows hedged into New Zealand dollars, including, but not limited to:

- (a) Securities of or guaranteed by the New Zealand Government, supranational bodies or institutions not incorporated in New Zealand, New Zealand entities or Australian entities;
- (b) New Zealand dollar denominated securities and structured products where the underlying securities of the structured product comply with these permitted investments for a Cash portfolio;
- (c) Asset backed securities (including mortgage backed securities), being securities where the capital value and income stream are backed by a specific pool of underlying assets;
- (d) Floating rate notes;
- (e) Derivatives (either exchange traded or over-the-counter) including but not limited to swaps, interest rate and forward rate contracts, forward foreign exchange contracts, options, and futures contracts, as appropriate in the management of a Cash portfolio;
- (f) Units and other prescribed interests in unit trusts or other pooled funds that invest predominantly in the investments referred to above; and
- (g) Investments not covered by the above and approved by the Supervisor.

New Zealand Diversified Bond Fund

- (a) New Zealand fixed interest securities including deposits, debentures, bonds, notes, promissory notes, bank bills, certificates of deposit, floating rate notes, bills of exchange, redeemable preference shares and other securities whether consisting of a charge over property or not;
- (b) Asset backed securities (including mortgage backed securities), being securities where the capital value and income stream are backed by a specific pool of underlying assets;
- (c) Cash or cash equivalents at bank;
- (d) Derivatives (either exchange traded or over-the-counter) including but not limited to swaps, interest rate and forward rate contracts, forward foreign exchange contracts, options, and futures contracts, as appropriate in the management of a New Zealand Fixed Interest portfolio;

- (e) Units and other prescribed interests in unit trusts or other pooled funds that invest predominantly in New Zealand Fixed Interest; and
- (f) Investments not covered by the above and approved by the Supervisor.

Corporate Bond Fund

- (a) New Zealand fixed interest securities including deposits, debentures, bonds, notes, promissory notes, bank bills, certificates of deposit, floating rate notes, bills of exchange, redeemable preference shares and other securities whether consisting of a charge over property or not;
- (b) Asset backed securities (including mortgage backed securities), being securities where the capital value and income stream are backed by a specific pool of underlying assets;
- (c) Cash or cash equivalents at bank;
- (d) Derivatives (either exchange traded or over-the-counter) including but not limited to swaps, interest rate and forward rate contracts, forward foreign exchange contracts, options, and futures contracts, as appropriate in the management of a New Zealand Fixed Interest portfolio;
- (e) Units and other prescribed interests in unit trusts or other pooled funds that invest predominantly in New Zealand Fixed Interest; and
- (f) Investments not covered by the above and approved by the Supervisor.

International Diversified Bond Fund

- (a) International fixed interest securities including, but not limited to, sovereign debt securities, corporate debt securities, asset and mortgage backed securities and agency securities, high yield and emerging market debt securities;
- (b) Investments issued by any entity, wherever formed, denominated in any currency, which provide a rate of return (as a dividend, interest, distributions or otherwise) which is fixed or a variable rate of return determined by reference to a fixed or variable interest rate (subject in each case to limitations on the obligation to pay that rate of return under the terms of the investment) until maturity or (in the case of convertible investments) conversion;
- (c) Cash or cash equivalents at bank;
- (d) Derivatives (either exchange traded or over-the-counter) including but not limited to swaps, interest rate and forward rate contracts, forward foreign exchange contracts, options, and futures contracts, as appropriate in the management of an International Fixed Interest portfolio;

- (e) Units and other prescribed interests in unit trusts or pooled funds that invest predominantly in investments referred to above; and
- (f) Investments not covered by the above and approved by the Supervisor.

Australasian Diversified Share Fund

- (a) Ordinary equities, preference equities, convertible and converting notes, warrants, options, rights and other securities in corporations which are listed on the NZX or on the Australian Securities Exchange (ASX), or which if not then listed on the NZX or ASX, are (in the reasonable opinion of BTNZ) expected to be listed on the NZX or ASX within one year (or such longer period as BTNZ determines is reasonable from time to time whether generally or in relation to any particular category or case) from the date of purchase or subscription;
- (b) Cash or cash equivalents at bank;
- (c) Derivatives (either exchange traded or over-the-counter) including but not limited to swaps, interest rate and forward rate contracts, forward foreign exchange contracts, options, and futures contracts, as appropriate in the management of an Australasian Equities portfolio;
- (d) Units and other prescribed interests in unit trusts or other pooled funds that invest predominantly in the investments referred to above; irrespective of whether the trust or fund is listed on the NZX or ASX; and
- (e) Investments not covered by the above and approved by the Supervisor.

International Diversified Share Fund

- (a) Ordinary equities, preference equities, and other securities of an equity nature, whether or not listed on a stock exchange or traded on over-the-counter markets in any country and rights or securities which are convertible into equities;
- (b) Debt securities (including bonds and notes) convertible into or exchangeable for equities;
- (c) Derivatives (either exchange traded or over-the-counter) including but not limited to swaps, interest rate and forward rate contracts, forward foreign exchange contracts, options, and futures contracts as appropriate in the management of an International Equities portfolio;
- (d) Cash or cash equivalents at bank;
- (e) Units and other prescribed interests in unit trusts or pooled funds that invest predominantly in the investments referred to above; and

- (f) Investments not covered by the above and approved by the Supervisor.

Property Fund

- (a) Units, ordinary equities, convertible notes, preference equities and other securities in property trusts and property companies whose predominant business is ownership and/or development of property, which are listed on a stock exchange or traded on over-the-counter markets in any country, or are (in the reasonable opinion of BTNZ) expected to be listed on a stock exchange within one year (or such longer period as BTNZ determines is reasonable from time to time whether generally or in relation to any particular category or case) from the date of purchase or subscription;
- (b) Cash or cash equivalents at bank;
- (c) Derivatives (either exchange traded or over-the-counter) including but not limited to swaps, interest rate and forward rate contracts, forward foreign exchange contracts, options, and futures contracts, as appropriate in the management of a Listed Property portfolio;
- (d) Units and other prescribed interests in unit trusts or other pooled funds that invest predominantly in the investments referred to above; and
- (e) Investments not covered by the above and approved by the Supervisor.

Alternative Strategies Fund

- (a) Alternative investments such as:
 - i. Hedge funds and absolute return funds; and
 - ii. Private securities, which include but are not limited to venture capital;
- (b) Cash or cash equivalents at bank;
- (c) Derivatives (either exchange traded or over-the-counter) including but not limited to swaps, interest rate and forward rate contracts, forward foreign exchange contracts, options, and futures contracts, as appropriate in the management of an Other (alternative investments) portfolio;
- (d) Units and other prescribed interests in unit trusts or pooled funds that invest predominantly in investments referred to above; and
- (e) Investments not covered by the above and approved by the Supervisor.

