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Booster KiwiSaver Scheme

Statement of Investment Policy and Objectives

16 December 2019

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Effective Date	16 December 2019
Version No.	4.0
Next Review Date	1 September 2020
This version approved	6 December 2019

1. Description of the Scheme and Purpose of this SIPO

The Booster KiwiSaver Scheme (‘Scheme’) is a registered KiwiSaver scheme under the Financial Markets Conduct Act 2013 (‘Act’). The Scheme, which is a defined contribution scheme designed to help members provide for their retirement, is managed by Booster Investment Management Limited (‘BIML’, the ‘Manager’).

This Statement of Investment Policies and Objectives (‘SIPO’) outlines the investment governance framework for the investment fund options ('Funds') offered to members under the Scheme, in order to:

- Document the Manager's objectives and expectations, including risk and return, for the Funds’ investments, and their periodic review.
- Document the investment strategies pursued in order to achieve the above objectives, including the desired strategic asset allocations for the Funds.
- Consider the implications for the investment strategies of the Funds’ cash flows as projected in the business plan.
- Outline how the investments and investment managers will be selected and monitored, in order to implement the above investment strategies.
- Specify key investment constraints or limits to be applied when selecting investments and/or investment managers.
- Specify how the liquidity of investments will be assessed and managed in order to meet redemptions/benefit payments as and when they fall due.
- Describe procedures to be followed regarding the regular review of the performance of the Funds, the investment strategy and the selected investment managers.
- Document the investment governance arrangements to apply for the efficient implementation of this SIPO.
- Comply with the requirements of the Act and other relevant legislation.

The current version of the SIPO for the Scheme is available on the scheme register on the “Disclose” website, at www.business.govt.nz/disclose

2. Review of investment strategy and this SIPO

The Manager will review the investment strategy for each of the Scheme's Funds, and this SIPO, at least annually. In addition, the SIPO and any changes will be approved by the Manager's Investment Committee.

As superannuation is a long term investment, it is not expected that the investment objectives and expectations in the SIPO will necessarily change frequently or annually. Short term movements in financial markets should not generally lead to adjustment in investment objectives or expectations.

Investment strategies and the SIPO may be reviewed at any time should the Manager deem it necessary, for events such as where:

- New legislation affects investment requirements.
- Fundamental changes in the long term social, political or economic environment suggest a change in investment principles and expectations.
- A significant change occurs to the underlying demographics of the Funds.
- New types of investment opportunities require consideration for inclusion in the Funds.
- The Funds' competitive or market position has implications for Members' assets and/or liquidity.

Revisions to the SIPO will come into effect on the Effective Date shown on the front cover and only after giving prior written notice to the Scheme's supervisor.

3. Members' Demographics and Expectations

The Scheme offers members a range of Funds to use as they build and maintain their retirement savings. This is because the Manager recognises that, although superannuation is generally a long term investment, each member has a different attitude to risk and a different investment time horizon.

Each Fund has a particular risk/return profile and invests in a different asset mix, implying different time horizons over which to benchmark performance. All options are accumulation options, meaning that members bear the risks and returns of their choices.

In making decisions on investment strategy for each Fund, the Manager will have regard to the overall circumstances of the Funds and will comply with the Scheme's Trust Deed and rules, disclosure documents and with all applicable legislation.

The Manager will manage all aspects of risk in relation to the Funds' assets, including:

- Ensuring the assets are adequately diversified.
- Ensuring the assets have an appropriate level of liquidity.
- Ensuring there are sufficient assets to meet benefit payments when they fall due.
- Ensuring that any provider to whom investment decisions are delegated exercises their duties with prudence and professionalism.

For the Default Saver Fund, the investment structure and strategy must explicitly recognise that the investors typically allocated to this Fund:

- Will have a low level of financial awareness.
- Should only be in the product for a relatively short time period (5 years or less).
- Should not be subject to high levels of price volatility.

4. Approach to investing, risk and tax

In determining the appropriate investment strategy and investments for the Funds' assets, the Manager applies the following investment principles:

- **Effective diversification is a core investment risk management strategy**: Spreading members' investments across a number of different types of relatively uncorrelated securities within asset classes (and across less correlated asset classes within multi-sector options) is fundamental to smoothing returns and reducing volatility. The Manager therefore defines minimum diversification standards in the mandates for each of the specific asset class options offered, and requires comprehensive asset class correlation analysis to be included in the annual strategic asset allocation reviews.

- **Risk and return are positively correlated**: Over the long term, higher risk will generally be rewarded with higher returns, all other things being equal. Conversely, those investments with higher expected return usually involve more risk. All investments involve some form of risk. The Manager has defined and addressed the key risks relevant for the Funds by stipulating either minimum investment requirements or specific constraints within the mandates.

- **Time horizon is important when investing:** At any one point in time, investment principles that apply generally in the long term may not necessarily appear to hold in the short term. Individual members need to consider their time horizon to ensure it matches that of their chosen investment option.

- **High quality research and experienced investment management are essential:** Developing sound investment portfolios involves in-depth research and analysis of available investments and selecting those according to a consistently applied and disciplined decision-making framework.

- **Markets operate in cycles.** These cycles can vary in length and intensity. With experience and analysis, favouring certain asset classes and investments during different cyclical phases can potentially enhance returns and reduce risk.

- **Environmental, social and corporate governance ('ESG').** More consistent long-term return outcomes are likely to be achieved if investments are undertaken in companies and funds that recognise the environmental and social impact of their commercial activities and operate with sound governance frameworks.

- **Liquidity.** Liquidity is the essence of soundly operating financial markets. A statement regarding the Manager's liquidity policy is provided in Section 8. Constraints and/or minimum requirements are stated in the mandates for the Funds which specifically addresses the management of liquidity on behalf of members.

The Manager also takes into account the following empirically supported investment philosophies in determining the most appropriate investment strategy for each Fund:

- In most developed countries, **investment markets are relatively efficient** in communicating, processing and reflecting available information regarding security prices. Market index funds and index-replication strategies should therefore be at the core of the investment strategies.

- Investment outcome differences across individual investors are largely **driven by <u>strategic</u> decisions, both across asset classes and within sub-asset classes.** By comparison, **individual security selections and market timing have only modest impacts**. Investment decision-making frameworks should therefore explicitly recognise longer-term, top-down strategic decision-making over bottom-up security picking.

- Over the medium to long-term, **index funds perform consistently above the average** of actively-managed funds, with **most active investment managers unable to consistently outperform** well-diversified market indices, particularly after fees. Any active investment managers used to complement the core index investment strategy should therefore demonstrate a capacity to manage more highly concentrated (but still diversified) strategies aimed at materially outperforming index funds after fees. The Manager believes that most typical multi-manager strategies fail to deliver sufficient risk-adjusted value to investors because they are both over-diversified across investment managers and utilise investment managers with insufficient value add capacity (tracking error) relative to the fees charged.

- **Modern portfolio theory disciplines** provide good portfolio structure under normal market conditions, but these tend to break down under unstable or chaotic markets. Investment decision-making frameworks should therefore recognise this constraint and incorporate sufficient elements of dynamic asset allocation and explicit downside risk management strategies.

- **Direct Securities vs Managed Funds.** Where possible and appropriate, taking into account liquidity and diversification factors, portfolios of directly-held securities can be a more cost-effective way of implementing a core/satellite investment approach. This is particularly the case where the directly-held securities can be used to readily replicate significant portions of the core market index benchmarks used to monitor performance outcomes and in the design of long-term strategic asset allocations. Incorporating significant elements of directly-held securities also facilitates greater control over the overall portfolio return outcomes, particularly within multi-asset sector options, as it minimises some of the unintended overlapping risks that can eventuate where only managed funds are used.

- Furthermore, holding direct securities also enables an element of control over taxable outcomes. All managed funds used to implement the core strategy will be limited to only those investment vehicles suited to New Zealand-based superannuation investors. Part of the due diligence undertaken in selecting the managers of these vehicles will be focused on ensuring they have an appropriately documented approach to optimising tax outcomes resulting from their underlying investment philosophy and process.

Tax

The Scheme is a Portfolio Investment Entity ('PIE') that is a multi-rate PIE in terms of the Income Tax Act 2007. Taxable income is attributed to members and tax will be calculated and deducted by the Manager in accordance with the PIE tax rules at the Prescribed Investor Rate of each member as notified to the Manager.

5. Investment objectives

The investment objectives and return objectives the Manager has set for the Funds are set out in the following table.

Multi-Sector Funds		
Fund	**Investment Objective**	**Return objective**
Capital Guaranteed Fund	To provide a relatively consistent investment performance, subject to a capital guarantee, with the opportunity to enhance the overall return through a modest degree of capital gains over the long-term.	Aims to achieve a rate of return (net of fees but before tax) of at least 1.5% per annum above inflation (as measured by Statistics New Zealand's Consumer Price Index) over rolling two year periods.
Default Saver Fund	To provide a relatively consistent, but modest, investment performance, with a low overall level of return volatility to reflect the temporary holding nature of the Fund.	Aims to achieve a rate of return (net of fees but before tax) of at least 2.0% per annum above inflation (as measured by Statistics New Zealand's Consumer Price Index) over rolling three year periods.
Asset Class Conservative Fund	To provide a relatively consistent investment performance, with the opportunity to enhance the overall return through a modest degree of capital gains over the long-term.	Aims to achieve a rate of return (net of fees but before tax) of at least 2.5% per annum above inflation (as measured by Statistics New Zealand's Consumer Price Index) over the longer term.
Moderate Fund	To provide a relatively consistent investment performance, with the opportunity to enhance the overall return through a modest degree of capital gains over the long-term.	Aims to achieve a rate of return (net of fees but before tax) of at least 2.5% per annum above inflation (as measured by Statistics New Zealand's Consumer Price Index) over rolling four year periods.
Balanced Fund	To provide the opportunity to invest in a combination of income and growth assets in order to enhance returns over the long-term through capital gains.	Aims to achieve a rate of return (net of fees but before tax) of at least 3% per annum above inflation (as measured by Statistics New Zealand's Consumer Price Index) over rolling five year periods.
Socially Responsible Investment Balanced Fund	To provide the opportunity to invest in a combination of income and growth assets in order to enhance returns over the long-term through capital gains, while excluding investments which do not satisfy certain socially responsible investment criteria.	Aims to achieve a rate of return (net of fees but before tax) of at least 3% per annum above inflation (as measured by Statistics New Zealand's Consumer Price Index) over rolling five year periods.

Fund	Investment Objective	Return objective
Asset Class Balanced Fund	To provide the opportunity to invest in a combination of income and growth assets in order to enhance returns over the long-term through capital gains.	Aims to achieve a rate of return (net of fees but before tax) of at least 3.5% per annum above inflation (as measured by Statistics New Zealand's Consumer Price Index) over the longer term.
Balanced Growth Fund	To provide mainly the opportunity of long-term capital growth, but to partially offset some short-term volatility with income assets.	Aims to achieve a rate of return (net of fees but before tax) of at least 4% per annum above inflation (as measured by Statistics New Zealand's Consumer Price Index) over rolling seven year periods.
Asset Class Growth Fund	To provide a portfolio of mainly growth oriented assets in order to maximise the potential for capital gains over the long-term.	Aims to achieve a rate of return (net of fees but before tax) of at least 4.5% per annum above inflation (as measured by Statistics New Zealand's Consumer Price Index) over the longer term.
Socially Responsible Investment Growth Fund	To provide the opportunity to achieve long-term capital growth through a diversified selection of investments, while excluding investments which do not satisfy certain socially responsible investment criteria.	Aims to achieve a rate of return (net of fees but before tax) of at least 5% per annum above inflation (as measured by Statistics New Zealand's Consumer Price Index) over rolling ten year periods.
Shielded Growth Fund	To provide long-term capital gains by investing predominantly in growth assets, while partially shielding the fund against some of the short-term downside risks. This is achieved by using a strategy which will typically involve, but is not limited to, holding put options which provide protection on around 30% of any fund losses above a 10% fall in global share markets. The level of protection will typically vary between 20% and 50% of the fund, depending on the Manager's view of a range of factors such as cost, market volatility and risk.	Aims to achieve a rate of return (net of fees but before tax) of at least 4% per annum above inflation (as measured by Statistics New Zealand's Consumer Price Index) over rolling seven year periods, after the cost of the options strategy.
High Growth Fund	To provide a portfolio of growth oriented assets in order to maximize the potential for capital gains over the long-term.	Aims to achieve a rate of return (net of fees but before tax) of at least 5% per annum above inflation (as measured by Statistics New Zealand's Consumer Price Index) over rolling ten year periods.
Geared Growth Fund	To provide the opportunity to enhance the expected performance from investing in growth assets through the use of leverage to maximize the returns from capital gains over the long-term.	Aims to achieve a rate of return (net of fees but before tax) of at least 5.5% per annum above inflation (as measured by Statistics New Zealand's Consumer Price Index) over rolling ten year periods.

Single-Sector Funds

Fund	Investment Objective	Return objective
Enhanced Income Fund	To provide a relatively stable, interest-income based, return, better than "on-call" bank accounts, without taking excessive credit risks or exposure to market volatility.	Aims to achieve a rate of return (net of fees but before tax) of at least 1% per annum above inflation (as measured by Statistics New Zealand's Consumer Price Index) over rolling two year periods. Benchmark Index: NZX Call Index.
Trans-Tasman Share Fund	To provide the opportunity to achieve long-term capital growth through a diversified selection of equities in Australian and New Zealand companies. For Australian equities, the Fund will normally be 50% hedged back to NZ dollars, but this will be actively managed between 0% and 100%. This range may be changed from time to time.	Aims to achieve a rate of return (net of fees but before tax) of at least 5% per annum above inflation (as measured by Statistics New Zealand's Consumer Price Index) over rolling ten year periods. Benchmark Indices: S&P/NZX 50 Gross with Imputation Index and S&P/ASX 200 Accumulation Index.
International Share Fund	To provide the opportunity to achieve long-term capital growth through a diversified selection of international equities. The Fund will normally be 60% hedged back to NZ dollars, but this will be actively managed between 20% and 80%. This range may be changed from time to time.	Aims to achieve a rate of return (net of fees but before tax) of at least 5% per annum above inflation (as measured by Statistics New Zealand's Consumer Price Index) over rolling ten year periods. Benchmark Index: MSCI World Accumulation Total Returns Index (ex-Australia).

These objectives and expectations are based on a mix of analysis of the past behaviour of investment markets and cycles, combined with projections of future outcomes. The Funds' investment objectives will be monitored by the Booster Investment Committee, usually on an annual basis.

In addition, the Default Saver Fund is expected to:

- Outperform the relevant Morningstar survey median of Default Funds over rolling seven-year periods.
- Deliver a gross value-added return (after fees) at least 0.5% above the gross benchmark portfolio return (after fees) over rolling three-year periods.

6. Benchmark Asset Allocation

The Manager recognises that the determination of the Funds' investment strategies, in terms of a long-term asset allocation benchmark, is the decision that has the most impact on the member's likelihood of achieving his/her objectives.

The benchmark asset allocation has been developed to provide the expected risk/return outcome consistent with the Funds' objectives. It also reflects the rationale supporting the concept of the Default Saver Fund, whereby auto-enrolled employees who neither opt out nor select an Active Choice, are given a low-risk investment solution until they are able to determine the most appropriate Fund choice for their individual circumstances and risk profile.

Over time, the Manager may vary actual investment levels within pre-determined ranges, depending on the relative outlook for different asset market returns. In addition, weightings will change according to market movements. The purpose of having these ranges is to allow for such tactical and market-led changes in asset allocation so as to achieve the Funds' long term objectives.

Benchmark asset allocations and allowable ranges for each of the Funds as at the date of this SIPO are shown below. Note that the term "target asset allocation" has been prescribed to describe a Fund's benchmark asset allocation in disclosure documents related to the Scheme.

The Funds generally obtain their investment exposure to direct securities or external managed funds through wholesale sector funds managed by the Manager. Funds may typically obtain exposure to Cash and Cash Equivalents by investing into the Enhanced Cash Portfolio within the Booster Investment Scheme.

		Minimum %	**Benchmark %**	Maximum %
Capital Guaranteed Fund	International Equities	0	**10**	20
	Australasian Equities	0	**5**	10
	New Zealand Fixed Interest	0	**15**	35
	International fixed Interest	0	**10**	25
	Cash & Cash Equivalents	40	**60**	100
	Total Growth	0	**15**	25
	Total Income	75	**85**	100

Default Saver Fund	International Equities	5	**11**	15
	Australasian Equities	0	**7**	17.5
	Listed Property	0	**2**	7.5
	Unlisted Property	0	**0**	3
	New Zealand Fixed Interest	10	**35**	50
	International fixed Interest	10	**25**	45
	Cash & Cash Equivalents	5	**20**	50
	Total Growth	15	**20**	25
	Total Income	75	**80**	85

		Minimum %	**Benchmark %**	Maximum %
Asset Class Conservative Fund	International Equities	0	**22**	40
	Australasian Equities	0	**6**	20
	Listed Property	0	**5**	10
	New Zealand Fixed Interest	0	**0**	10
	International fixed Interest	40	**65**	80
	Cash & Cash Equivalents	0	**2**	40
	Total Growth	20	**33**	40
	Total Income	60	**67**	80

Moderate Fund	International Equities	10	**19**	30
	Australasian Equities	5	**12**	25
	Listed Property	0	**4**	20
	Unlisted Property	0	**0**	7
	New Zealand Fixed Interest	15	**30**	60
	International fixed Interest	10	**20**	50
	Cash & Cash Equivalents	5	**15**	40
	Total Growth	20	**35**	45
	Total Income	55	**65**	80

		Minimum %	**Benchmark %**	Maximum %
Balanced Fund	International Equities	20	**30**	40
	Australasian Equities	5	**18**	25
	Listed Property	0	**7**	20
	Unlisted Property	0	**0**	7
	New Zealand Fixed Interest	5	**17**	40
	International fixed Interest	10	**26**	45
	Cash & Cash Equivalents	0	**2**	25
	Total Growth	35	**55**	65
	Total Income	35	**45**	65

Socially Responsible Investment Balanced Fund	International Equities	20	**30**	40
	Australasian Equities	5	**18**	25
	Listed Property	0	**7**	20
	Unlisted Property	0	**0**	7
	New Zealand Fixed Interest	5	**17**	40
	International fixed Interest	10	**26**	45
	Cash & Cash Equivalents	0	**2**	25
	Total Growth	35	**55**	65
	Total Income	35	**45**	65

Asset Class Balanced Fund	International Equities	20	**44**	60
	Australasian Equities	0	**11**	20
	Listed Property	0	**5**	10
	New Zealand Fixed Interest	0	**0**	10
	International fixed Interest	20	**38**	60
	Cash & Cash Equivalents	0	**2**	50
	Total Growth	40	**60**	80
	Total Income	20	**40**	60

		Minimum %	**Benchmark %**	Maximum %
Balanced Growth Fund	International Equities	20	**41**	60
	Australasian Equities	10	**25**	35
	Listed Property	0	**9**	20
	Unlisted Property	0	**0**	7
	New Zealand Fixed Interest	2	**9**	25
	International fixed Interest	5	**14**	30
	Cash & Cash Equivalents	0	**2**	20
	Total Growth	55	**75**	85
	Total Income	15	**25**	45

Asset Class Growth Fund	International Equities	40	**68**	80
	Australasian Equities	0	**17**	30
	Listed Property	0	**5**	10
	New Zealand Fixed Interest	0	**0**	10
	International fixed Interest	0	**9**	40
	Cash & Cash Equivalents	0	**1**	40
	Total Growth	50	**90**	100
	Total Income	0	**10**	50

Socially Responsible Investment Growth Fund	International Equities	30	**54**	70
	Australasian Equities	15	**32**	45
	Listed Property	0	**12**	20
	Unlisted Property	0	**0**	7
	New Zealand Fixed Interest	0	**0**	15
	International fixed Interest	0	**0**	15
	Cash & Cash Equivalents	0	**2**	20
	Total Growth	70	**98**	100
	Total Income	0	**2**	30

		Minimum %	**Benchmark %**	Maximum %
High Growth Fund	International Equities	30	**54**	70
	Australasian Equities	15	**32**	45
	Listed Property	0	**12**	20
	Unlisted Property	0	**0**	7
	New Zealand Fixed Interest	0	**0**	15
	International fixed Interest	0	**0**	15
	Cash & Cash Equivalents	0	**2**	20
	Total Growth	70	**98**	100
	Total Income	0	**2**	30

Shielded Growth Fund	International Equities	20	**54**	75
	Australasian Equities	10	**32**	45
	Listed Property	0	**12**	20
	Unlisted Property	0	**0**	7
	New Zealand Fixed Interest	0	**0**	15
	International fixed Interest	0	**0**	15
	Cash & Cash Equivalents	0	**2**	20
	Total Growth	55	**98**	100
	Total Income	0	**2**	45

Geared Growth Fund	International Equities	30	**54**	70
	Australasian Equities	15	**32**	45
	Listed Property	0	**12**	20
	Unlisted Property	0	**0**	7
	New Zealand Fixed Interest	0	**0**	15
	International fixed Interest	0	**0**	15
	Cash & Cash Equivalents	0	**2**	20
	Total Growth	70	**98**	100
	Total Income	0	**2**	30
	Gearing Ratio	0	**35**	50

		Minimum %	**Benchmark %**	Maximum %
Enhanced Income Fund	Cash & Cash Equivalents	0	**0**	100
	New Zealand Fixed Interest	0	**100**	100
	International Fixed Interest	0	**0**	20
Trans-Tasman Share Fund	Australian Equities	25	**45**	65
	New Zealand Equities	35	**55**	75
	Cash & Cash Equivalents	0	**0**	20
International Share Fund	International Equities	80	**100**	100
	Cash & Cash Equivalents	0	**0**	20

Socially Responsible Investment Criteria

The Socially Responsible Investment funds exclude investments in directly-held companies and managed fund investments with more than an incidental proportion of revenue generated from the following activities:

- Alcohol production.
- Gambling operations.
- Tobacco production, distribution, supply and retailing.
- Military weapons manufacturing.
- Civilian firearms production, distribution, supply and retailing.
- Nuclear power production.
- Fossil fuels exploration, extraction, refinement, distribution, supply and retailing.
- Adult entertainment content production.
- Genetically Modified Organisms (GMO) intended for human consumption.

The criteria for screening out investments may be modified from time to time to reflect developments in the socially responsible investment area. Further detail may be found in Booster's Responsible Investment policy at https://www.booster.co.nz/explore/ethical-investing.aspx.

Rebalancing policy

Actual Fund weightings can vary over time relative to benchmark levels for each asset class, as well as relative to the target holdings for each company or managed fund within a given asset class. This is driven by varying market returns (for example, if equities perform well compared to fixed interest, other things being equal, a balanced investor will become overweight equities relative to fixed interest) but this can also be driven by the timing of cash deposits and withdrawals.

A core part of the implementation of the Manager's investment strategy includes a structured approach to portfolio rebalancing both at a sector and individual security level, to ensure consistency of return outcomes at the same time as appropriately managing transaction costs.

In order to minimise transaction costs as well as the potential for client cash-flows to distort portfolio weightings, cash deposits and redemptions are systematically used to move actual portfolio weights, within the allowable ranges, closer to the tactical levels currently targeted. This is accomplished through the automatic direction of new funds to any investment sectors where the actual weighting is below target, while redemptions are funded by the sale of sectors that are overweight relative to target.

This "passive rebalancing" is supplemented by the use of "soft" limits for actual sector positioning, relative to targeted tactical levels. These "soft" limits (including currency hedging) may vary by asset class but are not wider than +/- 5%. Where a Fund's holding in an asset class breaches the relevant limit, a review is automatically triggered with a view to rebalancing towards the targeted tactical level.

The same overall methodology is followed with respect to holdings within each individual sector. Cash inflows are automatically directed towards investment in assets that are below targeted tactical levels, while redemptions are funded through the sale of securities which have drifted above targeted tactical levels.

As part of regular portfolio monitoring (usually daily), the Booster Portfolio Management Module also highlights instances where a Fund is in breach of pre-defined mandate limits. This acts as a precursor to portfolio rebalancing through the systematic trading process (see details of limit breaks policy below).

The consistent application of this process not only ensures alignment with currently targeted tactical levels as governed by the Booster Investment Committee but can also assist in managing market volatility, as trades generated are biased towards realising gains in assets that have outperformed while adding to holdings that have fallen behind market movements.

Limit Breaks policy

This policy ensures that the Funds' asset class allowable ranges, as described in the tables above, are being monitored on a regular daily basis, with range breaches (limit breaks) being appropriately addressed in accordance with legislative requirements and the Scheme's governing documents.

All Funds' asset class ranges are loaded into the Booster Portfolio Management Module which is then able to compare actual asset allocations with the allowable ranges. All range changes are to be approved by the Research Manager and are subject to this SIPO being amended. An automated system 'limit break' report is run daily with the report sent to the compliance manager and Research Team. The Research Manager will review any exceptions to the daily system generated limit break report(s).

The Research Manager will first determine if there is a limit break.

In the event of an actual limit break:

- If it is a market driven (i.e. large swing in market movement) deviation from currently targeted sector allocations and if the market does not correct itself in three business days, the limit break is required to be remedied by the fourth business day from when it was discovered.
- If the market driven deviation drives the technical variance to 10% or greater, then this will be remedied on that day.
- If the variance is not market driven and a breach of the allowable ranges, then the portfolios will be adjusted on that day.

Related Party Transactions policy

This policy ensures that the requirements of the Act and of the governing documents for the Scheme, with regard to transactions with related parties, are put into effect. In accordance with the Act and of the governing documents, related party transactions that result in a related party benefit are allowed only in specified circumstances.

Investments of assets into underlying managed funds that are managed by the Manager meet the requirements of the Act and the governing documents.

Refer to the governing documents for further information.

7. Implementation via Professional Investment Managers

In implementing the investment strategies of each Fund, the Manager may retain the services of professional investment management organisations for some components of the portfolio.

Each organisation will be selected based on a mix of performance, experience and investment style, and given the task of investing within specific parameters and constraints.

Investments may be made by way of individual discrete mandates or pooled investment vehicles (managed funds).

Due diligence will be performed on each investment manager to ensure they meet appropriate standards for the prudent and professional management of retirement plans.

The Manager may terminate an investment manager's appointment at any time and for any reason, subject to the terms of that manager's agreement. In particular, active investment managers might be terminated in the event of a sustained failure (typically but not always measured over at least a three year period) to outperform appropriate portfolio benchmarks by targeted amounts.

In some circumstances, e.g. loss of critical investment personnel and/or on the recommendation of the Investment Committee, decisions can be made to reduce and/or restructure investment through a particular investment manager in order to optimise portfolio construction, regardless of performance or tenure.

8. Investment Constraints, Risk Management, Liquidity and Cash Flow Management

The Scheme is primarily a long term savings vehicle, and therefore may selectively hold investments outside listed markets to broaden its opportunity set, enhance diversification and benefit from a premium return typically associated with lower liquidity. In doing so, the Manager recognises the importance of maintaining a sufficient liquidity across Funds' investments as a whole (whether they are technically listed or unlisted), along with prudent diversification principles. This mitigates the potential for markets to harshly price relatively illiquid investments should they need to be realised during times of extreme financial and/or economic uncertainty. Members of the Scheme require confidence in accessing their money in the event of retirement, withdrawal or transfer to another KiwiSaver scheme.

The following investment constraints therefore address the minimum liquidity requirements to ensure ongoing Member equity and to acknowledge the cash flow analysis undertaken. In addition they provide the framework for effective diversification of risk across and within the Funds' various asset classes.

The Manager may invest in other investments (which are not explicitly stated) that they consider fall within the parameters of permitted investments and that appropriately reflect the risk profile of the Scheme and its Portfolios and Funds.

Liquidity Management

In addition to the below investment constraints, at a minimum the Manager will allocate at least 20% of Fund investments in securities normally available for redemption on a daily basis with settlement within 5 working days; as part of at least 35% in securities redeemable within 30 calendar days; and a total of at least 50% in securities redeemable within 180 calendar days. Any external manager appointments will be assessed and monitored within this context.

The progressive inclusion of unlisted investments in multi-sector portfolios will add to the percentage of assets with longer sale timeframes. However, the current allocation to unlisted equity or property securities in multi-sector portfolios is below 20% and they will therefore continue to be monitored within the above policy constraints. This policy will be reviewed and reconfirmed in conjunction with the Supervisor if unlisted equity or property assets total more than 20% of multi-sector portfolios.

a. Cash and Cash Equivalents (includes Enhanced Income Fund)

- Authorised investments include New Zealand denominated money market instruments and deposits plus New Zealand Cash Fund Managers (via New Zealand domiciled investment vehicles only).
- Maximum investment term or maturity for any individual fixed rate security – 12 months.
- Maximum term of any committed Floating Rate Note (FRN) investments, or similar – 5 years.
- Maximum average duration of 180 days, except for the Capital Guaranteed Fund, where the maximum duration may extend to 1 year to align with the period of that fund's capital guarantee.
- To manage overall portfolio liquidity, any Term Deposits held are required to be maintained in a staggered maturity profile based on ongoing assessment of the portfolio's cash inflows/outflows and anticipated cash needs of its investors under normal circumstances

- Minimum credit rating is to be a Standard & Poor's A1 short-term or equivalent from other ratings organisations. Where invested in a managed fund, that fund must have at least an Investment Grade or equivalent rating from a recognised fund rating agency or the Manager is satisfied that the managed fund meets the above criteria.

b. Fixed Interest

- Authorised investments include New Zealand denominated Fixed Interest securities plus Australian and Global Fixed Interest securities (via Exchange Traded Funds or New Zealand or Australian domiciled investment vehicles only). Fixed Interest securities may include (but are not limited to) deposits, bank bills, promissory notes, government or local authority bonds, corporate bonds, debentures, secured loans, asset backed securities and convertible notes which provide a fixed or floating rate of dividend or interest. Some short-term fixed interest holdings which may also be considered as "Cash and Cash Equivalents" may be treated as Fixed Interest if held as part of a fixed interest strategy (e.g. within a wholesale fixed interest portfolio).
- All overseas fixed interest to be fully hedged back into New Zealand Dollars at all times.
- NZ Fixed Interest and International Fixed Interest will have a minimum credit rating applicable to at least 80% of each sector of Standard & Poor's BBB- or assessed equivalent. International Fixed Interest will typically have a weighted average credit rating of around Standard & Poor's A (or equivalent) rating. Any security that falls below these minimums due to downwards rating migration will not be automatically sold, but will be reviewed for appropriateness and may be retained. The asset sector will not use investment managers with strategies that in combination may lead to the typical average credit quality being lower than these targets.
- For New Zealand Fixed Interest, the weighted average duration may vary between +/- 4 years relative to the respective benchmark index duration, provided the overall weighted average duration does not exceed 6 years, except for the Enhanced Income Fund. The average duration for the Enhanced Income Fund is not to exceed 2 years.
- For International Fixed Interest, the investment manager(s) of the approved managed fund, or in the case of direct mandates with investment manager(s), the investment mandate, will determine the appropriate duration of the portfolio relative to the index based on the style of investment mandate and the outlook for interest rates. The portfolio will not use managers with duration mandates wider than +/- 3 years around their respective benchmark index duration.

- Enhanced Income Fund's individual corporate credit exposures are based on the following credit rating stratification:

BondWatch Rating	S&P Rating	Limit Per Individual Issue (%)	Limit Per Issuer (%)	Limit Per Class (%)

G2 or higher	A- or higher	25	35	100
G4+ to G3	BBB- to BBB+	15	20	100
G5 to G4	BB to BB+	10	15	100
Below G5	Below BB	0	0	0

- All other Funds' individual corporate credit exposures to be scaled, based on the following credit rating stratification and depending on the underlying fund used for Fixed Interest exposure:

	Corporate Bond Portfolio – Limit Per		**Other NZ Fixed Interest Funds – Limit Per**	
S&P Rating (or assessed equivalent)	**Individual Issuer (%)**	**Class (%)**	**Individual Issuer (%)**	**Class (%)**
AA or Higher	50	100	30	100
A+ to AA-	25	100	20	100
BBB+ to A	20	75	10	50
BBB- to BBB	15	50	5	25
Below BBB-	5	20	5	20

c. Listed Property

- Authorised investments include NZX listed property securities, Australian and overseas property managed funds (via New Zealand or Australian domiciled investment vehicles only) and exchange traded funds listed on a major exchange.
- Where the asset sector holds direct listed property securities, (other than exchange traded funds), no individual direct listed security will represent a weighting in the sector which is 5% more than the security's respective NZX All Real Estate Index weighting.
- All overseas property investments to be fully hedged back into New Zealand Dollars at all times.

d. Unlisted Property

- Authorised investments include any New Zealand unlisted property, unlisted property security or managed fund which provides exposure to New Zealand unlisted property investments. Australian and overseas unlisted property may be held up to 5% of the sector.
- Gearing may be included over unlisted property investments, up to 65% of their asset value, with security limited to the relevant individual properties. A soft limit of 50% will apply to provide a suitable margin in case of any increase in gearing due to a fall in asset values.

e. Australasian Equities

- Authorised investments include any New Zealand or Australian equities (listed or unlisted). May also invest in managed funds and other equity-linked securities provided they do not breach any of the constraints within this mandate.
- Where the asset sector holds direct (listed or unlisted) equities (i.e. excluding managed funds that are not managed by BIML), no individual security will have a target weighting in the sector which is 7.5% more than the security's respective benchmark index weighting, or, where the equity is not part of the benchmark index, more than 7.5% of the Fund's total exposure to Australasian equities. Any equity that is held at greater than 7.5% of the sector and falls out of the relevant benchmark index will not automatically be sold but will be reviewed and may be retained if appropriate.
- Unlisted equities will normally be held through dedicated separately managed vehicles, reflecting the specialised management required and their diversifying return profile relative to listed equities. Reflecting their separate management, the risk exposure resulting from such vehicles is considered within multi-sector funds' overall risk budget settings and those vehicles' own internal guidelines.
- Foreign currency exposures are normally 50% hedged, but can be actively managed between 0% and 100%.
- Where the asset sector holds direct equities, a minimum of 10 direct securities to be held at any one time except for the Trans-Tasman Share Fund which has a minimum of 15 direct securities across New Zealand and Australia and no security will represent a weighting in the portfolio of 10% or greater.
- No limit on ex-ante tracking error, but ex-post tracking error is expected to be less than 4%.

f. International Equities

- Authorised investments include MSCI Index listed equities, listed and unlisted global equity managed funds and exchange traded funds on a major exchange.
- Where the asset sector holds direct listed equities, (other than exchange traded funds), no individual direct listed security will represent a weighting in the sector above the higher of 7.5%, or 5% more than its benchmark index weighting.
- Total foreign currency exposures, other than the Asset Class Funds, are normally 50% hedged but can be actively managed between 20% and 80%. Asset Class Funds, in developed markets, are targeted to be 50% hedged but can be actively managed between 25% and 100% or, in emerging markets, are normally unhedged.
- No limit on ex-ante tracking error, but ex-post tracking error is expected to be less than 5%.

g. Prohibited Investments

- Short selling.
- Securities lending (except for the New Zealand Fixed Interest Sector).

h. Derivatives

- Derivatives may be used, provided that they are backed by cash or relevant physical holdings AND the effective exposures created using any derivatives remain within the overall mandate and guidelines when combined with the underlying portfolio.
- Derivative Instruments that may be used are limited to:
  - Over the counter ('OTC') or Exchange Traded futures contracts.
  - OTC or Exchange Traded options.
  - OTC FRA's, Swaps or other derivative instruments.
  - An OTC counterparty must have a Standard and Poor's rating of A or better.
- For the purpose of valuation and compliance with these investment instructions, all derivative exposures must be calculated on a mark to market basis.

Where investment is through a managed fund that is managed externally, the investment managers are permitted to use futures, options and other derivative instruments to assist with the effective management of their portfolios. This can include use to enhance returns or to manage risk and liquidity.

Other than for the Geared Growth Fund, these instruments are not to be used for gearing any Fund in total.

Risk Management

The Manager is a risk mitigator. This means the Manager introduces specific measures in order to minimise unacceptable risks associated with managing investment portfolios. The key risks the Manager is looking to mitigate would be the following: interest rate risk, liquidity risk, credit risk, economic risk, industry risk, currency risk and inflation risk.

The Manager utilises the following policies in order to mitigate the above risks: diversification across income and growth assets, diversification between sub-asset classes, diversification between industries, establishment of a minimum credit rating, duration management, establishment of tracking error ranges and having a currency hedging policy. This is not meant to be an all-inclusive list but rather to serve as an example of some of the risk management policies deployed by the Manager.

9. Investment Governance

a. Investment Committee

The Manager recognises that the development of investment objectives and implementation of appropriate investment strategies is one of its key responsibilities to investors. Due to the specialised nature of investment markets, the Manager utilises its Investment Committee to oversee the investment process, including performance monitoring. The role and powers of the Investment Committee are set out in the Investment Committee Charter. In general, the Committee's role is to review all aspects of investment recommendations, decisions and processes and to approve the SIPO.

b. External Experts

The Manager engages experts to assist in running the Portfolios and its investment functions. These may include:

- **External Investment Consultants** – assist in the formulation of investment objectives and investment strategies. Assist in the selection, appointment, retention, monitoring and termination of external fund managers. Assist with performance monitoring of the Portfolios against benchmarks, objectives and peers.
- **External fund managers** – manage investments under mandated agreement or by offer documents and within the constraints set by the Manager.
- **Custodian and Custodial Administration Service Providers** – provides for safe keeping of assets, settlement of investment transactions, calculation of returns, maintenance of records of unit holdings and transactions, monitoring of compliance by the external fund managers with their agreements, reporting to the Manager and other related services as specified under the agreement.
- **Administrator** – maintains relevant cash accounts and advises details of net cash flows into and out of the investment options to enable decisions regarding external fund manager applications/redemptions to occur.

Procedures for the selection of providers are outlined in the Outsourced Provider Policy.

c. Custody

The Manager will ensure that appropriate custody arrangements comply with the requirements of relevant legislation. In respect of investment in pooled vehicles the Manager will seek undertakings from the responsible entities of these vehicles that adequate custodian arrangements are in place to ensure the appropriate safekeeping of the underlying assets.

10. Performance Monitoring

A regular review is undertaken of the investment performance of all Funds and external fund managers against their stated performance objectives. The Funds' objectives will be reviewed by the Manager and the Investment Committee on an annual basis. A key variable to the Funds' investment objectives is the Consumer Price Index data from Statistics New Zealand, which is updated on a quarterly basis.

The aim of performance monitoring is to:

- Assess how the Portfolios are performing against investment and return objectives.
- Compare the performance of the Portfolios' appointed fund managers (internal and external) against their peers and performance benchmarks.
- Identify any concerns or weaknesses in fund managers.
- Assess the benefits of tactical asset allocation strategies within the allowable ranges.
- Allow the Manager to continually assess the ability of fund managers and the investment consultant to contribute successfully to the Portfolios' objectives.

Judgments regarding the performance of fund managers and consultants should be made on a time frame that relates to the time horizon of each investment and not on short term performance. In the short term, the following indicators should be monitored as indicators of continued prudent and professional management:

- Adherence to investment policy.
- Adherence to investment constraints and mandate parameters.
- Legislative compliance.
- Consistency of investment style.
- Organisational stability and personnel.

The performance of each of the Funds' asset classes will be compared with the returns on an appropriate benchmark index which may change from time to time.

Benchmark Indices

The current benchmark index for each of the single-sector Funds is set out in the objectives table in Section 5.

Each multi-sector Fund's benchmark index will be a weighted composite index based on the market indices used in respect of the underlying assets. Where a Fund invests all or some of its investments in underlying funds, the appropriate market indices for the Fund will be dependent on:

- The market indices appropriate to the underlying fund in which the assets are currently held; and
- The market indices appropriate to any directly held assets.

Where the investments of a multi-sector Fund included in this SIPO are made in underlying funds managed by the Manager, the Fund's benchmark index that is currently appropriate is based on some or all of the market indices shown in the following table.

The actual benchmark that is relevant to any particular Fund will depend on the underlying fund in which exposure to each asset type is being obtained. Up to date details in respect of any Fund can be obtained by contacting the Manager.

Asset type	**Performance benchmark**	**Where to find more information**
International Equities	MSCI World Accumulation Total Returns Index (ex-Australia). MSCI World Socially Responsible Index.	www.msci.com/indexes
Australian Equities	S&P/ASX 200 Accumulation Index. S&P/ASX 200 Industrials Accumulation Index.	www.asx.com.au/products/indices
New Zealand Equities	S&P/NZX 50 Gross with Imputation Index.	www.nzx.com/markets/nzxs/indices/nz50
Property	NZX All Real Estate Industry Group Gross with Imputation Index. FTSE EPRA / NAREIT Global Real Estate Hedged Gross Index.	https://www.nzx.com/markets/nzsx/sectors/NZRE www.ftse.com/products/indices/epra-nareit
International Fixed interest	Barclays Global Aggregate Bond Index (NZD Hedged).	http://www.bloombergindices.com/bloomberg-barclays-indices/
New Zealand Fixed Interest	Bloomberg NZ Bond Composite Index	https://data.bloomberglp.com/professional/sites/10/AusBond-Index-Methodoloy-10-09-2018.pdf
Cash & Cash Equivalents	90-day wholesale bank bill rate. NZX Call Index.	http://www.rbnz.govt.nz/statistics/key-graphs/key-graph-90-day-rate https://www.nzx.com/markets/nzsx/indices/all

We're here to help.

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A disclosure statement is available from your financial adviser, on request and free of charge.