CURRENCY RISK MANAGEMENT POLICY

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Issued by Nikko Asset Management New Zealand Limited

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A. Introduction

Background

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

Purpose

The purpose of this policy is to set out how Nikko AM NZ manages currency fluctuation risk for its Funds.

Trust Deed as governing document

The Trust Deed requires Nikko AM NZ to determine the investment objective for each Fund and to establish an investment mandate (subject to the Public Trust's approval) including the authorised investments for each Fund.

Nikko AM NZ has authority to purchase, acquire, sell or dispose of investments and to enter into any commitments or liabilities in respect of investments under the Trust Deed.

B. Philosophy for managing currency risk

Fluctuations in foreign exchange rates relative to the New Zealand Dollar (NZD) affect the valuation of investments denominated in currencies other than in NZD. Investors are domiciled in New Zealand with a home currency of NZD, thus investments not in NZD create currency risk.

Nikko AM NZ's currency risk management philosophy for its Funds is determined by the risk tolerance set in the investment objective and the benchmark of each Fund. Thus, where currency risk is identified in portfolio construction, the portfolio manager will either:

(a) take no action as a decision to deliberately accept the risk and return that is inherent in non NZD denominated investments, i.e. currency risk is accepted as a source of return, i.e. **exchange risk acceptance**; or

(b) take all reasonable steps to minimize currency related losses (and gains) resulting from exposure to assets that are denominated in a currency other than in NZD, where the currency risk is "hedged into NZD", i.e. **passive exchange risk management**; or

(c) deliberately establish open foreign currency positions where such activity may form part of the overall investment strategy, i.e. **selective exchange risk management**.

All investment strategies for the Funds include a benchmark position for foreign currency risk exposure as the neutral risk position.

Passive exchange risk management requires regular monitoring of the open hedges contracts in relation to the operational range.

The basis for selective exchange risk management is economic decision making and judging the Fund's ability to gain, to be measured separately in performance measurement (attribution).

C. Tolerances for passive exchange risk management determined by investment market sector volatility

Currency markets can be exceptionally volatile, with significant intraday movements, especially in times of uncertainty and event risk. Managing benchmark risk requires regular monitoring of the effectiveness of the open hedging contracts.

Where hedging is employed to minimise unwanted currency risk, the tolerance for market movements are:

Sector / Fund	Tolerance around base position
Domestic debt funds	+ / - 2.5%
Global equity funds	+ / - 5.0%
Global bond fund	+ / - 1.5%
Property fund	+ / - 5.0%
Option fund	+ / - 1.5%

Tolerances are measured at the currency level, in foreign currency terms. Market value of the forward currency contracts in foreign currency terms is compared to market value of the assets in foreign currency terms. Changes in the value of the asset and the forward contract in New Zealand dollar terms, as a result of currency movements, will offset and hence provide a hedge.

The actual hedge ratio =

Value of the Forwards in Foreign CCY / Value of all securities in Foreign CCY

The required adjustment if > tolerance=

(Value of all securities in Foreign CCY * Hedge ratio target) – Value of the Forwards in Foreign CCY

D. Delegation of responsibilities

Engagement with capital markets to hedge currency risk is delegated to Nikko AM NZ portfolio managers, or included as an authorised investment in formal instructions provided to underlying fund managers.

This delegation includes transaction limits for each investment sector with a tiered structure of approvals for larger financial transactions where appropriate. Limits apply per capital market trade at Fund level. Periodic review occurs to ensure limits remain effective as the Funds adapt to meet changing markets, whilst maintaining a control framework.

E. Use of electronic trading platform to source rates and best practice execution

Nikko AM NZ currently utilises FXall, integrated with Bloomberg AIM as an electronic trading platform for placing orders, execution and matching with counterparties. Matched trades are routed directly to Custodians.

F. Counterparty selection and risk assessment

Counterparty risk is centrally managed by Nikko Asset Management ("Nikko AM") in Tokyo, Japan. Nikko AM Risk function maintains an approved counterparty list for all subsidiaries and the parent company.

Additions of a new counterparty are submitted by Nikko AM NZ to Nikko AM in the first instance for consideration, review for suitability and financial strength assessment. Review and selection will include:

- Engagement contract/agreement (usually ISDA, Master OTC Agreement) with principle agreed that Nikko AM NZ acts as agent for the Funds as the Funds carry the risk and the reward;
- Counterparty to be a price maker in required markets;
- Credit lines establishment and maintenance to satisfactory level to allow dealing to proceed without impediment;
- Counterparty preferably to be a multi-branch structure, with ability to pass orders across time zones;
- Independent short term and long term credit rating assessment from third party, with rating to be in A category;
- Effective supply of trade information direct to the nominated custodian;
- Counterparty commitment to relationship effort and maintenance; and
- Quality of information flows from counterparty dealing staff.

G. Related documentation

- Investment mandates for Nikko AM NZ Wholesale PIE funds;
- Nikko AM NZ Investment Scheme – Statement of Investment Policy and Objectives.

H. Regular review of policy

The maintenance of this policy is the responsibility of Head of Operations. The Investment committee will annually review this policy.

Version Control	Reasons for Change	Author/Editor	Date
Version 5.2	Informal review re fund updates	CRD Committee	28 October 2016
Version 5.1	Approval of review	Nikko AM NZ Board of directors	7 June 2016
Version 5.0	Formal review	CRD Committee	6 May 2016
Version 4.0	Formal review	Investment Committee	8 March 2016
Version 3.0	Update for Currency Hedging Procedures document accepted at IC 20 October 2015 and update new S&P/NZX benchmarks	Operations	2 December 2015
Version 2.0	Proxy currencies review for Global Equity Funds	Operations	21 October 2014
Version 1.2	Global equity index changes	Operations	9 July 2014
Version 1.1	Fund name changes	Operations	5 May 2014
Version 1.0	Inaugural policy	Investment Committee	18 February 2014
Version 1.0	Fund Closure (Australasian Small Companies	ADWG	1 March 2017

Schedule A – Fixed interest funds

Nikko AM NZ Corporate Bond Fund

Benchmark
Bloomberg NZBond Govt 0+ Yr Index

Approach, frequency of review, tenure of contracts and tolerances
The base position is to target a 100% hedge of foreign currency exposures (if any) created as a consequence of capital markets investment to the New Zealand dollar.

Hedging is implemented against the actual portfolio currency exposures.

Tenure of contract is generally 3-months.

Nikko AM Wholesale Global Bond Fund; Nikko AM Global Bond Fund

Benchmark
Bloomberg Barclays Global Aggregate Index, 100% hedged into NZD.

Approach, frequency of review, tenure of contracts and tolerances
Hedging is undertaken by the underlying fund manager.

Investments in local currencies are first hedged to USD; then the aggregate value of the entire portfolio in USD is passively hedged to NZD.

Schedule B – Global equity funds

Nikko AM Wholesale Global Equity Hedged Fund; Nikko AM Global Equity Hedged Fund

Benchmark
MSCI All Countries World Index, with net dividends reinvested, gross hedged 139% to NZD.

Approach, frequency of review, tenure of contracts and tolerances
The base position is to passively hedge foreign currency exposures created as a consequence of capital markets investment to the New Zealand dollar:

- Hedging is implemented against the actual portfolio currency exposures (proxy currencies maybe used as described below).
- Hedging is on a gross (pre tax) basis, at the current maximum Prescribed Investor Rate i.e., if the maximum PIR is 28% the gross hedging position is 139%.
- Permitted operational hedging range is 134% to 144%.

Major currencies that are specifically hedged are Great British Pound (GDP), United States Dollar (USD), Euro (EUR) and Japanese Yen (JPY).

The portfolio includes investments in more than twenty local currencies, many of which are unable to be efficiently hedged to NZD because either there is no market, or the pricing is prohibitive. Some other currencies have active foreign exchange markets, but our exposure to them may not be material to the overall foreign currency exposure. To facilitate hedging at reasonable cost and to account for materiality, major world currencies are substituted as proxy currencies as follows:

Local market investment currency	Proxy currency
Swiss franc, Danish krone, Swedish krona, Norwegian krone, Czech koruna, Hungarian forint, Polish zloty	EUR
Thai bhat	JPY
Korean won, Malaysian ringgit, Taiwanese dollar, Philippine peso,	USD

Canadian dollar, Hong Kong dollar, Singaporean dollar, Australian dollar, Brazilian real, Columbian peso, Mexican peso, South African rand, Chilean peso, Turkish lira, Chinese renminbi, Indonesian rupiah, Egyptian pound, Indian rupee, Russian ruble

Local markets investment currency values are converted to the substitute proxy currency. Proxy currency values are then aggregated with major world currencies values to create four currency exposures for passive hedge to the NZD benchmark. These four currency exposures are USD representing dollar bloc currencies and emerging markets, JPY representing Asian currencies, EUR representing Eurozone and other European currencies, and GBP for the United Kingdom.

Currency forward contracts are executed to the appropriate forward date, typically three (3) months ahead; at the end of the period, the existing forward contracts are closed out and new forward contracts with the latest aggregated currency exposures are executed.

Post the forward contract execution, hedging adjustments may occur in response to unit holder cash flows and daily changes to the market value of the portfolio to maintain the effectiveness of the hedge. Hedging adjustments may occur as a consequence of valuation differences arising for both the local market currencies and the major world currencies.

This form of hedging and monitoring activity is ongoing with the objective of maintaining NZD hedge effectiveness.

The required adjustment =

(Value of all securities in Foreign CCY * Hedge ratio target) – Value of the Forwards in Foreign CCY

A positive number indicates increase the hedge, SELL CCY; a negative number indicates decrease the hedge, BUY CCY. We will round this to the nearest 1,000.

Nikko AM Wholesale Global Equity Unhedged Fund; Nikko AM Global Equity Unhedged Fund

Benchmark
MSCI All Countries World Index, with net dividends reinvested expressed in NZD (unhedged).

Approach
Take no action and accept the risk and return that is inherent in non-NZD denominated investments.

Schedule C – Alternative strategies funds

Nikko AM Wholesale Multi-Strategy Fund; Nikko AM Multi-Strategy Fund

Benchmark
Bloomberg NZBond Bank Bill Index + 2.5% p.a.

Approach, Frequency of review, tenure of contracts and tolerances
Hedging is undertaken by the underlying fund manager J.P. Morgan Alternative Asset Management Inc's (JPMAAM). In the underlying fund investments in local currencies are first hedged to USD; then the aggregate value of the entire portfolio in USD is passively hedged to NZD.

Nikko AM Wholesale Option Fund

The Nikko AM Wholesale Option Fund has the benefit of two income streams:

- **Interest Income:** the Fund is invested in securities issued by New Zealand registered banks, with a maximum maturity of three years and one month. This produces a steady and secure income stream in NZD.
- **Premium Income:** the assets of the Fund are then used as collateral security for derivatives, in particular options on long-term New Zealand, US, or Australian Government stock. The base position is to fully hedge any foreign currency collateral to

the New Zealand dollar. The Fund earns a premium for selling the options. Any foreign currency premium income is immediately converted to NZD.

Schedule D – Domestic equity funds

Nikko AM Wholesale Core Equity Fund; Nikko AM Core Equity Fund

Benchmark
S&P/NZX 50 Index Gross with Imputation

Nikko AM Wholesale SRI Equity Fund

Benchmark
S&P/NZX 50 Index Gross

Approach, frequency of review, tenure of contracts and tolerances
The domestic equity portfolios hold NZX listed securities, ASX listed securities and dual listed securities. Currency risk is attributable solely to ASX listed securities that are not members of the benchmark, commonly referred to as "pure Australian investment exposure".

The base position is to not hedge any Australian investment exposure. Any focus on currency risk management is only attributable to any active decision to deliberately establish open foreign currency positions where such activity may form part of the overall investment strategy of the manager. That is if the manager's view is for NZD appreciation relative to AUD, AUD exposures may be hedged to enhance the potential source of return. The permitted operational range is 0-105% of the AUD value of the pure Australian investment exposure.

Nikko AM Wholesale Concentrated Equity Fund; Nikko AM Concentrated Equity Fund

The securities in these Funds are a collection of the manager's highest conviction investment ideas to achieve capital appreciation. Investments include NZX and ASX listed securities, not constrained by size, style, sector or index composition. These Funds are benchmark agnostic.

Approach, frequency of review, tenure of contracts and tolerances
The base position is to not hedge any Australian investment exposure. Any focus on currency risk management is only attributable to any active decision to deliberately establish open foreign currency positions where such activity may form part of the overall investment strategy of the manager. That is if the manager's view is for NZD appreciation relative to AUD, AUD exposures may be hedged to enhance the potential source of return. The permitted operational range is 0-105% of the AUD value of the pure Australian investment exposure.

Schedule E – Property fund

Nikko AM Wholesale Property Fund

Benchmark
S&P/NZX All Real Estate (Industry Group) Gross with Imputation Index

Approach, frequency of review, tenure of contracts and tolerances
The listed property securities portfolio hold NZX listed securities, ASX listed securities and dual listed securities. Currency risk is attributable solely to ASX listed securities that are not members of the benchmark, commonly referred to as "pure Australian investment exposure".

The base position is to fully hedge any AUD currency exposure to mitigate the benchmark risk. This approach preserves the current value of ASX listed securities that are not members of the benchmark in NZD terms. In an appreciating NZD environment this adds to absolute and relative return, whilst detracting from absolute and relative returns in a depreciating NZD environment (i.e. this strategy protects from underperformance on ASX listed securities that are not members of the benchmark related purely to currency movements).

The portfolio manager may choose to reduce the hedge where forecast direction for the NZD is to depreciate relative to the AUD. The range is between 0% and 105% of the AUD value of the pure Australian investment exposure. Hedging decisions are based on the long-term outlook of currencies derived from a range of relative economic variables, such as interest rates. In exceptional circumstances the hedging may be removed altogether to accept full currency risk to enhance the potential source of return.

Currency forward contracts are typically executed on 3-month tenure, subject to regular assessments of the AUD exposure included in the model portfolio review cycle. At the expiry date the existing forward contract(s) are closed out and a new forward contract with the latest pure Australian investment exposure maybe executed, with an appropriate settlement date.

Post the forward contract execution; hedging adjustments may occur in response to unit holder cash flows and daily changes to the ASX listed securities that are not members of the benchmark held in the portfolio to maintain the effectiveness of the hedge relative to the benchmark risk.

This form of hedging and monitoring activity is ongoing with the objective of maintaining NZD hedge effectiveness relative to benchmark.