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# Franklin Templeton Investment Funds

Statement of Investment Policy and Objectives

Effective date: 13 April 2023  
Issued by FundRock NZ Limited



## A. Description of the managed investment scheme

The Franklin Templeton Investment Funds ('Scheme') is a managed investment scheme. The Scheme currently offers one single sector investment fund, the Brandywine Global Opportunistic Fixed Income Fund ('Fund') which provides investors with exposure to international fixed interest (hedged to New Zealand Dollars).

The Fund, or any underlying investment portfolio, is actively managed. The Fund may invest in direct securities (including derivatives) or through other managed investment schemes.

## B. Roles and responsibilities

FundRock NZ Limited ('FundRock', 'we', 'us' or 'our') is the licensed manager ('Manager') of the Scheme. The Manager's key roles and responsibilities are:

- Preparation of disclosure material.
- Establishing, reviewing and maintaining this Statement of Investment Policy and Objectives ('SIPO').
- The ongoing management and oversight of the Fund. This includes appointing, managing and monitoring specialist providers for:
  - Administration management, and
  - Investment management.
- Monitoring investment performance and outcomes.

Franklin Templeton Australia Limited ('Franklin Templeton') is the Fund's investment manager and is responsible for making recommendations and decisions about what the Fund invests in, in accordance with this SIPO. The Fund is invested in accordance with Franklin Templeton's investment philosophy and process. Currently the Fund invests in direct assets managed by Brandywine Investment Management LLC ('Brandywine Global'). Franklin Templeton and Brandywine Global are part of the Franklin Resources, Inc. group operating as Franklin Templeton.

Franklin Templeton also participate in reviewing this SIPO.

Key administration functions, being fund accounting, and unit pricing, are currently performed by BNP Paribas Fund Services Australasia Pty Limited. Registry services are provided by Apex Investment Administration (NZ) Limited.

Public Trust is the Scheme's Supervisor. The Supervisor is responsible for supervision of the Manager and the Scheme, including:

- Acting on behalf of the Fund's investors in relation to the Manager and any contravention of the Manager's issuer obligations;
- Supervising the performance by the Manager of its functions and the financial position of the Manager and the Scheme; and
- Holding the Scheme property or ensuring that the assets are held in accordance with applicable legislative requirements. BNP Paribas Fund Services Australasia Pty Limited has been appointed by the Supervisor as Custodian for the Fund.

## C. Investment philosophy

Franklin Templeton's sub-contracted investment manager,

Brandywine Global was founded in 1986 by a group of highly experienced portfolio managers. They are an active specialist manager in fixed income, equity and alternative investments headquartered in Philadelphia, USA. Value investing is core to Brandywine Global's investment approach. Through a value-driven process, they focus on assets in countries and currencies that meet their definition of value, and advance this with a benchmark agnostic investment style. Brandywine Global is not afraid to uncover investment potential where

others see risk with a central objective to maximise risk adjusted returns over an investment cycle. Acting with conviction and discipline, they thrive on a culture of debate that encourages ideas, diverse viewpoints and invite candid discussion.

#### **D. Fund Investment Objectives and Strategies**

The Investment objectives and strategies for the Fund are:

##### *Objectives*

The investment objective of the Fund is to provide a total return, before costs and tax, higher than the Bloomberg Global Aggregate Index – New Zealand dollar Hedged over the long term (5 years plus).

##### *Investment Strategy*

###### *Benchmark index:*

- Bloomberg Global Aggregate Index – New Zealand dollar Hedged

###### *Benchmark asset allocation:*

- 100% International fixed interest

###### *Sector/Issuer Limits:*

- Investment grade corporate bonds and taxable municipal bonds will not exceed 40% of the portfolio in aggregate.
- No more than 5% of the portfolio shall be invested in the obligations of any one investment grade corporate bond or taxable municipal bond issuer at the time of purchase. No more than 3% of the portfolio shall be invested in the obligations of any one High Yield Debt<sup>1</sup> issuer at the time of purchase.
- Fixed income securities of companies of any one industry will not exceed 25% of the portfolio.
- Non-agency mortgage-backed securities and asset-backed securities will not exceed 20% of the portfolio in aggregate.

###### *Credit quality:*

- Fixed income securities and cash in the portfolio shall have a weighted average rating of A-/A3 or better according to the methodology used by Bloomberg Barclays Global Bond Indices.
- High Yield Debt shall be limited to 15% of the portfolio at the time of purchase.

###### *Duration range:*

- Portfolio duration shall be limited to a range of 1 to 10 years.

###### *Appointed investment manager:*

- Franklin Templeton Australia Limited

###### *Investment Manager strategy:*

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<sup>1</sup> High Yield Debt consists of non-sovereign investments with below investment grade ratings (below BBB- or the equivalent) assigned by all Nationally Recognized Statistical Rating Organizations that provide such a rating. In the case of split ratings, the highest rating will apply.

- Franklin Templeton selects underlying funds and/or appoints investment managers.
- The current investment manager appointed by Franklin Templeton is Brandywine Global.

*Permitted investments:*

The Fund invests in countries included in the Benchmark, however up to 40% of the Fund can be invested in countries outside the Benchmark. The permitted investments include:

- Global fixed income
- New Zealand fixed income
- Cash and cash equivalents
- Floating rate securities
- Convertible fixed income securities (which includes contingent convertible securities)
- Preferred shares
- Derivative instruments including currency hedging instruments
- Managed investment schemes

*Rebalancing policy:*

- As a single-sector fund, there is no need for a rebalancing policy.

*Currency hedging policy:*

- A minimum of 75% of the portfolio must be denominated in and/or hedged into New Zealand dollars. Currency positions may also be cross hedged..

*Derivatives:*

- Derivatives including forwards, futures, options, mortgage derivatives, structured notes and swaps may be used.
- The Fund, through the use of derivatives, may hold short positions in individual currencies. All such derivative exposures are fully supported by cash, cash equivalents or securities. The Fund may also use certain derivatives to implement investment decisions, to manage cash flows or to facilitate timely exposure to securities.

*Other:*

- The Fund can borrow up to 5% of the aggregate value of its investments but only for the purposes of providing short-term liquidity (i.e. to temporarily fund redemptions, settle securities trades or pay expenses).

## **E. Investment Policies**

### **Taxation**

The Fund has elected to be a Portfolio Investment Entity ('PIE') and therefore is taxed under the PIE regime.

The taxation implications of an investment method, such as holding assets directly or investing in a managed investment scheme, are taken into account when determining the most appropriate approach for the Fund. Note that taxation is not the sole consideration when choosing an investment method; other factors taken into account include cost and implementation feasibility.

## Liquidity

The liquidity risk of the Fund is assessed with reference to liquidity of the assets and securities. The Manager then establishes an appropriate application and redemption frequency for the Fund. The Fund invests predominantly in liquid investments and hence has daily applications and redemptions. Market conditions can, however, change resulting in some assets becoming difficult to sell. Hence if the Fund were to experience liquidity problems the Manager may defer or suspend redemptions for a period of time.

## Related-party transactions

Related-party transactions, other than the type described below are prohibited.

The Fund may invest in other managed investment schemes. If these schemes are managed by related parties (for example where the Fund invests in a Franklin Templeton fund offshore), and are permitted under section 174 of the FMC Act, they are permitted investments for the Fund. The Manager will report transactions in managed investment schemes managed by related parties to its Supervisor in accordance with section 173(2) of the FMC Act.

## Trade allocations and transactions

Brandywine Global has a trade allocation policy covering accounts they manage.

## Other relevant policies

Summaries of the key relevant policies are set out below.

### *Pricing and Asset Valuation Policy*

The purpose of this policy is to set out how FundRock manages its pricing and asset valuation obligations, and the way in which FundRock exercises its discretions authorised by the Trust Deed and the Fund's establishment documentation.

This policy also links to FundRock's Outsourcing Policy reflecting that we outsource functions including registry, fund administration and unit pricing to third parties. In particular, the policy governs how FundRock selects, monitors and undertakes ongoing due diligence on third party providers.

Within the bounds of what is reasonable and practical our goals are to:

- Have unit prices that reflect fair, realisable value of underlying assets and liabilities.
- Ensure equitable treatment of investors entering, exiting or remaining in a Fund.
- Have a consistent and objective process for determining unit prices.
- Comply with our governing documents, offer documents and the law.

### *Conflicts of Interest and Related Party Transactions Policy*

The Conflicts of Interest and Related Party Transactions Policy sets out the principles and procedures relating to the management of conflicts of interest within FundRock. The policy applies to all of FundRock's directors, relevant officers, senior management and employees.

The policy provides guidance on:

- What is meant by a conflict of interest.
- What constitutes a related party transaction.

The core policy statement is:

*'As a licensed manager of Managed Investment Schemes, FundRock must act honestly and in the best interests of the Scheme participants. FundRock recognises*

*that in order to satisfy this duty, it and its Staff must put the interests of Scheme participants ahead of those of itself or the Staff members.'*

### *Investment Management Policy*

This document sets out FundRock's policies and procedures in relation to appointing and monitoring investment managers. In particular the policy covers:

- Investment management governance,
- Investment manager selection and appointment, and
- Investment manager monitoring and compliance.

### **F. Investment performance monitoring**

FundRock monitors investment performance of the Fund on a monthly basis. Performance is measured and assessed on the following basis for 1, 3 and 5 year periods:

- Gross return
- Benchmark index return
- Performance relative to benchmark
- Annualised standard deviation of gross return
- Annualised standard deviation of benchmark index return
- Annualised tracking error

FundRock reports performance to the Supervisor and to the FundRock Board.

### **G. SIPO monitoring and review**

The FundRock Board is responsible for governance oversight of the SIPO.

The Manager's compliance processes include periodic policy reviews. The SIPO is reviewed annually by FundRock management with the outcomes of the review reported to the FundRock Board. In addition, FundRock management may initiate an ad hoc review, with examples of events that could lead to this being:

- The investment manager recommending changes to the SIPO.
- A change in roles and responsibilities.
- A permanent change in risk and return characteristics of the relevant market.

SIPO reviews take into account the views of FundRock and the Investment Manager and if required the views of external experts.

The Manager can make changes to the SIPO in accordance with the Trust Deed and the FMC Act. Before making changes to the SIPO, the Manager will consider if the changes are in the best interests of investors and consult with the Supervisor. Any changes to the SIPO require FundRock Board approval, as well as written approval of the Supervisor. The Manager will give notice to fund investors before implementing any material SIPO changes.

The Manager is responsible for monitoring adherence to the SIPO and reporting any breaches to the FundRock Board and the Supervisor.

This SIPO was approved by the FundRock Board on 12 April 2023 and takes effect on 13 April 2023.

## Glossary

**Act and FMC Act** means the Financial Markets Conduct Act 2013.

**Benchmark index** means the financial index or indices against which a Fund's performance is measured.

**Fund** means the investment funds offered within the Scheme, being the Brandywine Global Opportunistic Fixed Income Fund.

**FundRock** means FundRock NZ Limited, the Manager of the Scheme.

**Investment Manager** means Franklin Templeton Australia Limited.

**Manager** means FundRock.

**Franklin Templeton** means Franklin Templeton Australia Limited.

**Scheme** means the Franklin Templeton Investment Funds, a managed investment scheme governed by the Trust Deed dated 1 December 2016 and the Scheme Establishment Deed.

**Supervisor** means the supervisor of the Scheme, which is Public Trust.

**Tracking error** means the annualised standard deviation of the difference between the returns of the Fund and the benchmark against which its performance is measured.