



Your long term investment journey



# **Statement of Investment Policy and Objectives (SIPO) for Lifestages KiwiSaver Scheme**

Issued by Funds Administration  
New Zealand Limited ("FANZ")

Date: 1 September 2020

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## Introduction

This Statement of Investment Policy and Objectives (“**SIPO**”) sets out the investment policies and objectives for the Lifestages KiwiSaver Scheme (the “**Scheme**”) Funds. It takes effect from 1 September 2020, and with effect from that date replaces the previous SIPO for the Scheme dated 1 April 2018.

## Description of the Scheme

The Scheme is a registered KiwiSaver scheme under the KiwiSaver Act 2006 and a registered managed investment scheme under the Financial Markets Conduct Act 2013 (“**FMCA**”). Funds Administration New Zealand Limited (referred to as “**we**”, “**our**”, and “**us**” in this SIPO) is the manager of the Scheme.

The Scheme is governed by a Trust Deed (“**Trust Deed**”) entered into between us and the supervisor of the Scheme, Trustees Executors Limited (“**Supervisor**”).

In the event of conflict between the provisions of this SIPO and the Trust Deed, the provisions of the Trust Deed will prevail.

The Scheme has three funds (each a “**Fund**”):

1. Lifestages High Growth Fund;
2. Lifestages Income Fund (together, the “**Open Funds**”); and
3. Lifestages Capital Stable Portfolio (the “**Closed Fund**”).

Members can select their exposure to each Open Fund, from 100% High Growth Fund to 100% Income Fund, or any combination in between (provided that each member’s total exposure adds up to 100%). Members can also select the “Lifestages Auto” option, under which their allocation to the Open Funds is adjusted based on their age, with reallocation to predetermined exposures occurring when members reach the age of 35, 45, 55 and 65. In either case, we will use our rebalancing feature to make an annual adjustment to members’ investment allocations (unless we notify members otherwise) to ensure that any movements from members’ chosen investment allocations can be rebalanced to the original chosen allocation.<sup>1</sup> Cash flow would be applied to the original allocation chosen. We currently seek one annual rebalancing event on or about 15 August.

The Scheme is treated as a single fund. This means the assets of the Scheme are available to meet the liabilities of all of the Funds.

The Scheme is a Portfolio Investment Entity (“**PIE**”). The income is taxed at the member’s prescribed investor rate (“**PIR**”). We pay tax on a member’s behalf to the IRD.

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<sup>1</sup> Members who have selected the Capital Stable Portfolio will not have their contributions and accumulated balances rebalanced unless they notify us in writing that they wish this to occur.

# 1 Investment Philosophy

We employ a three-prong investment philosophy:

- asset class portfolio construction;
- multi-manager selection of underlying fund managers and listed individual securities; and
- responsible investment considerations.

## 1.1 Asset Class Portfolio Construction

The basic principles of asset class investing are based on the foundations provided by Modern Portfolio Theory (“**MPT**”) and the Fama/French Factor Model. MPT, as recognised by the 1990 and 2013 Nobel Memorial Prizes in Economic Sciences, is the foundation on which our portfolios are structured and how subsequent decisions are made.

The underlying concepts of MPT include:

<b>In liquid markets prices reflect all the available information</b>	➤ The best approach is to work with markets rather than against them.
<b>Diversification is essential to reduce unnecessary risks and enhance reliability</b>	➤ Diversification is enhanced by holding the majority of available securities with an asset class and including multiple asset classes in the portfolio including international shares and bonds.
<b>Investors are risk averse</b>	➤ The only acceptable risk is one that is adequately compensated by potential portfolio returns. Investors will not invest in riskier assets (e.g. shares) if there is not long-term potential for them to earn more than investing in bonds or fixed interest.
<b>The design of the portfolio is most important</b>	➤ The appropriate allocation of capital among asset classes (shares, bonds, fixed interest, etc.) will have a greater influence on long term portfolio results than the selection of individual securities. Investing for the long term (preferably longer than ten years) becomes critical to investment success because it allows the long-term characteristics of asset classes to surface.

## 1.2 Multi-Manager Selection

The next stage of the portfolio construction is the underlying assets. We use a best of breed multi-manager investment approach. We seek to build portfolios that access a range of investment managers, or listed individual securities, with different investment styles and approaches (e.g. factor based, passive, active). This range of investment styles adds to the diversification benefits.

## 1.3 Responsible Investing

The third factor we consider is responsible investing. Our aim is to protect and grow our members’ capital sustainably over the long term. We believe incorporating responsible investing allows us to enhance and preserve value for members.

Responsible investment is the practice of incorporating environmental, social and governance (ESG) principles into the investment process. Integrating responsible investment analysis into decision making provides a deeper assessment of corporate risk and value-creation potential.

The investment methodology that underpins our range of KiwiSaver funds offered in the market as at the date of this policy builds on the following foundations:

- a) A combination of smart beta (favouring stocks that exhibit similar characteristics e.g. value, small capitalisation, quality or profitability), sustainability and passive managers;
- b) Strategic Asset Allocation approach as opposed to a tactical approach (see section 5);
- c) A neutral currency approach with respect to investment in international equities; and
- d) Liquid assets that can usually be redeemed within one week.

## 2 Investment Policies

### 2.1 Liquidity

Sufficient liquidity will be held to cover reasonably anticipated redemptions. If necessary, we have agreed with the Supervisor to borrow up to 5% of the market value of a Fund to cover settlement requirements relating to that Fund. Such borrowing is to be used solely to meet redemption requests and will be for a maximum period of 15 business days and in each instance the Supervisor will be advised of drawdowns occurring and when the amounts have been repaid. To date the funds have not borrowed, nor have any intention to.

### 2.2 Valuation

The purchase price of securities entering a Fund will include purchase brokerage and sale values will be after brokerage has been deducted.

For assets under outside management, periodic valuation will be based on latest market prices (for equities the last sale and for bonds the mid-price). Deposits with banks and building societies will be valued using current financial standards. In the case of securities whose latest market price or yield is more than 5 business days old at least two broker opinions will be sought and the average of these will be the price for valuation purposes.

The valuation formula will include a provision for tax, supervisor fees, management fees, an estimate of other ongoing fees, costs and expenses, any exceptional fees and estimated disposal costs to establish the true 'cash' value of the relevant Fund. For exiting and new members in a Fund this will be the basis of their exit and issue unit price respectively.

### 2.3 Derivatives

Derivatives may not be used to leverage any Fund, or if the effect is to increase the portfolio risk beyond what it would have been had the relevant Fund comprised only directly held securities. That is, there will be no gearing effect and any derivative positions will be backed by physically held positions at the time that the risk on any derivative arrangement commences. It is accepted that during the term of a derivative arrangement some mismatch may occur between the value of the derivative and the value of its underlying security or portfolio position.

Derivatives may be used as a risk management tool where underlying investments create an overall portfolio exposure that we determine to be undesirable e.g. to hedge currency risk. It is envisaged that derivatives will not be used in the normal course of business.

While derivatives may be used at our sole discretion, we will advise the Supervisor of any decision to do so, explaining the investment rationale and anticipated duration of the holding period of derivative contracts entered into.

## 2.4 Hedging Policy

The purpose of international investment is diversification of markets rather than diversification of currencies. It is accepted that international market diversification will entail additional risk arising from foreign currency exposure. The current policy is for international fixed interest exposure to be 100% hedged back to the NZD. This is generally achieved through investing in a NZD hedged underlying fund. The current policy for international equities (other than Australian equities) is for that asset class to be 50% hedged back to the NZD. This is generally achieved through investing in a combination of NZD hedged and unhedged underlying funds. All other offshore assets are generally unhedged, although this can change in the future. This includes Australian equities, Emerging Markets equities, listed property and infrastructure assets.

The approach to currency hedging is passive and there is no expectation or intention to actively manage currency exposures.

## 3 Authorised Investments

The universe of authorised investments for the Scheme is set out in the Trust Deed, as amended from time to time. Investments may be made into securities directly or through underlying managed funds. The investments currently accessed are available in the most current Fund Update on the Scheme's managed investment schemes register entry with the Registrar of Financial Service Providers at [www.disclose-register.companiesoffice.govt.nz](http://www.disclose-register.companiesoffice.govt.nz).

### 3.1 Managed Funds

Investment in managed funds which achieve essentially the same ultimate exposure as would have been achieved by directly held securities, with the relevant benchmark asset allocation and ranges flowed through to any managed fund exposure.

### 3.2 Cash and Fixed interest

Cash is generally held in the Funds' bank accounts for cashflow management. Any other cash investments will be made by way of direct or indirect investment in unsecured deposits (including redeemable shares) with SBS Bank, or with other registered banks or financial institutions pending investment into other assets. The Funds gain their exposure to fixed interest by way of direct or indirect low to medium risk investments consisting of a broad spread of government and non-government securities primarily of investment grade quality. Any unrated securities will comply with our strict risk policy criteria through the underlying manager's internal credit ratings process.

## 4 Authorised Activities

The Funds may undertake the following other activities in carrying out their investment strategy:

### 4.1 Securities Lending

Securities lending with 'A' rated counterparties. Currently the Scheme has not done this and does not intend to in the future.

### 4.2 New Issues

Underwriting new issues of authorised debt and share issues (as applicable).

### 4.3 Borrowing

The Scheme is authorised to borrow up to 15% of its Gross Asset Value (as defined in the Trust Deed) to invest in Authorised Investments. Any borrowing must be considered necessary or desirable in the general interests of the members of the Scheme, or for the purposes of conducting the investment, management or other operation of the Scheme pursuant to the Trust Deed. Except as contemplated

in 2.1 above (Liquidity), borrowing will be for exceptional purposes only. We will make written submission to the Supervisor setting out the reasons why the Scheme needs to borrow and a recommendation thereto. Any borrowing will only be effected in accordance with the Trust Deed. Currently there is no intention to borrow.

#### 4.4 Related Party Transactions

Transactions with related parties of us or the Supervisor are permitted, provided such transactions are permitted under the Trust Deed and the FMC Act (where applicable) and the appropriate process under the FMC Act has been followed.

### 5 Asset Allocation Policy

Another characteristic in building funds is diversification across asset classes in optimized portfolios. We achieve this by setting a Strategic Asset Allocation (“**SAA**”) for the Funds and the Lifestages Auto options. We do not employ Tactical Asset Allocation (“**TAA**”). See Definitions for further explanation of SAA and TAA.

Traditionally the asset classes are cash, fixed interest and equities. We separate this allocation further as we believe there are unique characteristics within these asset classes. We separate New Zealand from Global within both fixed interest and equities. Within equities, we separate New Zealand to New Zealand and Australian equities, and Global to Developed and Emerging Markets. We also allocate separately to property and infrastructure. Currency hedging is also given a separate allocation, achieved via currency hedging within the underlying funds.

This policy is reviewed every three years and accounts for future long-run asset class returns and peer comparisons.

### 6 External Manager Selection Policy

As part of our investment philosophy, a key concern is to ensure Funds are adequately diversified. We do this by using the best of breed multi-manager investment approach, with built in risk constraints.

#### 6.1 Manager Selection

Responsible investment is used in the construction of the investments and selection of the underlying managers. We do this by integrating an assessment of sustainable practices with the use of exclusionary screens as a way to filter investments, funds and fund managers. An exclusionary screen enables us to exclude investment exposure to such things as controversial weapons, nuclear weapons, tobacco and gambling.

External research is accessed to help identify sustainable funds and fund managers, as well as site reviews.

We outsource most of the investment management to external fund managers. We follow a due diligence process for selecting the underlying managers within each Fund, applying a combination of four primary filters. These are:

##### 6.1.1 Exclusionary filters

We consider investment style and philosophy, representation, fund size, and liquidity.

##### 6.1.2 Quantitative filters

We consider fees and expenses, quality of execution, diversification, consistency of risk exposure, tax efficiency, track record and performance since inception vs benchmark.



### 6.1.3 Qualitative filters

For all managers recommended, we undertake a qualitative review of information every year, focusing on items such as ownership structure/major shareholders, staff turnover, services provided, business strength and reporting.

### 6.1.4 SRI filters

This filter focuses on socially responsible investing. A combination of an exclusionary screen and investing sustainably may be used. The exclusionary screen is to ensure none of the Funds' investments have exposure, at a minimum, to entities;

- involved in the manufacture of cluster munitions;
- anti-personnel mines; or
- nuclear armaments.

Some of the funds we access apply additional screens such as excluding exposure to tobacco, gambling, alcohol, fossil fuels and adult entertainment.

The term sustainable denotes underlying investments that have sound environmental, social and governance (ESG) practices – and particularly those investments whose practices manage carbon and climate change related issues effectively.

## 7 Rebalancing Policy

The purpose of rebalancing is to ensure the actual mix of assets in the Funds reflects the target investment mix (the SAA). This is important as if the actual mix in the Fund does not reflect the SAA, then the actual investment risk of the Fund could be significantly greater or smaller than the target level of risk.

Each Fund's actual asset mix is monitored against its SAA each day. We do not automatically rebalance back to the SAA. We use Fund cashflows to rebalance the Funds to their SAA. Where cashflows do not achieve the SAA target, then assets are sold or bought accordingly.

## 8 Monitoring

We review the performance of the Funds and the underlying investment managers quarterly. This review will compare the return of each Fund and each component of its portfolio against the relevant index over the quarter. There will also be a Fund review, at least annually, against its peers as determined by the FANZ Investment Committee, with input from the Supervisor where appropriate.

## 9 Review and Update of SIPO

The SIPO will be reviewed and updated from time to time by us and the Supervisor. The most current version of the SIPO is available on the Scheme's managed investment schemes register entry with the Registrar of Financial Service Providers at [www.disclose-register.companiesoffice.govt.nz](http://www.disclose-register.companiesoffice.govt.nz).

### 9.1 Review of the SIPO and investments generally

The SIPO will be reviewed at least annually by us and the Supervisor. An ad hoc review of the overall SIPO and/or underlying fund managers/issuers may be triggered by any of the below events occurring.

We review all investments on a quarterly basis. Performance is measured against appropriate benchmark indices. Where an underlying fund's performance is consistent with its mandate and in

line with broad style and/or asset class returns, and our investment filters have been observed, no further action will generally be taken.

However, an investment/underlying fund may be flagged for 'enhanced due diligence', and subjected to a higher degree of scrutiny for any one or more of the following reasons:

- A change in the primary underlying manager/issuer
- A significant change in an underlying manager's or issuer's majority owner or ownership structure
- A greater than 25% fall in the fund's assets under management over a rolling one-year period (due to redemptions, not market movements) or total fund assets falling below \$25 million at any time
- A change in the fund's investment style, diversification, approach to sustainability and/or risk factor tilting
- An increase in the fund's fees
- The fund shows persistent underperformance against a relevant benchmark. Persistent underperformance is defined as performance below benchmark on a three-year basis minus fees, and a volatility measure appropriate for each fund
- An extraordinary event which we consider has impacted or may interfere with the manager/fund's ability to act in the future within the established fund mandate

Each quarter, we will review all recommended investments to ensure no fund has breached its own recommended limits.

In general, if a fund has breached any threshold, we will undertake an analysis and written review.

## 9.2 Review of the investment strategy

We undertake a review of the investment strategy of each fund, the appropriateness of the benchmark asset allocations and ranges, and the performance and risk profiles of the asset class on a regular basis. This is a qualitative review and forms part of the manager review of the managers used in the Scheme.

## 9.3 Changes to the SIPO

Both we and the Supervisor must agree in writing any changes or replacements to this SIPO. Any changes must be approved by our Board of Directors ("**Board**").

For material changes, we must provide 30 days' notice in advance to all existing members of the proposed change. A change will be regarded as 'material' if it would alter the nature of the investment or its risk profile to such an extent that a reasonable existing member would consider whether to continue with the investment. We and the Supervisor will agree whether a change is material. However, the ultimate decision as to whether a change is material rests with the Supervisor.

Each updated or amended SIPO will contain an effective date. Any changes to this SIPO will be lodged with the Registrar of Financial Service Providers in accordance with the Act.

## 10 Useful Definitions

**“Benchmarks”** means the asset allocations and indices against which we measure the performance of the relevant Fund as outlined at Schedules 1, 2, and 3 of the SIPO.

**“Benchmark asset allocation”** means the relevant Fund’s long-term average expected weighting for each type of asset (i.e. the proportion of that Fund’s assets that we target to have invested in each type of asset). This is also referred to in other documents as its ‘target asset allocation’ or ‘Strategic Asset Allocation’ (SAA). We invest within ranges agreed with the Supervisor, and actual exposures will vary over time.

**“Cash”**, unless otherwise specified, means on-call deposits or other debt obligations of or guaranteed by a registered bank under the Reserve Bank of New Zealand Act 1989.

**“Credit Ratings”** are ratings of the debtor's ability to pay back the debt by making timely interest payments and of the likelihood of default. An agency may rate the creditworthiness of issuers of debt obligations, the debt instruments, and/or in some cases, the servicers of the underlying debt, but not individual consumers. A poor credit rating indicates a credit rating agency's opinion that the company or government has a high risk of defaulting, based on the agency's analysis of the entity's history and analysis of long-term economic prospects.

**“Derivatives”** means any financial arrangement traded on a recognised market or market system (and specifically not ‘over the counter’ securities) whose contribution to portfolio risk, after considering any gearing element within the derivative, is essentially no more than that of the security from which it is derived had that security been held ungeared.

**“Equities”** means shares of companies listed and traded on a recognised stock exchange or other trading system and any traded derivative of those shares whose contribution to portfolio risk, after considering any gearing element within the derivative, is essentially no more than that of the security from which it is derived had that security been held ungeared.

**“Fixed Interest”**, unless otherwise specified, means Cash, other forms of Highly Liquid Securities, and any other form of debt security.

**“Highly Liquid Securities”** means Cash, NZ Government securities with less than 5 years to maturity and Bank Reverse Convertible Debentures with less than 6 months to maturity.

**“Managed Funds”** means units in a pooled arrangement or managed fund, which achieve essentially the same ultimate exposure as would have been achieved by directly held securities.

**“Preference Shares”** are a type of stock which may have any combination of features not possessed by common stock including properties of both equity and a debt instrument and is generally considered a hybrid instrument. Preference shares are senior (i.e., higher ranking) to common stock, but subordinate to bonds in terms of claim (or rights to their share of the assets of the company) and may have priority over common stock (ordinary shares) in the payment of dividends and upon liquidation. Terms of the preferred stock are described in the articles of association. Like bonds, preferred stocks are rated by the major credit-rating companies. The rating for preference shares is generally lower than for bonds because preferred dividends do not carry the same guarantees as interest payments from bonds and because preferred stock holders' claims are junior to those of all creditors.

**“Strategic Asset Allocation”** is a portfolio strategy that sets a target allocation of asset classes chosen looking ahead a period of at least three years. There is generally very little deviation between the actual fund(s) asset allocation and the SAA.

**“Tactical Asset Allocation”** is a dynamic investment strategy, targeting investment opportunities in the market over the next few months. This means the actual fund(s) asset allocation may vary considerably, utilising the full range around the benchmark allocation.

**“Underlying managers”** are the underlying fund managers that we have appointed in respect of the Funds. The underlying managers are named in the most current relevant Fund Update.

## Schedule 1: Lifestages High Growth Fund

### Investment objective

- a) Aims to provide members with capital growth over the long term;
- b) To provide a gross return which exceeds the return of the Benchmark on a rolling three-year basis (i.e. before tax, fees, and other expenses); and
- c) To produce a competitive investment return relative to the relevant peer group and the Benchmark that is relevant to each component of its investment portfolio (see 'Monitoring' at Section 9).

### Investment strategy

The Fund will invest primarily in a broad spread of New Zealand and international growth assets, with a small amount held in cash.

The risk return trade-off for the Fund is that it will invest in growth-producing assets as opposed to assets that are focused on providing income over the long term. As a result, over the long term, the Fund may not produce much in the way of income but should produce long term capital growth. This growth may fluctuate depending on market conditions but should, over the long term, produce a greater return than the Income Fund.

We have developed the investment strategy

- a) With reference to members who are seeking a fund that aims to provide members with capital growth over the long-term; and
- b) With the intention of providing members with a core holding of New Zealand and international growth assets.

The investment strategy considers both financial return and environmental, social and governance good.

### Benchmark

The benchmark asset allocation and indices ("Benchmarks") as at the date of this SIPO is:

Asset Class	Allocation	Indices
Cash	2%	NZX NZ 90 Day Bank Bill
Listed Property	3%	NZX Property Index
Global Infrastructure	5%	FTSE Developed Core Infrastructure Index in NZD
NZ Equities	16%	S&P/NZX 50 Gross
Australian Equities	10%	S&P/ASX 300 Accumulation in NZD
International Equities	56%	MSCI World Index in NZD (50% hedged back to the NZD)
Emerging Markets Equities	8%	MSCI Emerging Markets Index in NZD

For disclosure and fund reporting purposes, NZ Equities and Australian Equities may be aggregated in the category 'Australasian Equities', and Emerging Markets Equities may be treated as forming part

of the category 'International Equities', consistent with the asset categories recognised in clause 1(4) of Schedule 4 to the Financial Markets Conduct Regulations 2014.

## Eligible investments

As at the date of this SIPO, the Fund (through its underlying managers) will only invest in the following security types:

- a) Deposits, transferable obligations or other debt obligations of or guaranteed by a 'registered bank' under the Reserve Bank of New Zealand Act 1989 whose short-term rating is at least A1 with a maturity of no more than 365 days at time of purchase. Floating rate notes with a final maturity of more than 365 days are not authorised (irrespective of the frequency of rate setting).
- b) Shares issued in any jurisdiction of companies listed and traded on a recognised stock exchange or other trading system.

Derivative contracts, where the underlying risk relates to the shares referred to in (b). Eligible derivative contracts include interest rate futures, options, interest rate swaps, and credit default swaps. Options, swaps and credit default swaps must be entered with a counterparty with a minimum long-term credit rating of AA- and a current industry standard (International Swaps and Derivatives Agency) agreement must be in place between the counterparty and us or the underlying manager. The market value of the exposure must be fully covered by cash or backed by liquid physical assets. Derivatives are to be measured on a notional face value basis and may not exceed 100% of the net market value of the relevant Fund's investment portfolio. Investment in collateralised debt obligations and collateralised loan obligations are not permitted.

Where an entity or an issuer is rated, that rating shall be by an internationally approved rating agency such as Standard & Poor's (or other rating agency acceptable to the Supervisor).

The eligible investments may change in the future (see section 3 above).

## Investment Guidelines

- **Liquidity**

A minimum of 1% of the Fund's total assets must be held in Highly Liquid Securities. The neutral cash holding for the Fund is 2%. The most cash that the Fund can hold is 10%.

- **Ranges**

The benchmark asset allocation ranges outlined below are not to be exceeded.

Asset class	Benchmark asset allocation %	Usual range %
NZ Cash	2%	1–10%
Listed Property	3%	0-6%
Infrastructure Assets	5%	1-10%
NZ Equities	16%	10–22%
Australian Equities	10%	5–15%
International Equities	56%	40–70%

Emerging Markets Equities	8%	0–15%
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- Hedging

- Investments in listed property will generally be unhedged, although this can change in the future;
- Investments in infrastructure assets will generally be unhedged, although this can change in the future;
- Investments in Australian equities will generally be unhedged, although this can change in the future;
- Investments in international equities (not including emerging markets equities) may be hedged back to NZD, generally via the underlying fund. The benchmark for hedging of the international equity exposure is 50%, although this can change in the future; and
- Investments in emerging markets equities will generally be unhedged, although this can change in the future.

## Schedule 2: Lifestages Income Fund

### Investment objective

- a) Aims to provide members with a low-risk investment option;
- b) To provide a gross return which exceeds the return of the Benchmark on a rolling three-year basis (i.e. before tax, fees, and other expenses); and
- c) To produce a competitive investment return relative to the relevant peer group and the Benchmark that is relevant to each component of its investment portfolio (see 'Monitoring' at Section 9).

### Investment strategy

The Fund will invest solely in income assets, being cash and fixed interest investments.

The risk return trade-off for the Fund is that it will invest in income-producing assets as opposed to assets that are focused on providing capital growth over the long term. As a result, over the long term, the Fund may not produce much in the way of capital growth but should produce stable returns.

We have developed the investment strategy

- a) With reference to members who are seeking a fund that aims to provide members with a low-risk investment option that invests solely in income assets; and
- b) With the intention of providing members with a core holding of New Zealand cash and fixed interest, both domestic and international.

The investment strategy considers both financial return and environmental, social and governance good.

### Benchmark

The benchmark asset allocation and indices ("Benchmarks") as at the date of this SIPO is:

Asset Class	Allocation	Indices
Cash	15%	NZX NZ 90 Day Bank Bill
NZ Fixed Interest	25%	Bloomberg NZ Bond Composite 0+ Yr Index
International Fixed Interest	60%	Bloomberg Barclays Global Aggregate Index 100% Hedged NZD

Duration management and tactical positioning will only be used to the extent that it results in that Fund's duration being plus or minus two years either side of the Benchmark index position.

### Eligible Investments

As at the date of this SIPO, the Fund (through its underlying managers) will only invest in the following security types:

- a) Deposits, transferable obligations or other debt obligations of or guaranteed by a 'registered bank' under the Reserve Bank of New Zealand Act 1989 whose short-term rating is at least A1 with a maturity of no more than 365 days at time of purchase. Floating rate notes with a final maturity of more than 365 days are not authorised (irrespective of the frequency of rate setting);

- b) Fixed or floating rate debt and bond issues denominated in foreign currencies. These issues may include but are not limited to inflation indexed bonds, municipal and government bonds, mortgage related debt and corporate debt, and that are listed, traded or dealt in on regulated markets in the OECD and which may have fixed or floating interest rates;
- c) Debt securities denominated in New Zealand dollars that have a long-term credit rating of not less than BBB-, or a short-term rating of not less than A3;
- d) Preference shares denominated in New Zealand Dollars and issued under New Zealand or Australian legal jurisdiction with a long-term credit rating of not less than BBB-;
- e) Securities that qualify as Tier 1 capital for registered banks in New Zealand with a long-term credit rating of not less than BBB-;
- f) Unrated securities provided the underlying manager, in their judgement, determines that the issue would have a rating of not less than BBB-, if a rating was sought;
- g) Any other income strategies approved by the Supervisor and by our Board.
- h) Derivative contracts, where the underlying risk relates to New Zealand or foreign currency-denominated interest rates or credit risk. Eligible derivative contracts include interest rate futures, options, interest rate swaps, and credit default swaps. Options, swaps and credit default swaps must be entered with a counterparty with a minimum long-term credit rating of AA- and a current industry standard (International Swaps and Derivatives Agency) agreement must be in place between the counterparty and us or the underlying manager. The market value of the exposure must be fully covered by cash or backed by liquid physical assets. Derivatives are to be measured on a notional face value basis and may not exceed 100% of the net market value of the relevant Fund's investment portfolio. Investment in collateralised debt obligations and collateralised loan obligations are not permitted.

Where an entity or an issuer is rated, that rating shall be by an internationally approved rating agency such as Standard & Poor's (or other rating agency acceptable to the Supervisor).

The eligible investments may change in the future (see section 3 above).

## Investment Guidelines

- **Duration**

The duration of the Fund is to be kept within two years of the duration of the Benchmark. The duration implications of derivative products are to be considered included when calculating the weighted average duration.

- **Yield Curve**

The underlying managers shall monitor the maturity bucket exposure of the Fund to ensure no excessive yield curve exposures exist. A 'laddered' approach is sought.

- **Liquidity**

A minimum of 2% of the Fund's total assets must be held in Highly Liquid Securities. The neutral cash holding for the Fund is 15%. The most cash that the Fund can hold is 20%.

- **Ranges**

The benchmark asset allocation ranges below are not to be exceeded.



<b>Asset class</b>	<b>Benchmark asset allocation %</b>	<b>Usual range %</b>
NZ Cash	15%	10–40%
NZ Fixed Interest	25%	15–35%
International Fixed Interest	60%	50–70%

Any unrated security assessments are to be reviewed at least six monthly.

- **Hedging**

Investments in International fixed interest will be hedged back to the New Zealand dollar, generally via the underlying fund.

## Schedule 3: Lifestages Capital Stable Portfolio

### Investment objective

- a) Aims to provide members with a stable investment option;
- b) To provide a gross return which exceeds the return of the Benchmark on a rolling three-year basis (i.e. before tax, fees, and other expenses); and
- c) To produce a competitive investment return relative to the relevant peer group and the Benchmark that is relevant to each component of its investment portfolio (see 'Monitoring' at Section 9).

### Investment strategy

The Fund will invest the majority of its assets in cash and fixed interest investments. It will also invest in New Zealand and international equities.

The risk return trade-off for the Fund is that it will invest in mainly income-producing assets as opposed to assets that are focused on providing growth over the long term. As a result, over the long term, the Fund may not produce much in the way of capital growth but should produce long term income. This fund should, over the long term, produce a greater return than the Income Fund.

We have developed the investment strategy

- a) With reference to members who are seeking a Fund that aims to provide members with a low-risk investment option that has the majority of its assets invested in cash and fixed interest investments; and
- b) With the intention of providing members with a core holding of cash and fixed interest, Australasian shares, and international shares.

The investment strategy considers both financial return and environmental, social and governance good.

### Benchmark

The benchmark asset allocations and indices for the Fund as at the date of this SIPO is:

Asset Class	Allocation	Indices
Cash / NZ Fixed Interest	60%	NZX NZ 90 Day Bank Bill
International Fixed Interest	15%	Bloomberg Barclays Global Aggregate Index Hedged NZD
Listed Property	0%	FTSE Developed Rental Index in NZD
Infrastructure Assets	0%	FTSE Developed Core Infrastructure Index in NZD
NZ Equities	6.5%	S&P/NZX 50 Gross
Australian Equities	3.5%	S&P/ASX 300 Accumulation in NZD
International Equities	15%	MSCI World Index in NZD (50% hedged back to the NZD)

Duration management and tactical positioning will only be used for the Fund. It will only be used to the extent that it results in the Fund's duration being plus or minus 12 months either side of the Benchmark index position.

## Eligible Investments

As at the date of this SIPO, the Fund (through its underlying managers) will only invest in the following security types:

- a) Cash - Deposits, transferable obligations or other debt obligations of or guaranteed by entities with a maturity of no more than 365 days at time of purchase. Floating rate notes with a final maturity of more than 365 days are not authorised (irrespective of the frequency of rate setting).
- b) Fixed interest - Deposits, transferable debt obligations or other debt obligations of or guaranteed by governments, quasi government bodies, central banks, supra nationals, companies and other bodies with a final maturity of more than 180 days at time of purchase with an investment grade credit rating of more than BBB-.
- c) Because of their more complex risk assessment CPI linked bonds and other variable coupon bonds (other than floating rate notes whose coupons are a function of the prevailing 90-day rate or similar) are not authorised.
- d) Equity - Shares of companies listed and traded on a recognised stock exchange in New Zealand or on any overseas stock exchange and any traded derivative of those shares whose contribution to portfolio risk, after considering any gearing element within the derivative, is essentially no more than that of the security from which it is derived had that security been held ungeared.
- e) Total effective exposure to any one company may not exceed its relevant index weight  $\pm 5\%$  absolute. However, where the exposure is achieved through units in a pooled arrangement it is recognised that these limits become objectives only and may not be able to be enforced or tracked with absolute precision. In that situation, reasonable endeavours are required to keep within those limits.
- f) Derivatives - Any financial arrangement traded on a recognised market or market system (and specifically not 'over the counter' securities) whose contribution to portfolio risk, after considering any gearing element within the derivative, is essentially no more than that of the security from which it is derived had that security been held ungeared.

Where an entity or an issuer is rated, that rating shall be by an internationally approved rating agency such as Standard & Poor's (or other rating agency acceptable to the Supervisor).

The eligible investments may change in the future (see section 3 above).

## Investment Guidelines

- Duration

The duration of the Fund is to be kept within twelve months of the duration of the Benchmark. The duration implications of derivative products are to be considered included when calculating the weighted average duration.

- Yield Curve

We shall monitor the maturity bucket exposure of the Fund to ensure no excessive yield curve exposures exist. A 'laddered' approach is sought.

- **Liquidity**

There is no minimum of total assets that must be held in Highly Liquid Securities.

- **Ranges**

The benchmark asset allocation ranges below are not to be exceeded.

<b>Asset class</b>	<b>Benchmark allocation %</b>	<b>asset</b>	<b>Usual range %</b>
NZ Cash and Fixed Interest	60%		50-70%
International Fixed Interest	15%		10-20%
NZ Equities	6.5%		3-9%
Australian Equities	3.5%		0-6%
International Equities	15%		8-20%

Any unrated security assessments are to be reviewed at least six monthly.

- **Hedging**

- a) Investments in international fixed interest will be hedged back to the New Zealand dollar, generally via the underlying fund.
- b) Investments in international equities may be hedged back to NZ, generally via the underlying fund. The benchmark for hedging of the international equity exposure is 50%, although this can change in the future.