STATEMENT OF INVESTMENT POLICY AND OBJECTIVES

FOR

Lifestages KiwiSaver Scheme

incorporating the

Lifestages Income Fund
Lifestages High Growth Fund
Lifestages Capital Stable Portfolio
Lifestages Growth Portfolio

Manager:
Funds Administration New Zealand Limited (FANZ)

Supervisor:
Trustees Executors Limited

Effective Date: 1 April 2018

Introduction and description of Scheme

This statement of investment policy and objectives ("**SIPO**") takes effect from 1 April 2018 and has been prepared for the Lifestages KiwiSaver Scheme (the "**Scheme**"). This SIPO replaces the previous SIPO for the Scheme dated 30 November 2016, with changes to the Scheme's investments to reflect the new SIPO being implemented in an orderly fashion over the course of April 2018.

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 ("**FMC Act**"). Funds Administration New Zealand Limited (referred to as "**we**", "**our**", and "**us**" in this SIPO) is the manager of the Scheme. The Supervisor of the Scheme is Trustees Executors Limited ("**Supervisor**").

The trust deed for the Scheme ("**Trust Deed**") contemplates the establishment of personal plans for members, but these are not currently offered.

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

This SIPO is divided into 2 parts –

Part A covers the following two investment funds currently offered to members –

- Lifestages Income Fund
- Lifestages High Growth Fund (together, the "**Open Funds**").

Part B covers the following two investment funds currently closed to new members –

- Lifestages Capital Stable Portfolio
- Lifestages Growth Portfolio (together, the "**Closed Funds**").

Within our organisation, the Executive Director is responsible for ensuring the SIPO is implemented and monitoring that implementation during the investment cycle (see section 8 of each part of this SIPO).

Part A – Open Funds

This part of the SIPO covers the following two investment funds currently offered to members –

- Lifestages Income Fund ("Income Fund")
- Lifestages High Growth Fund ("High Growth Fund").

References in this SIPO to the "Open Funds" includes a reference to both Funds.

Members are able to select their exposure to each Open Fund, from 100% Income Fund to 100% High Growth 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 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 investors' chosen investment allocations can be rebalanced to the original chosen allocation.[1] Cash flow would be applied to the original allocation chosen. We currently seek to have one annual rebalancing event on or about 15 August yearly.

Our Investment Strategy for the Open Funds is contained in sections 3 to 7 of this part of the SIPO.

An explanation of the terms used in this part of the SIPO is provided in the final section of this part.

This part of the SIPO sets out the following details with respect to the Open Funds:

[1] Investors who have not selected the Income Fund, High Growth Fund, or the Lifestages Auto option will not have their contributions and accumulated balances rebalanced unless they notify us in writing that they wish this to occur.

1. Benchmarks and Investment Objectives

1.1. **Benchmark:** The benchmark asset allocations and indices for the Open Funds ("**Benchmarks**") as at the date of this SIPO are as follows:

Income Fund

Asset Class	Allocation	Indices
Cash	15%	NZX NZ 90 Day Bank Bill
NZ Fixed Interest	25%	S&P/NZX NZ Government Stock Index
International Fixed Interest	60%	Bloomberg Barclays Global Aggregate Index 100% Hedged NZD

High Growth Fund

Asset Class	Allocation	Indices
Cash	2%	NZX NZ 90 Day Bank Bill
Listed Property	7%	NZX Property Index (3%), FTSE Developed Rental Index in NZD (4%)
Global Infrastructure	5%	FTSE Developed Core Infrastructure Index in NZD
NZ Equities	14%	S&P/NZX 50 Gross
Australian Equities	14%	S&P/ASX 300 Accumulation in NZD
International Equities	50%	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.

1.2. **Investment objectives:**

The investment objectives of the Open Funds are:

Income Fund	High Growth Fund
(a) Aims to provide investors with a low-risk investment option	(a) Aims to provide investors 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).	(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).
(c) To produce a competitive investment return relative to the relevant peer	(c) To produce a competitive investment return relative to the

group and the Benchmark that is relevant to each component of its investment portfolio (see 'Monitoring' below).	relevant peer group and the Benchmark that is relevant to each component of its investment portfolio (see 'Monitoring' below).

1.3. **General description of investments:**

(a) The **Income Fund** will invest solely in income assets, being cash and fixed interest investments.

(b) The risk return trade-off for the Income 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.

(c) The **High Growth Fund** will invest primarily in a broad spread of New Zealand and international growth assets, with a small amount held in cash.

(d) The risk return trade-off for the High Growth 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.

2. Investment Philosophy

2.1. We have developed the investment strategy for each Open Fund:

Income Fund	**High Growth Fund**
(a) With reference to investors who are seeking a fund that aims to provide investors with a low-risk investment option that invests solely in income assets; and (b) With the intention of providing investors with a core holding of New Zealand cash and fixed interest, both domestic and international.	(a) With reference to investors who are seeking a fund that aims to provide investors with capital growth over the long-term; and (b) With the intention of providing investors with a core holding of New Zealand and international growth assets.

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

2.3. We believe that markets are largely efficient, and engaging in active management or speculating in concentrated positions is only likely to increase volatility and costs.

2.4. The level of investment risk accepted for each Open Fund will be in line with the overall risk profile of the relevant Benchmarks, which will be reflected in the selection of securities within each Open Fund.

2.5. Each Open Fund is designed to provide investors with a core risk exposure to the above asset classes, and to be consistent with our overall investment philosophy and approach to investing.

2.6. Each Open Fund offers a multi manager approach to investing by providing access to a number of domestic and international specialist investment teams.

3. Eligible Investments

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

Income Fund only	**High Growth Fund only**
(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	(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. (c) 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.

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 5 below).

4. Investment Guidelines

The following investment guidelines apply to each of the Open Funds, unless indicated otherwise.

4.1. **Duration of Income Fund:** The duration of the Income 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 Income Fund's weighted average duration.

4.2. **Yield Curve of Income Fund**: The underlying managers shall monitor the maturity bucket exposure of the portfolio to ensure no excessive yield curve exposures exist. A 'laddered' approach is sought.

4.3. **Liquidity:**

a) Income Fund:

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

b) High Growth Fund:

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

4.4. **Ranges:** The benchmark asset allocation ranges outlined in 5.1 are not to be exceeded.

4.5. **Unrated security assessments:** Any unrated security assessments are to be reviewed at least six monthly.

4.6. **Hedging:**

(a) Income Fund:

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

(b) High Growth Fund:

i. Investments in listed property will generally be unhedged, although this can change in the future.

ii. Investments in infrastructure assets will generally be unhedged, although this can change in the future.

iii. Investments in Australian equities will generally be unhedged, although this can change in the future.

iv. 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.

v. Investments in emerging markets equities will generally be unhedged, although this can change in the future.

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

(a) Income Fund: Derivatives will only be used to hedge currency risk. 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.

(b) High Growth Fund: Derivatives will not be used directly, as hedging occurs wholly inside the underlying funds accessed.

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.

5. 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 by direct investment or by investments in underlying funds. The underlying managers 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.companiesoffice.govt.nz/disclose.

5.1. Benchmark asset allocations and ranges

Income Fund

Asset class	Benchmark asset allocation %	Usual range %
NZ Cash	15%	10–20%
NZ Fixed Interest	25%	15–35%
International Fixed Interest	60%	50–70%

High Growth Fund

Asset class	Benchmark asset allocation %	Usual range %
NZ Cash	2%	1–10%
Listed Property	7%	2–13%
Infrastructure Assets	5%	2–13%
NZ Equities	14%	5–25%
Australian Equities	14%	5–25%
International Equities	50%	40–60%
Emerging Markets Equities	8%	0–15%

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.

Other than as outlined in the table above, there are no limits on the nature or type of investments that may be made, or on the proportion of each type of asset invested in. However any breaches of these limits will result in breach of the Limit Breaks Policy and require action as provided at section 167 of the Financial Markets Conduct Act.

5.2. **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.

5.3. **Cash and Fixed interest**. Cash is generally held in the Fund's bank account 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 Income Fund gains its 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. Any international fixed interest investments will be hedged to the New Zealand dollar 100%.

5.4. **Income Fund Income Strategies.** Any other income strategies approved by the Supervisor which we consider fall within the parameters of the Income Fund's Authorised Investments (as set out in the Trust Deed), appropriately reflect the risk profile of that Fund, and will contribute towards achieving its investment objectives. There are no limits on the extent to which the Income Fund's investment exposure may be obtained through Income Strategies.

All transactions will be undertaken through recognised market participants. For domestic transactions no settlement risk will be taken. For international transactions dealing only with entities whose short-term credit rating is at least A1 will minimise settlement risk.

6. Authorised Activities

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

6.1. **Securities Lending**. Securities lending with 'A' rated counterparties.

6.2. **New Issues**. Underwriting new issues of authorised debt and share issues (as applicable).

6.3. **Borrowing**. As provided by clauses 27.1 and 27.2 of the Trust Deed 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 7.1 below (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.

7. Investment policies

7.1. Liquidity

Sufficient liquidity will be held to cover reasonably anticipated redemptions. If necessary, there is a general authorisation 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.

7.2. 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 at book value plus accrued interest. 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 in order to establish the true ‘cash’ value of the relevant Fund. For exiting and new investors in a Fund this will be the basis of their exit and issue unit price respectively.

7.3. Derivatives

Derivatives may not be used to leverage either 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.

7.4. Tax

As the Scheme is a KiwiSaver scheme, it is currently taxed as a Portfolio Investment Entity (“PIE”) and as such complies with the relevant tax rules for PIEs.

7.5. 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). The Supervisor may also impose other terms on related party transactions from time to time.

7.6. Hedging

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.

We believe that for the High Growth Fund, a complete hedge is not practical or cost efficient. In view of this the policy position is that total foreign currency exposures will be approximately 50% hedged based on a periodic review with the 50% hedge ratio applied at the start of each period and applied to the then market value of the New Zealand dollar value of the assets to be hedged. Except in exceptional circumstances any hedges put in place at the most recent review will be left in place until the next review irrespective of interim movements in the prices of the underlying assets. For these purposes hedge rebalancing will be quarterly.

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

It is recognised that closing out currency hedge positions may involve payments from the Fund whose currency exposure is hedged. Because there may be difficulty in controlling cash movements and recognising that it is the overall portfolio currency exposure which is relevant, where possible hedged offshore investment management options will be taken within the overall 50% (approximately) guideline. It is further recognised that where the manager of an offshore investment hedges the foreign currency exposure only to Australian dollars putting in place the further AUD/NZD may be both costly and logistically difficult. Given the relatively high correlation between AUD and NZD it is considered that any exposure from holding uncovered Australian dollars is acceptable.

8. Monitoring

8.1. We will 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.

8.2. The performance standard expected to be observed is that each Fund's return over the period will be within the top two quartiles based on its respective universe of funds (i.e. the range of funds identified as peers of that Fund).

8.3. If performance does not meet this standard, the reason for the under-performance will be identified and appropriate action recommended.

8.4. Where two or more managers are responsible for the investment management of a specific part of a Fund, rebalancing between them will be through cash flows rather than from a periodic formal rebalancing.

9. Review and update of SIPO

The SIPO will be reviewed and updated from time to time. 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.companiesoffice.govt.nz/disclose.

9.1. Review of the SIPO and investments generally

The SIPO will be reviewed from time to time by us and the Supervisor, and at least annually. An ad hoc review of the overall SIPO 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, 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, where applicable:

- 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 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 limits.

In general, if a fund has breached any threshold, we will undertake an analysis and written review. Depending on the nature and seriousness of the breach, the written review will include some or all of the following features:

- Review of the investment mandate
- Explanation of the breach and analysis of its seriousness
- Investigation with the fund management team
- Regression analysis and/or attribution analysis
- Peer review
- Reconfirmation, if the fund is still the preferred choice relative to other alternatives

If the fund requires enhanced due diligence due to underperformance, we will attempt to ascertain whether this underperformance is the result of the underlying manager taking mandated risks, which are acceptable, or non-mandated risks, which are generally unacceptable.

The decision to retain or terminate a fund cannot be determined by a simple formula. Selecting funds with above average performance over previous periods provides no increased likelihood of improving performance over subsequent periods. Our confidence in the underlying manager's ability to consistently deliver in accordance with the fund mandate in the future will play a part in the decision to retain or replace a fund.

Once a fund has been reviewed in relation to a specific threshold breach, then, assuming the fund retains its recommended status, it will only be re-reviewed with respect to that breach in 12 months' time (not every subsequent quarter). However, if the fund subsequently breaches any other threshold in the interim, this will prompt a new review in relation to the new breach.

9.2. Review of the investment strategy and underlying manager selection

We undertake a review of the investment strategy, 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.

We follow a due diligence process for selecting the underlying managers within each Fund, applying a combination of three primary filters.

Exclusionary filters

- **Investment style and philosophy –** investments should be non-speculative and compatible with an asset class investment philosophy. This philosophy is based on the assumption that markets are largely efficient, and engaging in active management or speculating in concentrated positions is only likely to increase volatility and costs.
- **Representation –** an investment must broadly represent the risk and return characteristics contained in a fair sample of an asset class or sub-asset class so that effective asset class and portfolio construction can be achieved.
- **Fund size –** an underlying recommended unit trust or exchange traded fund should have assets of $25 million or more, unless there are exceptional circumstances.
- **Liquidity** – investments should be able to be redeemed for cash within one week.
- **Excluded investments** – the International Equity allocation investments have no exposure to cluster munitions, anti-personnel mines, or nuclear armament manufacturers**.**

Quantitative filters

- **Fees and expenses –** the Management Expense Ratio (MER) or Investment Cost Ratio (ICR) should be lower than average for the available funds in the relevant asset class.
- **Quality of execution –** a managed fund should demonstrate low turnover and light market impact of trading.
- **Diversification –** a fund should own the majority of available securities within its defined asset class or sub-asset class.
- **Consistency of risk exposure** - a fund should demonstrate consistency in the application of risk exposures, regardless of market or economic conditions.
- **Tax efficiency –** investments should be managed sensitive to the underlying taxable consequences of transacting.
- **Track record –** the fund should typically have a minimum track record of at least 12 months.

- **Performance since inception vs benchmark –** the fund should demonstrate that it is capturing the return of the asset class. In some cases, suitable benchmarks may not be available, and we will take that into consideration.

Qualitative filters

For all managers recommended, we undertake a qualitative review of information every three years, focusing on items such as:

- **Ownership structure/major shareholders –** the company should demonstrate a consistent and stable ownership structure. Mergers and acquisitions should provide benefit to investors.
- **Staff –** the company should demonstrate low turnover of professional and service staff and long running tenure of key investment managers running the fund.
- **Services provided –** the company should provide the same or better level of service than is available in the marketplace for investment alternatives.
- **Business strength –** the company should be a growing and viable business. Growth in investment assets would be one indicator of this.
- **Reports –** the reports should contain all of the information that is necessary and useful to enable regular due diligence, and should consistently be provided on a timely basis.
- **Requests for information –** the company should consistently respond to requests for information in a timely manner with information given in a way that is easily understood.
- **Investment education –** the company should provide adequate explanation of and education around its investment decisions, and the evidence it considered in making decisions.

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.

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 or not to continue with the investment. We and the Supervisor will agree whether a change is material. However, the ultimate decision as to whether or not 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

For the purposes of this part of the SIPO:

"**Benchmarks**" means the asset allocations and indices against which we measure the performance of the relevant Fund as outlined at section 1.1 of this part of the SIPO.

"**Benchmark asset allocation**" means the relevant Open 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'. 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 taking into account 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" in respect of the High Growth Fund, 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 taking into account 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. Similar to bonds, preferred stocks are rated by the major credit-rating companies. The rating for preference shares are 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.

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

Part B – Closed Funds

This part of the SIPO covers the following two investment funds, which are closed to new members –

- Lifestages Capital Stable Portfolio ("**Capital Stable Portfolio**")
- Lifestages Growth Portfolio ("**Growth Portfolio**")

References in this SIPO to the "Closed Funds" includes a reference to both Portfolios.

Our Investment Strategy for the Closed Funds is contained in sections 3 to 7 of this part of the SIPO.

An explanation of the terms used in this part of the SIPO is provided in the final section of this part.

This part of the SIPO sets out the following details with respect to the Closed Funds:

1. Benchmarks and Investment Objectives

1.1. **Benchmark:** The benchmark asset allocations and indices for the Closed Funds ("**Benchmarks**") as at the date of this SIPO are as follows:

<table>
<tr><th>Asset Allocation</th><th>Capital Stable</th><th>Growth</th><th>Indices</th></tr>
<tr><td>Cash</td><td rowspan="2">60%</td><td>3%</td><td rowspan="2">NZX NZ 90 Day Bank Bill</td></tr>
<tr><td>NZ Fixed Interest</td><td>0%</td></tr>
<tr><td>International Fixed Interest</td><td>15%</td><td>0%</td><td>Bloomberg Barclays Global Aggregate Index Hedged NZD</td></tr>
<tr><td>Listed Property</td><td>0%</td><td>7%</td><td>FTSE Developed Rental Index in NZD</td></tr>
<tr><td>Infrastructure Assets</td><td>0%</td><td>5%</td><td>FTSE Developed Core Infrastructure Index in NZD</td></tr>
<tr><td>NZ Equities</td><td>6.5%</td><td>23%</td><td>S&P/NZX 50 Gross</td></tr>
<tr><td>Australian Equities</td><td>3.5%</td><td>12%</td><td>S&P/ASX 300 Accumulation in NZD</td></tr>
<tr><td>International Equities</td><td>15%</td><td>50%</td><td>MSCI World Index in NZD (50% hedged back to the NZD)</td></tr>
</table>

1.2. **Investment objectives:**

The investment objectives for the Closed Funds are:

Capital Stable Portfolio	Growth Portfolio
(a) Aims to provide investors 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). (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' below).	(a) Aims to provide investors 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). (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' below).

1.3. **General description of investments:**

(a) The **Capital Stable Portfolio** will invest the majority of its assets in cash and fixed interest investments. It will also invest in New Zealand and international equities.

(b) The risk return trade-off for the Capital Stable Portfolio 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 Portfolio may not produce much in the way of capital growth but should produce long term income. This portfolio should, over the long term, produce a greater return than the Income Portfolio.

(c) The **Growth Portfolio** will invest primarily in a broad spread of New Zealand and international growth assets, with a small amount held in cash.

(d) The risk return trade-off for the Growth Portfolio is that it will invest primarily 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 Portfolio 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 Capital Stable Portfolio.

2. Investment Philosophy

2.1. We have developed the investment strategy for each Closed Fund:

Capital Stable Portfolio	**Growth Portfolio**
(a) With reference to investors who are seeking a Portfolio that aims to provide investors 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 investors with a core holding of cash and fixed interest, Australasian shares, and international shares.	(a) With reference to investors who are seeking a Portfolio that aims to provide investors with a capital growth over the long-term; and (b) With the intention of providing investors primarily with a core holding of New Zealand and international growth assets.

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

2.3. We believe that markets are largely efficient, and engaging in active management or speculating in concentrated positions is only likely to increase volatility and costs.

2.4. The level of investment risk accepted for each Closed Fund will be in line with the overall risk profile of the relevant Benchmarks, which will be reflected in the selection of securities within each Closed Fund.

2.5. Each Closed Fund is designed to provide investors with a core risk exposure to the above asset classes, and to be consistent with our overall investment philosophy and approach to investing.

2.6. Each Closed Fund offers a multi manager approach to investing by providing access to a number of domestic and international specialist investment teams.

3. Eligible Investments

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

Capital Stable Portfolio	Growth Portfolio
(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-. 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. (c) 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 taking into account 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. Total effective exposure to any one company may not exceed its relevant index weight ±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	(a) Shares issued in any jurisdiction of companies listed and traded on a recognised stock exchange or other trading system. (b) Derivative contracts, where the underlying risk relates to the shares referred to in (a). 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. (c) 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). (d) 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

endeavours are required to keep within those limits. (d) 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 taking into account 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.	in on regulated markets in the OECD and which may have fixed or floating interest rates. (e) 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. (f) 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-. (g) Securities that qualify as Tier 1 capital for registered banks in New Zealand with a long-term credit rating of not less than BBB-. (h) 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. (i) Any other income strategies approved by the Supervisor and by our Board. (j) Derivative contracts, where the underlying risk relates to New Zealand or foreign currency-denominated interest rates or credit risk. (k) 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.

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 5 below).

4. Investment Guidelines

The following investment guidelines apply to each of the Closed Funds, unless indicated otherwise.

4.1. **Duration of Capital Stable Portfolio:** The duration of the Capital Stable Portfolio 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 Income Fund's weighted average duration.

4.2. **Yield Curve of Capital Stable Portfolio**: The Manager shall monitor the maturity bucket exposure of the portfolio to ensure no excessive yield curve exposures exist. A 'laddered' approach is sought.

4.3. **Liquidity:**

a) Capital Stable Portfolio:

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

b) Growth Portfolio:

A minimum of 1% of the Growth Portfolio's total assets must be held in Highly Liquid Securities. The neutral cash holding for the Growth Portfolio is 3%. The most cash that the Growth Portfolio can hold is 7%.

4.4. **Ranges:** The benchmark asset allocation ranges outlined in 5.1 are not to be exceeded.

4.5. **Unrated security assessments:** Any unrated security assessments are to be reviewed at least six monthly.

4.6. **Hedging:**

(a) Capital Stable Portfolio:

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

ii. 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.

(b) Growth Portfolio:

i. Investments in listed property will generally be unhedged, although this can change in the future.

ii. Investments in infrastructure assets will generally be unhedged, although this can change in the future.

iii. Investments in Australian equities will generally be unhedged, although this can change in the future.

iv. Investments in international 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.

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

(a) Capital Stable Portfolio: Derivatives will only be used to hedge currency risk. 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.

(b) Growth Portfolio: Derivatives will not be used directly, as hedging occurs wholly inside the underlying funds accessed.

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.

5. 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 by direct investment or by investments in underlying funds.
The underlying managers currently accessed are available in the most current Fund Update on the Fund’s managed investment schemes register entry with the Registrar of Financial Service Providers at http://www.business.govt.nz/disclose.

5.1. Benchmark asset allocations and ranges

Capital Stable Portfolio

Asset class	Benchmark asset allocation %	Usual range %
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%

Growth Portfolio

Asset class	Benchmark asset allocation %	Usual range %
NZ Cash	3%	1–7%
Listed Property	7%	4–10%
Infrastructure Assets	5%	2–8%
NZ Equities	23%	13–33%
Australian Equities	12%	2–22%
International Equities	50%	40–60%

Other than as outlined in the table above, there are no limits on the nature or type of investments that may be made, or on the proportion of each type of asset invested in. However any breaches of these limits will result in breach of the Limit Breaks Policy and require action as provided at section 167 of the Financial Markets Conduct Act.

5.2. **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.

5.3. **Cash, and Fixed interest**. Cash is generally held in the Portfolio's bank account 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 Closed Funds gain their exposure to NZ fixed interest and global bonds 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. There is a minimum of 50% of the Capital Stable Portfolio's cash and fixed interest assets that must be invested with SBS Bank (either directly or indirectly), or any other registered banks or financial institutions in some circumstances, including pending investment into other assets. Any unrated securities will comply with our strict risk policy criteria through the underlying manager's internal credit ratings process. Any international fixed interest investments will be hedged to the New Zealand dollar 100%.

All transactions will be undertaken through recognised market participants. For domestic transactions no settlement risk will be taken. For international transactions dealing only with entities whose short-term credit rating is at least A1 will minimise settlement risk.

6. Authorised Activities

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

6.1. **Securities Lending**. Securities lending with 'A' rated counterparties.

6.2. **New Issues**. Underwriting new issues of authorised debt and share issues (as applicable).

6.3. **Borrowing**. As provided by clauses 27.1 and 27.2 of the Trust Deed 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 7.1 below (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.

7. Investment policies

7.1. **Liquidity**

Sufficient liquidity will be held to cover reasonably anticipated redemptions. If necessary, there is a general authorisation to borrow up to 5% of the market value of that Portfolio to cover settlement requirements relating to that Portfolio. 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.

7.2. **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 at book value plus accrued interest. 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 in order to establish the true 'cash' value of the relevant Fund. For exiting and new investors in a Fund this will be the basis of their exit and issue unit price respectively.

7.3. **Derivatives**

Derivatives may not be used to leverage either Closed 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.

7.4. **Tax**

As the Scheme is a KiwiSaver scheme, it is currently taxed as a Portfolio Investment Entity ("PIE") and as such complies with the relevant tax rules for PIEs.

7.5. **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). The Supervisor may also impose other terms on related party transactions from time to time.

7.6. **Hedging**

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, listed property and infrastructure assets.

We believe that for the Growth Portfolio, a complete hedge is not practical or cost efficient. In view of this the policy position is that total foreign currency exposures will be approximately 50% hedged based on a periodic review with the 50% hedge ratio applied at the start of each period and applied to the then market value of the New Zealand dollar value of the assets to be hedged. Except in exceptional circumstances any hedges put in place at the most recent review will be left in place until the next review irrespective of interim movements in the prices of the underlying assets. For these purposes hedge rebalancing will be quarterly.

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

It is recognised that closing out currency hedge positions may involve payments from the Fund whose currency exposure is hedged. Because there may be difficulty in controlling cash movements and recognising that it is the overall portfolio currency exposure which is relevant, where possible hedged offshore investment management options will be taken within the overall 50% (approximately) guideline. It is further recognised that where the manager of an offshore investment hedges the foreign currency exposure only to Australian dollars putting in place the further AUD/NZD may be both costly and logistically difficult. Given the relatively high correlation between AUD and NZD it is considered that any exposure from holding uncovered Australian dollars is acceptable.

8. Monitoring

8.1. We will 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 from time to time, with input from the Supervisor where appropriate.

8.2. The performance standard expected to be observed is that each Fund's return over the period will be within the top two quartiles based on its respective universe of funds (i.e. the range of funds identified as peers of that Fund).

8.3. If performance does not meet this standard, the reason for the under-performance will be identified and appropriate action recommended.

8.4. Where two or more managers are responsible for the investment management of a specific part of a Fund, rebalancing between them will be through cash flows rather than from a periodic formal rebalancing.

9. Review and update of SIPO

The SIPO will be reviewed and updated from time to time. 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.companiesoffice.govt.nz/disclose.

9.1. Review of the SIPO and investments generally

The SIPO will be reviewed from time to time by us and the Supervisor, and at least annually. An ad hoc review of the overall SIPO 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, 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, where applicable:

- 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 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 limits.

In general, if a fund has breached any threshold, we will undertake an analysis and written review. Depending on the nature and seriousness of the breach, the written review will include some or all of the following features:

- Review of the investment mandate
- Explanation of the breach and analysis of its seriousness
- Investigation with the fund management team
- Regression analysis and/or attribution analysis
- Peer review
- Reconfirmation, if the fund is still the preferred choice relative to other alternatives

If the fund requires enhanced due diligence due to underperformance, we will attempt to ascertain whether this underperformance is the result of the underlying manager taking mandated risks, which are acceptable, or non-mandated risks, which are generally unacceptable.

The decision to retain or terminate a fund cannot be determined by a simple formula. Selecting funds with above average performance over previous periods provides no increased likelihood of improving performance over subsequent periods. Our confidence in the underlying manager's ability to consistently deliver in accordance with the fund mandate in the future will play a part in the decision to retain or replace a fund.

Once a fund has been reviewed in relation to a specific threshold breach, then, assuming the fund retains its recommended status, it will only be re-reviewed with respect to that breach in 12 months' time (not every subsequent quarter). However, if the fund subsequently breaches any other threshold in the interim, this will prompt a new review in relation to the new breach.

9.2. **Review of the investment strategy and underlying manager selection**

We undertake a review of the investment strategy, 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.

We follow a due diligence process for selecting the underlying managers within each Fund, applying a combination of three primary filters.

Exclusionary filters

- **Investment style and philosophy –** investments should be non-speculative and compatible with an asset class investment philosophy. This philosophy is based on the assumption that markets are largely efficient, and engaging in active management or speculating in concentrated positions is only likely to increase volatility and costs.
- **Representation –** an investment must broadly represent the risk and return characteristics contained in a fair sample of an asset class or sub-asset class so that effective asset class and portfolio construction can be achieved.
- **Fund size –** an underlying recommended unit trust or exchange traded fund should have assets of $25 million or more, unless there are exceptional circumstances.
- **Liquidity** – investments should be able to be redeemed for cash within one week.
- **Excluded investments** – the International Equity allocation investments have no exposure to cluster munitions, anti-personnel mines, or nuclear armament manufacturers**.**

Quantitative filters

- **Fees and expenses –** the Management Expense Ratio (MER) or Investment Cost Ratio (ICR) should be lower than average for the available funds in the relevant asset class.

- **Quality of execution –** a managed fund should demonstrate low turnover and light market impact of trading.
- **Diversification –** a fund should own the majority of available securities within its defined asset class or sub-asset class.
- **Consistency of risk exposure** - a fund should demonstrate consistency in the application of risk exposures, regardless of market or economic conditions.
- **Tax efficiency –** investments should be managed sensitive to the underlying taxable consequences of transacting.
- **Track record –** the fund should typically have a minimum track record of at least 12 months.
- **Performance since inception vs benchmark –** the fund should demonstrate that it is capturing the return of the asset class. In some cases, suitable benchmarks may not be available, and we will take that into consideration.

Qualitative filters

For all managers recommended, we undertake a qualitative review of information every three years, focusing on items such as:

- **Ownership structure/major shareholders –** the company should demonstrate a consistent and stable ownership structure. Mergers and acquisitions should provide benefit to investors.
- **Staff –** the company should demonstrate low turnover of professional and service staff and long running tenure of key investment managers running the fund.
- **Services provided –** the company should provide the same or better level of service than is available in the marketplace for investment alternatives.
- **Business strength –** the company should be a growing and viable business. Growth in investment assets would be one indicator of this.
- **Reports –** the reports should contain all of the information that is necessary and useful to enable regular due diligence, and should consistently be provided on a timely basis.
- **Requests for information –** the company should consistently respond to requests for information in a timely manner with information given in a way that is easily understood.
- **Investment education –** the company should provide adequate explanation of and education around its investment decisions, and the evidence it considered in making decisions.

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.

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 or not to continue with the investment. We and the Supervisor will agree whether a change is material. However, the ultimate decision as to whether or not 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

For the purposes of this part of the SIPO:

"**Benchmarks**" means the asset allocations and indices against which we measure the performance of the relevant Fund as outlined at section 1.1 of this part of the SIPO.

"**Benchmark asset allocation**" means the relevant Closed 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'. 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 taking into account 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 taking into account 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. Similar to bonds, preferred stocks are rated by the major credit-rating companies. The rating for preference shares are 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.

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