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# Westpac Active Series

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**Statement of Investment Policy and Objectives**

29 October 2018



 **BT** Funds Management

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## Background

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This Statement of Investment Policy and Objectives (**SIPO**) sets out the investment governance and investment management framework, philosophy, strategies and objectives of the Westpac Active Series.

The SIPO is subject to change from time to time. Changes will be advised in the annual report for the Westpac Active Series. Where required by the trust deed or law, you will receive prior notification of any material change to an investment strategy or objective.

The most current version of this SIPO is available on the schemes and offers registers at [disclose-register.companiesoffice.govt.nz](https://disclose-register.companiesoffice.govt.nz) (**Disclose**).

Throughout the SIPO, we use "BTNZ", "we", "our" or "us" to refer to the Manager, BT Funds Management (NZ) Limited. Words defined in the Product Disclosure Statement (**PDS**) have the same meaning when used in the SIPO.

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## 1. Description

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The Westpac Active Series is a managed investment scheme for the purposes of the Financial Markets Conduct Act 2013 (**FMCA**).

The Westpac Active Series offers five investment funds (each a **fund** and together the **funds**):

- Westpac Active Income Strategies Trust (**Income Strategies Trust**)
- Westpac Active Conservative Trust (**Conservative Trust**)
- Westpac Active Moderate Trust (**Moderate Trust**)
- Westpac Active Balanced Trust (**Balanced Trust**)
- Westpac Active Growth Trust (**Growth Trust**)

BTNZ is the Manager of the Westpac Active Series and a licensed manager of registered schemes under the FMCA. Our contact details are available on Disclose.

We are responsible for the overall investment management of the funds including implementation of the investment strategies. Each fund has a specific investment strategy and objective and offers a different mix of investments.

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## 2. Investment Philosophy

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### Investment management style and strategy

Our investment philosophy is based on the broad principles of diversification and active management, backed by a research driven approach focused on identifying and managing risk and sourcing value added opportunities.

We believe markets are somewhat inefficient and portfolios can be positioned in a manner to take advantage of opportunities that occur, which is why our philosophy is generally to apply an active approach to asset allocation and investment selection. We also believe in a multi-manager

approach as a means of generating more consistent performance. In implementing that approach, we may invest in selected investment funds in order to access specialist investment managers, both locally and globally. Much of the selection of the funds' underlying investments is therefore carried out by external specialist investment managers (for information on their selection see section 7).

The current specialist funds and underlying specialist investment managers for each asset class can be found on our website at [westpac.co.nz/activeseries](http://westpac.co.nz/activeseries) and on Disclose.

### Investment management structure and governance

Investment management activities are managed by BTNZ Investment Solutions (**Investment Solutions**). The responsibilities of Investment Solutions include asset allocation (benchmark and tactical), specialist fund/manager selection and portfolio implementation.

We use specialist investment managers to manage the day to day security selection decisions. These specialist investment managers may be us or third parties selected by us. Further information can be found on page 10.

A BTNZ Investment Committee (**BTIC**) has been established to oversee the investment management activities and is responsible for reviewing investment performance, outcomes and processes. The BTIC meets quarterly or more frequently as required.

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## 3. Investment Objectives

The Westpac Active Series provides investors with a range of funds that can enable them to meet their short, medium and long term investment objectives in a way that is consistent with their risk profile. The investment objective for each fund is set out below.

### Income Strategies Trust

The fund aims to provide stable returns over the short to medium term. The fund invests in a diversified range of income assets. Volatility is expected to be the lowest of the funds.

### Conservative Trust

The fund aims to provide stable returns over the short to medium term. The fund invests primarily in income assets but also has an allocation to growth assets. Volatility is expected to be higher than the Income Strategies Trust but lower than the Moderate Trust.

### Moderate Trust

The fund aims to provide moderate returns over the medium term. The fund has a higher benchmark allocation to income assets than to growth assets. Volatility is expected to be higher than the Conservative Trust but lower than the Balanced Trust.

### Balanced Trust

The fund aims to provide medium returns over the medium to long term. The fund has a higher benchmark allocation to growth assets than to income assets. Volatility is expected to be higher than the Moderate Trust but lower than the Growth Trust.

## Growth Trust

The fund aims to provide higher returns over the long term. The fund invests primarily in growth assets but also has an allocation to income assets. Volatility is expected to be the highest of the funds.

## Long term performance objectives

The performance objective of each fund is to outperform (before fees, expenses and tax) the notional return of its benchmark index over the medium to long term.

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## 4. Investment Strategy

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### Benchmark asset allocation and ranges

The benchmark asset allocation is our intended long-term allocation to each asset class in the relevant fund. This may also be referred to as a target investment mix in this document (and in any PDS or fund update).

Actual asset allocations will vary from the benchmark asset allocations as market conditions change and if we pursue tactical investment opportunities or seek to protect asset values in volatile economic periods (we describe our tactical asset allocation policy in section 5).

We may alter the benchmarks and benchmark asset allocation ranges for the funds at any time – for more information see section 8.

Fund	Asset Class	Benchmark Asset Allocation	Benchmark Asset Allocation Range
Income Strategies Trust	Cash and cash equivalents	20%	5-70%
	New Zealand fixed interest	50%	30-95%
	International fixed interest	30%	0-60%
	<b>Total Income</b>	<b>100%</b>	<b>100%</b>
Conservative Trust	Cash and cash equivalents	23%	10-45%
	New Zealand fixed interest	24%	10-40%
	International fixed interest	33%	10-55%
	<b>Total Income</b>	<b>80%</b>	<b>65-100%</b>
	Australasian equities	7%	0-15%
	International equities	8%	0-15%
	Listed property	3%	0-10%
	Other (alternative investments) <sup>1</sup>	2%	0-10%
	<b>Total Growth</b>	<b>20%</b>	<b>0-35%</b>
	Cash and cash equivalents	10%	5-30%
Moderate Trust	New Zealand fixed interest	22%	10-35%
	International fixed interest	28%	10-50%
	<b>Total Income</b>	<b>60%</b>	<b>40-80%</b>
	Australasian equities	13%	5-25%
	International equities	17%	5-30%
	Listed property	5%	0-10%
	Other (alternative investments) <sup>1</sup>	5%	0-10%
	<b>Total Growth</b>	<b>40%</b>	<b>20-60%</b>

Balanced Trust	Cash and cash equivalents	5%	0-25%
	New Zealand fixed interest	15%	5-25%
	International fixed interest	20%	5-45%
	<b>Total Income</b>	<b>40%</b>	<b>20-60%</b>
	Australasian equities	20%	10-30%
	International equities	29%	15-45%
	Listed property	5%	0-10%
	Other (alternative investments) <sup>1</sup>	6%	0-10%
	<b>Total Growth</b>	<b>60%</b>	<b>40-80%</b>
	Cash and cash equivalents New Zealand fixed interest	4%	0-20%
Growth Trust	International fixed interest	7%	0-15%
	<b>Total Income</b>	<b>20%</b>	<b>5-35%</b>
	Australasian equities	25%	15-35%
	International equities	37%	20-55%
	Listed property	10%	5-15%
	Other (alternative investments) <sup>1</sup>	8%	0-12%
	<b>Total Growth</b>	<b>80%</b>	<b>65-95%</b>
	Cash and cash equivalents	4%	0-20%
	New Zealand fixed interest	7%	0-15%
	International fixed interest	9%	0-25%

<sup>1</sup> Alternative investments can include hedge funds and absolute return funds. Strategies like gearing and short selling may be used in some alternative investments.

While derivatives may be used in each asset class, the use of derivatives may be more extensive in the international fixed interest and other (alternative investments) asset classes.

In determining our benchmark asset allocation for each fund, we evaluate expected volatility based on a full investment cycle. As the risk indicator utilised in any PDS (or fund update) is calculated based on only 5 years of past performance data (which is not a full investment cycle), in some cases it might differ if calculated using a longer timeframe. If the relevant period had unusually low or unusually high volatility, the risk indicator may provide a less reliable indication of the potential future volatility of the fund.

## Benchmark Market Indices for the Asset Classes and Funds

Each asset class that the funds have exposure to has a benchmark market index against which BTNZ measures performance. The table below shows these indices for each asset class held by the funds (as at the date of this SIPO).

Asset Class	Benchmark Index
Cash and cash equivalents	S&P/NZX Bank Bills 90-Day Index
New Zealand fixed interest	S&P/NZX NZ Government Bond Index
International fixed interest	Bloomberg Barclays Global Corporate 1-10 year Index (100% hedged to NZD) Bloomberg Barclays Global Treasury 1-20 year Index
Australasian equities	S&P/NZX 50 Index Gross
International equities	MSCI All Country World ex-Australia Net Index (69% hedged on a before tax basis to NZD)
Listed property	S&P/NZX All Real Estate (Industry Group) Gross Index FTSE EPRA/NAREIT Developed Index (139% hedged on a before tax basis to NZD)
Other (alternative investments)	HFRX Global Hedge fund Index (100% hedged on a before tax basis to NZD) <sup>1</sup>

<sup>1</sup>See additional information on the peer group index on page 8.

The benchmark market index for each of the funds (excluding the Income Strategies Trust) is a composite benchmark. This is determined by using the benchmark index for each asset class and combining the index returns based on each fund's benchmark weighting to each asset class for the relevant period.

The benchmark market index for the Income Strategies Trust is the S&P/NZX Bank Bills 90-Day Index.

The benchmark indices may be updated or amended by BTNZ at any time.

More information on the relevant market indices can currently be found at the following web pages:

- S&P/NZX: [us.spindices.com/regional-exposure/asia-pacific/new-zealand](https://us.spindices.com/regional-exposure/asia-pacific/new-zealand)
- Bloomberg Barclays: [bloomberg.com/professional/product/indices/bloomberg-barclays-indices-fact-sheets-publications/](https://bloomberg.com/professional/product/indices/bloomberg-barclays-indices-fact-sheets-publications/)
- MSCI: [msci.com/indexes](https://msci.com/indexes)
- FTSE: [ftserussell.com](https://ftserussell.com)

The market indices and those web pages may change, or may be renamed or replaced from time to time without notice to you.

### Additional information on the benchmark index for the other (alternative investments) asset class

The other (alternative investments) asset class uses the HFRX Global Hedge Fund Index (100% hedged on a before-tax basis to NZD) (**peer group index**) as a benchmark index against which performance of the asset class is measured. The peer group index is based on the performance of a group of funds that invest in a particular sector, administered by Hedge Fund Research, Inc. (**HFR**). Established in 1992, HFR has been a provider of hedge fund data and analysis to investors, asset managers and service providers for over 20 years.

The peer group index is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies, including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. The strategies are asset weighted based on the distribution of assets in the hedge fund industry.

The peer group index is likely to be useful to investors as it provides a collective sector index for the types of investments that the asset class invests in.

More information about HFR, and the peer group index, can be found at [hedgefundresearch.com](https://hedgefundresearch.com).

### Permitted Investments

#### The Income Strategies Trust.

This fund invests in a diversified range of income investments in New Zealand and overseas. The fund may invest in cash and cash equivalents, New Zealand and international fixed interest directly, or through investments in managed funds.

#### The Conservative Trust, Moderate Trust, Balanced Trust and Growth Trust

Each fund invests in a diversified range of investments in New Zealand and overseas. Each fund may invest in cash and cash equivalents, New Zealand and international fixed interest, Australasian and international equities, listed property and other (alternative investments) directly, or through

investments in managed funds.

## General

Each fund may also invest in asset types which are not explicitly stated, if those assets fall within the parameters of permitted investments, appropriately reflect risk profiles and will contribute to the investment objectives of that fund.

Further information setting out the permitted investments for each asset class is in the Appendix.

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## 5. Investment Management Policies

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This section outlines the key policies that are relevant to achieving the investment objectives of the Westpac Active Series.

<b>Rebalancing policy</b>	<p><b>Process and timing</b></p> <p>Rebalancing is the process followed to ensure the actual asset allocation of each fund remains in line with the benchmark or any tactical asset allocation.</p> <p>Each fund's actual asset allocation is monitored against its benchmark asset allocation and any tactical asset allocation, generally each business day.</p> <p><b>What would trigger rebalancing?</b></p> <p>The threshold for rebalancing is generally +/- 1% from the benchmark or any tactical asset allocation. Rebalancing will generally occur each business day except where it is not considered appropriate to rebalance.</p> <p>Factors taken into consideration impacting the timing of rebalancing are the size of any deviations, volatility across financial markets (including currency markets), and the timing and size of expected cash flows into or out of a fund.</p>
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<b>Currency hedging policy</b>	<p><b>Objective of currency hedging</b> The objective of hedging currency is to reduce, eliminate or alter the effects of foreign exchange movements on assets not held in New Zealand dollars.</p> <p><b>Currency strategy</b> For most asset classes, exposure to foreign currencies is generally fully hedged back to the New Zealand dollar on a before tax basis to the extent considered reasonably practicable.</p> <p>The exceptions to this policy are listed below:</p> <p>Australasian equities: Exposure to foreign currencies may be actively managed, and will vary from time to time.</p> <p>International equities: Exposure to foreign currencies is generally 69% hedged back to the New Zealand dollar on a before tax basis but may be actively managed, and will vary from time to time.</p> <p><b>Implementation</b> Implementation of currency hedging is undertaken by BTNZ and/or the specialist managers we access. Hedging by BTNZ is implemented via forward foreign exchange contracts, options or swaps.</p> <p>Where foreign currency hedging is not actively managed, monitoring of the actual currency exposure against targets will generally occur daily.</p>
<b>Derivatives policy</b>	<p>Derivatives may be used by the funds as a risk management tool or as an alternative to investing in a physical asset. Derivatives may be held directly or indirectly and can provide an exposure to an underlying asset which is similar to what would be obtained by buying or selling that asset.</p> <p>It is our policy not to invest directly in derivatives to gear the funds (that is, to obtain greater exposure to markets than the net asset value of a fund). If for any reason a fund becomes geared through its direct investments, we will realign the fund as soon as practicable to remove any gearing. The managed funds that the funds invest into may, however, use gearing and have the ability to use derivatives more extensively.</p>
<b>Tactical asset allocation policy</b>	<p>Under this policy, we may adjust asset class allocations for a fund away from benchmark either to pursue tactical investment opportunities or to seek to protect asset values during volatile financial market periods. These variations are restricted by the benchmark asset allocation ranges for each fund to ensure that the overall risk/return position is adhered to.</p>
<b>Liquidity management policy</b>	<p>We monitor each fund's liquidity levels in order to meet obligations during normal market conditions. This includes having available funds to meet unitholder withdrawals, taxation payments, fees and expenses. BTNZ seeks to manage liquidity risk by generally investing in liquid markets and securities.</p>

<b>Conflicts of interest policy</b>	Westpac NZ Limited ( <b>Westpac NZ</b> ) has a conflicts of interest policy that applies to BTNZ, its directors and staff. The policy covers the systems and processes that BTNZ and Westpac NZ follow to identify, manage and mitigate conflicts.
<b>Risk management policy</b>	All investments have investment risk, which is the risk of negative or lower than expected returns on your investment. Investment Solutions regularly reviews risk management, including portfolio and manager risk. Our investment philosophy based on appropriate diversification and active management seeks to mitigate investment risk. For more information on the risks relevant to the funds see the 'Other Material Information' document on Disclose.
<b>Responsible investment policy</b>	Responsible investment, including environmental, social and governance considerations, is taken into account in the investment policies and procedures of the scheme as at the date of this SIPO.  You can obtain an explanation of the extent to which responsible investment is taken into account in the scheme's policies and procedures at <a href="http://westpac.co.nz/activeseries">westpac.co.nz/activeseries</a> . The Responsible Investment Policy document is also available on Disclose.

### Other relevant policies

The following policies are also relevant to the management of the Westpac Active Series and can be found in the 'BTNZ Proxy Voting, Trade Allocation and Execution policy' document on Disclose:

- Trade allocation and trade execution policies
- Voting policies & proxy policies.

## 6. Investment Performance Calculation and Monitoring

Performance for each fund is generally calculated each business day and a report is distributed to key BTNZ investment personnel. Additionally, weekly and monthly performance summary reports are prepared by Investment Solutions and are reviewed internally. Performance is monitored over monthly, quarterly, half-yearly and annual periods, as well as rolling two, three, five, seven and ten year periods (where applicable).

Performance is measured on an absolute return basis, as well as relative to each fund's benchmark returns, information ratios and ex-post tracking errors.

Investment Solutions regularly monitors the performance of the specialist investment managers that are accessed by the funds.

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## 7. Investment Strategy Review

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### Benchmark asset allocation review

The benchmark asset allocations are formally reviewed by Investment Solutions and the BTIC at least every two years. Additional reviews may be undertaken by Investment Solutions in response to matters such as material changes in the market (for example interest rate changes or structural changes). The BTNZ board maintains oversight of benchmark asset allocations.

### Manager selection

The specialist investment managers that we access are each required to offer a well-defined, robust investment philosophy and process. We regularly monitor the relevant funds and managers, reviewing matters such as investment performance, portfolio holdings, compliance, changes to key investment personnel and business factors. The managed funds that we access and the specialist investment managers may be changed at any time without notice to investors. The utilisation of a multi-manager strategy is intended to deliver more consistent risk adjusted performance to investors in the funds. Details of the managed funds we have chosen to invest into and the underlying specialist investment managers we access can be found in the 'Other Material Information – Underlying Investment Managers' document on Disclose.

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## 8. Compliance with and review of the SIPO

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Investment Solutions monitors compliance with the SIPO and the specific benchmark asset allocation rules for each fund on a day to day basis.

Investment Solutions and other BTNZ personnel may at any time propose amendments to the SIPO. These proposed amendments are reviewed by relevant stakeholders (including the Supervisor and the BTIC). BTNZ (on the recommendation of the BTIC) may amend the SIPO after giving prior written notice to the Supervisor.

The BTIC will review this SIPO annually (or more frequently if required).

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## Appendix: Permitted investments by asset class

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### Cash and cash equivalents

Securities that are short term or short term in nature and denominated in New Zealand dollars or have had all their cash flows hedged into New Zealand dollars, including, but not limited to:

- (a) Securities of or guaranteed by the New Zealand Government, supranational bodies or institutions not incorporated in New Zealand, New Zealand entities or Australian entities;
- (b) New Zealand dollar denominated securities and structured products where the underlying securities of the structured product comply with these permitted investments for a cash portfolio;
- (c) Asset backed securities (including mortgage backed securities), being securities where the capital value and income stream are backed by a specific pool of underlying assets;
- (d) Floating rate notes;
- (e) Derivatives (either exchange traded or over-the-counter) including but not limited to swaps, interest rate and forward rate contracts, forward foreign exchange contracts, options, and futures contracts, as appropriate in the management of a cash portfolio;
- (f) Units and other prescribed interests in unit trusts or other pooled funds that invest predominantly in the investments referred to above; and
- (g) Investments not covered by the above and approved by the Supervisor.

### New Zealand Fixed Interest

- (a) New Zealand fixed interest securities including deposits, debentures, bonds, notes, promissory notes, bank bills, certificates of deposit, floating rate notes, bills of exchange, redeemable preference shares and other securities whether consisting of a charge over property or not;
- (b) Asset backed securities (including mortgage backed securities), being securities where the capital value and income stream are backed by a specific pool of underlying assets;
- (c) Cash or cash equivalents at bank;

- (d) Derivatives (either exchange traded or over-the-counter) including but not limited to swaps, interest rate and forward rate contracts, forward foreign exchange contracts, options, and futures contracts, as appropriate in the management of a New Zealand Fixed Interest portfolio;
- (e) Units and other prescribed interests in unit trusts or other pooled funds that invest predominantly in New Zealand Fixed Interest; and
- (f) Investments not covered by the above and approved by the Supervisor.

### International Fixed Interest

- (a) International fixed interest securities including, but not limited to, sovereign debt securities, corporate debt securities, asset and mortgage backed securities and agency securities, high yield and emerging market debt securities;
- (b) Investments issued by any entity, wherever formed, denominated in any currency, which provide a rate of return (as a dividend, interest, distributions or otherwise) which is fixed or a variable rate of return determined by reference to a fixed or variable interest rate (subject in each case to limitations on the obligation to pay that rate of return under the terms of the investment) until maturity or (in the case of convertible investments) conversion;
- (c) Cash or cash equivalents at bank;
- (d) Derivatives (either exchange traded or over-the-counter) including but not limited to swaps, interest rate and forward rate contracts, forward foreign exchange contracts, options, and futures contracts, as appropriate in the management of an International Fixed Interest portfolio;
- (e) Units and other prescribed interests in unit trusts or pooled funds that invest predominantly in investments referred to above; and
- (f) Investments not covered by the above and approved by the Supervisor.

## Australasian Equities

- (a) Ordinary equities, preference equities, convertible and converting notes, warrants, options, rights and other securities in corporations which are listed on the NZX or on the Australian Securities Exchange (ASX), or which if not then listed on the NZX or ASX, are (in the reasonable opinion of BTNZ) expected to be listed on the NZX or ASX within one year (or such longer period as BTNZ determines is reasonable from time to time whether generally or in relation to any particular category or case) from the date of purchase or subscription;
- (b) Cash or cash equivalents at bank;
- (c) Derivatives (either exchange traded or over-the-counter) including but not limited to swaps, interest rate and forward rate contracts, forward foreign exchange contracts, options, and futures contracts, as appropriate in the management of an Australasian Equities portfolio;
- (d) Units and other prescribed interests in unit trusts or other pooled funds that invest predominantly in the investments referred to above; irrespective of whether the trust or fund is listed on the NZX or ASX; and
- (e) Investments not covered by the above and approved by the Supervisor.

## International Equities

- (a) Ordinary equities, preference equities, and other securities of an equity nature, whether or not listed on a stock exchange or traded on over-the-counter markets in any country and rights or securities which are convertible into equities;
- (b) Debt securities (including bonds and notes) convertible into or exchangeable for equities;
- (c) Derivatives (either exchange traded or over-the-counter) including but not limited to swaps, interest rate and forward rate contracts, forward foreign exchange contracts, options, and futures contracts as appropriate in the management of an International Equities portfolio;
- (d) Cash or cash equivalents at bank;
- (e) Units and other prescribed interests in unit trusts or pooled funds that invest predominantly in the investments referred to above; and
- (f) Investments not covered by the above and approved by the Supervisor.

## Listed Property

- (a) Units, ordinary equities, convertible notes, preference equities and other securities in property trusts and property companies whose predominant business is ownership and/or development of property, which are listed on a stock exchange or traded on over-the-counter markets in any country, or are (in the reasonable opinion of BTNZ) expected to be listed on a stock exchange within one year (or such longer period as BTNZ determines is reasonable from time to time whether generally or in relation to any particular category or case) from the date of purchase or subscription;
- (b) Cash or cash equivalents at bank;
- (c) Derivatives (either exchange traded or over-the-counter) including but not limited to swaps, interest rate and forward rate contracts, forward foreign exchange contracts, options, and futures contracts, as appropriate in the management of a Listed Property portfolio;
- (d) Units and other prescribed interests in unit trusts or other pooled funds that invest predominantly in the investments referred to above; and
- (e) Investments not covered by the above and approved by the Supervisor.

## Other (Alternative Investments)

- (a) Alternative investments such as:
  - i. Hedge funds and absolute return funds; and
  - ii. Private securities, which include but are not limited to venture capital;
- (b) Equities, bonds and commodities investments;
- (c) Cash or cash equivalents at bank;
- (d) Derivatives (either exchange traded or over-the-counter) including but not limited to swaps, interest rate and forward rate contracts, forward foreign exchange contracts, options, and futures contracts, as appropriate in the management of an Other (alternative investments) portfolio;
- (e) Units and other prescribed interests in unit trusts or pooled funds that invest predominantly in investments referred to above; and
- (f) Investments not covered by the above and approved by the Supervisor.

