

Consolidated Establishment Deed

Lifestages Australasian Equity Portfolio

Funds Administration New Zealand Limited

Trustees Executors Limited

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Deed dated 1 November 2016

Parties

- 1 **Funds Administration New Zealand Limited** at Invercargill (**'Manager'**)
- 2 **Trustees Executors Limited** at Wellington (**'Supervisor'**)

Background

- A The Manager and the Supervisor are parties to a consolidated master trust deed dated 21 September 2007 ('Master Trust Deed') which sets out the terms and conditions on which units in unit trusts managed by the Manager will be offered for subscription to the public.
- B The Manager and the Supervisor established the Lifestages Australasian Equity Portfolio ('Trust') by an Establishment Deed dated 1 October 2004 ('Original Establishment Deed').
- C Clauses 29.1b and f of the Master Trust Deed provide, amongst other things, that the Supervisor and the Manager may make any alteration, modification, variation or addition to the provisions of the Master Trust Deed or any Establishment Deed if, in the opinion of the Supervisor, the same is necessary or desirable for the more convenient, economical or advantageous working, management or administration of a Trust or for safeguarding or enhancing the interest of Investors, or if the same is necessary or desirable to reflect any changes to the law governing unit trusts, including the duties and powers of Supervisors and managers of unit trusts.
- D The Manager and the Supervisor have agreed to amend the Master Trust Deed by way of amendment and consolidation to:
- a reflect the requirements of the Financial Markets Conduct Act 2013 ('Act') and the Financial Markets Conduct Regulations 2014 ('Regulations') and allow the Trust to become registered as a managed investment scheme under the Act; and
 - b make a number of other amendments that the Supervisor and the Manager consider appropriate in connection with the application of the Act, including in connection with the Trust becoming registered as a managed investment scheme under the Act.
- E Clause 4.4 of the Master Trust Deed, once amended and consolidated as described in Recital D (the Master Trust Deed as amended referred to as the 'Deed'), requires any Establishment Deed to include the matters specified in the First Schedule of the Deed and to be in the form specified in the Third Schedule of the Deed.
- F Accordingly, the Manager and the Supervisor wish to amend the Original Establishment Deed by way of amendment and consolidation so that it will comply with clause 4.4 of the Deed.
- G The Supervisor is satisfied that the amendments recorded in this Establishment Deed are desirable for the more convenient, economical and advantageous working, management or administration of the Trust, and the parties are also satisfied that these amendments are desirable to reflect changes to the laws governing the Trust outlined above.

Covenants

In accordance with clause 29.1b and f of the Master Trust Deed, it is declared that immediately prior to the amendments to the Master Trust Deed contemplated at Recital D taking effect on 30 November 2016, the Original Establishment Deed is amended and consolidated by substituting its operative provisions with the provisions of this Establishment Deed so that from 30 November 2016 ('Effective Date') the Trust will be operated, administered, and governed in accordance with the provisions of this Establishment Deed and the Deed.

1 Interpretation

1.1 In this Establishment Deed all terms defined in the Deed which are not separately defined in this Establishment Deed shall have the same meanings where used in this Establishment Deed and, unless the context otherwise requires:

'Derivatives' means any agreement which establishes rights and obligations to some underlying instrument, investment, currency, product, index, right or service including agreements commonly known as:

- a swaps
- b forward rate agreements
- c future contracts
- d options
- e foreign exchange contracts and
- f ledger contracts;

'Distribution Date' means the first day of April, or if such day is not a Working Day, the immediately preceding Working Day or such other day as the Manager may determine and which has been notified to the Investors by not less than 90 days' written notice;

'Distribution Period' means a period commencing on the day following a Distribution Date and ending on the next (in time) Distribution Date;

'Exchange' means the New Zealand Stock Exchange, the Australian Securities Exchange, the London Stock Exchange, the New York Stock Exchange or any other exchange anywhere in the world which brings together buyers and sellers of Investments approved by the Manager;

'Mortgage' means any mortgage or charge secured over property, any share in any mortgage or charge secured over property including any contributory mortgage held by a trustee or nominee, any sub-mortgage or sub-charge secured over property and any other mortgage related security;

'Mortgage Backed Security' means any investment conferring or creating an interest, whether legal or equitable, in any Mortgage by virtue of any agreement, declaration of trust or otherwise; and

'Underwriting Contract' means any contract or other commitment to underwrite or sub-underwrite any project, contract or transaction of any type including the public or private issue of shares, debentures, notes and other rights or obligations.

- 1.2 Where FMA has published frameworks or methodologies that require certain matters to be calculated, determined, fixed, or carried out in a particular way, the Manager and the Supervisor (as applicable) shall comply with the requirements of those frameworks or methodologies. Any such frameworks or methodologies shall apply notwithstanding, and prevail over, anything to the contrary in this Establishment Deed or the Deed and the provisions of this Establishment Deed and the Deed shall be construed accordingly.

2 Status of the Trust

- 2.1 The ongoing operation and continuity of the Trust is hereby confirmed but, from the Effective Date, on the terms of this Establishment Deed.

3 Investment

- 3.1 The objective of the Trust is to achieve capital growth and returns over the long term.
- 3.2 The SIPO for the Trust shall be as agreed in writing by the Manager, in consultation with the Supervisor from time to time (subject to clause 18.3 of the Deed). The SIPO agreed from time to time will constitute a 'contrary intention' for the purposes of section 13D of the Trustee Act 1956. The current SIPO is set out in the Schedule to this Establishment Deed.
- 3.3 For the purposes of the Trust, 'Authorised Investments' means:
- a cash and term deposits with any bank or bank registered under the Reserve Bank of New Zealand Act 1989;
 - b any share, financial product (as defined in the Act) or like interest in any company, partnership, syndicate, or other Person formed or carrying on business in any part of the world;
 - c deposits with or loans to (with or without security) any Person;
 - d debentures, bonds, notes or similar obligations (with or without security) issued by any Person;
 - e bills of exchange or promissory notes made, drawn, or accepted by any Person;
 - f insurance and Underwriting Contracts;
 - g Mortgages and Mortgage Backed Securities;
 - h Derivatives;
 - i any right or option to acquire or take up any of the above; and
 - j any other investment described in the SIPO for the Trust from time to time.

4 Valuation of the Trust Fund

- 4.1 The Trust Fund shall be valued on each Unit Value Determination Day, however the Manager may, in its discretion, value the Trust Fund more frequently. The Manager may value the Trust Fund less frequently only in situations where, for reasons beyond the Manager's control, valuation is impossible on the Unit Value Determination Day in which case such valuation

shall be on the next Working Day on which valuation is possible. Each valuation will apply from the time of valuation until immediately prior to the time of the next valuation.

- 4.2 The Withdrawal Value of the Trust Fund will be calculated at 5pm on each Unit Value Determination Day.
- 4.3 Subject to clause 1.2, the Market Value of any Investment as at any Working Day means:
- a In respect of any Investment which is listed on an Exchange, the price quoted for the last sale of that Investment on that Exchange at or before 5pm on that Working Day or, if no such price is available, the price quoted for the last sale of that Investment on that Exchange within five Working Days ending with that Working Day. If there has been no sale by 5pm on that Working Day or within the five Working Days ending with that Working Day, or if the Manager reasonably considers that the quoted price as above does not represent the fair market value of the Investment, the value shall be the fair market value determined in such manner which accords with proper prudent principles of valuation or the advice of a valuer or other suitably qualified Person as the Manager may approve;
 - b In respect of any Investment in a trust, group investment fund, managed investment scheme, or similar undertaking or scheme, the net asset value of that Investment determined in accordance with the rules of the undertaking or scheme (unless the Manager reasonably considers that the value does not represent the fair market value of the Investment, in which case the value shall be the fair market value determined in such manner which accords with proper prudent principles of valuation or the advice of a valuer or other suitably qualified Person as the Manager may approve);
 - c In respect of all other Investments the value most recently agreed, or determined in the manner approved by the Manager, or failing approval, determined by a valuer or other suitably qualified Person approved by the Manager, each in accordance with proper prudent principles of valuation.

5 Management Fee

- 5.1 Unless the Manager and the Supervisor otherwise agree in writing, the Management Fee payable to the Manager shall be up to 5% per annum of the Gross Asset Value of the Trust. The Management Fee payable at any time shall be notified by the Manager to the Supervisor in writing.

6 Supervisor Fee

- 6.1 The Supervisor Fee payable to the Supervisor shall be up to 0.10% per annum of the Gross Asset Value of the Trust, with a minimum fee as agreed between the Supervisor and the Manager from time to time. The Supervisor Fee, and any minimum fee, payable at any time shall be notified by the Supervisor to the Manager in writing.

7 Minimum Holding

- 7.1 The Minimum Holding that must be invested and maintained by the Trust is \$50,000.00 or such other minimum value as the Manager may from time to time determine and disclose in the PDS and/or Register Entry for the Trust.

8 Minimum Investment

- 8.1 The Minimum Initial Amount that can be invested in the Trust by an Investor as a lump sum amount is \$500 or such other amount as is determined from time to time by the Manager and set out in the PDS and/or Register Entry for the Trust. The Minimum Initial Amount that can be invested in the Trust by an Investor as a regular contribution is \$500 initially and \$100 per month thereafter or such other amount as is determined from time to time by the Manager and set out in the PDS and/or Register Entry for the Trust. The minimum amount for any subsequent irregular lump sum investments in the Trust is \$500 or such other amount as is determined from time to time by the Manager provided that any such amount is set out in the PDS and/or Register Entry for the Trust. The Manager may accept applications for amounts less than the Minimum Initial Amount or any minimum amount for subsequent investments.
- 8.2 The Manager will comply with its obligations under clause 15 of the Deed in respect of all Investor transactions.

9 Minimum Number of Units

- 9.1 The Minimum Number of Units that must be maintained by an Investor in the Trust is 500 or such other number as the Manager may determine from time to time and set out in the PDS and/or Register Entry for the Trust.

10 Calculation of Entitlements

- 10.1 On each Distribution Date the Distributable Income of the Trust Fund during the Distribution Period ending on that Distribution Date which the Manager has declared pursuant to clause 17.1 of the Deed to be available for distribution shall be divided by the number of Units in the Trust on issue to determine the Entitlement per Unit which shall be distributed to Investors in proportion to the number of Units in the Trust held by them as set out in the Register as at the Distribution Date.
- 10.2 Following calculation of the Entitlement per Unit pursuant to clause 10.1, as soon as practicable (but no later than 60 days) after the Distribution Date the Entitlements shall be distributed to the Investors by payment in accordance with the direction of each of the Investors or failing direction, to the Investors and the Manager shall send to the Investors details of the Distributable Income distribution.

11 Reinvestment of Entitlements

- 11.1 Investors who have elected to reinvest their Entitlements (less any Taxation Amount as defined in clause 38 of the Deed which the Manager is obliged to deduct) will receive further Units pursuant to this clause 11 ('Reinvestment Election'). Each Investor so electing shall be deemed to have elected to have the amount of his or her Entitlements applied in subscription or purchase of further Units unless the Manager shall have received from that Investor not later than 30 days prior to the end of a Distribution Period a notice revoking that Investor's deemed election ('Revocation Notice') in respect of that Distribution Period and subsequent Distribution Periods.
- 11.2 The reinvestment of Entitlements under this clause is subject to the requirements specified in clause 10(1)(b) of Schedule 1 of the Act and Regulations 14 and 15 of Schedule 8 of the Regulations, and the Manager may only accept Reinvestment Elections where those requirements have been satisfied.

- 11.3 Any Revocation Notice shall be effective until it is revoked by notice in writing to the Manager provided that any such notice given within 30 days prior to the end of a Distribution Period shall not be effective until the next succeeding Distribution Period. The Manager, in consultation with the Supervisor, shall be entitled to impose such further conditions or requirements not inconsistent with this Establishment Deed as the Manager thinks fit in relation to the operation of the aforementioned election provisions.
- 11.4 The Manager shall not be required to satisfy an election by the provision of further Units where further Units are not available for issue or the Manager in its sole discretion decides there is good reason not to provide further Units.

12 Redemption of Units

- 12.1 The maximum period for redemption or purchase of Units subject to a Withdrawal Notice pursuant to clause 12.3 of the Deed is 25 Working Days.

13 Switching

- 13.1 Switching from this Trust to other Trusts constituted under the Deed will be available at the discretion of the Manager upon request by an Investor.
- 13.2 The maximum period for switching of Units pursuant to a Switching Notice pursuant to clause 13.5 of the Deed is 25 Working Days.
- 13.3 The minimum number of Units which may be the subject of a Switching Notice is 500 or such other number as the Manager may from time to time determine and set out in the PDS and/or Register Entry for the Trust.

14 Deed

- 14.1 Except as modified by the terms of this Establishment Deed, all the terms and conditions set out in the Deed shall apply to the Trust. Subject to the Act, in a case where there is conflict between the provisions of the Deed and this Establishment Deed as to the terms and conditions of the Trust, this Establishment Deed shall prevail.

Execution

Signed on behalf of
Funds Administration New Zealand Limited by:

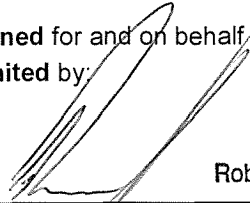


Director



Director

Signed for and on behalf of Trustees Executors Limited by:



Robert P Russell

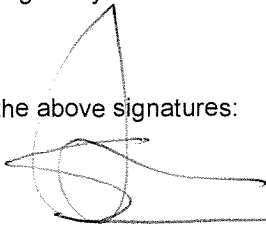
Authorised Signatory/Director



Stuart McLaren

Authorised Signatory/Director

Witness to the above signatures:



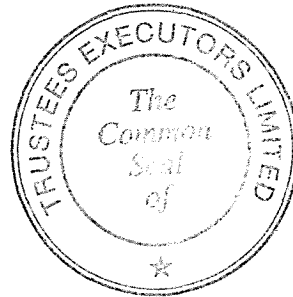
Witness Signature

Sean Roberts
Client Services Manager
Wellington

Name

Occupation

Address



CTS2016-123 (3/2)

Schedule 1 SIPO

STATEMENT OF INVESTMENT POLICY AND OBJECTIVES

FOR

Lifestages Australasian Equity Portfolio

**Manager:
Funds Administration New Zealand Limited (FANZ)**

**Supervisor:
Trustees Executors Limited**

Effective Date: 1 October 2015

Introduction and description of Fund

This statement of investment policy and objectives (“**SIPO**”) takes effect from 1 October 2015 and has been prepared for the Lifestages Australasian Equity Portfolio (the “**Fund**”). This SIPO replaces the investment guidelines for the Fund dated 4 August 2011.

As at the effective date of this SIPO, the Fund is a unit trust under the Unit Trusts Act 1960. It forms part of the Lifestages Unit Trusts, a suite of unit trusts managed by Funds Administration New Zealand Limited (referred to as “**we**”, “**our**”, and “**us**” in this SIPO). During 2016 we intend to register the Fund (as well as the other unit trusts within the Lifestages Unit Trusts) as a registered managed investment scheme under the Financial Markets Conduct Act 2013 (“**Act**”).

The Trustee of the Fund is Trustees Executors Limited (“**Supervisor**”).

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).

This SIPO sets out the following details with respect to the Fund:

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Our Investment Strategy for the Fund is contained in sections 3 to 7.

In the event of conflict between the provisions of this SIPO and the master trust deed (“**Trust Deed**”) or deed of establishment (“**Establishment Deed**”) for the Fund, the provisions of the Trust Deed or Establishment Deed (as applicable) will prevail.

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

1. Benchmarks and Investment Objectives

1.1. **Benchmarks:** The benchmarks for the Fund (“**Benchmarks**”) are:

- (a) **NZ Cash:** CSFB 90 Day Bank Bill Index
- (b) **New Zealand Equities:** NZSX 50 Index
- (c) **Australian Equities:** All Ordinaries Index.

1.2. **Investment objectives:**

The Fund’s investment objectives are:

- (a) To provide a Gross Return above the Official Cash Rate plus 4% on a rolling three-year basis i.e. before tax, fees, and other expenses.
- (b) To achieve capital growth and returns over the long-term.
- (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:** The Fund will invest primarily in a broad spread of New Zealand and Australian equities.

2. Investment Philosophy

2.1. We have developed the investment strategy for the Fund with reference to investors who are seeking a fund that aims to achieve capital growth and returns over the long-term through investment in New Zealand and Australian equities. The Fund invests in large Cap New Zealand and Australian Equities and is designed to provide investors with a core holdings of equities in these markets. 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.

2.2. The level of investment risk accepted will be in line with the overall risk profile of the leading indices of the New Zealand and Australian equity markets which will be reflected in the selection of securities within the Fund.

2.3. The Fund is designed to provide investors with a core risk exposure to Australasian equities. The Fund is designed to be consistent with our overall investment philosophy and approach to equity investing.

2.4. The Fund offers a multi manager approach to equity investing by providing access to two of Australasia’s most experienced investment teams.

3. Eligible Investments

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

3.1. 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 180 days at time of

purchase. Floating rate notes with a final maturity of more than 180 days are not authorised (irrespective of the frequency of rate setting).

- 3.2. Shares issued under New Zealand or Australian legal jurisdiction of companies listed and traded on a recognised stock exchange or other trading system.
- 3.3. Derivative contracts, where the underlying risk relates to the shares referred to in 3.2. 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 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

- 4.1. **Liquidity:** A minimum 5% of total assets must be held in Highly Liquid Securities. Highly Liquid Securities are on-call Cash, NZ Government securities with less than 5 years to maturity and Bank Reverse Convertible Debentures with less than 6 months to maturity.
- 4.2. **Ranges:** The benchmark asset allocation ranges outlined in Table 1 are not to be exceeded.
- 4.3. **Hedging:** The Fund's Australian dollar exposure is not hedged to the New Zealand dollar (although this can change in the future).
- 4.4. **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. 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 Fund are set out in its Establishment Deed dated 1 October 2004, 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 BlackRock Investment Management and Harbour Asset Management (New Zealand and Australian shares), and Southland Building Society (cash and fixed interest).

Set out below is a list of the specific investments, within that overall universe and the Eligible Investments set out in section 3, that the Fund may invest in from time to time, as well as the maximum exposures for each.

5.1. Exposure

Table 1. Benchmark asset allocations and ranges

	Benchmark asset allocation %	Usual range %
New Zealand Fixed Interest / Cash	5	2.5 – 10.0
New Zealand and Australian Shares	95	90 – 97.5

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.

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 and fixed interest with the Southland Building Society (also referred to as 'SBS Bank'). The Fund's cash investments are primarily made by way of direct investment in unsecured deposits (including redeemable shares) with SBS Bank. Cash investments may be made with other registered banks or financial institutions in some circumstances, including pending investment into other assets.

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 Fund may undertake the following other activities in carrying out its investment strategy:

6.1. **Securities Lending.** The Fund is authorised to lend up to 20% of its Gross Asset Value (as defined in the Trust Deed) to 'A' rated counterparties.

6.2. **New Issues.** Underwriting new issues of authorised debt and share issues.

6.3. **Borrowing.** The Fund is authorised to borrow up to 25% of its Gross Asset Value to invest in Authorised Investments, subject to the consent of the Supervisor.

7. Investment policies

7.1. Liquidity

Sufficient liquidity will be held to cover reasonably anticipated redemptions of units in the Fund and, if necessary, there is a general authorisation to borrow up to 5% of the market value of the Fund to cover settlement requirements. Such borrowing will be for a maximum period of 15 business days and in each instance the Supervisor will be advised. The Supervisor may at any time require that no further borrowing shall be undertaken in respect of the Fund.

7.2. Valuation

The purchase price of securities entering a portfolio 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 Fund. For exiting and new unit holders this will be the basis of their exit and issue unit price respectively.

7.3. Derivatives

Derivatives may not be used to leverage the Fund, or if the effect is to increase the portfolio risk beyond what it would have been had the 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 (up to a maximum of 10% either side of the market price).

7.4. Tax

The Fund 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 Act (where applicable). The key constraint is that such transactions must be entered into on ordinary commercial arm's-length terms. The Supervisor may also impose other terms on related party transactions from time to time.

7.6. Hedging

The purpose of Australian 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. As practicable, the foreign currency risk will not be removed by currency hedging.

8. Monitoring

- 8.1. We will review the performance of the Fund and the underlying investment managers quarterly. This review will compare the return of the Fund over the quarter against its peers (as nearly as these might be identified by agreement between us and the Supervisor), as well as each component of its portfolio against the relevant Benchmark.
- 8.2. The performance standard expected to be observed is that the 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 the 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 the 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. Once the Fund becomes a registered scheme under the Act, the most current version of the SIPO will be available on the Fund's managed investment schemes register entry with the Registrar of Financial Service Providers at <http://www.business.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 investment/underlying fund's assets under management over a rolling one year period (due to redemptions, not market movements) or total investment/underlying fund assets falling below \$25 million at any time
- A change in the investment/underlying fund's investment style, diversification and/or risk factor tilting
- An increase in the investment/underlying fund's fees
- The investment/underlying 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 investment/underlying fund
- An extraordinary event which we consider has impacted or may interfere with the investment/underlying 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 investment/underlying fund has breached its enhanced due diligence thresholds.

In general, if a n investment/underlying 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 investment/underlying fund management team
- Regression analysis and/or attribution analysis
- Peer review

- Reconfirmation, if the investment/underlying fund is still the preferred choice relative to other alternatives

If the investment/underlying 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 an investment/underlying fund cannot be determined by a simple formula. Selecting investment/underlying 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 investment/underlying fund mandate in the future will play a part in the decision to retain or replace an investment/underlying fund.

Once an investment/underlying fund has been reviewed in relation to a specific threshold breach, then, assuming the investment/underlying 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 investment/underlying 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

FANZ undertakes 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 Fund.

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.

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 the adviser 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 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 unit holders of the proposed change. The decision as to whether or not a change is material rests with the Supervisor.

Each updated or amended SIPO will contain an effective date. Once the Fund becomes a registered scheme, 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 SIPO:

“**Benchmark**” means the index against which we measure the performance of the Fund. As at the date of this SIPO, they are:

- (a) **NZ Cash:** CSFB 90 Day Bank Bill Index
- (b) **New Zealand Equities:** NZSX 50 Index
- (c) **Australian Equities:** All Ordinaries Index.

“**Benchmark asset allocation**” means the Fund’s long-term average expected weighting for each type of asset (i.e. the proportion of the 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.

“**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 / Cash**” means deposits guaranteed by entities whose short term rating is at least A1 with a maturity of no more than 180 days at the time of purchase. Floating rate notes with a final maturity of more than 180 days are not authorised (irrespective of the frequency of rate setting).

“**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 Fund. As at the date of this SIPO, the underlying managers are named in section 5.

Consolidated Establishment Deed

Lifestages Corporate Bond Portfolio

Funds Administration New Zealand Limited

Trustees Executors Limited

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Deed dated 1 November 2016

Parties

- 1 **Funds Administration New Zealand Limited** at Invercargill ('Manager')
- 2 **Trustees Executors Limited** at Wellington ('Supervisor')

Background

- A The Manager and the Supervisor are parties to a consolidated master trust Deed dated 21 September 2007 ('Master Trust Deed') which sets out the terms and conditions on which units in unit trusts managed by the Manager will be offered for subscription to the public.
- B The Manager and the Supervisor established the Lifestages Corporate Bond Portfolio ('Trust') by an Establishment Deed dated 1 April 2002, as subsequently amended on 29 September 2011 ('Original Establishment Deed').
- C Clauses 29.1b and f of the Master Trust Deed provide, amongst other things, that the Supervisor and the Manager may make any alteration, modification, variation or addition to the provisions of the Master Trust Deed or any Establishment Deed if, in the opinion of the Supervisor, the same is necessary or desirable for the more convenient, economical or advantageous working, management or administration of a Trust or for safeguarding or enhancing the interest of Investors, or if the same is necessary or desirable to reflect any changes to the law governing unit trusts, including the duties and powers of Supervisors and managers of unit trusts.
- D The Manager and the Supervisor have agreed to amend the Master Trust Deed by way of amendment and consolidation to:
 - a reflect the requirements of the Financial Markets Conduct Act 2013 ('Act') and the Financial Markets Conduct Regulations 2014 ('Regulations') and allow the Trust to become registered as a managed investment scheme under the Act; and
 - b make a number of other amendments that the Supervisor and the Manager consider appropriate in connection with the application of the Act, including in connection with the Trust becoming registered as a managed investment scheme under the Act.
- E Clause 4.4 of the Master Trust Deed, once amended and consolidated as described in Recital D (the Master Trust Deed as amended referred to as the 'Deed'), requires any Establishment Deed to include the matters specified in the First Schedule of the Deed and to be in the form specified in the Third Schedule of the Deed.
- F Accordingly, the Manager and the Supervisor wish to amend the Original Establishment Deed by way of amendment and consolidation so that it will comply with clause 4.4 of the Deed.
- G The Supervisor is satisfied that the amendments recorded in this Establishment Deed are desirable for the more convenient, economical and advantageous working, management or administration of the Trust, and the parties are also satisfied that these amendments are desirable to reflect changes to the laws governing the Trust outlined above.

Covenants

In accordance with clause 29.1b and f of the Master Trust Deed, it is declared that immediately prior to the amendments to the Master Trust Deed contemplated at Recital D taking effect on 30 November 2016, the Original Establishment Deed is amended and consolidated by substituting its operative provisions with the provisions of this Establishment Deed so that from 30 November 2016 ('Effective Date') the Trust will be operated, administered, and governed in accordance with the provisions of this Establishment Deed and the Deed.

1 Interpretation

In this Establishment Deed all terms defined in the Deed which are not separately defined in this Establishment Deed shall have the same meanings where used in this Establishment Deed and, unless the context otherwise requires:

'**Derivatives**' means any agreement which establishes rights and obligations to some underlying instrument, investment, currency, product, index, right or service including agreements commonly known as:

- a swaps
- b forward rate agreements
- c future contracts
- d options
- e foreign exchange contracts, and
- f ledger contracts;

'**Distribution Date**' means 31 March, 30 June, 30 September or 31 December, or if any such day is not a Working Day, the immediately preceding Working Day or such other day as the Manager may determine and which has been notified to the Investors by not less than 90 days' written notice;

'**Distribution Period**' means a period commencing on the day following a Distribution Date and ending on the next (in time) Distribution Date;

'**Exchange**' means the New Zealand Stock Exchange, the Australian Securities Exchange, the London Stock Exchange, the New York Stock Exchange or any other exchange anywhere in the world which brings together buyers and sellers of Investments approved by the Manager;

'**Mortgage**' means any mortgage or charge secured over property, any share in any mortgage or charge secured over property including any contributory mortgage held by a trustee or nominee, any sub-mortgage or sub-charge secured over property and any other mortgage related security;

'**Mortgage Backed Security**' means any investment conferring or creating an interest, whether legal or equitable, in any Mortgage by virtue of any agreement, declaration of trust or otherwise; and

'Underwriting Contract' means any contract or other commitment to underwrite or sub-underwrite any project, contract or transaction of any type including the public or private issue of shares, debentures, notes and other rights or obligations.

- 1.2 Where FMA has published frameworks or methodologies that require certain matters to be calculated, determined, fixed, or carried out in a particular way, the Manager and the Supervisor (as applicable) shall comply with the requirements of those frameworks or methodologies. Any such frameworks or methodologies shall apply notwithstanding, and prevail over, anything to the contrary in this Establishment Deed or the Deed and the provisions of this Establishment Deed and the Deed shall be construed accordingly.

2 Status of the Trust

- 2.1 The ongoing operation and continuity of the Trust is hereby confirmed but, from the Effective Date, on the terms of this Establishment Deed.

3 Investment

- 3.1 The objective of the Trust is to achieve capital stability and steady growth by investing in a portfolio of New Zealand and International Fixed Interest investments.
- 3.2 The SIPO for the Trust shall be as agreed in writing by the Manager, in consultation with the Supervisor from time to time (subject to clause 18.3 of the Deed). The SIPO agreed from time to time will constitute a 'contrary intention' for the purposes of section 13D of the Trustee Act 1956. The current SIPO is set out in the Schedule to this Establishment Deed.
- 3.3 For the purposes of the Trust, 'Authorised Investments' means:
- a cash and term deposits with any bank or bank registered under the Reserve Bank of New Zealand Act 1989;
 - b any share, financial product (as defined in the Act) or like interest in any company, partnership, syndicate, or other Person formed or carrying on business in any part of the world;
 - c deposits with or loans to (with or without security) any Person;
 - d debentures, bonds, notes or similar obligations (with or without security) issued by any Person;
 - e bills of exchange or promissory notes made, drawn, or accepted by any Person;
 - f insurance and Underwriting Contracts;
 - g Mortgages and Mortgage Backed Securities;
 - h Derivatives;
 - i any right or option to acquire or take up any of the above; and
 - j any other investment described in the SIPO for the Trust from time to time.

4 Valuation of the Trust Fund

- 4.1 The Trust Fund shall be valued on each Unit Value Determination Day, however the Manager may, in its discretion, value the Trust Fund more frequently. The Manager may value the Trust Fund less frequently only in situations where, for reasons beyond the Manager's control, valuation is impossible on the Unit Value Determination Day in which case such valuation shall be on the next Working Day on which valuation is possible. Each valuation will apply from the time of valuation until immediately prior to the time of the next valuation.
- 4.2 The Withdrawal Value of the Trust Fund will be calculated at 5pm on each Unit Value Determination Day.
- 4.3 Subject to clause 1.2, the Market Value of any Investment as at any Working Day means:
- a In respect of any Investment which is listed on an Exchange, the price quoted for the last sale of that Investment on that Exchange at or before 5pm on that Working Day or, if no such price is available, the price quoted for the last sale of that Investment on that Exchange within five Working Days ending with that Working Day. If there has been no sale by 5pm on that Working Day or within the five Working Days ending with that Working Day, or if the Manager reasonably considers that the quoted price as above does not represent the fair market value of the Investment, the value shall be the fair market value determined in such manner which accords with proper prudent principles of valuation or the advice of a valuer or other suitably qualified Person as the Manager may approve;
 - b In respect of any Investment in a trust, group investment fund, managed investment scheme, or similar undertaking or scheme, the net asset value of that Investment determined in accordance with the rules of the undertaking or scheme (unless the Manager reasonably considers that the value does not represent the fair market value of the Investment, in which case the value shall be the fair market value determined in such manner which accords with proper prudent principles of valuation or the advice of a valuer or other suitably qualified Person as the Manager may approve);
 - c In respect of all other Investments the value most recently agreed, or determined in the manner approved by the Manager, or failing approval, determined by a valuer or other suitably qualified Person approved by the Manager, each in accordance with proper prudent principles of valuation.

5 Management Fee

- 5.1 Unless the Manager and the Supervisor otherwise agree in writing the Management Fee payable to the Manager shall be up to 5% per annum of the Gross Asset Value of the Trust. The Management Fee payable at any time shall be notified by the Manager to the Supervisor in writing.

6 Supervisor Fee

- 6.1 The Supervisor Fee payable to the Supervisor shall be up to 0.10% per annum of the Gross Asset Value of the Trust, with a minimum fee as agreed between the Supervisor and the Manager from time to time. The Supervisor Fee, and any minimum fee, payable at any time shall be notified by the Supervisor to the Manager in writing.

7 Minimum Holding

- 7.1 The Minimum Holding that must be invested and maintained by the Trust is \$50,000.00 or such other minimum value as the Manager may from time to time determine and disclose in the PDS and/or Register Entry for the Trust.

8 Minimum Investment

- 8.1 The Minimum Initial Amount that can be invested in the Trust by an Investor as a lump sum amount is \$500 or such other amount as is determined from time to time by the Manager and set out in the PDS and/or Register Entry for the Trust. The Minimum Initial Amount that can be invested in the Trust by an Investor as a regular contribution is \$500 initially and \$100 per month thereafter or such other amount as is determined from time to time by the Manager and set out in the PDS and/or Register Entry for the Trust. The minimum amount for any subsequent irregular lump sum investments in the Trust is \$500 or such other amount as is determined from time to time by the Manager provided that any such amount is set out in the PDS and/or Register Entry for the Trust. The Manager may accept applications for amounts less than the Minimum Initial Amount or any minimum amount for subsequent investments.
- 8.2 The Manager will comply with its obligations under clause 15 of the Deed in respect of all Investor transactions.

9 Minimum Number of Units

- 9.1 The Minimum Number of Units that must be maintained by an Investor in the Trust is 500 or such other number as the Manager may determine from time to time and set out in the PDS and/or Register Entry for the Trust.

10 Calculation of Entitlements

- 10.1 On each Distribution Date the Distributable Income of the Trust Fund during the Distribution Period ending on that Distribution Date which the Manager has declared pursuant to clause 17.1 of the Deed to be available for distribution shall be divided by the number of Units in the Trust on issue to determine the Entitlement per Unit which shall be distributed to Investors in proportion to the number of Units in the Trust held by them as set out in the Register as at the Distribution Date.
- 10.2 Following calculation of the Entitlement per Unit pursuant to clause 10.1, as soon as practicable (but no later than 60 days) after the Distribution Date the Entitlements shall be distributed to the Investors by payment in accordance with the direction of each of the Investors or failing direction, to the Investors and the Manager shall send to the Investors details of the Distributable Income distribution.

11 Reinvestment of Entitlements

- 11.1 Investors who have elected to reinvest their Entitlements (less any Taxation Amount as defined in clause 38 of the Deed which the Manager is obliged to deduct) will receive further Units pursuant to this clause 11 ('Reinvestment Election'). Each Investor so electing shall be deemed to have elected to have the amount of his or her Entitlements applied in subscription or purchase of further Units unless the Manager shall have received from that Investor not later than 30 days prior to the end of a Distribution Period a notice revoking that Investor's

deemed election ('Revocation Notice') in respect of that Distribution Period and subsequent Distribution Periods.

- 11.2 The reinvestment of Entitlements under this clause is subject to the requirements specified in clause 10(1)(b) of Schedule 1 of the Act and Regulations 14 and 15 of Schedule 8 of the Regulations, and the Manager may only accept Reinvestment Elections where those requirements have been satisfied.
- 11.3 Any Revocation Notice shall be effective until it is revoked by notice in writing to the Manager provided that any such notice given within 30 days prior to the end of a Distribution Period shall not be effective until the next succeeding Distribution Period. The Manager, in consultation with the Supervisor, shall be entitled to impose such further conditions or requirements not inconsistent with this Establishment Deed as the Manager thinks fit in relation to the operation of the aforementioned election provisions.
- 11.4 The Manager shall not be required to satisfy an election by the provision of further Units where further Units are not available for issue or the Manager in its sole discretion decides there is good reason not to provide further Units.

12 Redemption of Units

- 12.1 The maximum period for redemption or purchase of Units subject to a Withdrawal Notice pursuant to clause 12.3 of the Deed is 25 Working Days.

13 Switching

- 13.1 Switching from this Trust to other Trusts constituted under the Deed will be available at the discretion of the Manager upon request by an Investor.
- 13.2 The maximum period for switching of Units pursuant to a Switching Notice pursuant to clause 13.5 of the Deed is 25 Working Days.
- 13.3 The minimum number of Units which may be the subject of a Switching Notice is 500 or such other number as the Manager may from time to time determine and set out in the PDS and/or Register Entry for the Trust.

14 Deed

- 14.1 Except as modified by the terms of this Establishment Deed, all the terms and conditions set out in the Deed shall apply to the Trust. Subject to the Act, in a case where there is conflict between the provisions of the Deed and this Establishment Deed as to the terms and conditions of the Trust, this Establishment Deed shall prevail.

Execution

Signed on behalf of
Funds Administration New Zealand Limited by:

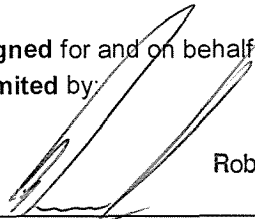


Director



Director

Signed for and on behalf of Trustees Executors
Limited by:



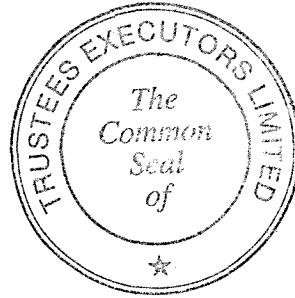
Robert P Russell

Authorised Signatory/Director



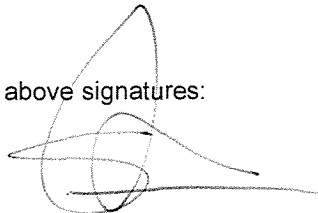
Stuart McLaren

Authorised Signatory/Director



CTS2016-125(2/2)

Witness to the above signatures:



Witness Signature

Sean Roberts
Client Services Manager
Wellington

Name

Occupation

Address

Schedule 1 SIPO

STATEMENT OF INVESTMENT POLICY AND OBJECTIVES

FOR

Lifestages Corporate Bond Portfolio

**Manager:
Funds Administration New Zealand Limited (FANZ)**

**Supervisor:
Trustees Executors Limited**

Effective Date: 1 October 2015

Introduction and description of Fund

This statement of investment policy and objectives (“**SIPO**”) takes effect from 1 October 2015 and has been prepared for the Lifestages Corporate Bond Portfolio (the “**Fund**”). This SIPO replaces the investment guidelines for the Fund dated 1 November 2011, as amended on 1 August 2014.

As at the effective date of this SIPO, the Fund is a unit trust under the Unit Trusts Act 1960. It forms part of the Lifestages Unit Trusts, a suite of unit trusts managed by Funds Administration New Zealand Limited (referred to as “**we**”, “**our**”, and “**us**” in this SIPO). During 2016 we intend to register the Fund (as well as the other unit trusts within the Lifestages Unit Trusts) as a registered managed investment scheme under the Financial Markets Conduct Act 2013 (“**Act**”).

The Trustee of the Fund is Trustees Executors Limited (“**Supervisor**”).

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).

This SIPO sets out the following details with respect to the Fund:

1.	Investment Objectives	4
2.	Investment Philosophy	4
3.	Eligible Investments	4
4.	Investment Performance and Benchmark	Error! Bookmark not defined.
5.	Investment Guidelines	5
6.	Authorised Investments	6
7.	Authorised Activities	8
8.	Investment policies	8
9.	Monitoring	9
10.	Review and update of SIPO	10
11.	Useful definitions	14

Our Investment Strategy for the Fund is contained in sections 3 to 7.

In the event of conflict between the provisions of this SIPO and the master trust deed (“**Trust Deed**”) or deed of establishment (“**Establishment Deed**”) for the Fund, the provisions of the Trust Deed (or Establishment Deed, as applicable) will prevail.

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

1. Benchmark and Investment Objectives

- 1.1. **Benchmark:** The benchmark for the Fund is the 90 Day Bank Bill Index (“Benchmark”).
- 1.2. **Investment objectives:**
The Fund’s investment objectives are:
 - (a) To provide a Gross Return above the return of the Benchmark on a rolling three-year basis i.e. before tax, fees, and other expenses.
 - (b) To produce a competitive investment return relative to the relevant peer group (see ‘Monitoring’ below).
- 1.3. **General description of investments:** The Fund will invest in 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.

2. Investment Philosophy

- 2.1. We have developed the investment strategy for the Fund with reference to investors who are seeking a fund that aims to capture the yield premium attached to NZD-denominated government stock, corporate bonds and other Non-Government fixed or floating rate securities. 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.
- 2.2. Duration management and tactical positioning will only be used to the extent that it results in the Fund’s duration being plus or minus two years either side of the Benchmark index position.
- 2.3. The level of investment risk accepted will be low to medium which will be reflected in the selection of securities within the Fund.
- 2.4. The Fund is designed to provide investors with a core and low risk exposure to New Zealand Fixed interest debt securities. The Fund is designed to be consistent with our overall investment philosophy and approach to low risk fixed interest investing. This approach aims to provide our clients with “no surprises” in terms of their fixed interest investments.
- 2.5. The Fund offers a multi manager approach to fixed interest investing by providing access to two of New Zealand’s most experienced fixed interest investment teams.

3. Eligible Investments

As at the date of this SIPO, the Fund (through its underlying managers) will only invest in the following cash, deposit or other security types denominated in New Zealand Dollars:

- 3.1. On-call cash or bank deposits at a 'registered bank' under the Reserve Bank of New Zealand Act 1989 with a minimum long-term credit rating of BBB- from the Fitch ratings agency.
- 3.2. 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 from the Standard & Poor's ratings agency.
- 3.3. 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- from the Standard & Poor's ratings agency.
- 3.4. Securities that qualify as Tier 1 capital for registered banks in New Zealand with a long-term credit rating of not less than BBB- from the Standard & Poor's ratings agency.
- 3.5. Unrated securities provided the underlying manager, in their judgement, determines that the issue would have a rating of not less than BBB- from Standard & Poor's rating agency, if a rating was sought.
- 3.6. Derivative contracts, where the underlying risk relates to New Zealand interest rates or credit risk. Eligible derivative contracts include interest rate futures, options, and interest rate swaps. Options, swaps and credit default swaps must be entered with a counterparty with a minimum long-term credit rating of AA- (Standard & Poor's rating) 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 Fund's investment portfolio.

Investment in collateralised debt obligations, collateralised loan obligations or credit default swaps are not permitted.

The eligible investments may change in the future (see section 5 below).

4. Investment Guidelines

- 4.1. **Duration:** The duration of the Fund is to be kept within two years of the duration of the Benchmark. The duration implications of derivative products are to be considered included when calculating the Fund's weighted average duration.
- 4.2. **Yield Curve:** 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 minimum 5% of total assets must be held in Highly Liquid Securities. Highly Liquid Securities are on-call Cash, NZ Government securities with less than 5 years to maturity and Bank Reverse Convertible Debentures with less than 6 months

to maturity.

- 4.4. **Credit Exposures:** The credit exposures outlined in Table 1 are not to be exceeded.
- 4.5. **Unrated security assessments:** are to be reviewed at least six monthly.
- 4.6. **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. 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 Fund are set out in its Establishment Deed dated 1 April 2002, as amended from time to time. The Fund's New Zealand fixed interest investments may be made by direct investment or by investments in underlying funds. The underlying managers currently accessed are Harbour Asset Management Limited, Southland Building Society, and from 1 October 2015, AMP Capital Investors (New Zealand) Limited.

Set out below is a list of the specific investments, within that overall universe and the Eligible Investments set out in section 3, that the Fund may invest in from time to time, as well as the maximum credit exposures for each.

5.1. Credit Exposure

Table 1. Credit Exposure Limits

	<i>Max % of Total Fund with Single Issuer</i>	<i>Max% of total Fund with Class of Issue</i>	<i>Credit Rating</i>
New Zealand Government Bonds	100%	100%	
Investment Grade Corporate Bonds (AAA to A-)	10%	60%	A- or better, A-2 or better Commercial Paper
Investment Grade Corporate Bonds (BBB+ to BBB-)	3%	15% (including unrated bonds that are not Local Authority)	BBB-, BBB and BBB+, A-3 Commercial Paper
NZ Local Government Funding Authority (LGFA)	50%	50%	
Other Local Authority	10%	30%	if not rated, issue

	<i>Max % of Total Fund with Single Issuer</i>	<i>Max% of total Fund with Class of Issue</i>	<i>Credit Rating</i>
Stock			must be secured by rates
Registered Banks, including subordinate securities issued by bank-owned entities	12%	60%	A- or better
State Owned Enterprise Bonds	10%	40%	BBB+ or better
Unrated Corporate Bonds (Excluding Local Authority Stock)	3%	5%	Unrated with IC approval
Subordinate Debt, including Capital Notes and Bank Tier1 and Tier 2 securities, including Perpetual Debt	3%	20%	
Perpetual Debt	2.5%	10%	

There are no specific benchmark asset allocations or minimum exposures for any of the specified types of investment, but the overall neutral benchmark asset allocation for this component of the Fund is 95%, with a maximum of 99% and a minimum of 87.5%.

- 5.2. **Managed Funds.** Investment in managed funds that meet or exceed in part or in full the objectives and risk characteristics of the Fund, with the relevant credit exposure limits flowed through to any managed fund exposure.
- 5.3. **Income Strategies.** Any other income strategies approved by the Supervisor which we consider fall within the parameters of the Fund's Authorised Investments (as set out in the Establishment Deed), appropriately reflect the risk profile of the Fund, and will contribute towards achieving its investment objectives. There are no limits on the extent to which the Fund's investment exposure may be obtained through Income Strategies.

- 5.4. **Cash.** Cash with the Southland Building Society (also referred to as 'SBS Bank') and is limited to a maximum of 12.5% of the Fund's portfolio, a neutral benchmark of 5% of the portfolio and a minimum of 1% of the portfolio. The Fund's cash investments are primarily made by way of direct investment or by investments in unsecured deposits (including redeemable shares) with Southland Building Society. Cash investments may be made with other registered banks or financial institutions in some circumstances, including pending investment into other assets.

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 Fund may undertake the following other activities in carrying out its investment strategy:

- 6.1. **Securities Lending.** The Fund is authorised to lend up to 20% of its Gross Asset Value (as defined in the Trust Deed) to 'A' rated counterparties.
- 6.2. **New Issues.** Underwriting new issues of authorised debt and share issues.
- 6.3. **Borrowing.** The Fund is authorised to borrow up to 25% of its Gross Asset Value to invest in Authorised Investments, subject to the consent of the Supervisor.

7. Investment policies

7.1. Liquidity

Sufficient liquidity will be held to cover reasonably anticipated redemptions of units in the Fund and, if necessary, there is a general authorisation to borrow up to 5% of the market value of the Fund to cover settlement requirements. Such borrowing will be for a maximum period of 15 business days and in each instance the Supervisor will be advised. The Supervisor may at any time require that no further borrowing shall be undertaken in respect of the Fund.

7.2. Valuation

The purchase price of securities entering a portfolio 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 Fund. For exiting and new unit holders this will be the basis of their exit and issue unit price respectively.

7.3. Derivatives

Derivatives may not be used to leverage the Fund, or if the effect is to increase the portfolio risk beyond what it would have been had the 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

The Fund will be taxed as a Portfolio Investment Entity and as such will be taxed in line with the relevant legislation.

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 Act (where applicable). The key constraint is that such transactions must be entered into on ordinary commercial arm's-length terms. The Supervisor may also impose other terms on related party transactions from time to time.

8. Monitoring

- 8.1. We will review the performance of the Fund and the underlying investment managers quarterly. This review will compare the return of the Fund over the quarter against its peers (as nearly as these might be identified by agreement between us and the Supervisor), as well as each component of its portfolio against the relevant index.
- 8.2. The performance standard expected to be observed is that the 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 the 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 the 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. Once the Fund becomes a registered scheme under the Act, the most current version of the SIPO will be available on the Fund's managed investment schemes register entry with the Registrar of Financial Service Providers at <http://www.business.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 investment/underlying fund's assets under management over a rolling one year period (due to redemptions, not market movements) or total investment/underlying fund assets falling below \$25 million at any time
- A change in the investment/underlying fund's investment style, diversification and/or risk factor tilting
- An increase in the investment/underlying fund's fees
- The investment/underlying 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 investment/underlying fund
- An extraordinary event which we consider has impacted or may interfere with the investment/underlying manager/fund's ability to act in the future within the established investment/underlying fund mandate

Each quarter, we will review all recommended investments to ensure no investment/underlying fund has breached its enhanced due diligence thresholds.

In general, if an investment/underlying 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 investment/underlying fund management team
- Regression analysis and/or attribution analysis
- Peer review
- Reconfirmation, if the investment/underlying fund is still the preferred choice relative to other alternatives

If the investment/underlying 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 an investment/underlying fund cannot be determined by a simple formula. Selecting investment/underlying 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 investment/underlying fund mandate in the future will play a part in the decision to retain or replace an investment/underlying fund.

Once an investment/underlying fund has been reviewed in relation to a specific threshold breach, then, assuming the investment/underlying 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 investment/underlying 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

FANZ undertakes a review of the investment strategy, the appropriateness of the credit exposure limits, 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 Fund.

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.

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 the adviser 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 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 unit holders of the proposed change. The decision as to whether or not a change is material rests with the Supervisor.

Each updated or amended SIPO will contain an effective date. Once the Fund becomes a registered scheme, 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 SIPO:

“Benchmark” means the index against which we measure the performance of the Fund, and as at the date of this SIPO is the 90 Day Bank Bill Index.

“Benchmark asset allocation” means the Fund’s long-term average expected weighting for each type of asset (i.e. the proportion of the 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” means deposits with the Southland Building Society with a maturity of no more than 180 days at the time of purchase. Floating rate notes with a final maturity of more than 180 days are not authorised (irrespective of the frequency of rate setting).

“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.

“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 Fund. As at the date of this SIPO, the underlying managers are named in section 5.

Consolidated Establishment Deed

Lifestages World Bond Portfolio

Funds Administration New Zealand Limited

Trustees Executors Limited

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Deed dated 1 November 2016

Parties

- 1 **Funds Administration New Zealand Limited** at Invercargill ('Manager')
- 2 **Trustees Executors Limited** at Wellington ('Supervisor')

Background

- A The Manager and the Supervisor are parties to a consolidated master trust deed dated 21 September 2007 ('Master Trust Deed') which sets out the terms and conditions on which units in unit trusts managed by the Manager will be offered for subscription to the public.
- B The Manager and the Supervisor established the Lifestages World Bond Portfolio ('Trust') by an Establishment Deed dated 1 March 2011 ('Original Establishment Deed').
- C Clauses 29.1b and f of the Master Trust Deed provide, amongst other things, that the Supervisor and the Manager may make any alteration, modification, variation or addition to the provisions of the Master Trust Deed or any Establishment Deed if, in the opinion of the Supervisor, the same is necessary or desirable for the more convenient, economical or advantageous working, management or administration of a Trust or for safeguarding or enhancing the interest of Investors, or if the same is necessary or desirable to reflect any changes to the law governing unit trusts, including the duties and powers of Supervisors and managers of unit trusts.
- D The Manager and the Supervisor have agreed to amend the Master Trust Deed by way of amendment and consolidation to:
- a reflect the requirements of the Financial Markets Conduct Act 2013 ('Act') and the Financial Markets Conduct Regulations 2014 ('Regulations') and allow the Trust to become registered as a managed investment scheme under the Act; and
 - b make a number of other amendments that the Supervisor and the Manager consider appropriate in connection with the application of the Act, including in connection with the Trust becoming registered as a managed investment scheme under the Act.
- E Clause 4.4 of the Master Trust Deed, once amended and consolidated as described in Recital D (the Master Trust Deed as amended referred to as the 'Deed'), requires any Establishment Deed to include the matters specified in the First Schedule of the Deed and to be in the form specified in the Third Schedule of the Deed.
- F Accordingly, the Manager and the Supervisor wish to amend the Original Establishment Deed by way of amendment and consolidation so that it will comply with clause 4.4 of the Deed.
- G The Supervisor is satisfied that the amendments recorded in this Establishment Deed are desirable for the more convenient, economical and advantageous working, management or administration of the Trust, and the parties are also satisfied that these amendments are desirable to reflect changes to the laws governing the Trust outlined above.

Covenants

In accordance with clause 29.1b and f of the Master Trust Deed, it is declared that immediately prior to the amendments to the Master Trust Deed contemplated at Recital D taking effect on 30 November 2016, the Original Establishment Deed is amended and consolidated by substituting its operative provisions with the provisions of this Establishment Deed so that from 30 November 2016 ('Effective Date') the Trust will be operated, administered, and governed in accordance with the provisions of this Establishment Deed and the Deed.

1 Interpretation

In this Establishment Deed all terms defined in the Deed which are not separately defined in this Establishment Deed shall have the same meanings where used in this Establishment Deed and, unless the context otherwise requires:

'**Derivatives**' means any agreement which establishes rights and obligations to some underlying instrument, investment, currency, product, index, right or service, including agreements commonly known as:

- a swaps
- b forward rate agreements
- c future contracts
- d options
- e foreign exchange contracts, and
- f ledger contracts;

'**Distribution Date**' means the first day of April, or if such day is not a Working Day, the immediately preceding Working Day or such other day as the Manager may determine and which has been notified to the Investors by not less than 90 days' written notice;

'**Distribution Period**' means a period commencing on the day following a Distribution Date and ending on the next (in time) Distribution Date;

'**Exchange**' means the New Zealand Stock Exchange, the Australian Securities Exchange, the London Stock Exchange, the New York Stock Exchange or any other exchange anywhere in the world which brings together buyers and sellers of Investments approved by the Manager;

'**Mortgage**' means any mortgage or charge secured over property, any share in any mortgage or charge secured over property including any contributory mortgage held by a trustee or nominee, any sub-mortgage or sub-charge secured over property and any other mortgage related security;

'**Mortgage Backed Security**' means any investment conferring or creating an interest, whether legal or equitable, in any Mortgage by virtue of any agreement, declaration of trust or otherwise; and

'Underwriting Contract' means any contract or other commitment to underwrite or sub-underwrite any project, contract or transaction of any type including the public or private issue of shares, debentures, notes and other rights or obligations.

- 1.2 Where FMA has published frameworks or methodologies that require certain matters to be calculated, determined, fixed, or carried out in a particular way, the Manager and the Supervisor (as applicable) shall comply with the requirements of those frameworks or methodologies. Any such frameworks or methodologies shall apply notwithstanding, and prevail over, anything to the contrary in this Establishment Deed or the Deed and the provisions of this Establishment Deed and the Deed shall be construed accordingly.

2 Status of the Trust

- 2.1 The ongoing operation and continuity of the Trust is hereby confirmed but, from the Effective Date, on the terms of this Establishment Deed.

3 Investment

- 3.1 The objective of the Trust is to achieve an investment return by investing primarily in a diversified portfolio of global fixed income securities.
- 3.2 The SIPO for the Trust shall be as agreed in writing by the Manager, in consultation with the Supervisor from time to time (subject to clause 18.3 of the Deed). The SIPO agreed from time to time will constitute a 'contrary intention' for the purposes of section 13D of the Trustee Act 1956. The current SIPO is set out in the Schedule to this Establishment Deed.
- 3.3 For the purposes of the Trust, 'Authorised Investments' means:
- a cash and term deposits with any bank or bank registered under the Reserve Bank of New Zealand Act 1989;
 - b any share, financial product (as defined in the Act) or like interest in any company, partnership, syndicate, or other Person formed or carrying on business in any part of the world;
 - c deposits with or loans to (with or without security) any Person;
 - d debentures, bonds, notes or similar obligations (with or without security) issued by any Person;
 - e bills of exchange or promissory notes made, drawn, or accepted by any Person;
 - f insurance and Underwriting Contracts;
 - g Mortgages and Mortgage Backed Securities;
 - h Derivatives;
 - i any right or option to acquire or take up any of the above; and
 - j any other investment described in the SIPO for the Trust from time to time.

4 Valuation of the Trust Fund

- 4.1 The Trust Fund shall be valued on each Unit Value Determination Day, however the Manager may, in its discretion, value the Trust Fund more frequently. The Manager may value the Trust Fund less frequently only in situations where, for reasons beyond the Manager's control, valuation is impossible on the Unit Value Determination Day in which case such valuation shall be on the next Working Day on which valuation is possible. Each valuation will apply from the time of valuation until immediately prior to the time of the next valuation.
- 4.2 The Withdrawal Value of the Trust Fund will be calculated at 5pm on each Unit Value Determination Day.
- 4.3 Subject to clause 1.2, the Market Value of any Investment as at any Working Day means:
- a In respect of any Investment which is listed on an Exchange, the price quoted for the last sale of that Investment on that Exchange at or before 5pm on that Working Day or, if no such price is available, the price quoted for the last sale of that Investment on that Exchange within five Working Days ending with that Working Day. If there has been no sale by 5pm on that Working Day or within the five Working Days ending with that Working Day, or if the Manager reasonably considers that the quoted price as above does not represent the fair market value of the Investment, the value shall be the fair market value determined in such manner which accords with proper prudent principles of valuation or the advice of a valuer or other suitably qualified Person as the Manager may approve;
 - b In respect of any Investment in a trust, group investment fund, managed investment scheme, or similar undertaking or scheme, the net asset value of that Investment determined in accordance with the rules of the undertaking or scheme (unless the Manager reasonably considers that the value does not represent the fair market value of the Investment, in which case the value shall be the fair market value determined in such manner which accords with proper prudent principles of valuation or the advice of a valuer or other suitably qualified Person as the Manager may approve);
 - c In respect of all other Investments the value most recently agreed, or determined in the manner approved by the Manager, or failing approval, determined by a valuer or other suitably qualified Person approved by the Manager, each in accordance with proper prudent principles of valuation.

5 Management Fee

- 5.1 Unless the Manager and the Supervisor otherwise agree in writing, the Management Fee payable to the Manager shall be up to 5% per annum of the Gross Asset Value of the Trust. The Management Fee payable at any time shall be notified by the Manager to the Supervisor in writing.

6 Supervisor Fee

- 6.1 The Supervisor Fee payable to the Supervisor shall be up to 0.10% per annum of the Gross Asset Value of the Trust, with a minimum fee as agreed between the Supervisor and the Manager from time to time. The Supervisor Fee, and any minimum fee, payable at any time shall be notified by the Supervisor to the Manager in writing.

7 Minimum Holding

- 7.1 The Minimum Holding that must be invested and maintained by the Trust is \$50,000.00 or such other minimum value as the Manager may from time to time determine and disclose in the PDS and/or Register Entry for the Trust.

8 Minimum Investment

- 8.1 The Minimum Initial Amount that can be invested in the Trust by an Investor as a lump sum amount is \$500 or such other amount as is determined from time to time by the Manager and set out in the PDS and/or Register Entry for the Trust. The Minimum Initial Amount that can be invested in the Trust by an Investor as a regular contribution is \$100 per month thereafter or such other amount as is determined from time to time by the Manager and set out in the PDS and/or Register Entry for the Trust. The minimum amount for any subsequent irregular lump sum investments in the Trust is \$500 or such other amount as is determined from time to time by the Manager provided that any such amount is set out in the PDS and/or Register Entry for the Trust. The Manager may accept applications for amounts less than the Minimum Initial Amount or any minimum amount for subsequent investments.
- 8.2 The Manager will comply with its obligations under clause 15 of the Deed in respect of all Investor transactions.

9 Minimum Number of Units

- 9.1 The Minimum Number of Units that must be maintained by an Investor in the Trust is 500 or such other number as the Manager may determine from time to time and set out in the PDS and/or Register Entry for the Trust.

10 Calculation of Entitlements

- 10.1 On each Distribution Date the Distributable Income of the Trust Fund during the Distribution Period ending on that Distribution Date which the Manager has declared pursuant to clause 17.1 of the Deed to be available for distribution shall be divided by the number of Units in the Trust on issue to determine the Entitlement per Unit which shall be distributed to Investors in proportion to the number of Units in the Trust held by them as set out in the Register as at the Distribution Date.
- 10.2 Following calculation of the Entitlement per Unit pursuant to clause 10.1, as soon as practicable (but no later than 60 days) after the Distribution Date the Entitlements shall be distributed to the Investors by payment in accordance with the direction of each of the Investors or failing direction, to the Investors and the Manager shall send to the Investors details of the Distributable Income distribution.

11 Reinvestment of Entitlements

- 11.1 Investors who have elected to reinvest their Entitlements (less any Taxation Amount as defined in clause 38 of the Deed which the Manager is obliged to deduct) will receive further Units pursuant to this clause 11 ('Reinvestment Election'). Each Investor so electing shall be deemed to have elected to have the amount of his or her Entitlements applied in subscription

or purchase of further Units unless the Manager shall have received from that Investor not later than 30 days prior to the end of a Distribution Period a notice revoking that Investor's deemed election ('Revocation Notice') in respect of that Distribution Period and subsequent Distribution Periods.

- 11.2 The reinvestment of Entitlements under this clause is subject to the requirements specified in clause 10(1)(b) of Schedule 1 of the Act and Regulations 14 and 15 of Schedule 8 of the Regulations, and the Manager may only accept Reinvestment Elections where those requirements have been satisfied.
- 11.3 Any Revocation Notice shall be effective until it is revoked by notice in writing to the Manager provided that any such notice given within 30 days prior to the end of a Distribution Period shall not be effective until the next succeeding Distribution Period. The Manager, in consultation with the Supervisor, shall be entitled to impose such further conditions or requirements not inconsistent with this Establishment Deed as the Manager thinks fit in relation to the operation of the aforementioned election provisions.
- 11.4 The Manager shall not be required to satisfy an election by the provision of further Units where further Units are not available for issue or the Manager in its sole discretion decides there is good reason not to provide further Units.

12 Redemption of Units

- 12.1 The maximum period for redemption or purchase of Units subject to a Withdrawal Notice pursuant to clause 12.3 of the Deed is 25 Working Days.

13 Switching

- 13.1 Switching from this Trust to other Trusts constituted under the Deed will be available at the discretion of the Manager upon request by an Investor.
- 13.2 The maximum period for switching of Units pursuant to a Switching Notice pursuant to clause 13.5 of the Deed is 25 Working Days.
- 13.3 The minimum number of Units which may be the subject of a Switching Notice is 500 or such other number as the Manager may from time to time determine and set out in the PDS and/or Register Entry for the Trust.

14 Deed

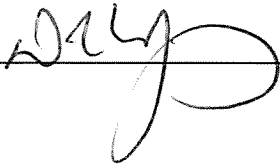
- 14.1 Except as modified by the terms of this Establishment Deed, all the terms and conditions set out in the Deed shall apply to the Trust. Subject to the Act, in a case where there is conflict between the provisions of the Deed and this Establishment Deed as to the terms and conditions of the Trust, this Establishment Deed shall prevail.

Execution

Signed on behalf of Funds Administration New Zealand Limited
by:

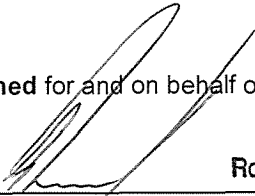


Director




Director

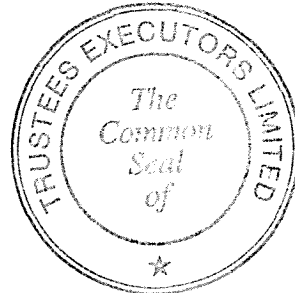
Signed for and on behalf of Trustees Executors Limited by:


Robert P Russell

Authorised Signatory/Director

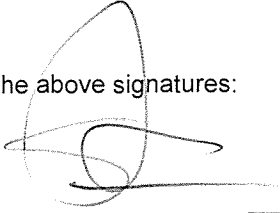

Stuart McLaren

Authorised Signatory/Director



CTS2016-124 (2/2)

Witness to the above signatures:



Witness Signature

Sean Roberts
Client Services Manager

Name Wellington

Occupation

Address

Schedule 1 SIPO

STATEMENT OF INVESTMENT POLICY AND OBJECTIVES

FOR

Lifestages World Bond Portfolio

**Manager:
Funds Administration New Zealand Limited (FANZ)**

**Supervisor:
Trustees Executors Limited**

Effective Date: 1 October 2015

Introduction and description of Fund

This statement of investment policy and objectives (“**SIPO**”) takes effect from 1 October 2015 and has been prepared for the Lifestages World Bond Portfolio (the “**Fund**”). This SIPO replaces the investment guidelines for the Fund dated 1 March 2011, as amended on 21 September 2012 and 19 February 2013.

As at the effective date of this SIPO, the Fund is a unit trust under the Unit Trusts Act 1960. It forms part of the Lifestages Unit Trusts, a suite of unit trusts managed by Funds Administration New Zealand Limited (referred to as “**we**”, “**our**”, and “**us**” in this SIPO). During 2016 we intend to register the Fund (as well as the other unit trusts within the Lifestages Unit Trusts) as a registered managed investment scheme under the Financial Markets Conduct Act 2013 (“**Act**”).

The Trustee of the Fund is Trustees Executors Limited (“**Supervisor**”).

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).

This SIPO sets out the following details with respect to the Fund:

1. Benchmark and Investment Objectives.....	4
2. Investment Philosophy [Please complete.]	4
3. Eligible Investments	5
4. Investment Guidelines	5
5. Authorised Investments.....	6
6. Authorised Activities	8
7. Investment policies.....	9
8. Monitoring.....	10
9. Review and update of SIPO.....	10
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Our Investment Strategy for the Fund is contained in sections 3 to 7.

In the event of conflict between the provisions of this SIPO and the master trust deed (“**Trust Deed**”) or deed of establishment (“**Establishment Deed**”) for the Fund, the provisions of the Trust Deed (or Establishment Deed, as applicable) will prevail.

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

1. Benchmark and Investment Objectives

- 1.1. **Benchmark:** The benchmark for the Fund is the Barclays Capital Global Aggregate Index hedged into New Zealand dollars ("**Benchmark**").
- 1.2. **Investment objectives:**
The Fund's investment objective is to provide a Gross Return each year that is 100 basis points in excess of the Benchmark hedged to New Zealand dollars measured over a rolling three-year basis i.e. before tax, fees, and other expenses.
- 1.3. **General description of investments:** The focus of the Fund is investment in international investment grade income securities.

2. Investment Philosophy

- 2.1. We have developed the investment strategy for the Fund with reference to investors who are seeking a fund that aims to provide investors with a broadly diversified portfolio of Global Fixed Interest within investment portfolio constraints.

The Lifestages World Bond Portfolio is designed to provide investors with access to a large pool of offshore income producing investments. Investors can access a wider pool of fixed interest investments by investment internally which also reduces the risk and volatility of their overall investment portfolio.

To protect investors from concentration risk the Fund is subject to strict rules about diversification. These involve limits on the proportion of the Fund to be allocated at time of purchase to the paper of any single issuer.

The addition of global bonds has the benefit of increasing diversification within the portfolio, which reduces overall volatility. It also provides exposure to the expected returns of multiple yield curves, rather than a single domestic curve. Investing in hedged global bonds, along with domestic bonds, allows the flexibility to create a more diversified and less risky fixed interest portfolio. It is a transparent strategy that is designed to fit well into an overall portfolio.

- 2.2. 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.
- 2.3. Duration management and tactical positioning will only be used to the extent that it results in the Fund's duration being plus or minus five years either side of the Benchmark index position.
- 2.4. The level of investment risk accepted will be low to medium which will be reflected in the selection of securities within the Fund.
- 2.5. The Fund is designed to provide investors with exposure to a diversified portfolio of international investment grade income securities, hedged into New Zealand dollars. A portion will be held in cash for liquidity. The Fund is designed to be consistent with our overall investment philosophy and approach to low to medium risk fixed interest investing. This approach aims to provide our clients with "no surprises" in terms of their fixed interest investments.

- 2.6. The Fund offers a multi manager approach to fixed interest investing by providing access to two experienced fixed interest investment teams.

3. Eligible Investments

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

- 3.1. On-call cash or bank deposits at a 'registered bank' under the Reserve Bank of New Zealand Act 1989 with a minimum long-term credit rating of BBB- from the Fitch ratings agency.
- 3.2. 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. FX exposures are to be hedged back to NZD.
- 3.3. Derivative contracts, where the underlying risk relates to 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- (Standard & Poor's rating) 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.
- 3.4. Any other income strategies approved by the Supervisor and by the Board of FANZ.

Derivatives are to be measured on a notional face value basis and may not exceed 100% of the net market value of the Fund's investment portfolio.

Investment in collateralised debt obligations is not permitted.

The eligible investments may change in the future (see section 5 below).

4. Investment Guidelines

- 4.1. **Duration:** The duration of the Fund is to be kept within to five years of the duration of the Benchmark.
- 4.2. **Yield Curve:** The underlying managers shall monitor the maturity bucket exposure of the portfolio to ensure no excessive yield curve exposures exist.
- 4.3. **Liquidity:** A minimum 5% of total assets must be held in Highly Liquid Securities. Highly Liquid Securities are on-call Cash, NZ Government securities with less than 5 years to maturity and Bank deposits with less than 6 months to maturity.
- 4.4. **Credit Exposures:** The credit exposures outlined in 5.1 are not to be exceeded. The Fund is constructed to achieve a weighted average credit rating of A- on capital

invested.

- 4.5. **Hedging:** The Fund's foreign currency exposure will be hedged back to the New Zealand dollar 100%.
- 4.6. **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. 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 Fund is set out in its Establishment Deed dated 1 March 2011, as amended from time to time. The Fund's New Zealand fixed interest investments may be made by direct investment or by investments in underlying funds. The underlying managers currently accessed are Southland Building Society (cash), Russell Investment Management and PIMCO (international fixed interest – Global Aggregate Bonds). BlackRock may also be accessed in the future (international fixed interest – Inflation Bonds).

Set out below is a list of the specific investments, within that overall universe that the Fund may invest in from time to time, as well as the maximum credit exposures for each.

5.1. Credit Exposure Limits

a. Manager Objectives

Benchmark:	Barclays Global Aggregate Index hedged into NZ Dollars
Performance Objective:	Achieve "excess return" relative to the Benchmark of 100 basis points per annum while minimising volatility of return relative to the Benchmark over a rolling 3-year period.

b. Risk Limits

Duration	+/- 5 years versus the Benchmark
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c. Credit Quality Minimums

The underlying managers will apply quality ratings using the higher of Moody's, Standard & Poor's or Fitch. If an issue is not rated by one of these rating agencies, then a rating will be determined within any parameters agreed with the Supervisor.

Minimum Average Portfolio Quality:	A- Rating
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Minimum Issue Quality:	B- Rating
Minimum Commercial Paper Quality:	A2/P2

Should an issue be downgraded below these minimums, the underlying manager will determine the appropriate action (sell or hold) based on the perceived risk and expected return.

d. Concentration Limits

Concentrations within the Fund's portfolio will be limited to the following:

Issue/Issuer:	
- Sovereign debt of OECD governments and US agencies:	No limit
- Supranational issuers:	25%
- Any others:	5%
High Yield Securities (rated below BBB-):	10%
Emerging Market Securities: (We use the World Bank definition for emerging markets which is based on GNP per capita calculation)	20%
Mortgage Derivatives:	10%
Structured Notes:	5%
Preferred Securities:	5%
Bank Loans:	10%

The percentages set out above are maximums. There are no specific benchmark asset allocations or minimum exposures.

- 5.2. **Managed Funds.** Investment in managed funds that meet or exceed in part or in full the objectives and risk characteristics of the Fund, with the relevant credit exposure limits flowed through to any managed fund exposure.
- 5.3. **Income Strategies.** Any other income strategies approved by the Supervisor which we consider fall within the parameters of the Fund's Authorised Investments (as set out in the Establishment Deed), appropriately reflect the risk profile of the Fund, and will contribute towards achieving its investment objectives. There are no limits on the extent to which the Fund's investment exposure may be obtained through Income Strategies.
- 5.4. **Cash.** Cash with the Southland Building Society (also referred to as 'SBS Bank') and is limited to a maximum of 12.5% of the Fund's portfolio, a neutral benchmark of 5% of the portfolio and a minimum of 2.5% of the portfolio. The Fund's cash investments are primarily made by way of direct investment or by investments in unsecured deposits (including redeemable shares) with SBS Bank. Cash investments may be

made with other registered banks or financial institutions in some circumstances, including pending investment into other assets.

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 Fund may undertake the following other activities in carrying out its investment strategy:

- 6.1. **Securities Lending.** The Fund is authorised to lend up to 20% of its Net Tangible Assets (“**NTAs**”) to ‘A’ rated counterparties, with a counterparty credit limit of no more than 20% with any one party or 5% net risk exposure.
- 6.2. **New Issues.** Underwriting new issues of authorised debt.
- 6.3. **Borrowing.** The Fund is authorised to borrow up to 30% of its **NTAs** to invest in Authorised Investments, subject to the consent of the Supervisor. The Fund is not permitted to borrow money to invest in securities for leverage and or for shorting purposes.

7. Investment policies

7.1. Liquidity

Sufficient liquidity will be held to cover reasonably anticipated redemptions of units in the Fund and, if necessary, there is a general authorisation to borrow up to 5% of the market value of the Fund to cover settlement requirements. Such borrowing will be for a maximum period of 15 business days and in each instance the Supervisor will be advised. The Supervisor may at any time require that no further borrowing shall be undertaken in respect of the Fund.

7.2. Valuation

The purchase price of securities entering a portfolio 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 Fund. For exiting and new unit holders this will be the basis of their exit and issue unit price respectively.

7.3. Derivatives

Derivatives may not be used to leverage the Fund, or if the effect is to increase the portfolio risk beyond what it would have been had the 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. Hedging

The Fund's foreign currency exposure will be hedged back to the New Zealand dollar 100%.

7.5. Tax

The Fund will be taxed as a Portfolio Investment Entity and as such will be taxed in line with the relevant legislation.

7.6. 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 Act (where applicable). The key constraint is that such transactions must be entered into on ordinary commercial arm's-length terms. The Supervisor may also impose other terms on related party transactions from time to time.

8. Monitoring

- 8.1. We will review the performance of the Fund and the underlying investment managers quarterly. This review will compare the return of the Fund over the quarter against its peers (as nearly as these might be identified by agreement between us and the Supervisor), as well as each component of its portfolio against the relevant index.
- 8.2. The performance standard expected to be observed is that the 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 the 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 the 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. Once the Fund becomes a registered scheme under the Act, the most current version of the SIPO will be available on the Fund's managed investment schemes register entry with the Registrar of Financial Service Providers at <http://www.business.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 investment/underlying fund's assets under management over a rolling one year period (due to redemptions, not market movements) or total investment/underlying fund assets falling below \$25 million at any time
- A change in the investment/underlying fund's investment style, diversification and/or risk factor tilting
- An increase in the investment/underlying fund's fees
- The investment/underlying 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 investment/underlying 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 investment/underlying fund mandate

Each quarter, we will review all recommended investments to ensure no investment/underlying fund has breached its enhanced due diligence thresholds.

In general, if an investment/underlying 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 investment/underlying fund management team
- Regression analysis and/or attribution analysis
- Peer review
- Reconfirmation, if the investment/underlying fund is still the preferred choice relative to other alternatives

If the investment/underlying 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 an investment/underlying fund cannot be determined by a simple formula. Selecting investment/underlying 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 investment/underlying fund mandate in the future will play a part in the decision to retain or replace an investment/underlying fund.

Once an investment/underlying fund has been reviewed in relation to a specific threshold breach, then, assuming the investment/underlying 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 investment/underlying 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

FANZ undertakes a review of the investment strategy, the credit limit exposures, duration risk and how the asset class fits into our portfolios, 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 Fund.

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.

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 the adviser 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 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 unit holders of the proposed change. The decision as to whether or not a change is material rests with the Supervisor.

Each updated or amended SIPO will contain an effective date. Once the Fund becomes a registered scheme, 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 SIPO:

“Benchmark” means the index against which we measure the performance of the Fund, and as at the date of this SIPO the Barclays Capital Global Aggregate Index hedged to NZ\$.

“Benchmark asset allocation” means the Fund’s long-term average expected weighting for each type of asset (i.e. the proportion of the 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” means deposits with the Southland Building Society with a maturity of no more than 180 days at the time of purchase. Floating rate notes with a final maturity of more than 180 days are not authorised (irrespective of the frequency of rate setting).

“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.

“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.

“Underlying managers” are the underlying fund managers that we have appointed in respect of the Fund. As at the date of this SIPO, the underlying managers are named in section 5.

Consolidated Establishment Deed

Lifestages World Equity Portfolio

Funds Administration New Zealand Limited

Trustees Executors Limited

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Deed dated 1 November 2016

Parties

- 1 **Funds Administration New Zealand Limited** at Invercargill ('Manager')
- 2 **Trustees Executors Limited** at Wellington ('Supervisor')

Background

- A The Manager and the Supervisor are parties to a consolidated master trust deed dated 21 September 2007 ('Master Trust Deed') which sets out the terms and conditions on which units in unit trusts managed by the Manager will be offered for subscription to the public.
- B The Manager and the Supervisor established the Lifestages World Equity Portfolio ('Trust') by an Establishment Deed dated 3 June 2003 ('Original Establishment Deed').
- C Clauses 29.1b and f of the Master Trust Deed provide, amongst other things, that the Supervisor and the Manager may make any alteration, modification, variation or addition to the provisions of the Master Trust Deed or any Establishment Deed if, in the opinion of the Supervisor, the same is necessary or desirable for the more convenient, economical or advantageous working, management or administration of a Trust or for safeguarding or enhancing the interest of Investors, or if the same is necessary or desirable to reflect any changes to the law governing unit trusts, including the duties and powers of Supervisors and managers of unit trusts.
- D The Manager and the Supervisor have agreed to amend the Master Trust Deed by way of amendment and consolidation to:
- a reflect the requirements of the Financial Markets Conduct Act 2013 ('Act') and the Financial Markets Conduct Regulations 2014 ('Regulations') and allow the Trust to become registered as a managed investment scheme under the Act; and
 - b make a number of other amendments that the Supervisor and the Manager consider appropriate in connection with the application of the Act, including in connection with the Trust becoming registered as a managed investment scheme under the Act.
- E Clause 4.4 of the Master Trust Deed, once amended and consolidated as described in Recital D (the Master Trust Deed as amended referred to as the 'Deed'), requires any Establishment Deed to include the matters specified in the First Schedule of the Deed and to be in the form specified in the Third Schedule of the Deed.
- F Accordingly, the Manager and the Supervisor wish to amend the Original Establishment Deed by way of amendment and consolidation so that it will comply with clause 4.4 of the Deed.
- G The Supervisor is satisfied that the amendments recorded in this Establishment Deed are desirable for the more convenient, economical and advantageous working, management or administration of the Trust, and the parties are also satisfied that these amendments are desirable to reflect changes to the laws governing the Trust outlined above.

Covenants

In accordance with clause 29.1b and f of the Master Trust Deed, it is declared that immediately prior to the amendments to the Master Trust Deed contemplated at Recital D taking effect on 30 November 2016, the Original Establishment Deed is amended and consolidated by substituting its operative provisions with the provisions of this Establishment Deed so that from 30 November 2016 ('Effective Date') the Trust will be operated, administered, and governed in accordance with the provisions of this Establishment Deed and the Deed.

1 Interpretation

In this Establishment Deed all terms defined in the Deed which are not separately defined in this Establishment Deed shall have the same meanings where used in this Establishment Deed and, unless the context otherwise requires:

'Derivatives' means any agreement which establishes rights and obligations to some underlying instrument, investment, currency, product, index, right or service including agreements commonly known as:

- a swaps
- b forward rate agreements
- c future contracts
- d options
- e foreign exchange contracts, and
- f ledger contracts;

'Distribution Date' means the first day of April, or if such day is not a Working Day, the immediately preceding Working Day or such other day as the Manager may determine and which has been notified to the Investors by not less than 90 days' written notice.

'Distribution Period' means a period commencing on the day following a Distribution Date and ending on the next (in time) Distribution Date;

'Exchange' means the New Zealand Stock Exchange, the Australian Securities Exchange, the London Stock Exchange, the New York Stock Exchange or any other exchange anywhere in the world which brings together buyers and sellers of Investments approved by the Manager;

'Mortgage' means any mortgage or charge secured over property, any share in any mortgage or charge secured over property including any contributory mortgage held by a trustee or nominee, any sub-mortgage or sub-charge secured over property and any other mortgage related security;

'Mortgage Backed Security' means any investment conferring or creating an interest, whether legal or equitable, in any Mortgage by virtue of any agreement, declaration of trust or otherwise; and

'Underwriting Contract' means any contract or other commitment to underwrite or sub-underwrite any project, contract or transaction of any type including the public or private issue of shares, debentures, notes and other rights or obligations.

- 1.2 Where FMA has published frameworks or methodologies that require certain matters to be calculated, determined, fixed, or carried out in a particular way, the Manager and the Supervisor (as applicable) shall comply with the requirements of those frameworks or methodologies. Any such frameworks or methodologies shall apply notwithstanding, and prevail over, anything to the contrary in this Establishment Deed or the Deed and the provisions of this Establishment Deed and the Deed shall be construed accordingly.

2 Status of the Trust

- 2.1 The ongoing operation and continuity of the Trust is hereby confirmed but, from the Effective Date, on the terms of this Establishment Deed.

3 Investment

- 3.1 The objective of the Trust is to achieve high capital growth by investing in a range of asset classes over the medium to long term
- 3.2 The SIPO for the Trust shall be as agreed in writing by the Manager, in consultation with the Supervisor from time to time (subject to clause 18.3 of the Deed). The SIPO agreed from time to time will constitute a 'contrary intention' for the purposes of section 13D of the Trustee Act 1956. The current SIPO is set out in the Schedule to this Establishment Deed.
- 3.3 For the purposes of the Trust, 'Authorised Investments' means:
- a cash and term deposits with any bank or bank registered under the Reserve Bank of New Zealand Act 1989;
 - b any share, financial product (as defined in the Act) or like interest in any company, partnership, syndicate, or other Person formed or carrying on business in any part of the world;
 - c deposits with or loans to (with or without security) any Person;
 - d debentures, bonds, notes or similar obligations (with or without security) issued by any Person;
 - e bills of exchange or promissory notes made, drawn, or accepted by any Person;
 - f insurance and Underwriting Contracts;
 - g Mortgages and Mortgage Backed Securities;
 - h Derivatives;
 - i any right or option to acquire or take up any of the above; and
 - j any other investment described in the SIPO for the Trust from time to time

4 Valuation of the Trust Fund

- 4.1 The Trust Fund shall be valued on each Unit Value Determination Day, however the Manager may, in its discretion, value the Trust Fund more frequently. The Manager may value the Trust Fund less frequently only in situations where, for reasons beyond the Manager's control, valuation is impossible on the Unit Value Determination Day in which case such valuation

shall be on the next Working Day on which valuation is possible. Each valuation will apply from the time of valuation until immediately prior to the time of the next valuation.

- 4.2 The Withdrawal Value of the Trust Fund will be calculated at 5pm on each Unit Value Determination Day.
- 4.3 Subject to clause 1.2, the Market Value of any Investment as at any Working Day means:
- a In respect of any Investment which is listed on an Exchange, the price quoted for the last sale of that Investment on that Exchange at or before 5pm on that Working Day or, if no such price is available, the price quoted for the last sale of that Investment on that Exchange within five Working Days ending with that Working Day. If there has been no sale by 5pm on that Working Day or within the five Working Days ending with that Working Day, or if the Manager reasonably considers that the quoted price as above does not represent the fair market value of the Investment, the value shall be the fair market value determined in such manner which accords with proper prudent principles of valuation or the advice of a valuer or other suitably qualified Person as the Manager may approve;
 - b In respect of any Investment in a trust, group investment fund, managed investment scheme, or similar undertaking or scheme, the net asset value of that Investment determined in accordance with the rules of the undertaking or scheme (unless the Manager reasonably considers that the value does not represent the fair market value of the Investment, in which case the value shall be the fair market value determined in such manner which accords with proper prudent principles of valuation or the advice of a valuer or other suitably qualified Person as the Manager may approve);
 - c In respect of all other Investments the value most recently agreed, or determined in the manner approved by the Manager, or failing approval, determined by a valuer or other suitably qualified Person approved by the Manager, each in accordance with proper prudent principles of valuation.

5 Management and Entry Fees

- 5.1 Unless the Manager and the Supervisor otherwise agree in writing, the Management Fee payable to the Manager shall be up to 5% per annum of the Gross Asset Value of the Trust. The Management Fee payable at any time shall be notified by the Manager to the Supervisor in writing.
- 5.2 An Entry Fee of up to 5% of the amount invested is payable on initial and subsequent investments in the Trust.

6 Supervisor Fee

- 6.1 The Supervisor Fee payable to the Supervisor shall be up to 0.10% per annum of the Gross Asset Value of the Trust, with a minimum fee as agreed between the Supervisor and the Manager from time to time. The Supervisor Fee, and any minimum fee, payable at any time shall be notified by the Supervisor to the Manager in writing.

7 Minimum Holding

- 7.1 The Minimum Holding that must be invested and maintained by the Trust is \$50,000.00 or such other minimum value as the Manager may from time to time determine and disclose in the PDS and/or Register Entry for the Trust.

8 Minimum Investment

- 8.1 The Minimum Initial Amount that can be invested in the Trust by an Investor as a lump sum amount is \$500 or such other amount as is determined from time to time by the Manager and set out in the PDS and/or Register Entry for the Trust. The Minimum Initial Amount that can be invested in the Trust by an Investor as a regular contribution is \$100 per month thereafter or such other amount as is determined from time to time by the Manager and set out in the PDS and/or Register Entry for the Trust. The minimum amount for any subsequent irregular lump sum investments in the Trust is \$500 or such other amount as is determined from time to time by the Manager provided that any such amount is set out in the PDS and/or Register Entry for the Trust. The Manager may accept applications for amounts less than the Minimum Initial Amount or any minimum amount for subsequent investments.
- 8.2 The Manager will comply with its obligations under clause 15 of the Deed in respect of all Investor transactions.

9 Minimum Number of Units

- 9.1 The Minimum Number of Units that must be maintained by an Investor in the Trust is 500 or such other number as the Manager may determine from time to time and set out in the PDS and/or Register Entry for the Trust.

10 Calculation of Entitlements

- 10.1 On each Distribution Date the Distributable Income of the Trust Fund during the Distribution Period ending on that Distribution Date which the Manager has declared pursuant to clause 17.1 of the Deed to be available for distribution shall be divided by the number of Units in the Trust on issue to determine the Entitlement per Unit which shall be distributed to Investors in proportion to the number of Units in the Trust held by them as set out in the Register as at the Distribution Date.
- 10.2 Following calculation of the Entitlement per Unit pursuant to clause 10.1, as soon as practicable (but no later than 60 days) after the Distribution Date the Entitlements shall be distributed to the Investors by payment in accordance with the direction of each of the Investors or failing direction, to the Investors and the Manager shall send to the Investors details of the Distributable Income distribution.

11 Reinvestment of Entitlements

- 11.1 Investors who have elected to reinvest their Entitlements (less any Taxation Amount as defined in clause 38 of the Deed which the Manager is obliged to deduct) will receive further Units pursuant to this clause 11 ('Reinvestment Election'). Each Investor so electing shall be deemed to have elected to have the amount of his or her Entitlements applied in subscription or purchase of further Units unless the Manager shall have received from that Investor not later than 30 days prior to the end of a Distribution Period a notice revoking that Investor's

deemed election ('Revocation Notice') in respect of that Distribution Period and subsequent Distribution Periods.

- 11.2 The reinvestment of Entitlements under this clause is subject to the requirements specified in clause 10(1)(b) of Schedule 1 of the Act and Regulations 14 and 15 of Schedule 8 of the Regulations, and the Manager may only accept Reinvestment Elections where those requirements have been satisfied.
- 11.3 Any Revocation Notice shall be effective until it is revoked by notice in writing to the Manager provided that any such notice given within 30 days prior to the end of a Distribution Period shall not be effective until the next succeeding Distribution Period. The Manager, in consultation with the Supervisor, shall be entitled to impose such further conditions or requirements not inconsistent with this Establishment Deed as the Manager thinks fit in relation to the operation of the aforementioned election provisions.
- 11.4 The Manager shall not be required to satisfy an election by the provision of further Units where further Units are not available for issue or the Manager in its sole discretion decides there is good reason not to provide further Units.

12 Redemption of Units

- 12.1 The maximum period for redemption or purchase of Units subject to a Withdrawal Notice pursuant to clause 12.3 of the Deed is 25 Working Days.

13 Switching

- 13.1 Switching from this Trust to other Trusts constituted under the Deed will be available at the discretion of the Manager upon request by an Investor.
- 13.2 The maximum period for switching of Units pursuant to a Switching Notice pursuant to clause 13.5 of the Deed is 25 Working Days.
- 13.3 The minimum number of Units which may be the subject of a Switching Notice is 500 or such other number as the Manager may from time to time determine and set out in the PDS and/or Register Entry for the Trust.

14 Deed

- 14.1 Except as modified by the terms of this Establishment Deed, all the terms and conditions set out in the Deed shall apply to the Trust. Subject to the Act, in a case where there is conflict between the provisions of the Deed and this Establishment Deed as to the terms and conditions of the Trust, this Establishment Deed shall prevail.

Execution

Signed on behalf of
Funds Administration New Zealand Limited by:

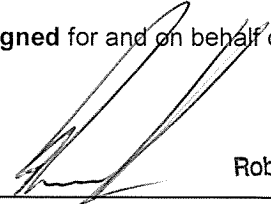


Director




Director

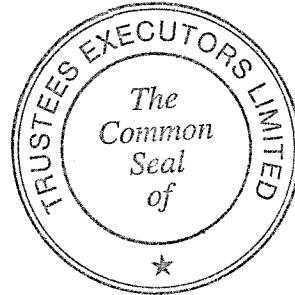
Signed for and on behalf of Trustees Executors Limited by:


Robert P Russell

Authorised Signatory/Director

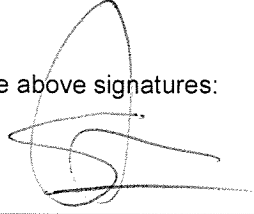

Stuart McLaren

Authorised Signatory/Director



CTS2016-127 (2/2)

Witness to the above signatures:



Witness Signature

Sean Roberts
Client Services Manager
Wellington

Name

Occupation

Address

Schedule 1 SIPO

STATEMENT OF INVESTMENT POLICY AND OBJECTIVES

FOR

Lifestages World Equity Portfolio

**Manager:
Funds Administration New Zealand Limited (FANZ)**

**Supervisor:
Trustees Executors Limited**

Effective Date: 1 October 2015

Introduction and description of Fund

This statement of investment policy and objectives (“**SIPO**”) takes effect from 1 October 2015 and has been prepared for the Lifestages World Equity Portfolio (the “**Fund**”). This SIPO replaces the investment guidelines for the Fund dated 1 October 2004, as amended on 13 December 2012 and 18 September 2013.

As at the effective date of this SIPO, the Fund is a unit trust under the Unit Trusts Act 1960. It forms part of the Lifestages Unit Trusts, a suite of unit trusts managed by Funds Administration New Zealand Limited (referred to as “**we**”, “**our**”, and “**us**” in this SIPO). During 2016 we intend to register the Fund (as well as the other unit trusts within the Lifestages Unit Trusts) as a registered managed investment scheme under the Financial Markets Conduct Act 2013 (“**Act**”).

The Trustee of the Fund is Trustees Executors Limited (“**Supervisor**”).

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).

This SIPO sets out the following details with respect to the Fund:

1. Benchmarks and Investment Objectives	4
2. Investment Philosophy	4
3. Eligible Investments	4
4. Investment Guidelines	5
5. Authorised Investments	6
6. Authorised Activities	7
7. Investment policies	7
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9. Review and update of SIPO	9
10. Useful definitions	13

Our Investment Strategy for the Fund is contained in sections 3 to 7.

In the event of conflict between the provisions of this SIPO and the master trust deed (“**Trust Deed**”) or deed of establishment (“**Establishment Deed**”) for the Fund, the provisions of the Trust Deed (or Establishment Deed, as applicable) will prevail.

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

1. Benchmarks and Investment Objectives

- 1.1. **Benchmarks:** The benchmarks for the Fund (“**Benchmarks**”) are:
 - (a) **NZ Cash:** CSFB 90 Day Bank Bill Index
 - (b) **Offshore Equities:** MSCI World Index with net dividends reinvested.
- 1.2. **Investment objectives:**

The Fund’s investment objectives are:

 - (a) To provide a Gross Return above the Official Cash Rate plus 4% on a rolling three-year basis i.e. before tax, fees, and other expenses.
 - (b) To achieve high capital growth over the medium to long-term.
 - (c) To produce a competitive investment return relative to the relevant peer group (see ‘Monitoring’ below).
- 1.3. **General description of investments:** The Fund will invest primarily in a broad spread of international shares.

2. Investment Philosophy

- 2.1. We have developed the investment strategy for the Fund with reference to investors who are seeking a fund that aims to achieve high capital growth over the medium to long-term through investment in international shares. 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. The Fund provides access for investors to a portfolio of large cap stocks with a portion of the portfolio hedged back to the New Zealand dollar for risk management and volatility purposes.
- 2.2. The level of investment risk accepted will be largely in line with the Benchmark (50% hedged to the New Zealand dollar) which will be reflected in the selection of securities within the Fund.
- 2.3. The Fund is designed to provide investors with a core and large cap risk exposure to international equities. The Fund is designed to be consistent with our overall investment philosophy and approach to equity investing.
- 2.4. The Fund offers a multi manager approach to equity investing by providing access to a number of experienced international equity investment teams.

3. Eligible Investments

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

- 3.1. 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 180 days at time of purchase. Floating rate notes with a final maturity of more than 180 days are not authorised (irrespective of the frequency of rate setting).

- 3.2. Shares issued in any jurisdiction of companies listed and traded on a recognised stock exchange or other trading system.
- 3.3. Derivative contracts, where the underlying risk relates to the shares referred to in 3.2. 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 Fund's investment portfolio.

Investment in collateralised debt obligations or 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 AM Best.

The eligible investments may change in the future (see section 5 below).

4. Investment Guidelines

- 4.1. **Liquidity:** A minimum 5% of total assets must be held in Highly Liquid Securities. Highly Liquid Securities are on-call Cash, NZ Government securities with less than 5 years to maturity and Bank Reverse Convertible Debentures with less than 6 months to maturity.
- 4.2. **Ranges:** The benchmark asset allocation ranges outlined in Table 1 are not to be exceeded.
- 4.3. **Hedging:** Foreign currency exposure is approximately 50% hedged to the New Zealand dollar, with a rebalancing of hedging arrangements generally occurring each quarter.
- 4.4. **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. 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 Fund are set out in its Establishment Deed dated 3 June 2003, as amended from time to time. Investments may be made by direct investment or by investments in underlying funds. The underlying managers currently accessed for the Fund's international share investments are BlackRock Investment Management (as to approximately 40%), Magellan Financial Group (as to approximately 20%) and Vanguard (as to approximately 35%). SBS Bank manages the Fund's cash and fixed interest investments.

Set out below is a list of the specific investments, within that overall universe and the Eligible Investments set out in section 3, that the Fund may invest in from time to time, as well as the maximum exposures for each.

5.1. Credit Exposure

Table 1. Benchmark asset allocations and ranges

	Benchmark asset allocation %	Usual range %
New Zealand Fixed Interest / Cash	5	2.5 – 10.0
International Shares	95	90 – 97.5

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.

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 and fixed interest with the Southland Building Society (also referred to as 'SBS Bank'). The Fund's cash investments are primarily made by way of direct investment in unsecured deposits (including redeemable shares) with SBS Bank. Cash investments may be made with other registered banks or financial institutions in some circumstances, including pending investment into other assets.

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 Fund may undertake the following other activities in carrying out its investment strategy:

- 6.1. **Securities Lending.** The Fund is authorised to lend up to 20% of its Gross Asset Value (as defined in the Trust Deed) to 'A' rated counterparties.
- 6.2. **New Issues.** Underwriting new issues of share issues.
- 6.3. **Borrowing.** The Fund is authorised to borrow up to 25% of its Gross Asset Value to invest in Authorised Investments, subject to the consent of the Supervisor.

7. Investment policies

7.1. Liquidity

Sufficient liquidity will be held to cover reasonably anticipated redemptions of units in the Fund and, if necessary, there is a general authorisation to borrow up to 5% of the market value of the Fund to cover settlement requirements. Such borrowing will be for a maximum period of 15 business days and in each instance the Supervisor will be advised. The Supervisor may at any time require that no further borrowing shall be undertaken in respect of the Fund.

7.2. Valuation

The purchase price of securities entering the 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 Fund. For exiting and new unit holders this will be the basis of their exit and issue unit price respectively.

7.3. Derivatives

Derivatives may not be used to leverage the Fund, or if the effect is to increase the portfolio risk beyond what it would have been had the 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

The Fund 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 Act (where applicable). The key constraint is that such transactions must be entered into on ordinary commercial arm's-length terms. 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. As practicable, this foreign currency risk will be removed by currency hedging. A complete hedge is not totally 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 New Zealand dollar market 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. In between times the hedge ratio will be allowed to move between 40% and 60%.

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 funds whose currency exposure is hedged. Because there may be difficulty in controlling cash movements and recognising that it is 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 a further hedge between Australian and New Zealand dollars may be both costly and logistically difficult. Given the relatively high correlation between Australian and New Zealand dollars it is considered that any exposure from holding uncovered Australian dollars is acceptable.

8. Monitoring

- 8.1. We will review the performance of the Fund and the underlying investment managers quarterly. This review will compare the return of the Fund over the quarter against its peers (as nearly as these might be identified by agreement between us and the Supervisor), as well as each component of its portfolio against the relevant Benchmark.
- 8.2. The performance standard expected to be observed is that the 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 the 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 the 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. Once the Fund becomes a registered scheme under the Act, the most current version of the SIPO will be available on the Fund's managed investment schemes register entry with the Registrar of Financial Service Providers at <http://www.business.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 investment/underlying fund's assets under management over a rolling one year period (due to redemptions, not market movements) or total investment/underlying fund assets falling below \$25 million at any time
- A change in the investment/underlying fund's investment style, diversification and/or risk factor tilting
- An increase in the investment/underlying fund's fees
- The investment/underlying 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 investment/underlying fund
- An extraordinary event which we consider has impacted or may interfere with the investment/underlying 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 investment/underlying fund has breached its enhanced due diligence thresholds.

In general, if an investment/underlying 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 investment/underlying fund management team
- Regression analysis and/or attribution analysis
- Peer review
- Reconfirmation, if the investment/underlying fund is still the preferred choice relative to other alternatives

If the investment/underlying 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 an investment/underlying fund cannot be determined by a simple formula. Selecting investment/underlying 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 investment/underlying fund mandate in the future will play a part in the decision to retain or replace an investment/underlying fund.

Once an investment/underlying fund has been reviewed in relation to a specific threshold breach, then, assuming the investment/underlying 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 investment/underlying 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

FANZ undertakes 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 Fund.

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.

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 the adviser 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 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 unit holders of the proposed change. The decision as to whether or not a change is material rests with the Supervisor.

Each updated or amended SIPO will contain an effective date. Once the Fund becomes a registered scheme, 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 SIPO:

“**Benchmark**” means the index against which we measure the performance of the Fund. As at the date of this SIPO, they are:

- (a) **NZ Cash:** CSFB 90 Day Bank Bill Index
- (b) **Offshore Equities:** MSCI World Index with net dividends reinvested.

“**Benchmark asset allocation**” means the Fund’s long-term average expected weighting for each type of asset (i.e. the proportion of the 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.

“**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 / Cash**” means deposits guaranteed by entities whose short term rating is at least A1 with a maturity of no more than 180 days at the time of purchase. Floating rate notes with a final maturity of more than 180 days are not authorised (irrespective of the frequency of rate setting).

“**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 Fund. As at the date of this SIPO, the underlying managers are named in section 5.