

NZFUNDS

NZ Funds

WealthBuilder

Income Generator

Advised Portfolio Service

Statement of Investment Policy & Objectives

21 OCTOBER 2020

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1. DESCRIPTION OF THE PORTFOLIOS

This Statement of Investment Policies and Objectives (SIPO) relates to the funds offered under the NZ Funds Advised Portfolio Service, NZ Funds WealthBuilder, and NZ Funds Income Generator. Together they are referred to throughout this document as Portfolios.

The manager of the Portfolios is New Zealand Funds Management Limited (NZ Funds, our, us, or we). The supervisor of the Portfolios is The New Zealand Guardian Trust Company Limited (Supervisor). The Portfolios and the Product Disclosure Statement (PDS) under which they are offered is set out below.

PDS	PORTFOLIO
NZ Funds Advised Portfolio Service	Core Cash Portfolio
	Core Income Portfolio
	Global Income Portfolio
	Core Inflation Portfolio
	Equity Inflation Portfolio
	Property Inflation Portfolio
	Core Growth Portfolio
	Global Equity Growth Portfolio
	Dividend and Growth Portfolio
NZ Funds WealthBuilder	NZ Funds WealthBuilder – Income Strategy
	NZ Funds WealthBuilder – Inflation Strategy
	NZ Funds WealthBuilder – Growth Strategy
NZ Funds Income Generator	NZ Funds Income Generator

The Portfolios are established within two managed investment schemes (each a Scheme) registered under the Financial Markets Conduct Act 2013 (FMC Act). The Core Inflation Portfolio and Equity Inflation Portfolio are established under the 'NZ Funds Managed Portfolio Service Part One' scheme, while all of the other Portfolios are established under the 'NZ Funds Managed Portfolio Service Part Two' scheme. This SIPO covers all of the Portfolios offered under both Schemes.

More information on each Portfolio is included in the relevant PDS. This document should be read together with the relevant PDS. Each PDS contains more information on the Portfolios. The terms used in this document are defined in the Glossary on page 11.

2. PHILOSOPHY & OVERVIEW

NZ Funds is a wealth management specialist. We define wealth management as helping New Zealanders achieve their investment goals. We believe the most reliable way for New Zealanders to do this is by using an advised portfolio service.

Our approach to wealth management aims to provide investors with a financial strategy to achieve their investment goals and regular access to financial advisers to help them make informed financial decisions. NZ Funds Private Wealth advisers, and the independent advisers we work with, help investors create portfolios by allocating their investment among one or more Portfolios offered under the Advised Portfolio Service, WealthBuilder or Income Generator depending on the investor's objectives.

The Portfolios offered under the Advised Portfolio Service are grouped into four investment categories: Cash, Income, Inflation and Growth. Each category has an investor-orientated investment objective. While the objectives for each Portfolio in an investment category may be the same or similar, the assets which a Portfolio holds in order to meet the objectives, will generally differ. This diversified approach to meeting investor-orientated investment objectives is designed to increase the reliability with which those objectives are met over time.

The Portfolios offered under WealthBuilder are designed for individuals saving for retirement or a specific goal. WealthBuilder offers two ways to invest, using either SelfSelect or LifeCycle. SelfSelect offers investors the ability to determine their own asset allocation using the three WealthBuilder Portfolios: Income, Inflation and Growth. LifeCycle automatically allocates investors across the three WealthBuilder Portfolios each year based on their age. It is designed to ensure that an investor's asset allocation is consistent with their investment timeframe.

Income Generator is designed for an investor seeking income from dividend payments who also wishes to have the volatility of dividend paying shares reduced. To achieve this, the Portfolio primarily invests in dividend paying New Zealand and Australian shares and uses options to seek to mitigate share market volatility.

Our goal is to ensure investors in our Portfolios own a diversified portfolio with downside mitigation where appropriate. Our active management approach seeks to maintain a balance between preserving investors' capital and growing their wealth over time in a way that is consistent with each Portfolio's objective. It also seeks to ensure that over the economic cycle, investors who own a range of different Portfolios are exposed to both active and passively managed investments and have their investment across New Zealand and international investment markets.

3. PORTFOLIO APPROACH

The tables on pages 4 and 5 set out the investment objective and strategy, permitted assets, target investment mix and minimum suggested investment timeframe for the Portfolios.

USE OF THE PORTFOLIOS

The Portfolios offered under the Advised Portfolio Service are designed to be used in combination and not as stand-alone investments. All Portfolios are intended to be used in conjunction with a financial advice process and are designed for investors saving for retirement or for a specific goal, or who are in retirement.

We strongly encourage investors to work with a financial adviser to develop a financial plan and a corresponding investment portfolio specific to their goals, investing timeframe and attitude towards risk, and to regularly review their financial plan and investment portfolio with their financial adviser.

The Portfolios offered under WealthBuilder are designed to be used either in combination or as stand alone investments. WealthBuilder also offers a lifecycle investment option which automatically allocates investors across the three WealthBuilder Portfolios each year based on their age.


Income Generator has been designed as a stand-alone investment. However, NZ Funds recommends investors seek financial advice as to whether it is appropriate for them.

INVESTMENT STRUCTURE




The Portfolios currently invest in a series of Wholesale Trusts managed by NZ Funds which hold the investments. The investments may include directly held securities and/or investments in funds, managed by us or specialist investment managers chosen by us.

The Wholesale Trust investment structure provides operational and administrative efficiencies. This investment structure means that a review of a Portfolio's investments will mainly occur at the Wholesale Trust level, having regard to the Portfolio's objective and risk profile. The Portfolios may also invest directly in cash and cash equivalents, derivatives and other assets.

INCOME GENERATOR PORTFOLIO



NAME	OBJECTIVE	PERMITTED ASSETS		STRATEGY SUMMARY / TARGET INVESTMENT MIX ¹	MINIMUM SUGGESTED TIMEFRAME
NZ Funds Income Generator Portfolio	To provide a source of income and return by primarily investing in dividend paying shares; and derivatives including options.	Cash and cash equivalents New Zealand fixed interest International fixed interest Australasian equities International equities Listed property Alternative securities		Anticipated to primarily hold New Zealand and Australian shares; and derivatives including options. <ul style="list-style-type: none"> ● Cash and cash equivalents 5% ● Australasian equities 85% ● Listed property 10% 	5 years+

WEALTHBUILDER PORTFOLIOS

NAME	OBJECTIVE	PERMITTED ASSETS		STRATEGY SUMMARY / TARGET INVESTMENT MIX ¹	MINIMUM SUGGESTED TIMEFRAME
NZ Funds WealthBuilder – Income Strategy	To provide exposure to income assets.	Cash and cash equivalents New Zealand fixed interest International fixed interest Alternative securities		Anticipated to mainly hold New Zealand, Australian and international bonds. <ul style="list-style-type: none"> ● Cash and cash equivalents 8% ● New Zealand fixed interest 45% ● International fixed interest 47% 	2 years+
NZ Funds WealthBuilder – Inflation Strategy	To mitigate the impact of inflation on your investment over the medium and/or long-term.	Cash and cash equivalents New Zealand fixed interest International fixed interest Australasian equities International equities Listed property Commodities Alternative securities		Anticipated to mainly hold New Zealand, Australian and international bonds and shares. <ul style="list-style-type: none"> ● Cash and cash equivalents 5% ● New Zealand fixed interest 12% ● International fixed interest 13% ● Australasian equities 29% ● International equities 38% ● Listed property 3% 	5 years+
NZ Funds WealthBuilder – Growth Strategy	To grow your investment over the long term.	Cash and cash equivalents Australasian equities International equities Listed property		Anticipated to mainly hold New Zealand, Australian and international shares, and/or hedge funds. <ul style="list-style-type: none"> ● Cash and cash equivalents 5% ● Australasian equities 25% ● International equities 67% ● Listed property 3% 	10 years+

1. The Portfolios may be invested in permitted assets in any proportion. The target investment mix is anticipated only and the Portfolio's actual asset allocation is expected to vary significantly over the course of an economic cycle.

ADVISED PORTFOLIO SERVICE PORTFOLIOS

NAME	OBJECTIVE	PERMITTED ASSETS	STRATEGY SUMMARY / TARGET INVESTMENT MIX ¹	MINIMUM SUGGESTED TIMEFRAME
Core Cash Portfolio	To provide a source of capital.	Cash and cash equivalents New Zealand fixed interest International fixed interest	 <p>Anticipated to mainly hold cash and cash equivalents.</p> <ul style="list-style-type: none"> Cash and cash equivalents 100% 	1 month+
Core Income Portfolio	To provide exposure to income assets.	Cash and cash equivalents New Zealand fixed interest International fixed interest Alternative securities	 <p>Anticipated to mainly hold New Zealand and Australian bonds.</p> <ul style="list-style-type: none"> Cash and cash equivalents 10% New Zealand fixed interest 90% 	2 years+
Global Income Portfolio			 <p>Anticipated to mainly hold international bonds.</p> <ul style="list-style-type: none"> Cash and cash equivalents 5% International fixed interest 95% 	2 years+
Core Inflation Portfolio	To mitigate the impact of inflation on your investment over the medium and/or long term.	Cash and cash equivalents New Zealand fixed interest International fixed interest Australasian equities International equities Listed property Commodities Alternative securities	 <p>Anticipated to mainly hold New Zealand, Australian and international bonds, and New Zealand and Australian shares.</p> <ul style="list-style-type: none"> Cash and cash equivalents 5% New Zealand fixed interest 12% International fixed interest 13% Australasian equities 64% Listed property 6% 	5 years+
Equity Inflation Portfolio			 <p>Anticipated to mainly hold New Zealand, Australian and international bonds, and international shares.</p> <ul style="list-style-type: none"> Cash and cash equivalents 5% New Zealand fixed interest 12% International fixed interest 13% International equities 70% 	5 years+
Property Inflation Portfolio			 <p>Anticipated to mainly hold New Zealand, Australian and international bonds, and property and infrastructure shares.</p> <ul style="list-style-type: none"> Cash and cash equivalents 5% New Zealand fixed interest 12% International fixed interest 13% Listed property 70% 	5 years+
Core Growth Portfolio	To grow your investment over the long term.	Cash and cash equivalents New Zealand fixed interest International fixed interest Australasian equities International equities Listed property Commodities Alternative securities	 <p>Anticipated to mainly hold hedge funds and/or international shares.</p> <ul style="list-style-type: none"> Cash and cash equivalents 5% International equities 95% 	10 years+
Global Equity Growth Portfolio			 <p>Anticipated to mainly hold international shares.</p> <ul style="list-style-type: none"> Cash and cash equivalents 5% International equities 95% 	10 years+
Dividend and Growth Portfolio			 <p>Anticipated to mainly hold New Zealand and Australian shares.</p> <ul style="list-style-type: none"> Cash and cash equivalents 5% Australasian equities 85% Listed property 10% 	10 years+

1. The Portfolios may be invested in permitted assets in any proportion. The target investment mix is anticipated only and the Portfolio's actual asset allocation is expected to vary significantly over the course of an economic cycle.

4. INVESTMENT APPROACH

ACTIVE MANAGEMENT

NZ Funds takes an active approach to managing each Portfolio. Our active management approach is designed to enable us to better meet the investor-orientated objectives of each Portfolio and to take advantage of investment opportunities as they arise.

DYNAMIC ALLOCATIONS

As part of our active management approach, each Portfolio's asset allocation is dynamic (able to change over time) rather than strategic (a fixed allocation over time). NZ Funds' Investment Team selects each Portfolio's asset allocation at any time based on their investment knowledge and/or research, and considering each Portfolio's investment objective and risk profile.

ACTIVE RISKS

The way we implement our active management approach may change over time as, for example, the nature of the investment opportunities we see changes. This may result in the Portfolios being constructed with different combinations of investments. To allow these changes to occur, each Portfolio has a wide mandate.

Our active management approach and wide mandates mean an investment in the Portfolios is subject to different risks (which may be considered higher risks) than a non-active management approach. As a result, our active management approach may cause the returns and capital stability of a Portfolio to significantly differ from the returns and capital stability of the underlying asset classes used.

WIDE MANDATES

All Portfolios have wide investment mandates. This means that while there may be long-term target asset allocations for Portfolios, in managing each Portfolio, NZ Funds can take a wide range of actions and is not constrained by a benchmark or target. The actions we may take include (but are not limited to):

- altering the proportion invested in each security or asset class;
- altering the manner in which a Portfolio is exposed to each security or asset class;
- investing directly or indirectly;
- using derivatives and leverage;
- using collective investment vehicles;
- using specialist investment managers (including hedge funds);
- using commodities and alternative assets (including digital assets, such as cryptocurrencies);

- taking foreign currency positions;
- applying hedging; or
- taking short positions.

INVESTMENT MANAGERS

We may select specialist investment managers (including hedge funds) where we consider that the manager's investment approach will help meet the objectives of the Portfolios. Specialist investment managers can complement our own investment skills and provide investors with access to diverse investment approaches.

The appointment of specialist investment managers is subject to due diligence and an approval process. In addition, all specialist investment managers are subject to monitoring and review, including consideration of the manager's performance, portfolio composition, and statistical measures of effectiveness.

The specialist investment managers may change over time as part of our active management approach. The current specialist investment managers NZ Funds works with can be found on our website at www.nzfunds.co.nz.

FOREIGN CURRENCY

We actively manage the foreign currency exposure of each Portfolio. Where a Portfolio holds assets denominated in a foreign currency, we have the choice of whether to hedge back to the New Zealand dollar or retain a foreign currency exposure. Irrespective of whether a Portfolio hold investments in that currency, a Portfolio can also hold active foreign currency positions by investing in non-New Zealand dollar cash or foreign currency derivatives.

INCOME GENERATOR

The objective of Income Generator is to provide a source of income and return by primarily investing in dividend paying shares, and derivatives including options. It is anticipated that the Portfolio will purchase predominantly dividend paying shares and buy put options to limit the downside. To fund the purchase of put options, the Portfolio may write call options. The levels at which the options are implemented will be dependent on market conditions and NZ Funds' investment view.

The target allocation is for 100% of the shares in the Portfolio to have put options to limit the downside. However, the target hedging level may vary over the course of an economic cycle dependent on market conditions and NZ Funds' investment view.

5. INVESTMENT PROCESS

COLLABORATIVE PROCESS

We take a collaborative approach to investment management and believe investment performance is a collectively achieved outcome. Each Portfolio is assigned one or more portfolio managers who are responsible for overseeing the daily management of the Portfolio.

Investment decisions, with some exceptions, are primarily made through a series of internal investment meetings attended mainly by members of NZ Funds' Investment and Compliance Teams. These meetings enable portfolio managers and investment analysts to present investment research and thinking in a way that encourages wide participation in, and peer review of, investment decisions.

Not all investment decisions follow the same investment process. For example, trading derivatives may require investment individuals to react quickly and autonomously. NZ Funds has a process to monitor and record such investments when they occur.

TOOLS & TECHNIQUES

In managing the Portfolios, we use a wide range of investment tools and techniques including economic and financial modelling, quantitative screens and technical indicators. In using these tools and techniques, we may consider, amongst other factors, investment themes, valuation metrics, mean reversion and/or momentum.

In seeking to mitigate the downside, we may invest with specialist investment managers some of who have the potential to profit from asset price declines, such as trend following managers, managers who take short positions in shares, and derivative and option specialists.

We may also actively reduce a Portfolio's exposure to an asset class, or hedge a Portfolio's exposure by investing in one or more additional asset classes with the potential to offset the returns of the Portfolio's initial assets.

While designed to mitigate the downside, these downside-orientated managers, tools and techniques may not be successful in mitigating the downside and may instead add to a Portfolio's losses.

We may also use the same tools and techniques to seek to enhance the returns of a Portfolio and, in doing so, the Portfolio may be leveraged.

PORTFOLIO CONSTRUCTION

As part of our active management, asset classes, securities and specialist investment managers are selected based on our analysis of those assets which will, in our opinion, in combination with the Portfolio's other investments, help achieve the Portfolio's objectives.

In constructing the Portfolios, we consider different scenarios and may project how investments may react in those scenarios. We may also consider historical volatility and correlations during both normal and stressed investment environments and may periodically revisit the assumptions used as economic and market conditions change.

RESPONSIBLE INVESTMENT

NZ Funds has adopted a Responsible Investment Policy to seek to invest responsibly. NZ Funds believes that environmental, social and governance (ESG) factors are material to long-term investment returns and global sustainability. NZ Funds' investment team considers ESG matters. NZ Funds has contracted with an independent third party expert to provide ESG research. NZ Funds' investment team may supplement independent third party ESG research with its own internally generated research.

NZ Funds' Investment Team aims to ensure that no Portfolio or Wholesale Trust it manages owns securities issued by a company identified by its ESG research to be:

- directly involved in the manufacture or deployment of nuclear weapons;
- directly involved in the manufacture or deployment of controversial weapons (cluster munitions, anti-personnel mines, chemical weapons);
- materially contravening global norms (human rights abuses, labour rights violations, child labour, slavery, environmental destruction, corruption);
- a producer of civilian firearms;
- a producer of tobacco-related products;
- a producer of pornography;
- engaged in unsustainable palm oil production;
- a producer of alcohol (10% or more of revenue);
- a producer of armaments (10% or more of revenue);
- a provider of gambling services (10% or more of revenue);
- engaged in exploration or production of fossil fuels (10% or more of revenue);

- engaged in power generation from fossil fuels (10% or more of revenue);
- engaged in providing services to the fossil fuels industry (50% or more of revenue); or
- engaged in distributing fossil fuels (50% or more of revenue).

These are referred to as exclusions. NZ Funds' Investment Team communicates the Responsible Investment Policy to specialist investment managers. Where a specialist investment manager is appointed to manage a discrete mandate (where NZ Funds is the only investor) the manager will be instructed to follow NZ Funds' exclusions.

Where a specialist investment manager is appointed to manage a pooled mandate (where NZ Funds is one of many investors), the manager will be requested to consider NZ Funds' exclusions. Investors should be aware that NZ Funds cannot obligate the manager of a pooled mandate to follow NZ Funds' exclusions. As part of its due diligence process when appointing a specialist investment manager, NZ Funds will consider the manager's approach to responsible investing.

NZ Funds' Responsible Investment Policy does not cover derivatives, including futures and options of any kind, as they do not fund companies in the same way as issued securities.

The Responsible Investment Policy is supported by a procedure that regularly monitors direct holdings, including those managed by specialist investment managers appointed to manage discrete mandates. If the procedure identifies any holdings that are not in line with the policy, they will be sold.

Exemptions to the Responsible Investment Policy may be granted from time to time at the discretion of the NZ Funds Board.

6. INVESTMENT OVERSIGHT

OVERVIEW

We have policies, procedures and controls that cover the investment function. Portfolio management decisions are subject to daily transparency through our proprietary investment monitoring system. Regular meetings are held to cover investment research and portfolio management, investment guidelines, SIPO compliance, and overall investment governance.

Our investment strategy review process commences with the Research & Portfolio Meeting which includes oversight of security research and portfolio management. The minutes of these meetings are tabled at the Investment Committee meeting.

The Investment Guidelines Meeting monitors compliance with the internal investment guidelines (see below for more information on the role of the investment guidelines). Any material matters arising from these meetings are raised at the Investment Committee meeting.

Overall responsibility for investment process review and monitoring rests with the Investment Committee under delegated authority from the NZ Funds Board. The Investment Committee meets at least six times a year to review investment matters, including investment performance, risk indicators, the investment component of NZ Funds' risk register, investment counterparty risk, liquidity risk, redemption risk, stress testing, and the minutes of internal investment related meetings. The Investment Committee minutes are included as a standing item at the NZ Funds Board meeting.

The NZ Funds Board meets approximately six weekly. In addition to the Investment Committee minutes and associated reports, the NZ Funds Board reviews NZ Funds' risk register overview which summarises the major risks and controls (including those related to investment management). The NZ Funds Board also receives a direct report from the Chief Investment Officer at each meeting.

INVESTMENT GUIDELINES

We have developed internal investment guidelines which assist in the oversight of each Portfolio. These guidelines are designed to help ensure that each Portfolio invests in accordance with its investment objective and risk profile.

As part of our active management approach, the guidelines may be amended from time to time. Guidelines, and any changes to them, must be approved by the Investment Committee and ratified or approved by the NZ Funds Board. We also notify the Supervisor of guideline changes.

INVESTMENT PERFORMANCE

The Investment Committee is responsible for monitoring and reviewing investment performance and reports to the NZ Funds Board. Portfolio performance is monitored through our proprietary investment monitoring system. The system generates a daily attribution report which includes daily, month to date and year to date performance reports for each Portfolio and individual investments held by each Portfolio.

Performance is measured on an absolute basis (after fees), and on a relative basis (before fees) against term deposits and one or more, or a combination of, relevant market indices. Investment performance is also considered from a client perspective by taking recommended portfolio allocations into account when assessing performance outcomes.

7. INVESTMENT POLICIES

We have investment policies and procedures to support our investment governance framework. The key policies are summarised below. Each of these policies and any material changes to them (except where otherwise noted) are approved by the relevant Board subcommittee and the NZ Funds Board. The policies are set by the relevant subcommittee and where applicable approved by the NZ Funds Board. The policies are implemented by the relevant functional team(s) and monitored by NZ Funds' Compliance Team.

TRADE ALLOCATION POLICY

Our trade allocation policy applies to the trading of securities that are directly managed by us. It requires that when allocating trades, no Portfolio receives preferential treatment over another by requiring that all trades involving more than one Portfolio be allocated on a predetermined basis.

TRADE EXECUTION POLICY

Our trade execution policy applies to the trading of securities that are directly managed by us. It requires that all trades are made with approved counterparties.

INVESTMENT GUIDELINES POLICY

Our investment guidelines policy applies to the administration and monitoring of the permitted assets set out in this SIPO and the guidelines set out in the investment guidelines. It requires that all Portfolios are managed within the limits set out in this SIPO and the investment guidelines, and describes the process for changing these limits. It also describes the internal process for dealing with a SIPO limit break or investment guideline being exceeded.

SETTLEMENT & CASH MANAGEMENT POLICY

Our settlement and cash management policy applies to the settlement of investments and cash management transactions made by us. It requires that all settlement and cash management transactions comply with the Trust Deeds and internal investment guidelines, and are authorised for payment by a person with the appropriate level of authority.

VALUATION & PRICING POLICY

Our valuation and pricing policy applies to the valuation and pricing of the Portfolios and the Wholesale Trusts that the Portfolios invest in. It requires that valuation and pricing is accurate, equitable and complies with the Trust Deeds. The policy sets out procedures for the valuation of assets and determination of unit prices.

We have also established procedures for reporting and resolving any pricing errors or non-compliance with pricing methodologies.

CONFLICTS OF INTEREST POLICY

Our conflicts of interest policy applies to the identification and management of actual or potential conflicts of interest. It requires that all conflicts of interest be reported to NZ Funds' Compliance Team and managed in an appropriate manner.

The policy is complemented by our personal holdings policy (which contains restrictions on employees holding or trading in securities) and our related party transactions policy (discussed on page 10).

The conflicts of interest policy is approved by the NZ Funds Board and any material changes require the approval of the NZ Funds Board.

RESPONSIBLE INVESTMENT POLICY

Our responsible investment policy applies to the selection of securities for the Portfolios and requires that the investment research and management process considers environmental, social and governance (ESG) matters.

The policy requires that no fund managed by us, and no discrete mandate managed on our behalf by a specialist investment manager, will hold securities issued by any company identified by our ESG research to be in breach of the ESG criteria, discussed in more detail on page 7. It also requires that the policy be communicated to the specialist investment managers appointed to manage pooled mandates, where we are one of many investors, while acknowledging that we cannot obligate these managers to comply with the policy.

The policy does not cover derivatives, including futures and options of any kind, as they do not fund companies in the same way as issued securities. The policy also sets out a process for obtaining an exemption.

RELATED PARTY TRANSACTIONS POLICY

Our related party transactions policy applies to all related party transactions (as defined in the FMC Act). The policy sets out processes for identifying related party transactions and ensures that these transactions are conducted in accordance with the rules on related party transactions that apply to managed investment schemes under the FMC Act.

DERIVATIVES POLICY

Our derivatives policy applies to investments in derivatives. It considers derivatives to be part of the asset class of the relevant underlying assets and requires that we consider the complexity, liquidity risks, counterparty risks and price transparency of them as part of the investment decision-making process.

LIQUIDITY POLICY

Our liquidity policy applies to the selection of securities for the Portfolios. It imposes restrictions on holding certain amounts of securities that are, or may be, illiquid.

MARKET CONDUCT POLICY

Our market conduct policy applies to the trading of securities directly managed by us and the trading of units or shares in collective investment vehicles, irrespective of whether they are listed or not. It also applies to making or disseminating statements. The policy requires that non-public information known by one of our employees must be notified to NZ Funds' Compliance Team who may place a trading halt on a security or Portfolio.

8. MARKET INDICES

In the quarterly fund updates, we are required to report performance against an appropriate market index or indices.

The relevant market indices for each Portfolio are set out in the Appendix. In the quarterly fund updates the returns of these indices are reported gross, without the deduction of any fees or tax which would, in normal circumstances, be deducted from investor returns.

For Income Generator there is no appropriate market index to measure its performance against. We have therefore chosen to use a peer group index to measure its performance against in the quarterly fund updates.

We may change the market indices (or peer group index) at any time and without notice to investors, as long as the requirements of the FMC Act are met. For more information on the market indices (or peer group index), see the relevant 'Other Material Information' document on the offer register at disclose-register.companiesoffice.govt.nz.

9. SIPO REVIEW

The NZ Funds Board is responsible for this SIPO and ensuring that this SIPO is followed. This SIPO is reviewed by the NZ Funds Board annually. Ad hoc reviews will occur where there is a material change in the investment policy or objectives of a Portfolio, where there is a material change to the PDS, or where considered appropriate by the Investment Committee or the NZ Funds Board.

We may make changes to the SIPO at any time after consulting with the Supervisor. A description of any material changes will be included in each Scheme's annual report. Where required by the relevant Trust Deed or law, investors will receive notice of material changes before they occur.

This SIPO takes effect from 21 October 2020. The current version of this SIPO is available on the scheme register at disclose-register.companiesoffice.govt.nz.

10. GLOSSARY

TERM	DEFINITION
Advised Portfolio Service Portfolios	The Portfolios offered under the NZ Funds Advised Portfolio Service PDS.
Alternative securities	Asset classes not usually accessed by retail investors, for example, private equity, venture capital, hedge funds and digital assets (such as cryptocurrencies). These tend to be asset classes where valuation and liquidity may be uncertain and returns may be volatile. Includes derivatives on alternative securities.
Asset class	<p>These are the available asset classes that the Portfolios may invest in. The Portfolios can purchase the assets either directly, or indirectly through derivatives. Not all Portfolios can invest in all asset classes. The asset classes are:</p> <ul style="list-style-type: none">• Cash and cash equivalents• New Zealand fixed interest• International fixed interest• Australasian equities• International equities• Listed property• Commodities• Alternative securities <p>The above asset classes are from the Financial Markets Conduct Regulations 2014 (Regulations), except for 'alternative securities' which falls under 'Other' in the Regulations. These are the same asset classes used in the quarterly fund updates.</p>
Australian bonds	Debt securities issued in Australia and derivatives on Australian bonds. For regulatory and quarterly fund update purposes, debt securities issued in Australia are classified as 'international fixed interest'.
Australasian shares/ equities	Shares listed on New Zealand or Australian stock exchanges and derivatives on New Zealand or Australian shares.
Cash and cash equivalents	Cash, or other assets that can be readily converted into cash, including bank term deposits and short term debt securities.
Commodities	A product which is, for example, agricultural, mineral or energy related, and is interchangeable with another product of the same type, and which may be bought or sold directly or indirectly through derivatives or an exchange traded fund.
Cryptocurrencies	Forms of currency that only exist digitally and that usually have no central issuing or regulating authority but instead use a decentralised system to record transactions and manage the issue of new units. Cryptocurrencies rely on cryptography to prevent counterfeiting and fraudulent transactions. An example of a cryptocurrency is Bitcoin.

TERM	DEFINITION
Debt securities	Securities issued by an entity to enable it to borrow money. Debt securities cover a wide range of issuing entities and security types. Debt securities include (but are not limited to) corporate and government bonds, loans, floating rate securities and zero-coupon bonds. Includes derivatives on debt securities.
Derivatives	Financial instruments the value of which is derived from changes in the value of another asset (for example, a share market index, a commodity, a bond, or a currency). Examples of derivatives include futures, options, forwards, swaps and swaptions.
Growth assets	Investments where the return is expected to be made up predominantly of capital gains and losses over the investment period and/or investments where the expected yield or return of capital is relatively high. Shares are usually referred to as growth assets. Growth assets can include derivatives.
Hedge funds	Alternative investment vehicles generally only available to institutional and other sophisticated investors. Hedge funds typically have an absolute performance objective. They can invest in a wide variety of assets and use non-traditional investment techniques (for example, short selling, leverage, arbitrage and derivatives).
Income assets	Investments where the return is expected to be made up predominantly of interest income. Cash and cash equivalents and debt securities are usually referred to as income assets. Income assets can include derivatives.
Income Generator	The Portfolio offered under the NZ Funds Income Generator PDS.
Infrastructure shares/ equities	Shares in transportation, communication, utility and other infrastructure companies. Includes derivatives on infrastructure shares/equities.
International bonds	Debt securities issued outside New Zealand and Australia, including derivatives on international bonds. For regulatory and quarterly fund update purposes, all debt securities issued outside New Zealand are classified as 'international fixed interest'.
International shares/ equities	Shares listed on stock exchanges (other than New Zealand or Australian stock exchanges) and derivatives on international shares. International shares also include collective investment vehicles which invest in international shares including equity long/short hedge funds.
Investment Committee	The NZ Funds Investment Committee that reports to the NZ Funds Board.
Listed property	Shares/equities listed on stock exchanges which own or invest in property, buildings or land, and derivatives on listed property.
Net asset value	The value of the assets of a Portfolio, less any liabilities.
New Zealand bonds	Debt securities issued in New Zealand and derivatives on New Zealand bonds. For regulatory and quarterly fund update purposes, debt securities issued in New Zealand are classified as 'New Zealand fixed interest'.
NZ Funds	New Zealand Funds Management Limited.
Portfolios	The Advised Portfolio Service Portfolios, WealthBuilder Portfolios, and Income Generator.
Short positions	An investment technique that seeks to profit from a fall in the price of a security.

TERM	DEFINITION
Property shares/equities	Shares in companies which own or invest in property, buildings or land and derivatives on property shares. May also include companies which have large exposure to property, buildings or land. For regulatory and quarterly fund update purposes, these shares may be classified as 'listed property' or 'international equities'.
Schemes	The managed investment scheme registered under the name 'NZ Funds Managed Portfolio Service Part One' and the managed investment scheme registered under the name 'NZ Funds Managed Portfolio Service Part Two'.
Specialist investment manager	External managers selected by NZ Funds who may manage a portfolio of securities directly held by a Wholesale Trust or an underlying fund in which a Wholesale Trust invests and includes derivatives on specialist investment managers.
Supervisor	The New Zealand Guardian Trust Company Limited.
Trust Deeds	The NZ Funds Managed Portfolio Service Part One trust deed and the NZ Funds Managed Portfolio Service Part Two trust deed, both dated 12 October 2016.
WealthBuilder Portfolios	The Portfolios offered under the NZ Funds WealthBuilder PDS.
Wholesale Trusts	The wholesale trusts managed by NZ Funds which the Portfolios invest in.

11. APPENDIX

ADVISED PORTFOLIO SERVICE PORTFOLIOS – MARKET INDICES

PORTFOLIO	MARKET INDICES
Core Cash Portfolio	100% S&P/NZX Call Rate Deposit Index Total Return
Core Income Portfolio	100% S&P/NZX Investment Grade Corporate Bond Index Total Return
Global Income Portfolio	100% Bloomberg Barclays Global Aggregate Corporate Total Return Index Hedged USD
Core Inflation Portfolio	30% S&P/NZX Bank Bills 90 Day Total Return 50% S&P/NZX 50 Portfolio Index Gross with Imputation 20% S&P/ASX Accumulation 200 Index
Property Inflation Portfolio	30% S&P/NZX Bank Bills 90 Day Total Return 35% S&P/NZX All Real Estate Industry Group Gross with Imputation 35% FTSE EPRA/NAREIT Developed Total Return Index USD
Equity Inflation Portfolio	30% S&P/NZX Bank Bills 90 Day Total Return 70% MSCI All Countries World Daily TR Net Local Currency
Core Growth Portfolio	100% MSCI All Countries World Daily TR Net Local Currency
Global Equity Growth Portfolio	100% MSCI All Countries World Daily TR Net Local Currency
Dividend and Growth Portfolio	30% S&P/ASX Accumulation 200 Index 70% S&P/NZX 50 Portfolio Index Gross with Imputation

WEALTHBUILDER PORTFOLIOS – MARKET INDICES

PORTFOLIO	MARKET INDICES
NZ Funds WealthBuilder – Income Strategy	50% S&P/NZX Investment Grade Corporate Bond Index Total Return 50% Bloomberg Barclays Global Aggregate Corporate Total Return Index Hedged USD
NZ Funds WealthBuilder – Inflation Strategy	30% S&P/NZX Bank Bills 90 Day Total Return 25% S&P/NZX 50 Portfolio Index Gross with Imputation 10% S&P/ASX Accumulation 200 Index 35% MSCI All Countries World Daily TR Net Local Currency
NZ Funds WealthBuilder – Growth Strategy	70% MSCI All Countries World Daily TR Net Local Currency 20% S&P/NZX 50 Portfolio Index Gross with Imputation 10% S&P/ASX Accumulation 200 Index
LifeCycle: age 0-54	3.0% S&P/NZX Bank Bills 90 Day Index Total Return 2.5% S&P/NZX Investment Grade Corporate Bond Index Total Return 2.5% Bloomberg Barclays Global Aggregate Corporate Total Return Index Hedged USD 19.5% S&P/NZX 50 Portfolio Index Gross with Imputation 9.5% S&P/ASX Accumulation 200 Index 63.0% MSCI All Countries World Daily TR Net Local Currency
LifeCycle: age 65	10.2% S&P/NZX Bank Bills 90 Day Index Total Return 13.5% S&P/NZX Investment Grade Corporate Bond Index Total Return 13.5% Bloomberg Barclays Global Aggregate Corporate Total Return Index Hedged USD 16.3% S&P/NZX 50 Portfolio Index Gross with Imputation 7.3% S&P/ASX Accumulation 200 Index 39.2% MSCI All Countries World Daily TR Net Local Currency
LifeCycle: age 75	10.2% S&P/NZX Bank Bills 90 Day Index Total Return 17.5% S&P/NZX Investment Grade Corporate Bond Index Total Return 17.5% Bloomberg Barclays Global Aggregate Corporate Total Return Index Hedged USD 14.7% S&P/NZX 50 Portfolio Index Gross with Imputation 6.5% S&P/ASX Accumulation 200 Index 33.6% MSCI All Countries World Daily TR Net Local Currency

INCOME GENERATOR – PEER GROUP INDEX

PORTFOLIO	PEER GROUP INDEX
NZ Funds Income Generator	Credit Suisse AllHedge Long/Short Equity Index

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