

NZFUNDS

NZ Funds Managed Portfolio Service

NZ Funds Trust Investment Series

**Statement of Investment Policy and Objectives**

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1 April 2019

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## 1. DESCRIPTION OF THE NZ FUNDS MANAGED PORTFOLIO SERVICE AND THE NZ FUNDS TRUST INVESTMENT SERIES

The NZ Funds Managed Portfolio Service (Managed Portfolio Service) and the NZ Funds Trust Investment Series (Trust Investment Series) each comprise a range of actively managed funds (referred to 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.

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 within the 'NZ Funds Managed Portfolio Service Part One' scheme and all other Portfolios are established within the 'NZ Funds Managed Portfolio Service Part Two' scheme. This SIPO relates to all Portfolios offered under both Schemes.

More information on each Portfolio is included in the relevant PDS. This document should be read in conjunction with the relevant PDS. Terms used in this document are defined in the Glossary on page 13.

PORTFOLIO	PDS
Core Cash Portfolio	NZ Funds Managed Portfolio Service
Core Income Portfolio	NZ Funds Managed Portfolio Service
Global Income Portfolio	NZ Funds Managed Portfolio Service
Core Inflation Portfolio	NZ Funds Managed Portfolio Service
Equity Inflation Portfolio	NZ Funds Managed Portfolio Service
Property Inflation Portfolio	NZ Funds Managed Portfolio Service
Core Growth Portfolio	NZ Funds Managed Portfolio Service
Global Multi-Asset Growth Portfolio	NZ Funds Managed Portfolio Service
Global Equity Growth Portfolio	NZ Funds Managed Portfolio Service
Dividend and Growth Portfolio	NZ Funds Managed Portfolio Service
NZ Funds Dynamic Local and International Balanced Portfolio	NZ Funds Trust Investment Series
NZ Funds Dynamic Local and International Growth Portfolio	NZ Funds Trust Investment Series
NZ Funds Dynamic Local and International High Growth Portfolio	NZ Funds Trust Investment Series

## 2. PHILOSOPHY AND 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 through the integration of financial advice and investment management (see section 5 'Investment process' for more information).

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.

Our 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 Managed Portfolio Service or the Trust Investment Series in different proportions depending on investor objectives.

## 2. PHILOSOPHY AND OVERVIEW (CONTINUED)

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The Portfolios offered under the Managed Portfolio Service are grouped into four investment categories: Cash, Income, Inflation and Growth. Each investment category comes with 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 Managed Portfolio Service Portfolios are designed to provide investors with access to shares, bonds and other securities including a range of global investment specialists.

The Portfolios offered under the Trust Investment Series are actively managed diversified funds, each with a different target asset allocation. They are designed for trusts and individuals that have a long-term investment horizon and who do not expect their circumstances to materially change over time.

Our objective is for investors to hold local and international diversified portfolios with downside mitigation through use of specialist investment managers and our active management approach.

Our active management approach seeks to maintain a balance between preserving investor capital and growing their wealth in a manner that is consistent with each Portfolio's objective.

Our active management approach also seeks to ensure that over the economic cycle, investors are exposed to both active and passively managed investments and that their capital is diversified across New Zealand and international investment markets. This is discussed further in section 4 'Investment approach'.

## 3. PORTFOLIO APPROACH

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The tables on pages 5 to 7 set out the investment objective and strategy, permitted assets, target investment mix and permitted asset allocation ranges (where applicable), minimum suggested investment timeframe, and economic exposure limits for each of the Portfolios.

### Use of the Portfolios

The Portfolios offered under the Managed Portfolio Service are intended to be used in conjunction with a financial advice process and are ideally designed for investors saving for retirement or a specific goal, or investors 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 time frame and attitude towards risk, and to regularly review their financial plan and investment portfolio with their financial adviser.

The Managed Portfolio Service Portfolios are designed to be used in combination and not as stand-alone investments. It is generally intended that investors, working with a financial adviser, will allocate their investment across all or a majority of the Portfolios within each of the four investment categories rather than investing in a single Portfolio or a single investment category.

The Portfolios offered under the Trust Investment Series are actively managed, local and international diversified Portfolios, each with a different target asset allocation. They are designed for trusts and individuals that have a long-term investment horizon and who do not expect their circumstances to materially change over time. These Portfolios are designed as stand-alone portfolios. It is expected that investors may hold one or more Portfolios depending on their return objectives and risk tolerance.

### Portfolio structure

The Portfolios currently invest in a series of wholesale unit trusts managed by NZ Funds which hold investments. These investments may include directly held securities and/or investments in funds, managed by either NZ Funds or external specialist investment managers selected by NZ Funds.

This investment structure means that a review of a Portfolio's investments will predominantly occur at the underlying wholesale trust level, having regard to the relevant Portfolio's objective and risk profile. The Portfolios also currently invest directly in cash and cash equivalents, and derivatives. The Portfolios are authorised to invest directly in other assets as well.

### 3. PORTFOLIO APPROACH (CONTINUED)

#### Managed Portfolio Service Portfolios

PORTFOLIO	OBJECTIVE	PERMITTED ASSETS <sup>1</sup>	INVESTMENT STRATEGY SUMMARY	MINIMUM SUGGESTED INVESTMENT TIMEFRAME	ECONOMIC EXPOSURE LIMIT <sup>2</sup>
<p>The Portfolios are able to invest in a wide range of assets and do not have a target investment mix. They may be invested in permitted assets in any proportion. The Portfolios may invest directly, indirectly through derivatives, and use specialist investment managers. The Portfolios may also take active foreign currency positions.</p>					
<b>Core Cash Portfolio</b>	To provide a source of capital by primarily investing in income assets using an active management approach.	<ul style="list-style-type: none"> <li>Cash and cash equivalents</li> <li>New Zealand fixed interest</li> <li>International fixed interest</li> </ul>	It is anticipated that the Portfolio will mainly hold cash and cash equivalents. It may also invest in Australasian bonds and international bonds.	<b>1 month +</b>	100% (i.e. the Portfolio's net asset value)
<b>Core Income Portfolio</b>	To provide exposure to income assets using an active management approach.	<ul style="list-style-type: none"> <li>Cash and cash equivalents</li> <li>New Zealand fixed interest</li> <li>International fixed interest</li> <li>Alternative securities</li> </ul>	It is anticipated that the Portfolio will mainly hold cash and cash equivalents and Australasian bonds. It may also invest in international bonds and other permitted assets.	<b>2 years +</b>	300% (i.e. 3 times the Portfolio's net asset value)
<b>Global Income Portfolio</b>			It is anticipated that the Portfolio will mainly hold cash and cash equivalents and international bonds. It may also invest in Australasian bonds and other permitted assets.	<b>2 years +</b>	300% (i.e. 3 times the Portfolio's net asset value)
<b>Core Inflation Portfolio</b>	To mitigate the impact of inflation on your investment over the medium and/or long term by investing in income and growth assets using an active management approach.	<ul style="list-style-type: none"> <li>Cash and cash equivalents</li> <li>New Zealand fixed interest</li> <li>International fixed interest</li> <li>Australasian equities</li> <li>International equities</li> <li>Listed property</li> <li>Commodities</li> <li>Alternative securities</li> </ul>	It is anticipated that the Portfolio will mainly hold inflation-sensitive assets including cash and cash equivalents, Australasian and international bonds, and Australasian shares. It may also invest in other permitted assets.	<b>5 years +</b>	300% (i.e. 3 times the Portfolio's net asset value)
<b>Equity Inflation Portfolio</b>			It is anticipated that the Portfolio will mainly hold inflation-sensitive assets including cash and cash equivalents, Australasian and international bonds, and international shares. It may also invest in other permitted assets.	<b>5 years +</b>	300% (i.e. 3 times the Portfolio's net asset value)
<b>Property Inflation Portfolio</b>		<ul style="list-style-type: none"> <li>Cash and cash equivalents</li> <li>New Zealand fixed interest</li> <li>International fixed interest</li> <li>Australasian equities</li> <li>International equities</li> <li>Listed property</li> <li>Alternative securities</li> </ul>	It is anticipated that the Portfolio will mainly hold inflation-sensitive assets including cash and cash equivalents, and Australasian and international bonds, property shares and infrastructure shares. It may also invest in other permitted assets.	<b>5 years +</b>	300% (i.e. 3 times the Portfolio's net asset value)

1. The asset classes listed 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 fund updates.

2. Economic exposure is a measure developed and used by NZ Funds to illustrate a Portfolio's total exposure. For more information on economic exposure, see the NZ Funds Managed Portfolio Service 'Other Material Information' document on the offer register at [disclose-register.companies.govt.nz](https://disclose-register.companies.govt.nz).

### 3. PORTFOLIO APPROACH (CONTINUED)

#### Managed Portfolio Service Portfolios (continued)

PORTFOLIO	OBJECTIVE	PERMITTED ASSETS <sup>1</sup>	INVESTMENT STRATEGY SUMMARY	MINIMUM SUGGESTED INVESTMENT TIMEFRAME	ECONOMIC EXPOSURE LIMIT <sup>2</sup>
<p>The Portfolios are able to invest in a wide range of assets and do not have a target investment mix. They may be invested in permitted assets in any proportion. The Portfolios may invest directly, indirectly through derivatives, and use specialist investment managers. The Portfolios may also take active foreign currency positions.</p>					
Core Growth Portfolio	To grow your investment over the long term by investing in income and growth assets using an active management approach.	<ul style="list-style-type: none"> <li>Cash and cash equivalents</li> <li>New Zealand fixed interest</li> <li>International fixed interest</li> <li>Australasian equities</li> <li>International equities</li> <li>Listed property</li> <li>Commodities</li> <li>Alternative securities</li> </ul>	It is anticipated that the Portfolio will mainly hold hedge funds and/or international shares. It may also invest in other permitted assets.	10 years +	No limit
Global Multi-Asset Growth Portfolio			It is anticipated that the Portfolio will mainly hold commodity-related shares, commodities, and/or hedge funds. It may also invest in other permitted assets.	10 years +	No limit
Global Equity Growth Portfolio			It is anticipated that the Portfolio will mainly hold international shares and/or hedge funds. It may also invest in other permitted assets.	10 years +	No limit
Dividend and Growth Portfolio		<ul style="list-style-type: none"> <li>Cash and cash equivalents</li> <li>New Zealand fixed interest</li> <li>International fixed interest</li> <li>Australasian equities</li> <li>International equities</li> <li>Listed property</li> </ul>	It is anticipated that the Portfolio will mainly hold Australasian shares. It may also invest in other permitted assets.	10 years +	No limit

1. The asset classes listed 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 fund updates.

2. Economic exposure is a measure developed and used by NZ Funds to illustrate a Portfolio's total exposure. For more information on economic exposure, see the NZ Funds Managed Portfolio Service 'Other Material Information' document on the offer register at [disclose-register.companies.govt.nz](https://disclose-register.companies.govt.nz).

### 3. PORTFOLIO APPROACH (CONTINUED)

#### Trust Investment Series Portfolios

PORTFOLIO	OBJECTIVE	INVESTMENT STRATEGY SUMMARY/TARGET INVESTMENT MIX <sup>1</sup>	MINIMUM SUGGESTED INVESTMENT TIMEFRAME	ECONOMIC EXPOSURE LIMIT <sup>2</sup>																		
<p>The Portfolios are able to invest in a wide range of assets.                      The Portfolios may invest directly, indirectly through derivatives, and use specialist investment managers.                      The Portfolios may also take active foreign currency positions.</p>																						
NZ Funds Dynamic Local and International Balanced Portfolio	To grow your investment over the long term by investing in a balanced mix of income and growth assets using an active management approach.	<p>It is anticipated that the Portfolio will hold a broad exposure across a number of asset classes with a balance between income and growth assets. Income assets are expected to include Australasian and international bonds. Growth assets are expected to include Australasian and international shares and/or hedge funds.</p> <table border="1"> <caption>Asset Allocation Target (Balanced Portfolio)</caption> <tr><th>Asset Class</th><th>Target (%)</th></tr> <tr><td>Cash and cash equivalents</td><td>5%</td></tr> <tr><td>New Zealand fixed interest</td><td>23%</td></tr> <tr><td>International fixed interest</td><td>23%</td></tr> <tr><td>Australasian equities</td><td>17%</td></tr> <tr><td>International equities</td><td>27%</td></tr> <tr><td>Listed property</td><td></td></tr> <tr><td>Commodities</td><td></td></tr> <tr><td>Alternative securities</td><td>5%</td></tr> </table>	Asset Class	Target (%)	Cash and cash equivalents	5%	New Zealand fixed interest	23%	International fixed interest	23%	Australasian equities	17%	International equities	27%	Listed property		Commodities		Alternative securities	5%	5 years+	300% (ie, the Portfolio's net asset value)
		Asset Class	Target (%)																			
Cash and cash equivalents	5%																					
New Zealand fixed interest	23%																					
International fixed interest	23%																					
Australasian equities	17%																					
International equities	27%																					
Listed property																						
Commodities																						
Alternative securities	5%																					
NZ Funds Dynamic Local and International Growth Portfolio	To grow your investment over the long term by investing mainly in growth assets with an allocation to income assets using an active management approach.	<p>It is anticipated that the Portfolio will hold a broad exposure across a number of asset classes with an emphasis on growth assets. Growth assets are expected to include Australasian and international shares and/or hedge funds. Income assets are expected to include Australasian and international bonds.</p> <table border="1"> <caption>Asset Allocation Target (Growth Portfolio)</caption> <tr><th>Asset Class</th><th>Target (%)</th></tr> <tr><td>Cash and cash equivalents</td><td>5%</td></tr> <tr><td>New Zealand fixed interest</td><td>13%</td></tr> <tr><td>International fixed interest</td><td>13%</td></tr> <tr><td>Australasian equities</td><td>30%</td></tr> <tr><td>International equities</td><td>32%</td></tr> <tr><td>Listed property</td><td></td></tr> <tr><td>Commodities</td><td></td></tr> <tr><td>Alternative securities</td><td>7%</td></tr> </table>	Asset Class	Target (%)	Cash and cash equivalents	5%	New Zealand fixed interest	13%	International fixed interest	13%	Australasian equities	30%	International equities	32%	Listed property		Commodities		Alternative securities	7%	7 years+	300% (ie, 3 times the Portfolio's net asset value)
		Asset Class	Target (%)																			
Cash and cash equivalents	5%																					
New Zealand fixed interest	13%																					
International fixed interest	13%																					
Australasian equities	30%																					
International equities	32%																					
Listed property																						
Commodities																						
Alternative securities	7%																					
NZ Funds Dynamic Local and International High Growth Portfolio	To grow your investment over the long term by investing predominantly in growth assets with little or no allocation to income assets using an active management approach.	<p>It is anticipated that the Portfolio will predominantly hold growth assets such as Australasian and international shares and/or hedge funds.</p> <table border="1"> <caption>Asset Allocation Target (High Growth Portfolio)</caption> <tr><th>Asset Class</th><th>Target (%)</th></tr> <tr><td>Cash and cash equivalents</td><td>5%</td></tr> <tr><td>New Zealand fixed interest</td><td></td></tr> <tr><td>International fixed interest</td><td></td></tr> <tr><td>Australasian equities</td><td>42%</td></tr> <tr><td>International equities</td><td>43%</td></tr> <tr><td>Listed property</td><td></td></tr> <tr><td>Commodities</td><td></td></tr> <tr><td>Alternative securities</td><td>10%</td></tr> </table>	Asset Class	Target (%)	Cash and cash equivalents	5%	New Zealand fixed interest		International fixed interest		Australasian equities	42%	International equities	43%	Listed property		Commodities		Alternative securities	10%	10 years+	No limit
		Asset Class	Target (%)																			
Cash and cash equivalents	5%																					
New Zealand fixed interest																						
International fixed interest																						
Australasian equities	42%																					
International equities	43%																					
Listed property																						
Commodities																						
Alternative securities	10%																					
<p><b>KEY</b></p> <p><b>ASSET ALLOCATION RANGE</b></p>																						

1. Targets indicate what are expected to apply over the course of an economic cycle and should be considered as a general only. NZ Funds is an active manager and may at times use investment strategies that differ materially from the above targets. The charts above include the permitted asset allocation ranges showing the minimum and maximum limits for each asset class.

2. Economic exposure is a measure developed and used by NZ Funds to illustrate a Portfolio's total exposure. For more information on economic exposure, see the NZ Funds Trust Investment Series 'Other Material Information' document on the offer register at [disclose-register.companies.govt.nz](http://disclose-register.companies.govt.nz).

## 4. INVESTMENT APPROACH

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### Active management

We take 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 asset allocation

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, with reference to each Portfolio's investment objective and risk profile. Securities, currencies, commodities, derivatives and/or specialist investment managers can be used to achieve a desired Portfolio asset allocation.

### Wide mandates

All Portfolios have wide investment mandates. This means that, while there may be target asset allocations for each of the Trust Investment Series Portfolios, in managing each Portfolio we are able to take a wide variety of actions and are not constrained by any benchmark or target asset allocation. The actions we take include, but are not limited to:

- altering the proportion invested in each security or asset class (subject to the permitted ranges indicated on page 7, in the case of the Trust Investment Series Portfolios);
- altering the manner in which a Portfolio is exposed to each security or asset class;
- investing directly or indirectly;
- using derivatives and/or any resulting leverage;
- using collective investment vehicles;
- using specialist investment managers (including hedge funds);
- taking foreign currency positions;
- applying hedging; or
- taking short positions.

### Specialist investment managers

Specialist investment managers (including hedge funds) may be selected where NZ Funds considers that the manager's investment approach will help meet the objectives of the Portfolios. These specialist investment managers are intended to complement NZ Funds' own investment skills and can 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 monitored and reviewed. This review process includes consideration of the manager's performance, portfolio composition, and statistical measures of effectiveness.

The specialist investment managers are expected to change over time as part of NZ Funds' active management approach. The current specialist investment managers can be found on our website at [www.nzfunds.co.nz](http://www.nzfunds.co.nz).

### Foreign currency

NZ Funds actively manages the foreign currency exposure of each Portfolio. Where a Portfolio holds assets denominated in a foreign currency, NZ Funds has the choice of whether to hedge back to the NZ dollar or retain a foreign currency exposure. The Portfolio may also take active foreign currency positions by holding non-NZD cash and/or foreign currency derivatives.

### Risks of an active approach

The way in which our active management approach is implemented may change over time as, by way of example, the nature of the investment opportunities we may be seeking to gain exposure to changes. This may result in the Portfolios being constructed with different combinations of investments. In order 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 utilised.



## 5. INVESTMENT PROCESS

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### Collaborative decision-making process

NZ Funds takes a collaborative approach to investment management and believes 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 primarily by members of the 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.

### Investment tools and techniques

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

In seeking to mitigate the downside, NZ Funds invests with specialist investment managers which have the potential to profit from asset price declines, such as trend following managers; managers who short shares; and derivative and option specialists.

NZ Funds may also actively reduce a Portfolio's exposure to an asset class, or hedge a Portfolio's exposure by investing additional funds in an asset class with the potential to offset returns. While designed to mitigate the downside, these downside-orientated managers, tools and techniques may not be successful in mitigating the downside and, in some circumstances, may instead add to a Portfolio's losses.

### Portfolio construction

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

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

### Responsible investment approach

NZ Funds is committed to investing responsibly and has adopted a Responsible Investment Policy requiring that its investment research and management process include consideration of environmental, social and governance (ESG) matters.

As part of our responsible investing approach, we contract with a third party to provide ESG research. We may also supplement this ESG research with our own.

The Investment Team is responsible for ensuring that no fund managed by NZ Funds, and no discrete mandate managed on behalf of NZ Funds by an underlying investment manager, holds securities issued by any company identified by our ESG research to be:

- directly involved in the manufacture or deployment of controversial weapons (cluster munitions, anti-personnel mines, chemical or nuclear weapons);
- materially contravening global norms;
- a producer of tobacco related products; or
- engaged in unsustainable palm oil production.

## 6. INVESTMENT OVERSIGHT

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### Overview

NZ Funds has policies, procedures and controls to 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 and SIPO compliance; and
- overall investment governance.

Our investment strategy review and monitoring process commences with the Research & Portfolio Meeting which includes monitoring 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 and this SIPO (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 strategy review and monitoring rests with the Investment Committee under delegated authority from the NZ Funds Board. The Investment Committee meets approximately six weekly to review investment matters, which include (but are not limited to) 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 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.

### Investment guidelines

As part of its investment management approach, NZ Funds has 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 NZ Funds' 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. The guidelines can only be amended after prior notice to the Supervisor.

### 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 NZ Funds' 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.

Investment performance reports are prepared and are reviewed by the Investment Committee. Long-term performance is also monitored over various periods.

Performance is measured on an absolute basis (after fees and expenses), against term deposits as well as relative to one or more, or a combination of, relevant market indices.

## 7. INVESTMENT POLICIES

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NZ Funds has investment policies and procedures to support its investment governance framework. The key policies are summarised below. Each of these policies (except where otherwise noted) is approved by the relevant Board subcommittee and the NZ Funds Board, and any material change to a policy requires the approval of the relevant Board subcommittee and the NZ Funds Board. The policies are administered by the relevant Board subcommittee and any material issues are reported to the NZ Funds Board.

### Trade allocation policy

NZ Funds' trade allocation policy applies to the trading of securities that are directly managed by NZ Funds. 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. The policy is administered by the Investment Committee.

### Trade execution policy

NZ Funds' trade execution policy applies to the trading of securities that are directly managed by NZ Funds. It requires that all trades are made with approved counterparties, and that the list of approved counterparties is regularly reviewed. The policy is administered by the Investment Committee.

### Investment guidelines policy

NZ Funds' investment guidelines policy applies to the administration and monitoring of the investment limits set out in this SIPO and the guidelines set out in the internal 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. The policy is administered by the Investment Committee.

### Settlement and cash management policy

NZ Funds' settlement and cash management policy applies to the settlement of investments and cash management transactions made by NZ Funds. 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 NZ Funds' staff member with the appropriate level of authority. The policy is administered by the Business Risk Committee.

### Valuation and pricing policy

NZ Funds' valuation and pricing policy applies to the valuation and pricing of the Portfolios and the underlying wholesale trusts in which the Portfolios invest. 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. NZ Funds has also established procedures for reporting and resolving any pricing errors or non-compliance with pricing methodologies. The policy is administered by the Business Risk Committee.

### Conflicts of interest policy

NZ Funds' 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 NZ Funds' personal holdings policy (which contains restrictions on employees holding or trading in securities unless permitted by the policy or approved by the NZ Funds Board) and NZ Funds' related party transactions policy (discussed below). The conflicts of interest policy is approved by the NZ Funds Board and any material changes require the approval of the NZ Funds Board. The policy is administered by the Compliance Team and any material issues are reported to the NZ Funds Board.

### Responsible investment policy

NZ Funds' responsible investment policy applies to the selection of securities for the Portfolios and requires that the investment research and management process includes consideration of environmental, social and governance (ESG) matters. The policy requires that no fund managed by NZ Funds, and no discrete mandate managed on behalf of NZ Funds by an underlying investment manager, will hold securities issued by any company identified by its ESG research to be: directly involved in the manufacture or deployment of controversial weapons; materially contravening global norms; a producer of tobacco related products; or engaged in unsustainable palm oil production. It also requires that the policy be communicated to the underlying investment managers appointed to manage non-discrete (or pooled) mandates (while acknowledging that NZ Funds cannot obligate these underlying investment managers to comply with the policy). The policy also sets out a process for obtaining an exemption. The policy is administered by the Investment Committee.

## 7. INVESTMENT POLICIES (CONTINUED)

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### Related party transactions policy

NZ Funds' related party transactions policy applies to all related party transactions (as defined under 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. The policy is administered directly by the NZ Funds Board and any changes to the policy are approved by the NZ Funds Board.

## 8. MARKET INDICES

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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 fund updates these indices are reported gross, without the deduction of any fees or tax which would, in normal circumstances, need to be deducted from investor returns.

We may change the market indices at any time and without notice to investors, provided that any relevant requirements of the Financial Markets Conduct Act 2013 are met. For more information on the market indices, see the relevant 'Other Material Information' document on the offer register at [disclose-register.companiesoffice.govt.nz](https://disclose-register.companiesoffice.govt.nz).

## 9. SIPO REVIEW

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The NZ Funds Board is responsible for the SIPO and ensuring that the SIPO is followed. The 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 Product Disclosure Statement, or where considered appropriate by the NZ Funds Board.

NZ Funds may make changes to the SIPO at any time after consulting with the Supervisor. A description of any material changes to the SIPO 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 1 April 2019. The most current version of the SIPO is available on the scheme register at [disclose-register.companies.govt.nz](https://disclose-register.companies.govt.nz).

## GLOSSARY

TERM	DEFINITION
Alternative securities	Asset classes not usually accessed by retail investors, for example, private equity, venture capital and hedge funds. 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. Not all Portfolios can invest in all asset classes. The asset classes are:</p> <ul style="list-style-type: none"> <li>• Cash and cash equivalents</li> <li>• New Zealand fixed interest</li> <li>• International fixed interest</li> <li>• Australasian equities</li> <li>• International equities</li> <li>• Listed property</li> <li>• Commodities</li> <li>• Alternative securities</li> </ul> <p>Note: 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 fund updates.</p>
Australasian bonds	Debt securities issued in New Zealand or Australia and derivatives on Australasian bonds. For regulatory and fund update purposes, debt securities issued in New Zealand are classified as 'New Zealand fixed interest' and 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 Australasian 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.
Commodity-related shares	Shares in companies that grow, extract or refine commodities or are otherwise associated with commodities.
Debt securities	Debt securities are securities issued by an entity to enable it to borrow money. They are usually accompanied by an offering document which sets out the terms of the loan, for example, the period of time before repayment and the interest rate payable if applicable. Debt securities cover a wide range of issuing entities and security types. Debt securities also include, but are not limited to, loans, floating rate securities and zero-coupon bonds and include derivatives on debt securities. Debt securities held by a Portfolio may be secured or unsecured over the assets of the borrower and may be subordinated, meaning that the Portfolio be repaid or receive interest only after other creditors of the borrower have been paid.
Derivative	A financial instrument 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 and swaps.
Economic exposure	Economic exposure is a measure developed by NZ Funds to illustrate the aggregate exposure that a Portfolio has to the various asset classes it is invested in.

## GLOSSARY (CONTINUED)

TERM	DEFINITION
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.
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 swaps).
Income assets	Investments where the return is expected to be made up predominantly of interest income. Cash and cash equivalents and bonds (fixed interest) are usually referred to as income assets.
Inflation-sensitive assets	Investments where the return is expected to have a relationship to changes in the rate of inflation.
Infrastructure shares	Shares in transportation, communication, utility and other infrastructure companies.
International bonds	Debt securities issued outside New Zealand and Australia and derivatives on international bonds. For regulatory and 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 listed on stock exchanges which own or invest in property, buildings or land, and derivatives on listed property.
Managed Portfolio Service Portfolios	The Portfolios offered under the NZ Funds Managed Portfolio Service PDS.
Net asset value	The value of the assets of a Portfolio, less any liabilities.
NZ Funds	New Zealand Funds Management Limited.
Property shares	Shares in companies that own or invest in property, buildings or land. May also include companies which have large exposure to property, buildings or land. For regulatory and 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	An external manager 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 derivatives on specialist investment managers.
Supervisor	The New Zealand Guardian Trust Company Limited.
Trust Deeds	In respect of the Core Inflation Portfolio and Equity Inflation Portfolio, the amended and consolidated NZ Funds Managed Portfolio Service Part One trust deed dated 12 October 2016 and in respect of all other Portfolios, the amended and consolidated NZ Funds Managed Portfolio Service Part Two trust deed dated 12 October 2016.
Trust Investment Series Portfolios	The Portfolios offered under the NZ Funds Trust Investment Series PDS.
Wholesale Trusts	A series of wholesale unit trusts managed by NZ Funds into which the Portfolios invest.

## APPENDIX

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### 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; and
- 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; and
- 35% FTSE EPRA/NAREIT Developed Total Return Index USD

### Equity Inflation Portfolio

- 30% S&P/NZX Bank Bills 90 Day Total Return; and
- 70% MSCI All Countries World Daily TR Net Local Currency

### Core Growth Portfolio and Global Equity Growth Portfolio

- 100% MSCI All Countries World Daily TR Net Local Currency

### Global Multi-Asset Growth Portfolio

- 100% MSCI ACWI Commodity Producers Sector Capped Net Return Local Currency Index

### Dividend and Growth Portfolio

- 30% S&P/ASX Accumulation 200 Index
- 70% S&P/NZX 50 Portfolio Index Gross with Imputation; and

## APPENDIX (CONTINUED)

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### NZ Funds Dynamic Local and International Balanced Portfolio

- 3% S&P/ASX Accumulation 200 index;
- 5% S&P/NZX Call Rate Deposit Index Total Return
- 15% S&P/NZX Bank Bills 90 Day Index Total Return;
- 15% S&P/NZX Investment Grade Corporate Bond Index Total Return;
- 15% Bloomberg Barclays Global Aggregate Corporate Total Return Index Hedged USD;
- 15% S&P/NZX 50 Portfolio Index Gross with Imputation; and
- 32% MSCI All Countries World Daily TR Net Local Currency

### NZ Funds Dynamic Local and International Growth Portfolio

- 5% S&P/NZX Call Rate Deposit Index Total Return
- 8% S&P/NZX Investment Grade Corporate Bond Index Total Return;
- 8% Bloomberg Barclays Global Aggregate Corporate Total Return Index Hedged USD;
- 9% S&P/NZX Bank Bills 90 Day Index Total Return;
- 10% S&P/ASX Accumulation 200 Index;
- 21% S&P/NZX 50 Portfolio Index Gross with Imputation; and
- 39% MSCI All Countries World Daily TR Net Local Currency

### NZ Funds Dynamic Local and International High Growth Portfolio

- 5% S&P/NZX Call Rate Deposit Index Total Return;
- 14% S&P/ASX Accumulation 200 Index;
- 28% S&P/NZX 50 Portfolio Index Gross with Imputation; and
- 53% MSCI All Countries World Daily TR Net Local Currency



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