

NZFUNDS

NZ Funds

Advised Portfolio Service WealthBuilder

Statement of Investment Policy and Objectives

9 April 2020

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1. DESCRIPTION OF THE PORTFOLIOS

The NZ Funds Advised Portfolio Service (Advised Portfolio Service) formerly known as the NZ Funds Managed Portfolio Service and NZ Funds WealthBuilder (WealthBuilder) each comprise a range of actively managed funds (referred to as Portfolios in this document).

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 respective 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 |

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 covers 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 PDS. Terms used in this document are defined in the Glossary on page 14.

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.

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 Advised Portfolio Service or Wealthbuilder in different proportions depending on investor objectives.

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

Our objective is for each investor to hold a globally diversified portfolio 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 an investor's capital and growing their wealth in a manner consistent with each Portfolio's objective. It 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.

3. PORTFOLIO APPROACH

The tables on pages 5 to 7 set out the investment objective and strategy, permitted assets, target investment mix, minimum suggested investment timeframe, and economic exposure limits for each of 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. They are intended to be used in conjunction with a financial advice process and are ideally 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 a client's investment across the three WealthBuilder Portfolios each year based on their age.

Investment structure

The Portfolios currently invest in a series of wholesale unit trusts managed by us which hold investments. These investments may include directly held securities and/or investments in funds, managed by us or specialist investment managers selected 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 underlying wholesale trust level, having regard to the Portfolio's objective and risk profile. The Portfolios also currently invest directly in cash and cashequivalents, and derivatives and can invest directly in other assets as well.

Advised Portfolio Service Portfolios

| NAME | OBJECTIVE | PERMITTED ASSETS | STRATEGY SUMMARY / TARGET INVESTMENT MIX ¹ | MINIMUM SUGGESTED TIMEFRAME | ECONOMIC EXPOSURE LIMIT ² |
|------------------------------|--|--|---|-----------------------------|--------------------------------------|
| Core Cash Portfolio | To provide a source of capital. | Cash and cash equivalents New Zealand fixed interest International fixed interest | <p>Anticipated to hold mainly cash and cash equivalents.</p>  <ul style="list-style-type: none"> Cash and cash equivalents 100% | 1 month+ | 100% |
| 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 hold mainly Australasian bonds.</p>  <ul style="list-style-type: none"> Cash and cash equivalents 5% New Zealand fixed interest 80% International fixed interest 15% | 2 years+ | 300% |
| Global Income Portfolio | | | <p>Anticipated to hold mainly international bonds.</p>  <ul style="list-style-type: none"> Cash and cash equivalents 5% International fixed interest 95% | | |
| 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 hold mainly Australasian and international bonds, and Australasian shares.</p>  <ul style="list-style-type: none"> Cash and cash equivalents 5% New Zealand fixed interest 12% International fixed interest 13% Australasian equities 60% Listed property 10% | 5 years+ | 300% |
| Equity Inflation Portfolio | | | <p>Anticipated to hold mainly Australasian 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% | | |
| Property Inflation Portfolio | | | <p>Anticipated to hold mainly Australasian 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+ | 300% |




1. Targets indicate what is expected to apply over the course of an economic cycle and should be considered as general guidance only. NZ Funds is an active manager and may use investment strategies that differ materially from the above targets. The Portfolios may be invested in permitted assets in any proportion. 2. Economic exposure is a measure developed and used by NZ Funds to illustrate a Portfolio's total exposure. An economic exposure limit of 100% is equivalent to the Portfolio's net asset value and a limit of 300% is equivalent to three times the Portfolio's net asset value. For more information on economic exposure, see page 9.

Advised Portfolio Service Portfolios

| NAME | OBJECTIVE | PERMITTED ASSETS | STRATEGY SUMMARY / TARGET INVESTMENT MIX ¹ | MINIMUM SUGGESTED TIMEFRAME | ECONOMIC EXPOSURE LIMIT ² |
|--------------------------------|---|---|---|-----------------------------|--------------------------------------|
| Core Growth Portfolio | | Cash and cash equivalents New Zealand fixed interest International fixed interest Australasian equities | Anticipated to hold mainly hedge funds and/or international shares.  <ul style="list-style-type: none"> International equities 80% Alternative securities 20% | 10 years+ | No limit |
| Global Equity Growth Portfolio | To grow your investment over the long term. | International equities Listed property Commodities Alternative securities | Anticipated to hold mainly hedge funds and/or international shares.  <ul style="list-style-type: none"> International equities 95% Alternative securities 5% | 10 years+ | No limit |
| Dividend and Growth Portfolio | | Cash and cash equivalents New Zealand fixed interest International fixed interest Australasian equities International equities Listed property | Anticipated to hold mainly Australasian shares.  <ul style="list-style-type: none"> Australasian equities 85% Listed property 15% | 10 years+ | No limit |

1. Targets indicate what is expected to apply over the course of an economic cycle and should be considered as general guidance only. NZ Funds is an active manager and may use investment strategies that differ materially from the above targets. The Portfolios may be invested in permitted assets in any proportion. 2. Economic exposure is a measure developed and used by NZ Funds to illustrate a Portfolio's total exposure. An economic exposure limit of 100% is equivalent to the Portfolio's net asset value and a limit of 300% is equivalent to three times the Portfolio's net asset value. For more information on economic exposure, see page 9.

WealthBuilder Portfolios

| NAME | OBJECTIVE | PERMITTED ASSETS | STRATEGY SUMMARY / TARGET INVESTMENT MIX ¹ | MINIMUM SUGGESTED TIMEFRAME | ECONOMIC EXPOSURE LIMIT ² |
|---|---|--|--|-----------------------------|--------------------------------------|
| NZ Funds WealthBuilder - Income Strategy | To provide exposure to income assets. | Cash and cash equivalents New Zealand fixed interest International fixed interest Alternative securities | <p>Anticipated to hold mainly Australasian and international bonds.</p>  <ul style="list-style-type: none"> Cash and cash equivalents 5% New Zealand fixed interest 40% International fixed interest 55% | 2 years+ | 300% |
| 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 | <p>Anticipated to hold mainly Australasian and international bonds, and Australasian and international shares.</p>  <ul style="list-style-type: none"> Cash and cash equivalents 5% New Zealand fixed interest 12% International fixed interest 13% Australasian equities 30% International equities 35% Listed property 5% | 5 years+ | 300% |
| NZ Funds WealthBuilder - Growth Strategy | 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 hold mainly Australasian and international shares, and/or hedge funds.</p>  <ul style="list-style-type: none"> Australasian equities 26% International equities 65% Listed property 5% Alternative securities 4% | 10 years+ | No limit |

1. Targets indicate what is expected to apply over the course of an economic cycle and should be considered as general guidance only. NZ Funds is an active manager and may use investment strategies that differ materially from the above targets. The Portfolios may be invested in permitted assets in any proportion. 2. Economic exposure is a measure developed and used by NZ Funds to illustrate a Portfolio's total exposure. An economic exposure limit of 100% is equivalent to the Portfolio's net asset value and a limit of 300% is equivalent to three times the Portfolio's net asset value. For more information on economic exposure, see page 9.

4. INVESTMENT APPROACH

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). Our 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. Securities, currencies, commodities, derivatives and 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 long-term target asset allocations for each Portfolio, in managing a Portfolio we can take a wide range of actions and are not constrained by a benchmark or target.

The actions we take include:

- 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/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

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. These specialist investment managers are intended to complement our 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 subject to a monitoring and review process which 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 our active management approach. The current specialist investment managers 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. A Portfolio can also take active foreign currency positions by holding non-New Zealand dollar cash or foreign currency derivatives.

Economic exposure

Economic exposure is a measure we have developed to illustrate a Portfolio's total exposure. The use of derivatives can result in a Portfolio's economic exposure being greater than its net asset value, which means the Portfolio is leveraged.

We currently limit the economic exposure for the following Portfolios: Core Cash, Core Income, Global Income, Core Inflation, Equity Inflation, Property Inflation, WealthBuilder Income, and WealthBuilder Inflation. These limits are set out in the tables in section 3.

There is no limit on economic exposure for the Core Growth, Global Equity Growth, Dividend and Growth, and WealthBuilder Growth Portfolios. Each Portfolio's economic exposure is published in our 'Portfolio Insights' document which is available from our website at www.nzfunds.co.nz.

Risks of an active approach

The way we implement our active management approach may change over time as, for example, the nature of the investment opportunities we are seeking 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.

5. INVESTMENT PROCESS

Collaborative decision-making 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 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, 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 invest 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.

We 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 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 other Portfolio's 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 revisit the assumptions used periodically as economic and market conditions change.

Responsible investment approach

NZ Funds is committed to investing responsibly. We have adopted a Responsible Investment Policy requiring that our investment research and management process include consideration of environmental, social and governance (ESG) matters. As part of our responsible investment approach, we contract with a third party to provide ESG research. We may also supplement this ESG research with our own.

Our Investment Team is responsible for ensuring that no fund managed by us, and no discrete mandate managed on our behalf 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;
- a producer of civilian firearms;
- a producer of gambling services;
- a producer of pornography;
- engaged in unsustainable palm oil production;
- generating 10% or more of its revenue from oil sands; or
- generating 10% or more of its revenue from thermal coal.

6. INVESTMENT OVERSIGHT

Overview

We have 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 at least four times a year to review investment matters, including 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 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 are also required to notify the Supervisor of any 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.

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

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 administered by the relevant Board subcommittee and any material issues are reported to the NZ Funds Board.

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. The policy is administered by the Investment Committee.

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, and that the list of approved counterparties is regularly reviewed. The policy is administered by the Investment Committee.

Investment guidelines policy

Our 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 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

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 an NZ Funds employee with the appropriate level of authority. The policy is administered by the Business Risk Committee.

Valuation and pricing policy

Our valuation and pricing policy applies to the valuation and pricing of the Portfolios and the underlying 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. The policy is administered by the Business Risk Committee.

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 our 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 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.

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 includes consideration of environmental, social and governance (ESG) matters.

The policy requires that no fund managed by us, and no discrete mandate managed on our behalf by an underlying 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 10.

It also requires that the policy be communicated to the underlying investment managers appointed to manage non-discrete (or pooled) mandates (while acknowledging that we cannot obligate these underlying 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.

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. The policy is administered directly by the NZ Funds Board.

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 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, as long as the requirements of the FMC Act 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.

9. SIPO REVIEW

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 PDS, or where considered appropriate by 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 9 April 2020. The most current version of the 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 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 Strategies may invest in. Not all Strategies 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>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. |
| 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 Strategy may be secured or unsecured over the assets of the borrower and may be subordinated, meaning that the Strategy may 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. |

| TERM | DEFINITION |
|-----------------------------------|---|
| Economic exposure | Economic exposure is a measure developed by NZ Funds to illustrate the aggregate exposure that a Strategy has to the various asset classes it is invested in. |
| 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. |
| 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. |
| Net asset value | The value of the assets of a Strategy, less any liabilities. |
| NZ Funds | New Zealand Funds Management Limited. |
| Portfolios | The Advised Portfolio Service Portfolios and WealthBuilder Portfolios. |
| 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'. |
| Scheme | 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 Deed | In respect of the Core Inflation Portfolio and Equity Inflation Portfolio, the amended and consolidated NZ Funds Manager Portfolio Service Part One trust deed dated 12 October 2016 and in respect of all other Portfolios, the amended and consolidated NZ Funds Manager Portfolio Service Part Two trust deed dated 12 October 2016. |

| TERM | DEFINITION |
|--------------------------|---|
| WealthBuilder Portfolios | The Portfolios offered under the NZ Funds WealthBuilder PDS. |
| Wholesale Trusts | A series of wholesale unit trusts managed by NZ Funds into which the Strategies invest. |

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; 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 | 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; and 70% S&P/NZX 50 Portfolio Index Gross with Imputation |

WealthBuilder Portfolios – Market Indices

| PORTFOLIO | MARKET INDICES |
|---|---|
| NZ Funds WealthBuilder - Income Strategy | <ul style="list-style-type: none"> • 50% S&P/NZX Investment Grade Corporate Bond Index Total Return; and • 50% Bloomberg Barclays Global Aggregate Corporate Total Return Index Hedged USD |
| NZ Funds WealthBuilder - Inflation Strategy | <ul style="list-style-type: none"> • 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; and • 35% MSCI All Countries World Daily TR Net Local Currency |
| NZ Funds WealthBuilder - Growth Strategy | <ul style="list-style-type: none"> • 70% MSCI All Countries World Daily TR Net Local Currency; • 20% S&P/NZX 50 Portfolio Index Gross with Imputation; and • 10% S&P/ASX Accumulation 200 Index |
| LifeCycle: age 0-54 | <ul style="list-style-type: none"> • 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; and • 63.0% MSCI All Countries World Daily TR Net Local Currency. |
| LifeCycle: age 65 | <ul style="list-style-type: none"> • 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; and • 39.2% MSCI All Countries World Daily TR Net Local Currency |
| LifeCycle: age 75 | <ul style="list-style-type: none"> • 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; and • 33.6% MSCI All Countries World Daily TR Net Local Currency |

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