

**Simplicity**

**Investment Funds**



# **Statement of Investment Policy and Objectives (SIPO)**

27 October 2023

**Simplicity NZ Limited**

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# Simplicity's Governing Principles

- Providing our investors with dignity in retirement.
- Offering New Zealanders effective, low-cost financial products.
- Giving the benefits of scale to investors.
- Being responsible investors.

## Description of the Scheme

The Simplicity Investment Funds scheme (the Scheme) is a managed investment scheme under the Financial Markets Conduct Act 2013 (FMCA). The Scheme offers eleven fund options (the Funds).

The Scheme offers five diversified fund options (Diversified Funds):

- Defensive Investment Fund
- Conservative Investment Fund
- Balanced Investment Fund
- Growth Investment Fund
- High Growth Investment Fund

The Scheme offers one thematic fund option:

- Homes and Income Investment Fund

The Scheme offers five single sector fund options (Sector Funds) that are designed to be used as part of a diversified investment portfolio:

- Hedged Global Share Fund
- Unhedged Global Share Fund
- Hedged Global Bond Fund
- NZ Share Fund
- NZ Bond Fund

The Diversified Funds invest in the Sector Funds for their respective asset class exposure.

Simplicity NZ Limited (Simplicity, we, us, our; including any subsidiary of Simplicity NZ Limited) is the Manager of the Scheme.

Simplicity NZ Limited operates as a non-profit company, 100% owned by the Simplicity Foundation (**Foundation**). We donate 15% of all the investment management fees to the Foundation. The Foundation chooses the charities that receive the donations. More details of how this works and the charities we support are on our website: [simplicity.kiwi](http://simplicity.kiwi).

Public Trust is the **Licensed Supervisor** of the Scheme and is responsible for supervising the manager's performance of Scheme functions and issuer obligations, for the benefit of all investors and other stakeholders.

Public Trust is the **Custodian** of the Scheme. The Custodian holds the assets independently from the Manager.

Apex Investment Administration (NZ) Limited is the **Administrator** of the Scheme, responsible for the registry, investor records, daily unit pricing, and fund accounting.

See the Glossary in Schedule 13 for a description of all bolded terms.

## Purpose and Philosophy

The purpose of our Diversified Funds and our Sector Funds is to deliver market index-like returns consistent with the risk profile of each Fund on a low-cost basis. All investment carries risk, we manage risk by holding a diverse range of securities in each of these Funds.

The Home and Income Investment Fund focuses on generating returns from New Zealand residential property; either through earning interest on mortgages, or investing in community housing bonds or shares in an unlisted build-to-rent property company. A significant portion of the Fund is invested in cash and cash equivalent securities (minimum 40%) to provide liquidity.

For detail, refer to Schedules 1 to 12.

Our investment philosophy for our Diversified Funds and Sector Funds is to take a passive investment approach and maintain low costs. This means we take a buy and hold strategy. We do not take tactical investment positions or actively trade securities. Where possible we benchmark our strategic asset allocation to other New Zealand fund providers (see the 'Investment Governance, Reporting & Strategy' section). We also refer to this as our benchmark asset allocation.

Wherever possible we outsource portfolio management to external investment managers (see the 'Investment Policies' section for more details on externally managed portfolios).

For overseas investments our external investment manager applies custom broad-based market indices that are subject to responsible investment screening. For New Zealand bonds and shares we have established our own sector funds that hold a portfolio of securities, designed to provide a market index-like return.

We have a Responsible Investment Policy which is available on our website at [simplicity.kiwi](https://www.simplicity.kiwi), and is summarised below under 'Other Relevant Policies'.

## Investment Objective

The objective of our Diversified Funds and Sector Funds is to deliver a market index-like return to investors, consistent with the time horizon and risk associated with the **Label** of each Fund, after fees and costs and before tax.

The objective of the Homes and Income Investment Fund is to provide positive real returns over the medium term, after fees and costs and before tax.

## Investment Policies

### Rebalancing Policy

To maintain the benchmark asset allocation, each Fund is regularly monitored against its benchmarks and rebalanced as required to remain within operational ranges.

With the exception of the Homes and Income Investment Fund, the benchmark asset allocation of the Funds is managed to within 2% of the benchmark (described for each Fund in Schedules 1 to 12). The exception is cash which may vary more than 2% from its benchmark for liquidity management purposes. The Homes and Income Investment Fund is expected to reach its target asset allocation to illiquid asset classes in the medium to long-term.

In the event of significant financial market volatility or cash flows, it is possible that the benchmark asset allocation of the Funds may breach one or more of the assigned ranges (described for each Fund in Schedules 1 to 12). Any such breach must be remedied within 5 working days. We provide a

report to the Supervisor setting out any breaches that occur on a quarterly basis.

Should there be a need to sell illiquid assets for rebalancing purposes, this may take longer than selling liquid assets. This risk is managed in accordance with our Liquidity Management Policy and by maintaining a limited allocation to illiquid assets, which is determined by the **Investment Committee** in consultation with the Supervisor.

## Tactical Asset Allocation Policy

We do not use tactical asset allocation because we have a passive investment philosophy. No attempt is made to increase returns by actively over-weighting or under-weighting particular asset classes relative to our benchmarks at the expense of others. This approach allows for a consistent asset allocation through any market cycles that may occur over an investor's investment timeframe.

## Currency Hedging Policy

We take a passive approach to managing **Currency Risk**. We carry out currency hedging in line with the hedging style, benchmark and ranges set out in the table below for the applicable asset classes.

- Our hedging policy is set using the market average hedging ratios of providers that make up at least 80% of KiwiSaver industry funds under management. The hedging benchmarks and ranges are re-assessed 6-monthly and adjusted as required. Compliance with the hedging policy is monitored by the Investment Committee each quarter.
- Currency hedging is conducted by one of our external investment managers, DWS International GmbH (DWS), and implemented using **Derivatives** such as forward foreign exchange contracts.

Through investments in the funds managed by DWS, the foreign exchange exposures in each Diversified Fund are hedged to New Zealand dollars as follows:

Asset class	Hedging style	Benchmark (%)	Range (%)
International equities	Passive	65	55 to 75
International fixed interest	Passive	100	95 to 105

## Derivatives Policy

Apart from forward foreign exchange contracts to hedge currencies and interest rate swaps used by the Homes and Income Investment Fund to hedge the interest rate risk of community housing bonds, our preference is not to use **Derivatives**, and the nature of our investments means this is almost always the case.

Derivatives are only used if there is no cost-effective means to gain an essential investment exposure using physical securities. Where derivatives are used, they will be structured to achieve the same investment returns as if the investments were held physically.

## Leverage Policy

No leverage is permitted at the Fund level. Some of the underlying assets (such as equities) may operate with some leverage (which includes debt). Where these equities are included in the indices

our Funds track, the inclusion of these assets reflects our philosophy as predominantly passive index investors.

## Diversification Requirements/Limits

The Diversified Funds and the Sector Funds have a high level of diversification because they are designed to track broad market indices for different types of assets. The Funds invest in a wide range of individual securities (for most Diversified Funds this is typically more than 2,000). Our investment guidelines for these Funds are drafted to ensure that concentration risk in any specific asset class is prudently managed.

The Homes and Income Investment Fund is focussed on the New Zealand residential property market, with a 25% benchmark asset allocation to shares in an unlisted build-to-rent property company which develops and holds properties predominantly in Auckland.

## Market Risk Management Policy

All investments are subject to market risk. The benchmark asset allocation of each Fund provides a diversified exposure to each asset class at an appropriate level for that option's Label.

Market risk varies for each of the Funds, and we use education and communication to help investors to make informed decisions. Information on how markets are performing and impact investments is often provided to investors through our investor services, direct engagement, regular newsletters and webinars.

## Credit Risk Management

Credit risk is where the issuer of fixed interest securities may fail to pay interest and repay principal, or where negative perceptions of the issuer's ability to make such payments may cause the price, and therefore value, of their securities to decline.

There is a degree of credit risk associated with the New Zealand cash, New Zealand fixed interest and International fixed interest asset allocations in each Fund. To minimise the risk associated with any single issuer, we follow prudent limits that are set out for each asset class on page 15 (NZ Bond Fund) and in Schedule 12.

*Credit related considerations for the NZ cash and fixed interest portfolios:*

- The New Zealand cash portfolios of each Fund are designed to ensure that any credit risk is primarily to New Zealand registered banks, or securities with a credit rating equal to, or better than, the single A rated banks.
- Most of the New Zealand fixed interest portfolio is in New Zealand government stock.
- The loans within the first home mortgage portfolio are subject to conservative terms relating to loan to valuation ratios and debt servicing ratios, as described in Schedule 12.
- Any investment below an A grade must be approved by the Investment Committee. The Investment Committee will consider the returns to investors and other criteria. Any decision to invest in an instrument below A grade will prioritise the best interests of scheme investors.

*Credit related considerations for the International fixed interest portfolio:*

- The International fixed interest portfolio invests in a diversified portfolio of securities (bonds) issued by governments, government related entities and companies with an investment grade

rating<sup>1</sup>. All securities are included in a recognised international index issued by Bloomberg. The weighted average credit rating for this index is AA-.

## Other Relevant Policies

### Responsible Investment Policy

Investing responsibly is an important objective for us and our investors. Our Responsible Investment Policy (found on our website: [simplicity.kiwi](https://www.simplicity.kiwi)) adopts a negative screening approach consistent with our passive investment philosophy.

We exclude investments in companies with significant exposure (defined by revenue thresholds described in our Responsible Investment Policy) to the following sectors:

- Fossil fuels.
- Alcohol.
- Tobacco.
- Gambling and casinos.
- Military weapons.
- Civilian firearms.
- Nuclear power.
- Adult entertainment.

Our investments exclude companies that have breached the principles of the UN Global Compact (<https://www.unglobalcompact.org/what-is-gc/mission/principles>) under the following categories:

- Anti-corruption.
- Human rights.
- Environment.
- Labour.

The Investment Committee is responsible for overseeing compliance with the Responsible Investment Policy.

### Voting Policy

Where the exposure to an asset class is achieved through an external investment manager, they vote on behalf of us according to their policy. Details of DWS's corporate governance policy are available at: <https://www.dws.com/solutions/esg/corporate-governance/>.

Where the securities are managed by us we have the option to vote by proxy where we consider it is in the best interests of scheme investors to do so. Voting decisions are made on a case-by-case basis, and any voting is in line with the principles of good corporate governance and our Responsible Investment Policy. Proxy voting decisions are made by the Investment Committee, who may decide not to vote.

### Liquidity and Cash Flow Management

We have a Liquidity Management Policy which outlines our framework and processes for monitoring and managing **Liquidity Risk**. The Investment Committee has oversight of the liquidity of all Funds.

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<sup>1</sup> Investment grade means an issue is rated at least BBB- or equivalent by a recognised rating agency such as Standard & Poors).



Our allocation to illiquid assets (see Schedules 1 to 12) has been set in consultation with the Supervisor.

We maintain a balance of transactional cash on call for the Funds. This is to ensure that there is sufficient liquidity to fund the normal course of business such as settlement of investments, settlement of foreign exchange forward contracts used for currency hedging purposes, and anticipated levels of investor redemptions (withdrawals).

Most Funds' target level of cash is 2% and the typical maximum cash holding is 10%. Note, the Defensive Investment Fund has a target level of cash of 15% up to a maximum of 30%. The Homes and Income Investment Fund has a target level of cash of 40% up to a maximum of 100%. Sector Funds hold enough cash for liquidity purposes but do not have a specified target level of cash.

We monitor this daily in conjunction with the Administrator. A cash flow forecast is maintained with a 2 working day time horizon. This is considered sufficient time to redeem underlying investments if required. For the Diversified Funds and the Sector Funds, most authorised investments have a maximum settlement period of 2 working days, which is generally sufficient to ensure that inflows are invested without exceeding the maximum cash allocation in each Fund. As the Homes and Income Investment Fund has a higher allocation to illiquid assets, it also has a higher minimum allocation to cash and cash equivalents (30%) to ensure it is able to meet redemption requests and regular withdrawals in the normal course of business.

We note the total benchmark allocations to illiquid asset classes for the following Funds:

- Defensive Investment Fund: 20%
- Conservative Investment Fund: 10%
- Balanced Investment Fund: 10%
- Growth Investment Fund: 10%
- High Growth Investment Fund: 17.5%
- Homes and Income Investment Fund: 60%

## Conflicts of Interest Policy

We have a duty to act in the best interests of scheme investors at all times, and to maintain policies and procedures to reduce and manage any conflicts or potential conflicts of interest that may arise. Accordingly, we have a Conflicts of Interest Policy. Our key principle is that conflicts of interest are to be avoided where possible. If that is not possible, then interests are promptly and clearly disclosed by any person making decisions on behalf of scheme investors and mitigated to an acceptable level to protect the best interests of investors.

A register of interests is maintained by our Board of Directors and confirmed at each Board meeting. A separate register of interests is maintained for staff and management, and continual disclosure of potential and actual conflicts of interest is a contractual requirement for all members of staff or parties contracting with Simplicity. Our Managing Director is responsible for managing staff conflicts of interest.

## Valuation Policies

The nature of the Scheme's authorised investments means there should always be a valuation at close of business in almost all cases. We have outsourced the pricing and valuation of the investments to the Administrator.

Where an investment is traded on financial markets, the Administrator will determine the valuation in accordance with the last market prices available at the valuation point. The valuation of assets is generally based on information provided to the Administrator by independent third party data

providers. Where practicable the Administrator will look to verify this data by comparison with information from a second independent source. The Administrator's Unit Pricing and Valuation Framework will apply where we do not have our own internal valuation policy.

The portfolio of first mortgage loans is valued daily at the outstanding balance of each loan, plus accrued interest and accounting for principal and interest payments received. A prudent provision for specific non-performing loans (such as if a default occurs) is made in accordance with relevant New Zealand accounting standards. A loan is considered to be in arrears when an interest payment is 5 business days overdue. After 20 business days, if an interest payment is overdue additional provision is made and recovery action commences.

Investments into unlisted securities are reviewed regularly. For venture capital investments through funds managed by Icehouse Ventures Limited (Icehouse), the manager provides a valuation to us monthly based on their quarterly formal valuation review and an assessment of any material change for months that do not fall at the end of a quarter. Where the relevant venture capital fund is audited, Icehouse's valuation from the final quarter of the year is included in the audit process.

For unlisted investments (private equity) that we hold directly, we value each investment monthly based on our quarterly formal valuation policy and an assessment of any material change for months that do not fall at the end of a quarter. We base our valuation methodology on applicable New Zealand accounting standards and the International Private Equity and Venture Capital Valuation Guidelines. Our private equity valuation policy can be found on our website [simplicity.kiwi](https://www.simplicity.kiwi).

The Diversified Funds and the Homes and Income Investment Fund invest into a portfolio which holds shares in Simplicity Living Limited (SLL), a related entity that develops and owns rental properties. The shares in SLL are valued at least monthly, based on the value of SLL's assets. The assets of SLL that are under development are valued at cost plus an allowance for accrued interest on the funding provided. On completion, the properties are held and operated by SLL as long term rental housing and the values are reviewed at least quarterly by a registered valuer.

## Outsourcing Policy

We have an Outsourcing Policy that governs how we select and monitor outsource providers, including the Administrator and external investment managers such as DWS (international securities portfolio) and Icehouse (private equity portfolio). The Investment Committee has responsibility for monitoring the performance and compliance of external investment managers.

## Taxation

The Scheme is a **Portfolio Investment Entity (PIE)**. Tax on investment income is calculated at each investor's prescribed investor rate (PIR, currently either 10.5%, 17.5% or 28% depending on each investor's circumstances) and paid to the Inland Revenue on the investor's behalf annually or when an investor redeems all or part of their holdings.

# Investment Governance, Reporting & Strategy

## Asset Allocation

We maintain a consistent strategic asset allocation through market cycles.

The asset allocation for the Diversified Funds is set by assessing the average asset allocation of the largest KiwiSaver scheme managers (i.e. managers that hold at least 80% of the total KiwiSaver industry funds under management<sup>2</sup>). The Investment Committee reviews the asset allocation on at

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<sup>2</sup> Data is sourced from the Disclose register and Morningstar industry reports.

least a 6-monthly basis. Professional judgment is applied to these averages where required, and to the asset allocation for the Homes and Income Investment Fund, which has a higher focus on unlisted asset classes.

We invest in several unlisted asset classes:

- The Private Equity Portfolio is treated as part of our allocation to NZ equities.
- The First Home Mortgage Portfolio is treated as part of our allocation to NZ fixed interest.
- The Property Portfolio is treated as an allocation to unlisted NZ property.

For these unlisted asset classes, the specific allocation is based on the Manager's assessment of long term performance and liquidity relative to listed securities.

## Investment Performance Monitoring

The Manager's Investment Committee is responsible for the adherence to the SIPO and monitors the performance of each Fund over various time frames.

The Investment Committee's considerations when assessing performance include:

- Performance relative to benchmark, where appropriate.
- Portfolio structure, concentration risk, liquidity risk, and tax efficiency.
- Investment capacity constraints.
- Governing document (including the SIPO and **Product Disclosure Statement**) compliance.
- Relative investment performance compared to peer group.

The Manager monitors compliance with the SIPO regularly. Any **Limit Breaks** are reported to the Supervisor as required by regulations.

Fund performance is reported to the Supervisor monthly. A quarterly fund update is available on our website [simplicity.kiwi](https://www.simplicity.kiwi) and daily unit price information is available via our member website.

## SIPO Review

A review of this SIPO is undertaken by the Investment Committee at least annually. We believe that investors are best served by maintaining a steady and consistent investment policy, and therefore significant changes to our SIPO are unlikely to be required unless there are product changes or in case of market developments that render the existing SIPO inappropriate or unworkable.

This Investment Committee's SIPO review includes consideration of the following factors:

- Legal and regulatory changes.
- Market practice.
- Investment Committee recommendations relating to performance, philosophy, strategy and product structure (if any).

If we decide a change to the SIPO is appropriate, it can only be made following prior consultation with the Supervisor.

The latest version of the SIPO is available on [www.simplicity.kiwi](https://www.simplicity.kiwi) or on the Disclose register at [business.govt.nz/disclose](https://business.govt.nz/disclose).

# Schedule I: Investment Strategy for the Defensive Investment Fund

The objective of the Defensive Investment Fund is to minimise negative returns over the short term. It has higher proportions of investment in income assets, such as bonds, while still providing the opportunity for positive real returns over the longer term by investing a small proportion of the Fund in growth assets such as unlisted property. As a result, the return from the Fund is likely to be lower over the longer term (10 years or more) than the other Diversified Funds, but the value of its investments are unlikely to fluctuate as much as the other Diversified Funds. This is suited to investors seeking lower volatility of returns with a minimum suggested timeframe of 2 years.

International assets (cash and fixed interest) are managed by our external investment manager, DWS, in accordance with custom indices designed to track broader markets with a responsible investment screening overlay.

In the case of New Zealand assets (cash and fixed interest) no suitable externally managed index fund is currently available at a reasonable investment management fee. The Fund therefore invests in New Zealand cash and fixed interest portfolios managed by us to provide the respective market index-like return.

Within the New Zealand fixed interest allocation, there is a benchmark of 15% (within a range of 0% to 20%) available to invest in loans secured by first mortgages over residential property.

## Benchmark Asset Allocations and Ranges

Asset class	Benchmark	Range
Cash and cash equivalents	15%	0% - 30%
New Zealand fixed interest	44%	34% - 54%
International fixed interest	36%	26% - 46%
<b>Total Income Assets</b>	<b>95%</b>	<b>90% - 100%</b>
Unlisted New Zealand property	5%	0% - 10%
<b>Total Growth Assets</b>	<b>5%</b>	<b>0% - 10%</b>

## Authorised Investments

Authorised investments for each asset class are detailed in Schedule 12.

## Schedule 2: Investment Strategy for the Conservative Investment Fund

The objective of the Conservative Investment Fund is to minimise negative returns over the short term. It has higher proportions of investment in income assets, such as bonds, while still providing the opportunity for positive real returns over the longer term by investing a small proportion of the Fund in growth assets such as equities and property. This is suited to investors seeking lower volatility of returns with a minimum suggested timeframe of 3 years.

International assets (cash, fixed interest and equities) are managed by our external investment manager, DWS, in accordance with custom indices designed to track broader markets with a responsible investment screening overlay.

In the case of New Zealand assets (cash, fixed interest and equities), no suitable externally managed index fund is currently available at a reasonable investment management fee. The Fund therefore invests in New Zealand cash, fixed interest and equity portfolios managed by us to provide the respective market index-like return.

Within the New Zealand fixed interest allocation, there is a benchmark allocation of 7.5% (within a range of 0% to 10%) available to invest in loans secured by first mortgages over residential property.

### Benchmark Asset Allocations and Ranges

Asset class	Benchmark	Range
Cash and cash equivalents	2%	0% - 10%
New Zealand fixed interest	33%	23% - 43%
International fixed interest	42%	32% - 52%
<b>Total Income Assets</b>	<b>77%</b>	<b>67% - 87%</b>
New Zealand equities	3.5%	0% - 13.5%
Unlisted New Zealand property	2.5%	0% - 5%
International equities	17%	7% - 27%
<b>Total Growth Assets</b>	<b>23%</b>	<b>13% - 33%</b>

### Authorised Investments

Authorised investments for each asset class are detailed in Schedule 12.

## Schedule 3: Investment Strategy for the Balanced Investment Fund

The objective of the Balanced Investment Fund is to minimise negative returns over the medium term through investment in income assets, such as bonds, while providing an opportunity for positive real returns over the longer term by investing a reasonable proportion in growth assets such as equities and property. This is suited to investors seeking medium term growth by lessening risk through broad diversification over a minimum suggested timeframe of 6 years.

International assets (cash, fixed interest and equities) are managed by our external manager, DWS, in accordance with custom indices designed to track broader markets with a responsible investment screening overlay.

In the case of New Zealand assets (cash, fixed interest and equities), no suitable externally managed index fund is currently available at a reasonable investment management fee. The Fund therefore invests in New Zealand cash, fixed interest and equity portfolios managed by us to provide the respective market index-like return.

Within the New Zealand fixed interest allocation, there is a benchmark allocation of 6.5% (within a range of 0% to 10%) available to invest in loans secured by first mortgages over residential property.

### Benchmark Asset Allocations and Ranges

Asset class	Benchmark	Range
Cash and cash equivalents	2%	0% - 10%
New Zealand fixed interest	16.5%	6.5% - 26.5%
International fixed interest	22.5%	12.5% - 32.5%
<b>Total Income Assets</b>	<b>41%</b>	<b>31% - 51%</b>
New Zealand equities	12%	2% - 22%
Unlisted New Zealand property	3.5%	0% - 5%
International equities	43.5%	33.5% - 53.5%
<b>Total Growth Assets</b>	<b>59%</b>	<b>49% - 69%</b>

### Authorised Investments

Authorised investments for each asset class are detailed in Schedule 12.

# Schedule 4: Investment Strategy for the Growth Investment Fund

The objective of the Growth Investment Fund is to achieve positive real returns over the long term through investment in growth assets, while lessening volatility through diversification of the Fund's assets. This is suited to investors seeking long term growth and able to tolerate greater volatility of returns over a minimum suggested timeframe of 9 years.

International assets (cash, fixed interest and equities) are managed by our external manager, DWS, in accordance with custom indices designed to track broader markets with a responsible investment screening overlay.

In the case of New Zealand assets (cash, fixed interest and equities), no suitable externally managed index fund is currently available at a reasonable investment management fee. The Fund therefore invests into New Zealand cash, fixed interest and equity portfolios to provide the respective market index-like return.

Within the New Zealand fixed interest allocation, there is a benchmark allocation of 3% (within a range of 0% to 5%) available to invest in loans secured by first mortgages over residential property. For New Zealand equities the Fund has a benchmark allocation of 2.5% (within a range of 0% to 5%) to unlisted New Zealand securities issued by New Zealand businesses with high growth potential.

## Benchmark Asset Allocations and Ranges

Asset class	Benchmark	Range
Cash and cash equivalents	2%	0% - 10%
New Zealand fixed interest	7.5%	0% - 17.5%
International fixed interest	10.5%	0.5% - 20.5%
<b>Total Income Assets</b>	<b>20%</b>	<b>10% - 30%</b>
New Zealand equities	16.5%	6.5% - 26.5%
Unlisted New Zealand property	4.5%	0% - 7%
International equities	59%	49% - 69%
<b>Total Growth Assets</b>	<b>80%</b>	<b>70% - 90%</b>

## Authorised Investments

Authorised investments for each asset class are detailed in Schedule 12.

## Schedule 5: Investment Strategy for the High Growth Investment Fund

The objective of the High Growth Investment Fund is to achieve positive real returns over the long term through investment in growth assets, while lessening volatility through diversification of the Fund's assets. This is suited to investors seeking long term growth and able to tolerate greater volatility of returns over a minimum suggested timeframe of 10 years.

International assets (cash, fixed interest and equities) are managed by our external manager, DWS, in accordance with custom indices designed to track broader markets with a responsible investment screening overlay.

In the case of New Zealand assets (cash and equities), no suitable externally managed index fund is currently available at a reasonable investment management fee. The Fund therefore invests into New Zealand cash and equity portfolios to provide the respective market return.

For New Zealand equities the Fund has a benchmark allocation of 7.5% (within a range of 0% to 10%) to unlisted New Zealand securities issued by New Zealand businesses with high growth potential.

### Benchmark Asset Allocations and Ranges

Asset class	Benchmark	Range
Cash and cash equivalents	2%	0% - 12%
<b>Total Income Assets</b>	<b>2%</b>	<b>0% - 12%</b>
New Zealand equities	15%	5% - 25%
Unlisted New Zealand property	10%	0% - 15%
International equities	73%	63% - 83%
<b>Total Growth Assets</b>	<b>98%</b>	<b>88% - 100%</b>

### Authorised Investments

Authorised investments for each asset class are detailed in Schedule 12.



## Schedule 6: Investment Strategy for the Homes and Income Investment Fund

The Fund's objective is to minimise negative returns through investment in income generating assets such as community housing bonds and residential mortgages, while providing an opportunity for positive real returns over the longer term by investing a reasonable proportion in a company developing build-to-rent property. This is suited to investors seeking medium term growth over a minimum suggested timeframe of 3 years.

In the case of New Zealand assets (cash, fixed interest and unlisted property), no suitable externally managed index fund is currently available at a reasonable investment management fee. The Fund therefore invests in New Zealand cash, fixed interest and unlisted portfolios managed by us to provide the respective market index-like return.

Within the New Zealand fixed interest allocation, there is a benchmark allocation of 25% (within a range of 0% to 50%) available to invest in loans secured by first mortgages over residential property. Also within the New Zealand fixed interest allocation, there is a benchmark allocation of 10% (within a range of 0% to 15%) available to invest in bonds issued by community housing providers that are deliverable through NZClear\*. There is no allocation to the New Zealand Fixed Interest Portfolio.

Asset class	Benchmark	Range
Cash and cash equivalents	40%	30% - 100%
New Zealand fixed interest	35%	0% - 70%
<b>Total Income Assets</b>	<b>75%</b>	<b>50% - 100%</b>
Unlisted New Zealand property	25%	0% - 50%
<b>Total Growth Assets</b>	<b>25%</b>	<b>0% - 50%</b>

\* Deliverable through NZClear means the bonds are more easily transferable to other institutional investors if necessary. Interest rate swaps are used to hedge the interest rate risk of the community housing bonds.

### Authorised Investments

Authorised investments for each asset class are detailed in Schedule 12.

## Schedule 7: NZ Share Fund

### Investment Policy

The NZ Share Fund invests in companies and property trusts listed on the New Zealand stock exchange (NZX).

### Investment Objective

To generate a return similar to the performance of the NZ share market. It is designed to be the NZ share component of a diversified investment portfolio.

### Benchmark Index

The benchmark is the Morningstar New Zealand Index published by Morningstar, or any replacement

index approved by the Investment Committee in consultation with the Supervisor.

#### Authorised Investments

Securities listed on the NZX.

## Schedule 8: NZ Bond Fund

#### Investment Policy

The NZ Bond Fund invests in New Zealand government bonds and other highly rated liquid bonds.

#### Investment Objective

To generate a return similar to the performance of the NZ government bond market.

#### Benchmark Index

The benchmark is the Bloomberg NZBond Govt 0+ Index as calculated and published by Bloomberg, or any replacement index approved by the Investment Committee in consultation with the Supervisor.

#### Authorised Investments

Subject to the prudential limits set out below, any debt security or a derivative thereof that is denominated in New Zealand dollars.

The Manager shall ensure the NZ Bond Fund remains within the following prudential limits (unless contrary after consultation with the Supervisor):

Type of debt	Maximum % with single issuer of debt	Maximum % class of issuer of debt
New Zealand government issued or guaranteed debt securities	100	100
Debt securities issued or guaranteed by a New Zealand registered bank rated at least A (S&P rating or equivalent)	30	100
Debt securities issued by the New Zealand Local Government Funding Agency Limited	100	50
In addition to the above, debt securities of at least AA- Rating (S&P rating or equivalent)	20	50
In addition to higher rated securities, debt securities of A- to A+ inclusive Rating (S&P rating or equivalent)	10	
Unrated securities assessed by the Investment Committee to be investment grade quality*	5	10

Where applicable, maximum exposures have an additional tolerance of 1% for market movement, liquidity management and transaction timing purposes.

The weighted average duration of the New Zealand Fixed Interest portfolio must be within 0.25 years of the benchmark index duration at all times.

\*Investment grade means an issue is rated at least BBB- or equivalent by a recognised rating agency such as Standard & Poors.

## Schedule 9: Hedged Global Share Fund

#### Investment Policy

The Hedged Global Share Fund invests in companies and property trusts listed in developed markets.

**Investment Objective**

To generate a return similar to the performance of the benchmark index. It is designed to be the global hedged share component of a diversified investment portfolio.

**Benchmark Index**

The benchmark is the Bloomberg DM ex NZ ESG Screened Index (NZD hedged) published by Bloomberg, or any replacement index approved by the Investment Committee in consultation with the Supervisor.

**Authorised Investments**

Securities listed in developed markets that fall within the benchmark index.

## Schedule 10: Unhedged Global Share Fund

**Investment Policy**

The Unhedged Global Share Fund invests in companies and property trusts listed in developed markets.

**Investment Objective**

To generate a return similar to the performance of the benchmark index. It is designed to be the global unhedged share component of a diversified investment portfolio.

**Benchmark Index**

The benchmark is the Bloomberg DM ex NZ ESG Screened Index (unhedged) published by Bloomberg, or any replacement index approved by the Investment Committee in consultation with the Supervisor.

**Authorised Investments**

Securities listed in developed markets that fall within the benchmark index.

## Schedule 11: Hedged Global Bond Fund

**Investment Policy**

The Hedged Global Bond Fund invests in government bonds and other highly rated liquid bonds.

**Investment Objective**

To generate a return similar to the performance of the benchmark index. It is designed to be the global hedged bond component of a diversified investment portfolio.

**Benchmark Index**

The benchmark is the Bloomberg MSCI Global Aggregate SRI Exclusions Float Adjusted Index (hedged into New Zealand dollars) as calculated and published by Bloomberg, or any replacement index approved by the Investment Committee in consultation with the Supervisor.

**Authorised Investments**

Securities listed in markets that fall within the benchmark index limited to investment grade debt and subject to the credit risk management policies.

## Schedule 12: Asset Class Investment Guidelines

The investment guidelines and authorised investments for each asset class in the Funds are governed by the following restrictions.

### Cash and Cash Equivalents Portfolio

#### Investment Policy

The Funds invest primarily in a portfolio managed by us of call deposits with New Zealand registered banks and investment grade fixed interest securities issued in New Zealand.

#### Investment Objective

The objective is to outperform the Bloomberg NZBond Bank Bill Index.

#### Benchmark Index

The benchmark index is the Bloomberg NZBond Bank Bill Index, or any replacement index approved by the Investment Committee in consultation with the Supervisor.

#### Authorised Investments

Cash on call or any debt security or a derivative thereof that is denominated in New Zealand dollars, subject to the following restrictions:

Type of debt security	Maximum % with single issuer of debt security	Maximum % class of issuer of debt security
New Zealand government issued or guaranteed debt securities	100	100
Debt securities issued or guaranteed by a New Zealand registered bank rated at least A+ (S&P rating or equivalent)	30	100
Debt securities of at least AA- (S&P rating or equivalent)	20	100
Securities issued by a registered tax pool	30	30

Floating rate notes must have a maximum final maturity of 3 years and 1 month. The weighted average duration of the cash and cash equivalent portfolio must not exceed 60 days.

### New Zealand Fixed Interest Portfolio

#### Investment Policy

The Funds invest in the Simplicity NZ Bond Fund (or its equivalent). The NZ Bond Fund invests in New Zealand government bonds and other highly rated liquid bonds. An investment into any security rated below an A rating requires prior consultation with the Supervisor.

#### Investment Objective

The Simplicity NZ Bond Fund aims to generate a return similar to the performance of the NZ

government bond market.

### **Benchmark Index**

The benchmark for the Simplicity NZ Bond Fund is the Bloomberg NZBond Govt 0 + Yr Index as calculated and published by Bloomberg, or any replacement index approved by the Investment Committee in consultation with the Supervisor.

## **First Home Mortgage Portfolio**

### **Investment Policy**

The Funds invest in a portfolio of loans secured by first mortgages over residential property which falls under the New Zealand fixed interest asset class. The benchmark allocation to this portfolio is as follows:

- Defensive Investment Fund: 15%
- Conservative Investment Fund: 7.5%
- Balanced Investment Fund: 6.5%
- Growth Investment Fund: 3%

The first home mortgage portfolio lends money to persons purchasing their first home secured by a mortgage over the property being purchased. All loans require repayment of principal and interest. The maximum weighted average loan to value ratio of the loan portfolio is 80%. The maximum debt servicing ratio is 35% of a borrower's net income (after tax and deductions). The portfolio adheres to Credit Contracts and Consumer Finance Act 2003, associated regulations, and the responsible lending code which govern the fair treatment of borrowers. Policies and processes are maintained for the management of loan arrears.

A prudent provision for specific non-performing loans (such as if a default occurs) is made in accordance with relevant New Zealand accounting standards. A loan is considered to be in arrears when a repayment is 5 business days overdue. After 20 business days, if a repayment is overdue additional provision is made and recovery action commences.

Our lending rate is set by the Investment Committee in a range between the short term money market (such as bank floating rate notes and term deposits) and the range of retail mortgage interest rates offered by registered New Zealand banks.

The rate is reviewed by the Investment Committee after any change in the Reserve Bank of New Zealand Official Cash Rate (OCR) or if there are any significant changes in prevailing retail market interest rates.

### **Investment Objective**

The portfolio's objective is to generate a return 1.5% in excess of the benchmark index.

### **Benchmark Index**

The benchmark index is the Bloomberg NZBond Bank Bill Index, or any replacement index approved by the Investment Committee in consultation with the Supervisor.

## **International Fixed Interest Portfolio**

### **Investment Policy**

The Funds invest in the Simplicity Hedged Global Bond Fund (fully hedged to the NZ dollar). This is composed of a diversified portfolio of securities (bonds) selected from an index containing securities (bonds) issued by governments, government-related entities, investment grade corporate issues and securitised assets from around the world.

### **Investment Objective**

The portfolio's objective is to track the benchmark index (defined below) return on a rolling 12-month basis before tax and fees.

### **Benchmark Index**

The benchmark is the Bloomberg MSCI Global Aggregate SRI Exclusions Float Adjusted Index (hedged into New Zealand dollars), or any replacement index approved by the Investment Committee in consultation with the Supervisor.

## **New Zealand Equity Portfolio**

### **Investment Policy**

The Funds invest in the Simplicity NZ Share Fund (or its equivalent). The Simplicity NZ Share Fund invests in companies and property trusts listed on the New Zealand stock exchange (NZX).

The Growth Investment Fund and High Growth Investment Fund have a limited allocation, 2.5% and 7.5% respectively, to unlisted securities issued by New Zealand companies with high growth potential (see: Private Equity Portfolio below)

### **Investment Objective**

The portfolio's objective is to track the benchmark index (defined below) return on a rolling 12-month basis before tax and fees.

### **Benchmark Index**

The benchmark is the Morningstar New Zealand Index published by Morningstar, or any replacement index approved by the Investment Committee in consultation with the Supervisor.

## **Private Equity Portfolio**

### **Investment Policy**

The Growth and High Growth Investment Funds invest in a portfolio managed by us that invests either directly into unlisted New Zealand companies or via funds managed by Icehouse Ventures. The Private Equity Fund may also invest in listed New Zealand shares to ensure it is sufficiently diversified to qualify as a PIE. **This portfolio falls under the New Zealand equities asset class.**

### **Investment Objective**

The portfolio aims to generate long term (10 years+) returns that are 3% above the benchmark index (defined below).

### **Benchmark Index**

The benchmark is the Morningstar New Zealand Index published by Morningstar, or any replacement index approved by the Investment Committee in consultation with the Supervisor.

## **International Equity Portfolio**

### **Investment Policy**

The International Equity Portfolio is made up of a 65% allocation to the Simplicity Hedged Global Share Fund (NZD hedged), and a 35% allocation to the Simplicity Unhedged Global Share Fund (or their equivalents). Both of these Funds provide investors with exposure to equities listed on the exchanges of the world's major developed markets.

### **Investment Objective**

The portfolio's objective is to track the benchmark Index return (defined below) on a rolling 12-month basis before tax and fees.

### **Benchmark Index**

The benchmark index is blended to include 35% Bloomberg DM ex NZ ESG Screened Index (unhedged) and 65% Bloomberg DM ex NZ ESG Screened Index (NZD hedged), or any replacement index approved by the Investment Committee in consultation with the Supervisor.

## **Property Portfolio**

### **Investment Policy**

The Defensive, Conservative, Balanced, Growth, High Growth and the Homes and Income Investment Funds invest into a portfolio which holds unlisted shares in a related entity, Simplicity Living Limited (Simplicity Living), that develops and owns New Zealand residential property that is designed to be long term rental housing. This portfolio falls under the unlisted New Zealand property asset class. Simplicity Living may borrow in accordance with the property portfolio investment guidelines for the general purpose of funding the costs of property developments and ongoing operations.

### **Investment Objective**

During the development stage the deemed return on construction is 10% to compensate investors for the cost of capital (including land purchased for development).

Following completion, the rented properties will target a return of 5 year rolling NZ CPI + 3%. This recognizes the lower risk characteristics of completed residential property, while compensating investors for the associated illiquidity of the investments.

### **Benchmark Index**

The Benchmark is the Auckland House Price Index (HPI) sourced from REINZ, or any replacement index approved by the Investment Committee in consultation with the Supervisor. The benchmark may change over time if the portfolio invests in properties outside of Auckland and for rental income characteristics.

## Schedule 13: Glossary

The source of these definitions is [sorted.org.nz/glossary](https://sorted.org.nz/glossary) where available.

### *Administrator*

Our Administrator is Apex Investment Administration (NZ) Limited. A company that (as a delegate of the fund manager) attends to some or all of the everyday workings of an investment funds scheme. Sometimes called an ‘administration manager’, the administrator may handle tasks such as updating balances, loading transactions and paying withdrawals.

### *Currency Risk*

The risk that investments held in foreign currency fluctuate due to changes in the exchange rate between the foreign currency and New Zealand dollars.

### *Custodian*

A company separate from your KiwiSaver scheme provider that holds the assets of the provider’s KiwiSaver scheme. This function may sometimes be performed by the Supervisor. The Scheme’s Custodian is Public Trust.

### *Derivatives*

A type of alternative investment. These include financial contracts whose value depends on the future value of investments.

### *Diversification*

Not putting all our eggs in one basket, or spreading our risk by choosing different individual investments within an asset class. So instead of us buying a single share worth \$800, we can buy 80 shares worth \$10 in different companies, industries and countries around the world. Managed funds with Labels like ‘Defensive’, ‘Conservative’, ‘Balanced’, ‘Growth’, and ‘High Growth’ are usually diversified for you.

### *Foundation*

The Simplicity Foundation is the shareholder of Simplicity NZ Limited (the Manager). The Foundation receives 15% of all the management fees from Simplicity NZ and donates to approved charities. More details are available at [www.simplicity.kiwi](http://www.simplicity.kiwi).

### *Hedging*

A way that fund managers protect investors against the risk of prices suddenly dropping. When they are hedging against currency shifts, for example, they will lock in a future foreign exchange rate for an overseas currency to convert into New Zealand dollars, protecting against it falling lower.

### *Investment Committee*

The Investment Committee oversees implementation of the investment strategy, including being responsible for the adherence to the SIPO and monitoring of Fund performance.

### *Label*

The Label refers to the implied risk associated with a particular Fund. For example, a Conservative Fund should be expected to have less risk (and less return) than a Growth Fund.



### *Licensed Supervisor*

Our Supervisor is Public Trust. A Supervisor is a licensed entity independent of your investment scheme provider that supervises the provider's management of the scheme. Managed investment schemes are trusts, and (except in the case of a restricted scheme) the terms of the trust deed state that the supervisor (or another custodian) must hold all contributions and investments in trust for the investors. This means your funds are effectively ring-fenced in the event that the provider's business fails.

### *Limit Break*

A limit break is where there is a breach of limits set out in the investment authority (i.e., this SIPO). A limit break is usually a material breach of limits in either the nature or type of investments that can be made, or in the proportion of each type of asset that may be invested in.

### *Liquidity Risk*

The liquidity risk of a fund refers to the risk that a fund may not have sufficient cash or liquid assets that can quickly be converted into cash to meet that fund's redemption requests within the communicated timeframes. Liquidity reflects the ability to transact quickly without exerting a material effect on prices or receiving a materially lower price given prevailing market conditions.

### *Other Material Information*

This document provides additional information to the PDS and SIPO where required.

### *Portfolio Investment Entity*

A Portfolio Investment Entity ("PIE") is a type of savings or investment fund that has special tax advantages. When we save through or invest in a PIE, we pay either 0%, 10.5%, 17.5% or 28% tax on our share of the returns, depending on our income.

### *Product Disclosure Statement*

A key document that describes how an investment scheme works, including information about the provider. The PDS also gives you an understanding of the funds, their risks and returns, and the fees.

### *Property Fund Investment Guidelines*

A set of criteria agreed with the Supervisor which describes what the Property Fund is able to invest in.

### *Quarterly Fund Update*

A quarterly update from your investment scheme provider about how the funds have performed. The update is available on your provider's website and on the [Sorted's Smart Investor](#) tool.

### *SIPO*

Statement of Investment Policy and Objectives. The document that details an investment scheme provider's investment strategy and goals for the scheme and each fund in the scheme, and how scheme investments are required to be managed. Every scheme must have one, they are available on each scheme provider's website, and on Sorted Smart Investor.