



Mercer Investment Funds

# Statement of Investment Policy and Objectives (SIPO)

**Effective date 6 March 2023**

Issued by Mercer (N.Z.) Limited

This document replaces the SIPO dated 20 December 2022.

# Contents

1.	Description of the Managed Investment Scheme .....	3
2.	Investment Philosophy .....	4
3.	Fund Investment Strategies and Objectives .....	5
	Mercer Ethical Leaders Conservative Fund.....	5
	Mercer Ethical Leaders Balanced Fund.....	7
	Mercer Ethical Leaders Growth Fund .....	9
	Mercer Macquarie Real Return Opportunities Fund .....	11
	Mercer Income Generator Fund.....	12
	Mercer Macquarie NZ Cash Fund.....	14
	Mercer Macquarie NZ Fixed Interest Fund.....	16
	Mercer Macquarie NZ Short Duration Fund .....	18
	Mercer Macquarie Global Income Opportunities Fund .....	20
	Mercer NZ Shares Fund .....	21
	Mercer Macquarie Australian Shares Fund .....	22
	Mercer Ethical Leaders NZ Shares Fund.....	23
	Mercer Global Shares Fund .....	25
	Mercer Core Global Shares Fund .....	26
	Mercer Core Hedged Global Shares Fund .....	27
	Mercer Emerging Markets Shares Fund .....	29
	Mercer Ethical Leaders Global Shares Fund .....	30
	Mercer Macquarie Global Listed Real Estate Fund .....	32
	Mercer Macquarie Global Listed Infrastructure Fund .....	33
	Mercer NZ Shares Passive Fund .....	34
	Mercer Ethical Leaders Hedged Global Fixed Interest Index Fund .....	35
	Mercer All Country Global Shares Index Fund .....	36
	Mercer Australian Property Index Fund .....	37
4.	Investment Process .....	38
5.	Investment Performance Monitoring and Reporting .....	41
6.	SIPO Review and Monitoring.....	42
7.	Key Investment Policies and Protocols .....	43
	Glossary .....	46
	Appendix.....	47

Other than Macquarie Bank Limited (MBL), none of the entities noted in this document are authorised deposit-taking institutions for the purposes of the Banking Act 1959 (Commonwealth of Australia). The obligations of these entities do not represent deposits or other liabilities of MBL. Any investments are subject to investment risk including possible delays in repayment and loss of income and principal invested. MBL does not guarantee or otherwise provide assurance in respect of the obligations of these entities, unless noted otherwise.

# 1. Description of the Managed Investment Scheme

The Mercer Investment Funds is a managed investment scheme (**Scheme**). The Scheme has on offer 23 investment funds as listed below (and separated into investment categories):

## **Mercer Ethical Leaders Diversified Funds**

Mercer Ethical Leaders Conservative Fund

Mercer Ethical Leaders Balanced Fund

Mercer Ethical Leaders Growth Fund

## **Mercer Goals Based Funds**

Mercer Macquarie Real Return Opportunities Fund

Mercer Income Generator Fund

## **Mercer Cash and Fixed Interest Funds**

Mercer Macquarie NZ Cash Fund

Mercer Macquarie NZ Fixed Interest Fund

Mercer Macquarie NZ Short Duration Fund

Mercer Global Income Opportunities Fund

## **Mercer New Zealand and Australian Shares Funds**

Mercer NZ Shares Fund

Mercer Macquarie Australian Shares Fund

Mercer Ethical Leaders NZ Shares Fund

## **Mercer Global Shares Funds**

Mercer Global Shares Fund

Mercer Ethical Leaders Global Shares Fund

Mercer Core Global Shares Fund

Mercer Core Hedged Global Shares Fund

Mercer Emerging Markets Shares Fund

## **Mercer Property and Infrastructure Funds**

Mercer Macquarie Global Listed Real Estate Fund

Mercer Macquarie Global Listed Infrastructure Fund

## **Mercer Index Funds**

Mercer NZ Shares Passive Fund

Mercer Ethical Leaders Hedged Global Fixed Interest Index Fund

Mercer All Country Global Shares Index Fund

Mercer Australian Property Index Fund

A list of fund names prior to 6th March 2023 has been provided in Appendix 1 on page 47.

The Manager of the funds from 3rd March 2023 is Mercer (N.Z.) Limited (“**Mercer**”, “**Manager**”, “**we**”, “**us**”, “**our**”) who is also the current licensed manager of the Scheme. The previous manager of the funds was Macquarie Asset Management Public Investments (NZ) Limited.

## 2. Investment Philosophy

Mercer's investment approach is based on the belief that an optimal investment strategy takes full advantage of investment opportunities by diversifying across investment classes and investment styles, thereby achieving maximum investment efficiency. Mercer believes that a "manager of managers" approach is the most effective and flexible way of delivering the best outcome for investors, and that well-constructed combinations of highly rated specialist investment managers generally result in securing a portfolio of investments that provide consistent, above-average performance over time. Some asset classes may be managed by a single manager where that is appropriate or necessary.

Underpinning this approach, there are five basic elements to Mercer's investment beliefs:

### Active Management

Mercer believes that active management is a skill and, as evidenced by Mercer's value-add analysis, Mercer's manager research process can improve the likelihood of identifying capable and skilful managers.

### Operational Efficiency

Mercer considers overall investment returns can be enhanced by having a monitoring and governance framework that focuses on evaluating and quantifying investment efficiency.

### Risk Management

Mercer believes that asset allocation and diversification are the most important decisions to be made in relation to the investment process.

Mercer is also of the view that risk and return are related and that risk is itself a multi-dimensional concept.

### Dynamic Asset Allocation

Markets can exhibit trends over the medium to long term and can be behavioural in nature, which is why Mercer believes Dynamic Asset Allocation can add value through higher returns and also mitigate downside risk in a Fund.

### Sustainability

Mercer believes that environmental, social and governance (ESG) risks and opportunities can have a material impact on long-term risk and return outcomes and considers that taking a sustainable investment view is more likely to create and preserve long-term investment capital.

Mercer also believes that Active Ownership helps realise long-term shareholder value.

# 3. Fund Investment Strategies and Objectives

The investment strategies and objectives for the funds are set out as follows. Additional information about underlying managers and underlying funds is available by emailing Mercer at [nzportfolios@mercer.com](mailto:nzportfolios@mercer.com).

## Mercer Ethical Leaders Conservative Fund<sup>1</sup>

### Description of the fund

The fund is a diversified portfolio that is primarily invested in a mix of income assets (e.g., cash and fixed income), with a moderate exposure to growth assets (e.g., shares and listed property). The fund takes a sustainable investment approach and is managed to specific 'sustainable investment' criteria which prohibit investments in certain companies or activities, and encourage investment in companies with strong environmental, social and governance characteristics. This fund is governed by the Supplementary Sustainable Investment Policy and has been certified by the Responsible Investment Association of Australasia (RIAA).

See section 7 of the SIPO for more information on sustainable investing. You can find the Supplementary Sustainable Investment Policy at <https://www.multimanager.mercer.co.nz>.

### Investment objectives

The fund aims to provide moderate returns, to protect capital, and to outperform, over the medium term, the weighted average return of the market indices used to measure performance of the underlying funds/assets in which the fund invests.

### Investment strategy

Asset allocations are actively managed in line with changing investment environments and conditions. An investment process is employed that combines financial analysis with a sustainability focus.

The fund gains its underlying investment exposure by investing into other funds as shown in the benchmark asset allocation table below.

### Benchmark asset allocation ranges

The benchmark asset mix noted below is the expected average asset mix of the fund over the long term.

Asset class	Benchmark asset allocation (%)	Range (%)	Benchmark index
Cash and cash equivalents	25	5-45	Bloomberg NZBond Bank Bill Index
New Zealand fixed interest	25	5-45	Bloomberg NZBond Composite 0+ Yr Index
International fixed interest	25	5-45	Bloomberg Barclays MSCI Global Aggregate SRI Select ex-Fossil Fuels Index (fully hedged to the New Zealand dollar)
<b>Total income assets</b>	<b>75</b>	<b>55-95</b>	

<sup>1</sup>Prior to 6<sup>th</sup> March 2023, the fund was called the Macquarie Ethical Leaders Conservative Fund.

	Range (%)		Benchmark index
<b>Alternative assets</b>	<b>0</b>	<b>0-30</b>	
Australasian equities	5	0-25	S&P/NZX 50 Index including imputation credits
International equities	13	0-33	MSCI All Country World Index with net dividends reinvested (69% gross hedged to the New Zealand dollar)
Listed property	7	0-27	FTSE EPRA/NAREIT Developed Total Return Index with net dividends reinvested
<b>Total growth assets</b>	<b>25</b>	<b>5-45</b>	
<b>Total</b>	<b>100</b>		

### Permitted investments

The fund can invest in any of the asset classes listed in the table above either directly or via investment in other funds.

### Derivatives

The fund (including any underlying managers if applicable) may use derivatives for the purpose of:

- protecting against risks such as unfavourable changes in an investment's price;
- enhancing returns by taking advantage of favourable mispricing within a market, as a cost-effective alternative to purchasing;
- physical assets;
- implementing the investment objectives of the fund; and
- currency management.

The fund is also permitted to hold derivatives related to each asset class so long as the total market value exposure of each asset class (i.e. the physical plus the underlying derivative market value exposure) remains within the permitted asset allocation ranges.

### Currency management

The fund targets an exposure to foreign currency shares (excluding Australian dollar shares) of 69% gross hedged back to the New Zealand dollar. For Australian dollar shares, the fund targets an exposure of 50% hedged back to the New Zealand dollar. For all other asset classes, the fund targets 100% hedging of foreign currency exposures back to the New Zealand dollar. The underlying manager has the discretion to alter these target positions.

See page 40 "Hedging" for more information on funds for which the Fair Dividend Rate (FDR) taxation method is applicable but where these funds are not eligible to apply FDR to their foreign currency hedges and why these funds may therefore apply gross hedging.

## Mercer Ethical Leaders Balanced Fund<sup>2</sup>

### Description of the fund

The fund is a diversified portfolio with a slightly higher allocation to a mix of growth assets (e.g., shares and listed property) relative to a mix of income assets (e.g., cash and fixed income). The fund takes a sustainable investment approach and is managed to specific 'sustainable investment' criteria which prohibit investments in certain companies or activities, and encourage investment in companies with strong environmental, social and governance characteristics. This fund is governed by the Supplementary Sustainable Investment Policy and has been certified by the Responsible Investment Association of Australasia (RIAA).

See section 7 of the SIPO for more information on sustainable investing. You can find the Supplementary Sustainable Investment Policy at <https://www.multimanager.mercer.co.nz>.

### Investment objectives

The Fund aims to provide capital growth over the longer-term with moderate levels of volatility and to outperform, over the medium term, the weighted average return of the market indices used to measure performance of the underlying funds/assets in which the fund invests.

### Investment strategy

Asset allocations are actively managed in line with changing investment environments and conditions. An investment process is employed that combines financial analysis with a sustainability focus.

### Benchmark asset allocation ranges

The benchmark asset mix noted below is the expected average asset mix of the fund over the long term.

Asset class	Benchmark asset allocation (%)	Range (%)	Benchmark index
Cash and cash equivalents	10	0-30	Bloomberg NZBond Bank Bill Index
New Zealand fixed interest	12.5	0-32.5	Bloomberg NZBond Composite 0+ Yr Index
New Zealand fixed income	12.5	0-32.5	Bloomberg Barclays MSCI Global Aggregate SRI Select ex-Fossil Fuels Index (fully hedged to the New Zealand dollar)
<b>Total income assets</b>	<b>35</b>	<b>10-60</b>	
<b>Alternative assets</b>	<b>0</b>	<b>0-30</b>	
Australasian equities	20	0-40	S&P/NZX 50 Index including imputation credits
International equities	35	15-55	MSCI All Country World Index with net dividends reinvested (69% gross hedged to the New Zealand dollar)
Listed property	10	0-30	FTSE EPRA/NAREIT Developed Total Return Index with net dividends reinvested
<b>Total growth assets</b>	<b>65</b>	<b>40-90</b>	
<b>Total</b>	<b>100</b>		

<sup>2</sup> Prior to 6<sup>th</sup> March 2023, the fund was called the Macquarie Ethical Leaders Balanced Fund

### **Permitted investments**

The fund can invest in any of the asset classes listed in the table above either directly or via investment in other funds.

### **Derivatives**

The fund (including any underlying managers if applicable) may use derivatives for the purpose of:

- protecting against risks such as unfavourable changes in an investment's price;
- enhancing returns by taking advantage of favourable mispricing within a market, as a cost-effective alternative to purchasing;
- physical assets;
- implementing the investment objectives of the fund; and
- currency management.

The fund is also permitted to hold derivatives related to each asset class so long as the total market value exposure of each asset class (i.e. the physical plus the underlying derivative market value exposure) remains within the permitted asset allocation ranges.

### **Currency management**

The fund targets an exposure to foreign currency shares (excluding Australian dollar shares) of 69% gross hedged back to the New Zealand dollar. For Australian dollar shares, the fund targets an exposure of 50% hedged back to the New Zealand dollar. For all other asset classes, the fund targets 100% hedging of foreign currency exposures back to the New Zealand dollar. The underlying manager has the discretion to alter these target positions.

See page 40 "Hedging" for more information on funds for which the Fair Dividend Rate (FDR) taxation method is applicable but where these funds are not eligible to apply FDR to their foreign currency hedges and why these funds may therefore apply gross hedging.

## Mercer Ethical Leaders Growth Fund<sup>3</sup>

### Description of the fund

The fund is a diversified portfolio that is primarily invested in a mix of growth assets (e.g., shares and listed property), with a moderate allocation to a mix of income assets (e.g., cash and fixed income). The fund takes a sustainable investment approach and is managed to specific 'sustainable investment' criteria which prohibit investments in certain companies or activities, and encourage investment in companies with strong environmental, social and governance characteristics. This fund is governed by the Supplementary Sustainable Investment Policy and has been certified by the Responsible Investment Association of Australasia (RIAA). See section 7 of the SIPO for more information on sustainable investing. You can find the Supplementary Sustainable Investment Policy at <https://www.multimanager.mercer.co.nz>.

### Investment objectives

The Fund aims to provide capital growth over the longer-term and to outperform, over the medium term, the weighted average return of the market indices used to measure performance of the underlying funds/assets in which the fund invests.

### Investment strategy

Asset allocations are actively managed in line with changing investment environments and conditions. An investment process is employed that combines financial analysis with a sustainability focus.

### Benchmark asset allocation ranges

The benchmark asset mix noted below is the expected average asset mix of the fund over the long term.

Asset class	Benchmark asset allocation (%)	Range (%)	Benchmark index
Cash and cash equivalents	5	0-25	Bloomberg NZBond Bank Bill Index
New Zealand fixed interest	2.5	0-22.5	Bloomberg NZBond Composite 0+ Yr Index
International fixed interest	2.5	0-22.5	Bloomberg Barclays MSCI Global Aggregate SRI Select ex-Fossil Fuels Index (fully hedged to the New Zealand dollar)
<b>Total income assets</b>	<b>10</b>	<b>0-30</b>	
<b>Alternative assets</b>	<b>0</b>	<b>0-30</b>	
Australasian equities	22.5	2.5-42.5	S&P/NZX 50 Index including imputation credits
International equities	57.5	37.5-77.5	MSCI All Country World Index with net dividends reinvested (69% gross hedged to the New Zealand dollar)
Listed property	10	0-30	FTSE EPRA/NAREIT Developed Total Return Index with net dividends reinvested
<b>Total growth assets</b>	<b>90</b>	<b>70-100</b>	
<b>Total</b>	<b>100</b>		

### Permitted investments

The fund can invest in any of the asset classes listed in the table above either directly or via investment in other funds.

<sup>3</sup> Prior to 6<sup>th</sup> March 2023, the fund was called the Macquarie Ethical Leaders Growth Fund.

## **Derivatives**

The fund (including any underlying managers if applicable) may use derivatives for the purpose of:

- protecting against risks such as unfavourable changes in an investment's price;
- enhancing returns by taking advantage of favourable mispricing within a market, as a cost-effective alternative to purchasing physical assets;
- implementing the investment objectives of the fund; and
- currency management.

The fund is also permitted to hold derivatives related to each asset class so long as the total market value exposure of each asset class (i.e. the physical plus the underlying derivative market value exposure) remains within the permitted asset allocation ranges.

## **Currency management**

The fund targets an exposure to foreign currency shares (excluding Australian dollar shares) of 69% gross hedged back to the New Zealand dollar. For Australian dollar shares, the fund targets an exposure of 50% hedged back to the New Zealand dollar. For all other asset classes, the fund targets 100% hedging of foreign currency exposures back to the New Zealand dollar. The underlying manager has the discretion to alter these target positions.

See page 40 "Hedging" for more information on funds for which the Fair Dividend Rate (FDR) taxation method is applicable but where these funds are not eligible to apply FDR to their foreign currency hedges and why these funds may therefore apply gross hedging.

## Mercer Macquarie Real Return Opportunities Fund<sup>4</sup>

### Description of the fund

The fund is a diversified fund that aims to generate a positive return above inflation and to actively respond to changing market conditions with a flexible approach to investing.

### Investment objectives

To provide a Real Return of greater than 4% per annum over a rolling five year period.

### Investment strategy

Assets are managed using an approach with underlying investment manager(s). The underlying funds provide diversity across asset classes, sectors, geographies and investment managers, and have the ability to change the investment allocations in order to navigate the ups and downs of the investment cycle. Risk mitigation strategies within the underlying funds are designed to lower expected volatility in returns and reduce the impact of market related events. The underlying funds do not have a target asset allocation. Rather, the funds operate within broad ranges.

### Benchmark asset allocation ranges

Asset class	Benchmark asset allocation (%)	Range (%)
Cash and cash equivalents	5	0-10
Investment in underlying multi-asset fund as follows:	95	90-100
• Macquarie (Australia) Real Return Opportunities Fund*		
<b>Total</b>	<b>100</b>	

\*The Macquarie (Australia) Real Return Opportunities Fund is a fund managed by Macquarie Investment Management Global Limited in Australia.

### Permitted investments

The fund can invest in any of the asset classes listed in the table above either directly or via investment in other funds.

### Derivatives

The fund may use derivatives for currency hedging purposes. The underlying funds, into which the fund invests, may use derivatives for the purpose of:

- protecting against risks such as unfavourable changes in an investment's price;
- enhancing returns by taking advantage of favourable mispricing within a market, as a cost-effective alternative to purchasing;
- physical assets;
- implementing the investment objectives of the fund; and
- currency management.

### Currency management

The Australian dollar exposure of the fund (the combined market value of the underlying funds) is hedged back to New Zealand dollars. Within the underlying funds, the investment managers actively manage any non-Australian dollar exposures and have discretion as to the amount of non-Australian dollar exposures that may be held.

<sup>4</sup> Prior to 6<sup>th</sup> March 2023, the fund was called the Macquarie Real Return Opportunities Fund. Prior to 27 September 2022 the fund was called the Macquarie Global Multi-Asset Fund.

## Mercer Income Generator Fund<sup>5</sup>

### Description of the fund

The fund aims to provide a gross fixed monthly income in excess of bank deposit rates, along with a positive return on capital over the long term. To achieve this, the fund invests in a diversified mix of growth and defensive assets, with a focus on reliable income generation. Environmental, Social and Governance characteristics are integrated into the underlying investment managers' investment processes. See section 7 of the SIPO for more information on sustainable investing. You can find the Supplementary Sustainable Investment Policy at <https://www.multimanager.mercer.co.nz>.

### Investment objectives

To maximise the amount of the monthly distribution payments to investors by outperforming, over the medium term, the weighted average return of the market indices used to measure performance of the underlying funds/assets in which the fund invests.

### Investment strategy

Investment in a diversified mix of growth and defensive assets aims to provide regular income along with a positive return on capital over the long term. Payment of a fixed monthly distribution is delivered by actively managing a diversified range of income-producing assets such as fixed interest securities, corporate bonds, equities and infrastructure. The fund gains most of its underlying investment exposure by investing into other funds.

### Benchmark asset allocation ranges

The benchmark asset mix noted below is the expected average asset mix of the fund over the long term.

Asset class	Benchmark asset allocation (%)	Range (%)	Benchmark index
Cash and cash equivalents	10	0-20	Bloomberg NZBond Bank Bill Index
New Zealand fixed interest	5	0-15	Bloomberg NZBond Composite 0+ Yr Index
New Zealand fixed income	20	10-30	Bloomberg NZBond Credit 0+ Yr Index
International fixed interest	25	15-35	Bloomberg Barclays MSCI Global Aggregate SRI Select ex-Fossil Fuels Index
<b>Total defensive assets</b>	<b>60</b>	<b>45-75</b>	
Australasian equities as follows:			
• New Zealand equities	20	10-30	S&P/NZX50 Gross Index (including imputation credits)
• Australian equities	10	0-20	S&P/ASX 200 Accumulation Index
International listed infrastructure	5	0-15	Dow Jones Brookfield Global Infrastructure Index
Listed property	5	0-15	FTSE EPRA/NAREIT Developed Total Return Index with net dividends reinvested
<b>Total growth assets</b>	<b>40</b>	<b>25-55</b>	
<b>Total</b>	<b>100</b>		

### Permitted investments

The fund can invest in any of the asset classes listed in the table above either directly or via investment in other funds.

<sup>5</sup> Prior to 6<sup>th</sup> March 2023, the fund was called the Macquarie Income Generator Fund.

## **Derivatives**

The fund (including any underlying managers if applicable) may use derivatives for the purpose of:

- protecting against risks such as unfavourable changes in an investment's price;
- enhancing returns by taking advantage of favourable mispricing within a market, as a cost-effective alternative to purchasing;
- physical assets;
- implementing the investment objectives of the fund, and
- currency management.

The fund is also permitted to hold derivatives related to each asset class so long as the total market value exposure of each asset class (i.e. the physical plus the underlying derivative market value exposure) remains within the permitted asset allocation ranges.

## **Currency management**

The assets included in the international listed property category are hedged back to New Zealand dollars. For the international listed infrastructure category, the currency weights of the underlying index are hedged back to New Zealand dollars. The assets included in the global corporate bonds category are also hedged back to New Zealand dollars. The Australian dollar assets are not currently hedged, but the investment manager retains discretion to adjust this exposure.

## Mercer Macquarie NZ Cash Fund<sup>6</sup>

### Description of the fund

The fund is an actively managed portfolio of bank bills, floating rate notes and short term securities and liquid deposits, and is a very low risk investment product that targets capital security. Environmental, Social and Governance characteristics are integrated into our investment process where applicable. See section 7 of the SIPO for more information on sustainable investing. You can find the Supplementary Sustainable Investment Policy at <https://www.multimanager.mercer.co.nz>.

### Investment objectives

To provide a Gross Return above the return of the Bloomberg NZBond Bank Bill Index on a rolling 12 month basis.

### Investment strategy

Investment is primarily in investment grade New Zealand short-term securities, liquid deposits and floating rate notes in the wholesale money market, with a focus on adding value by credit risk management and interest rate management. The fund targets a maximum weighted average duration not exceeding six months.

### Benchmark asset allocation ranges

Asset class	Benchmark asset allocation (%)	Range (%)
Cash and cash equivalents as follows:	100	
• New Zealand Government or government guaranteed securities, bank risk or debt securities and registered bank deposits/cash		50-100
• Corporate securities		0-50
• Floating rate notes		0-25

### Permitted investments

The fund can invest in any of the asset classes and security types listed in the table above subject to the following restrictions:

- Maximum of 30% in securities issued or guaranteed by any one bank
- Maximum of 20% in securities issued or guaranteed by any other entity (other than those issued or guaranteed by the New Zealand Government or Reserve Bank of New Zealand) rated A1 or higher (by Standard and Poor's or an equivalent rating agency).
- Maximum of 10% in securities issued or guaranteed by any other entity (other than those issued or guaranteed by the New Zealand Government or Reserve Bank of New Zealand) rated A2 (by Standard and Poor's short term credit ratings or an equivalent rating agency).
- Maximum exposure to A2 (by Standard and Poor's short term credit ratings or an equivalent rating agency) securities of 20%.
- No exposure to entities rated below A2 (by Standard and Poor's short term credit ratings or an equivalent rating agency).
- The Manager shall ensure that any local authority investments are of credit quality equivalent to a corporate issue with a Standard and Poor's short term credit ratings rating of A2 or higher.
- Investment in collateralised debt obligations, collateralised loan obligations or credit default swaps is not permitted.

<sup>6</sup> Prior to 6<sup>th</sup> March 2023, the fund was called the Macquarie NZ Cash Fund.

- Investment in foreign currency denominated investments are not permitted.
- The maximum final maturity date of any floating rate notes is three years.
- Floating rate note exposure with final maturity longer than one year but less than three years will be limited to repo eligible bank and local authorities, rated A- or higher.
- The maximum final maturity of all other assets is one year.
- The weighted average duration of the portfolio is not to exceed 185 days. The duration implications of derivatives are to be included when calculating the weighted average duration.

### **Derivatives**

The fund (including any underlying managers if applicable) may use derivatives for the purpose of:

- protecting against risks such as unfavourable changes in an investment's price;
- enhancing returns by taking advantage of favourable mispricing within a market, as a cost-effective alternative to purchasing;
- physical assets;
- implementing the investment objectives of the fund, and
- currency management.

The fund is also permitted to hold derivatives related to each asset class so long as the total market value exposure of each asset class (i.e. the physical plus the underlying derivative market value exposure) remains within the permitted asset allocation ranges.

## Mercer Macquarie NZ Fixed Interest Fund<sup>7</sup>

### Description of the fund

The fund is an actively managed portfolio of fixed interest securities. It is a medium risk investment product, focusing predominantly on government bonds and corporate securities in the New Zealand market. Environmental, Social and Governance characteristics are integrated into our investment process. See section 7 of the SIPO for more information on sustainable investing. You can find the Supplementary Sustainable Investment Policy at <https://www.multimanager.mercer.co.nz>.

### Investment objectives

To provide a Gross Return above the return of the Bloomberg NZBond Composite 0+ Yr Index on a rolling three year basis.

### Investment strategy

Investment is in a diversified portfolio of primarily investment grade quality corporate and government securities. Derivatives are frequently utilised to manage risk. The portfolio is structured to add value through credit risk management and interest rate management. The portfolio may also contain a modest amount of foreign currency fixed interest securities, 100% hedged back to New Zealand dollars.

### Benchmark asset allocation ranges

The benchmark asset mix below is the expected average asset mix of the fund over the long term.

Asset class	Benchmark asset allocation (%)	Range (%)
New Zealand fixed interest* as follows:	100	
• On call NZ cash, short-term securities and deposits		0-50
• New Zealand Government, corporate and other non-government securities		50-100
• Local Government Funding Authority	0	0-50
International Fixed Interest**	0	0-20

\*New Zealand fixed interest may also include foreign currency issues of New Zealand entities.

\*\*Investment in international fixed interest is restricted to foreign currency issues of the Australian parents of New Zealand entities, Australian dollar issues of all other Australian entities and New Zealand dollar issues of non-New Zealand entities.

### Permitted investments

The fund can invest in any of the asset classes and security types listed in the table above subject to the following restrictions:

- Maximum exposure to securities issued, or guaranteed by entities (other than those issued or guaranteed by the New Zealand Government, Reserve Bank of New Zealand, or Local Government Funding Agency) shall comply with the following credit rating constraints:
  - AAA to BBB- 100%
  - AA+ to BBB- 85%
  - A+ to BBB- 85%
  - BBB+ to BBB- 15%
- Maximum exposure to securities issued or guaranteed by any one entity (other than those issued or guaranteed by the New Zealand Government, Reserve Bank of New Zealand, or Local Government Funding Authority) shall comply with the following credit rating constraints:
  - Major Bank\* rated A- or better 8%

<sup>7</sup> Prior to 6<sup>th</sup> March 2023, the fund was called the Macquarie NZ Fixed Interest Fund.

○ AAA	10%
○ AA+ to AA-	8%
○ A+ to A-	6%
○ BBB+ to BBB-	4%

\*Major bank is defined as ANZ Bank New Zealand Limited (ANZ), ASB Bank Limited (ASB), Bank of New Zealand (BNZ), Westpac New Zealand Limited (WBC) and their respective parent banks.

- No exposure to securities rated lower than BBB- (by Standard and Poor's or an equivalent rating agency).
- Unrated securities shall not be held, except for local authority securities which have been allocated a Manager rating A- or higher, or senior unsecured securities of an issuer rated BBB- or higher by Standard and Poor's or an equivalent rating agency.
- Exposure to the Local Government Funding Agency is permissible as described above while it retains a credit rating of AA or higher.
- Investment in collateralised debt obligations, collateralised loan obligations or credit default swaps is not permitted.
- Investment in foreign currency denominated issues is permitted up to 20% of the portfolio. Cross currency swaps are only permitted in order to remove currency risk resulting from foreign currency security exposures.
- The fund is permitted to invest in direct loans which comply with the Manager's risk policy criteria.
- The duration of the portfolio is to be no more than two years longer or shorter than the Bloomberg NZBond Composite 0+ Yr Index duration.
- The duration implications of derivative products are to be considered included when calculating the weighted average duration.

### **Derivatives**

The fund (including any underlying managers if applicable) may use derivatives for the purpose of:

- protecting against risks such as unfavourable changes in an investment's price;
- enhancing returns by taking advantage of favourable mispricing within a market, as a cost-effective alternative to purchasing;
- physical assets;
- implementing the investment objectives of the fund; and
- currency management.

The fund is also permitted to hold derivatives related to each asset class so long as the total market value exposure of each asset class (i.e. the physical plus the underlying derivative market value exposure) remains within the permitted asset allocation ranges.

### **Currency management**

The fund targets a position of being fully hedged to the New Zealand dollar.

## Mercer Macquarie NZ Short Duration Fund<sup>8</sup>

### Description of the fund

The fund is an actively managed portfolio of fixed interest securities. It is a low risk investment product, focusing predominantly on corporate securities in the New Zealand and Australian market with a shorter average maturity than a standard fixed interest fund. Environmental, Social and Governance characteristics are integrated into our investment process. See section 7 of the SIPO for more information on sustainable investing. You can find the Supplementary Sustainable Investment Policy at <https://www.multimanager.mercer.co.nz>.

### Investment objectives

To provide a Gross Return above the return of the Bloomberg NZBond Swaps 1–3 Year Index on a rolling three year basis.

### Investment strategy

Investment is in a range of fixed interest securities, including corporate, bank, local authority and state owned enterprise (SOE) bonds, mortgage and asset-backed securities, infrastructure debt, government bonds, credit default swaps, interest rate swaps, cash and cash-like securities. The portfolio specifically targets credit risk and interest rate risk as a source of return.

The portfolio may also contain a modest amount of foreign currency fixed interest securities, 100% hedged back to New Zealand dollars.

### Benchmark asset allocation ranges

The benchmark asset mix below is the expected average asset mix of the fund over the long term.

Asset class	Benchmark asset allocation (%)	Range (%)
New Zealand fixed interest* as follows:	100	
• NZ issued securities, including corporate bonds, SOE, local authority and government bonds		0-100
• Mortgage and other asset backed bonds		0-25
• On call NZ cash, short-term securities and term deposits		0-100
• Local Government Funding Authority		0-50
• International Fixed Interest**	0	0-30

\*New Zealand fixed interest may also include foreign currency issues of New Zealand entities.

\*\*Investment in international fixed interest is restricted to foreign currency issues of the Australian parents of New Zealand entities, Australian dollar issues of all other Australian entities and New Zealand dollar issues of non-New Zealand entities.

### Permitted investments

The fund can invest in any of the asset classes and security types listed in the table above subject to the following restrictions:

- Maximum exposure to securities issued, or guaranteed by entities (other than those issued or guaranteed by the New Zealand Government, Reserve Bank of New Zealand or Local Government Funding Authority) shall comply with the following credit rating constraints:
  - AAA to BBB- 100%
  - AA+ to BBB- 100%
  - A+ to BBB- 85%
  - BBB+ to BBB- 20%

<sup>8</sup> Prior to 6<sup>th</sup> March 2023, the fund was called the Macquarie NZ Short Duration Fund.

- Maximum exposure to securities issued or guaranteed by any one entity (other than those issued or guaranteed by the New Zealand Government, Reserve Bank of New Zealand or Local Government Funding Authority) shall comply with the following credit rating constraints:
  - Major banks\* rated A- or better 10%
  - AAA to AA- 10%
  - A+ to A- 8%
  - BBB+ to BBB- 6%

\*Major bank is defined as ANZ Bank New Zealand Limited (ANZ), ASB Bank Limited (ASB), Bank of New Zealand (BNZ), Westpac New Zealand Limited (WBC) and their respective parent banks.
- No exposure to securities rated lower than BBB- (by Standard and Poor's or an equivalent rating agency).
- Unrated securities shall not be held, except for local authority securities which have been allocated a Manager rating A- or higher.
- Investment in foreign currency issues is restricted as follows:
  - foreign currency issues of New Zealand entities
  - foreign currency issues of the Australian parents of New Zealand entities, and
  - Australian dollar issues of all other Australian entities.
- Investment in foreign currency denominated issues is permitted up to 30% of the portfolio. Cross currency swaps are only permitted in order to remove currency risk resulting from foreign currency security exposures.
- Investment in collateralised debt obligations or collateralised loan obligations is not permitted.
- The manager may use credit default swaps up to 30% of the portfolio.
- The duration of the fund must remain within a 0 to 3 year range.

#### **Derivatives**

The fund (including any underlying managers if applicable) may use derivatives for the purpose of:

- protecting against risks such as unfavourable changes in an investment's price;
- enhancing returns by taking advantage of favourable mispricing within a market, as a cost-effective alternative to purchasing;
- physical assets;
- implementing the investment objectives of the fund; and
- currency management.

The fund is also permitted to hold derivatives related to each asset class so long as the total market value exposure of each asset class (i.e. the physical plus the underlying derivative market value exposure) remains within the permitted asset allocation ranges.

#### **Currency management**

The fund targets a position of being fully hedged to the New Zealand dollar.

## Mercer Macquarie Global Income Opportunities Fund<sup>9</sup>

### Description of the fund

The fund is a well-diversified portfolio of highly rated global fixed interest securities. At the total portfolio level the fund will have a shorter maturity than most traditional fixed interest funds, with an emphasis on minimising capital loss.

Environmental, Social and Governance characteristics are integrated into the underlying investment manager's investment process. See section 7 of the SIPO for more information on sustainable investing. You can find the Supplementary Sustainable Investment Policy at <https://www.multimanager.mercer.co.nz>.

### Investment objectives

To provide a Gross Return above the return of the Bloomberg NZBond Bank Bill Index on a rolling three-year basis.

### Investment strategy

The fund invests in a wide range of Australasian and global investment grade floating and fixed rate instruments, asset-backed securities, and cash via investment in the Macquarie Global Income Opportunities Fund, a fund managed by Macquarie Investment Management Australia Limited. The Macquarie Global Income Opportunities Fund may also have opportunistic exposure to other fixed income sectors and instruments such as high yield and emerging markets debt as well as other fixed income instruments. Interest rate risk will generally be hedged through the use of derivatives such as swaps and futures.

### Benchmark asset allocation ranges

The benchmark asset mix noted below is the expected average asset mix of the fund over the long term. The fund will be actively managed within the given ranges:

Asset class	Benchmark asset allocation (%)	Range (%)
Cash and cash equivalents	0	0-10
International fixed interest via investment in the Macquarie Global Income Opportunities Fund *	100	90-100
<b>Total</b>	<b>100</b>	

\*International fixed interest may also include New Zealand fixed interest securities.

### Permitted investments

The fund can invest in any of the asset classes listed in the table above either directly or via investment in other funds.

### Derivatives

The fund (including any underlying managers if applicable) may use derivatives for the purpose of:

- protecting against risks such as unfavourable changes in an investment's price
- enhancing returns by taking advantage of favourable mispricing within a market, as a cost-effective alternative to purchasing physical assets
- implementing the investment objectives of the fund, and
- currency management.

The fund is also permitted to hold derivatives related to each asset class so long as the total market value exposure of each asset class (i.e. the physical plus the underlying derivative market value exposure) remains within the permitted asset allocation ranges.

Counterparties for over-the-counter derivative transactions must be rated investment grade. Any net settlement exposure to a counterparty of less than A- (as rated by Standard and Poor's, or Moody's or Fitch if not rated by the former) is limited to 5% of the market value of the portfolio.

### Currency management

The fund targets a position of being fully hedged to the New Zealand dollar.

<sup>9</sup> Prior to 6<sup>th</sup> March 2023, the fund was called the Macquarie Global Income Opportunities Fund.

## Mercer NZ Shares Fund<sup>10</sup>

### Description of the fund

The fund is a diversified portfolio of predominantly New Zealand shares across a range of industries and sectors. The fund may also invest in Australian shares. Environmental, Social and Governance characteristics are integrated into the underlying investment manager's investment process. See section 7 of the SIPO for more information on sustainable investing. You can find the Supplementary Sustainable Investment Policy at <https://www.multimanager.mercer.co.nz>.

### Investment objectives

To provide a Gross Return above the return of the S&P/NZX 50 Index (on a gross basis and including imputation credits) over a rolling three-year period.

### Investment strategy

Investment is in a diversified portfolio of New Zealand shares with the scope to hold Australian shares. The investment approach is research driven and involves determining financial forecasts of companies. The results of these forecasts are then compared against each company's current share price. The investment manager looks for companies which have a sustainable competitive advantage, good growth outlook and the ability to grow earnings.

### Benchmark asset allocation ranges

The benchmark asset mix noted below is the expected average asset mix of the fund over the long term. The fund will be actively managed within the given ranges:

Asset class	Benchmark asset allocation (%)	Range (%)
Cash and cash equivalents	0	0-10
Australasian equities	100	75-100

### Permitted investments

The fund can invest in any of the asset classes listed in the table above subject to the following restrictions:

- The allowable range for any individual company which has a benchmark weight greater than 10% is +/-10% relative to its benchmark weight in the relevant index.
- The allowable range for any individual company which has a benchmark weight less than 10% is +/-6% relative to its benchmark weight in the relevant index.
- Unlisted securities individually limited to 3% of portfolio and collectively to 10% of the portfolio.
- Exposure to Australian shares and any Australian cash held will not exceed 15% of the market value of the fund.

### Derivatives

The fund (including any underlying managers if applicable) may use derivatives for the purpose of:

- protecting against risks such as unfavourable changes in an investment's price;
- enhancing returns by taking advantage of favourable mispricing within a market, as a cost-effective alternative to purchasing;
- physical assets;
- implementing the investment objectives of the fund; and
- currency management.

The fund is also permitted to hold derivatives related to each asset class so long as the total market value exposure of each asset class (i.e. the physical plus the underlying derivative market value exposure) remains within the permitted asset allocation ranges. Derivatives, measured on a notional face value basis, may not exceed 20% of the net market value of the portfolio.

### Currency management

The underlying manager has discretion to hedge the fund's Australian dollar assets back to New Zealand dollars. The base position is for the Australian dollar exposure to be unhedged.

<sup>10</sup> Prior to 6<sup>th</sup> March 2023, the fund was called the Macquarie NZ Shares Fund.

## Mercer Macquarie Australian Shares Fund<sup>11</sup>

### Description of the fund

The fund is a diversified portfolio of Australian shares across a range of industries and sectors. Environmental, Social and Governance characteristics are integrated into the underlying investment manager's investment process. See section 7 of the SIPO for more information on sustainable investing. You can find the Supplementary Sustainable Investment Policy at <https://www.multimanager.mercer.co.nz>.

### Investment objectives

To provide a Gross Return above the return of the S&P/ASX 200 Accumulation Index (in NZD) on a rolling three-year basis.

### Investment strategy

Invests in shares listed, or about to be listed, on the Australian Securities Exchange. The investments of the fund are diversified across a range of industries and sectors, with a focus on the largest 200 companies. In constructing the portfolio, the investment manager employs a systematic rules-based approach to investing, which does not take into account individual stock fundamental analysis, but rather screens for market factors which models identify as delivering a performance advantage.

### Benchmark asset allocation ranges

The benchmark asset mix noted below is the expected average asset mix of the fund over the long term. The fund will be actively managed within the given ranges:

Asset class	Benchmark asset allocation (%)	Range (%)
Cash and cash equivalents	0	0-10
Australasian equities	100	90-100

### Permitted investments

The fund can invest in any of the asset classes listed in the table above.

### Derivatives

The fund (including any underlying managers if applicable) may use derivatives for the purpose of:

- protecting against risks such as unfavourable changes in an investment's price;
- enhancing returns by taking advantage of favourable mispricing within a market, as a cost-effective alternative to purchasing;
- physical assets;
- implementing the investment objectives of the fund; and
- currency management.

The fund is also permitted to hold derivatives related to each asset class so long as the total market value exposure of each asset class (i.e. the physical plus the underlying derivative market value exposure) remains within the permitted asset allocation ranges.

### Currency management

The underlying manager has discretion to hedge the fund's Australian dollar assets back to New Zealand dollars. The base position is for the Australian dollar exposure to be unhedged.

<sup>11</sup> Prior to 6<sup>th</sup> March 2023, the fund was called the Macquarie Australian Shares Fund.

## Mercer Ethical Leaders NZ Shares Fund<sup>12</sup>

### Description of the fund

The fund is a diversified portfolio of predominantly New Zealand shares across a range of industries and sectors. The portfolio may also invest in Australian shares. The fund is managed to specific 'sustainable investment' criteria which prohibits investments in certain companies or activities, and encourages investment in companies with strong environmental, social and governance factors and also actively engages on key thematic engagements each year.

This fund is governed by the Supplementary Sustainable Investment Policy and has been certified by the Responsible Investment Association of Australasia (RIAA).

See section 7 of the SIPO for more information on sustainable investing. You can find the Supplementary Sustainable Investment Policy at <https://www.multimanager.mercer.co.nz>.

### Investment objectives

To provide a Gross Return above the return of the S&P/NZX 50 Index (on a gross basis and including imputation credits) over a rolling three year period.

### Investment strategy

Investment is in a portfolio of predominantly New Zealand shares which is generally exposed to companies with a sustainable competitive advantage, a good growth outlook and the ability to grow earnings. The portfolio takes a sustainable investment approach, which integrates environmental, social and governance factors while avoiding companies or industries with recognised high negative social impact.

### Benchmark asset allocation ranges

The benchmark asset mix noted below is the expected average asset mix of the fund over the long term. The fund will be actively managed within the given ranges:

Asset class	Benchmark asset allocation (%)	Range (%)
Cash and cash equivalents	0	0-10
Australasian equities*	100	75-100

\*Australasian equities are defined to be New Zealand equities and equities included in the ASX200, that meet the Environmental, Social and Governance (ESG) criteria of the investment manager and the Supplementary Sustainable Investment Policy.

### Permitted investments

The fund can invest in any of the asset classes listed in the table above subject to the following restrictions:

- The allowable range for any individual company which has a benchmark weight greater than 10% is +/-10% relative to its benchmark weight in the relevant index.
- The allowable range for any individual company which has a benchmark weight less than 10% is +/-6% relative to its benchmark weight in the relevant index.
- Unlisted securities individually limited to 3% of portfolio and collectively to 10% of the portfolio.
- Exposure to Australian shares and any Australian cash held will not exceed 15% of the market value of the fund.
- The fund cannot hold any shares that are prohibited by the Ethical Leaders Charter (see page 45 "Responsible Investing" for more detail).

<sup>12</sup> Prior to 6<sup>th</sup> March 2023, the fund was called the Macquarie Ethical Leaders NZ Shares Fund.

## **Derivatives**

The fund (including any underlying managers if applicable) may use derivatives for the purpose of:

- protecting against risks such as unfavourable changes in an investment's price;
- enhancing returns by taking advantage of favourable mispricing within a market, as a cost-effective alternative to purchasing;
- physical asset;
- implementing the investment objectives of the fund; and
- currency management.

The fund is also permitted to hold derivatives related to each asset class so long as the total market value exposure of each asset class (i.e. the physical plus the underlying derivative market value exposure) remains within the permitted asset allocation ranges. Derivatives, measured on a notional face value basis, may not exceed 20% of the net market value of the portfolio.

## **Currency management**

The underlying manager has discretion to hedge the fund's Australian dollar assets back to New Zealand dollars. The base position is for the Australian dollar exposure to be unhedged.

## Mercer Global Shares Fund<sup>13</sup>

### Description of the fund

The fund invests in international shares listed on share markets around the world by using investment managers from around the world which are combined in a multi-manager fund. Environmental, Social and Governance characteristics are integrated into the underlying investment managers' investment processes where applicable. See section 7 of the SIPO for more information on sustainable investing. You can find the Supplementary Sustainable Investment Policy at <https://www.multimanager.mercer.co.nz>.

### Investment objectives

To provide a Gross Return above the return of the MSCI All Country World ex Tobacco Index with net dividends reinvested (69% gross hedged to the New Zealand dollar) on a rolling three year basis.

### Investment strategy

Investments are spread across a range of international share markets, including developed and emerging economies. The portfolio is further diversified by region, manager and investment approach with the aim of delivering more stable returns.

### Benchmark asset allocation ranges

The fund will be actively managed within the ranges below and the weightings of the underlying funds will be managed to closely align with the weightings between developed and emerging markets in the benchmark index.

Asset class	Benchmark asset allocation (%)	Range (%)
Cash and cash equivalents	0	0-5
International equities*	100	95-100
<b>Total</b>	<b>100</b>	

\*Australasian equities may also be included as international equities in these funds.

### Permitted investments

The fund can invest in any of the asset classes listed in the table above.

### Derivatives

The fund (including any underlying managers if applicable) may use derivatives for the purpose of:

- protecting against risks such as unfavourable changes in an investment's price
- enhancing returns by taking advantage of favourable mispricing within a market, as a cost-effective alternative to purchasing physical assets
- implementing the investment objectives of the fund, and
- currency management.

The fund is also permitted to hold derivatives related to each asset class so long as the total market value exposure of each asset class (i.e. the physical plus the underlying derivative market value exposure) remains within the permitted asset allocation ranges.

### Currency management

The fund targets a position of being 69% gross hedged to the New Zealand dollar with the hedges based on the currency weights of the underlying index. Currency hedges are normally rebalanced monthly but may be adjusted intra-month for significant cash flows. See page 40 "Hedging" for more information on funds for which the Fair Dividend Rate (FDR) taxation method is applicable but where these funds are not eligible to apply FDR to their foreign currency hedges and why these funds may therefore apply gross hedging.

<sup>13</sup> Prior to 6<sup>th</sup> March 2023, the fund was called the Macquarie Global Shares Fund.

## Mercer Core Global Shares Fund<sup>14</sup>

### Description of the fund

The fund invests in shares listed on share markets predominately in developed economies. The portfolio uses multiple managers and is diversified by region, manager and investment approaches. Environmental, Social and Governance characteristics are integrated into the underlying investment managers' investment processes. See section 7 of the SIPO for more information on sustainable investing. You can find the Supplementary Sustainable Investment Policy at <https://www.multimanager.mercer.co.nz>.

### Investment objectives

To provide a Gross Return above the return of the MSCI World ex Tobacco Index with net dividends reinvested on a rolling three year basis.

### Investment strategy

Investment is in a diversified portfolio of international shares using a range of investment managers. By actively managing the fund's exposure to each investment manager, it enables the fund to respond to changes in market themes which can drive share markets. The fund's exposure to global shares is through investment in PIE funds. The majority of these underlying funds hold shares directly.

### Benchmark asset allocation ranges

The benchmark asset mix noted below is the expected average asset mix of the fund over the long term. The fund will be actively managed within the given ranges:

Asset class	Benchmark asset allocation (%)	Range (%)
Cash and cash equivalents	0	0-10
International equities*	100	90-100
<b>Total</b>	<b>100</b>	

\*Australasian equities may also be included as international equities in these funds.

### Permitted investments

The fund can invest in any of the asset classes listed in the table above.

### Derivatives

The fund (including any underlying managers if applicable) may use derivatives for the purpose of:

- protecting against risks such as unfavourable changes in an investment's price;
- enhancing returns by taking advantage of favourable mispricing within a market, as a cost-effective alternative to purchasing;
- physical assets;
- implementing the investment objectives of the fund; and
- currency management.

The fund is also permitted to hold derivatives related to each asset class so long as the total market value exposure of each asset class (i.e. the physical plus the underlying derivative market value exposure) remains within the permitted asset allocation ranges.

### Currency management

The fund's foreign currency exposures are not hedged back to New Zealand dollars.

<sup>14</sup> Prior to 6<sup>th</sup> March 2023, the fund was called the Macquarie Core Global Shares Fund.

## Mercer Core Hedged Global Shares Fund<sup>15</sup>

### Description of the fund

The fund invests in shares listed on share markets predominately in developed economies and is fully hedged to the New Zealand dollar. The portfolio uses multiple managers and is diversified by region, manager and investment approaches. Environmental, Social and Governance characteristics are integrated into the underlying investment managers' investment processes. See section 7 of the SIPO for more information on sustainable investing. You can find the Supplementary Sustainable Investment Policy at <https://www.multimanager.mercer.co.nz>.

### Investment objectives

To provide a Gross Return above the return of the MSCI World ex Tobacco Index with net dividends reinvested (139% gross hedged to the New Zealand dollar) on a rolling three-year basis.

### Investment strategy

The fund's exposure to global shares is through investment in the Mercer Core Global Shares Fund. The Mercer Core Global Shares Fund invests in a diversified portfolio of international shares using a range of investment managers. By actively managing its exposure to each underlying investment manager, the Mercer Core Global Shares Fund is able to respond to changes in market themes which can drive share markets. The underlying funds are PIE funds and the majority of these funds hold shares directly.

### Benchmark asset allocation ranges

The benchmark asset mix noted below is the expected average asset mix of the fund over the long term. The fund will be actively managed within the given ranges:

Asset class	Benchmark asset allocation (%)	Range (%)
Cash and cash equivalents	0	0-10
International equities*	100	90-100

\*Australasian equities may also be included as international equities in these funds.

### Permitted investments

The fund can invest in any of the asset classes listed in the table above.

### Derivatives

The fund (including any underlying managers if applicable) may use derivatives for the purpose of:

- protecting against risks such as unfavourable changes in an investment's price;
- enhancing returns by taking advantage of favourable mispricing within a market, as a cost-effective alternative to purchasing;
- physical assets;
- implementing the investment objectives of the fund; and
- currency management.

The fund is also permitted to hold derivatives related to each asset class so long as the total market value exposure of each asset class (i.e. the physical plus the underlying derivative market value exposure) remains within the permitted asset allocation ranges.

<sup>15</sup> Prior to 6<sup>th</sup> March 2023, the fund was called the Macquarie Core Hedged Global Shares Fund.

### **Currency management**

The fund targets a position of being 139% gross hedged to the New Zealand dollar with the hedges based on the currency weights of the underlying index. Currency hedges are normally rebalanced monthly but may be adjusted intra-month for significant cash flows.

See page 40 "Hedging" for more information on funds for which the Fair Dividend Rate (FDR) taxation method is applicable but where these funds are not eligible to apply FDR to their foreign currency hedges and why these funds may therefore apply gross hedging.

## Mercer Emerging Markets Shares Fund<sup>16</sup>

### Description of the fund

The fund invests in shares listed on share markets in emerging economies. The portfolio is managed using a single manager. Environmental, Social and Governance characteristics are integrated into the underlying investment managers' investment processes. See section 7 of the SIPO for more information on sustainable investing. You can find the Supplementary Sustainable Investment Policy at <https://www.multimanager.mercer.co.nz>.

### Investment objectives

To provide a Gross Return above the MSCI Emerging Market ex Tobacco Index with net dividends reinvested on a rolling three to five-year basis.

### Investment strategy

The fund's exposure to global shares is through investment in shares listed on share markets of emerging market economies.

### Benchmark asset allocation ranges

The benchmark asset mix noted below is the expected average asset mix of the fund over the long term. The fund will be actively managed within the given ranges:

Asset class	Benchmark asset allocation (%)	Range (%)
Cash and cash equivalents	0	0-10
International equities	100	90-100

### Permitted investments

The fund can invest in any of the asset classes listed in the table above.

### Derivatives

The fund (including any underlying managers if applicable) may use derivatives for the purpose of:

- protecting against risks such as unfavourable changes in an investment's price;
- enhancing returns by taking advantage of favourable mispricing within a market, as a cost-effective alternative to purchasing;
- physical assets;
- implementing the investment objectives of the fund; and
- currency management.

The fund is also permitted to hold derivatives related to each asset class so long as the total market value exposure of each asset class (i.e. the physical plus the underlying derivative market value exposure) remains within the permitted asset allocation ranges.

### Currency management

In normal circumstances, the fund is unhedged to New Zealand dollars. Currency exposures are individually managed by the underlying investment managers.

<sup>16</sup> Prior to 6<sup>th</sup> March 2023, the fund was called the Macquarie Emerging Markets Shares Fund.

## Mercer Ethical Leaders Global Shares Fund<sup>17</sup>

### Description of the fund

The fund invests in shares listed on international share markets managed within a sustainable approach. The fund is managed to specific 'sustainable investment' criteria which prohibit investments in certain companies or activities, and encourage investment in companies with strong environmental, social and governance characteristics. This fund is governed by the Supplementary Sustainable Investment Policy and has been certified by the Responsible Investment Association of Australasia (RIAA).

See section 7 of the SIPO for more information on sustainable investing. You can find the Supplementary Sustainable Investment Policy at <https://www.multimanager.mercer.co.nz>.

### Investment objectives

To outperform the MSCI All Country World Index with net dividends reinvested (69% gross hedged to the New Zealand dollar) on a rolling five year basis.

### Investment strategy

The fund's exposure to global shares is through investment using multiple managers that combine investment approaches across a range of markets. The Fund takes a sustainable investment approach, which integrates environmental, social and governance factors.

### Benchmark asset allocation ranges

The benchmark asset mix noted below is the expected average asset mix of the fund over the long term. The fund will be actively managed within the given ranges:

Asset class	Benchmark asset allocation (%)	Range (%)
Cash and cash equivalents	0	0-10
International equities*	100	90-100

\*Australasian equities may also be included as international equities in these funds.

### Permitted investments

The fund can invest in any of the asset classes listed in the table above.

### Derivatives

The fund (including any underlying managers if applicable) may use derivatives for the purpose of:

- protecting against risks such as unfavourable changes in an investment's price;
- enhancing returns by taking advantage of favourable mispricing within a market, as a cost-effective alternative to purchasing;
- physical assets;
- implementing the investment objectives of the fund; and
- currency management.

The fund is also permitted to hold derivatives related to each asset class so long as the total market value exposure of each asset class (i.e. the physical plus the underlying derivative market value exposure) remains within the permitted asset allocation ranges.

<sup>17</sup> Prior to 6<sup>th</sup> March 2023, the fund was called the Macquarie Ethical Leaders Global Shares Fund.

### **Currency management**

The fund targets a position of being 69% gross hedged to the New Zealand dollar. The hedges are based on the currency weights of the underlying index. Currency hedges are normally rebalanced monthly but may be adjusted intra-month for significant cash flows.

See page 40 “Hedging” for more information on funds for which the Fair Dividend Rate (FDR) taxation method is applicable but where these funds are not eligible to apply FDR to their foreign currency hedges and why these funds may therefore apply gross hedging.

## Mercer Macquarie Global Listed Real Estate Fund<sup>18</sup>

### Description of the fund

The fund invests in a global portfolio of property securities listed on stock exchanges around the world. It aims to generate medium to high returns over the long term by investing in a broad range of property regions, sectors and securities through a single fund. Environmental, Social and Governance characteristics are integrated into the investment process. See section 7 of the SIPO for more information on sustainable investing. You can find the Supplementary Sustainable Investment Policy at <https://www.multimanager.mercer.co.nz>.

### Investment objectives

To provide a Gross Return above the FTSE EPRA/NAREIT Developed Total Return Index with net dividends reinvested, fully hedged to New Zealand dollars, on a rolling three-year basis.

### Investment strategy

Investment is in a global portfolio of listed property securities in North America, Europe, Asia and Australasia. Greater diversification is achieved by accessing a range of property companies and sectors not available in the New Zealand listed property market. Investment specialists on the ground are able to capitalise on local knowledge and identify the best opportunities in each region. There is a focus on property securities whose primary source of revenue is rental income.

### Benchmark asset allocation ranges

The benchmark asset mix noted below is the expected average asset mix of the fund over the long term. The fund will be actively managed within the given ranges:

Asset class	Benchmark asset allocation (%)	Range (%)
Cash and cash equivalents	0	0-10
International listed property	100	90-100

### Permitted investments

The fund can invest in any of the asset classes listed in the table above.

### Derivatives

The fund (including any underlying managers if applicable) may use derivatives for the purpose of:

- protecting against risks such as unfavourable changes in an investment's price;
- enhancing returns by taking advantage of favourable mispricing within a market, as a cost-effective alternative to purchasing;
- physical assets;
- implementing the investment objectives of the fund; and
- currency management.

The fund is also permitted to hold derivatives related to each asset class so long as the total market value exposure of each asset class (i.e. the physical plus the underlying derivative market value exposure) remains within the permitted asset allocation ranges.

### Currency management

The fund targets a position of being fully hedged to the New Zealand dollar.

<sup>18</sup> Prior to 6<sup>th</sup> March 2023, the fund was called the Macquarie Global Listed Real Estate Fund.

## Mercer Macquarie Global Listed Infrastructure Fund<sup>19</sup>

### Description of the fund

The fund invests in infrastructure securities in both developed and emerging markets across a range of sectors. This provides access to a range of infrastructure sectors across geographic regions, with active portfolio management that seeks to target excess returns and predictable, stable cash flows. Environmental, Social and Governance characteristics are integrated into the investment process. See section 7 of the SIPO for more information on sustainable investing. You can find the Supplementary Sustainable Investment Policy at <https://www.multimanager.mercer.co.nz>.

### Investment objectives

To provide total returns (income and capital growth) after costs and before tax, above the Dow Jones Brookfield Global Infrastructure Index, fully hedged to New Zealand dollars, on a rolling three-year basis.

### Investment strategy

The investment approach is research driven and seeks to identify and invest in high quality companies that are reasonably priced. The fund focuses on fundamental company and asset research. Companies targeted are those that own and operate infrastructure assets, derive most of their cash flow from those assets and have liquid market listings on major global stock exchanges. Investments are diversified across geographic regions and infrastructure sectors, with a focus on energy, transportation, communication and water.

### Benchmark asset allocation ranges

The benchmark asset mix noted below is the expected average asset mix of the fund over the long term. The fund will be actively managed within the given ranges:

Asset class	Benchmark asset allocation (%)	Range (%)
Cash and cash equivalents	0	0-10
Global infrastructure securities	100	90-100

### Permitted investments

The fund can invest in any of the asset classes listed in the table above.

### Derivatives

The fund (including any underlying managers if applicable) may use derivatives for the purpose of:

- protecting against risks such as unfavourable changes in an investment's price;
- enhancing returns by taking advantage of favourable mispricing within a market, as a cost-effective alternative to purchasing;
- physical assets;
- implementing the investment objectives of the fund; and
- currency management.

The fund is also permitted to hold derivatives related to each asset class so long as the total market value exposure of each asset class (i.e. the physical plus the underlying derivative market value exposure) remains within the permitted asset allocation ranges.

### Currency management

The fund targets a position of being fully hedged to the New Zealand dollar with the hedges based on the currency weights of the underlying index. Currency hedges are normally rebalanced monthly but may be adjusted intra-month for significant cash flows.

<sup>19</sup> Prior to 6<sup>th</sup> March 2023, the fund was called the Macquarie Global Listed Infrastructure Fund.

## Mercer NZ Shares Passive Fund<sup>20</sup>

### Description of the fund

The fund is a passively managed New Zealand shares portfolio that is designed to track the return of the S&P/NZX 50 Index.

### Investment objectives

To provide a return that closely matches the return of the S&P/NZX 50 Index (on a gross basis and including imputation credits).

### Investment strategy

Investment is in a passively managed low tracking error portfolio managed against companies listed on the S&P/NZX 50 Index.

### Benchmark asset allocation ranges

Asset class	Benchmark asset allocation (%)	Range (%)
Cash and cash equivalents	0	0-5
Australasian equities*	100	95-100

\*Australasian shares include any New Zealand domiciled listed or unlisted company, together with any non-New Zealand (including Australian) domiciled company with a listing on the New Zealand Stock Exchange. New Zealand shares also include futures and options on such shares.

### Permitted investments

The fund can invest in any of the asset classes listed in the table above.

### Derivatives

The fund is permitted to hold futures and options to assist in matching the returns of the benchmark index, subject to the market value of the exposure being covered by cash or backed by physical assets, with the total market exposure within the permitted allocation ranges above.

<sup>20</sup> Prior to 6<sup>th</sup> March 2023, the fund was called the Macquarie NZ Shares Index Fund.

## Mercer Ethical Leaders Hedged Global Fixed Interest Index Fund<sup>21</sup>

### Description of the fund

The fund is a passively managed international fixed interest portfolio that is designed to track the return of the Bloomberg Barclays MSCI Global Aggregate SRI Select ex-Fossil Fuels Index. The fund is managed to specific 'sustainable investment' criteria which prohibit investments in certain companies or activities, and encourage investment in companies with strong environmental, social and governance characteristics. This fund is governed by the Supplementary Sustainable Investment Policy.

See section 7 of the SIPO for more information on sustainable investing. You can find the Supplementary Sustainable Investment Policy at <https://www.multimanager.mercer.co.nz>.

### Investment objectives

To provide a return that closely matches the return of Bloomberg Barclays MSCI Global Aggregate SRI Select ex-Fossil Fuels Index, fully hedged to the New Zealand dollar.

### Investment strategy

Investment is in a passively managed low tracking error portfolio managed against companies listed on the Bloomberg Barclays MSCI Global Aggregate SRI Select ex-Fossil Fuels Index. The fund is fully hedged to New Zealand dollars.

### Benchmark asset allocation ranges

Asset class	Benchmark asset allocation (%)	Range (%)
Cash and cash equivalents	0	0-5
International fixed interest*	100	95-100

\*International fixed interest may also include New Zealand fixed interest securities. The investment management of these funds is undertaken by external investment managers. These funds may also hold New Zealand fixed interest securities. These funds need to meet the Environmental, Social and Governance (ESG) criteria of the investment manager and the Supplementary Sustainable Investment Policy

### Permitted investments

The fund can invest in any of the asset classes listed in the table above.

### Derivatives

The fund may use derivatives for currency hedging purposes.

### Currency management

The fund targets a position of being fully hedged to the New Zealand dollar.

<sup>21</sup> Prior to 6<sup>th</sup> March 2023, the fund was called the Macquarie Ethical Leaders Hedged Global Fixed Interest Index Fund.

## Mercer All Country Global Shares Index Fund<sup>22</sup>

### Description of the fund

The fund is a passively managed international shares portfolio that is designed to track the return of the MSCI All Country World ex Tobacco Index.

### Investment objectives

To provide a return that closely matches the return of the MSCI All Country World ex Tobacco Index with net dividends reinvested (69% gross hedged to the New Zealand dollar).

### Investment strategy

Investment is in a passively managed low tracking error portfolio managed against companies listed on the MSCI All Country World ex Tobacco Index.

### Benchmark asset allocation ranges

Asset class	Benchmark asset allocation (%)	Range (%)
Cash and cash equivalents	0	0-5
International equities	100	95-100

### Permitted investments

The fund can invest in any of the asset classes listed in the table above.

### Derivatives

The fund is permitted to hold derivatives related to each asset class so long as the total market exposure of each asset class (i.e. the physical plus the underlying derivative exposure) remains within the permitted asset allocation ranges above.

### Currency management

The fund targets a position of being 69% hedged to New Zealand dollars, with the hedges based on the currency weights of the underlying index. Currency hedges are normally rebalanced monthly but may be adjusted intra-month for significant cash flows.

<sup>22</sup> Prior to 6<sup>th</sup> March 2023, the fund was called the Macquarie All Country Global Shares Index Fund.

## Mercer Australian Property Index Fund<sup>23</sup>

### Description of the fund

The fund is a passively managed portfolio that provides access to Australian listed property investments. It aims to generate medium to high returns over the long term by investing in property securities in Australia.

### Investment objectives

To provide a passively managed low tracking error portfolio managed against companies listed on S&P/ASX 200 A-REIT Accumulation Index fully hedged to New Zealand dollars.

### Investment strategy

Investment is in a passively managed low tracking error portfolio managed against companies listed on the S&P/ASX 200 A- REIT Accumulation Index. The portfolio comprises listed property securities in Australia, either direct or through managed funds, with the objective of generating medium to high returns over the long term.

### Benchmark asset allocation ranges

The benchmark asset mix noted below is the expected average asset mix of the fund over the long term. The fund will be actively managed within the given ranges:

Asset class	Benchmark asset allocation (%)	Range (%)
Cash and cash equivalents	0	0-20
Listed Australian property securities	100	80-100

### Permitted investments

The fund can invest in any of the asset classes listed in the table above.

### Derivatives

The fund (including any underlying managers if applicable) may use derivatives for the purpose of:

- protecting against risks such as unfavourable changes in an investment's price;
- enhancing returns by taking advantage of favourable mispricing within a market, as a cost-effective alternative to purchasing;
- physical assets;
- implementing the investment objectives of the fund; and
- currency management.

The fund is also permitted to hold derivatives related to each asset class so long as the total market value exposure of each asset class (i.e. the physical plus the underlying derivative market value exposure) remains within the permitted asset allocation ranges.

### Currency management

The fund targets a position of being fully hedged to the New Zealand dollar.

<sup>23</sup> Prior to 6<sup>th</sup> March 2023, the fund was called the Macquarie Australian Property Index Fund.

## 4. Investment Process

A summary of the key investment management processes, relevant to the Mercer Investment Funds, are set out below:

### Setting the investment strategy

Mercer has established a range of Portfolios with different risk/reward profiles to suit the needs of a wide range of investors.

Mercer determines an appropriate investment strategy for the Mercer Investment Funds as a whole and for each individual Fund. Setting the investment strategy is a continual process that aims, first and foremost, to ensure alignment between agreed investment objectives and the structure of the individual Fund.

The methodology used by Mercer to develop the investment strategy for each Fund involves, as a first step, consideration of:

- expected risk and return relative to the Fund's objectives;
- the overall composition of the Fund's investments including the adequacy of diversification;
- the liquidity of selected investments having regard to expected cash flow requirements;
- availability and reliability of valuation information; expected tax consequences; and
- associated costs of investing and any other relevant matters.

The investment strategy is then formulated with reference to the Fund's risk and return objectives (plus the further considerations listed above) and in a manner that utilises the benefits of diversification within and between asset classes. The Fund's Benchmark Asset Allocations are then set and modelled on a continuing basis to assess their ongoing appropriateness in the light of expected market conditions and the asset allocation's ability to deliver on the particular Fund's investment objectives.

The investment strategy for each Fund is regularly reviewed to ensure an appropriate balance between risk and return and to maximise the likelihood of achieving the Fund's stated objectives. Asset allocation modelling is undertaken to assess the impact of potential changes on each Fund. Mercer formulates capital markets forecasts and employs proprietary modelling tools to support these processes.

This analysis is used to test the appropriateness of each Fund by estimating, among other metrics, the likelihood that the Fund will achieve its performance objectives, expected return, expected volatility and the probability of a negative return.

Mercer also stress-tests each Fund to assess how it might perform under different scenarios.

### Reviewing the investment strategy

Mercer undertakes a formal strategy review at least every three years. Any recommended changes are supported by detailed analysis setting out the rationale for changes and the expected impact on Fund characteristics. In the interim, Mercer performs a "health check" which reviews the investment strategies for each Fund to gauge whether the agreed investment objectives and strategy remain appropriate and in the best interests of investors. At least one such health check is conducted in-between the formal triennial reviews.

Potential enhancements considered in formal reviews and health checks may include:

- the addition of a new asset class or a new type of investment;
- incorporation of new Mercer research;

- investment environmental factors including significant market events; and
- long-term market/industry trends and the outlook for growth.

The primary aim of any adjustment to a Fund's investment strategy is to improve the balance between risk and return and maximise the chance of achieving the stated objectives.

Key considerations include:

- the degree of diversification;
- appropriate levels of liquidity, to facilitate daily pricing;
- availability of commercially attractive fees with an emphasis on value, via cost effective investment structures;
- transparency and reliability in asset valuation;
- the competitive environment, peer performance/offerings and investor demands; and product viability.

These investment strategies are reflected in the Benchmark Asset Allocation and ranges for each Portfolio, as set out in Section 3.

### **Strategic Asset Allocation**

Strategic Asset Allocation (SAA) involves setting a Benchmark Asset Allocation for the long-term (but subject to reviews). Asset allocation may be adjusted with the aim of adding value to the performance of this Benchmark Asset Allocation through Dynamic Asset Allocation as described below.

### **Dynamic Asset Allocation**

Dynamic Asset Allocation (DAA) is the process of actively adjusting and resetting the target asset allocations using a medium-term outlook, designed primarily for risk control, capital preservation, and incremental value-add.

DAA assessments are conducted on a regular basis and involve two stages. First, each asset class is assessed to determine whether it warrants being under or over-weighted based on a broad range of factors. Secondly, position size (i.e. the extent to which the asset class weight is 'tilted' within the benchmark ranges) is determined based on the level of conviction as to the expected value such tilts will add, and dictates the Target Allocation. This DAA approach aims to produce a more stable pattern of returns for the relevant Fund, especially during unstable market periods.

### **Rebalancing Policy**

Mercer rebalances the asset allocation of a Fund in order to maintain an actual asset allocation that is sufficiently close to that of the Target Asset Allocation for the Fund and in a manner that remains within the ranges permitted by this SIPO.

For each Fund and in the event that either the minimum or maximum asset allocation is exceeded (for example, as a result of market depreciation or appreciation or due to significant cash-flows), Mercer must, amongst other things, within 5 business days of being aware of the range being exceeded, re-weight the Fund to be within the permitted ranges. If the reweighting does not occur within this time frame, then Mercer must make a report to the Supervisor. Mercer is also required to provide quarterly reports to the Supervisor in connection with each Fund's adherence to its permitted asset allocation.

While market movement is one of the key triggers for rebalancing, other events that will invoke rebalancing include:

- a change in Mercer's Dynamic Asset Allocation views;

- a funding requirement for currency hedging gain/losses;
- the addition or deletion of new asset classes (typically as part of a broader review of investment strategy); and
- the receipt of large application/redemption requests (this is expected to be rare given the level of broad-based participation in the Scheme and the general long-term nature of the membership profile).

## Hedging

Mercer considers currency hedging an essential part of any long-term investment strategy. Mercer also believes that an active approach to currency hedging is appropriate for some Funds and therefore manages the level of currency exposures in those Funds which are subject to the Dynamic Asset Allocation process (as described above). This implies that certain Portfolios will not maintain the same level of currency hedging at all times. Currency hedging is essentially protection against changes in currency exchange rates. Those overseas assets that are not hedged will have exposure to currency exchange rate movements resulting in a benefit when the New Zealand dollar goes down, and decrease in value when the New Zealand dollar goes up.

Mercer sets a benchmark level of currency hedging for each overseas asset class, Investment Manager must comply with these requirements. Where permitted, the Dynamic Asset Allocation process, as detailed in Section 4, establishes the target level of currency exposure. This is then monitored using Mercer's daily cash flow model.

For funds where the Fair Dividend Rate (FDR) taxation method is applicable but where these funds are not eligible to apply FDR to their foreign currency hedges (principally the global share funds), hedging is calculated on a 'gross' basis. This recognises that there are minimal capital gains/ losses on the underlying equity assets, while there are capital gain/ losses on any currency positions used to hedge these exposures back to New Zealand Dollars. As an example, the Mercer Core Hedged Global Shares Fund is gross hedged at 139%, so if the currency position generates a profit, its after tax position (at 28%) is 100%.

The Mercer Macquarie Global Listed Infrastructure and Mercer Macquarie Global Listed Real Estate Funds are eligible to apply FDR to their foreign currency hedges and therefore the gross up of the currency hedge is not required.

## Manager Selection

Mercer focuses on selecting Investment Managers who are specialists within their particular investment markets and who have demonstrated capability and conviction in portfolio construction and the execution of investment strategies. A formalised process of screening potential managers, including a detailed assessment of their ability and performance, is coupled with on-going monitoring and formal performance reviews. The aim is to achieve a level of returns meeting or exceeding the objectives set, from time to time, for each Fund and which is consistent with the risk profile of each Fund.

## 5. Investment Performance Monitoring Policy

The various components of the investment monitoring process are outlined below.

The principal goals of investment performance monitoring are to:

- monitor the returns of each Fund relative to its investment objectives nominated in Section 3 Fund Investment Strategies and Objectives;
- assess the extent to which the Fund's investment objectives are being achieved and are expected to be achieved going forward;
- monitor the performance of individual asset classes against suitable industry standard benchmark indices and, particularly the asset class indices outlined in Section 3 Fund Investment Strategies and Objectives;
- monitor investment risks associated with each Fund and ascertain the existence of any particular weakness/concerns with the investment strategy, Investment Manager or the Investment Manager's products utilised; and
- allow Mercer to continually assess the ability of each Investment Manager to successfully meet the objectives set for that manager.

Mercer is responsible for reviewing the performance of the appointed Investment Managers. Such monitoring is undertaken on a regular basis. Factors taken into account in these reviews will include investment style, resources, organisational strength, investment performance relative to objectives, product structure, and any other factors considered relevant to the Investment Manager's continuing ability to meet the applicable investment objective. Returns will also be compared with returns earned by a suitable peer group, such as a group of other professional investment managers.

Reporting on performance against each Fund's objectives and compliance with benchmarks is monitored on a monthly basis. Exceptions, including unexpected performance dispersion or negative outcomes are highlighted in this reporting, and any recommended remedial actions are noted.

## 6. SIPO Review and Monitoring

### SIPO Review

The SIPO is to be reviewed annually although reviews may be completed before this time. In the event of a material change to the purpose of the Scheme or a major event impacting the Scheme's investments, Mercer may consider an earlier review.

Any review will be carried out by Mercer in conjunction with the Supervisor, where appropriate, and will consider the investment objectives of the Scheme and take account of any changes to the Funds being offered and the investment outlook which may affect the relative value and role of the different asset classes. Mercer is responsible for approving the SIPO, but will give prior written notice of any proposed changes to the Supervisor.

### SIPO Amendments

The SIPO may be altered by Mercer from time to time subject to the requirements of the Financial Markets Conduct Act 2013 (FMCA). Mercer may amend or replace this SIPO only after giving prior written notice to the Supervisor. Mercer must provide a copy of the SIPO (or any alteration to the SIPO) to the Supervisor as soon as reasonably practicable prior to the SIPO or alteration taking effect, and must lodge the SIPO as required by the FMCA.

### Availability of this SIPO

The most current version of this SIPO is available on the register entry for the Scheme on the Disclose website at [www.disclose-register.companiesoffice.govt.nz](http://www.disclose-register.companiesoffice.govt.nz).

# 7. Key Investment Policies

## Sustainable Investment

The Mercer Investment Funds are governed by Supplementary Sustainable Investment Policy, available at <https://www.multimanager.mercer.co.nz>.

The Policy sets out how Mercer will implement its beliefs on sustainable investment for the Mercer investment Funds and contains details of the core exclusions that apply to all funds. There are also additional exclusions included which apply to the Mercer Ethical Leaders Conservative Fund, Mercer Ethical Leaders Balanced Fund, Mercer Ethical Leaders Growth Fund, Mercer Ethical Leaders Global Shares Fund, Mercer Ethical Leaders NZ Shares Fund and the Mercer Ethical Leaders Hedged Global Fixed Interest Index Fund (Ethical Leaders Funds).

## Voting

Mercer believes that stewardship, or active ownership, helps the realisation of long-term investor value of companies and markets through voting and engagement.

As a shareholder of publicly listed companies, Mercer has the right to vote at shareholder meetings, and we regard voting its shares as important to our fiduciary responsibility. Mercer outsources proxy voting responsibility to its listed equity investment managers who are expected to vote in these meetings where practical.

## Climate Change

Mercer believes climate change poses a systemic risk, with financial impacts driven by two key sources of change:

- The physical damages expected from an increase in average global temperatures; and
- The associated transition to a low-carbon economy.

Each of these changes presents both risks and opportunities to investors, as outlined in Mercer's Investing in a Time of Climate Change reports.

Mercer believes that limiting global average temperature increases this century to "well below two degrees Celsius", as per the 2015 Paris Agreement, is aligned with the best economic outcome for long-term diversified investors. Mercer NZ supports this end goal and increasingly seeks to align portfolios with that objective where this is also consistent with meeting stated investment objectives. This is demonstrated by Mercer NZ's commitment to achieve net-zero absolute carbon emissions for the MITNZ Funds by 2050 and expectation to reduce portfolio carbon emissions<sup>24</sup> by 45 per cent from 2020 baseline levels by 2030. Mercer will review the timeframe of the Mercer New Zealand Funds commitment in due course.

The Ethical Leaders Funds, except for the Mercer Ethical Leaders Hedged Global Fixed Interest Index Fund, have all been certified by the Responsible Investment Association of Australasia (RIAA). RIAA is the industry body representing responsible and ethical investors across Australia and New Zealand. Certification of the Ethical Leaders Funds signifies that each of these funds has implemented a detailed responsible investment process for all investment decisions, clearly discloses what that process is, has been audited by an external party to verify the investment process, and has met the strict disclosure requirements of the programme.

For more information on RIAA and what certification means, please see the offer register at [www.disclose-register.companiesoffice.govt.nz](http://www.disclose-register.companiesoffice.govt.nz) in the document titled 'Other material information', located under the 'Documents' tab on the managed fund offer register for the Mercer Investment Funds.

---

<sup>24</sup> Defined as: absolute carbon emissions per \$M of FUM, Scope 1&2 emissions for the Mercer Investment Trusts New Zealand in aggregate.

## Liquidity Management

Mercer maintains a liquidity management plan which describes the principles and processes governing liquidity management within the investment strategies of the Funds.

Mercer's policy in regard to the liquidity of the Funds is to ensure that all Funds are able to meet their obligations, including having available funds to meet:

- member withdrawals and transfers between Funds;
- fees and expenses;
- taxation payments; and
- re-balancing requirements

Liquidity is available through each Fund holding suitable levels of liquid assets, being investment in cash and listed securities. Liquid assets are typically those assets that can be redeemed in 30 days in "normal" conditions without materially moving the price.

The procedures used by Mercer to manage liquidity for the Funds address the following key areas:

- the daily liquidity monitoring process which aims to proactively identify any potential liquidity issues;
- liquidity stress testing which considers a range of factors that may impact on liquidity, including market movements and forecasted cash flow requirements; and
- the maintenance of a range of tools to respond to a liquidity event (depending on the severity and duration of the event).

Mercer also believes that unlisted investments and Alternatives, which can be less liquid, can have an important, but limited, role to play by diversifying sources of risk and return. Mercer has carefully considered the liquidity demands of each Fund before permitting some unlisted investments and Alternatives to be included within appropriate Funds.

## Derivatives

The use of derivatives within the Funds is intended to contribute to the efficient and appropriate realisation of fund objective. Further, the use of derivatives is governed by Mercer's Derivatives Policy which provides detail on the use and control of derivatives and the processes that are in place for assessing compliance with these controls.

## Borrowing and leveraging

For all funds borrowing is permitted up to 10% of the funds value for events such as:

- transaction settlement mismatches
- if a client withdraws from the fund and there is a mismatch in the redemption of the underlying assets; and
- to cover shortfalls due to payment of expenses and fees. For the Mercer Australian Property Index Fund leveraging is restricted to directly held assets within the fund and will not exceed 10% of total assets of the fund. For all other funds, leveraging is not allowed.

## Pricing and valuation policy

The pricing and valuation of fund assets is outsourced to BNP Paribas Fund Services Austrasia Pty Ltd (BNP Paribas) who is responsible for the pricing and valuation of the assets. All assets are priced by BNP Paribas via their pricing data providers. This achieves segregation of duties as the Manager does not have its own interest in the funds' assets and there is no conflict of interest.

BNP Paribas values the fund assets in accordance with its own pricing policy as well as a price source agreement as agreed between Mercer and BNP Paribas.

Whilst pricing and valuation is outsourced to BNP Paribas, the Manager is ultimately responsible for the pricing and valuation of the Mercer Investment Funds.

## Conflict of Interest/Related Parties

### Conflicts Management Policy

Mercer has a Conflicts Management Policy to ensure that Mercer maintains effective systems, controls and procedures to identify and manage conflicts in accordance with our stated principles and to provide for appropriate oversight of conflicts and their management.

This enables Mercer to manage the business effectively whilst also meeting customer and other stakeholder expectations; adhering to regulatory requirements; and operating in accordance with the Marsh McLennan Code of Conduct.

Further information is available in the Conflicts of Interest section of the Other Material Information document on the Disclose register.

### Related party transactions

The Manager conducts all transactions with related parties of the Scheme in accordance with the rules on related-party transactions that apply to managed investment schemes under the FMC Act.

The general rule under the FMC Act is that the Manager (and any investment manager, administration manager, or other person to whom the Manager has contracted some or all of its manager functions) of a scheme is prohibited from entering into a transaction that provides for a related party benefit to be given.

The FMC Act provides an exemption to this rule whereby the Manager can enter into a transaction that provides for a related party benefit if the Manager:

- notifies the supervisor of the transaction, the related party benefits given under that transaction, the key terms of the transaction; and
- either:
  - the transaction is 'permitted' and the Manager certifies to the supervisor to this effect; or
  - the Manager obtains the supervisor's consent to the transaction.

For more information on the rules on related-party transactions that apply to managed investment schemes under the FMC Act go to <https://www.fma.govt.nz/library/guidance-library/related-party-transactions-under-the-financial-markets-conduct-act-2013/>

## Active Ownership – Share voting and Engagement

Mercer believes that stewardship, or active ownership, helps the realisation of long-term investor value by providing an opportunity to enhance the value of companies and markets through voting and engagement. As a shareholder of publicly listed companies, Mercer has the right to vote at shareholder meetings, and we regard voting its shares as important to our fiduciary responsibility.

Mercer outsources proxy voting responsibility to its listed equity investment managers and expects all shares to be voted in a timely manner and in a manner deemed most likely to protect and enhance long-term value. Each investment manager's capability in ESG engagement and proxy voting is carefully evaluated as part of the investment manager selection process, to ensure it is representing Mercer's commitment to good governance, sustainable investment and long-term value creation. Mercer expects its investment managers to establish their own voting policy that sets out the principles and guidelines under which rights to vote are exercised.

## 8. Glossary

**“Alternative Assets”** means investments that are not included in the traditional asset classes of cash, fixed income, and shares. Depending on the alternative assets’ characteristics and suitability they may substitute in the Fund for either income or growth assets. Alternative assets may include (but are not limited to) private equity, forestry, infrastructure, carbon offset credits, social bonds, social or environmental impact and other developing asset types with a sustainable investment focus.

**“Diversified Funds”** means the Mercer Ethical Leaders Balanced Fund, Mercer Ethical Leaders Conservative Fund, Mercer Ethical Leaders Growth Fund and the Mercer Income Generator Fund.

**“Supplementary Sustainable Investment Policy”** means the Policy that applies to the Scheme available at [www.multimanager.mercer.co.nz](http://www.multimanager.mercer.co.nz)

**“Ethical Leaders Funds”** means the Mercer Ethical Leaders Global Shares Fund, Mercer Ethical Leaders Balanced Fund, Mercer Ethical Leaders Conservative Fund, Mercer Ethical Leaders Growth Fund, Mercer Ethical Leaders NZ Shares Fund and the Mercer Ethical Leaders Hedged Global Fixed Interest Fund.

**“FMC Act”** means the Financial Markets Conduct Act 2013.

**“Gross Return”** means the return before the deduction of tax, expenses and fees and assumes all income is reinvested.

**“Mercer Investment Funds”** means the Mercer Ethical Leaders Conservative Fund, Mercer Ethical Leaders Growth Fund, Mercer Ethical Leaders Balanced Fund, Mercer Macquarie Real Return Opportunities Fund, Mercer Income Generator Fund, Mercer Macquarie NZ Cash Fund, Mercer Macquarie NZ Fixed Interest Fund, Mercer Macquarie NZ Short Duration Fund, Mercer Macquarie Global Income Opportunities Fund, Mercer NZ Shares Fund, Mercer Ethical Leaders NZ

Shares Fund, Mercer Macquarie Australian Shares Fund, Mercer Ethical Leaders Global Shares Fund, Mercer Global Shares Fund, Mercer Core Global Shares Fund, Mercer Core Hedged Global Shares Fund, Mercer Emerging Markets Shares Fund, Mercer Macquarie Global Listed Real Estate Fund, Mercer Macquarie Global Listed Infrastructure Fund, Mercer NZ Shares Passive Fund, Mercer Ethical Leaders Hedged Global Fixed Interest Index Fund, Mercer All Country Global Shares Index Fund and Mercer Australian Property Index Fund.

**“Supervisor”** means The New Zealand Guardian Trust Company Limited.

**“Trust Deed”** means the Mercer Investment Funds Trust Deed (as amended and restated).

# Appendix 1

The below table shows the Fund names prior to 6th March 2023 under Macquarie Asset Management Public Investments (NZ) Ltd and the current names under Mercer (N.Z.) Ltd.

Macquarie Investment Funds	Mercer Investment Funds
Macquarie NZ Cash Fund	Mercer Macquarie NZ Cash Fund
Macquarie NZ Fixed Interest Fund	Mercer Macquarie NZ Fixed Interest Fund
Macquarie NZ Short Duration Fund	Mercer Macquarie NZ Short Duration Fund
Macquarie Global Income Opportunities Fund	Mercer Macquarie Global Income Opportunities Fund
Macquarie Global Shares Fund	Mercer Global Shares Fund
Macquarie Core Global Shares Fund	Mercer Core Global Shares Fund
Macquarie Core Hedged Global Shares Fund	Mercer Core Hedged Global Shares Fund
Macquarie Emerging Markets Shares Fund	Mercer Emerging Markets Shares Fund
Macquarie Ethical Leaders Global Shares Fund	Mercer Ethical Leaders Global Shares Fund
Macquarie Income Generator Fund	Mercer Income Generator Fund
Macquarie Real Return Opportunities Fund	Mercer Macquarie Real Return Opportunities Fund
Macquarie NZ Shares Fund	Mercer NZ Shares Fund
Macquarie Australian Shares Fund	Mercer Macquarie Australian Shares Fund
Macquarie Ethical Leaders NZ Shares Fund	Mercer Ethical Leaders NZ Shares Fund
Macquarie Global Listed Real Estate Fund	Mercer Macquarie Global Listed Real Estate Fund
Macquarie Global Listed Infrastructure Fund	Mercer Macquarie Global Listed Infrastructure Fund
Macquarie Ethical Leaders Conservative Fund	Mercer Ethical Leaders Conservative Fund
Macquarie Ethical Leaders Balanced Fund	Mercer Ethical Leaders Balanced Fund
Macquarie Ethical Leaders Growth Fund	Mercer Ethical Leaders Growth Fund
Macquarie NZ Shares Index Fund	Mercer NZ Shares Passive Fund
Macquarie Ethical Leaders Hedged Global Fixed Interest Index Fund	Mercer Ethical Leaders Hedged Global Fixed Interest Index Fund
Macquarie All Country Global Shares Index Fund	Mercer All Country Global Shares Index Fund
Macquarie Australian Property Index Fund	Mercer Australian Property Index Fund

## **For more information, please contact:**

**General fund and investment matters**

**Mercer (N.Z.) Limited**

[nzportfolios@mercero.com](mailto:nzportfolios@mercero.com)

[www.multimanager.mercero.co.nz](http://www.multimanager.mercero.co.nz)