



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

**26 September 2024**

# Simplicity NZ Limited



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## Simplicity's Governing Principles

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

## Description of the Scheme

The Simplicity KiwiSaver Scheme (Scheme) is a managed investment scheme under the Financial Markets Conduct Act 2013 (FMCA).

The Scheme offers six diversified investment options – the Defensive Fund, the Conservative Fund, the Default Fund, the Balanced Fund, the Growth Fund, and the High Growth Fund (the Funds). Simplicity NZ Limited (Simplicity, we, us, our; including any subsidiary of Simplicity NZ Limited) is the Manager of the Scheme.

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

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

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

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

See the Glossary in Schedule 8 for a description of all bolded terms.

## Purpose and Philosophy

Our purpose is to deliver market index-like returns consistent with the risk profile of each Fund on a low-cost basis. All investment carries risk, we manage risk by holding a diverse range of securities in each Fund. For details, refer to Schedules 1 to 7.

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

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

For overseas investments our external investment manager applies custom broad-based market indices that are subject to responsible investment screening. For New Zealand bonds and shares we

have established our own sector funds that hold a portfolio of securities, designed to provide a market index-like return.

Our Responsible Investment Policy is available on our website at [simplicity.kiwi](https://www.simplicity.kiwi), and is summarised in the 'Other Relevant Policies' section below.

## Investment Objective

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

## Investment Policies

### Rebalancing Policy

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

The benchmark asset allocation of the Funds is managed to within 2% of the benchmark (described for each Fund in Schedules 1 to 6). The exception is cash which may vary more than 2% from its benchmark for liquidity management purposes.

In the event of significant financial market volatility or cash flows, it is possible that the benchmark asset allocation of the Funds may breach one or more of the assigned ranges (described for each Fund in Schedules 1 to 6). Any such breach must be remedied within 5 working days. We provide a report to the Supervisor setting out any breaches that occur on a quarterly basis.

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

### Tactical Asset Allocation Policy

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

### Currency Hedging Policy

We take a passive approach to managing **Currency Risk**.

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

The foreign exchange exposure targets are currently as follows:

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

## Derivatives Policy

Our preference is not to use **Derivatives**, and the nature of our investments means this is almost always the case.

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

## Leverage Policy

No leverage is permitted at the Fund level. Some of the underlying assets (such as equities) may operate with some leverage (which includes debt). The inclusion of these assets reflects our philosophy as predominantly passive index investors.

## Diversification Requirements/Limits

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

## Market Risk Management Policy

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

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

## Credit Risk Management

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

There is a degree of credit risk associated with the New Zealand cash, New Zealand fixed interest and international fixed interest asset allocations in each Fund.

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

- The New Zealand cash portfolios of each Fund are designed to ensure that any credit risk is primarily to New Zealand registered banks, or securities with a credit rating equal to, or better than, the single A rated banks.

- Most of the New Zealand fixed interest portfolio is in New Zealand government stock and securities with a AAA credit rating.
- The loans within the first home mortgage portfolio are subject to strict terms relating to loan to valuation ratios and debt servicing ratios, as described in Schedule 7.
- Any investment below an A grade credit rating must be approved by the Investment Committee. The Investment Committee will consider the returns to investors and other criteria (see 'Investment Governance, Reporting and Strategy'). Any decision to invest in an instrument rated below A grade will prioritise the best interests of scheme investors.

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

- The International fixed interest portfolio invests in a diversified portfolio of securities (bonds) issued by governments, government related entities and companies with an investment grade rating<sup>1</sup>. All securities are included in a recognised international index issued by Bloomberg. The weighted average credit rating for this index is AA-.

## Other Relevant Policies

### Responsible Investment Policy

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

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

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

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

- Anti-corruption
- Human rights
- Environment
- Labour

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

Our Responsible Investment Policy is reviewed regularly by our Investment Committee. If any changes are required, these must be approved by our Board.

## Voting Policy

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

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

## Liquidity and Cash Flow Management

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

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

Most Funds' target level of cash is 2% and the typical maximum cash holding is 10%. The Defensive Fund has a target level of cash of 80% up to a maximum of 100%.

We monitor this daily in conjunction with the Administrator. A cash flow forecast is maintained with a time horizon of 2 working days. This is considered sufficient time to redeem underlying investments if required. Most authorised investments have a maximum settlement period of 2 working days, which is generally sufficient to ensure that inflows are invested without exceeding the maximum cash allocation in each Fund.

Investments in first mortgages over residential properties, unlisted property company shares and unlisted securities issued by New Zealand businesses are not liquid. Our allocation to these assets (see Schedules 1 to 6) has been set in consultation with the Supervisor. There is a risk that these assets may not be able to be converted into cash because of lack of a market in which to sell them or if the market is disrupted.

## Conflicts of Interest Policy

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

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



## Valuation Policy

We have outsourced the pricing and valuation of the investments to the Administrator. We have also adopted the Administrator's Asset and Liability Valuation Policy, except as noted below.

Where an investment is traded on financial markets, the Administrator will determine the valuation in accordance with the last market prices available at the valuation point. The valuation of assets is generally based on information provided to the Administrator by independent third-party data providers. Where practicable the Administrator will verify this data by comparison with information from a second independent source.

The First Home Mortgage Portfolio is valued daily at the outstanding balance of each loan, plus accrued interest and accounting for principal and interest payments received. A prudent provision for any non-performing loans is also accounted for. If a loan is in default its book value will be impaired, where applicable, to a value that does not exceed our estimate of the net realization value of the property that provides security for the loan.

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

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

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

The Investment Committee has responsibility for monitoring of the Administrator's performance of valuation functions, and the review, approval, and oversight of our valuation policies for the First Home Mortgage Portfolio, Private Equity Portfolio, and Property Portfolio.

## Unit Pricing and Pricing Methodologies Policies

The pricing of interests in the Scheme is calculated by determining the total net assets of each Fund and dividing by the number of units on issue, as described in the Scheme's Trust Deed. This process is outsourced to our Administrator. We have adopted the following policies from our Administrator:

- Asset and Liability Valuation Policy
- Error Reporting and Compensation Policy

## Outsourcing Policy

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

## Taxation

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

# Investment Governance, Reporting & Strategy

## Asset Allocation

We maintain a consistent strategic asset allocation through market cycles.

The asset allocation for each Fund is set by assessing the average asset allocation of the largest KiwiSaver scheme managers (i.e. managers that hold at least 80% of the total KiwiSaver industry funds under management<sup>2</sup>). Professional judgment is applied to these averages where required. The Investment Committee reviews the asset allocation on at least a 6-monthly basis.

We invest in several unlisted asset classes:

- The private equity portfolio is treated as part of our allocation to NZ equities.
- The first home mortgage portfolio is treated as part of our allocation to NZ fixed interest.
- The property portfolio is treated as an allocation to unlisted NZ property.

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

## Investment Performance Monitoring

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

The Investment Committee's considerations when assessing performance include:

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

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

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

## Compliance with SIPO

We undertake asset allocation checks regularly to ensure that each Fund's investments apply the benchmark asset allocation targets and remain within the benchmark asset allocation ranges specified in Schedules 1 to 6. Each Fund's underlying investments are also checked regularly for compliance with the Asset Class Investment Guidelines in Schedule 7. The Investment Committee is responsible for monitoring compliance with this SIPO and reviews asset allocation compliance reports at each of its regular meetings.

## Limit Breaks

Each Fund's investments must remain within the benchmark asset allocation ranges specified in Schedules 1 to 6. If a Fund's investments fall outside the applicable benchmark asset allocation range this is deemed to be a limit break which we must be rectify within 5 working days. If a limit break is determined to be material or will continue for more than 5 working days, it must be reported to the Supervisor as soon as practicable and we must provide a plan to rectify the limit break. If a limit break is deemed immaterial and is rectified within 5 working days, it will be reported to the Supervisor at the end of the calendar quarter in which it occurs.

## SIPO Review

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

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

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

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

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

# Schedule 1: Investment Strategy for the Defensive Fund

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

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

The New Zealand fixed interest allocation is invested in loans secured by first mortgages over residential property, with a benchmark allocation of 10% (within a range of 0% to 20%).

## Benchmark Asset Allocations and Ranges

Asset class	Benchmark	Range
Cash and cash equivalents	85%	80% - 100%
New Zealand fixed interest	10%	0% - 20%
<b>Total Income Assets</b>	<b>95%</b>	<b>90% - 100%</b>
Unlisted New Zealand property	5%	0% - 10%
<b>Total Growth Assets</b>	<b>5%</b>	<b>0% - 10%</b>

## Authorised Investments

Authorised investments for each asset class are detailed in Schedule 7.

## Schedule 2: Investment Strategy for the Conservative Fund

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

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

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

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

### Benchmark Asset Allocations and Ranges

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

### Authorised Investments

Authorised investments for each asset class are detailed in Schedule 7.

## Schedule 3: Investment Strategy for the Default Fund

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

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

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

Within the New Zealand fixed interest allocation, there is a benchmark allocation of 10% (within a range of 0% to 15%) available to invest in loans secured by first mortgages over residential property.

### Benchmark Asset Allocations and Ranges

Asset class	Benchmark	Range
Cash and cash equivalents	2%	0% - 10%
New Zealand fixed interest	16.5%	6.5% - 26.5%
International fixed interest	22.5%	12.5% - 32.5%
<b>Total Income Assets</b>	<b>41%</b>	<b>37% - 55%</b>
New Zealand equities	15.5%	5.5% - 25.5%
International equities	43.5%	33.5% - 53.5%
<b>Total Growth Assets</b>	<b>59%</b>	<b>45% - 63%</b>

### Authorised Investments

Authorised investments for each asset class are detailed in Schedule 7.

## Schedule 4: Investment Strategy for the Balanced Fund

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

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

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

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

### Benchmark Asset Allocations and Ranges

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

### Authorised Investments

Authorised investments for each asset class are detailed in Schedule 7.

# Schedule 5: Investment Strategy for the Growth Fund

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

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

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

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

## Benchmark Asset Allocations and Ranges

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

## Authorised Investments

Authorised investments for each asset class are detailed in Schedule 7.



# Schedule 6: Investment Strategy for the High Growth Fund

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

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

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

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

## Benchmark Asset Allocations and Ranges

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

## Authorised Investments

Authorised investments for each asset class are detailed in Schedule 7.

# Schedule 7: Asset Class Investment

## Guidelines

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

### Cash and Cash Equivalents Portfolio

#### Investment Policy

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

#### Investment Objective

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

#### Benchmark Index

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

#### Authorised Investments

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

Type of debt security	Maximum % with single issuer of debt security	Maximum % class of issuer of debt security
New Zealand government issued or guaranteed debt securities	100	100
Debt securities issued or guaranteed by a New Zealand registered bank rated at least A+ (S&P rating or equivalent)	30	100
Debt securities of at least AA- (S&P rating or equivalent)	20	100
Debt securities rated at least A1 short term (S&P rating or equivalent)	10	20
Securities issued by a registered tax pool	30	30

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

## New Zealand Fixed Interest Portfolio

### Investment Policy

The Funds invest in the Simplicity NZ Bond Fund (or its equivalent). The Simplicity NZ Bond Fund invests in New Zealand government bonds and other high-quality bonds issued in New Zealand.

### Investment Objective

The Simplicity NZ Bond Fund aims to generate a return similar to the performance of the NZ government bond market.

### Benchmark Index

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

## First Home Mortgage Portfolio

### Investment Policy

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

- Defensive Fund: 15%
- Conservative Fund: 7.5%
- Default Fund: 10%
- Balanced Fund: 6.5%
- Growth Fund: 3%

The first home mortgage portfolio lends money to persons purchasing their first home secured by a mortgage over the property being purchased. All loans require repayment of principal and interest. The maximum weighted average loan to value ratio of the loan portfolio is 80%. The maximum debt servicing ratio is 30% of a borrower's net income (after tax, and deductions).

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

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

### Investment Objective

The portfolio's objective is to generate a return 1.0% in excess of the benchmark index.<sup>3</sup>

### Benchmark Index

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

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<sup>3</sup> Effective from 1 July 2024, the Investment Objective was altered to reduce the portfolio's targeted return in excess of the benchmark index from 1.5% to 1.0%. This change was made as the Manager considers that the previous objective is not reasonably achievable due to market conditions where the range of retail mortgage interest rates offered by registered New Zealand banks can be less than 1.5% above short-term money market rates. The Manager considers that the revised Investment Objective continues to achieve appropriate risk-adjusted returns for the portfolio.

## International Fixed Interest Portfolio

### Investment Policy

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

### Investment Objective

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

### Benchmark Index

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

## New Zealand Equity Portfolio

### Investment Policy

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

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

### Investment Objective

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

### Benchmark Index

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

## Private Equity Portfolio

### Investment Policy

The Growth and High Growth Funds invest in a Private Equity Fund managed by us that invests either directly into unlisted New Zealand companies or via funds managed by Icehouse Ventures. The Private Equity Fund may also invest in listed New Zealand shares to ensure it is sufficiently diversified to continue to qualify as a PIE.

### **Investment Objective**

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

### **Benchmark Index**

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

## **International Equity Portfolio**

### **Investment Policy**

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

### **Investment Objective**

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

### **Benchmark Index**

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

## **Property Portfolio**

### **Investment Policy**

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

### **Investment Objective**

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

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

### **Benchmark Index**

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

## Schedule 8: Glossary

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

### *Administrator*

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

### *Currency Risk*

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

### *Custodian*

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

### *Derivatives*

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

### *Diversification*

Not putting all our eggs in one basket, or spreading our risk by choosing different individual investments within an asset class. So instead of us buying a single share worth \$800, we can buy 80 shares worth \$10 in different companies, industries and countries around the world. Most managed funds like KiwiSaver are diversified for you.

### *Foundation*

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

### *Hedging*

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

### *Investment Committee*

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

### *Label*

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

### *Licensed Supervisor*

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

### *Other Material Information*

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

### *Portfolio Investment Entity*

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

### *Product Disclosure Statement*

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

### *Quarterly Fund Update*

A quarterly (or, for a restricted KiwiSaver scheme, annual) update from your KiwiSaver scheme provider about how the funds have performed. The update is available on your provider's website and on [Sorted's Smart Investor](#) tool.

### *SIPO*

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