



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

30 June 2022



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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 members
- Being socially responsible.

## Description of the Funds

The Simplicity Investment Funds offer three diversified investment funds (**Diversified Funds**) that have different allocations to each asset class:

- Conservative Investment Fund
- Balanced Investment Fund
- Growth Investment Fund

The Diversified Funds are designed to be long term investments delivering a range of returns over time, recognising that individuals have different risk tolerances.

The Simplicity Investment Funds also offer two single sector funds (**Sector Funds**):

- NZ Share Fund
- NZ Bond Fund

The Sector Funds are intended to be a component of a diversified investment portfolio.

The Diversified Funds invest in the Sector Funds for their allocation to New Zealand bonds and shares.

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

We are a non-profit organisation. We donate 15% of the fees we charge to the Simplicity Charitable Trust, which chooses which charities receive the donations.

More details of how this works and the charities that benefit are on our website

[www.simplicityfunds.kiwi](http://www.simplicityfunds.kiwi)

The Supervisor of the Funds is Public Trust, and MMC Limited is the Administrator of the Funds.

## Purpose and philosophy

Each of the Diversified Funds has a strategic asset allocation to the major asset classes i.e. shares (including listed property) and fixed interest (bonds).

We believe in socially responsible investment and also we believe that markets are efficient. So we have adopted a predominantly 'passive' index approach to investing. In the major markets we do not actively pick or select securities, because we believe that using index funds where possible and having very low costs will return investors more money over time.

Each major asset class is represented by an index fund where possible. These funds are designed to track the investment return of a particular market index. For offshore investments, the scheme invests in funds managed by Vanguard Asset Management Limited (Vanguard), a subsidiary of the Vanguard Group, Inc.

Established in 1975, the Vanguard Group, Inc. is owned by its US-domiciled mutual funds, which are in turn owned by their investors. Based in Valley Forge, Pennsylvania, USA, as at 31 August 2021, it managed over NZ\$12.5 trillion of client funds worldwide.



By investing in index funds, we also maximise diversification, with over 3,000 different share and bond investments in each Diversified Fund.

If no suitable Vanguard index fund is available for a particular asset class (specifically New Zealand bonds and shares) we have established our own sector funds that hold a portfolio of securities, designed to provide the respective market return. Although these funds are not index funds, we invest as closely as practically possible to the market index, and minimise costs wherever practicable by keeping transaction and holding costs low.

Because of the limited breadth and scope of capital markets in New Zealand, there are also opportunities for investment managers such as Simplicity, with a large pool of long term funds, to earn higher risk adjusted returns for their members by investing in unlisted securities.

The New Zealand fixed interest allocation for each Fund includes an investment in loans to first home buyers secured by mortgages over their properties. These loans are managed by Simplicity. Each loan conforms to strict criteria relating to the loan to valuation ratio and debt servicing ratio. Public Trust controls the bank accounts, but it does not directly supervise our management of the loans.

The Growth Fund and the Balanced Fund invest in the development, ownership and management of residential property designed to be long term rental housing.

Within its New Zealand shares allocation, the Growth Fund also has a limited investment in unlisted securities issued by New Zealand businesses with high growth potential.

Management of this investment is split between us and Icehouse Ventures Limited; the investment arm of The Icehouse Limited that was formed in 2001 to assist small to medium sized enterprises grow their businesses.

We continually monitor each Diversified Fund's asset allocation and rebalance whenever a specified threshold is reached.

Each Diversified Fund invests in the same mix of funds, however the weightings to each sector will differ to reflect the desired risk versus return characteristics of the Fund e.g. the Growth Investment Fund will target 80% of its investments in shares while, the Conservative Investment Fund target is 23%.

The relationship between risk and return means that growth asset classes such as shares are likely to deliver higher returns over time but may be more volatile (prices falling as well as rising). Fixed interest securities such as government bonds are usually less volatile but are also likely to deliver a lower return over the long term.

## Investment objectives

The investment objective for each Diversified Fund is for its performance to be ranked in the top 25% of its respective category after tax and fees. For the Conservative Fund, its category is funds with an average allocation to income assets such as bonds, of around 80%. For the Growth Fund, its category is funds with an average of around 80% allocated to growth assets such as shares. For the Balanced Investment Fund, its category is funds with a fairly even split between income and growth assets.

The investment objective for the Sector Funds is to generate the respective market return for that market before tax and fees.



# Investment Policies

## Currency hedging

Our hedging policy is set using the average of the main fund managers that we monitor, resulting in our equity investments being 65% hedged into New Zealand dollars. The hedging policy will be monitored quarterly and adjusted from time to time to follow the average within a range 50% - 70%.

The foreign exchange exposures in each Fund are hedged as follows:

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

International markets are accessed through a series of index funds managed by Vanguard. In the case of the Australian Share Index Fund, we hedge 65% of the Australian dollar exposure into New Zealand dollars.

For the remaining international equities, 65% of the exposure is invested in a Vanguard fund that is fully hedged into New Zealand dollars and 35% into an unhedged Vanguard fund.

For international bonds, we invest in a Vanguard fund that is fully hedged into New Zealand dollars.

The hedging strategy is managed using forward exchange contracts with New Zealand registered banks. The current value of all outstanding foreign exchange contracts is constantly monitored by the Administrator and advised to us daily. Sufficient cash and liquid assets are retained in each Fund to cover the current value of the outstanding forward contracts at all times.

## Rebalancing

The current asset allocation of the Diversified Funds is monitored by us on a daily basis in consultation with the Administrator.

Where a Diversified Fund is within 2.0% of the maximum or minimum permitted range of exposure to an asset class (as detailed in Schedule 1, 2 and 3 respectively) or within 2.0% of the permitted total weighting to income or growth assets, we will determine the rebalancing amounts required and will rebalance the Fund accordingly. The exception is cash which may vary more than 2% from its target asset allocation for liquidity management purposes.

In the event of significant financial market volatility, there is the possibility that the asset allocation of the Funds may breach the assigned range. Any such breach must be remedied within 5 working days. We provide a report to the Supervisor setting out all breaches that occur on a quarterly basis.

## Tactical asset allocation Policy

We believe that markets are efficient and we have therefore adopted a passive investment approach to asset allocation. No attempt is made to increase returns by actively over-weighting or under-weighting particular asset classes at the expense of others.



## Derivatives Policies

Apart from forward exchange contracts to hedge currencies, 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 (commonly referred to as 'One Delta' investments).

## Leverage Policies

Although a degree of leverage (maximum 20%) is permitted at the Fund level under the Trust Deed, this is only to allow cashflow management in extreme circumstances and for a limited period of time – a few days at the most. Some of the underlying assets (such as equities) may operate with some leverage. The inclusion of these assets reflects our investment philosophy to mirror the index rather than to increase returns.

## Diversification Requirements/Limits

Where possible, the Funds invest into index funds managed by Vanguard that have a high level of diversification.

Where we manage a Sector Fund the respective Investment Guidelines (Schedules 4 & 5 on pages 16-18) are drafted to ensure that concentration risk is prudently managed within that asset class.

## Market Risk Management Policy

Market risk is an inevitable aspect of investing in financial markets. We believe that the strategic asset allocation of each Diversified Fund provides a diversified exposure to each asset class at an appropriate level for that option's label; Conservative, Balanced or Growth. While market risk varies for each of the Diversified Fund, education and communication are key to understanding risk and/or being comfortable with it in the Funds. We are committed to providing the information that investors need to understand how and why markets (hence their investments) are performing as they are.

The Sector Funds invest in one specific market and therefore have the risk characteristics of that market.

## Credit Risk Management

There will be a degree of credit risk in the New Zealand cash portfolio, the NZ Bond Fund and the international fixed interest portfolio in each of the Diversified Funds.

The New Zealand cash portfolio is 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.

A high proportion of the NZ Bond Fund will be invested in New Zealand government bonds. Apart from government bonds, only highly rated investments such as bonds issued by local government agencies and crown agencies are authorised investments. Unrated investments, such as community bonds, are only permitted after consultation with our Supervisor (details on page 15).

Loans within the first mortgage portfolio are subject to strict terms relating to loan to valuation ratios and debt servicing ratios.

The international fixed interest portfolio invests in a diversified portfolio of securities (bonds), containing approximately 1,000 securities (bonds) issued by governments with an investment grade rating (investment grade means an issue is rated at least BBB- or equivalent by a recognised rating agency such as Standard & Poors). All securities are included in a widely recognised international index issued by Bloomberg Barclays. The weighted average credit rating is AA-.



## Other Relevant Policies

### Liquidity and Cash Flow Management

We maintain a balance of transactional cash on call in a specific bank account for each investment option. This is to ensure that there is sufficient liquidity to fund the normal course of business.

The targeted level of cash is 2% and we monitor this, in conjunction with the Administrator, on a daily basis. The maximum cash balance before Funds must be invested in other asset classes is 10% for the Diversified Funds. The Sector Funds will hold cash for liquidity management purposes only.

A cash flow forecast is maintained with a 2 working day time horizon. This is considered sufficient time to redeem from underlying investments if required. All authorised investments have a settlement period of 2 working days. Similarly, 2 working days is sufficient to ensure that inflows are invested and the 10% maximum cash balance is not exceeded.

### Conflicts of Interest Policy

Conflicts of Interest may occur at multiple levels and Scheme members' interests take priority at all times.

In order to avoid, mitigate and manage potential conflicts, we have adopted a Conflicts of Interest Policy. Our key principle is that any potential conflicts of interest are avoided where possible. If that is not possible, then they are clearly disclosed by any person making decisions on behalf of Scheme members and mitigated to the extent possible.

A register of potential conflicts of interest is maintained by the chair of our board of directors. The register is reviewed each board meeting and the chair must be notified of any changes to the register if and when they occur. Continual disclosure of potential conflicts of interest is a contractual requirement for all members of staff or parties contracted to Simplicity.

### Voting Policies

Where the exposure to an asset class is achieved through an index fund managed by Vanguard, the following voting policy applies:

<https://about.vanguard.com/vanguard-proxy-voting/voting-guidelines/>

Where the securities are held by our Sector Funds, we will vote by proxy where it is in the best interests of our investors to do so. Voting decisions are made on a case by case basis. All decisions will be based on what is in the best interest of our investors. We may decide not to vote.

### Environmental, Social and Governance Policies

Our business is ultimately a social enterprise, thus investing responsibly is an important issue for us and our members. We specifically exclude investments in companies with significant involvement in the following activities:

- Fossil fuel exploration and extraction
- Alcohol
- Tobacco
- Gambling
- Military weapons
- Civilian firearms
- Nuclear power
- Adult entertainment





Our investments also exclude companies that have contravened the principles of the UN Global Compact ([www.unglobalcompact.org](http://www.unglobalcompact.org)), under the following categories:

- Anti corruption
- Human rights
- Environment
- Labour

We believe in social responsibility and seek areas where we can be constructive. We do this by being an active shareholder advocate and through the 15% of our fees that we donate to charity.

## Pricing/Valuation Policies

The nature of the Diversified Funds' and the Sector Funds' authorised investments means there should always be a valuation at close of business. We have outsourced the pricing and valuation of the investments to the Administrator.

Where an investment is traded on financial markets, the Administrator will determine the valuation in accordance with the last market prices available at the valuation point. Where the investments are Vanguard unlisted trusts, the Administrator will be provided with a unit price each day by Vanguard.

The valuation of assets is generally based on information provided to the Administrator by independent third party providers. Where practicable the Administrator will look to verify this data by comparing information from a second independent source.

The portfolio of first mortgage loans is valued daily at the outstanding balance of each loan, plus accrued interest and accounting for principal and interest payments received. If a loan becomes non-performing for any reason, an adjustment is made immediately.

The Balanced Fund and Growth Funds' investments into unlisted securities are reviewed regularly. For the Venture Capital investments, Icehouse provides a valuation to us monthly based on their quarterly formal valuation review and an assessment of any material change for months that do not fall at the end of a quarter.

Where the relevant Icehouse fund is audited, the Icehouse valuation falling the final quarter of the year is included in the audit process.

For unlisted investments that we hold directly, each investment is valued monthly based on our quarterly formal valuation review and an assessment of any material change for months that do not fall at the end of a quarter.

For all unlisted equity investments our valuation methodology is based on applicable New Zealand accounting standards and the International Private Equity and Venture Capital Valuation Guidelines. Our Private Equity Valuation Policy can be found on our website [simplicity.kiwi](http://simplicity.kiwi) or on the Disclose Register at [www.business.govt.nz/disclose](http://www.business.govt.nz/disclose) under Other Material Information.

We are responsible for approving the unlisted equity valuations. Our investment committee may elect to review the valuations at any time.

## Taxation Policy

The Diversified Funds and the Sector Funds are Portfolio Investment Entities (PIEs). Tax on investment income is calculated at each member's prescribed investor rate (currently either 0%, 10.5%, 17.5% or 28% depending on each member's circumstances) and paid to the Inland Revenue on members' behalf annually.



# Investment Performance

## Monitoring and Reporting

For our listed investments, the performance of each asset class is monitored against its respective benchmark index. There is no suitable benchmark index for the unlisted investments; private equity, unlisted property and mortgages, so these assets' performance is monitored on an outright basis with reference to the respective listed asset classes.

Performance is reported to the Supervisor monthly. Investors will receive a quarterly performance update, with current information available through our website on a daily basis.

## Investment Strategy and SIPO Review

### Investment Strategy

We believe our return objectives for the Diversified Funds will be achieved by maintaining a consistent asset allocation through market cycles. We do not believe in frequent re-balancing of asset allocations, which can cause unnecessary activity (and associated costs). Based on our research, this approach has not shown that it can add value to investors.

Subject to the overlays noted below, the asset allocation of each Diversified Fund is set by determining the average strategic asset allocation to each asset class by the main KiwiSaver providers for each risk category; conservative, balanced and growth. This data is released every quarter as part of each provider's regulatory disclosure.

While we use the averages as a basis for our asset allocation, we do not believe our investors need to hold the levels of liquidity that the average manager holds. We are a long term investor and believe we should collect the additional return from holding long term bonds. Our approach is therefore to allocate the average cash weighting over and above what is required for cashflow management (around 2%) between New Zealand and international fixed interest.

The average strategic asset allocations are checked quarterly when the data is released and our asset allocation is reviewed biannually or as appropriate if we believe there has been such a significant change to long-term asset class assumptions.

### SIPO Review

A review of this SIPO is undertaken by us at least annually, but we believe that investors are best served by maintaining a steady and consistent investment policy. This means that significant changes to our SIPO are unlikely to be required unless there are product changes or if there has been a significant market development that makes the existing SIPO redundant or impossible to implement.

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

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



## Schedule 1: Investment strategy for the Conservative Investment Fund

The Conservative Investment Fund provides investors with a limited exposure to growth assets, but most of its investments are in income assets. As a result, the return from the Fund is likely to be lower over the longer term (10 years or more) than the Balanced or Growth Investment Funds, but the value of its investments are unlikely to fluctuate as much as the Balanced or Growth Investment Funds.

Where possible, the Fund's investments are in index funds, managed by Vanguard. In the case of New Zealand assets (cash, fixed interest and shares), no suitable externally managed index fund is currently available at a reasonable investment management fee.

The Fund therefore invests in the NZ Bond Fund and the NZ Share Fund. It has a 7.5% maximum allocation to loans secured by first mortgages over residential property within its New Zealand fixed interest allocation.

### Benchmark Asset Allocations and Ranges

Asset class	Benchmark Asset Allocation	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	6%	0% – 16%
Australian equities	1.5%	0% – 11.5%
International equities	15.5%	5.5% – 25.5%
<b>Total Growth Assets</b>	<b>23%</b>	<b>13% – 33%</b>

### Authorised investments

Authorised investments for each asset class are detailed in Schedule 6 on pages 16-19.



## Schedule 2: Investment strategy for the Balanced Investment Fund

The Balanced Investment Fund provides investors with an exposure to a mix of growth and income assets. As a result, the return from the Fund is likely to be lower over the longer term (10 years or more) than the Growth Investment Fund but higher than the Conservative Investment Fund. At the same time the value of its investments are likely to fluctuate more than the Conservative Investment Fund but are likely to be more stable than the Growth Investment Fund.

Where possible, the Fund's investments are in index funds, managed by Vanguard. In the case of New Zealand assets (cash, fixed interest and shares), no suitable externally managed index fund is currently available at a reasonable investment management fee.

For New Zealand bonds the Fund invests in the NZ Bond Fund to provide the respective market return. It has a 5.5% maximum allocation to loans secured by first mortgages over residential property within its New Zealand fixed interest allocation.

For New Zealand shares the Fund invests in the NZ Share Fund to provide the respective market return.

### Benchmark Asset Allocations and Ranges

Asset class	Benchmark Asset Allocation	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	13.5%	3.5% – 23.5%
Unlisted New Zealand property	2%	0% – 2%
Australian equities	4.5%	0% – 14.5%
International equities	39%	29% – 49%
<b>Total Growth Assets</b>	<b>59%</b>	<b>49% – 69%</b>

### Authorised investments

Authorised investments for each asset class are detailed in Schedule 6 on pages 16-19.



## Schedule 3: Investment strategy for the Growth Investment Fund

The Growth Investment Fund provides investors with a limited exposure to income assets, but most of its investments are in growth assets. As a result, the return from the Fund is likely to be higher over the longer term (10 years or more) than the Conservative and Balanced Investment Funds, but the value of its investments are likely to fluctuate more than the Balanced and Conservative Investment Funds.

Where possible, the Fund's investments are in index funds, managed by Vanguard. In the case of New Zealand assets (cash, fixed interest and shares), no suitable externally managed index fund is currently available at a reasonable investment management fee.

For New Zealand bonds the Fund therefore invests in the NZ Bond Fund to provide the respective market return. It has a 2% maximum allocation to loans secured by first mortgages over residential property within its New Zealand fixed interest allocation.

For New Zealand shares the Fund primarily invests in a fund managed by us to provide the respective market return, but also has a limited allocation (maximum 2.5%) to unlisted New Zealand securities issued by New Zealand companies with high growth potential.

### Benchmark Asset Allocations and Ranges

Asset class	Benchmark Asset Allocation	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	18%	8% - 28%
Unlisted New Zealand property	3%	0% - 3%
Australian equities	6%	0% - 16%
International equities	53%	73% - 63%
<b>Total Growth Assets</b>	<b>80%</b>	<b>70% - 90%</b>

### Authorised investments

Authorised investments for each asset class are detailed in Schedule 6 on pages 16-19.



## **Schedule 4: NZ Share Fund**

### **Investment Policy**

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

### **Investment Objective**

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

### **Benchmark Index**

The Benchmark is the Morningstar New Zealand Index published by Morningstar, or any replacement index with the agreement of the Supervisor.

### **Authorised Investments**

Securities listed on the NZX.



## Schedule 5: NZ Bond Fund

### Investment Policy

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

### Investment Objective

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

### Benchmark Index

The Benchmark is the Bloomberg NZBond Govt 0+ Index as calculated and published by Bloomberg, or any replacement index with the agreement of the Supervisor.

### Authorised Investments

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

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

Type of debt	Maximum % with single issuer of debt	Maximum % class of issuer of debt
New Zealand government issued or guaranteed debt securities	100	100
Debt securities issued or guaranteed by a New Zealand Registered Bank rated at least A (S&P rating or equivalent)	30	100
Debt securities issued by the New Zealand Local Government Funding Agency Limited	100	50
In addition to the above, debt securities of at least AA- Rating (S&P rating or equivalent)	20	50
In addition to higher rated securities, debt securities of A- to A+ inclusive Rating (S&P rating or equivalent)	10	
Specific authorisations	in consultation with the Supervisor	

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



## Schedule 6: Asset Class Investment Guidelines

The investment guidelines and authorised investments for each Asset Class in the Diversified Funds is governed by the following restrictions:

### Cash and Cash Equivalent Portfolio

#### Investment Policy

The Diversified Funds invest primarily in cash on call and liquid, investment grade fixed interest securities issued in New Zealand.

#### Investment Objective

The objective of the portfolio is to track the Reserve Bank New Zealand Official Cash Rate return on a rolling 12 month basis before tax and fees.

#### Benchmark Index

The Benchmark Index is the Reserve Bank New Zealand Official Cash Rate as published by the Reserve Bank New Zealand, or any replacement index with the agreement of the Supervisor.

#### Authorised Investments

Cash on call or any debt security or a derivative thereof that is denominated in New Zealand dollars.

The Manager shall ensure the Cash portfolio remains within the following prudential limits (unless contrary after consultation with the Supervisor):

Type of debt	Maximum % with single issuer of debt	Maximum % class of issuer of debt
New Zealand government issued or guaranteed debt securities	100	100
Debt securities issued or guaranteed by a New Zealand Registered Bank rated at least A+ (S&P rating or equivalent)	30	100
Debt securities issued by the New Zealand Local Government Funding Agency Limited	100	30
In addition to Bank securities, debt securities of at least AA- (S&P rating or equivalent)	10	50
Specific authorisations	as approved by the Supervisor	

The weighted average duration of the Cash and Cash Equivalent portfolio must not exceed 60 days.





## New Zealand Fixed Interest Portfolio

### Investment Policy

The Diversified Funds invest in the NZ Bond Fund (or its equivalent). The Diversified Funds also have an allocation to loans secured by first mortgages over residential property. The terms and conditions of the loans are outlined on page 19.

### Investment Objective

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

### Benchmark Index

The Benchmark is the Bloomberg NZBond Govt 0+ Index as calculated and published by Bloomberg, or any replacement index with the agreement of the Supervisor.

## International Fixed Interest Portfolio

### Investment Policy

The Diversified Funds invest in the Vanguard Ethically Conscious Global Aggregate Bond Index Fund (or its equivalent).

The Vanguard Ethically Conscious Global Aggregate Bond Index Fund (Hedged) invests in a diversified portfolio of securities (bonds) selected from an index containing approximately 18,700 securities (bonds) issued by governments, government-related entities, investment grade corporate issues and securitised assets from around the world.

### Investment Objective

To track the Benchmark Index (defined below) return on a rolling 12 month basis before tax and fees.

### Benchmark Index

The Benchmark Index is the Bloomberg Barclays MSCI Global Aggregate SRI ex ESG Exclusions Index 100% hedged into the New Zealand dollar.

### Hedging Policy

Returns from the Vanguard Ethically Conscious Global Aggregate Bond Index Fund are fully hedged into New Zealand dollars by Vanguard.

## New Zealand Equity Portfolio

### Investment Policy

The Diversified Funds invest in the NZ Share Fund (or its equivalent). The NZ Share Fund invests in companies and property trusts listed on the New Zealand stock exchange (NZX). The Growth Fund also has a limited allocation (maximum 2.5%) to unlisted securities issued by New Zealand companies with high growth potential (see page 19).

### Investment Objective

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

### Benchmark Index

The Benchmark is the Morningstar New Zealand Index published by Morningstar, or any replacement index with the agreement of the Supervisor.



## Australian Equity Portfolio

### Investment Policy

The Diversified Funds invest in the Vanguard Ethically Conscious Australian Shares Fund (or its equivalent). The Vanguard Ethically Conscious Australian Shares Fund invests in many of the largest companies and property trusts listed on the Australian Securities Exchange (ASX).

### Investment Objective

To track the Benchmark Index (defined below) return on a rolling 12 month basis before tax and fees.

### Benchmark Index

The Benchmark is the FTSE Australia Choice Index 65% hedged to the New Zealand dollar, or any replacement index with the agreement of the Supervisor.

### Hedging Policy

Returns from the Vanguard Ethically Conscious Australian Shares Fund are in Australian dollars. We implement forward exchange contracts to hedge 65% of the returns into New Zealand dollars.

## International Equity Portfolio

### Investment Policy

The Funds invest 65% in the Vanguard Ethically Conscious International Shares Index Fund - NZD Hedged and 35% in the Vanguard Ethically Conscious International Shares Index Fund which is unhedged. The Vanguard Ethically Conscious International Shares Index Funds provide investors with exposure to over 1,500 of the world's largest companies listed on the exchanges of the world's major developed economies.

### Investment Objective

To track the Benchmark Index return (defined below) on a rolling 12 month basis before tax and fees.

### Benchmark Index

The Benchmark Index is the FTSE Developed ex Australia Choice Index 65% hedged to the New Zealand dollar, or any replacement index with the agreement of the Supervisor.

### Hedging Policy

Returns from the Vanguard International Shares Select Exclusions Index Fund - NZD Hedged are fully hedged into New Zealand dollars by Vanguard. Returns from the Vanguard Ethically Conscious International Shares Index Fund are unhedged.



## First mortgage portfolio

### Investment Policy

The Diversified Funds invest in a wholesale unit trust named the First Home Mortgage Fund, which in turn 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%.

Our lending rate will be set at an appropriate level between the current rates of return available on short term money market instruments such as bank floating rate notes and term deposits, compared to the range of mortgage interest rates available at the registered NZ banks.

The rate will be reviewed after any change in the Reserve Bank of New Zealand official cash rate or if there are any significant changes in prevailing interest rates.

### Investment Objective

To generate a return 1.5% in excess of the Benchmark Index.

### Benchmark Index

The Benchmark Index is the Bloomberg NZBond Bank Bill Index, or any replacement index with the agreement of the Supervisor.

## Private Equity portfolio

### Investment Policy

The Growth Fund invests in a wholesale unit trust named the Private Equity Fund, which in turn invests either directly into unlisted New Zealand companies or via funds managed by Icehouse Ventures.

### Investment Objective

To generate long term (7 to 10 years) returns in excess of the returns available from listed equities. Investment values will be constantly monitored and confirmed monthly, but it is likely that revaluations will be infrequent.

### Benchmark Index

There is currently no suitable benchmark specifically for this asset class. We are treating it as a sub sector of the New Zealand equity portfolio, benchmarked against the Morningstar New Zealand Index.

## Property portfolio

### Investment Policy

The Growth Fund and the Balanced Fund invest in a wholesale unit trust named the Property Fund, which in turn invests into a company that develops and owns New Zealand residential property that is designed to be long term rental housing.

### Investment Objective

During the development stage the target return will recognise the development risk and exceed the long term return from listed New Zealand shares. Post development, the completed rented properties will target a return between New Zealand shares and government bonds, recognising the lower risk characteristics of residential property, while compensating investors for the associated illiquidity of the sector.

### Benchmark Index

We are treating this asset class as an unlisted New Zealand property investment for which there is currently no suitable benchmark.