



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

25 May 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 responsible investors

## Description of the Scheme

The Simplicity KiwiSaver Scheme (Scheme) is a KiwiSaver Scheme offering four investment options – the Default Fund, the Conservative Fund, the Balanced Fund, and the Growth Fund (the Funds). The Funds are designed to deliver a range of investment outcomes, recognising that individuals have different needs and risk tolerances.

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

Simplicity NZ Limited is a not for profit company, 100% owned by the Simplicity Charitable Trust. We donate 15% of the fees we charge to the Simplicity Charitable Trust, which chooses the charities that receive the donations.

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

[simplicity.kiwi](https://simplicity.kiwi)

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

## Purpose and Philosophy

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

We believe in investing responsibly. This means screening out specific industries and activities from all of our Funds (see page 8). It also means being an active shareholder where appropriate.

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 and having very low costs will earn 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 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 certain 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/private equities issued by New Zealand businesses with high growth potential. Management of this investment is split between Simplicity 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.

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 Fund is for its performance to be ranked in the top 20% of its respective KiwiSaver category after tax and fees over the medium to long term.

## Investment Policies

### Currency hedging

Our hedging policy is set using the average of the main KiwiSaver providers 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

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

Where a Fund is within 2.0% of the maximum or minimum permitted range of exposure to an asset class (as detailed in Schedules 1 to 4) 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 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 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. This approach allows for a consistent asset allocation through any market cycles that may occur over a member's investment timeframe.

## 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

No leverage is permitted at the Fund level. 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 Scheme invests into index funds managed by Vanguard that have a high level of diversification.

Where we manage a fund designed to generate a similar return to a particular market, the respective Investment Guidelines 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 investment option provides a diversified exposure to each asset class at an appropriate level for that options' label; Conservative, Balanced (which includes Default) or Growth.

While market risk varies for each of the funds, 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.

## **Credit Risk Management**

There will be a degree of credit risk in the New Zealand Cash, New Zealand Fixed Interest and International Fixed Interest portfolios in each of the investment options.

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.

A high proportion of the New Zealand Fixed Interest portfolio will be in New Zealand government stock. 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 750 securities (bonds) issued by governments, government related entities and companies 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 recognised international index issued by Bloomberg Barclays. The weighted average credit rating is AA-.

# Other Relevant Policies

## Environmental, Social and Governance Policies

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 breached 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.

## 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 Funds' targeted level of cash is 2% and we monitor this, in conjunction with the Administrator, on a daily basis. In all cases, the maximum cash balance before Funds must be invested in other asset classes is 10%.

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. Most authorised investments have a maximum 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 from time to time and are managed to ensure Scheme members' interests take priority at all times.

To manage potential and actual conflicts, 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 they are clearly disclosed by any person making decisions on behalf of Scheme members and mitigated to an acceptable level.



A Register of Interests is maintained by our Board of Directors and confirmed at each Board meeting. The Managing Director is responsible for notifying the chair of changes to staff interests. Continual disclosure of potential and actual 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://corporate.vanguard.com/content/corporatesite/us/en/corp/how-we-advocate/investment-stewardship/reports-and-policies.html>**

Where the securities are held directly, we will vote by proxy where it is in the best interests of Scheme members to do so. Voting decisions are made on a case by case basis. We intend to actively vote in line with the principles of good corporate governance. We may decide not to vote.

## Pricing/Valuation Policies

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

Where an investment is traded on financial markets, the Administrator will determine the valuation in accordance with the last market prices available at the valuation point. 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. A prudent provision for non-performing loans is also accounted for.

The Balanced Fund and the 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 in the final quarter of the year is included in the audit process.

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

The Growth Fund and Balanced Funds' investments into residential property

development are valued at cost plus an allowance for accrued interest on the funds provided. On completion the properties will be long term rental housing and will be revalued by a registered valuer.

## **Taxation Policy**

The Scheme is a Portfolio Investment Entity (PIE). Tax on investment income is calculated at each member's prescribed investor rate (currently either 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**

The performance of each asset class is monitored against its respective benchmark on a regular basis.

Performance is reported to the Supervisor monthly. A quarterly fund update is available on our website and current unit price information is available on our website daily.

## **Investment Strategy and SIPO Review**

### **Investment Strategy**

We believe our return objectives 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) and can be emotionally driven in times of market volatility.

The asset allocation of each Fund is set by determining the average strategic asset allocation to each asset class by the largest KiwiSaver providers for each risk category; conservative, balanced (which includes default) and growth. The most recently released data is used for the scheduled SIPO and asset allocation reviews.

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 other managers hold. 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%) equally between the New Zealand and international fixed interest asset classes.

## 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 appropriate, it can only be made following prior consultation with the Supervisor.

The most current version of the SIPO is available on the Scheme's register, which 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 Fund

The Conservative 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 Default, Balanced or Growth Funds, but the value of its investments are unlikely to fluctuate as much as the Default, Balanced or Growth 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 equities), no suitable externally managed index fund is currently available at a reasonable investment management fee.

For New Zealand bonds and shares the Fund therefore invests in funds managed by us to provide the respective market return. 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 5 on page 16.

## Schedule 2: Investment strategy for the Default Fund

The Default 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 Fund but higher than the Conservative Fund. At the same time the value of its investments is likely to fluctuate more than the Conservative Fund but is likely to be more stable than the Growth 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 equities), no suitable externally managed index fund is currently available at a reasonable investment management fee.

For New Zealand bonds and shares the Fund therefore invests in funds managed by us 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.

### Benchmark Asset Allocations and Ranges

Asset class	Benchmark Asset Allocation	Range
Cash and cash equivalen	2%	0% – 10%
New Zealand fixed interes	16.5%	6.5% – 26.5%
International fixed interes	22.5%	12.5% – 32.5%
<b>Total Income Assets</b>	<b>41%</b>	<b>31% – 51%</b>
New Zealand equities	15.5%	5.5% – 25.5%
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 5 on page 16.

## Schedule 3: Investment strategy for the Balanced Fund

The Balanced 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 Fund but higher than the Conservative Fund. At the same time the value of its investments is likely to fluctuate more than the Conservative Fund but is likely to be more stable than the Growth 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 equities), no suitable externally managed index fund is currently available at a reasonable investment management fee.

For New Zealand bonds the Fund invests in funds managed by us 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 a fund managed by us 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% – 4.5%
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 5 on page 16.

## Schedule 4: Investment Strategy for the Growth Fund

The Growth 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 Funds, but the value of its investments is likely to fluctuate more than the Balanced and Conservative 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 equities), no suitable externally managed index fund is currently available at a reasonable investment management fee.

For New Zealand bonds the Fund therefore invests in a fund managed by us 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 businesses 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%	33% – 53%
<b>Total Growth Assets</b>	<b>80%</b>	<b>70% – 90%</b>

### Authorised Investments

Authorised investments for each asset class are detailed in Schedule 5 on page 16.

# Schedule 5: Asset Class Investment Guidelines

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

## Cash and Cash Equivalent Portfolio

### Investment Policy

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

### Investment Objective

The objective 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 that the Cash portfolios of each Fund remain at all times within the following prudential limits:

Type of debt security	Maximum % with single issuer of debt security	Maximum % class of issuer of debt security
Cash on call at a registered New Zealand bank	100	100
New Zealand fixed interest	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 portfolios for each Fund 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 highly rated liquid bonds.

The 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

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

The portfolio of loans secured by first mortgages aims to generate a return 1.5% over its Benchmark Index return (see page 19).

### 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 with the agreement of the Supervisor.

The Benchmark for the portfolio of loans secured by first mortgages is the Bloomberg NZBond 90 day Bank Bill Index as calculated and published by Bloomberg, or any replacement index with the agreement of the Supervisor.

## International Fixed Interest Portfolio

### Investment Policy

The 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 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 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 Balanced Fund and Growth Fund also have a limited allocation (maximum 0.5% and 2.5% respectively) to unlisted securities issued by New Zealand companies with high growth potential (see page 19).

### Investment Objective

To generate a return in line with 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 Funds invest in the Vanguard Ethically Conscious Australian Shares Fund. The Vanguard Ethically Conscious Australian Shares Fund invests in approximately 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 into 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 Ethically Conscious International Shares 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 First Home Mortgage Fund 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 will invest 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 monitored and confirmed monthly.

### 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 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.