



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

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.

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	2	32	52
	7	7	7
	6	16	
	1.5	11.5	
	15.5	5.5	25.5
	23	3	33

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%
Total Income Assets	41%	31% – 51%
New Zealand equities	15.5%	5.5% – 25.5%
Australian equities	4.5%	0% – 14.5%
International equities	39%	29% – 49%
Total Growth Assets	59%	49% – 69%

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%
Total Income Assets	41%	31% – 51%
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%
Total Growth Assets	59%	49% – 69%

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%
Total Income Assets	20%	10% – 30%
New Zealand equities	18%	8% – 28%
Unlisted New Zealand property	3%	0% – 3%
Australian equities	6%	0% – 16%
International equities	53%	33% – 53%
Total Growth Assets	80%	70% – 90%

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.