



# NZ Funds

## Wealth Builder

## Income Generator

## Advised Portfolio Service

Statement of Investment  
Policy & Objectives

3 December 2021

# NZFunds

Transforming Wealth

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# 1. Description of the Portfolios

This Statement of Investment Policies and Objectives (SIPO) relates to the funds offered under the NZ Funds Advised Portfolio Service, NZ Funds Wealth Builder, and NZ Funds Income Generator. Together they are referred to throughout this document as Portfolios.

The Manager of the Portfolios is New Zealand Funds Management Limited (NZ Funds, our, us, or we). The supervisor of the Portfolios is The New Zealand Guardian Trust Company Limited (Supervisor). The Portfolios and the Product Disclosure Statement (PDS) under which they are offered is set out below.

PDS	Portfolio
NZ Funds Advised Portfolio Service	Core Cash Portfolio
	Core Income Portfolio
	Global Income Portfolio
	Core Inflation Portfolio
	Equity Inflation Portfolio
	Property Inflation Portfolio
	Core Growth Portfolio
	Global Equity Growth Portfolio
	Dividend and Growth Portfolio
NZ Funds Wealth Builder	NZ Funds Wealth Builder – Income Strategy
	NZ Funds Wealth Builder – Inflation Strategy
	NZ Funds Wealth Builder – Growth Strategy
NZ Funds Income Generator	NZ Funds Income Generator

The Portfolios are established within two managed investment schemes (each a Scheme) registered under the Financial Markets Conduct Act 2013 (FMC Act). The Core Inflation Portfolio and Equity Inflation Portfolio are established under the 'NZ Funds Managed Portfolio Service Part One' scheme, while all of the other Portfolios are established under the 'NZ Funds Managed Portfolio Service Part Two' scheme. This SIPO covers all of the Portfolios offered under both Schemes.

More information on each Portfolio is included in the relevant PDS. This document should be read together with the relevant PDS. Each PDS contains more information on the Portfolios. Terms used in this document are defined in the Glossary on page 12.

## 2. Philosophy and overview

NZ Funds is a wealth management specialist. We define wealth management as helping New Zealanders achieve their investment goals. We believe the most reliable way for New Zealanders to do this is by using an advised portfolio service.

Our approach to wealth management aims to provide investors with a financial strategy to achieve their investment goals and access to financial advice providers to help them make informed financial decisions. NZ Funds Private Wealth advisers, and the independent advisers we work with, help investors

create portfolios by allocating their investment among one or more Portfolios offered under the Advised Portfolio Service, Wealth Builder or Income Generator depending on the investor's objectives.

The Portfolios offered under the Advised Portfolio Service are grouped into four investment categories: Cash, Income, Inflation and Growth. Each category has an investor-orientated investment objective. While the objectives for each Portfolio in an investment category may be the same or similar, the assets which a Portfolio holds in order to meet the objectives will generally differ. This diversified approach to meeting investor-orientated investment objectives is designed to increase the reliability with which those objectives are met over time.

The Strategies offered under Wealth Builder are designed for individuals saving for retirement or a specific goal. Wealth Builder offers two ways to invest, using either Self Select or Life Cycle. Self Select offers investors the ability to determine their own asset allocation using the three Wealth Builder Strategies: Income, Inflation and Growth. Life Cycle automatically allocates investors across the three Wealth Builder Strategies each year based on their age.

Income Generator is designed for an investor seeking income from dividend payments who also wishes to have the volatility of dividend paying shares reduced. To achieve this, the Portfolio primarily invests in dividend paying New Zealand and Australian shares and uses options to seek to mitigate share market volatility.

Our goal is to ensure investors in our Portfolios own a diversified portfolio with downside mitigation where appropriate. Our active management approach seeks to maintain a balance between preserving investors' capital and growing their wealth over time in a way that is consistent with each Portfolio's objective. It also seeks to ensure that over the economic cycle, investors who own a range of different Portfolios are exposed to both active and passively managed investments and have their investment across New Zealand and international investment markets.

Our active investment management approach means that the assets held by the Portfolios may be quite different from those held under a passive investment management approach, and the nature and composition of those actively managed assets may change markedly over time.

In certain market environments, a passive approach may generate better investment returns than an active approach, and vice versa. The risk inherent in each style may also differ, depending on the investment techniques used by an investment manager.

We believe that an active investment management approach enables us to invest across a broader range of assets and investment styles than a passive approach. It also enables us to position the Portfolios quite differently to the broader market, both in terms of assuming risk and seeking to mitigate risk.

In applying our active investment management approach, we seek to manage risk by investing across a broad range of assets and investment styles. We invest predominantly in instruments with known liquidity, enabling us to increase or reduce position sizes efficiently. We also employ a number of different techniques that seek to limit the extent to which the Portfolios may endure losses.

As a consequence of that active management approach, the Portfolios will regularly exhibit investment performance characteristics that are quite different to those of a passively managed fund. We expect that those different performance characteristics will be evident during both rising and falling markets.

### 3. Portfolio approach

#### Use of the Portfolios

The Portfolios offered under the Advised Portfolio Service are designed to be used in combination and not as stand-alone investments. All Portfolios are intended to be used in conjunction with a financial advice provider and are designed for investors saving for retirement or for a specific goal, or who are in retirement.

We strongly encourage investors to work with a financial advice provider to develop a financial plan and a corresponding investment portfolio specific to their goals, investing timeframe and attitude towards risk, and to regularly review their financial plan and investment portfolio with their financial advice provider.

The Strategies offered under Wealth Builder are designed to be used either in combination or as stand alone investments. Wealth Builder also offers a life cycle investment option which automatically allocates investors across the three Wealth Builder Strategies each year based on their age.

Income Generator has been designed as a stand-alone investment. However, NZ Funds recommends investors seek financial advice as to whether it is appropriate for them.

#### Portfolio objectives generally

The Portfolios are designed and managed to seek to meet investor orientated objectives rather than to solely meet or exceed the returns of a single asset class index, such as New Zealand bonds or global shares.

#### Investment guidelines

We maintain internal investment guidelines which are used in the oversight of the Portfolios. These guidelines are designed to ensure the Portfolios invest in accordance with their investment objective and timeframe.

The guidelines set out the ranges within which each Portfolio will usually (but not always) invest in each authorised asset class, and also address other investment matters such as the ability of a Portfolio to use derivatives to create leverage and the level of liquidity that a Portfolio will target.

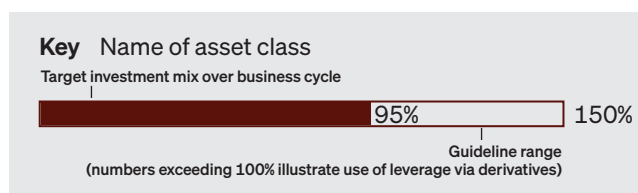
#### Investment options

The table on pages 5, 6 and 7 sets out the investment objective and strategy, authorised asset classes, target investment mix, and minimum suggested investment timeframe for each Portfolio. The Portfolios may invest in authorised asset classes in any proportion. The authorised asset classes and the guideline ranges for each Portfolio are also shown in the table.

Our use of derivatives in the Portfolios and market movements may result in the proportion invested in an authorised asset class exceeding the guidelines shown in the table from time to time.

Where the upper percentage of a guideline range exceeds 100% this indicates that NZ Funds is expected to regularly use derivatives to create leverage to increase the exposure to an authorised asset class beyond 100%. Showing a target investment mix of 100% or less for an authorised asset class does not mean derivatives will not be used.

The target investment mix shown for each Portfolio (being the dark coloured portion of the band for each asset class) is anticipated only and the actual asset allocation is expected to vary significantly for Portfolios, within the indicated band, over the course of an economic cycle.



The exceeding of an investment guideline, or a deviation from the target investment mix for a Portfolio, does not amount to a limit break under this Statement of Investment Policy & Objectives (SIPO). However, the purchase of an unauthorised asset class constitutes a SIPO limit break.

#### Income Generator

In addition to the above, the specific objective of Income Generator is to provide a source of income and return by primarily investing in dividend paying shares and derivatives including options. It is anticipated that the Portfolio will purchase predominantly dividend paying shares and buy put options to limit the downside. To fund the purchase of put options, the Portfolio may write call options. The levels at which the options are implemented will be dependent on market conditions and NZ Funds' investment view.

The target allocation is for 100% of the shares in the Portfolio to have put options to limit the downside. However, the target hedging level may vary over the course of an economic cycle dependent on market conditions and NZ Funds' investment view.

#### Wholesale investment structure

The Portfolios currently invest in a series of wholesale trusts managed by NZ Funds which hold investments. The investments may include directly held securities and/or investments in funds, managed by NZ Funds or specialist investment managers chosen by NZ Funds.

The wholesale trust investment structure provides operational and administrative efficiencies. This investment structure means that a review of a Portfolio's investments will mainly occur at the wholesale trust level, having regard to the Portfolio's objective and timeframe. The Portfolios may also invest directly in cash and cash equivalents, shares, bonds, derivatives and other assets.

## Income Generator Portfolio

Name	Objective	Portfolio summary, authorised asset classes and target investment mix <sup>1</sup>	Minimum suggested timeframe
Income Generator	To provide a source of income and return by primarily investing in dividend paying shares; and derivatives including options.	<p>Anticipated to mainly own and trade New Zealand and Australian shares; and derivatives including options, and other authorised asset classes over the minimum suggested investment timeframe.</p> <p>Cash and cash equivalents 5% 100%</p> <p>Australasian equities 85% 150%</p> <p>Listed property 10% 50%</p> <p>New Zealand fixed interest 0% 50%</p> <p>International fixed interest 0% 100%</p> <p>International equities 0% 50%</p> <p>Alternative securities<sup>2</sup> 0% 50%</p>	5 years+

## Wealth Builder Strategies

Name	Objective	Portfolio summary, authorised asset classes and target investment mix <sup>1</sup>	Minimum suggested timeframe
Income Strategy	To generate income by investing in a range of income producing assets and other assets in a way that seeks to mitigate the downside through active management.	<p>Anticipated to mainly own and trade New Zealand, Australian and international bonds and other authorised asset classes over the minimum suggested investment timeframe.</p> <p>Cash and cash equivalents 8% 50%</p> <p>New Zealand fixed interest 45% 100%</p> <p>International fixed interest 47% 100%</p> <p>Alternative securities<sup>2</sup> 0% 50%</p>	2 years+
Inflation Strategy	To mitigate the impact of inflation on your investment over the medium and/or long term through active management.	<p>Anticipated to mainly own and trade New Zealand, Australian and international bonds and shares and other authorised asset classes over the minimum suggested investment timeframe.</p> <p>Cash and cash equivalents 5% 50%</p> <p>New Zealand fixed interest 12% 50%</p> <p>International fixed interest 13% 50%</p> <p>Australasian equities 29% 100%</p> <p>International equities 38% 100%</p> <p>Listed property 3% 50%</p> <p>Commodities 0% 50%</p> <p>Alternative securities<sup>2</sup> 0% 50%</p>	5 years+
Growth Strategy	To grow your investment over the long term through active management.	<p>Anticipated to mainly own and trade New Zealand, Australian and international shares and/or hedge funds and other authorised asset classes over the minimum suggested investment timeframe.</p> <p>Cash and cash equivalents 5% 50%</p> <p>Australasian equities 25% 100%</p> <p>International equities 67% 150%</p> <p>Listed property 3% 50%</p> <p>New Zealand fixed interest 0% 50%</p> <p>International fixed interest 0% 100%</p> <p>Commodities 0% 100%</p> <p>Alternative securities<sup>2</sup> 0% 50%</p>	10 years+

1. Where the upper limit of the band exceeds 100% this indicates that NZ Funds is expected to regularly use leverage (via derivatives and/or other instruments). Showing a target investment mix of 100% or less for an authorised asset class does not mean leverage will not be used. Monthly updates of the actual investments held by each Portfolio are available on the Performance page of our website at [www.nzfunds.co.nz](http://www.nzfunds.co.nz). 2. Alternative securities are investments not usually accessed by retail investors, for example hedge funds or digital assets.

## Advised Portfolio Service Portfolios

Name	Objective	Portfolio summary, authorised asset classes and target investment mix <sup>1</sup>	Minimum suggested timeframe
<b>Core Cash Portfolio</b>	To provide a source of capital.	<p>Anticipated to mainly own and trade cash and cash equivalents, and other authorised asset classes over the minimum suggested investment timeframe.</p> <p>Cash and cash equivalents 100%</p> <p>New Zealand fixed interest 0%</p> <p>International fixed interest 0%</p>	1 month+
<b>Core Income Portfolio</b>	To generate income by investing in a range of income producing assets and other assets in a way that seeks to mitigate the downside through active management.	<p>Anticipated to mainly own and trade New Zealand and Australian bonds, and other authorised asset classes over the minimum suggested investment timeframe.</p> <p>Cash and cash equivalents 10% 50%</p> <p>New Zealand fixed interest 90% 100%</p> <p>International fixed interest 0% 100%</p> <p>Alternative securities<sup>2</sup> 0%</p>	2 years+
<b>Global Income Portfolio</b>	To generate income by investing in a range of income producing assets and other assets in a way that seeks to mitigate the downside through active management.	<p>Anticipated to mainly own and trade international bonds, and other authorised asset classes over the minimum suggested investment timeframe.</p> <p>Cash and cash equivalents 5% 50%</p> <p>International fixed interest 95% 100%</p> <p>New Zealand fixed interest 0% 100%</p> <p>Australasian equities 0% 50%</p>	2 years+
<b>Core Inflation Portfolio</b>	To mitigate the impact of inflation on your investment over the medium and/or long term through active management.	<p>Anticipated to mainly own and trade New Zealand, Australian and international bonds, and New Zealand and Australian shares, and other authorised asset classes over the minimum suggested investment timeframe.</p> <p>Cash and cash equivalents 5% 50%</p> <p>New Zealand fixed interest 12% 50%</p> <p>International fixed interest 13% 50%</p> <p>Australasian equities 64% 150%</p> <p>Listed property 6% 50%</p> <p>International equities 0% 100%</p> <p>Commodities 0% 50%</p> <p>Alternative securities<sup>2</sup> 0% 50%</p>	5 years+
<b>Equity Inflation Portfolio</b>	To mitigate the impact of inflation on your investment over the medium and/or long term through active management.	<p>Anticipated to mainly own and trade New Zealand, Australian and international bonds, and international shares, and other authorised asset classes over the minimum suggested investment timeframe.</p> <p>Cash and cash equivalents 5% 50%</p> <p>New Zealand fixed interest 12% 50%</p> <p>International fixed interest 13% 50%</p> <p>International equities 70% 100%</p> <p>Australasian equities 0% 50%</p> <p>Listed property 0% 50%</p> <p>Commodities 0% 50%</p> <p>Alternative securities<sup>2</sup> 0% 50%</p>	5 years+
<b>Property Inflation Portfolio</b>	To mitigate the impact of inflation on your investment over the medium and/or long term through active management.	<p>Anticipated to mainly own and trade New Zealand, Australian and international bonds, and property and infrastructure shares, and other authorised asset classes over the minimum suggested investment timeframe.</p> <p>Cash and cash equivalents 5% 50%</p> <p>New Zealand fixed interest 12% 50%</p> <p>International fixed interest 13% 50%</p> <p>Listed property 70% 100%</p> <p>Australasian equities 0% 50%</p> <p>International equities 0% 50%</p> <p>Commodities 0% 50%</p> <p>Alternative securities<sup>2</sup> 0% 50%</p>	5 years+

1. Where the upper limit of the band exceeds 100% this indicates that NZ Funds is expected to regularly use leverage (via derivatives and/or other instruments). Showing a target investment mix of 100% or less for an authorised asset class does not mean leverage will not be used. Monthly updates of the actual investments held by each Portfolio are available on the Performance page of our website at [www.nzfunds.co.nz](http://www.nzfunds.co.nz). 2. Alternative securities are investments not usually accessed by retail investors, for example hedge funds or digital assets.

Name	Objective	Portfolio summary, authorised asset classes and target investment mix <sup>1</sup>	Minimum suggested timeframe
Core Growth Portfolio		<p>Anticipated to mainly own and trade hedge funds and/or international shares, and other authorised asset classes over the minimum suggested investment timeframe.</p> <p>Cash and cash equivalents 5% 50%</p> <p>International equities 95% 150%</p> <p>New Zealand fixed interest 0% 50%</p> <p>International fixed interest 0% 100%</p> <p>Australasian equities 0% 100%</p> <p>Listed property 0% 50%</p> <p>Commodities 0% 100%</p> <p>Alternative securities<sup>2</sup> 0% 50%</p>	10 years+
Global Equity Growth Portfolio	To grow your investment over the long term through active management.	<p>Anticipated to mainly own and trade international shares, and other authorised asset classes over the minimum suggested investment timeframe.</p> <p>Cash and cash equivalents 5% 50%</p> <p>International equities 95% 150%</p> <p>New Zealand fixed interest 0% 50%</p> <p>International fixed interest 0% 100%</p> <p>Australasian equities 0% 50%</p> <p>Listed property 0% 50%</p> <p>Commodities 0% 100%</p> <p>Alternative securities<sup>2</sup> 0% 50%</p>	10 years+
Dividend and Growth Portfolio		<p>Anticipated to mainly own and trade New Zealand and Australian shares, and other authorised asset classes over the minimum suggested investment timeframe.</p> <p>Cash and cash equivalents 5% 50%</p> <p>Australasian equities 85% 150%</p> <p>Listed property 10% 50%</p> <p>New Zealand fixed interest 0% 50%</p> <p>International fixed interest 0% 100%</p> <p>International equities 0% 50%</p>	10 years+

## 4. Investment approach

### Active management

NZ Funds takes an active approach to managing each Portfolio. Our active management approach is designed to enable us to better meet the investor-orientated objectives of each Portfolio and to take advantage of investment opportunities as they arise.

Our active management approach means that we make ongoing investment decisions, search for emerging opportunities, buy or sell securities we deem appropriate, and use sophisticated investment instruments and techniques (used by other managers who manage money in similar ways to us) in seeking to achieve the investment objective of each Portfolio.

### Dynamic allocations

As part of our active management approach, each Portfolio's asset allocation is dynamic (able to change over time) rather than strategic (a fixed allocation over time).

Each Portfolio has a target investment mix which represents the long term target asset allocation for that Portfolio. NZ Funds considers variances from the target investment mix should opportunities present to enhance returns or mitigate downside over the short to medium term. We regularly review the target investment mix for each of the Portfolios to ensure that they continue to represent the long term investor-orientated objectives of each Portfolio.

NZ Funds' Investment team selects each Portfolio's asset allocation at any time based on their investment knowledge and/or research, and considering each Portfolio's investment objective and timeframe.

Securities, currencies, commodities, derivatives and specialist investment managers can be used (where included in the

authorised asset classes for a Portfolio) to achieve a desired Portfolio asset allocation.

The way we implement our active management approach may change over time as, for example, the nature of the investment opportunities we see changes. This may result in the Portfolios being constructed with different combinations of investments. To allow these changes to occur, each Portfolio has a wide mandate.

### Active risks

Our active management approach and wide mandates mean an investment in the Portfolios is subject to different risks (which may be considered higher risks) than a non-active (or passive) management approach. As a result, our active management approach may cause the returns and capital stability of a Portfolio to vary significantly from the returns and capital stability of the underlying asset classes used.

### Wide mandates

All Portfolios have wide investment mandates. This means that while there may be long-term target asset allocations for Portfolios, in managing each Portfolio, NZ Funds can take a wide range of actions and is not constrained by a benchmark or target. The actions we may take include (but are not limited to):

- altering the proportion invested in each security or asset class;
- altering the manner in which a Portfolio is exposed to each security or asset class;
- investing directly or indirectly;
- using derivatives and leverage;
- using collective investment vehicles;

<sup>1</sup> Where the upper limit of the band exceeds 100% this indicates that NZ Funds is expected to regularly use leverage (via derivatives and/or other instruments). Showing a target investment mix of 100% or less for an authorised asset class does not mean leverage will not be used. Monthly updates of the actual investments held by each Portfolio are available on the Performance page of our website at [www.nzfunds.co.nz](http://www.nzfunds.co.nz). <sup>2</sup> Alternative securities are investments not usually accessed by retail investors, for example hedge funds or digital assets.

- using specialist investment managers (including hedge funds);
- using commodities and alternative assets (including digital assets, such as cryptocurrencies);
- taking foreign currency positions;
- applying hedging; or
- taking short positions.

## Investment managers

NZ Funds may select specialist investment managers (including hedge funds) where we consider that the manager's investment approach will help meet the objectives of each Portfolio.

Specialist investment managers can complement our own investment skills and can provide investors with access to diverse investment approaches.

The appointment of specialist investment managers is subject to due diligence and an approval process. In addition, all specialist investment managers are subject to monitoring and review including consideration of their performance, portfolio composition, and statistical measures of effectiveness.

The specialist investment managers may change over time as part of our active management approach. The managers NZ Funds currently work with can be found on our website at [www.nzfunds.co.nz](http://www.nzfunds.co.nz).

## Derivatives

NZ Funds uses derivatives in managing the Portfolios to seek to both increase returns (by taking active positions) and reduce risk (by taking hedge positions). One way in which we use derivatives is to create leverage. This is where the investment in a derivative can produce the same gain or loss as a much larger investment in the underlying asset itself. The use of leverage may increase the chance of loss.

The use of leverage is managed through NZ Funds' active management approach and through the processes and policies surrounding our investment guidelines.

The investment guidelines include estimates of the leverage that may be created by the use of derivatives in each authorised asset class. However, leverage is only used in seeking to achieve each Portfolio's investment objective.

## Foreign currency

NZ Funds actively manages the foreign currency exposure for each Portfolio. Where a Portfolio holds assets denominated in a foreign currency, we have the choice of whether to hedge back to the New Zealand dollar or retain a foreign currency exposure. Irrespective of whether a Portfolio holds investments in that currency, a Portfolio can also take active foreign currency positions by investing in non-New Zealand dollar cash or foreign currency derivatives. The foreign currency exposure for each Portfolio is set out in its Quarterly Fund Update.

# 5. Investment process

## Collaborative process

We take a collaborative approach to investment management and believe investment performance is a collectively achieved outcome. Each Portfolio is assigned one or more portfolio managers who are responsible for overseeing the daily management of the Portfolio.

Investment decisions, with some exceptions, are primarily made through a series of internal investment meetings attended mainly by members of NZ Funds' Investment and Compliance teams. These meetings enable portfolio managers and investment analysts to present investment research and thinking in a way that encourages wide participation in, and peer review of, investment decisions.

Not all investment decisions follow the same investment process. For example, trading derivatives may require investment individuals to react quickly and autonomously. NZ Funds has a process to monitor and record such decisions when they occur.

## Tools and techniques

In managing the Portfolios, NZ Funds uses a wide range of investment tools and techniques including economic and financial modelling, quantitative screens and technical indicators. In using these tools and techniques, we may consider, amongst other factors, investment themes, valuation metrics, mean reversion and/or momentum.

In seeking to mitigate the downside, we may invest with specialist investment managers, some of which have the potential to profit from asset price declines, such as trend following managers, managers who take short positions in shares, and derivative and option specialists.

We may also actively reduce a Portfolio's exposure to an asset class, or hedge a Portfolio's exposure by investing in one or more additional asset classes with the potential to offset the returns of the Portfolio's initial assets.

While designed to mitigate the downside, these downside-orientated managers, tools and techniques may not be successful in mitigating the downside and may instead add to a Portfolio's losses.

We may also use the same tools and techniques to seek to enhance the returns of a Portfolio and, in doing so, the Portfolio may be leveraged.

As part of our active management, asset classes, securities and specialist investment managers are selected based on our analysis of those assets which will, in our opinion, in combination with the Portfolio's other investments, help achieve the Portfolio's objectives.

In constructing the Portfolios, we consider different scenarios and may project how investments may react in those scenarios. We may also consider historical volatility and correlations during both normal and stressed investment environments and may periodically revisit the assumptions used as economic and market conditions change.



## Responsible investment

NZ Funds has adopted a responsible investment policy. NZ Funds believes that environmental, social and governance (ESG) factors are material to long-term investment returns and global sustainability. NZ Funds' Investment team considers ESG matters. NZ Funds has contracted with an independent third party expert to provide ESG research. NZ Funds' Investment team may supplement independent third party ESG research with its own internally generated research.

NZ Funds' Investment team aims to ensure that no Portfolio or wholesale trust it manages owns securities issued by a company identified by its ESG research to be:

- directly involved in the manufacture or deployment of nuclear weapons;
- directly involved in the manufacture or deployment of controversial weapons (cluster munitions, anti-personnel mines, chemical weapons);
- materially contravening global norms (human rights abuses, labour rights violations, child labour, slavery, environmental destruction, corruption);
- a producer of civilian firearms;
- a producer of tobacco-related products;
- a producer of pornography;
- engaged in unsustainable palm oil production;
- a producer of alcohol (10% or more of revenue);
- a producer of armaments (10% or more of revenue);
- a provider of gambling services (10% or more of revenue);
- engaged in exploration or production of fossil fuels (10% or more of revenue);
- engaged in power generation from fossil fuels (10% or more of revenue);
- engaged in providing services to the fossil fuels industry (50% or more of revenue); or
- engaged in distributing fossil fuels (50% or more of revenue).

These are referred to as exclusions. NZ Funds' Investment team communicates the responsible investment policy to specialist investment managers. Where a specialist investment manager is appointed to manage a discrete mandate (where NZ Funds is the only investor) the investment manager will be instructed to follow NZ Funds' exclusions.

Where a specialist investment manager is appointed to manage a pooled mandate (where NZ Funds is one of many investors), the manager will be requested to consider NZ Funds' exclusions. Investors should be aware that NZ Funds cannot obligate the manager of a pooled mandate to follow NZ Funds' exclusions. As part of its due diligence process when appointing a specialist investment manager, NZ Funds will consider the manager's approach to responsible investing.

NZ Funds' responsible investment policy does not apply exclusions to derivatives as we believe they are not tied to any source or method of production, nor in our view do they provide funding to underlying excluded activities. As at 23 November 2021, derivatives made up approximately 34.25% of the total funds managed by NZ Funds.

The responsible investment policy is supported by a procedure that regularly monitors direct holdings, including those managed by specialist investment managers appointed to manage discrete mandates. If the procedure identifies any holdings that are not in line with the policy, they will be sold.

Exemptions to the responsible investment policy may be granted from time to time at the discretion of the NZ Funds Board.

As at the date of this SIPO, the NZ Funds Board has granted the following current exemptions to the responsible investment policy:

- Contact Energy was granted an exemption from exclusion on 14 July 2020. The security would ordinarily be excluded due to power generation from fossil fuels (10% or more of revenue). As at 23 November 2021, Contact Energy makes up approximately 1.34% of the total funds that NZ Funds manages. An exception was granted because of Contact Energy's industry-leading commitment and strategy to decarbonise New Zealand's energy sector.
- LVMH Moët Hennessey Louis Vuitton was granted an exemption from exclusion on 14 July 2020. The security would ordinarily be excluded as a producer of alcohol (10% or more of revenue). As at 23 November 2021, LVMH Moët Hennessey Louis Vuitton makes up approximately 0.12% of the total funds that NZ Funds manages. An exception was granted because, following the acquisition of Tiffany & Co, the forecast percentage of revenue from alcohol is now less than the 10% threshold.

## 6. Investment oversight

### Overview

We have policies, procedures and controls that cover the investment function. Investment management decisions are subject to daily transparency through our proprietary investment monitoring system. Regular meetings are held to cover investment research and portfolio management, investment guidelines, SIPO compliance, and overall investment governance.

Our investment strategy review process commences with the Research & Portfolio Meeting which includes oversight of security research and portfolio management. The minutes of these meetings are tabled at the Investment Committee meeting.

The Investment Guidelines Meeting monitors compliance with the internal investment guidelines (see below for more information on the role of the investment guidelines). Any material matters arising from these meetings are raised at the Investment Committee meeting.

The Investment Committee meets regularly on scheduled dates to review investment matters including investment performance, risk indicators, the investment component of NZ Funds' risk register, investment counterparty risk, liquidity risk, redemption risk, stress testing, and the minutes of internal investment related meetings. Special meetings are also held on an as required basis. The Investment Committee minutes are included as a standing item at the NZ Funds Board meeting.

The NZ Funds Board meets regularly on scheduled dates. Special Board Meetings to discuss specific matters are held on an as required basis. In addition to the Investment Committee minutes and associated reports, the NZ Funds Board reviews NZ Funds' risk register overview which summarises the major risks and controls (including those related to investment management). The NZ Funds Board also receives a direct report from the Chief Investment Officer at each meeting.

## **Investment guidelines**

We maintain internal investment guidelines which are used in the oversight of the Portfolios. These guidelines are designed to ensure the Portfolios invest in accordance with their investment objective and timeframe.

The guidelines set out the ranges within which each Portfolio will usually (but not always) invest in each authorised asset class, and also address other investment matters such as the ability of a Portfolio to use leverage and the level of liquidity that a Portfolio will target. The internal investment guidelines can be exceeded from time to time over the course of an economic cycle.

The exceeding of an investment guideline, or a deviation from the target investment mix for a Portfolio does not amount to a limit break under this SIPO. However, the purchase of an unauthorised asset class constitutes a SIPO limit break.

Guidelines, and any changes to them, must be approved by the Investment Committee and ratified by the NZ Funds Board.

## **Investment performance**

The Investment Committee is responsible for monitoring and reviewing investment performance and reports to the NZ Funds Board. Portfolio performance is monitored through our proprietary investment monitoring system. The system generates a daily attribution report which includes daily, month to date and year to date performance reports for each Portfolio and individual investments held by each Portfolio.

Performance is measured on an absolute basis (after fees), and on a relative basis (before fees) against term deposits and one or more, or a combination of, relevant market indices. Investment performance is also considered from a client perspective by taking recommended portfolio allocations into account when assessing performance outcomes.

# **7. Investment policies**

We have investment policies and procedures to support our investment governance framework. The key policies are summarised below. Each of these policies and any material changes to them (except where otherwise noted) are approved by the relevant Board subcommittee and ratified by the NZ Funds Board.

The policies are set by the relevant subcommittee and where applicable approved by the NZ Funds Board. The policies are implemented by the relevant functional team(s) and monitored by NZ Funds' Compliance team.

## **Trade allocation policy**

Our trade allocation policy applies to the trading of securities that are directly managed by us. It requires that when allocating trades, no Portfolio receives preferential treatment over another by requiring that all trades involving more than one Portfolio be allocated on a predetermined basis.

## **Trade execution policy**

Our trade execution policy applies to the trading of securities that are directly managed by us. It requires that all trades are made with approved counterparties.

## **Investment guidelines policy**

Our investment guidelines policy applies to the administration and monitoring of the authorised asset classes set out in this SIPO and the guidelines set out in the investment guidelines.

The policy requires that all Portfolios are managed within the limits set out in this SIPO and the investment guidelines, and describes the process for changing these limits. It also describes the internal process for dealing with a SIPO limit break or investment guideline being exceeded.

## **Settlement & cash management policy**

Our settlement and cash management policy applies to the settlement of investments and cash management transactions made by us. It requires that all settlement and cash management transactions comply with the Trust Deeds and internal investment guidelines, and are authorised for payment by a person with the appropriate level of authority.

## **Valuation & pricing policy**

Our valuation and pricing policy applies to the valuation and pricing of the Portfolios and the wholesale trusts that the Portfolios invest in. It requires that valuation and pricing is accurate, equitable and complies with the Trust Deeds. The policy sets out procedures for the valuation of assets and determination of unit prices.

We have also established procedures for reporting and resolving any pricing errors or non-compliance with pricing methodologies and receives an annual audit as required under the Trust Deeds governing the Portfolios.

## **Conflicts of interest policy**

Our conflicts of interest policy applies to the identification and management of actual or potential conflicts of interest. It requires that all conflicts of interest be reported to NZ Funds' Compliance team and managed in an appropriate manner.

The policy is complemented by our personal holdings policy (which contains restrictions on employees holding or trading in securities) and our related party transactions policy (discussed below).

The conflicts of interest policy is approved by the NZ Funds Board and any material changes require the approval of the NZ Funds Board.

## Responsible investment policy

Our responsible investment policy applies to the selection of securities for the Portfolios and requires that the investment research and management process considers ESG matters.

The policy requires that no fund managed by NZ Funds, and no discrete mandate managed on our behalf by a specialist investment manager, will hold securities issued by any company identified by our ESG research to be in breach of the ESG criteria, discussed in more detail on page 9. It also requires that the policy be communicated to the specialist investment managers appointed to manage pooled mandates, where we are one of many investors, while acknowledging that we cannot obligate these managers to comply with the policy.

## Related party transactions policy

Our related party transactions policy applies to all related party transactions (as defined in the FMC Act). The policy sets out processes for identifying related party transactions and ensures that these transactions are conducted in accordance with the rules on related party transactions that apply to managed investment schemes under the FMC Act.

## Derivatives policy

Our derivatives policy applies to investments in derivatives. It considers derivatives to be part of the asset class of the relevant underlying assets and requires that we consider the complexity, liquidity risks, counterparty risks and price transparency of them as part of the investment decision-making process.

## Liquidity policy

Our liquidity policy applies to the selection of securities for the Portfolios. It imposes restrictions on holding certain amounts of securities that are, or may be, illiquid.

## Market conduct policy

Our market conduct policy applies to the trading of securities directly managed by us and the trading of units or shares in collective investment vehicles, irrespective of whether they are listed or not. It also applies to making or disseminating statements. The policy requires that non-public information known by one of our employees must be notified to the NZ Funds' Compliance team who may place a trading halt on a security or Portfolio.

## 8. Market indices

In the Quarterly Fund Updates, we are required to report performance against an appropriate market index or indices. The relevant market indices for each Portfolio are set out in the Appendix. In the Quarterly Fund Updates the returns of these indices are reported gross, without the deduction of any fees or tax which would, in normal circumstances, be deducted from investor returns.

For Income Generator there is no appropriate market index to measure its performance against. We have therefore chosen to use a peer group index to measure its performance against in the Quarterly Fund Updates.

We may change the market indices (or peer group index) at any time and without notice to investors, as long as the requirements of the FMC Act are met. For more information on the market indices (or peer group index), see the relevant 'Other Material Information' document on the offer register at [disclose-register.companiesoffice.govt.nz](https://disclose-register.companiesoffice.govt.nz).

## 9. SIPO review

The NZ Funds Board is responsible for this SIPO and ensuring that this SIPO is followed. This SIPO is reviewed by the NZ Funds Board annually. Ad hoc reviews will occur where there is a material change in the investment policy or objectives of a Portfolio, where there is a material change to the PDS, or where considered appropriate by the Investment Committee or the NZ Funds Board.

We may make changes to the SIPO at any time after consulting with the Supervisor. A description of any material changes will be included in each Scheme's annual report. Where required by the relevant Trust Deed or law, investors will receive notice of material changes before they occur.

This SIPO takes effect from 3 December 2021. The current version of this SIPO is available on the scheme register at [disclose-register.companiesoffice.govt.nz](https://disclose-register.companiesoffice.govt.nz).

## 10. Glossary

Term	Definition
Active management	A portfolio management approach where the investment manager makes specific investment decisions with the goal of outperforming a benchmark index or target return.
Advised Portfolio Service Portfolios	The Portfolios offered under the NZ Funds Advised Portfolio Service PDS.
Alternative securities	Asset classes not usually accessed by retail investors, for example, private equity, venture capital, hedge funds and digital assets (such as cryptocurrencies). These tend to be asset classes where valuation and liquidity may be uncertain and returns may be volatile. Includes derivatives on alternative securities.
Asset class	<p>These are the available asset classes that the Portfolios may invest in depending on their investment mandate. The Portfolios can purchase the assets either directly, or indirectly through derivatives. Not all Portfolios can invest in all asset classes. The asset classes are:</p> <ul style="list-style-type: none"> <li>• Cash and cash equivalents</li> <li>• New Zealand fixed interest</li> <li>• International fixed interest</li> <li>• Australasian equities</li> <li>• International equities</li> <li>• Listed property</li> <li>• Commodities</li> <li>• Alternative securities</li> </ul> <p>The above asset classes are from the Financial Markets Conduct Regulations 2014 (Regulations), except for 'alternative securities' which falls under 'Other' in the Regulations. These are the same asset classes used in the Quarterly Fund Updates.</p>
Australian bonds	Debt securities issued in Australia and derivatives on Australian bonds. For regulatory and Quarterly Fund Update purposes, debt securities issued in Australia are classified as 'international fixed interest'.
Australasian shares/equities	Shares listed on New Zealand or Australian stock exchanges and derivatives on New Zealand or Australian shares.
Cash and cash equivalents	Cash, or other assets that can be readily converted into cash, including bank term deposits and short term debt securities.
Commodities	A product which is, for example, agricultural, mineral or energy related, and is interchangeable with another product of the same type, and which may be bought or sold directly or indirectly through derivatives or an exchange traded fund.
Cryptocurrencies	Forms of currency that only exist digitally and that usually have no central issuing or regulating authority but instead use a decentralised system to record transactions and manage the issue of new units. Cryptocurrencies also include derivatives on cryptocurrencies. Examples of cryptocurrencies are Bitcoin and Ethereum.
Debt securities	Securities issued by an entity to enable it to borrow money. Debt securities cover a wide range of issuing entities and security types. Debt securities include (but are not limited to) corporate and government bonds, loans, floating rate securities and zero-coupon bonds. Includes derivatives on debt securities.
Derivatives	Financial instruments the value of which are derived from changes in the value of another asset or asset class (for example, a share market index, a commodity, a bond, or a currency). Examples of derivatives include futures, options, forwards, swaps and swaptions. Where an asset class is a permitted class, derivatives on that asset class are also permitted.
Digital assets	Anything that exists in a digital form which is self-contained, uniquely identifiable and has perceived value or the ability to be used (e.g. cryptocurrencies).
Growth assets	Investments where the return is expected to be made up predominantly of capital gains and losses over the investment period and/or investments where the expected yield or return on capital is relatively high. Shares are usually referred to as growth assets. Growth assets can include derivatives.

<b>Term</b>	<b>Definition</b>
Hedge funds	Alternative investment vehicles generally only available to institutional and other sophisticated investors. Hedge funds typically have an absolute performance objective. They can invest in a wide variety of assets and use non-traditional investment techniques (for example, short selling, leverage, arbitrage and derivatives).
Income assets	Investments where the return is expected to be made up predominantly of interest income. Cash and cash equivalents and debt securities are usually referred to as income assets. Income assets can include derivatives.
Income Generator	The Portfolio offered under the NZ Funds Income Generator PDS.
Infrastructure shares/equities	Shares in transportation, communication, utility and other infrastructure companies. Includes derivatives on infrastructure shares/equities.
International bonds	Debt securities issued outside New Zealand and Australia, including derivatives on international bonds. For regulatory and Quarterly Fund Update purposes, all debt securities issued outside New Zealand are classified as 'international fixed interest'.
International shares/equities	Shares listed on stock exchanges (other than New Zealand or Australian stock exchanges) and derivatives on international shares. International shares also include collective investment vehicles which invest in international shares including equity long/short hedge funds.
Investment Committee	The NZ Funds Investment Committee which is a sub-committee of the NZ Funds Board.
Listed property	Shares/equities listed on stock exchanges which own or invest in property, buildings or land, and derivatives on listed property.
Net asset value	The value of the assets of a Portfolio, less any liabilities.
New Zealand bonds	Debt securities issued in New Zealand and derivatives on New Zealand bonds. For regulatory and Quarterly Fund Update purposes, debt securities issued in New Zealand are classified as 'New Zealand fixed interest'.
NZ Funds	New Zealand Funds Management Limited.
Portfolios	The Advised Portfolio Service Portfolios, Wealth Builder Strategies, and Income Generator.
Short positions	An investment technique that seeks to profit from a fall in the price of a security.
Property shares/equities	Shares in companies which own or invest in property, buildings or land and derivatives on property shares. May also include companies which have large exposure to property, buildings or land. For regulatory and Quarterly Fund Update purposes, these shares may be classified as 'listed property' or 'international equities'.
Schemes	The managed investment scheme registered under the name 'NZ Funds Managed Portfolio Service Part One' and the managed investment scheme registered under the name 'NZ Funds Managed Portfolio Service Part Two'.
Specialist investment manager	External managers selected by NZ Funds who may manage a portfolio of securities directly held by a wholesale trust or an underlying fund in which a wholesale trust invests and includes derivatives on specialist investment managers.
Supervisor	The New Zealand Guardian Trust Company Limited.
Term deposit	A type of deposit held at a bank or other financial institution where the money is locked in for a set period of time, and can not be withdrawn until the time is up without penalty.
Trust Deeds	The NZ Funds Managed Portfolio Service Part One trust deed and the NZ Funds Managed Portfolio Service Part Two trust deed, both dated 12 October 2016 (both as amended from time to time).
Wealth Builder Strategies	The Strategies offered under the NZ Funds Wealth Builder PDS.
Wholesale trusts	The wholesale trusts managed by NZ Funds which the Portfolios invest in.

## 11. Appendix

### Income Generator – Peer group index

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Portfolio	Peer group index
NZ Funds Income Generator	Credit Suisse AllHedge Long/Short Equity Index

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More information about the peer group index noted above can be found on the webpage listed below:

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Credit Suisse AllHedge Long/Short Equity Index	<a href="https://www.lab.credit-suisse.com/#/en/index/SECT/SECT_LOSHO/overview">https://www.lab.credit-suisse.com/#/en/index/SECT/SECT_LOSHO/overview</a>
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### Wealth Builder Strategies – Market indices

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Portfolio	Market indices
NZ Funds Wealth Builder – Income Strategy	50% S&P/NZX Investment Grade Corporate Bond Index Total Return 50% Bloomberg Barclays Global Aggregate Corporate Total Return Index Hedged USD
NZ Funds Wealth Builder – Inflation Strategy	30% S&P/NZX Bank Bills 90 Day Total Return 25% S&P/NZX 50 Portfolio Index Gross with Imputation 10% S&P/ASX 200 Index Total Return 35% MSCI All Countries World Daily TR Net Local Currency
NZ Funds Wealth Builder – Growth Strategy	70% MSCI All Countries World Daily TR Net Local Currency 20% S&P/NZX 50 Portfolio Index Gross with Imputation 10% S&P/ASX 200 Index Total Return
Life Cycle: at age 0-54	3.0% S&P/NZX Bank Bills 90 Day Index Total Return 2.5% S&P/NZX Investment Grade Corporate Bond Index Total Return 2.5% Bloomberg Barclays Global Aggregate Corporate Total Return Index Hedged USD 19.5% S&P/NZX 50 Portfolio Index Gross with Imputation 9.5% S&P/ASX 200 Index Total Return 63.0% MSCI All Countries World Daily TR Net Local Currency
Life Cycle: at age 65	10.2% S&P/NZX Bank Bills 90 Day Index Total Return 13.5% S&P/NZX Investment Grade Corporate Bond Index Total Return 13.5% Bloomberg Barclays Global Aggregate Corporate Total Return Index Hedged USD 16.3% S&P/NZX 50 Portfolio Index Gross with Imputation 7.3% S&P/ASX 200 Index Total Return 39.2% MSCI All Countries World Daily TR Net Local Currency
Life Cycle: at age 75	10.2% S&P/NZX Bank Bills 90 Day Index Total Return 17.5% S&P/NZX Investment Grade Corporate Bond Index Total Return 17.5% Bloomberg Barclays Global Aggregate Corporate Total Return Index Hedged USD 14.7% S&P/NZX 50 Portfolio Index Gross with Imputation 6.5% S&P/ASX 200 Index Total Return 33.6% MSCI All Countries World Daily TR Net Local Currency

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More information about the market indices noted above can be found on the web pages listed below:

Bloomberg Barclays Global Aggregate Corporate Total Return Index Hedged USD	<a href="http://www.bloomberg.com/quote/LGCPTRUU:IND">www.bloomberg.com/quote/LGCPTRUU:IND</a>
MSCI All Countries World Daily TR Net Local Currency	<a href="http://www.msci.com/acwi">www.msci.com/acwi</a>
S&P/ASX 200 Index Total Return	<a href="http://www.us.spindices.com/indices/equity/sp-asx-200">www.us.spindices.com/indices/equity/sp-asx-200</a>
S&P/NZX Bank Bills 90 Day Index Total Return	<a href="http://www.spglobal.com/spdji/en/indices/fixed-income/sp-nzx-bank-bills-90-day-index/#overview">www.spglobal.com/spdji/en/indices/fixed-income/sp-nzx-bank-bills-90-day-index/#overview</a>
S&P/ NZX Investment Grade Corporate Bond Index Total Return	<a href="http://www.spglobal.com/spdji/en/indices/fixed-income/sp-nzx-composite-investment-grade-bond-index/#overview">www.spglobal.com/spdji/en/indices/fixed-income/sp-nzx-composite-investment-grade-bond-index/#overview</a>
S&P/NZX 50 Portfolio Index Gross with Imputation	<a href="http://www.us.spindices.com/indices/equity/sp-nzx-50-portfolio-index">www.us.spindices.com/indices/equity/sp-nzx-50-portfolio-index</a>

### Advised Portfolio Service Portfolios – Market indices

Portfolio	Market indices
Core Cash Portfolio	100% S&P/NZX Call Rate Deposit Index Total Return
Core Income Portfolio	100% S&P/NZX Investment Grade Corporate Bond Index Total Return
Global Income Portfolio	100% Bloomberg Barclays Global Aggregate Corporate Total Return Index Hedged USD
Core Inflation Portfolio	30% S&P/NZX Bank Bills 90 Day Total Return 50% S&P/NZX 50 Portfolio Index Gross with Imputation 20% S&P/ASX 200 Index Total Return
Property Inflation Portfolio	30% S&P/NZX Bank Bills 90 Day Total Return 35% S&P/NZX All Real Estate Industry Group Gross with Imputation 35% FTSE EPRA/NAREIT Developed Total Return Index USD
Equity Inflation Portfolio	30% S&P/NZX Bank Bills 90 Day Total Return 70% MSCI All Countries World Daily TR Net Local Currency
Core Growth Portfolio	100% MSCI All Countries World Daily TR Net Local Currency
Global Equity Growth Portfolio	100% MSCI All Countries World Daily TR Net Local Currency
Dividend and Growth Portfolio	30% S&P/ASX 200 Index Total Return 70% S&P/NZX 50 Portfolio Index Gross with Imputation

More information about the market indices noted above can be found on the web pages listed below:

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Bloomberg Barclays Global Aggregate Corporate Total Return Index Hedged USD	<a href="http://www.bloomberg.com/quote/LGCPTRUU:IND">www.bloomberg.com/quote/LGCPTRUU:IND</a>
FTSE EPRA/NAREIT Developed Total Return Index USD	<a href="http://www.ftse.com/products/indices/epra-nareit">www.ftse.com/products/indices/epra-nareit</a>
MSCI All Countries World Daily TR Net Local Currency	<a href="http://www.msci.com/acwi">www.msci.com/acwi</a>
S&P/ASX 200 Index Total Return	<a href="http://www.us.spindices.com/indices/equity/sp-asx-200">www.us.spindices.com/indices/equity/sp-asx-200</a>
S&P/NZX All Real Estate Industry Group Gross with Imputation	<a href="http://www.us.spindices.com/indices/equity/sp-nzx-all-real-estate-sector">www.us.spindices.com/indices/equity/sp-nzx-all-real-estate-sector</a>
S&P/NZX Bank Bills 90 Day Index Total Return	<a href="http://www.spglobal.com/spdji/en/indices/fixed-income/sp-nzx-bank-bills-90-day-index/#overview">www.spglobal.com/spdji/en/indices/fixed-income/sp-nzx-bank-bills-90-day-index/#overview</a>
S&P/NZX Call Rate Deposit Index Total Return	<a href="http://www.us.spindices.com/indices/fixed-income/sp-nzx-call-rate-deposit-index">www.us.spindices.com/indices/fixed-income/sp-nzx-call-rate-deposit-index</a>
S&P/NZX Investment Grade Corporate Bond Index Total Return	<a href="http://www.spglobal.com/spdji/en/indices/fixed-income/sp-nzx-composite-investment-grade-bond-index/#overview">www.spglobal.com/spdji/en/indices/fixed-income/sp-nzx-composite-investment-grade-bond-index/#overview</a>
S&P/NZX 50 Portfolio Index Gross with Imputation	<a href="http://www.us.spindices.com/indices/equity/sp-nzx-50-portfolio-index">www.us.spindices.com/indices/equity/sp-nzx-50-portfolio-index</a>

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