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Your long term investment journey

KiwiSaver
Poua he Oranga

Statement of Investment Policy and Objectives (SIPO) for Lifestages KiwiSaver Scheme

As at 30 September 2021

This is a replacement Statement of Investment Policy and Objectives (SIPO) for the SIPO dated 1 September 2020

Issued by Funds Administration New Zealand Limited ("FANZ")

Contents

Introduction

This Statement of Investment Policy and Objectives ("**SIPO**") sets out the investment policies and objectives for the Lifestages KiwiSaver Scheme (the "**Scheme**") Funds. It takes effect from 30 September 2021, and with effect from that date replaces the previous SIPO for the Scheme dated 1 September 2020.

Description of the Scheme

The Scheme is a registered KiwiSaver scheme under the KiwiSaver Act 2006 and a registered managed investment scheme under the Financial Markets Conduct Act 2013 ("**FMCA**"). Funds Administration New Zealand Limited (referred to as "**we**", "**our**", and "**us**" in this SIPO) is the manager of the Scheme.

The Scheme is governed by a Trust Deed ("**Trust Deed**") entered into between us and the supervisor of the Scheme, Trustees Executors Limited ("**Supervisor**").

In the event of conflict between the provisions of this SIPO and the Trust Deed, the provisions of the Trust Deed will prevail.

The Scheme has two funds (each a "**Fund**" and together the "**Funds**"):

1. Lifestages High Growth Fund; and
2. Lifestages Income Fund.

Members can select their exposure to each Fund, between 100% High Growth Fund to 100% Income Fund (provided that each member's total exposure adds up to 100%). Members can also select the "Lifestages Auto" option, under which their allocation to the Funds is adjusted based on their age, with reallocation to predetermined exposures occurring when members reach the age of 35, 45, 55 and 65. We will use our rebalancing feature to make an annual adjustment to members' investment allocations (unless we notify members otherwise) to ensure that any movements from members' chosen investment allocations can be rebalanced to the original chosen allocation. Member contributions will be applied to the original allocation chosen. We will rebalance your investments annually on or about 15 August.

The Scheme is treated as a single fund. This means the assets of the Scheme are available to meet the liabilities of all of the Funds.

The Scheme is a Portfolio Investment Entity ("**PIE**"). The income is taxed at the member's prescribed investor rate ("**PIR**"). We pay tax on a member's behalf to the Inland Revenue Department.

1 Investment Philosophy

We like to take a hands-on approach to life and to our investments. In other words, as manager of the Funds we believe in actively managing investments to take advantage of opportunities and to allow us to react to the unexpected in a responsible and environmentally friendly way. We believe taking this approach, we are best positioned to manage investments while keeping risk in check.

The key principles that are embedded in our philosophy are:

> We actively manage to create value for investors over the long-term;

> We invest responsibly;

> We balance performance and risk to an appropriate level for our investors; and

> We understand the local and global economic themes that are impacting investments.

2 Investment Strategy, Policies and Process

2.1 Investment Strategy

We aim to grow our members' investment sustainably over the long-term. To achieve this, we focus on building risk-efficient funds that are globally diversified, liquid, transparent and cost efficient. Our strategy also considers local and global economic themes, such as climate change and digitalisation, to ensure we are investing for the future rather than for the past.

Each Fund has its own investment strategy and investment objective. These are detailed in the schedules at the back of this SIPO (See Schedule 1 and Schedule 2).

2.2 Investment Policies

In managing our investments, we take into account the following policies:

2.2.1 Responsible Investment Policy

Responsible investing principles are used in the selection of the Funds' investments. External research is accessed to help identify sustainable investments. We integrate an assessment of sustainable practices with the use of exclusionary screens as a way to filter investments, funds, and fund managers.

We apply exclusionary screens to ensure that the following harmful practices are not invested in or are only invested in at levels that are minimised;

Military Weapons | Tobacco | Alcohol | Adult Entertainment | Nuclear | Civilian Firearms | Gambling & Casinos

We also favour investments that are less carbon intensive and less involved in the fossil fuel industry than their peers. We believe the primary drivers of climate change are greenhouse gas emissions and fossil fuel reserves, prompting countries to transition to low carbon economies. Therefore, minimising the involvement in companies involved in the extraction of fossil fuels should make for a better long-term investment strategy. This is measured and evaluated by monitoring the Carbon Emissions Intensity and Fossil Fuel Involvement of our investments (See Section 7 for definitions). Targeting specific sustainable characteristics makes it easier for investors to understand and compare.

2.2.2 Asset Allocation Policy

The basic principles of asset class investing are based on the foundations provided by Modern Portfolio Theory ("**MPT**"), selecting investments in order to maximise their overall return. We achieve this by setting a Strategic Asset Allocation ("**SAA**") for the Funds and the Lifestages Auto options.

Actual asset class allocations may frequently differ from the SAA but will remain within the permitted ranges in the investment guidelines. We may at any time rebalance each Fund's holdings closer to the SAA.

Traditionally the asset classes are cash, fixed interest, and equities. In New Zealand, this is separated further into New Zealand and International fixed interest, Australasian, and International equities, listed property and other. Tactically, we may separate Australasian equities into New Zealand equities and Australian equities, and International equities into International equities and Emerging Markets equities. Currency hedging is also given a separate allocation.

We review the Funds' SAA every three years. The review takes into account future long-run asset class returns and peer comparisons.

2.2.3 Hedging Policy

The primary purpose of international investment is diversification of markets rather than diversification of currencies. It is accepted that international market diversification will entail additional risk arising from foreign currency exposure.

The current policy is for international fixed interest exposure to be 100% hedged back to the NZD. This is generally achieved through investing in a NZD hedged underlying fund.

The current policy for international equities (other than Australian equities) is for that asset class to be 50% hedged back to the NZD. This is generally achieved through investing in a combination of NZD hedged and unhedged underlying funds.

All other offshore assets are generally unhedged, although this can change in the future. This includes Australian equities, Emerging Markets equities, listed property and infrastructure assets.

The actual hedging ratio for the Funds can differ from time to time. We may at any time rebalance the Funds exposure closer to the target.

2.2.4 Rebalancing Policy

The purpose of rebalancing is to ensure the actual mix of assets in the Funds resembles the target investment mix (the SAA). Each asset class of the Funds has a range around the SAA agreed in the guidelines. We can use this range to take tactical positions.

Each Fund's actual asset mix is monitored against its target regularly. We do not automatically rebalance back to the target. Frequent rebalancing incurs excessive transaction costs that we believe outweigh the benefit of rebalancing.

We use Fund cashflows to rebalance the Funds to their target. Where cashflows do not achieve the target, then assets are sold or bought accordingly. This is important as if the actual mix in the Fund does not reflect the target, then the actual investment risk of the Fund could be significantly greater or smaller than the target level of risk.

2.2.5 External Manager Selection Policy

As part of our investment strategy, a key concern is to ensure Funds are adequately diversified. This may include the appointment of external fund managers, with built in risk constraints.

We follow a due diligence process for selecting external managers. This includes external research and onsite visits.

2.2.6 Liquidity Policy

Sufficient liquidity will be held to cover reasonably anticipated redemptions.

If necessary, we have agreed with the Supervisor to borrow up to 5% of the market value of a Fund. Such borrowing is to be used solely to meet redemption requests and will be for a maximum period of 15 business days and in each instance the Supervisor will be advised of drawdowns occurring and when the amounts have been repaid. To date the funds have not borrowed, nor have any intention to.

Stress testing of the Funds is regularly undertaken. These tests will simulate how the underlying investments of each Fund will react to a series of unfavourable market scenarios.

2.2.7 Valuation

The means by which we price units in these Funds and methods we use can be found in the FANZ Unit Pricing and Valuation Policy. The most current version of this is available on the Disclose Register managed investment schemes Offers entry with the Registrar of Financial Service Providers at **www.disclose-register.companiesoffice.govt.nz.**

2.2.8 Derivatives

Derivatives may be used as a risk management tool where underlying investments create an overall portfolio exposure that we determine to be undesirable e.g. to hedge currency risk. It is envisaged that derivatives will not be used in the normal course of business.

Derivatives may not be used to leverage any Fund, or if the effect is to increase the portfolio risk beyond what it would have been had the relevant Fund comprised only directly held securities. That is, there will be no gearing effect and any derivative positions will be backed by physically held positions at the time that the risk on any derivative arrangement commences.

While derivatives may be used at our sole discretion, we will advise the Supervisor of any decision to do so.

2.3 Investment Process

Our investment process is research based and focused on responsible investing. The steps we follow in our construction of our Funds and investment decisions are:

Step 1

The starting point is defining our investment universe and creating a SAA. Active allocation decisions by asset class, industry sector, geography and thematic are key drivers of investment returns.

Step 2

At a macro level, our investment analysis process utilises both internal and external research to help us identify and analyse economic outlook, global investment themes and emerging favourable sectors.

External factors such as inflation expectations, changes in the risk-free rate, country risk premiums and systematic risk premiums also play a part in determining whether we invest in a specific entity.

Within each asset class, we conduct our own investment analysis, coupled with external research, to actively select a portfolio of securities. This may include external fund managers. We target large capitalisation equities, diversified with complimentary active fund managers.

An exclusion screen is run over the selection, to remove equities that fail to meet our responsible investment criteria.

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Step 3

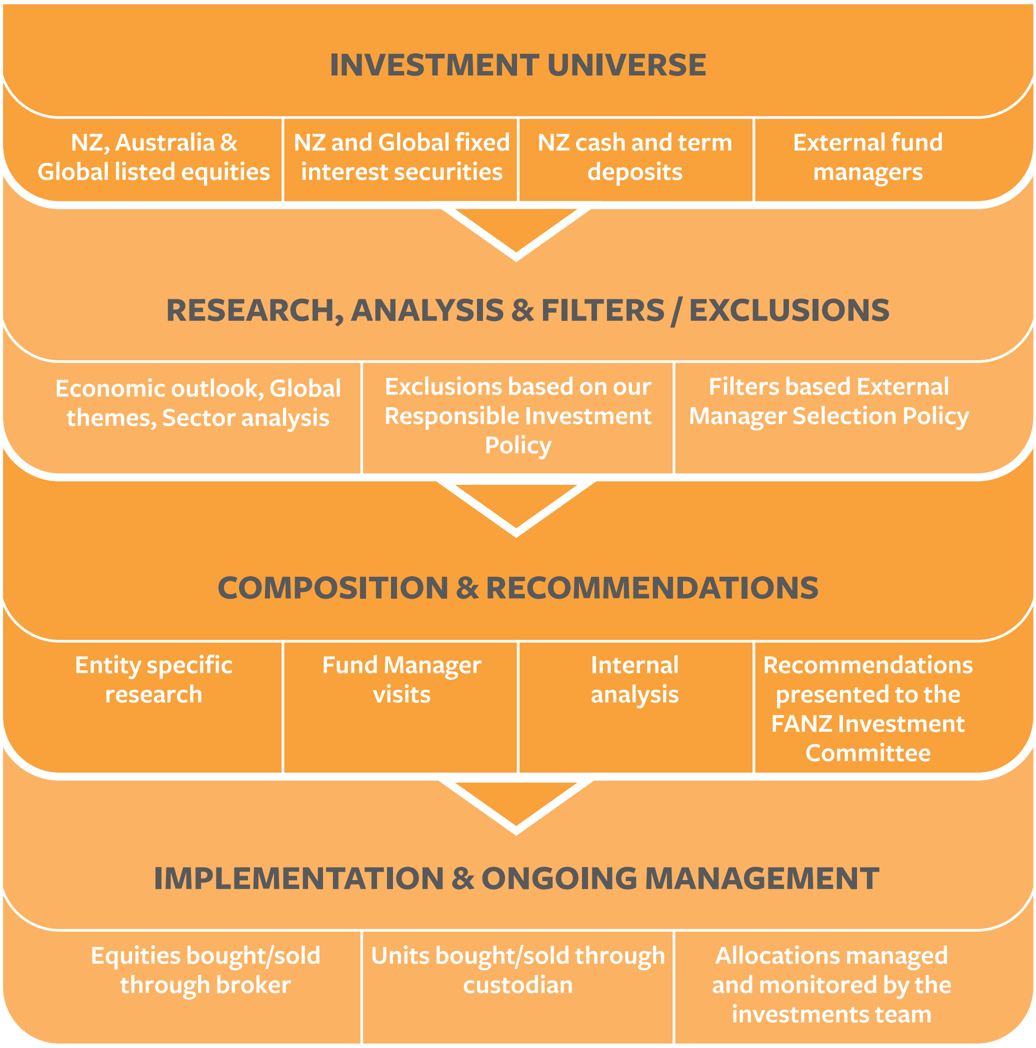
At a company specific level, we again use a combination of internal and external research to form the basis of our investment decision. We analyse a company's investment case by looking at key criteria such as its profitability, financial health, competitive advantage, economic moat, sustainability, and analysis of the company's cash flows, cost of debt and equity, finally arriving on a fair value for each of our investments.

Recommendations and changes for the composition of the Funds and underlying investments are formally approved by the FANZ Investment Committee.

Step 4

Once the investment portfolios are approved and implemented, we monitor these regularly, tactically adjusting (within the exposure limits) for changing market conditions, economic changes and future cashflows, and regularly performing stress testing.

The Lifestages Investment Process



3 Authorised Investments

The universe of authorised investments for the Scheme is set out in the Trust Deed, as amended from time to time. Investments may be made into securities directly or through underlying managed funds.

The investments currently accessed are available in the most current Fund Update on the Scheme's managed investment schemes register entry with the Registrar of Financial Service Providers at **www.disclose-register.companiesoffice.govt.nz**.

3.1 Managed Funds

Investment in managed funds, such as exchange traded funds, which achieve essentially the same ultimate exposure as would have been achieved by directly held securities, with the relevant benchmark asset allocation and ranges flowed through to any managed fund exposure.

3.2 Cash and Fixed interest

Cash, in the form of Highly Liquid Securities, is generally held in the Funds' bank accounts for cashflow management. Any other cash investments will be made by way of direct or indirect investment in unsecured deposits (including redeemable shares) with SBS Bank, or with other registered banks or financial institutions pending investment into other assets.

The Funds gain their exposure to fixed interest by way of direct or indirect low to medium risk investments consisting of a broad spread of government and non-government securities primarily of investment grade quality. Any unrated securities will comply with our strict risk policy criteria through the underlying manager's internal Credit ratings process.

3.3 Equities

The Funds gain their exposure to equities by way of direct securities or indirect via a manged fund.

4 Authorised Activities

The Funds may undertake the following other activities in carrying out their investment strategy:

4.1 Securities Lending

Securities lending with reputable counterparties.

4.2 New Issues

Underwriting new issues of authorised debt and share issues (as applicable).

4.3 Borrowing

The Scheme is authorised to borrow up to 15% of its Gross Asset Value (as defined in the Trust Deed) to invest in Authorised Investments (as defined in the Trust Deed). Any borrowing must be considered necessary or desirable in the general interests of the members of the Scheme, or for the purposes of conducting the investment, management, or other operation of the Scheme pursuant to the Trust Deed.

Except as contemplated in 2.2.6 above (Liquidity Policy), borrowing will be for exceptional purposes only. We will make written submission to the Supervisor setting out the reasons why the Scheme needs to borrow and a recommendation thereto. Any borrowing will only be undertaken in accordance with the Trust Deed. Currently there is no intention to borrow.

4.4 Related Party Transactions

Transactions with related parties of us or the Supervisor are permitted, provided such transactions are permitted under the Trust Deed and the FMCA (where applicable) and the appropriate process under the FMCA has been followed.

SBS Bank is a related party. Currently Lifestages Income Fund holds SBS Bank deposits.

5 Monitoring

In addition to daily monitoring, the FANZ Investment Committee formally review the performance of the Funds, the underlying investment managers, and the direct securities quarterly. These reviews compare the return of each Fund and each component of its portfolio against the relevant index over the quarter.

Each quarter, we review all recommended investments to ensure no fund has breached its own recommended limits. In general, if a fund has breached any threshold, we will undertake an analysis and written review.

We also review each Fund, at least annually, against its peers as determined by the FANZ Investment Committee, with input from the Supervisor where appropriate. Those reviews include an assessment of the reasonableness of the fees charged to the Funds, having regard to expectations expressed in guidance by the FMA.

6 Review and Update of SIPO

The SIPO will be reviewed and updated from time to time by us and the Supervisor. The most current version of the SIPO is available on the Scheme's managed investment schemes register entry with the Registrar of Financial Service Providers at **www.disclose-register.companiesoffice.govt.nz**.

6.1 Review of the SIPO

The SIPO will be reviewed at least annually by us and the Supervisor.

We review all investments on a quarterly basis. Performance is measured against appropriate benchmark indices. Where an underlying fund's, or direct security's performance is consistent with its mandate and in line with broad style and/or asset class returns, and our investment filters have been observed, no further action will generally be taken.

An ad hoc review of the overall SIPO and/or underlying fund managers/issuers may be triggered if an investment/ underlying fund, or direct security is flagged for 'enhanced due diligence', and subjected to a higher degree of scrutiny for any one or more of the following reasons:

> A change in the primary underlying manager/issuer/ company management

> A significant change in an underlying manager's, issuer's or company majority owner or ownership structure

> A greater than 25% fall in the fund's assets under management over a rolling one-year period (due to redemptions, not market movements) or total fund assets falling below $25 million at any time

> A change in the fund's investment style, diversification, approach to sustainability and/or risk factor tilting

> An increase in the fund's fees

> The fund or direct security shows persistent underperformance against a relevant benchmark. Persistent underperformance is defined as performance below benchmark on a three-year basis minus fees, and a volatility measure appropriate for each fund/security

> An extraordinary event which we consider has impacted or may interfere with the manager/company/fund's ability to act in the future within the established fund mandate

6.2 Review of the investment strategy

We undertake a review of the investment strategy of each fund, the appropriateness of the benchmark asset allocations and ranges, and the performance and risk profiles of the asset class on a regular basis. This is a qualitative review and forms part of the manager review of the managers used in the Scheme.

6.3 Changes to the SIPO

Both we and the Supervisor must agree in writing any changes or replacements to this SIPO. Any changes must be approved by our Board.

For material changes, we must provide 30 days' notice in advance to all existing members of the proposed change. A change will be regarded as 'material' if it would alter the nature of the investment or its risk profile to such an extent that a reasonable existing member would consider whether to continue with the investment. We and the Supervisor will agree whether a change is material. However, the ultimate decision as to whether a change is material rests with the Supervisor.

Each updated or amended SIPO will contain an effective date. Any changes to this SIPO will be lodged with the Registrar of Financial Service Providers in accordance with the Act.

7 Useful Definitions

"**Benchmarks**" means the asset allocations and indices against which we measure the performance of the relevant Fund as outlined at Schedules 1 and 2 of the SIPO.

"**Benchmark asset allocation**" means the relevant Fund's long-term average expected weighting for each type of asset (i.e. the proportion of that Fund's assets that we target to have invested in each type of asset). This is also referred to in other documents as its 'target asset allocation' or 'Strategic Asset Allocation' (SAA). We invest within ranges agreed with the Supervisor, and actual exposures will vary over time.

"**Board"** means the FANZ Board of Directors.

"**Carbon Emissions Intensity**" (Tons CO2E/US$m sales) measures a fund's exposure to carbon intensive companies. This figure represents the estimated greenhouse gas emissions per US$1 million in sales across the fund's holdings. This allows for comparisons between funds of different sizes.

"**Cash**", unless otherwise specified, means on-call deposits or other debt obligations of, or guaranteed by a registered bank under the Reserve Bank of New Zealand Act 1989, credit union or building society.

"**Credit ratings**" are ratings of the debtor's ability to pay back the debt by making timely interest payments and of the likelihood of default. An agency may rate the creditworthiness of issuers of debt obligations, the debt instruments, and/or in some cases, the servicers of the underlying debt, but not individual consumers. A poor credit rating indicates a credit rating agency's opinion that the company or government has a high risk of defaulting, based on the agency's analysis of the entity's history and analysis of long-term economic prospects.

"**Derivatives**" means any financial arrangement traded on a recognised market or market system (and specifically not 'over the counter' securities) whose contribution to portfolio risk, after considering any gearing element within the derivative, is essentially no more than that of the security from which it is derived had that security been held ungeared.

“**Equities**” means shares of companies listed and traded on a recognised stock exchange and any traded derivative of those shares whose contribution to portfolio risk, after considering any gearing element within the derivative, is essentially no more than that of the security from which it is derived had that security been held ungeared.

“**FANZ Investment Committee**” is a committee of executive and appointed Directors of FANZ and other appointees responsible for overseeing the investment management performance, risk, and processes.

“**Fixed Interest**”, any other form of debt security that pays a specific rate of interest. Usually, the fixed interest rate is for a specific term, and at the end of the term your money is returned to you.

“**Fossil Fuel Involvement**” measures the percentage of the fund’s assets that are involved in fossil fuels. Companies with fossil-fuel involvement are defined as those deriving at least 5% of their revenue from the following activities: thermal coal extraction, thermal coal power generation, oil and gas production, and oil and gas power generation.

“**Highly Liquid Securities**” means Cash, NZ Government, or bank securities with less than 3 months to maturity.

“**Large capitalisation equities**” are those equities listed towards the top of a countries stock exchange ranked by full market capitalisation (calculated by multiplying the number of a company’s shares outstanding by its stock price per share). Large caps are generally safer investments than their mid and small cap counterparts because the companies are more established, and investors fly to quality and stability during rough markets.

“**Managed funds**” means units in a pooled arrangement or managed fund, which achieve essentially the same ultimate exposure as would have been achieved by directly held securities.

“**Preference shares**” are a type of stock which may have any combination of features not possessed by common stock including properties of both equity and a debt instrument and is generally considered a hybrid instrument. Preference shares are senior (i.e., higher ranking) to common stock, but subordinate to bonds in terms of claim (or rights to their share of the assets of the company) and may have priority over common stock (ordinary shares) in the payment of dividends and upon liquidation. Terms of the preferred stock are described in the articles of association. Like bonds, preferred stocks are rated by the major credit-rating companies. The rating for preference shares is generally lower than for bonds because preferred dividends do not carry the same guarantees as interest payments from bonds and because preferred stockholders’ claims are junior to those of all creditors.

“**SBS Bank**” is the trading name for Southland Building Society. Funds Administration New Zealand Limited is a wholly owned subsidiary of SBS Bank.

“**Strategic Asset Allocation (SAA)**” is the desired or preferred target allocation for each asset class chosen by the Manager.

“**Underlying managers**” are the underlying fund managers that we have appointed in respect of the Funds. The underlying managers are named in the most current relevant Fund Update.

Schedule 1: Lifestages High Growth Fund

Investment objective

a) Aims to provide members with capital growth over the long term;

b) To provide a gross return which exceeds the return of the Benchmark on a rolling three-year basis (i.e. before tax, fees, and other expenses); and

c) To produce a competitive investment return relative to the relevant peer group and the Benchmark that is relevant to each component of its investment portfolio (see 'Monitoring' at Section 5).

Investment strategy

The Fund will invest primarily in a broad spread of New Zealand and international equities, with a small amount held in cash.

The risk return trade-off for the Fund is that it will invest in growth-producing assets as opposed to assets that are focused on providing income over the long term. As a result, over the long term, the Fund may not produce much in the way of income but should produce long term capital growth. This growth may fluctuate depending on market conditions but should, over the long term, produce a greater return than the Income Fund.

We have developed the investment strategy

a) With reference to members who are seeking a fund that aims to provide members with capital growth over the long-term; and

b) With the intention of providing members with a core holding of New Zealand and international equities.

The investment strategy considers both financial return and environmental, social and governance good.

Benchmark

The benchmark is a composite of the following asset allocation and indices as at the date of this SIPO is:

Asset Class	Allocation	Indices
Cash	2%	NZX NZ 90 Day Bank Bill
Australasian Equities	26%	S&P/NZX 50 Gross
International Equities	72%	MSCI World Index in NZD (50% hedged back to the NZD)

Australasian Equities will include NZ Equities and may include Australian Equities. International Equities may include Emerging Markets.

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Eligible investments

As at the date of this SIPO, the Fund (through its underlying managers) will only invest in the following security types:

a) Deposits, transferable obligations, or other debt obligations of or guaranteed by issuers with a maturity of no more than 365 days at time of purchase. Floating rate notes with a final maturity of more than 365 days are not authorised (irrespective of the frequency of rate setting);

b) Equities issued in any jurisdiction of companies listed and traded on a recognised stock exchange;

c) Derivative contracts, where the underlying risk relates to the equities referred to in (b). Eligible derivative contracts include interest rate futures, options, interest rate swaps, and credit default swaps. Options, swaps, and credit default swaps must be entered with a counterparty with a minimum long-term credit rating of AA- and a current industry standard (International Swaps and Derivatives Agency) agreement must be in place between the counterparty and us or the underlying manager. The market value of the exposure must be fully covered by cash or backed by liquid physical assets. Derivatives are to be measured on a notional face value basis and may not exceed 100% of the net market value of the relevant Fund's investment portfolio. Investment in collateralised debt obligations and collateralised loan obligations are not permitted.

Where an entity or an issuer is rated, that rating shall be by an internationally approved rating agency such as Standard & Poor's (or other rating agency acceptable to the Supervisor).

The eligible investments may change in the future (see section 3 above).

Investment Guidelines

• Liquidity

A minimum of 1% of the Fund's total assets must be held in Highly Liquid Securities. The neutral cash holding for the Fund is 2%. The most cash that the Fund can hold is 10%.

• Ranges

The benchmark asset allocation ranges outlined below are not to be exceeded.

Asset class	Strategic asset allocation %	Usual range %
Cash	2%	1–10%
Australasian Equities	26%	10–40%
International Equities	72%	50–90%

The exposure to any single direct equity security is limited to 5%.

The Fund will also consider geographic breakdown and sector breakdown diversity in its construction.

• Hedging

a) Investments in Australian equities will generally be unhedged, although this can change in the future; and

b) Investments in international equities may be hedged back to NZD, generally via the underlying fund. The benchmark for hedging of the international equity exposure is 50%, although this can change in the future.

Schedule 2: Lifestages Income Fund

Investment objective

a) Aims to provide members with a low-risk investment option;

b) To provide a gross return which exceeds the return of the Benchmark on a rolling three-year basis (i.e. before tax, fees, and other expenses); and

c) To produce a competitive investment return relative to the relevant peer group and the Benchmark that is relevant to each component of its investment portfolio (see 'Monitoring' at Section 5).

Investment strategy

The Fund will invest predominantly in income producing assets, the majority of these being cash and fixed interest investments. The Fund may also hold high dividend yielding equities and/or listed property and infrastructure investments.

The key focus in the composition of the Fund is to prioritise current income, in the form of interest or dividend-paying investments and provide this with lower risk.

The risk return trade-off for the Fund is that it will invest in income-producing assets as opposed to assets that are focused on providing capital growth over the long term. As a result, over the long term, the Fund may not produce much in the way of capital growth but should produce stable returns.

We have developed the investment strategy

a) With reference to members who are seeking a fund that aims to provide members with a low-risk investment option that invests predominantly in income producing assets; and

b) With the intention of providing members with a core holding of New Zealand cash and fixed interest, both domestic and international.

The investment strategy considers both financial return and environmental, social and governance good.

Benchmark

The benchmark is a composite of the following asset allocation and indices as at the date of this SIPO is:

Asset Class	Allocation	Indices
Cash	15%	NZX NZ 90 Day Bank Bill
NZ Fixed Interest	25%	Bloomberg NZ Bond Composite 0+ Yr Index
International Fixed Interest	60%	Bloomberg Barclays Global Aggregate Index 100% Hedged NZD

Duration management and tactical positioning will only be used to the extent that it results in that Fund's duration being plus or minus two years either side of the Benchmark index position.

Eligible Investments

As at the date of this SIPO, the Fund (through its underlying managers) will only invest in the following security types:

a) Deposits, transferable obligations, or other debt obligations of or guaranteed by issuers with a maturity of no more than 365 days at time of purchase. Floating rate notes with a final maturity of more than 365 days are not authorised (irrespective of the frequency of rate setting);

b) Fixed or floating rate debt and bond issues denominated in foreign currencies. These issues may include but are not limited to inflation indexed bonds, municipal and government bonds, mortgage related debt and corporate debt, and that are listed, traded, or dealt in on regulated markets in the OECD and which may have fixed or floating interest rates;

c) Debt securities denominated in New Zealand dollars that have a long-term credit rating of not less than BBB-, or a short-term rating of not less than A3;

d) Preference shares denominated in New Zealand Dollars and issued under New Zealand or Australian legal jurisdiction with a long-term credit rating of not less than BBB-;

e) Securities that qualify as Tier 1 capital for registered banks in New Zealand with a long-term credit rating of not less than BBB-;

f) Unrated securities provided the underlying manager, in their judgement, determines that the issue would have a rating of not less than BBB-, if a rating was sought;

g) Equities issued in any jurisdiction of companies listed and traded on a recognised stock exchange;

h) Any other income strategies approved by the Supervisor and by our Board.

i) Derivative contracts, where the underlying risk relates to New Zealand or foreign currency-denominated interest rates or credit risk, or equities referred to in (g). Eligible derivative contracts include interest rate futures, options, interest rate swaps, and credit default swaps. Options, swaps, and credit default swaps must be entered with a counterparty with a minimum long-term credit rating of AA- and a current industry standard (International Swaps and Derivatives Agency) agreement must be in place between the counterparty and us or the underlying manager. The market value of the exposure must be fully covered by cash or backed by liquid physical assets. Derivatives are to be measured on a notional face value basis and may not exceed 100% of the net market value of the relevant Fund's investment portfolio. Investment in collateralised debt obligations and collateralised loan obligations are not permitted.

Where an entity or an issuer is rated, that rating shall be by an internationally approved rating agency such as Standard & Poor's (or other rating agency acceptable to the Supervisor).

The Fund may have a significant exposure to related party deposits. As at the date of this SIPO, the Fund has 17% exposure to SBS Bank through its investment in unsecured deposits issued by SBS Bank.

The eligible investments may change in the future (see section 3 above).

Investment Guidelines

• Duration

The duration of the Fund is to be kept within two years of the duration of the Benchmark. The duration implications of derivative products are to be considered included when calculating the weighted average duration.

• Yield Curve

The underlying managers shall monitor the maturity bucket exposure of the Fund to ensure no excessive yield curve exposures exist. A 'laddered' approach is sought.

• Liquidity

A minimum of 2% of the Fund's total assets must be held in Highly Liquid Securities. The neutral cash holding for the Fund is 15%. The most cash that the Fund can hold is 40%.

- **Ranges**

The benchmark asset allocation ranges below are not to be exceeded.

Asset class	Strategic asset allocation %	Usual range %
NZ Cash	15%	10–40%
NZ Fixed Interest	25%	10–40%
International Fixed Interest	60%	30–70%
Listed Property	0%	0-10%
Infrastructure*	0%	0-10%
Australasian Equities	0%	0-15%

* For disclosure and fund reporting purposes, Infrastructure will be categorised as “Other”, consistent with the asset categories recognised in clause 1(4) of Schedule 4 to the Financial Markets Conduct Regulations 2014.

The exposure to non-investment grade securities is limited to 5%.

The exposure to related party term deposits (SBS Bank) is limited to 20%.

The exposure to growth assets (Australasian equities, Listed Property and Other) is limited to 25%.

The exposure to any single direct equity security is limited to 2%.

Any unrated security assessments are to be reviewed at least six-monthly.

- **Hedging**

Investments in International fixed interest will be hedged back to the New Zealand dollar, generally via the underlying fund.

Investments in global infrastructure and Australian equities will generally be unhedged.

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