Te Ahumairangi

GLOBAL EQUITY SPECIALISTS

Te Ahumairangi Investment Funds

Statement of Investment Policy and Objectives

Investment Management by
Te Ahumairangi Investment Management Limited

Effective date: 27 October 2021

Issued by Implemented Investment Solutions Limited

This document gives you important information about this investment to help you decide whether you want to invest. There is other useful information about this offer on www.companiesoffice.govt.nz/disclose. The current version of this Statement of Investment Policy and Objectives is available on the schemes register. Implemented Investment Solutions Limited has prepared this document in accordance with the Financial Markets Conduct Act 2013. You can also seek advice from a financial advice provider to help you make an investment decision.

A. Description of the managed investment scheme

The Te Ahumairangi Investment Funds ("Scheme") is a managed investment scheme. The Scheme has on offer one single sector investment fund ("Fund") which provides investors with exposure to international equities.

The Fund is actively managed. The Fund invests primarily in listed equity securities across various global listed equity markets.

B. Roles and responsibilities

Implemented Investment Solutions Limited ("IIS") is the licensed manager ("Manager") of the Scheme. The Manager's key roles and responsibilities are:

- Preparation of disclosure material.
- Establishing, reviewing and maintaining this Statement of Investment Policy and Objectives ("SIPO").
- The ongoing management and oversight of the Fund. This includes appointing, managing and monitoring specialist providers for:
    - Administration management; and
    - Investment management.
- Monitoring investment performance and outcomes.

Te Ahumairangi Investment Management Limited ("Te Ahumairangi") is the Scheme's investment manager and is responsible for deciding what the Fund invests in. The Fund is invested in accordance with this SIPO and Te Ahumairangi's investment philosophy and approach.

Te Ahumairangi also participates in reviewing this SIPO.

BNP Paribas Funds Services Australasia Pty Limited ("BNP") is the custodian and administration manager. MMC Limited is the registrar.

Public Trust is the Scheme's Supervisor. The Supervisor is responsible for supervision of the Manager and the Scheme, including:

- acting on behalf of the Scheme's investors in relation to the Manager and any contravention of the Manager's issuer obligations;
- supervising the performance by the Manager of its functions and the financial position of the Manager and the Scheme; and
- holding the Scheme property or ensuring that the assets are held in accordance with applicable legislative requirements. BNP has been appointed by the Supervisor as Custodian for the Fund.

C. Investment philosophy & Approach

Te Ahumairangi has a respect for investment markets, recognising that market pricing is often "about right". This respect for investment markets influences how Te Ahumairangi's investment team look to add value to investment portfolios.

Te Ahumairangi believes that in order to achieve superior investment performance without incurring extra risk, it is necessary to identify and exploit inefficiencies in the pricing and behaviour of investment markets. However, they also believe that competition between investors means that no single type of market inefficiency will persist indefinitely, and it is therefore important to look for positive investment characteristics that are currently under-appreciated by investors.

Te Ahumairangi believes that at most points in time, only a few aspects of market pricing will be widely under-appreciated by investors, and a successful investment approach must therefore be able to differentiate between positive investment characteristics that are already in hot demand and positive investment characteristics that are currently under-appreciated by investors. Te Ahumairangi seeks to prudently tilt its investment portfolios towards companies with those positive investment characteristics that are currently under-appreciated by investment markets. This means that the Fund will tend to have a value-focused orientation when the market has been chasing growth characteristics for an extended period of time (as was the case in late 2020 / early 2021), but would likely mean that the portfolio would take on a growth-focused orientation after an extended period of value outperformance.

A key aspect of Te Ahumairangi's approach to analysing listed equities is to forecast returns over a 15 year time horizon, and to only consider investment in companies that it expects to deliver sufficient return over that time frame to adequately compensate for their risk characteristics. The 15 year time frame is intended to make Te Ahumairangi’s investment team look beyond current trends and think about what levels of growth, profitability, and valuation a company will be able to sustain in the longer term. But in addition to this long term perspective, Te Ahumairangi will also look at shorter term indicators of changes in the outlook for a company, and use these to make decisions to add to or reduce the Fund’s holdings in companies that the Fund holds on the basis of the projected 15 year returns.

Te Ahumairangi tilts its portfolio towards companies that have average or lower-than-average risk characteristics, whilst generally avoiding the riskiest and most volatile equity securities, as it believes that the historical tendency of higher-risk equities to deliver a relatively poor reward-for-risk is likely to continue in the future. This emphasis is reflected in the Fund’s benchmark, which is intended to be lower risk than the broader global equity market.

Te Ahumairangi places an emphasis on trying to avoid unnecessary costs and capture incremental gains. Rather than simply relying on a few bold investment calls, Te Ahumairangi uses various approaches to add a little bit of extra value, such as finding securities that offer relatively cheap means of obtaining desired investment exposures, and by emphasising good (low impact) and timely execution of trades.

Te Ahumairangi focuses purely on the management of global equity portfolios, believing that a focussed approach is more conducive to good decision making than would be possible if they offered a smorgasbord of investment products.

D. Fund Investment Objectives and Strategies

The investment objectives and strategies for the Fund are:

Te Ahumairangi Global Equity Fund

Objectives

The Fund's primary objective is to outperform its benchmark index (50:50 combination of the MSCI World Index, and the MSCI Minimum Volatility Index optimised for NZ dollar based investors).

Over the long-term (7+ years) the fund also aims to deliver pre-tax post-fee returns of over 6.5% per annum and to produce better returns than the broader global equity universe (as proxied by the MSCI World index), while at the same time achieving a significantly lower level of risk (which can be measured in terms of lower return volatility, and smaller drawdowns than the MSCI World Index).

Investment Strategy

Benchmark index:

- 50:50 combination of the MSCI World Index, and the MSCI Minimum Volatility Index optimised for NZ dollar based investors. (For calculation purposes, these weights are rebalanced to 50:50 at the end of each month).

Benchmark asset allocation:

100% global equities, as per benchmark index.

Asset allocation ranges:

- Up to 100% global equities.
- Up to 20% cash and cash equivalents.
- Up to 5% in listed fixed interest or hybrid securities (being securities such as convertible notes which have both fixed interest and equity characteristics).
- Gross notional value of all equity index futures positions limited to 15% of net asset value ("NAV").

Appointed investment manager:

- Te Ahumairangi Investment Management Limited.

Permitted investments:

- Cash and cash equivalents.
- Global Equities (in any listed equity market), including ordinary shares, preference shares, American depositary receipts ("ADRs"), rights issued to security holders, exchange-traded funds ("ETFs"), real estate investment trusts ("REITs"), Master Limited Partnerships ("MLPs"), unit trusts, and stapled securities.
- Listed fixed interest securities and listed hybrid securities (such as convertible notes).
- IPOs, Reg S securities (ie sales to investors outside the United States in offshore transactions) and 144A securities (ie offers and sales to qualified institutional buyers outside the United States).
- Unlisted equity securities received by the fund as a direct result of a spin-off, distribution from or delisting of a listed equity.
- Forward currency contract derivatives (for the purposes of currency hedging).
- Futures contracts linked to global equity markets.

Rebalancing policy:

- There is no formal rebalancing policy, but the Fund will rebalance between different securities, sectors, countries, and asset classes based on the investment manager's judgement of what is likely to achieve the best balance of risk and return. The fund will generally invest in just two asset classes, being global equities and cash, and the investment manager will aim to maintain a cash weighting of less than 5% most of the time, but may occasionally hold up to 20% of the fund in cash (or in cash plus fixed interest securities) if the investment manager judges this to be in the best interests of investors in the fund.

Currency policy:

- The default position of the Fund is to accept the unhedged currency exposure associated with the securities that it invests in. However, the fund will sometimes use foreign exchange forwards (and allocation of any cash balances) to tilt the Fund's exposure to a different mix of currencies than arises directly from the underlying investments, if the investment manager judges that this different mix of currency exposures is likely to result in a better balance of risk and return.

Other:

- The Fund can borrow up to 5% of the aggregate value of its investments but only for the purposes of providing short-term liquidity.
- No holding may exceed 10% of the Fund net asset value ("NAV"), unless this occurs due to an increase in the market value of the holding, in which case the holding must be reduced to below 10% of NAV within one month.
- The Fund should not hold more than 5% of the total issued or voting capital of any one company.
- Short selling of equity securities is not permitted. The Fund may take short positions in futures contracts linked to an equity index, provided that this does not reduce the Fund's net effective exposure to any national equity market to below zero.
- Te Ahumairangi maintains an ethical exclusion list, listing companies that the Fund will not invest in because of involvement in the manufacture of nuclear weapons, chemical weapons, biological weapons, cluster munitions, automatically-triggered landmines, certain tobacco-based products, automatic weapons for civilian use, or semi-automatic weapons for civilian use. This list may also exclude investment in certain companies that Te Ahumairangi believes are acting irresponsibly in other areas including corruption/bribery, the marketing of alcohol or recreational cannabis, gambling, sale of weapons, mining / resource extraction, GHG-intensive fossil fuels, and the employment of vulnerable people.

E. Investment Policies

Taxation

The Fund has elected to be Portfolio Investment Entity ("PIE") and is therefore taxed under the PIE regime.

At the date of this document, the Fund calculates the taxable income accruing from investments in global shares listed outside of New Zealand and Australia, and from forward currency contracts used for the purposes of currency hedging, using the Fair Dividend Rate ("FDR") method.

The taxation implications of an investment method, such as holding assets directly or investing in a managed investment scheme, are taken into account when determining the most appropriate approach for a particular fund. Note that taxation is not the sole consideration when choosing an investment method; other factors taken into account include cost and implementation feasibility.

Liquidity

The liquidity risk of the Fund is assessed with reference to liquidity of the underlying assets and securities. The Manager then establishes an appropriate application and redemption frequency for the Fund. The Fund invests in highly liquid investments and hence has daily applications and redemptions. Market conditions and other factors can, however, change resulting in some assets becoming difficult to sell. Hence if the Fund were to experience liquidity problems or if major markets were closed, the Manager may defer or suspend redemptions for a period of time.

Related-party transactions

Related-party transactions, other than the type described below are prohibited.

Parties related to the Fund, including the staff and directors of Te Ahumairangi and their families, and the staff of IIS and their families may from time to time invest in the Fund. The Manager will report such transactions by related parties to its Supervisor in accordance with section 173(2) of the Financial Markets Conduct Act 2013 (“FMC Act”).

Trade allocations and transactions

As the Fund invests directly in securities, and the investment manager trades the same securities for another portfolio it manages which has a similar investment philosophy, the investment manager has appropriate trade allocation, best execution, brokerage and soft dollar policies and processes governing their investment management activity on behalf of the Fund.

Other relevant policies

Summaries of the key relevant policies are set out below.

Unit Pricing and Unit Register Policy

The purpose of this policy is to set out how IIS manages its unit pricing and unit register obligations, and the way in which IIS exercises its discretions authorised by the Trust Deed and the Fund’s establishment documentation.

This policy also links to IIS’s Outsourcing Policy reflecting that it outsources functions including registry, fund administration and unit pricing to third parties. In particular, the policy governs how IIS selects, monitors and undertakes ongoing due diligence on third party providers.

Within the bounds of what is reasonable and practical our goals are to:

- Have Unit prices that reflect fair, realisable value of underlying assets and liabilities;
- Ensure equitable treatment of investors entering, exiting or remaining in a fund.
- Have a consistent and objective process for determining unit prices.
- Comply with our governing documents, offer documents and the law.

Conflicts of Interest and Related Party Transactions Policy

IIS’s Conflicts of Interest and Related Party Transaction Policy sets out the principles and procedures relating to the management of conflicts of interest within IIS. The policy applies to all of IIS’s directors, relevant officers, senior management and employees.

The policy provides guidance on:

- What is meant by a conflict of interest.
- What constitutes a related party transaction.

The core policy statement is:

> *'As a licensed manager of Managed Investment Schemes, the Manager must act honestly and in the best interests of the Scheme participants. The Manager recognises that in order to satisfy this duty, it and its Staff members must put the interests of its customers ahead of those of itself or of the Staff members.'*

Investment Management Policy

This document sets out IIS's policies and procedures in relation to appointing and monitoring investment managers. In particular the policy covers:

- Investment management governance,
- Investment manager selection and appointment, and
- Investment manager monitoring and compliance.

F. Investment performance monitoring

IIS monitors investment performance of the Fund on a monthly basis. Performance is measured and assessed on the following basis for 1, 3 and 5 year periods:

- Gross return;
- Net of fees and gross of tax at an assumed 28% PIR;
- Benchmark index return;
- Performance relative to benchmark;
- Annualised standard deviation of gross return*;
- Annualised standard deviation of benchmark index return*; and
- Annualised tracking error*.

  ** Standard deviations and tracking error calculated based on monthly returns.*

IIS reports performance to the Supervisor and to the IIS Board.

The IIS Board has responsibility for oversight of investment manager performance. The IIS Board aims to meet at least quarterly.

G. SIPO monitoring and review

The IIS Board is responsible for governance oversight of the SIPO.

The Manager's compliance processes include periodic policy reviews. The SIPO is reviewed annually by the IIS Fund Hosting Due Diligence Committee, including ensuring the investment strategy and asset allocation ranges remain appropriate, with the outcomes of the review reported to the IIS Board. In addition, IIS management may initiate an ad hoc review, with examples of events that could lead to this being:

- The investment manager recommending changes to the SIPO.
- A change in roles and responsibilities.
- A permanent change in risk and return characteristics of the relevant market.

SIPO reviews take into account the views of IIS and the Investment Manager and if required the views of external experts.

The Manager can make changes to the SIPO in accordance with the Trust Deed and the FMC Act. Before making changes to the SIPO, the Manager will consider if the changes are in the best interests of investors and consult with the Supervisor. Any changes to the SIPO require Board approval, as well as written approval of the Supervisor. The Manager will give notice to Fund investors before implementing any material SIPO changes and all SIPO changes will be advised in the annual report for the Scheme.

The Manager is responsible for monitoring adherence to the SIPO and reporting any breaches to the IIS Board and the Supervisor.

This SIPO was approved by the IIS Board on 26 October 2021 and takes effect on 27 October 2021.