



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

12 August 2020



**Simplicity**

The nonprofit KiwiSaver plan

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**Simplicity**

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## Simplicity's Governing Principles

- Providing our investors with dignity in retirement
- Offering New Zealanders high quality, low cost financial products.
- Giving profits back to members.
- Being socially responsible.

## Description of the Scheme

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

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

We are a “not for profit” organisation. We donate 15% of the fees we charge to the Simplicity Charitable Trust, who chooses which charities receive the donations.

More details of how this works and the charities that benefit are on our website [simplicity.kiwi](http://simplicity.kiwi).

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

## Purpose and Philosophy

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

We believe in socially responsible investment and also we believe that markets are efficient. So we have adopted a predominantly ‘passive’ index approach to investing. We do not actively pick or select securities, because we believe that using index funds and having very low costs will return investors more money over time.

Each asset class is represented by an index fund where possible. These funds are designed to track the investment return of a particular market index. For offshore investments, the scheme invests in funds managed by Vanguard Asset Management Limited (Vanguard), a subsidiary of the Vanguard Group, Inc.

Established in 1975, the Vanguard Group, Inc. is owned by its US-domiciled mutual funds, which are in turn owned by their investors. Based in Valley Forge, Pennsylvania, USA, as at 31 January 2020, it managed over NZ\$9.5 trillion of client funds worldwide.

If no suitable Vanguard index fund is available for a particular asset class (specifically New Zealand bonds and shares) we have established our own sector funds that hold a portfolio of securities, designed to provide the respective market return. Although these funds are not index funds, we invest as closely as practically possible to the market index, and minimise costs wherever practicable by keeping transaction and holding costs low.

By investing in index funds, we also maximise diversification, with over 3,000 different share and bond investments in each Fund.



The New Zealand fixed interest allocation for each Fund includes an investment in loans to first home buyers secured by mortgages over their properties. These loans are managed by us. Each loan conforms to strict criteria relating to the loan to valuation ratio and debt servicing ratio. Public Trust controls the bank accounts, but they do not supervise this function.

Within its New Zealand shares allocation, the Growth Fund also has a limited investment in unlisted securities issued by New Zealand businesses with high growth potential. This investment is managed by Icehouse Ventures Limited (Icehouse); the investment arm of The Icehouse Limited that was formed in 2001 to assist small to medium sized enterprises grow their businesses.

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

Each Fund invests in the same mix of funds, however the weightings to each sector will differ to reflect the risk versus return characteristics of the Fund e.g. the Growth Fund will target 78% in shares, while the Conservative Fund target is 22%.

The relationship between risk and return means that growth asset classes such as shares are likely to deliver higher returns over time but may be more volatile (prices falling as well as rising). Fixed interest securities such as government bonds are usually less volatile but are also likely to deliver a lower return over the long term.

## Investment Objectives

The investment objective for each Fund is for its performance to be ranked in the top 25% of its respective KiwiSaver category after tax and fees over the medium to long term. For the Conservative Fund, its category is funds with an average allocation to income assets such as bonds, of around 80%. For the Growth Fund, its category is funds with an average of around 75% allocated to growth assets such as shares.

For the Guaranteed Income Fund and the Balanced Fund, their category is funds with a fairly even split between income and growth assets. The Guaranteed Income Fund and the Balanced Fund benchmark asset allocation is 44% income, 56% growth.

## Investment Policies

### Currency hedging

Our hedging policy is set using the average of the 12 main KiwiSaver providers that we monitor, resulting in our equity investments being 65% hedged into New Zealand dollars. The hedging policy will be monitored quarterly and adjusted from time to time to follow the average within a range 50% - 70%.

The foreign exchange exposures in each Fund are hedged as follows:

Asset class	Hedging style	Benchmark (%)	Range
International equities	Passive	65	55 to 75
Australian equities	Passive	65	55 to 75
International fixed interest	Passive	100	95 to 105



International markets are accessed through a series of index funds managed by Vanguard.

In the case of the Australian Share Index Fund, we hedge 65% of the Australian dollar exposure into New Zealand dollars.

For the remaining international equities, 65% of the exposure is invested in a Vanguard fund that is fully hedged into New Zealand dollars and 35% into an unhedged Vanguard fund.

For international bonds, we invest in a Vanguard fund that is fully hedged into New Zealand dollars.

The hedging strategy is managed using forward exchange contracts with New Zealand registered banks. The current value of all outstanding foreign exchange contracts is constantly monitored by the Administrator and advised to us daily. Sufficient cash and liquid assets are retained in each Fund to cover the current value of the outstanding forward contracts at all times.

## Rebalancing

The current asset allocation of the Funds will be monitored by us on a daily basis in consultation with the Administrator.

Where a Fund is within 2.0% of the maximum or minimum permitted range of exposure to an asset class (as detailed in Schedules 1 to 4) or within 2.0% of the permitted total weighting to income or growth assets, we will determine the rebalancing amounts required and will rebalance the Fund accordingly. The exception is cash which may vary more than 2% from its target for liquidity management purposes.

In the event of significant financial market volatility, there is the possibility that the asset allocation of the Funds may breach the assigned range. Any such breach must be remedied within 5 working days. We provide a report to the Supervisor setting out all breaches that occur on a quarterly basis.

## Tactical asset allocation Policy

We believe that markets are efficient and we have therefore adopted a passive investment approach. No attempt is made to increase returns by actively over-weighting or under-weighting particular asset classes at the expense of others.

## Derivatives Policies

Apart from forward exchange contracts to hedge currencies, our preference is not to use derivatives and the nature of our investments means this is almost always the case. Derivatives are only used if there is no cost effective means to gain an essential investment exposure using physical securities. Where derivatives are used, they will be structured to achieve the same investment returns as if the investments were held physically (commonly referred to as 'One Delta' investments).

## Leverage Policies

No leverage is permitted at the Fund level. Some of the underlying assets (such as equities) may operate with some leverage. The inclusion of these assets reflects our investment philosophy to mirror the index rather than to increase returns.



## Diversification Requirements/Limits

Where possible, the Scheme invests into index funds managed by Vanguard that have a high level of diversification.

Where we manage a fund designed to generate a similar return to a particular market, the respective Investment Guidelines are drafted to ensure that concentration risk is prudently managed within that asset class.

## Market Risk Management Policy

Market risk is an inevitable aspect of investing in financial markets. We believe that the strategic asset allocation of each investment option provides a diversified exposure to each asset class at an appropriate level for that options' label; Conservative, Guaranteed Income, Balanced or Growth.

While market risk varies for each of the funds, education and communication are key to understanding risk and/or being comfortable with it in the funds. We are committed to providing the information that investors need to understand how and why markets (hence their investments) are performing as they are.

## Credit Risk Management

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

The New Zealand Cash portfolios of each Fund are designed to ensure that any credit risk is primarily to New Zealand registered banks, or securities with a credit rating equal to, or better than, the single A rated banks.

A high proportion of the New Zealand Fixed Interest portfolio will be in New Zealand government stock. Loans within the first mortgage portfolio are subject to strict terms relating to loan to valuation ratios and debt servicing ratios.

The International Fixed Interest portfolio invests in a diversified portfolio of securities (bonds), containing approximately 750 securities (bonds) issued by governments, government related entities and companies with an investment grade rating (investment grade means an issue is rated at least BBB- or equivalent by a recognised rating agency such as Standard & Poors). All securities are included in a recognised international index issued by Bloomberg Barclays. The weighted average credit rating is AA-.

## Other Relevant Policies

### Liquidity and Cash Flow Management

We maintain a balance of transactional cash on call in a specific bank account for each investment option. This is to ensure that there is sufficient liquidity to fund the normal course of business.

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

A cash flow forecast is maintained with a 2 working day time horizon. This is considered sufficient time to redeem from underlying investments if required. Most authorised investments have a maximum settlement period of 2 working days. Similarly, 2 working days is sufficient to ensure that inflows are invested and the 10% maximum cash balance is not exceeded.



## Conflicts of Interest Policy

Conflicts of Interest may occur at multiple levels and Scheme members' interests take priority at all times.

In order to avoid, mitigate and manage potential conflicts, we have adopted a Conflicts of Interest Policy. Our key principle is that any potential conflicts of interest are avoided where possible. If that is not possible, then they are clearly disclosed by any person making decisions on behalf of Scheme members and mitigated to the extent possible.

A register of potential conflicts of interest is maintained by the chair of our Board of Directors. The chair must be notified of any changes to the register if and when they occur. Continual disclosure of potential conflicts of interest is a contractual requirement for all members of staff or parties contracted to Simplicity.

## Voting Policies

Where the exposure to an asset class is achieved through an index fund managed by Vanguard, the following voting policy applies:

**<https://about.vanguard.com/vanguard-proxy-voting/voting-guidelines/>**

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

## Environmental, Social and Governance Policies

Our business is ultimately a social enterprise, thus investing responsibly is an important issue for us and our members. We specifically exclude investments in companies with significant involvement in the following activities:

- Fossil fuel exploration and extraction
- Alcohol
- Tobacco
- Gambling
- Military weapons
- Civilian firearms
- Nuclear power
- Adult entertainment

Our investments also exclude companies that have contravened the principles of the UN Global Compact ([www.unglobalcompact.org](http://www.unglobalcompact.org)), under the following categories:

- Anti corruption
- Human rights
- Environment
- Labour

We believe in social responsibility and seek areas where we can be constructive. We do this by being an active shareholder advocate and through the 15% of our fees that Simplicity Charitable Trust donate to charity.





## Pricing/Valuation Policies

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

Where an investment is traded on financial markets, the Administrator will determine the valuation in accordance with the last market prices available at the valuation point. Where the investments are Vanguard unlisted trusts, the Administrator will be provided with a unit price each day by Vanguard.

The valuation of assets is generally based on information provided to the Administrator by independent third party providers. Where practicable the Administrator will look to verify this data by comparing information from a second independent source.

The portfolio of first mortgage loans is valued daily at the outstanding balance of each loan, plus accrued interest and accounting for principal and interest payments received. A prudent provision for non-performing loans is also accounted for.

The Growth Fund's investment into unlisted securities will be valued once a month based on annual independent valuations. At least once every year, each investment will be valued by an independent valuer appointed by us. Additionally, the investments will be valued by Icehouse on a rolling quarterly basis so that there are valuations spread over the calendar year.

This annual independent valuation noted above will be based on information provided by Icehouse. The methodology for valuing each investment will take into account the business model provided by each business to Icehouse. It will also take into account available financial information relating to each investment.

We will also engage on a monthly basis with Icehouse to obtain information (either relating to a specific investment, the market sectors within which they operate, or a segment of the market generally) to enable us to assess whether there has been a material change that may impact on the valuation of an investment, that would in turn impact on the Fund's monthly valuation.

## Taxation Policy

The Scheme is Portfolio Investment Entity (PIE). Tax on investment income is calculated at each member's prescribed investor rate (currently either 10.5%, 17.5% or 28% depending on each member's circumstances) and paid to the Inland Revenue on members' behalf annually.

## Investment Performance Monitoring and Reporting

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

Performance is reported to the Supervisor monthly. Investors will receive a quarterly fund update, with current information available through the Scheme's website on a daily basis.



# Investment Strategy and SIPO Review

## Investment Strategy

We believe our return objectives will be achieved by maintaining a consistent asset allocation through market cycles. We do not believe in frequent re-balancing of asset allocations, which can cause unnecessary activity (and associated costs) and can be overly emotionally driven in times of market volatility. In our opinion this approach has not shown that it can add value to investors.

The asset allocation of each Fund is set by determining the average strategic asset allocation to each asset class by the main KiwiSaver providers for each risk category; conservative, balanced and growth. This data is released every quarter as part of each provider's regulatory disclosure.

While we use the averages as a basis for our asset allocation, we do not believe our investors need to hold the levels of liquidity that the average manager holds. We are a long term investor and believe we should collect the additional return from holding long term bonds. Our approach is therefore to allocate the average cash weighting over and above what is required for cashflow management (around 2%) into highly rated New Zealand corporate bonds.

Where the average allocations amongst our peers includes unlisted investments, or those not accessible via public markets (e.g. direct property, private equity, hedge funds), we will allocate the same amount into their listed equivalents i.e. shares or bonds. Liquidity and low costs of investing are paramount to our investors' wellbeing.

The average strategic asset allocations are checked quarterly when the data is released.

## SIPO Review

A review of this SIPO is undertaken by us at least annually, but we believe that investors are best served by maintaining a steady and consistent investment policy. This means that significant changes to our SIPO are unlikely to be required unless there are product changes or if there has been a significant market development that makes the existing SIPO redundant or impossible to implement.

If we decide a change is appropriate, it can only be made following prior consultation with the Supervisor.

The most current version of the SIPO is available on the Scheme's register, which is available at [www.simplicity.kiwi](http://www.simplicity.kiwi) or on the Disclose website at [www.business.govt.nz/disclose](http://www.business.govt.nz/disclose).



## Schedule 1: Investment strategy for the Conservative Fund

The Conservative Fund provides investors with a limited exposure to growth assets, but most of its investments are in income assets. As a result, the return from the Fund is likely to be lower over the longer term (10 years or more than the Balanced or Growth Funds, but the value of its investments are unlikely to fluctuate as much as the Balanced or Growth Funds.

Where possible, the Fund's investments are in index funds, managed by Vanguard.

In the case of New Zealand assets (cash, fixed interest and equities, no suitable externally managed index fund is currently available at a reasonable investment management fee.

For New Zealand bonds and shares the Fund therefore invests in funds managed by us to provide the respective market return. It has an 8% maximum allocation to loans secured by first mortgages over residential property within its New Zealand fixed interest allocation.

### Benchmark Asset Allocations and Ranges

Asset class	Benchmark Asset Allocation	Range
Cash and cash equivalents	2%	0% - 10%
New Zealand fixed interest	36%	26% - 46%
International fixed interest	40%	30% - 50%
<b>Total Income Assets</b>	<b>78%</b>	<b>68% - 88%</b>
New Zealand equities	7%	0% - 17%
Australian equities	2.5%	0% - 12.5%
International equities	12.5%	2.5% - 22.5%
<b>Total Growth Assets</b>	<b>22%</b>	<b>12% - 32%</b>

### Authorised investments

Authorised investments for each asset class are detailed in Schedule 5 on page 15.



## Schedule 2: Investment strategy for the Balanced Fund

The Balanced Fund provides investors with an exposure to a mix of growth and income assets. As a result, the return from the Fund is likely to be lower over the longer term (10 years or more than the Growth Fund but higher than the Conservative Fund. At the same time the value of its investments is likely to fluctuate more than the Conservative Fund but are likely to be more stable than the Growth Fund.

Where possible, the Fund's investments are in index funds, managed by Vanguard.

In the case of New Zealand assets (cash, fixed interest and equities, no suitable externally managed index fund is currently available at a reasonable investment management fee. For New Zealand bonds and shares the Fund therefore invests in funds managed by us to provide the respective market return. It has a 5% maximum allocation to loans secured by first mortgages over residential property within its New Zealand fixed interest allocation.

### Benchmark Asset Allocations and Ranges

Asset class	Benchmark Asset Allocation	Range
Cash and cash equivalents	2%	0% – 10%
New Zealand fixed interest	16.5%	6.5% – 26.5%
International fixed interest	25.5%	15.5% – 35.5%
<b>Total Income Assets</b>	<b>44%</b>	<b>34% – 54%</b>
New Zealand equities	15%	5% – 25%
Australian equities	6%	0% – 16%
International equities	35%	25% – 45%
<b>Total Growth Assets</b>	<b>56%</b>	<b>46% – 66%</b>

### Authorised investments

Authorised investments for each asset class are detailed in Schedule 5 on page 15.



## Schedule 3: Investment Strategy for the Growth Fund

The Growth Fund provides investors with a limited exposure to income assets, but most of its investments are in growth assets. As a result, the return from the Fund is likely to be higher over the longer term (10 years or more than the Conservative and Balanced Funds, but the value of its investments is likely to fluctuate more than the Balanced and Conservative Funds.

Where possible, the Fund's investments are in index funds, managed by Vanguard.

In the case of New Zealand assets (cash, fixed interest and equities, no suitable externally managed index fund is currently available at a reasonable investment management fee.

For New Zealand bonds the Fund therefore invests in a fund managed by us to provide the respective market return. It has a 3% maximum allocation to loans secured by first mortgages over residential property within its New Zealand fixed interest allocation.

For New Zealand shares the Fund primarily invests in a fund managed by us to provide the respective market return, but also has a limited allocation (maximum 5%) to unlisted New Zealand securities issued by New Zealand businesses with high growth potential.

### Benchmark Asset Allocations and Ranges

Asset class	Benchmark Asset Allocation	Range
Cash and cash equivalents	2%	0% – 10%
New Zealand fixed interest	7.5%	0% – 17.5%
International fixed interest	12.5%	2.5% – 22.5%
<b>Total Income Assets</b>	<b>22%</b>	<b>12% – 32%</b>
New Zealand equities	21%	11% – 31%
Australian equities	8.5%	0% – 18.5%
International equities	48.5%	38.5% – 58.5%
<b>Total Growth Assets</b>	<b>78%</b>	<b>68% – 88%</b>

### Authorised investments

Authorised investments for each asset class are detailed in Schedule 5 on page 15.



## Schedule 4: Investment strategy for the Guaranteed Income Fund

The Guaranteed Income Fund provides investors with an exposure to a mix of growth and income assets. As a result, the return from the Fund is likely to be broadly in line with the Balanced Fund (over 10 years or more and its investments are likely to fluctuate in a similar manner to the Balanced Fund). The Fund is designed to provide the basis of a long term income stream for its investors, alongside the insurance policy that guarantees the income stream for life.

Where possible, the Fund's investments are in index funds, managed by Vanguard.

In the case of New Zealand assets (cash, fixed interest and equities, no suitable externally managed index fund is currently available at a reasonable investment management fee. For New Zealand bonds and shares the Fund therefore invests in funds managed by us to provide the respective market return. It has a 5% maximum allocation to loans secured by first mortgages over residential property within its New Zealand fixed interest allocation.

### Benchmark Asset Allocations and Ranges

Asset class	Benchmark Asset Allocation	Range
Cash and cash equivalents	2%	0% – 10%
New Zealand fixed interest	16.5%	6.5% – 26.5%
International fixed interest	25.5%	15.5% – 35.5%
<b>Total Income Assets</b>	<b>44%</b>	<b>34% – 54%</b>
New Zealand equities	15%	5% – 25%
Australian equities	6%	0% – 16%
International equities	35%	25% – 45%
<b>Total Growth Assets</b>	<b>56%</b>	<b>46% – 66%</b>

### Authorised investments

Authorised investments for each asset class are detailed in Schedule 5 on page 15.



## Schedule 5: Asset Class Investment Guidelines

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

### Cash and Cash Equivalent Portfolio

#### Investment Policy

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

#### Investment Objective

The objective is to track the Reserve Bank New Zealand Official Cash Rate return on a rolling 12 month basis before tax and fees.

#### Benchmark Index

The Benchmark Index is the Reserve Bank New Zealand Official Cash Rate as published by the Reserve Bank New Zealand, or any replacement index with the agreement of the Supervisor.

#### Authorised Investments

Cash on call or any debt security or a Derivative thereof that is denominated in New Zealand dollars.

Manager shall ensure that the Cash portfolios of each Fund remain at all times within the following prudential limits:

Type of debt security	Maximum % with single issuer of debt security	Maximum % class of issuer of debt security
Cash on call at a registered New Zealand bank	100	100
New Zealand fixed interest	100	100
Debt securities issued or guaranteed by a New Zealand Registered Bank rated at least A+ (S&P rating or equivalent)	30	100
Debt securities issued by the New Zealand Local Government Funding Agency Limited	100	30
In addition to Bank securities, debt securities of at least AA- (S&P rating or equivalent)	10	50
Specific authorisations	as approved by the Supervisor	

The weighted average duration of the Cash and Cash Equivalent portfolios for each Fund must not exceed 60 days.



## New Zealand Fixed Interest Portfolio

### Investment Policy

The Funds invest in the Simplicity NZ Bond Fund (or its equivalent). The Simplicity NZ Bond Fund invests in New Zealand government bonds and other highly rated liquid bonds. The Funds also have an allocation to loans secured by first mortgages over residential property. The terms and conditions of the loans are outlined on page 18.

### Investment Objective

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

The portfolio of loans secured by first mortgages aims to generate a return 1.5% over its Benchmark Index return (see page 18).

### Benchmark Index

The Benchmark for the Simplicity NZ Bond Fund is the Bloomberg NZBond Govt 0+ Yr Index as calculated and published by Bloomberg, or any replacement index with the agreement of the Supervisor.

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

## International Fixed Interest Portfolio

### Investment Policy

The Funds invest in the Vanguard Ethically Conscious Global Aggregate Bond Index Fund (or its equivalent).

The Vanguard Ethically Conscious Global Aggregate Bond Index Fund (Hedged) invests in a diversified portfolio of securities (bonds) selected from an index containing approximately 18,700 securities (bonds) issued by governments, government-related entities, investment grade corporate issues and securitised assets from around the world.

### Investment Objective

To track the Benchmark Index (defined below) return on a rolling 12 month basis before tax and fees.

### Benchmark Index

The Benchmark is the Bloomberg Barclays MSCI Global Aggregate SRI ex ESG Exclusions Index 100% hedged into the New Zealand dollar.

### Hedging Policy

Returns from the Vanguard Ethically Conscious Global Aggregate Bond Index Fund are fully hedged into New Zealand dollars by Vanguard.





## New Zealand Equity Portfolio

### Investment Policy

The Funds invest in the Simplicity NZ Share Fund (or its equivalent). The Simplicity NZ Share Fund invests in companies and property trusts listed on the New Zealand stock exchange (NZX). The Growth Fund also has a limited allocation (maximum 5%) to unlisted securities issued by New Zealand companies with high growth potential (see page 19).

### Investment Objective

To generate a return in line with the performance of the NZ share market.

### Benchmark Index

The Benchmark is the Morningstar New Zealand Index published by Morningstar, or any replacement index with the agreement of the Supervisor.

## Australian Equity Portfolio

### Investment Policy

The Funds invest in the Vanguard Ethically Conscious Australian Shares Fund. The Vanguard Ethically Conscious Australian Shares Fund invests in approximately many of the largest companies and property trusts listed on the Australian Securities Exchange (ASX).

### Investment Objective

To track the Benchmark Index (defined below) return on a rolling 12 month basis before tax and fees.

### Benchmark Index

The Benchmark is the FTSE Australia Choice Index 65% hedged into the New Zealand dollar, or any replacement index with the agreement of the Supervisor.

### Hedging Policy

Returns from the Vanguard Ethically Conscious Australian Shares Fund are in Australian dollars. We implement forward exchange contracts to hedge 65% of the returns into New Zealand dollars.

## International Equity Portfolio

### Investment Policy

The Funds invest 65% in the Vanguard Ethically Conscious International Shares Index Fund - NZD Hedged and 35% in the Vanguard Ethically Conscious International Shares Index Fund which is unhedged. The Vanguard Ethically Conscious International Shares Index Funds provide investors with exposure to over 1,500 of the world's largest companies listed on the exchanges of the world's major developed economies.

### Investment Objective

To track the Benchmark Index return (defined below) on a rolling 12 month basis before tax and fees.

### Benchmark Index

The Benchmark Index is the FTSE Developed ex Australia Choice Index 65% hedged to the New Zealand dollar, or any replacement index with the agreement of the Supervisor.

### Hedging Policy

Returns from the Vanguard Ethically Conscious International Shares Index Fund - NZD Hedged are fully hedged into New Zealand dollars by Vanguard. Returns from the Vanguard Ethically Conscious International Shares Index Fund are unhedged.



## First mortgage portfolio

### Investment Policy

#### Lending policies

Borrowers must fulfill the following criteria:

- eligible to make a first home withdrawal from their KiwiSaver account
- have been a member of Simplicity KiwiSaver Scheme for at least 1 year
- maximum loan to valuation ratio is 80%
- debt servicing must represent no more than 30% of after-tax salary (joint if applicable)

These are the basic criteria which apply in all cases. Each application for a loan is considered by our team and there may be additional terms that are applied depending on the circumstances.

Secured properties must be freehold residential properties that the borrower is living in.

All loans require repayment of principal and interest.

Our lending rate will be set at an appropriate level between the current rates of return available on short term money market instruments such as bank floating rate notes and term deposits, compared to the range of mortgage interest rates available at the registered NZ banks.

The rate will be reviewed after any change in the Reserve Bank of New Zealand official cash rate or if there are any significant changes in prevailing interest rates.

#### Credit risk management

A series of credit checks are undertaken prior to approval of a loan.

#### Liquidity management

We ensure there is adequate liquidity available in the diversified finance to fund any drawdown that we commit to.

Principal and interest payments accumulate in the repayment bank account and when a new loan is made, any excess funds in that account are incorporated into that drawdown. The maximum amount of cash will not exceed 5% of the value of the outstanding mortgage loans.

#### Loan management

We use mortgage management software to maintain records of:

- all supporting loan documentation
- mortgage securities
- loan balances
- outstanding interest

All repayments of principal and interest are made by direct debit. The system alerts us to any late payments. If a loan goes into arrears we will take appropriate action to recover those arrears.

Loans will be valued daily at fair value. Any arrears will impact investor returns.

We are bound by the Credit Contracts and Consumer Finance Act and we will work with borrowers if they get into problems, but given our lending criteria, it is likely that a refinance option will be available in most cases.

#### Investment Objective

To generate a return 1.5% in excess of the Benchmark Index.

#### Benchmark Index

The Benchmark Index is the Bloomberg NZBond Bank Bill Index, or any replacement index with the agreement of the Supervisor.



## Private Equity portfolio

### **Investment Policy**

The Growth Fund will invest in funds managed by Icehouse Ventures, focusing on unlisted New Zealand companies with high growth potential.

### **Investment Objective**

To generate long term (7 to 10 years) returns in excess of the returns available from listed equities. Investment values will be constantly monitored and confirmed monthly, but it is likely that revaluations will be infrequent.

### **Benchmark Index**

There is currently no suitable benchmark specifically for this asset class. We are treating it as a sub sector of the New Zealand equity portfolio, benchmarked against the Morningstar New Zealand Index.

