

# NIKKO AM NZ KIWISAVER SCHEME

## Statement of Investment Policy and Objectives

3 April 2018

Issued by Nikko Asset Management  
New Zealand Limited

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## A. Description of the Nikko AM KiwiSaver Scheme

Nikko Asset Management New Zealand Limited ("Nikko AM", "we" or the "Manager") is a wholly owned subsidiary of Nikko Asset Management Co., Ltd ("Nikko Asset Management"), which is headquartered in Tokyo, Japan. Nikko Asset Management is a dedicated global asset manager with investment professionals across the world's major financial centres. As one of the largest investment managers in New Zealand, Nikko AM provides investment management services for domestic assets through its Auckland-based investment team and has contracted offshore managers to manage global assets.

This Statement of Investment Policy and Objectives ("SIPO") applies to the Nikko AM NZ KiwiSaver Scheme (the "Scheme"), a registered managed investment scheme. More information on the Scheme and the current version of this SIPO are available on the scheme register and the offer register on Disclose ([www.business.govt.nz/disclose](http://www.business.govt.nz/disclose)).

### Roles and Responsibilities

We are the Manager of the Scheme. Public Trust (the "Supervisor") is the Supervisor of the Scheme. The roles and responsibilities of Nikko AM and the Supervisor are set out in the Trust Deed for the Scheme (effective 3 January 2018) between the Supervisor and Nikko AM which is available on the scheme register on Disclose ([www.business.govt.nz/disclose](http://www.business.govt.nz/disclose)).

Our Investment Committee is responsible for ensuring that the SIPO is adhered to.

### Funds

The Scheme offers eight (8) investment funds ("the Funds"):

Diversified Funds	Cash and Fixed Interest Funds	Equity Funds	Alternative Strategy Fund
Conservative Fund	NZ Cash Fund	Core Equity Fund	Option Fund
Balanced Fund	NZ Corporate Bond Fund	Global Shares Fund	
Growth Fund			

### Effective Date

This SIPO takes effect from 3 April 2018.

## B. Investment philosophy

We believe that we can deliver strong and repeatable risk-adjusted returns for our investors. This belief stems from our philosophy which is that:

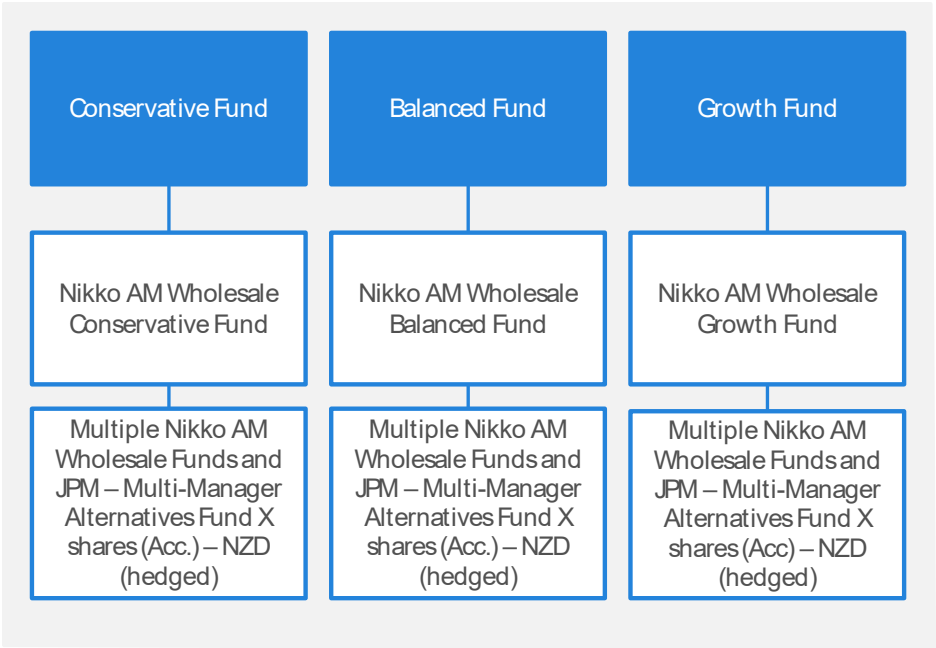
- Markets are not always efficient and indices are constrained therefore active investment management can discover and benefit from identified opportunities.
- Investments are best managed by sector specialists within a comprehensive risk management framework. Where appropriate this may involve selecting and overseeing global investment specialists.
- Asset allocation is a key driver of overall portfolio return. Diversification both within and across investment sectors helps to reduce risk and grow wealth over the long-term.
- Combining quality investment decision-making with patience and time will increase the probability of improving investor returns.

## C. Structure

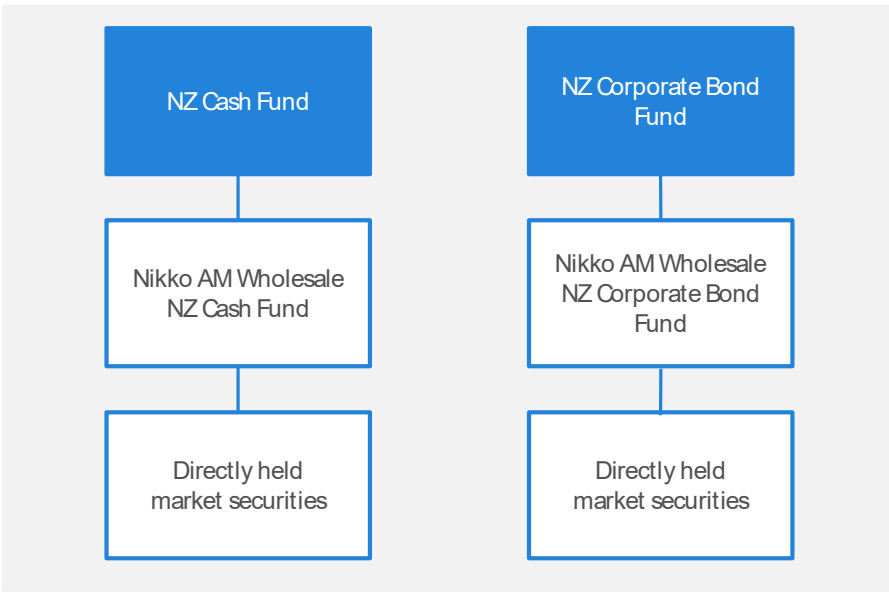
The funds are independent of each other. The beneficial interest in the assets of each Fund is divided into units. On investment, an investor receives units in a Fund and each unit is of equal value to all other units in that Fund.

Each Fund’s assets may be invested into other funds, wholesale funds in the Nikko AM NZ Wholesale Investment Scheme (“Wholesale Funds”) managed by us, or in directly held market securities according to the investment strategy of the Fund. The Wholesale Funds are available only to certain institutional investors. We outline the structure of each Fund below.

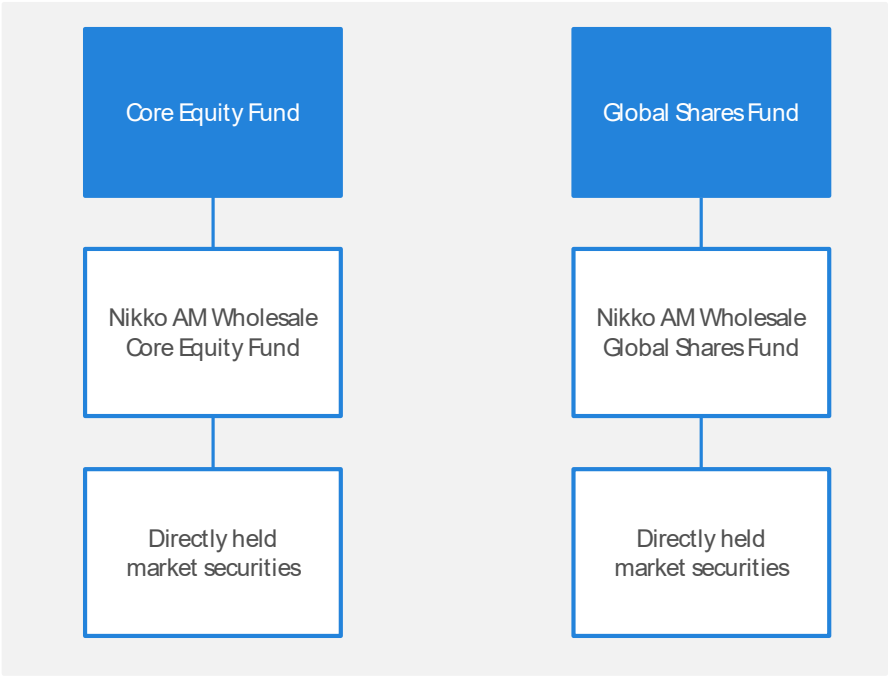
### Diversified Funds



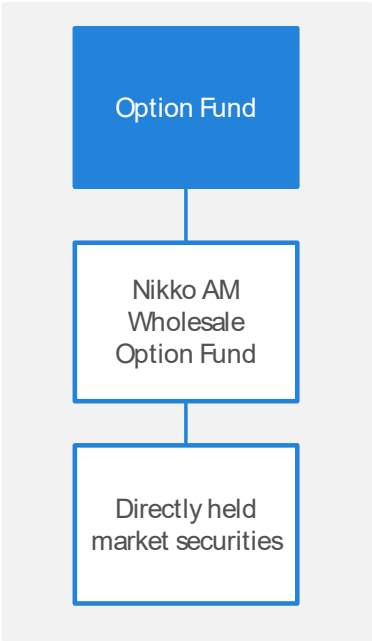
### Cash and Fixed Interest Funds



Equity Funds



Alternative Strategy Funds



The Scheme is a Portfolio Investment Entity (“PIE”). Each Fund attributes its income or loss, expenses, and tax credits (if any) per unit daily to each investor in the proportion of units they hold and the number of units in the Fund. Tax is paid directly to Inland Revenue annually after 31 March by our administration manager, BNP Paribas Fund Services Australasia Pty Limited (“BNP Paribas” or “Administration Manager”) by redeeming units or on redemption of units and is based on taxable income attributed to each investor at their prescribed investor rate (“PIR”) which they must provide to us.

D. Investment strategies and objectives

The investment strategies and objectives for the funds are as follows:

## Conservative Fund

### Description of the Fund

This fund has a diversified portfolio which aims to preserve capital and achieve an investment return above bank deposit rates.

### Investment Objective

The objective of this fund is to achieve a return which exceeds the weighted composite benchmark return by 1.00% p.a. over a rolling three year period before fees, expenses and taxes.

### Investment Strategy

This fund gains its investment exposure by investing through the Nikko AM Wholesale Conservative Fund in to a range of actively managed funds to create a diversified portfolio with a focus on lower risk assets.

### Benchmark

Composite of:

	Weight %
Bloomberg NZBond Bank Bill Index	15
Bloomberg NZBond Govt 0+ YR Index	30
Bloomberg Barclays I Global Aggregate Index hedged into NZD	20
S&P/NZX 50 Index Gross with Imputation Index	7.5
S&P/NZX All Real Estate (Industry Group) Gross with Imputation Index	5
MSCI All Countries World Index (net dividends reinvested), expressed in NZD	6.25
MSCI All Countries World Index (net dividends reinvested) 139% gross hedged to NZD	6.25
Bloomberg NZBond Bank Bill Index +4.0% p.a.	5
ICE Libor USD 1 month hedged to NZD	5

### Strategic Asset Allocation

	Target %	Range %
Cash and cash equivalents, New Zealand fixed interest, international fixed interest, Australasian equities, international equities, listed property and diversified hedge funds via the Nikko AM Wholesale Conservative Fund	100	95.0↔100.0
Cash on call for investor transactions	0	0.0↔5.0

## Nikko AM Wholesale Conservative Fund

### Permitted Investments

The Permitted Investments of the Nikko AM Wholesale Conservative Fund are:

- Cash balances with brokers, agents or custodians (both local and overseas) pending investment or pending payment to the manager.
- Units, sub units or other interests in any managed investment scheme, mutual fund, group investment fund or similar entity in any part of the world.
- The investments set out in the Strategic Asset Allocation below.
- Any other investment agreed to by the Manager and Supervisor.
- Cash, including foreign currencies should be invested with organisations with a level of security equal to or better than a Standard & Poors A1 short term or A long term rating or Moody's equivalent.

## Strategic Asset Allocation of Nikko AM Wholesale Conservative Fund

	Further information on the underlying fund, including currency management	Target %	Range %
Nikko AM Wholesale NZ Cash Fund	See page 16	15	10.0 ⇄ 20.0
Nikko AM Wholesale NZ Bond Fund	See below this table	15	10.0 ⇄ 20.0
Nikko AM Wholesale NZ Corporate Bond Fund	See page 17	15	10.0 ⇄ 20.0
Nikko AM Wholesale Global Bond Fund	See page 8	20	15.0 ⇄ 25.0
<b>TOTAL INCOME ASSETS:</b>		<b>65</b>	
Nikko AM Wholesale Core Equity Fund	See page 19	7.5	2.5 ⇄ 12.5
Nikko AM Wholesale Property Fund	See page 9	5	0.0 ⇄ 10.0
Nikko AM Wholesale Global Equity Unhedged Fund or Nikko AM Wholesale Global Shares Fund	See pages 10 and 21	6.25	1.25 ⇄ 11.25
Nikko AM Wholesale Global Equity Hedged Fund or Nikko AM Wholesale Global Shares Hedged Fund	See pages 10 and 11	6.25	1.25 ⇄ 11.25
<b>TOTAL GROWTH ASSETS:</b>		<b>25</b>	
Nikko AM Wholesale Option Fund	See page 23	5	0.0 ⇄ 10.0
JPMorgan Funds – Multi-Manager Alternatives Fund	See page 11	5	0.0 ⇄ 10.0
<b>TOTAL ALTERNATIVE ASSETS:</b>		<b>10</b>	

## Nikko AM Wholesale NZ Bond Fund

### Permitted Investments

The permitted investments of the Nikko AM Wholesale NZ Bond Fund are:

- Cash balances with brokers, agents or custodians (local and overseas) pending investment or pending payment to the Manager.
- Cash and deposits with, or debt securities issued or guaranteed by:
  - The New Zealand government, government department or any debt obligation guaranteed by the New Zealand government.
  - Any foreign government (including central and local government) or any state of a foreign nation or any political subdivision or agency of such government or state or any supranational issuing New Zealand dollar denominated debt.
  - Any New Zealand local authority.
  - Any New Zealand registered bank or equivalent institution in any other country issuing NZD debt.
  - Kauri bonds.
  - Corporations incorporated, constituted or registered in New Zealand issuing New Zealand dollar debt.
  - Corporations incorporated, or registered outside New Zealand, issuing New Zealand dollar denominated debt.
- Derivative Instruments, including futures, swaps, interest rate agreements; forward rate agreements; options (either exchange traded or over-the-counter); forward foreign exchange contracts, repurchase agreements. The use of derivatives is limited to contracts related to permitted investments.
- Products investing in the above underlying investments, including products managed by the Manager or a related body corporate of the Manager.
- Any other investment agreed to by the Manager and Supervisor.

### Restrictions

	Limitation/Restriction
Portfolio duration (modified) range	±1.5 years around benchmark duration
Exposure to assets rated A- or better	Minimum of 95% of the Nikko AM Wholesale NZ Bond Fund value
Securities issued or guaranteed by the New Zealand Government or securities accepted by the Reserve Bank of New Zealand's Overnight Reverse Repo Facility	Minimum of 25% of the Nikko AM Wholesale NZ Bond Fund value
Securities <sup>2</sup> with a credit rating equal to or higher than New Zealand Government as measured by Standard & Poor's or equivalent	Minimum of 50% of the Nikko AM Wholesale NZ Bond Fund value

recognised rating agency	
New Zealand Local Government Funding Agency (LGFA) securities	Maximum of 15% of the Nikko AM Wholesale NZ Bond Fund value
Kauri bonds, supra-nationals, foreign government and government agency securities	Maximum of 30% of the Nikko AM Wholesale NZ Bond Fund value
All issuers (except the New Zealand government and LGFA)	Maximum of 10% of the Nikko AM Wholesale NZ Bond Fund value per issuer
Cash and cash equivalent investments counterparty/issuer credit rating	Equal to or better than a Standard & Poor's A1 short term or A long term rating or Moody's equivalent rating
Derivative counterparties	Derivatives can only be transacted with parties listed on the Nikko AM NZ Approved Counterparties List
The nominal face value of all derivative instruments	Maximum 40% of the market value of the Nikko AM Wholesale NZ Bond Fund value
Sub-investment grade debt	Prohibited <sup>3</sup>
Investment in any managed investment scheme that is not a PIE	Prohibited

<sup>2</sup>If an issue does not have a credit rating, the credit rating of the issuer or deposit taker applies.

<sup>3</sup>In the event of a credit rating downgrade below investment grade, the manager may remain invested up to 5% of the value of the Nikko AM Wholesale NZ Bond Fund.

## Currency Management

All Investments will be in New Zealand dollars.

## Nikko AM Wholesale Global Bond Fund

### Permitted Investments

The permitted investments of the Nikko AM Wholesale Global Bond Fund are:

- Cash balances with brokers, agents or custodians (local and overseas) pending investment or pending payment to the Manager.
- Fixed rate, variable rate and floating rate securities issued or guaranteed by Treasuries, Government-Related organisations, Corporations and Securitised issuers. Government guaranteed securities shall be classified as Government agency obligations.
- Money market investments (including but not limited to Time Deposits, Treasury Bills, Bank Acceptance securities, Collateralised Obligations, Commercial Paper, Repurchase Agreements and Money Market funds).
- Affiliated mutual funds for cash management and asset allocations to specific sectors on the bond market. In the event of conflict between the investment guidelines herein and those of an affiliated mutual fund, those of the affiliated mutual fund shall prevail.
- Derivative instruments including futures (including but not limited to money market futures and government bond futures), swaps (including but not limited to interest rate swaps, inflation-linked swaps, credit default swaps (which in turn include single-name, basket and tranch credit default swaps) and total return swaps), FRAs and options (including but not limited to exchange traded and OTC options on all securities, currencies and derivative instruments as above). For the avoidance of doubt the net aggregate notional market value of derivative holdings may exceed 100%.
- Any other investment agreed to by the Manager and Supervisor.

### Restrictions

- The weighted average modified duration of the Portfolio shall be within +/- 2.5 years of the weighted average modified duration of the Benchmark. Net long and short interest rate and market value exposures of individual countries is permitted. In managing the interest rate risk of the portfolio, the contribution to portfolio duration from derivatives must be combined with the contribution to portfolio duration from all other investments.
- Maximum 5% aggregate exposure to bonds, net of single-name credit default swap exposure, of any one corporate issuer.
- All short term rated money market investments must be rated A2/P2/F2 or better by Standard & Poor's, Moody's and/or Fitch.
- All long term rated securities must be rated BBB- or higher by Standard & Poor's, Moody's and/or Fitch.
- In the event that a security is downgraded below its minimum permissible credit quality, the Manager is permitted to retain such downgraded holdings up to a maximum aggregate exposure of 2%. In the event that the aggregate exposure should exceed 2%, the Manager shall determine an appropriate course of action within 20 business days.
- Unrated securities are permissible if in the opinion of the Manager the credit quality of the security is equal to or better than minimum permissible credit quality.
- In the case of split ratings the higher/highest rating shall apply.



- The contribution to portfolio risk from derivatives, when combined with the contribution to portfolio risk from all other investments, must not breach these restrictions.
- Active currency management is not permitted.

### Currency Management

Foreign currency exposures created as a consequence of capital markets investment remain hedged to NZD within an operational range of 98.5% to 101.5%. Currency hedging contracts are held in the Nikko AM Wholesale Global Bond Fund.

## Nikko AM Wholesale Property Fund

### Permitted Investments

- Securities that are members of or are issued by members of the NZX or ASX Global Industry Classification Standard (GICS) Real Estate Industry Group.
- Securities that have the following at the time of investment:
  - Investment property assets that make up more than 50% of Total Assets and / or
  - Income derived from property assets that make up more than 50% of Total Income. Income derived from property assets includes the Fair Value Movement of Investment Property, Rental Income, Accommodation Revenue or similar. Any Fair Value Movement of Investment Property or similar should be included in Total Income if not accounted for this way.
- Any right or option to acquire or take up any property related security as defined above.
- Cash, including foreign currencies held by the Custodian appointed by the Supervisor.
- Cash, including foreign currencies invested with organisations attracting an S&P short term rating equal to or better than A-1 or Moody's equivalent rating.
- Derivative Instruments, including Futures, Options (either exchange traded or over-the-counter); Forward Foreign Exchange contracts. The use of derivatives is limited to contracts related to Authorised Investments.
- Any other investment agreed to by the Manager and Supervisor.

### Restrictions

- Other than the overdraft facility, neither borrowing, short sales of investments, nor purchasing of securities on margin is permitted.
- Maximum of 30% ASX listed securities.
- Derivatives can only be transacted with counterparties listed in the Nikko AM NZ Approved Counterparty List.
- Any derivative instruments must be covered by cash or stock.
- Investment prohibited in any managed investment scheme that is not a portfolio investment entity for the purposes of Sn HM 2 of the Income Tax Act 2007.
- Any security that is a member of the S&P/NZX All Real Estate (Industry Group) or ASX Global Industry Classification Standard (GICS) Real Estate Industry Group, the maximum portfolio weight permissible is the benchmark index weight +10%. There is no requirement on the Manager to hold any security at a minimum weight.
- Exposure to securities outside the NZX or ASX Global Industry Classification Standard (GICS) Real Estate Industry Group is limited to a maximum of 10%. Any movement above 10% due to market movements is allowable but if it exceeds 12% it must be brought back below 10% within five business days of the Manager being aware of the level being exceeded.
- If any security no longer meets the 50% asset or income threshold the Manager must divest the holding within one month of becoming aware of the threshold no longer being met.
- Any equity security that transfers listing to an exchange other than New Zealand or Australia is to be divested within one month following the date of transfer, unless approval to continue to hold the security is granted by the Supervisor.

## Nikko AM Wholesale Global Equity Unhedged Fund

### Permitted Investments

The Permitted Investments of the Nikko AM Wholesale Global Equity Unhedged Fund are:

- Any equity security listed on any recognised securities exchange.
- Any debt security listed on any recognised securities exchange or traded in secondary markets.
- Any right or option to acquire or take up any equity security or debt security.
- Cash, including foreign currencies held by the Custodian appointed by the Supervisor.
- Cash, including foreign currencies invested with organisations attracting a S&P short term rating equal to or better than A-1 or Moody's equivalent rating.
- Futures agreements, foreign exchange contracts related to permitted investments.

### Restrictions

- Investment prohibited in any security that conducts activities listed on the Schedule to the Cluster Munitions Prohibition Act 2009.
- Investment prohibited in tobacco manufacturers, defined as those included in GICS code 30203010.
- Derivatives can only be transacted with counterparties listed in the Nikko AM NZ Approved Counterparty List.
- Investment prohibited in managed funds that are not a PIE without Nikko AM NZ's prior written consent.

### Currency Management

All currency exposures created as a consequence of global equity market investment remain unhedged to NZD.

## Nikko AM Wholesale Global Equity Hedged Fund

### Permitted Investments

The Permitted Investments of the Nikko AM Wholesale Global Equity Hedged Fund are:

- Nikko AM Wholesale Global Equity Unhedged Fund.
- Any equity security listed on any recognised securities exchange.
- Any debt security listed on any recognised securities exchange or traded in secondary markets.
- Any right or option to acquire or take up any equity security or debt security.
- Cash, including foreign currencies held by the Custodian appointed by the Supervisor.
- Cash, including foreign currencies invested with organisations attracting a S&P short term rating equal to or better than A-1 or Moody's equivalent rating.
- Futures agreements, foreign exchange contracts as related to the permitted investments.

### Restrictions

- Investment prohibited in any security that conducts activities listed on the Schedule to the Cluster Munitions Prohibition Act 2009.
- Investment prohibited in tobacco manufacturers, defined as those included in GICS code 30203010.
- Investment prohibited in managed funds that are not a PIE without Nikko AM NZ's prior written consent.
- Derivatives can only be transacted with counterparties listed in the Nikko AM NZ Approved Counterparty List.

### Currency Management

Foreign currency exposures created as a consequence of capital markets investment are gross hedged at 139% to NZD. The permitted operational hedging range is 134% – 144%.

## Nikko AM Wholesale Global Shares Hedged Fund

### Permitted Investments

The Permitted Investments of the Nikko AM Wholesale Global Shares Hedged Fund are:

- Nikko AM Wholesale Global Shares Fund.
- Any equity security listed on any recognised securities exchange.
- Any right or option to acquire or take up any equity security or debt security.
- Cash, including foreign currencies held by the Custodian appointed by the Supervisor.
- Futures agreements, foreign exchange contracts as related to the permitted investments.

### Restrictions

- Investment prohibited in any security that conducts activities listed on the Schedule to the Cluster Munitions Prohibition Act 2009.
- Investment prohibited in tobacco manufacturers, defined as those included in GICS code 30203010.
- Investment prohibited in managed funds that are not a PIE without Nikko AM NZ's prior written consent.
- Derivatives can only be transacted with counterparties listed in the Nikko AM NZ Approved Counterparty List.

### Currency Management

Foreign currency exposures created as a consequence of capital markets investment are gross hedged at 139% to NZD. The permitted operational hedging range is 134% – 144%.

## JPMorgan Funds - Multi-Manager Alternatives Fund ("JPMMMA Fund")

This fund is managed by J.P Morgan Alternative Asset Management, Inc ("JPMAAM").

The fund is a Luxembourg based UCITS fund (a type of pooled investment vehicle domiciled in the European Union) that invests with approximately ten underlying strategies managed by fund managers not related to JPMAAM. The strategies cover a range of non-traditional investments designed to produce a consistent return stream in a variety of investment environments.

Although each underlying strategy in its own right may have various levels of volatility, the strategies are carefully selected and monitored by JPMAAM to ensure that the overall risk profile of the JPMMMA Fund has a risk level that is generally lower than that of the individual strategies, and performance is not aligned to traditional equity or fixed-income markets.

The various strategies that the JPMMMA Fund invests in include strategies such as borrowing to sell stocks whose prices are expected to fall, credit trading, hedging interest rate variations from similar issues of US Treasury bonds. The above strategies are listed as examples. The JPMMMA Fund may invest in a range of other investment strategies.

These strategies do not usually depend on the level of interest rates or on how equity markets are performing, and some strategies may actually benefit if traditional asset classes are underperforming.

This is a core alternative solution designed to diversify a portfolio, has reduced sensitivity to traditional market risks, and enhances diversification within liquid alternatives.

## Balanced Fund

### Description of the Fund

This fund has a diversified portfolio across income, growth and alternative assets which aims to generate a return while minimising potential losses.

### Investment Objective

The objective of this fund is to achieve a return which exceeds the weighted composite benchmark return by 1.50% over a rolling three year period before fees, expenses and taxes.

### Investment Strategy

This fund gains its investment exposure by investing through the Nikko AM Wholesale Balanced Fund into a range of actively managed funds to create a diversified portfolio with a balanced mix of lower and higher risk assets.

### Benchmark

Composite of:

	Weight %
Bloomberg NZBond Govt 0+ YR Index	18
Bloomberg Barclays I Global Aggregate Index hedged into NZD	10
S&P/NZX 50 Index Gross with Imputation Index	7
RBNZ Official Cash Rate + 5.0% p.a.	14
S&P/NZX All Real Estate (Industry Group) Gross with Imputation Index	5
MSCI All Countries World Index (net dividends reinvested), expressed in NZD	13
MSCI All Countries World Index (net dividends reinvested) 139% gross hedged to NZD	13
Bloomberg NZBond Bank Bill Index +4.0% p.a.	10
ICE Libor USD 1 month hedged to NZD	10

### Strategic Asset Allocation

	Target %	Range %
Cash and cash equivalents, New Zealand fixed interest, international fixed interest, Australasian equities, international equities, listed property and diversified hedge funds via the Nikko AM Wholesale Balanced Fund	100	95.0 ⇄ 100.0
Cash on call for investor transactions	0	0.0 ⇄ 5.0

### Nikko AM Wholesale Balanced Fund

#### Permitted Investments

The Permitted Investments of the Nikko AM Wholesale Balanced Fund are:

- Cash balances with brokers, agents or custodians (both local and overseas) pending investment or pending payment to the manager.
- Units, sub units or other interests in any managed investment scheme, mutual fund, group investment fund or similar entity in any part of the world.
- The investments set out in the Strategic Asset Allocation below.
- Any other investment agreed to by the Manager and Supervisor.
- Cash, including foreign currencies should be invested with organisations with a level of security equal to or better than a Standard & Poors A1 short term or A long term rating or Moody's equivalent.

## Strategic Asset Allocation of Nikko AM Wholesale Balanced Fund

	Further information on the underlying fund, including currency management	Target %	Range %
Nikko AM Wholesale NZ Cash Fund	See page 16	0	0.0 ⇄ 5.0
Nikko AM Wholesale NZ Bond Fund	See page 7	9	4.0 ⇄ 14.0
Nikko AM Wholesale NZ Corporate Bond Fund	See page 17	9	4.0 ⇄ 14.0
Nikko AM Wholesale Global Bond Fund	See page 8	10	5.0 ⇄ 15.0
<b>TOTAL INCOME ASSETS:</b>		<b>28</b>	
Nikko AM Wholesale Core Equity Fund	See page 19	7	2.0 ⇄ 12.0
Nikko AM Wholesale Concentrated Equity Fund	See below this table	14	9.0 ⇄ 19.0
Nikko AM Wholesale Property Fund	See page 9	5	0.0 ⇄ 10.0
Nikko AM Wholesale Global Equity Unhedged Fund or Nikko AM Wholesale Global Shares Fund	See pages 10 and 21	13	8.00 ⇄ 18.00
Nikko AM Wholesale Global Equity Hedged Fund or Nikko AM Wholesale Global Shares Hedged Fund	See pages 10 and 11	13	8.00 ⇄ 18.00
<b>TOTAL GROWTH ASSETS:</b>		<b>52</b>	
Nikko AM Wholesale Option Fund	See page 23	10	5.0 ⇄ 15.0
JPMorgan Funds – Multi-Manager Alternatives Fund	See page 11	10	5.0 ⇄ 15.0
<b>TOTAL ALTERNATIVE ASSETS:</b>		<b>20</b>	

## Nikko AM Wholesale Concentrated Equity Fund

### Permitted Investments

The Permitted Investments of the Nikko AM Wholesale Concentrated Equity Fund are:

- Any equity or debt security listed or contemplated to be listed on any New Zealand or Australian recognised securities exchange.
- Any right or option to acquire or take up any security as defined above.
- Cash, including foreign currencies held by the Custodian appointed by the Supervisor.
- Cash, including foreign currencies invested with organisations attracting an S&P short term rating equal to or better than A-1 or Moody's equivalent rating.
- Derivative Instruments, including Futures, Options (either exchange traded or over-the-counter); Forward Foreign Exchange contracts. The use of derivatives is limited to contracts related to permitted investments.
- Any other investment agreed to by the Manager and Supervisor.

### Restrictions

- Short selling up to a maximum of 10% of the gross asset value of the Nikko AM Wholesale Concentrated Equity Fund prior to implementation. Any short positions must be covered by cash.
- Maximum of 20% of the portfolio value to any single security.
- Derivatives can only be transacted with counterparties listed in the Nikko AM NZ Approved Counterparty list
- Investment prohibited in any managed investment scheme that is not a PIE.
- Any equity security that transfers listing to an exchange other than New Zealand or Australia is to be divested within one month following the date of transfer, unless approval to continue to hold the security is granted by the Supervisor.
- Other than borrowed stock and the overdraft facility borrowing is not permitted.
- Any derivative instruments must be covered by cash or stock.

### Currency Management

Foreign currency exposures created as a consequence of capital markets investment may be hedged to NZD at the Manager's discretion with an operational range of 0% to 105%. Currency hedging contracts are held in the Nikko AM Wholesale Concentrated Equity Fund.

## Growth Fund

### Description of the Fund

This fund has a diversified portfolio of predominately growth assets to deliver growth in capital value over the long term.

### Investment Objective

The objective of this fund is to achieve a return which exceeds the weighted composite benchmark return by 2.00% over a rolling three year period before fees, expenses and taxes.

### Investment Strategy

This fund gains its investment exposure by investing through the Nikko AM Wholesale Growth Fund in to a range of actively managed funds to create a diversified portfolio with a focus on higher risk assets.

### Benchmark

Composite of:

	Weight %
Bloomberg NZBond Govt 0+ YR Index	5
Bloomberg Barclays I Global Aggregate Index hedged into NZD	5
S&P/NZX 50 Index Gross with Imputation Index	14
RBNZ Official Cash Rate + 5.0% p.a.	21
MSCI All Countries World Index (net dividends reinvested), expressed in NZD	20
MSCI All Countries World Index (net dividends reinvested) 139% gross hedged to NZD	20
Bloomberg NZBond Bank Bill Index +4.0% p.a.	10
ICE Libor USD 1 month hedged to NZD	5

### Strategic Asset Allocation

	Target %	Range %
Cash and cash equivalents, New Zealand fixed interest, international fixed interest, Australasian equities, international equities, listed property and diversified hedge funds via the Nikko AM Wholesale Growth Fund	100	95.0 ⇄ 100.0
Cash on call for investor transactions	0	0.0 ⇄ 5.0

### Nikko AM Wholesale Growth Fund

#### Permitted Investments

The Permitted Investments of the Nikko AM Wholesale Growth Fund are:

- Cash balances with brokers, agents or custodians (both local and overseas) pending investment or pending payment to the manager.
- Units, sub units or other interests in any managed investment scheme, mutual fund, group investment fund or similar entity in any part of the world.
- The investments set out in the Strategic Asset Allocation below.
- Any other investment agreed to by the Manager and Supervisor.
- Cash, including foreign currencies should be invested with organisations with a level of security equal to or better than a Standard & Poors A1 short term or A long term rating or Moody's equivalent.

## Strategic Asset Allocation of Nikko AM Wholesale Growth Fund

	Further information on the underlying fund, including currency management	Target %	Range %
Nikko AM Wholesale NZ Cash Fund	See page 16	0	0.0 ⇄ 5.0
Nikko AM Wholesale NZ Corporate Bond Fund	See page 17	5	0.0 ⇄ 10.0
Nikko AM Wholesale Global Bond Fund	See page 8	5	0.0 ⇄ 10.0
<b>TOTAL INCOME ASSETS:</b>		<b>10</b>	
Nikko AM Wholesale Core Equity Fund	See page 19	14	9.0 ⇄ 19.0
Nikko AM Wholesale Concentrated Equity Fund	See page 13	21	16.0 ⇄ 26.0
Nikko AM Wholesale Global Equity Unhedged Fund or Nikko AM Wholesale Global Shares Fund	See pages 10 and 21	20	15.0 ⇄ 25.0
Nikko AM Wholesale Global Equity Hedged Fund or Nikko AM Wholesale Global Shares Hedged Fund	See pages 10 and 11	20	15.0 ⇄ 25.0
<b>TOTAL GROWTH ASSETS:</b>		<b>75</b>	
Nikko AM Wholesale Option Fund	See page 23	10	5.0 ⇄ 15.0
JPMorgan Funds – Multi-Manager Alternatives Fund	See page 11	5	0.0 ⇄ 10.0
<b>TOTAL ALTERNATIVE ASSETS:</b>		<b>15</b>	

## NZ Cash Fund

### Description of the Fund

This fund aims to provide investors with regular income by constructing an actively managed investment portfolio of short term deposits and bonds whilst preserving capital value.

### Investment Objective

The objective of this fund is to outperform the benchmark return by 0.20% p.a. over a rolling three year period before fees, expenses and taxes.

### Investment Strategy

This fund gains its investment exposure by investing into the Nikko AM Wholesale NZ Cash Fund in accordance with the strategic asset allocation below. The Nikko AM Wholesale NZ Cash Fund is managed by the Nikko AM Fixed Income team.

### Benchmark

Bloomberg NZBond Bank Bill Index

### Strategic Asset Allocation

	Target %	Range %
Cash and cash equivalents, and New Zealand fixed interest via the Nikko AM Wholesale NZ Cash Fund	100	95.0 ⇄ 100.0
Cash on call for investor transactions	0	0.0 ⇄ 5.0

### Nikko AM Wholesale NZ Cash Fund

#### Permitted Investments

The permitted investments of the Nikko AM Wholesale NZ Cash Fund are:

- Cash balances with brokers, agents or custodians (local and overseas) pending investment or pending payment to the manager.
- Cash and deposits with, or debt securities issued or guaranteed by:
  - Any New Zealand registered bank with a minimum credit rating of A1 short term or A long term (Standard & Poor's) or equivalent as issued by a recognised rating agency.
  - The New Zealand government and government departments or any debt obligation guaranteed by the New Zealand government.
  - Any New Zealand local authority, including the Local Government Funding Authority, with a minimum credit rating of A1 short term or A long term (Standard & Poors) or equivalent as issued by a recognised rating agency.
  - Corporations incorporated, constituted or registered either in New Zealand or overseas and which have a minimum credit rating of A1 short term or A long term (Standard & Poor's) or equivalent as issued by a recognised rating agency and issue NZ dollar debt securities.
- Debt securities may be in fixed rate or floating rate format.
- Derivative Instruments are limited to contracts related to permitted investments.
- Any other investment agreed to by the Manager and Supervisor.

#### Restrictions

	Limitation/Restriction
Interest rate exposure for any security	Maximum 365 days (note floating rate security limits below)
Single issuer exposure	Maximum 25% of the Nikko AM Wholesale NZ Cash Fund value
Maturity date of floating rate securities	Maximum 3 years and one month
Exposure to floating rate securities	Maximum 40% of the Nikko AM Wholesale NZ Cash Fund value
Derivative counterparties	Derivatives can only be transacted with parties listed on the Nikko AM NZ Approved Counterparties List
Investment in any managed investment scheme that is not a PIE	Prohibited

#### Currency Management

All Investments will be in New Zealand dollars.



## NZ Corporate Bond Fund

### Description of the Fund

This fund is designed to provide regular income by constructing an actively managed investment portfolio of New Zealand bonds, deposits and cash, while protecting the capital value of investors' funds.

### Investment Objective

The objective of this fund is to outperform the benchmark return by 1.50% p.a. over a rolling three year period before fees, expenses and taxes.

### Investment Strategy

This fund gains its investment exposure by investing into the Nikko AM Wholesale NZ Corporate Bond Fund in accordance with the strategic asset allocation below. The Nikko AM Wholesale NZ Corporate Bond Fund is managed by the Nikko AM Fixed Income team.

### Benchmark

Bloomberg NZBond Govt o+ Yr Index

### Strategic Asset Allocation

	Target %	Range %
Cash and cash equivalents, and New Zealand fixed interest <sup>1</sup> , International fixed interest (offshore issued NZ corporate debt hedged to NZD) via the Nikko AM Wholesale NZ Corporate Bond Fund	100	95.0 ⇄ 100.0
Cash on call for investor transactions	0	0.0 ⇄ 5.0

<sup>1</sup> Including Kauri bonds

## Nikko AM Wholesale NZ Corporate Bond Fund

### Permitted Investments

The permitted investments of the Nikko AM Wholesale NZ Corporate Bond Fund are:

- Cash balances with brokers, agents or custodians (local and overseas) pending investment or pending payment to the manager.
- Debt securities, including any of the following:
  - Any debt security listed on any recognised securities exchange or traded in secondary markets.
  - Any equity security listed on any recognised securities exchange with a fixed dividend stream and a fixed redemption date.
  - Financial futures contract, options, and swap contracts, both 'exchange traded' and 'over the counter'. The use of derivatives is limited to contracts related to permitted investments.
  - Underwriting and sub-underwriting contracts for issues of permitted debt securities and equity securities.
  - Any instrument or arrangement for hedging or reducing currency risk or interest rate risk or market movement or commodity price risk or other financial risk.
  - Investment in collective investment vehicles that meet or exceed in part or in full the objectives and risk characteristics of the Nikko AM NZ Corporate Bond Fund.
  - Any New Zealand local authority
- Any other security approved in writing by the Supervisor.

## Restrictions

Portfolio duration (modified) range of  $\pm 2.5$  years around index duration.

## Credit Ratings Exposures

All investments are required to have an 'investment grade credit rating' or capital guaranteed by an investment grade entity.

	Fund Exposures %	Maximum Exposures per Issuer* %
AAA	0.0 ⇄ 100	15
AA- to AA+	0.0 ⇄ 100	10
A- to A+	0.0 ⇄ 80	7.5
BBB- to BBB+	0.0 ⇄ 30	5

\* The issuer limits for NZ Government, Government Department or Government Guaranteed sectors are 100%, and for LGFA is 20%.

## Sector Limits

	Maximum %
NZ Government, Government Department or Government Guaranteed	100
NZ Corporate and Bank Debt	100
NZ Local Authority (including LGFA)	60
NZD Kauri Bonds	40
Offshore issued NZ Corporate Debt Hedged to NZD	20
NZ Mortgage Backed and Asset Backed Securities	20

## Credit Ratings

- The ratings referred to in this SIPO are the long term credit ratings of Standard & Poor's. An equivalent short term rating, or an equivalent rating from a recognised rating agency is permitted.
- Unrated debt issued by NZ Local Authorities that is secured by rates will be rated by the Portfolio Manager but will not be rated higher than 'A' credit rating.
- If an issue does not have a credit rating, the credit rating of the issuer or deposit taker applies.
- Derivative counterparties listed in the Nikko AM NZ Approved Counterparty List.
- Security lending permitted with 'A' rated counterparties.

Purchase of sub investment grade debt is prohibited, but in the event of a credit rating downgrade below investment grade the manager may remain invested.

Investment prohibited in any managed investment scheme that is not a portfolio investment entity.

## Currency Management

Foreign currency exposures created as a consequence of capital markets investment are hedged to NZD within an operational range of 97.5% to 102.5%. Currency hedging contracts are held in the Nikko AM Wholesale NZ Corporate Bond Fund.

## Core Equity Fund

### Description of the Fund

This fund aims to provide investors with an exposure to New Zealand and Australian equity markets from an actively managed investment portfolio with potential for growth of income and capital.

### Investment Objective

The objective of this fund is to outperform the benchmark return by 3.00% p.a. over a rolling three year period before fees, expenses and taxes.

### Investment Strategy

This fund gains its investment exposure by investing into the Nikko AM Wholesale Core Equity Fund in accordance with the strategic asset allocation below. The Nikko AM Wholesale Core Equity Fund is managed by the Nikko AM Equity team.

### Benchmark

S&P/NZX 50 Index Gross (with Imputation credits)

### Strategic Asset Allocation

	Target %	Range %
Australasian equities, listed property, cash and cash equivalents, New Zealand fixed interest and international fixed interest via the Nikko AM Wholesale Core Equity Fund	100	95.0 ↔ 100.0
Cash on call for investor transactions	0	0.0 ↔ 5.0

## Nikko AM Wholesale Core Equity Fund

### Permitted Investments

The permitted investments of the Nikko AM Wholesale Core Equity Fund are:

- Any equity or debt security listed or contemplated to be listed on any New Zealand or Australian recognised securities exchange.
- Any right or option to acquire or take up any equity or debt security.
- Cash, including foreign currencies held by the Custodian appointed by the Supervisor.
- Cash, including foreign currencies invested with organisations attracting an S&P short term rating equal to or better than A-1 or Moody's equivalent rating.
- Derivative Instruments, including Futures, Options (either exchange traded or over-the-counter); and Forward Foreign Exchange contracts. The use of derivatives is limited to contracts related to permitted investments.
- Any other investment agreed to by the Manager and Supervisor.

### Restrictions

- Short sales of investments is not permitted.
- Maximum of 20% Australian listed securities that are not listed on the NZ Stock Exchange.
- For any security that is a member of the S&P/NZX 50 Index, the maximum weight permissible is the index weight +6%. There is no requirement on the Manager to hold any security at a minimum weight.
- For any security that is not a member of the S&P/NZX50 Index and is listed on any New Zealand or Australian exchange, the maximum weight permissible is 6% of the value of the Nikko AM Wholesale Core Equity Fund.
- Derivatives can only be transacted with counterparties listed in the Nikko AM Approved Counterparties List.
- Any equity security that transfers listing to an exchange other than New Zealand or Australia is to be divested within one month following the date of transfer, unless approval to continue to hold the security is granted by the Supervisor.
- Any derivative instruments must be covered by cash or stock.
- Investment prohibited in any managed investment scheme that is not a PIE.

### **Currency Management**

Foreign currency exposures created as a consequence of capital markets investment may be hedged to NZD at the Manager's discretion with an operational range of 0% to 105%. Currency hedging contracts are held in the Nikko AM Wholesale Core Equity Fund.

## Global Shares Fund

### Description of the Fund

This fund aims to provide investors with a relatively concentrated actively managed investment portfolio of global equities to achieve long term capital growth.

### Investment Objective

The objective of this fund is to outperform the benchmark return by 3% per annum over a rolling three year period before fees, expenses and taxes.

### Investment Strategy

This fund gains its investment exposure by investing into the Nikko AM Wholesale Global Shares Fund in accordance with the strategic asset allocation below.

For the Nikko AM Wholesale Global Shares Fund we utilise a global equity strategy managed by a specialist team in Nikko Asset Management Europe, based in Edinburgh, Scotland. As the nominated global manager, Nikko Asset Management Europe are responsible for the investment management of the assets.

### Benchmark

MSCI ACWI with net dividends reinvested, expressed in NZD (unhedged)

### Strategic Asset Allocation

	Target %	Range %
Cash and cash equivalents, Australasian equities, international equities and listed property, via the Nikko AM Wholesale Global Shares Fund	100	95.0 ⇄ 100.0
Cash on call for investor transactions	0	0.0 ⇄ 5.0

## Nikko AM Wholesale Global Shares Fund

### Permitted Investments

The Permitted Investments of the Nikko AM Wholesale Global Shares Fund are:

- Any equity security listed or contemplated to be listed on any recognised securities exchanges in the MSCI ACWI member countries.
- Any right or option to acquire or take up any security as defined above.
- Cash, including foreign currencies held by the Custodian appointed by the Supervisor.
- Derivative Instruments, including futures, options (either exchange traded or over-the-counter); forward foreign exchange contracts.
- Any other investment agreed to by the Manager and Supervisor.

### Restrictions

- Investment prohibited in any security that conducts activities listed on the Schedule to the Cluster Munitions Prohibition Act 2009.
- Investment prohibited in tobacco manufacturers.
- Short Selling and purchasing of securities on margin is not permitted.
- Maximum of 5% of the total shares on issue by any single issuer.
- Maximum of 10% of the Nikko AM Wholesale Global Shares Fund value to any single issuer.
- Cash up to 10% of the Nikko AM Wholesale Global Shares Fund value.

- The aggregate exposure to securities in emerging markets as defined by MSCI should not exceed the Benchmark emerging market weight +10%, of the fund's assets. Derivatives can only be transacted with counterparties listed in the Nikko Asset Management Global Approved Counterparty list
- Investment prohibited in any managed investment scheme that is not a PIE, this includes Exchange Traded Funds and Master Limited Partnerships, however Real Estate Investment Trusts are permitted as authorised investments

### **Currency Management**

Foreign currency exposures created as a consequence of capital markets investment remain unhedged to NZD.

## Option Fund

### Description of the Fund

This fund invests in cash and fixed interest investments, and undertakes a leveraged trading strategy based on selling options over global government bonds.

### Investment Objective

The objective of this fund is to outperform the Bloomberg NZBond Bank Bill Index plus 4% per annum over a rolling three year period before fees, expenses and taxes.

### Investment Strategy

This fund gains its investment exposure by investing into the Nikko AM Wholesale Option Fund in accordance with the strategic asset allocation below. The Nikko AM Wholesale Option Fund is managed by the Nikko AM Fixed Income team.

### Benchmark

Bloomberg NZBond Bank Bill Index plus 4% per annum.

### Strategic Asset Allocation

	Target %	Range %
Cash and cash equivalents, New Zealand fixed interest <sup>1</sup> , international fixed interest and options via the Nikko AM Wholesale Option Fund	100	95.0 ⇄ 100.0
Cash on call for investor transactions	0	0.0 ⇄ 5.0

<sup>1</sup> Including Kauri bonds

### Nikko AM Wholesale Option Fund

The Nikko AM Wholesale Option Fund investment strategy seeks investment returns from two sources:

- Income received from selling short term options to financial institutions. Options are sold on long term bonds issued by Governments with a minimum credit rating of AA-.
- Interest income on bank deposits and fixed interest securities. The Nikko AM Wholesale Option Fund aims to be invested in securities issued by New Zealand registered banks, with a maximum maturity of three years and one month.

The Nikko AM Wholesale Option Fund sells options on Government bonds. Typically, the total face value of the options will be greater than the value of the overall fund (known as leverage). For every \$1 in the fund, up to \$6 of call options and \$6 of put options can be sold. The options are sold in pairs, each comprising a call and a put option with the same expiry date. Accordingly, the effective leverage of the fund is 6 times the value of the fund.

### Currency Management

The Nikko AM Wholesale Option Fund hedges any foreign currency cash holdings to the NZD with an operational range of 98.5% to 101.5%.

## E. Additional investment policies

### Incident Management

All incidents, that may include operational error, system or vendor failure are recorded and reported to management immediately. These are reviewed and escalated appropriately including regulatory disclosure if required. Incidents and errors are recorded internally through the Group Operational Risk Portal (ORP). Operational risk management and incident management policies are in place.

### Rebalancing

We have a Nikko AM NZ Rebalancing Policy, which sets out how we undertake rebalancing. We have determined for each fund in the investment strategy an appropriate strategic asset allocation and permitted investment ranges. Actual asset allocations will vary with market movements, market transactions and investor transactions.

The investment strategies for the funds may consist of an asset allocation to other funds managed by us and cash pending investment or held for investor transactions. We review all cash balances daily to ensure they are within the investment strategy investment ranges.

We will rebalance as required to keep the funds within the approved investment ranges. Transactions will be processed as soon as practicable subject to liquidity and market settlement conventions. To minimise the number of actual rebalancing transactions required by market movements, we use investor cash flows to maintain the asset allocation within the permitted investment ranges.

### Currency Management and Hedging

Each fund has different parameters regarding the ability to hold assets denominated in foreign currency. Any requirement or permission to hedge foreign currency exposure back to New Zealand Dollars has been defined within the investment strategy for each Fund.

Our Currency Risk Management Policy sets out:

- How our hedging exposure strategy is established and implemented;
- The parameters that we adhere to; and
- Monitoring of compliance with the investment strategy of each fund.

A copy of our Currency Risk Management Policy is available on Disclose ([www.business.govt.nz/disclose](http://www.business.govt.nz/disclose)).

### Liquidity and Cash Flow Management

We have determined for each fund an appropriate level of liquidity, including cash and exposure to liquid securities. This is defined within each fund's investment strategy. We monitor the cash balances of the funds daily and transact if necessary to ensure sufficient liquidity for investor transactions and any fund expenses.

Further information on deferral and suspension of cash flow requests is contained in our Other Material Information which is available on Disclose ([www.business.govt.nz/disclose](http://www.business.govt.nz/disclose)).

### Conflict of Interest(s) and Conduct Policies

We operate within a strong governance framework and consider our fiduciary responsibilities of utmost importance. Nikko Asset Management provides global resources, delivering systems, policies and procedures, while the New Zealand business is overseen by an experienced Board, Investment Committee and Compliance, Risk & Disclosure Committee.

We have created a compliance program to manage conflicts of interest and conduct which is continually updated to reflect the developing regulatory and compliance landscape.

In addition to our Compliance Programme, we have adopted, and fully endorse, the Nikko Asset Management "Code of Ethics and Business Standards" (the "Code"). All Nikko AM employees have signed acceptance of Nikko Asset Management's ethics and business standards as outlined in the Code and are required to reaffirm this acceptance annually.



### Types of Potential Conflict of Interest Transactions

If an investor's interests are likely to be unduly prejudiced due to a service agreement between Nikko AM and other companies within the Nikko Asset Management Group, or due to any of the types of transactions listed below, such transaction will be identified and necessary measures will be taken (including restricting or monitoring the transaction) so that the investor's interests are not unduly prejudiced.

The following types of transactions may be monitored and restricted to ensure that no conflicts of interest arise that unduly prejudice the interests of investors:

- (1) transactions (excluding those that are categorised under the types below at (2) and (3)) that may cause a conflict of interest because they are subject to a law or regulation, a duty of loyalty, rules of conduct, prohibited acts, preventive measures against adverse effects and other similar rules.
  - (2) transactions such as an asset liquidation scheme, that may cause, as a result of a joint involvement by Nikko AM and any of the Nikko Asset Management Group companies, a conflict of interest between investors or between an investor and Nikko AM or any of the Nikko Asset Management Group companies.
  - (3) Other transactions similar to those above that need to be subject to control.
- Nikko AM will follow the instructions of and make the relevant changes upon receiving communication from the Legal and Compliance Department of Nikko Asset Management Group and notify the persons affected.

### Conflict of Interest Policies

We consider potential conflicts of interest and provide guidelines on how they will be addressed. Potential conflicts include personal holdings, trading by close relatives, the impact on trading activity of incentive-based conflicts such as performance fees, and extensive trading around performance reporting dates, such as portfolio pumping or window dressing. Another potential conflict is communicating with the media about specific securities or sectors. The commentary itself, as well as trading activity shortly beforehand or afterwards is monitored and assessed within the risk and compliance framework.

We have a comprehensive suite of operational and conflicts management policies, including:

- Global and local Conflicts of Interest Policies
- Personal Trading Policy
- Code of Ethics and Business Conduct Policy
- Insider Trading Prevention Policy
- Anti-Bribery Policy
- Fit and Proper Person Policy
- Whistleblower Policy
- Gifts and Entertainment Policy
- Social Media Policy

Employees are required to disclose all conflicts of interest including:

- Disclosure of Gifting and Hospitality
- Personal Account Dealing
- Disclosure of Directorships and Conflicts

### Framework Overview

Senior Management supports a culture of compliance. Employees are trained and supported to adhere to all internal and external obligations. We employ locally a Head of Compliance and General Counsel to ensure the appropriate business controls and obligations are adhered to. Business functions are audited annually by the parent's internal audit function, with KPMG providing external audit services. The Compliance Risk and Disclosure Committee consists of the Heads of Departments including Head of Compliance and the Managing Director and meets quarterly to review compliance and risk issues.

### Personal Account Dealing

All staff are required to report their personal holdings and submit declarations annually in respect of any accounts. Personal trades, including those of close relatives, are monitored and pre-approved to ensure individuals are not benefitting from non-public information, or taking advantage of pending trade activity by the Manager. Personal trading without prior written approval from compliance is prohibited pursuant to the Nikko Asset Management Personal Trading Policy.

### Insider Trading

We have clearly established policies relating to both insider information and potential insider information. This includes global and local policies and procedures. Training on insider information including more subtle examples relating to confidential information is provided to all staff and satisfactory understanding (via testing) and completion of the training is monitored.

We operate a Whistleblowing Policy. Senior Management and employees are aware of the potential reputational and financial damage of misconduct and are strongly encouraged to disclose misconduct.

### Restricted Lists

An up-to-date list of securities with trading restrictions is maintained by Nikko Asset Management and circulated as necessary. Relevant securities are 'flagged' in the Bloomberg Decision Support system effectively rendering securities as untradeable.

### Segregation of Duties

Roles and responsibilities, locations, and reporting lines of different functions are designed to enable robust checks and balances through segregation of duties. This includes:

- Roles and responsibilities, and reporting lines, are designed to minimise the risk of collusion or conflicts of interest.
- There is separation of reporting lines to remove real or perceived conflict of interest.
- Administration services including middle office and back office have been delegated to BNP Paribas. Unit registry has been delegated to MMC Limited. These relationships are managed by the Head of Product and Operations NZ.
- NZ Compliance has oversight of portfolio activities and a functional reporting line to the NZ Managing Director and Group Head of Compliance.
- The Nikko Asset Management Risk Management Group function based in Tokyo has portfolio access and oversight.

### Investment Risk

Investment Risk is monitored independently by the Nikko Group Risk Team in conjunction with the NZ office. The Group office has full oversight of trades and portfolio positions to assess investment risk. The Group Market/Credit/Liquidity and Risk Management Policy sets out the management of these risks.

### Trade Allocation and Trade Execution

In determining the execution and allocation of trades, we have a duty to act in the best interests of all investors. The following controls are in place to monitor the guiding principle.

#### Execution

We have a fiduciary duty to prioritise the interests of investors over the interests of our own, our employees or any third party and to aim to achieve the "best possible result" for investors, consistent with any relevant constraints, such as investment strategy restrictions and applicable laws and regulations.

The best possible result is the most favourable overall result for the investor under the circumstances, giving regard to the following execution factors: price, costs, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of an order.

#### Allocation

When determining the allocation of trades, the Manager will act in the best interests of investors with no Fund receiving preferred trade allocation over another Fund. The method of allocating trades will be based on the following controls:

- A high level of transparency with all trades observable by investment teams, Operations and Compliance;
- Restrictions within the investment strategy for each Fund;
- A maker-checker policy operates at a pre-trade level;
- Our trade system includes modules for the monitoring of trade allocation and execution details.

## Proxy Voting

Where capital market securities are held by the funds or the Wholesale Funds, we may have the right to vote on shareholder resolutions. We exercise voting rights where available solely for the benefit of investors. Where we appoint an investment manager for a fund, we also outsource voting to that investment manager. We do not vote for the benefit of ourselves or third parties. The Nikko AM Domestic Equities Corporate Governance Policy covers the requirements of the Nikko AM Equity team to consider and vote on resolutions.

A copy of this policy is available on Disclose ([www.business.govt.nz/disclose](http://www.business.govt.nz/disclose)).

## Leverage and Borrowing

The funds are permitted to maintain an overdraft with a registered bank in order to provide liquidity to fund redemptions and facilitate settlements. Other than the overdraft facility, no borrowing or leverage is permitted by the funds except where expressly permitted. Current permissions include:

- The Nikko AM Wholesale Option Fund is permitted to utilise leverage.
- The Nikko AM Wholesale Concentrated Equity Fund is permitted to utilise short-selling.
- The Nikko AM Wholesale Conservative Fund, Nikko AM Wholesale Balanced Fund and Nikko AM Wholesale Growth Funds invest in to the JPMorgan Funds - Multi-Manager Alternative Fund where the underlying strategies may utilise leverage, borrowing and short-selling.

## Derivatives

We seek to use derivatives to manage risk and to obtain exposures authorised by, and appropriate to, the overall investment objectives and strategy of each Fund and Wholesale Fund. The use of any instrument (physical and/or derivative) is undertaken in accordance with the objectives and constraints stipulated in the applicable governing documents.

We have developed a Derivative Risk Statement ("DRS") that applies to the funds and Wholesale Funds for which we act as investment manager. The objective of the DRS is to summarise the policies and practices that we have in place relating to the use of derivatives, the controls on their use and the processes for assessing compliance with those controls. The policies and controls are intended to ensure proper and controlled use of derivatives. Derivatives are not considered in isolation but as part of overall investment management strategies implemented by us.

## Pricing and Valuation

We have delegated certain administration functions to BNP Paribas.

This delegation includes the calculation of daily unit pricing for the funds and is governed by our Product Unit Pricing and Registry Policy. This policy describes how we manage our unit pricing and registry maintenance and recording obligations.

Prices of capital market securities to determine the net asset value of each Fund is provided by BNP Paribas through their data pricing providers. This ensures that pricing is undertaken by an independent third party. BNP Paribas maintain a Securities Pricing Policy which governs their approach to securities valuation.

A copy of our Product Unit Pricing and Registry Policy is available on Disclose ([www.business.govt.nz/disclose](http://www.business.govt.nz/disclose)).

## Selection and review of external investment managers

We provide investment management services for domestic assets through our Auckland-based investment team. As Manager of the wholesale funds we have contracted external investment managers to manage the underlying assets for the Nikko AM Wholesale Global Bond Fund, Nikko AM Wholesale Global Equity Hedged Fund and Nikko AM Wholesale Global Equity Unhedged Fund. We appoint external investment managers after a market search and selection process.

Our Investment Committee has responsibility for the delegation of investment management to specialist offshore managers. Appointment of an external manager will be noted in the investment strategy of each fund.

Our search and selection process of external managers involves an evaluation with emphasis on:

- Assessment of investment content: research on philosophy, people, process;
- Initial feasibility assessment: collection of information on fees, legal and marketing matters;
- Initial operational assessment: collection of information on operational issues;
- Interviews and assessment of Request for Proposal responses from selected potential managers;

- On-site due diligence exercise for selected potential managers.

Our Investment Committee monitors each delegated manager's investment performance. This includes portfolio investment return and risk assessment relative to performance objectives and review of market commentary and portfolio activity.

A copy of our Delegated Investment Managers Policy is available on Disclose ([www.business.govt.nz/disclose](http://www.business.govt.nz/disclose)).

## F. Limit breaks

### Limit break identification

SIPO limits are monitored at both pre-trade and end of day monitoring times for the funds by separate rules-based checking software. Any potential limit breaks are reported on an exceptions basis in a follow up file for investigation by appropriately skilled personnel. Careful distinction is made to separate identified limit breaks occurring as a result of investment /divestment of investor cash flows versus those that are valid limit breaks caused by capital market changes or portfolio manager activity.

If the position requires amendment, the compliance function will proceed to remedy the position by raising the issue with the portfolio manager who will then trade to the mandated requirement. Authority to instruct remediation resides with the compliance function. The compliance function utilises a register detailing each proven notification raised by the rules-based checking software and the remedial action taken.

Judgement for materiality of the limit break resides with the compliance function who will generally consider:

- the cause of the limit break; either human error, system error or capital market event;
- the economic impact on the investor, whether accretive or causing loss;
- the frequency of the identified limit break type.

### Limit break reporting

Under section 167(1) of the FMCA, a "limit break" is "a material breach of any limits on" the SIPO. Limit breaks are reported to the Supervisor as follows:

- (a) if a limit break is not corrected within 5 working days after we become aware of it, as soon as practicable after expiry of the 5 working day period; and
- (b) all limit breaks (regardless of whether they have been corrected or not), each quarter.

### Portfolio Management

The funds and Wholesale Funds are permitted to maintain an overdraft with a registered bank in order to provide liquidity to fund redemptions and facilitate settlements.

## G. Performance monitoring

Performance is monitored daily by us and measured independently by BNP Paribas monthly.

Each Fund's performance is summarised and tabled for discussion and comment at our Investment Committee meetings, held quarterly. Each measurement period (last three months, last year, last three years, last five years) includes the actual Fund performance, the agreed benchmark performance, and the excess return over benchmark and volatility in the instance of the last five years measurement.

Investment performance objectives are set as an acceptable margin of absolute performance above recognised capital markets index. Progress towards achieving investment performance objectives is generally measured over a rolling three year period before fees, expenses and taxes.

## H. Investment strategy and SIPO review process

This SIPO is reviewed in full at least annually. Review, currency and adoption of the SIPO are the responsibility of our Investment Committee, which is governed by our Investment Committee Charter (available on request).

When the SIPO is reviewed annually by the Investment Committee, the Investment Committee will take into account the investment strategy and objectives of each Fund (listed in this SIPO under section "D. Investment strategies and objectives") and other matters including, but not limited to, relevant new standards or legislation and any material changes in market conditions. Significant changes may invoke an ad hoc review out of the annual cycle.

All amendments will be made in accordance with the Trust Deed and relevant law.

The strategic asset allocations for all funds are reviewed at least annually.

Compliance with the SIPO is monitored both pre and post trade on a continuous basis, by automated systems (Bloomberg AIM).

The Manager may amend or replace this SIPO only after having given reasonable prior written notice to and in consultation with the Supervisor.

The most current version of the SIPO is available on Disclose ([www.business.govt.nz/disclose](http://www.business.govt.nz/disclose)) and on our website: [www.nikkoam.co.nz](http://www.nikkoam.co.nz).

## I. Glossary

BNP Paribas	BNP Paribas Fund Services Australasia Pty Limited, our Administrator.
Business day	A day, other than a Saturday or Sunday, on which banks are open for business in Auckland and/or Wellington, New Zealand.
Debt and Debt securities	Cash and debt securities including government and corporate debt issues typically characterised by a notional amount (amount borrowed), interest rate and maturity/renewal date.
Kauri bond	A bond denominated in New Zealand dollars that is issued by a foreign issuer.
Nikko AM Approved Counterparties List	A list approved by the Nikko AM Investment Committee that details the approved counterparties for trading. This list is available from Nikko AM on request.
PIE	Portfolio Investment Entity as defined in section YA 1 of the Income Tax Act 2007.
PIR	Portfolio Investor Rate as defined in section YA 1 of the Income Tax Act 2007.

Version Control	Reasons for Change	Author/Editor	Date
Inaugural SIPO	Formal adoption	Nikko AM Compliance, Risk and Disclosure Committee	28 March 2018