

Fund Purpose

The Fund aims to provide investors with regular income by constructing an actively managed investment portfolio of Authorised Investments, with the potential for capital gain from NZD fixed interest markets.

Investment Objective

The objective of the Fund is to construct a portfolio of authorised investments that outperform the Fund's benchmark return by 0.6% p.a. over a rolling three year period before fees.

Benchmark

Bloomberg NZBond Composite 0+ Yr Index

Strategic Asset Allocation

100% Fixed Interest and Cash securities

Authorised Investments

The Authorised Investments of the 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 New Zealand local authority
 - Any New Zealand registered bank or equivalent institution in any other country issuing NZ dollar debt.
 - New Zealand dollar denominated securities issued and registered in New Zealand by a foreign entity (Kauri Bonds)
 - New Zealand government, local government or corporations issuing debt in foreign currencies.
 - Any Australian APRA authorised deposit taking institution who have ownership of greater than 50% of a New Zealand subsidiary issuing in AUD or NZD
- 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 Authorised 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

- Portfolio duration (modified) range of ± 1.5 years around index duration
- Minimum of 95% of the value of the fund with exposure to assets rated A- or better.
- Minimum of 25% of portfolio value invested in 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 50% of the portfolio value invested in Securities² with a credit rating equal to or higher than New Zealand Government as measured by Standard & Poors or equivalent recognised rating agency
- Maximum of 15% of the portfolio value invested in New Zealand Local Government Funding Agency (LGFA) securities
- Maximum of 30% of the portfolio value invested in Kauri bonds, supra-nationals, foreign government and government agency securities
- Maximum of 10% of portfolio value per issuer - All issuers (except the New Zealand government and LGFA)
- Maximum of 30% of the portfolio value invested in offshore issued debt hedged to NZD
- Cash and cash equivalent investments - counterparty/issuer credit rating equal to or better than a Standard & Poors A1 short term or A long term rating or Moody's equivalent rating.
- Derivatives can only be transacted with counterparties listed on the Nikko AM NZ Approved Counterparties List.
- Nominal face value of all derivative instruments - maximum 40% of the market value of the portfolio
- Sub-investment grade debt is prohibited³
- Investment in any managed investment scheme that is not a portfolio investment entity for the purposes of subpart HM 2 of the Income Tax Act 2007 is prohibited
- Other than the overdraft facility, no borrowing or leverage is permitted

²if an issue does not have a credit rating, the credit rating of the issuer or deposit taker applies.

³in the event of a credit rating downgrade below investment grade, the manager may remain invested up to 5% of the value of the fund.

Social and Responsible Investing (SRI) Restrictions

Securities described under 'Authorised Investments' that are issued by organisations where a share of their revenue is from the following industries are prohibited:

- Adult entertainment: Companies with >10% revenue from adult entertainment-related business activities.
- Alcohol: Companies with >10% revenue from alcohol-related business activities.
- Controversial weapons/armaments: companies directly involved in the development and production (manufacture), sale or distribution of cluster munitions; anti-personnel mines; and biological, chemical or nuclear weapons.
- Fossil fuels: Companies with >10% revenue from the extraction of thermal coal and/or tar sands oil.
- Gambling: Companies with >10% revenue from gambling-related business activities.
- Tobacco: Companies with >10% revenue from tobacco-related business activities. And other industry sectors as determined by the Manager

The revenue thresholds will be reviewed periodically for mandate compliance based on available information. The review will occur no less than annually.

Currency Management

Foreign currency exposures created as a consequence of capital markets investment are hedged to NZD within an operational range of 95% to 105%.

Portfolio Management

The Fund is permitted to maintain an overdraft with a registered bank in order to provide liquidity to fund redemptions and facilitate settlements for the Fund.

The Manager shall not be deemed to have breached the Investment Mandate if any of the mandated minimum or maximum ranges are exceeded as the result of:

- the value of any asset changing solely as a result of market movements,
- contributions to or withdrawals from the Portfolio; or
- a change in the nature of any investment (whether through change in business activity or credit rating).

This is conditional upon the Manager within five business days of being aware of the range being exceeded, re-weighting the portfolio to be within the mandated ranges, unless the Supervisor otherwise agrees in writing.



Noted by Supervisor

| Version Control | Reasons for Change | Author/Editor | Date |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|-------------------|
| Version 1.0 | Commencement mandate | Tyndall Operations | 14 September 2007 |
| Version 1.1 | Maximum derivative exposures introduced | Investment Committee | 6 November 2007 |
| Version 1.2 | Formal review | Investment Committee | 18 January 2011 |
| Version 1.3 | Limit for New Zealand Local Government Funding Agency | Investment Committee | 8 May 2012 |
| Version 2.0 | Formal review | Investment Committee | 21 January 2014 |
| Version 3.0 | Name change | Investment Committee | 12 September 2014 |
| Version 4.0 | Formal review | Investment Committee | 17 March 2015 |
| Version 4.1 | Benchmark name change | Investment Committee | 16 June 2015 |
| Version 5.0 | Formal review | Investment Committee | 23 May 2016 |
| Version 5.0 | Benchmark and objective change | Investment Committee | 11 Dec 2018 |
| Version 6.0 | Add SRI restrictions | Investment Committee | June 2020 |
| Version 7.0 | Remove revenue assessment of financial statements wording and replaced | Investment Committee | 3 December 2021 |
| Version 8.0 | <p>Addition of: New Zealand government, local government or corporations issuing debt in foreign currencies.</p> <p>Any Australian APRA authorised deposit taking institution who have ownership of greater than 50% of a New Zealand subsidiary issuing in AUD or NZD</p> | Investment Committee | 20 November 2023 |