

# TRUST+ MANAGEMENT

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## TRUST MANAGEMENT PIE FUNDS Statement of Investment Policy and Objectives

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Issued by Trust Investments Management Limited as corporate trustee of the Trust Investments Management Charitable Trust ("Trust Management").





## TABLE OF CONTENTS

1.	Background .....	4
2.	Description of the Funds.....	4
3.	Investment Strategy and Objectives.....	5
	Property Fund .....	5
	ESG Australasian Share Fund .....	5
	ESG NZ Bond Fund.....	5
	ESG International Share Fund .....	5
	ESG International Bond Fund.....	6
	ESG Balanced Fund.....	6
4.	Management Style / Investment Philosophy.....	7
	Ethical investment policy .....	7
	Investment Horizons .....	7
	Active or Indexed Management.....	7
	Insourced and Outsourced Management.....	7
5.	Investment Methodology and Authorised Investments .....	9
	Property Fund .....	9
	ESG Australasian Share Fund .....	9
	ESG NZ Bond Fund.....	10
	ESG International Share Fund .....	10
	ESG International Bond Fund.....	11
	ESG Balanced Fund.....	12
	Asset allocation.....	12
	ESG Balanced Fund Strategic Asset Allocation.....	13
	ESG Balanced Fund Tactical Asset Allocation .....	13
6.	Ethical investment criteria.....	14
	Property Fund .....	14
	ESG Australasian Share Fund .....	14
	ESG NZ Bond Fund.....	15
	ESG International Share Fund .....	15
	ESG International Bond Fund.....	16
	ESG Balanced Fund.....	16



7.	Risk Management .....	17
	Property Fund .....	17
	ESG Australasian Share Fund .....	18
	ESG NZ Bond Fund.....	19
	ESG International Share Fund .....	20
	ESG International Bond Fund .....	21
	ESG Balanced Fund.....	21
	Other Relevant Risk Management Policies .....	22
	Liquidity.....	23
8.	Benchmarks.....	24
9.	Monitoring.....	25
	Returns .....	25
	Returns versus benchmark.....	25
	Income and capital returns .....	25
	Performance against investment objectives.....	25
	Volatility .....	25
10.	Compliance .....	26
	Custodians.....	26
	Board approvals .....	26
	Supervisor approvals.....	26
	Trust Management Back office.....	26
	Compliance Committee .....	26
	Breach escalation policy.....	26
11.	Governance .....	27
	Property Due Diligence Policy .....	27
	Trading Policy.....	27
	Directors.....	27
	Audit and Risk Assurance Committee .....	27
	Due Diligence Committee.....	27
	Investment Committee.....	27
	Internal controls review.....	28
	Supervisor.....	28
12.	Policy Review.....	28
13.	Strategy Review.....	28
14.	SIPO Review .....	28



## 1. Background

This Statement of Investment Policy and Objectives (“SIPO”) sets out the investment objectives, philosophy, strategies, risk management, benchmarks, monitoring, compliance, and governance of the Trust Management PIE Funds (together the “Funds”).

The Funds are managed by Trust Investments Management Limited as corporate trustee of the Trust Investments Management Charitable Trust (“Trust Management”, “We”, or “Manager”).

The Supervisor of the Funds is The New Zealand Guardian Trust Company Limited (“Supervisor”).

## 2. Description of the Funds

The Funds are:

- The Trust Management Property Fund (“Property Fund”) provides diversified exposure to directly held commercial properties located in New Zealand. The Property Fund applies certain ethical investment criteria on the acquisition and management of properties.
- The Trust Management ESG Australasian Share Fund (“Australasian Share Fund”) provides a diversified exposure to New Zealand and Australian equities that meet certain ethical investment criteria.
- The Trust Management ESG NZ Bond Fund (“NZ Bond Fund”) provides a diversified exposure to New Zealand fixed interest securities that meet certain ethical investment criteria.
- The Trust Management ESG International Share Fund (“International Share Fund”) provides a diversified exposure to international equities (excluding Australia) that meet certain ethical investment criteria.
- The Trust Management ESG International Bond Fund (“International Bond Fund”) provides a diversified exposure to international fixed interest securities that meet certain ethical investment criteria.
- The Trust Management ESG Balanced Fund (“Balanced Fund”) has a balanced, well-diversified asset allocation that is achieved by investing in the Property Fund, ESG Australasian Share Fund, ESG NZ Bond Fund, ESG International Share Fund, ESG International Bond Fund (together, the “Single Asset Class Funds”).

The Funds are unit priced monthly, and all distributable income of the Funds is generally paid out to investors quarterly.

The Funds are offered under a registered Product Disclosure Statement which is available from our website [www.trustmanagement.co.nz/investorresources](http://www.trustmanagement.co.nz/investorresources).



### 3. Investment Strategy and Objectives

#### Property Fund

**STRATEGY** To provide a diversified exposure to directly held commercial properties located in New Zealand. The Fund invests directly in a broad range of commercial properties and locations to generate income and capital gains and to limit and diversify risk.

The Fund applies certain ethical investment criteria on the acquisition and management of properties. The Fund is designed for investors who do not have the scale to access the underlying investments or the resources to efficiently do so themselves. The Fund is designed for investors who seek regular income.

**INVESTMENT OBJECTIVE** To provide income returns to investors and capital gains over the medium to long term, ahead of the rate of inflation.

#### ESG Australasian Share Fund

**STRATEGY** To provide a diversified exposure to New Zealand and Australian equities that meet certain ethical investment criteria (see section 6).

The Fund is designed for investors that do not have the scale to access the underlying investments or have the resources to efficiently do so themselves. Although the Fund does make income distributions, it is designed for investors who seek mainly capital growth.

**INVESTMENT OBJECTIVE** To generate a total return that exceeds the return of the S&P/NZX50 Portfolio Gross Index over rolling three-year periods, before taking into account fees and expenses.

#### ESG NZ Bond Fund

**STRATEGY** To provide a diversified exposure to New Zealand fixed interest investments that meet certain ethical investment criteria (see section 6).

The Fund is designed for investors who do not have the scale to access the underlying investments or have the resources to efficiently do so themselves. The Fund is designed for investors who seek regular income.

**INVESTMENT OBJECTIVE** To generate a total return that exceeds the return of the Bloomberg NZBond Composite 0+ Year Index over rolling three-year periods, before taking into account fees and expenses.

#### ESG International Share Fund

**STRATEGY** To provide a diversified exposure to international equities (excluding Australia) that meet certain ethical investment criteria (see section 6).

The Fund currently invests in the State Street Climate ESG International Equity Fund, an Australian Unit Trust managed by State Street Global Advisors. The Fund targets a position of being close to 50% hedged to NZ dollars.

The Fund is designed for investors who do not have the scale to access the underlying investments of the Fund (including currency hedging) or the resources to efficiently do so themselves. Although the Fund does make income distributions, it is designed for investors who seek mainly capital growth.



**INVESTMENT OBJECTIVE** To generate a total return similar to the MSCI World ex Australia Index (50% hedged to NZ dollars), subject to meeting certain ethical investment criteria, before taking into account fees and expenses.

## ESG International Bond Fund

**STRATEGY** To provide investors with a diversified exposure to international fixed interest investments that meet certain ethical investment criteria (see section 6).

The Fund currently invests in the iShares ESG Screened Global Bond Index Fund, an Australian unit trust managed by BlackRock Investment Management (Australia) Limited. The Fund's foreign currency exposure targets a position of being close to 100% hedged back to NZ dollars.

The Fund is designed for investors who do not have the scale to access the underlying investments or the resources to efficiently do so themselves. The Fund is designed for investors who seek regular income.

**INVESTMENT OBJECTIVE** To generate a total return similar to the Bloomberg Global Aggregate Index (100% hedged to NZ dollars), subject to meeting certain ethical investment criteria, before taking into account fees and expenses.

## ESG Balanced Fund

**STRATEGY** To provide a balanced and well-diversified investment portfolio with exposure to both growth and income producing assets.

The Fund invests entirely in other Funds, except to the extent that cash is held for 'liquidity purposes. The allocation of the Fund into the underlying Funds is determined by its strategic asset allocation. The Fund incorporates the ethical investment criteria of each of the underlying Funds.

The Fund is designed for investors who do not have the scale to access the underlying investments or the resources to efficiently do so themselves. The Fund is designed for investors who seek regular income and capital growth.

**INVESTMENT OBJECTIVE** To generate a return that exceeds the composite return of the benchmarks of the underlying Trust Management PIE Funds into which the Fund invests (for all funds except the Property Fund) and (in the case of the Property Fund) the return of the S&P / NZX 90 Bank Bill Index + 2.5%, weighted in proportion to the strategic asset allocation of the Fund, before taking into account fees and expenses.



## 4. Management Style / Investment Philosophy

### Ethical investment policy

Responsible investment, including environmental, social and governance (“ESG”) considerations and ethical screening, is taken into consideration in the management of the Funds. Trust Management’s approach to responsible investment is informed by the Ethical Investment Policy. A copy of this policy is published on our website by visiting [www.trustmanagement.co.nz/investorresources](http://www.trustmanagement.co.nz/investorresources).

Further information on our approach to ethical investment is also outlined in section 6.

### Investment Horizons

The minimum suggested timeframe for the Property Fund, ESG Australasian Share Fund and ESG International Share Fund is five years.

The minimum suggested timeframe for the ESG Balanced Fund is four years.

The minimum suggested timeframe for the ESG NZ Bond Fund and ESG International Bond Fund is three years.

### Active or Indexed Management

Trust Management adopts active management in asset classes where there we have conviction in the ability of professional fund managers to add value (net of fees) while not taking excessive risk. Trust Management believes active management is most justified in markets with a small number of participants, less than perfect information, less intensive company research, a lack of low-cost indexing options, or where it may not be practicable to implement an index tracking approach.

Accordingly, the Property Fund, ESG NZ Bond Fund, and ESG Australasian Share Fund currently adopt active management styles.

The ESG International Bond Fund and the ESG International Share Fund currently adopt index tracking management styles.

### Insourced and Outsourced Management

The Property Fund is managed in-house by Trust Management’s experienced Property team that manages not only the Property Fund but also other significant client assets in this asset class.

Management will be outsourced when Trust Management does not have the resources or economies of scale to effectively manage an asset class in-house. The management of the following Funds is outsourced to specialist investment managers selected and monitored by Trust Management:

- The assets of the ESG Australasian Share Fund are currently managed by Harbour Asset Management Limited by way of a segregated mandate.
- The assets of the ESG NZ Bond Fund are currently managed by Nikko Asset Management Limited by way of a segregated mandate.
- The ESG International Share Fund currently invests in a fund that is managed by State Street Global Advisors.



- The ESG International Bond Fund currently invests in a fund that is managed by BlackRock Investment Management.

The Balanced Fund utilises a combination of in-house and outsourced management as per the above.

For Funds where the assets of those Funds are managed by external specialist investment managers, the selection and monitoring of those specialist investment managers is undertaken by Trust Management.

We assess the pool of possible specialist investment managers against criteria, both in the selection of a specialist investment manager and as part of the ongoing review process. This assessment includes:

- Risk-adjusted returns relative to benchmark and peers
- The professionals involved in managing the investments
- Material changes in the specialist investment manager’s funds under management
- Management strategy and style
- Fee levels and expense ratios, and
- ESG integration and approach to ethical investment

An investment management agreement (“IMA”) is entered into with specialist investment managers accessed by way of a segregated mandate, which details the permissible investments, and any investment limits as outlined in the Funds’ investment policies. Fund application documentation along with side letter arrangements (as applicable) are entered into when the Funds invest in an external fund.

Specialist investment managers are monitored regularly (more details on monitoring are in section 9).

Underlying specialist investment managers can be changed at any time without prior notification to investors.





## 5. Investment Methodology and Authorised Investments

### Property Fund

Investment Methodology – The Fund invests directly in a broad range of commercial properties located in New Zealand. The rationale for investing across a wide range of properties and locations is to manage concentration risk through diversification.

Authorised Investments – The list of authorised investments of the Fund is broad and includes:

- Cash balances with any bank, broker, agent or custodian held for the administrative purposes of the Fund
- Futures, options, interest rate swaps or other treasury instruments that can be used solely to reduce risk in other Authorised Investments
- Land whether held by the Supervisor alone or in shares with or pursuant to any other arrangement in common with any person, and real estate of every description
- Shares in any company or units in any managed investment scheme listed on either the New Zealand or Australian Stock Exchanges (or any stock exchange which represents an amalgamation of them), or units in any unlisted managed investment scheme that we consider to be primarily a land holding company or managed investment scheme (as the case may be).

### ESG Australasian Share Fund

Investment Methodology – The Fund invests directly in a broad range of shares of companies listed on the New Zealand or Australian Stock Exchanges that meet certain ethical investment criteria. The Fund may also invest in short and long-term fixed interest securities, shares that are expected to be listed within 12 months, derivatives of shares, and forward foreign exchange contracts. The Australian shares exposure is limited to a maximum 20% of the portfolio by value.

Authorised Investments – The list of authorised investments of the Fund is broad and includes:

- Shares or other quoted equity securities of issuers listed with NZX Limited or the Australian Stock Exchange
- Shares or other equity securities of issuers expected to be listed with NZX Limited or the Australian Stock Exchange within 12 months
- Short and long term fixed-interest securities
- Futures, options, warrants and other derivatives of shares or other equity securities of issuers listed with NZX Limited or the Australian Stock Exchange
- Cash
- Forward foreign exchange contracts.



Foreign Currency Hedging – The Fund’s foreign exchange exposure of the Fund is limited to Australian dollars and may comprise securities and cash. This Fund targets a position of being close to 100% hedged to New Zealand dollars. Currency movements are therefore expected to have minimal impact on the returns of the Fund. The hedging of this asset class ensures that the returns of the Fund are predominantly driven by the local market returns of the New Zealand and Australian securities held in the Fund.

## ESG NZ Bond Fund

Investment Methodology - The Fund invests directly in a broad range of fixed interest securities, including New Zealand government bonds, local government bonds, corporate issues, Kauri Bonds, and term deposits that meet certain ethical investment criteria. The rationale for investing across a wide range of issuers and securities is to generate additional returns and income and to limit and diversify credit risk.

Authorised Investments - The list of authorised investments of the Fund is broad and includes:

- Marketable debt securities denominated in New Zealand dollars
- Over-the-counter interest rate swaps
- “Repos” (repurchase agreements, which are a financial arrangement whereby the buying of a security is matched to a forward sale agreement)
- Forward rate agreements and options
- Structured products such as, but not limited to, collateralised debt obligations, asset-backed securities, mortgage-backed securities and credit-linked notes, provided that such instruments are denominated in New Zealand dollars
- Cash or cash equivalents and short-term fixed-interest securities with a maturity of fewer than 365 days
- Units in a managed investment scheme or any other pooled investment that we consider invest primarily in any of the investments described above, and,
- Any other securities or property of any kind.

## ESG International Share Fund

Investment Methodology - The Fund currently invests in an Australian unit trust whose underlying investments consist of listed international securities in the MSCI World ex Australia Index. The Fund has a bias towards companies with higher environmental, social and governance (ESG) ratings and away from those with high carbon emissions, relative to the MSCI World ex Australia Index. The underlying investment fund and ethical investment criteria may change from time to time. The Fund’s investment methodology may change from time to time.

Authorised Investments - The list of authorised investments of the Fund is broad and includes

- Ordinary shares or securities that are convertible into ordinary shares that are listed on international stock exchanges



- Cash or cash equivalents and short-term fixed-interest securities with a maturity of fewer than 365 days
- Forward foreign exchange contracts
- Units in a managed investment scheme or any other pooled investment that we consider invest primarily in any of the investments described above
- Any other securities or property of any kind.

Foreign Currency Hedging - The Fund has a range of foreign exchange exposures. The main exposures are to US dollars, euro, yen and UK pounds but the Fund also has exposure to Canadian dollars, Swiss francs and the currencies of Denmark, Hong Kong, Israel, Norway, Singapore and Sweden. The Fund targets a position of being close to 50% hedged to New Zealand dollars. To limit transaction costs, currency proxies may be used for the smaller foreign exchange exposures in the benchmark.

## ESG International Bond Fund

Investment Methodology - The Fund currently invests in an Australian unit trust whose underlying investments consist of sovereign and non-sovereign debt securities, along with forward foreign exchange contracts that hedge the currency exposures back to Australian dollars. The Fund's investments may change from time to time. The underlying securities in the Fund are defined by the composition of the Bloomberg MSCI Global Aggregate SRI Select ex-Fossil Fuels Index. The Fund's investments and hedging strategy and their methodologies may change from time to time.

Authorised Investments - The list of authorised investments of the Fund is broad and includes:

- Government, semi-government, corporate or any other fixed-income security
- Forward foreign exchange contracts
- Structured products such as, but not limited to, collateralised debt obligations
- Asset-backed securities, mortgage-backed securities and credit-linked notes
- Cash or cash equivalents and short-term fixed-interest securities with a maturity of fewer than 365 days
- Units in a managed investment scheme or any other pooled investment that we consider invest primarily in any of the investments described above
- Any other securities or property of any kind.

Foreign Currency Hedging - The Fund's underlying investments cover a wide range of countries and currencies. The Australian unit trust into which the Fund currently invests currently hedges the foreign currency exposures to Australian dollars and we hedge the resulting Australian dollar exposure back to New Zealand dollars. The Fund targets a position of being close to 100% hedged to New Zealand dollars. The main reason for the 100% hedge ratio is that international bonds are a defensive, low-risk asset class and full hedging is needed to maintain its income and risk characteristics.



## ESG Balanced Fund

Investment Methodology - The Fund is invested entirely in other Funds, except to the extent that cash is held for liquidity purposes. The Fund’s allocation into other funds is determined by its strategic asset allocation and tolerance ranges (see Table one).

Authorised Investments - The list of authorised investments of the Fund includes:

- Units in any of the Single Asset Class Funds
- Any fund of which we are the manager that may be established in the future
- Cash or cash equivalents and short-term fixed interest securities with a maturity of fewer than 365 days
- Units in any managed investment scheme or other pooled investment
- Any other securities or property of any kind.

Foreign Currency Hedging - The foreign exchange exposure of the Fund is represented by the allocations to international bonds and Australian shares that target positions of being close to 100% hedged to New Zealand dollars, as well as the allocation to international shares of which a target position of being close to 50% foreign currency exposure is hedged. The Fund’s exposure to foreign currency gains and losses is therefore generally limited to the unhedged 50% of the international shares exposure of the Fund.

## Asset allocation

The asset allocation guidelines for the Funds, including Target Asset Allocation (“Target”) and Asset Allocation Range (“Range”) are shown below:

TABLE ONE: TARGET ASSET ALLOCATION AND ASSET ALLOCATION RANGE

	Unlisted Property		Australasian Equity		NZ Fixed Interest		International Equity		International Fixed Interest		Cash & Cash Equivalents	
	Target	Range	Target	Range	Target	Range	Target	Range	Target	Range	Target	Range
Property Fund	100%	0-100%	-	-	-	-	-	-	-	-	-	0-100%
ESG Australasian Share Fund	-	-	100%	0-100%	-	-	-	-	-	-	-	0-100%
ESG NZ Bond Fund	-	-	-	-	100%	0-100%	-	-	-	-	-	0-100%
ESG International Share Fund	-	-	-	-	-	-	100%	0-100%	-	-	-	0-100%
ESG International Bond Fund	-	-	-	-	-	-	-	-	100%	0-100%	-	0-100%
ESG Balanced Fund	32%	0-50%	17%	0-30%	20%	0-40%	21%	0-40%	10%	0-30%	0%	0-30%



The broad Ranges between minimum and maximum asset allocations reflect that the Funds are relatively small, and as such, large applications by new investors or large redemptions may result in variations to the Target Asset Allocation for short periods of time.

## **ESG Balanced Fund Strategic Asset Allocation**

The Strategic Asset Allocation (“SAA”) of the Balanced Fund is set with the dual objectives of protecting and growing the real value of investors’ capital over time and providing a regular level of income.

The asset class weightings of the Balanced Fund are reviewed monthly and, if necessary, transactions are undertaken to revise the weightings to, or towards, the SAA. The operating tolerance threshold for rebalancing is generally +/- 3% from the SAA. This is generally undertaken in the first instance by allocating cash flows (whether in or out of the Fund).

Although property is normally viewed as a growth asset, the property allocation in the Balanced Fund has been classified as an income asset, on the basis of the investment characteristics of the property portfolio acquired on the Fund’s inception, and the intended management style and investment objectives of the Fund.

## **ESG Balanced Fund Tactical Asset Allocation**

The ESG Balanced Fund’s asset allocation is not changed tactically, with the objective of adjusting holdings to take advantage of market opportunities. Market movements and cash flows may cause the actual asset allocation to deviate from the strategic allocation from time to time, but this deviation is generally limited by the operating tolerance ranges.

The asset class weightings may be modified if there is a significant change in the market environment sufficient to warrant revising the long-term financial market assumptions - expected return, income, volatility and correlation – that are used in the setting the SAA for the Balanced Fund.



## 6. Ethical investment criteria

This section contains further information on the ethical investment approach across the Funds, including exclusions, and sustainability-related objectives and targets. This information should be read in conjunction with Trust Management's Ethical Investment Policy, a copy of which can be found by visiting [www.trustmanagement.co.nz](http://www.trustmanagement.co.nz).

### Property Fund

Environmental, social and governance (ESG) factors are assessed in the management and acquisition of properties. Engagement with tenants and service providers may also be undertaken with a view to improving the ESG characteristics of the overall Property Fund, in addition to offsetting the carbon emissions for landlord controlled components of properties.

The Fund will not acquire properties where the major tenant is a company that exceeds revenue thresholds of:

- 0% from the manufacture of controversial weapons (antipersonnel mines, nuclear explosive devices, cluster munitions)
- 0% from the manufacture of tobacco products
- 10% from the extraction or production of fossil fuels, including thermal coal, oil and gas
- 10% from gambling operations and/or specialised equipment
- 10% from adult entertainment production and/or distribution
- 10% from the production of alcoholic beverages.

### ESG Australasian Share Fund

The investment decision-making process incorporates and favours companies with stronger ESG characteristics relative to comparable securities in the benchmark for the Fund.

The carbon intensity of the Fund seeks to be lower than that of the market benchmark index. See section **Error! Reference source not found.** for details of this index.

The Fund will not invest in companies that exceed revenue thresholds of:

- 0% from the manufacture of controversial weapons (antipersonnel mines, nuclear explosive devices, cluster munitions)
- 0% from the manufacture of tobacco products
- 10% from the extraction or production of fossil fuels, including thermal coal, oil and gas
- 10% from gambling operations and/or specialised equipment
- 10% from adult entertainment production and/or distribution
- 10% from the production of alcoholic beverages



## ESG NZ Bond Fund

The investment decision-making process incorporates and favours issuers with stronger ESG characteristics relative to comparable issuers in the market benchmark index for the Fund. (See section 8 for details of this index).

The Fund has a preference for investment in ESG linked bonds (for example green and social bonds), subject to consideration of the relevant risk and return characteristics of the security.

The Fund will not invest in companies that exceed revenue thresholds of:

- 0% from the manufacture of controversial weapons (antipersonnel mines, nuclear explosive devices, cluster munitions)
- 0% from the manufacture of tobacco products
- 10% from the extraction or production of fossil fuels, including thermal coal, oil and gas
- 10% from gambling operations and/or specialised equipment
- 10% from adult entertainment production and/or distribution
- 10% from the production of alcoholic beverages.

## ESG International Share Fund

The Fund favours companies well positioned for climate change, including targeting the following climate metrics relative to the market benchmark index for the underlying fund.

- 70% less carbon emission intensity (direct and indirect greenhouse gas emissions) than the market benchmark index for the underlying fund;
- 90% less exposure to fossil fuel reserves (greenhouse gas emissions resulting from fossil fuel reserves) than the market benchmark index for the underlying fund;
- 90% less exposure to brown revenues (revenues related to drilling, mining and other extractive activities) than the market benchmark index for the underlying fund;
- 300% more exposure to green revenues (revenues from low-carbon technology and "clean" energy production) than the market benchmark index for the underlying fund.

The Fund also favours companies with strong ESG characteristics relative to comparable securities in the benchmark index for the underlying fund.

The Fund will not invest in companies that exceed revenue thresholds of:

- 0% from the manufacture of controversial weapons (including antipersonnel mines, nuclear explosive devices, cluster munitions)
- 0% from the manufacture of tobacco products
- 10% from the extraction of, production, or power generation from, thermal coal
- 10% from ownership or operation of gambling services
- 10% from adult entertainment production and/or distribution
- 10% from the production of alcoholic beverages.
- 0% from companies classified as United Nations (UN) Global Compact violators, including those found to be responsible for egregious and severe violations of the 10 responsible business principles published by the UN, relating to human rights, labour rights, the environment and business ethics.



- 0% from companies classified as being involved in extreme ESG controversies as flagged by the manager of the underlying Fund, including those involved in events that have a severe impact on the environment and society.

## ESG International Bond Fund

The Fund will not invest in corporate bond issuers that exceed revenue thresholds of:

- 0% from the manufacture of controversial weapons (including antipersonnel mines, nuclear explosive devices, cluster munitions)
- 0% from the manufacture of tobacco products
- 0% from the extraction or production of fossil fuels, including thermal coal, oil and gas
- 5% from the production and distribution of firearms or small arms ammunition intended for civilian use
- 5% from ownership or operation of gambling
- 5% from adult entertainment production
- 5% from the production of alcoholic beverages.

The definitions for exclusions are based on the Bloomberg Index exclusion methodology.

The Fund also excludes treasury and government-related issuers with an MSCI ESG government rating below "BB" or those with a "Red" MSCI ESG Controversies Score. The Controversy Score measures an issuer's involvement in major ESG controversies and how well they adhere to international norms and principles.

## ESG Balanced Fund

The Fund incorporates the ethical investment criteria of each of the underlying Funds as outlined above.





## 7. Risk Management

### Property Fund

Risks - Investors in the Fund are exposed to the usual risks of investing in the New Zealand commercial property market. The main risks to investors arise from tenant risk, landlord costs risk, vacancy risk, natural disaster and insurance risk, property market risk, liquidity risk, and property specific risks (such as weather tightness).

Risk level - The risk level of the Fund is low to medium, given that it has a broad spread of property and invests in properties with long lease terms. Nonetheless, any material event that adversely impacts the performance of the New Zealand economy could result in periods of negative returns for investors.

Risk parameters - The investment mandate of the Fund specifies a range of limits that mitigate the risks to investors. The key risk parameters are summarised below:

- The Fund has a target maximum exposure to a single property of 25% of the Fund value. However, the maximum exposure may exceed 25% from time to time, as a result of timing of acquisitions and disposals, expected investor flows or fund cashflows.
- Individual properties must have clear title on acquisition.
- Cash must be invested in short-term securities/term deposits of less than 365 days maturity.
- Cash investments must be with New Zealand registered banks, debt issues of the New Zealand Government, or New Zealand companies or local authorities whose short-term unsecured debt is short-term rated A2 or better by Standard and Poor's.
- The Fund currently undertakes no borrowing for leverage or short-selling (but may undertake debt for liquidity purposes from time to time).

Selection criteria - The Manager shall have regarded the following investment criteria when purchasing eligible investments:

- Strategic fit: the property should fit within the overall portfolio strategies with regard to sector (e.g., industrial, office or retail), and size.
- Location: including exposure, ease of access, potential for rental growth, and fit with strategic geographic targets.
- Lease term: longer leases are preferred. Rent review periods of a maximum of three years are also preferred.
- Tenant: the tenant should be of sufficient financial standing with a proven track record in a specific sector or industry. Preferably, the tenant will have a national or international profile.
- Design and build quality: the quality of building construction and design shall be evaluated to ensure it is of an acceptable standard of design and structure. It should be flexible to



allow for re-leasing should the tenant fail or vacate the property on lease expiry. Potential for expansion to cater for tenants' future needs and to add or protect value is desirable.

- ESG considerations: including tenant business activities, as determined from time to time with reference to and consistent with our Ethical Investment Policy.

## ESG Australasian Share Fund

Risks - Investors in the Fund are exposed to the usual risks of investing in the New Zealand and Australian share markets. The main risks to investors arise from those relating to market conditions, the specifics of the investment, the investment manager, interest rates, liquidity, currency, PIE status risk, and regulatory risk, along with operational risk, concentration risk, counterparty risk and benchmark risk.

Risk level - The risk level of the Fund is very high, given the nature of share investments. Any material event influencing the risk factors above could result in periods of negative returns for investors.

Risk parameters - The investment mandate of the Fund specifies a range of limits that mitigate the risks to investors. Risks are limited by prescribing limits on key risk parameters within the Fund's investment mandate and strategy. The key risk parameters are summarised below:

- An expected ex-ante tracking error of 3-4% relative to the benchmark index for the Fund.
- Currently no borrowing, leverage or short selling.
- At least 90% invested in New Zealand and Australian shares.
- A maximum of 20% of the Fund invested in Australian shares.
- Individual company weightings limits.
- 90-110% of non-NZ dollar exposure hedged back to New Zealand dollars.
- Foreign exchange and cash transactions limited to registered banks and with minimum A2 S&P rating.

Apart from regular compliance checks of these parameters, the risk of the Fund is also monitored by analysing its monthly returns versus the benchmark index.

Exposure limits – The Manager shall ensure that the Fund's exposure to individual companies is limited. The limit specific to each company is dependent on its market value and size and whether it is a constituent of the market benchmark index. For companies in the market benchmark index with a market capitalisation greater than \$500m, the maximum exposure is the benchmark index weight plus 7% (as a share of the total Fund). For other companies in the benchmark index, a maximum exposure of weight of 6% of the Fund is applied; and for companies not in the market benchmark index, a maximum weight of 3% of the Fund is applied.

Derivatives – The Fund may hold foreign currency hedging contracts from time to time, in respect of the Australian dollar exposure. There is also scope for the Fund to hold futures, options, warrants and other derivatives of shares or other equity securities of issuers listed on the New Zealand or Australian stock exchanges.



## ESG NZ Bond Fund

Risks – Investors in the Fund are exposed to the usual risks of investing in the New Zealand fixed interest market. The main risks to investors arise from market conditions, investment-specific risks, investment manager risk, duration (interest rate) risk, liquidity risk, PIE status risk, regulatory risk, operational risk, concentration risk, benchmark risk and credit risk.

Risk level – The risk level of the Fund is medium to high, given that it has a broad spread of securities and generally invests in issues with a minimum investment grade credit rating from a recognised ratings agency.

Risk parameters – The investment mandate of the Fund specifies a range of limits that mitigate the risks to investors. The key risk parameters are summarised below:

- Duration of the portfolio is kept within 1.5 years of the market benchmark index.
- Generally all securities must have a minimum investment grade credit rating, equivalent to a Standard & Poor's\* rating of BBB- (\* or equivalent recognised ratings agency). If a security does not have its own credit rating, then the credit rating of the issuer or deposit taker may apply.
- If an issuer or deposit taker does not have a credit rating from a recognised ratings agency, then the issue is an authorised investment providing that, in the underlying manager's opinion, the issue, the issuer or deposit taker would have a satisfactory credit risk profile. Investment in such issues are subject to the issuer limits set out below.
- The portfolio is well diversified, by both types of security and maturity.
- Liquidity risk is low, with most of the securities in the Fund traded on public markets.
- The Fund currently undertakes no borrowing, leverage or short selling.

### Exposure limits

- Up to 100% of the market value of the Fund may be invested in securities issued by the New Zealand Government, Reserve Bank or Crown entities funded by the New Zealand Government.
- In all other cases, the following exposure limits apply:
  - (a) the Manager may invest not more than 20% of the net asset value of the Fund in securities issued by each of the Local Government Funding Authority (LGFA), Housing New Zealand Limited, or any Supranational entity with a Standard and Poor's credit rating of "AAA"; and
  - (b) subject to (a) above, the Manager shall ensure that not more than 10% of the total net asset value of the Fund is invested in the securities issued by any one issuer.
- Total exposure (referring to the entire portfolio) to issuers other than the New Zealand Government or Reserve Bank must not exceed the following total limits by rating. Ratings from other credible rating agencies (Moody's or Fitch) can substitute for Standard & Poor's when no Standard & Poor's rating is available. Where the security or the issuer or deposit taker does not have a credit rating, then the underlying manager's assessment of the credit



risk will apply as set out below. Credit guidelines set out below also apply to counterparties for swaps and options.

TABLE 2: CREDIT GUIDELINES NZ BOND FUND

Standard & Poor's Long Term credit rating	Standard & Poor's Short-Term rating	Portfolio Limit	Exposure
AAA	A1+	20-100%	
AA+, AA, AA-	A1	0-80%	
A+, A, A-	A2	0-60%	
BBB+, BBB, BBB-		0-20%	
Unrated bonds where the Manager is satisfied that the issue would attract a rating of A or higher if it were rated.		0-10%	
Unrated social or environmental impact bond issues with a satisfactory credit profile, subject to a 2% issuer limit, and 10% of total deal size (at the time of purchase).		0-10%	
Below BBB-	A3 or lower	Not permitted	

- The effective exposure to structured products, such as collateralised debt obligations, asset-backed securities, mortgage-backed securities and credit-linked notes, shall not exceed 15% of the net asset value of the Fund. Credit guidelines set out above also apply to structured products. Structured products may not be used to create any form of leverage within the portfolio.

Derivatives - The Fund may hold futures and options from time to time, as per the authorised investments listed above.

## ESG International Share Fund

Risks - Investors in the Fund are exposed to the usual risks of investing in international share markets. The main risks are market risk, investment-specific risks, investment manager risk, interest rate risk, liquidity risk, currency risk, PIE status risk, regulatory risk, operational risk, concentration risk, counterparty risk, and benchmark risk. The usual risks of investing in international share markets mean that the Fund may experience large changes in value due to changes in the price of the underlying securities and currencies. Many other risks are mitigated by the strategy of the underlying fund. The returns of the Fund will deviate slightly from the benchmark index due to several factors including:

- The adoption of ESG and climate risk objectives
- The transaction costs associated with currency hedging.

Risk level – The risk level of the Fund is high, given the nature of share investments.

Risk Parameters - The investment mandate of the underlying Fund mitigates many risk factors for investors. The key risk parameters are summarised below:



- Stock-specific risk is very low since the portfolio is highly diversified.
- Active management risk is low as the Fund follows an index tracking investment style.
- Liquidity risk is low, with all of the underlying securities traded on public markets.
- The Fund currently undertakes no borrowing, leverage or short selling.
- The foreign exchange hedging and cash transactions are limited to registered banks with a minimum short-term A2 S&P rating.

Derivatives - The Fund may hold foreign currency forward contracts from time to time, in order to hedge 50% of the foreign currency exposure to New Zealand dollars. Futures and options are not precluded.

## ESG International Bond Fund

Risks - Investors in the Fund are exposed to the usual risks of investing in international bond markets. The main risks of the Fund are market conditions risk, investment-specific risks, investment manager risk, interest rate risk, liquidity risk, currency risk, PIE status risk, regulatory risk, operational risk, concentration risk, counterparty risk, and benchmark risk.

Risk level - The risk level of the Fund is medium to high as the underlying investments are predominantly international fixed-interest sovereign securities and the foreign currency contracts held in the Fund reduces the foreign currency risk of the underlying securities.

Risk parameters - Many risks are limited by the indexing strategy of the underlying product. Specifically:

- Issue-specific risk is very low since the portfolio is highly diversified.
- Active management risk is low as the Fund follows an index tracking investment style.
- Liquidity risk is low given that all of the underlying securities are traded on public markets.
- The fund currently has no borrowing, leverage or short selling.
- There is effectively no currency risk, with close to 100% of the foreign exchange exposure of the benchmark index hedged to New Zealand dollars.
- Foreign exchange (related to the hedging) and cash transactions are limited to registered banks with a minimum short-term A2 S&P rating.

Derivatives - The Fund may hold foreign currency forward contracts from time to time, in order to hedge the foreign currency exposure. Futures and options are not precluded.

## ESG Balanced Fund

Risks - Investors in the Fund are exposed to the usual risks of investing in a diversified fund which invests in a combination of mainly fixed interest, shares and property. The primary risks are market risk, investment-specific risk, investment manager risk, interest rate risk, liquidity risk, currency risk, PIE status risk, regulatory risk, operational risk, concentration risk, property market risk, tenant risk, landlord costs risk, vacancy risk, natural disaster and insurance risk, counterparty risk, and benchmark risk.



Risk level - The risk level of the Fund is medium to high. Its underlying investments consist of several underlying funds, giving a combination of growth assets and income assets. Each underlying fund has a broad spread of securities. The diversified asset allocation of the Fund and the broad spread of securities included within each component fund means the risk level of the Fund is low in relation to its expected return. Nonetheless, any material event that adversely impacts the global economy, New Zealand economy or financial markets as a whole could result in disappointing returns for investors.

Risk parameters - The Balanced Fund has a range of limits in place to mitigate some of the risks to investors. These include;

- Tolerance ranges around the Strategic Asset Allocation (refer to Table 1 in section 5) to ensure that the Fund remains well diversified across asset classes.
- The Single Asset Class Funds for which the Fund invests in each has a well-defined mandate and strategy, with prescribed limits on key risk parameters. The risk parameters of each of the Single Sector Funds are set out in this section.
- The Fund currently undertakes no borrowing, leveraging or short-selling.

Derivatives - The Fund does not hold derivative positions directly, but the underlying Single Asset Class Funds into which the Fund invests may hold foreign currency hedging contracts from time to time.

## Other Relevant Risk Management Policies

Risk level - The risk indicators for the Funds are disclosed in the Product Disclosure Statement and included in the latest Quarterly Fund Updates, which are available on our website, [www.trustmanagement.co.nz](http://www.trustmanagement.co.nz).

Leverage - It is not intended that the Funds will be leveraged at any time. No borrowings are made against the assets of the Funds. The Property Fund however may undertake debt for liquidity purposes. Such debt should be limited in duration and quantum (shall not exceed 30% of the Property Fund value).



## Liquidity

Investors are able to make applications into, and redemptions out of, the Funds on a monthly basis subject to relevant notice periods set out in the Product Disclosure Statement. The Funds maintain an appropriate level of liquid assets, including cash, in order to meet redemption flows from investors during normal market conditions.

For the Property Fund, because the investment assets of the Fund are not readily liquid, investors' redemptions out of the Fund are subject to a twelve-month notice period provided no suspension or deferral of redemptions is in place.

Early redemption requests can be approved subject to availability of cash within the portfolio. In the event a redemption request exceeds the cash holdings of the Fund, the Manager will determine a strategy to meet the redemption request within the twelve-month timeframe. Such strategies may include asset realisation (property sale) or obtaining additional investment into the Fund by existing or new unitholders.

For the ESG Balanced Fund, due to the New Zealand Property exposure, investor redemptions may be subject to the twelve-month notice period if a redemption request compels it to redeem units in the Property Fund.



## 8. Benchmarks

The table below shows the market benchmark indices for each Fund. The market benchmark indices can be changed at any time.

TABLE 3: FUND BENCHMARKS

Fund	Benchmark Index
ESG Australasian Share Fund	S&P/NZX50 Portfolio Gross Index
ESG NZ Bond Fund	Bloomberg NZBond Composite 0+ Year Index
ESG International Share Fund	MSCI World ex Australia Index (50% hedged to NZD)
ESG International Bond Fund	Bloomberg Global Aggregate Index (100% hedged to NZD)

For the purposes of the disclosure requirements of the Financial Markets Conduct Act 2013, we have determined that there is no appropriate market index or suitable peer group index for the Property Fund that reflects the assets of the Fund that would be helpful to investors for assessing movements in the market in relation to the returns of the Fund. Accordingly, the Manager is relying on the exemption in the Financial Markets Conduct (Market Index) Exemption Notice 2023 in relation to the Property Fund.

For the ESG Balanced Fund, the Manager has determined that, even though the ESG Balanced Fund invests in Funds (other than the Property Fund) with assets that have an appropriate market index, due to the size of the ESG Balanced Fund's target allocation to and holding in the Property Fund (for which there is no appropriate market index), there is no appropriate market index or suitable peer group index for the ESG Balanced Fund that would be helpful to investors for assessing movements in the market in relation to the returns of the Fund. Accordingly, the Manager is relying on the exemption in the Financial Markets Conduct (Market Index) Exemption Notice 2023 in relation to the ESG Balanced Fund.





## 9. Monitoring

We monitor the performance versus benchmark and against the investment objectives for each of the Funds, as well as the volatility, liquidity, and compliance with mandates as outlined below.

### Returns

Performance of each of the Funds is calculated monthly and published on our website ([www.trustmanagement.co.nz](http://www.trustmanagement.co.nz)). Returns are calculated for monthly, three-monthly, year-to-date, one-year, three-year and five-year periods and from inception.

### Returns versus benchmark

The Funds' gross returns versus each funds market benchmark index are reviewed monthly and reported to investors quarterly.

Performance is reported to the Board of Directors of Trust Management quarterly, for three-month, one-year, three-year and five-year periods.

### Income and capital returns

The Funds' returns are split into income and capital returns, to ensure consistency with each Funds' investment objectives. This analysis is performed monthly and reported to the Board of Directors of Trust Management.

### Performance against investment objectives

The Funds' performance against investment objectives is reviewed annually as part of the Investment Strategy Review reported to the Board of Directors of Trust Management.

### Volatility

The volatility of each Fund is measured monthly and reviewed annually as part of that Fund's annual investment strategy review.



## 10. Compliance

### Custodians

The Custodian of the ESG Australasian Share Fund is Trustees Executors Limited, and the Custodian of the ESG NZ Bond Fund is Public Trust with BNP Paribas as sub-custodian.

The assets of the other Funds are held by the Supervisor in a Nominee Company, TIM Nominees Limited.

### Board approvals

The Board of Directors of the Manager approve all major transactions for the Property Fund, such as market rent reviews, property valuations and property acquisitions and disposals.

### Supervisor approvals

The Supervisor approves all property acquisitions and disposals for the Property Fund.

### Trust Management Back office

The Trust Management Back Office (Financial Services Team) performs accounting reconciliations of all bank transactions and accounting records to the custodian reports or the unit-holding statements.

### Compliance Committee

The Compliance Committee comprises the Trust Management Senior Leadership Team and other subject matter experts.

The Compliance Committee meets regularly to ensure the Manager and the Funds are meeting their regulatory obligations. The Compliance Committee meets and receives reports reviewing and monitoring compliance with mandates as well as regulatory obligations.

Minutes of the Compliance Committee are presented to the Board of Directors of the Manager.

### Breach escalation policy

Breaches of this SIPO are reported in line with the Escalation of Investment Mandate Breach Policy.

The policy requires written notification of the breach and documentation of the steps taken to remedy the breach, even when the remedy has taken place prior to the investment transaction being completed.

Breaches are reported to the Manager's Chief Executive Officer, the Board of Directors and the Supervisor.



## 11. Governance

### Property Due Diligence Policy

Pre-purchase property due diligence is conducted in line with the Property Due Diligence Policy.

The Property Due Diligence Policy outlines the reports and analysis required for consideration of a property for purchase.

### Trading Policy

Trading is performed in line with the Trading Policy that sets the expectations of management with respect to the following trading issues:

- Soft dollar commissions
- Front running
- Late trading
- Gifts
- Documentation
- Use of confidential information
- Conflict of interest
- Breach of Policy.

### Directors

The Directors of the Manager meet regularly and receive quarterly reports of performance against the benchmark, along with commentary on the performance of the Fund, the market and the Fund's strategy.

### Audit and Risk Assurance Committee

The Manager has an Audit and Risk Assurance Committee which meets regularly. The Audit and Risk Assurance Committee reviews the governance policies of the Manager, the financial statements and audit process, the Risk Management framework, risk register and internal controls report findings.

### Due Diligence Committee

The Manager has a Due Diligence Committee which meets as required to review the Fund's Offer Documents for consistency and to ensure disclosures contained within the Offer Documents are complete.

### Investment Committee

The Investment Committee meets regularly and provides reporting and recommendations to the Board of Directors in relation to investment policies and performance of the Funds and Ethical Investment Policy (EIP) principles and practices employed in the management of the Funds.

Minutes of the Investment Committee are presented to the Board of Directors of the Manager.



## Internal controls review

The Manager engages an independent firm, currently Ernst & Young, to conduct a review of the internal control environment (NZ 3402 engagement) on an annual basis.

## Supervisor

The Manager reports to the Supervisor on a monthly basis consistent with the terms of the Trust Deed. The Supervisor is supplied with financial statements and reconciliations, unit prices and unit registers.

The Supervisor of the Fund approves all bank transactions, applications for units and redemptions of units.

## 12. Policy Review

The policies referred to in this SIPO are reviewed regularly by management and/or Directors and may change from time to time without notice.

Any of the policies are available, free of charge, on request from the Manager.

## 13. Strategy Review

The Manager conducts an annual Investment Strategy Review for the Funds which is reviewed by the Investment Committee and reported to the Directors of the Manager for their approval.

As part of the annual strategy review, the Manager conducts and considers the 'value for money' proposition of the Funds and the fees charged.

## 14. SIPO Review

The SIPO is reviewed on an annual basis by the Investment Committee, and also on an ad hoc basis as required, with the outcomes of the review reported to the Directors of the Manager.

We can make changes to the SIPO at any time. Any changes to the SIPO will be communicated to the Supervisor and approved by the Directors of the Manager. Material changes to the SIPO will be advised to Unitholders and will also be documented in the Scheme's next annual report.

# TRUST<sup>+</sup> MANAGEMENT

Standing with you to deliver community good.

+ INVESTMENT + PROPERTY + ACCOUNTING

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