
Statement of Investment Policy and Objectives

Trust Management PIE Funds

30 March 2022

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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 six Funds are managed by Trust Investments Management Limited as corporate trustee of the Trust Investments Management Charitable Trust (“Trust Management”).

The Supervisor of the Funds is The New Zealand Guardian Trust Company Limited.

2. DESCRIPTION OF THE FUNDS

The six Funds are:

- The Trust Management Property Fund (“Property Fund”) provides exposure to the New Zealand property market through a diversified portfolio of direct and predominantly freehold commercial properties. The Fund applies certain ethical investment criteria on acquisition of properties.
- The Trust Management ESG Australasian Share Fund (“Australasian Share Fund”) provides exposure to an actively managed diversified portfolio of New Zealand and Australian shares across a range of industries and sectors, which meet certain ethical investment criteria.
- The Trust Management ESG NZ Bond Fund (“NZ Bond Fund”) provides exposure to an actively managed diversified portfolio of fixed interest securities, focussing predominantly on government bonds and corporate issues in the New Zealand market, which meet certain ethical investment criteria.
- The Trust Management ESG International Share Fund (“International Share Fund”) provides exposure to international share markets excluding Australia, which meet certain ethical investment criteria.
- The Trust Management ESG International Bond Fund (“International Bond Fund”) provides exposure to international bond markets through an index tracking fund, which 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, Australasian Share Fund, NZ Bond Fund, International Share Fund, International Bond Fund.

The Funds are unit priced monthly and all income of the Funds is distributed quarterly.

The Funds are offered under a registered Product Disclosure Statement, which is available from our website www.trustmanagement.co.nz/investments.

3. INVESTMENT OBJECTIVES

Property Fund

Purpose – The Fund’s purpose is to provide investors with a diversified exposure to directly held commercial properties. The Fund is intended to form part of an investor’s balanced portfolio which would include other asset classes. 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. The Fund is particularly designed for investors who seek regular quarterly income.

Investment Objective - The Fund’s investment objective is to provide income returns to Investors while protecting the real value of the property assets over a medium to long term horizon by investment in direct holdings of commercial properties.

Expected Volatility - The volatility of the Fund’s returns is expected to be comparable to the S&P/NZX New Zealand Government Bond Index over rolling five-year periods. There may be periods during which the volatility is higher than that of this Index, due to the relatively low number of properties within the Fund. The avoidance of debt for leverage/active gearing and absence of development risk assists in limiting volatility compared to other comparable property funds.

Australasian Share Fund

Purpose - The Fund’s purpose is to provide investors with a broad exposure to New Zealand and Australian companies weighed in favour of those that meet certain ethical investment criteria (see section 6). The Fund is intended to form part of an investor’s balanced portfolio which would include other asset classes. 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, have an investment time horizon of at least five years, and seek a tax-effective investment.

Investment Objective - The Fund’s investment objective is to exceed the return of the S&P/NZX50 Portfolio Index over rolling three-year periods, before taking into account fees and expenses. The risk level of the Fund is high since, for practical purposes, it is totally exposed to growth assets, namely securities listed on the New Zealand and Australian share markets. The Fund also makes quarterly distributions of all investment income, less fees and expenses.

Expected Volatility - The volatility of the Fund’s returns is expected to be broadly consistent with that of the S&P/NZX50 Portfolio Index over rolling three-year periods. There may be periods during which the volatility is higher than that of the Index, but the difference is not expected to be material.

NZ Bond Fund

Purpose - The Fund’s purpose is to provide investors with a diversified exposure to New Zealand bonds. The Fund is intended to form part of an investor’s balanced portfolio. 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. The Fund is particularly designed for investors who seek regular quarterly income.

Investment Objective - The Fund's investment objective is to maximise income available for distribution, while generating a total return broadly consistent with that of the Bloomberg NZBond Composite 0+ Year Index over rolling three-year periods, before taking into account fees and expenses. In terms of the primary objective of generating income for investors, the Fund makes quarterly distributions of all the income earned, less fees and expenses.

Expected Volatility - The volatility of the Fund's returns is expected to be broadly consistent with that of the Bloomberg NZBond Composite 0+ Year index over rolling three-year periods. There may be periods during which the volatility is higher than that of the Index, but the difference is not expected to be material.

International Share Fund

Purpose - The Fund's purpose is to provide investors with an efficient and effective exposure to international share markets (excluding Australia) while meeting certain ethical investment criteria. The exposure to international share markets (excluding Australia) is represented by the MSCI World ex Australia Index (50% hedged to NZ dollars). The Fund is intended to form part of an investor's balanced portfolio. The Fund is designed for investors that do not have the scale to access the underlying investments of the Fund (including hedging) 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, have an investment time horizon of at least five years, and seek a tax-effective investment. The Fund makes quarterly distributions of all investment income, less fees and expenses.

Investment Objective - The Fund's investment objective is to achieve capital growth and income in line with 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.

Expected Volatility - The volatility of the Fund's returns is expected to be in line with that of the MSCI World ex Australia Index (50% hedged to NZ dollars), over rolling three-year periods. There may be periods during which the volatility is higher than that of the Index, but the difference is not expected to be material.

International Bond Fund

Purpose - The Fund's purpose is to provide investors with an efficient and effective exposure to international bonds. The Fund is intended to form part of a balanced portfolio. 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. It is designed for investors who seek income and seek a tax-effective investment. The Fund makes quarterly distributions of all investment income, less fees and expenses.

Investment Objective - The Fund's investment objective is to closely track the return of the benchmark, the Bloomberg Barclays Global Aggregate Index (100% hedged to NZ dollars), before taking into account fees and expenses.

Expected Volatility - The volatility of the Fund's returns is expected to be broadly consistent with that of the Bloomberg Barclays Global Aggregate Index (100% Hedged to NZ dollars), over rolling

three-year periods. There may be periods during which the volatility is higher than that of the Index, but the difference is not expected to be material.

Balanced Fund

Purpose - The Fund's purpose is to provide, within a single investment, a balanced and well-diversified investment portfolio with exposure to both growth assets and income assets. The Fund's underlying investments primarily include fixed interest, shares and property, and will include a very small allocation to cash. 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. The Fund is particularly designed for investors who seek a balance between income and capital growth, have an investment time horizon of at least five years and seek a tax-effective investment.

Investment Objective - The Fund seeks to generate a return that exceeds the weighted average return of the benchmarks of the underlying Trust Management PIE Funds into which the Fund invests, in proportion to the strategic asset allocation of the Fund, before taking into account fees and expenses. The risk level of the Fund is moderate, with a balance of investments across growth assets and income assets, and therefore significant exposures to shares, fixed interest and property. The Fund seeks to generate regular quarterly income for distribution to investors. The Fund therefore makes quarterly distributions of all the income earned, less fees and expenses. It is intended that the level of distribution is kept relatively stable.

Expected Volatility - The volatility of the Fund's returns is expected to be broadly consistent with that of a balanced portfolio having the strategic asset allocation shown in section 6. The volatility of returns of the Fund is likely to be a little higher than that of a fixed interest portfolio, but significantly lower than that of a portfolio invested in shares only. There may be periods during which the volatility differs from that of the benchmark, but the difference is not likely to be material.

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/responsible-investment.

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

Investment Horizons

The Property Fund, Australasian Share Fund and International Share Fund have a long term investment horizon and are designed for long term investors.

The NZ Bond Fund, International Bond Fund and Balanced Fund have an investment horizon designed for medium to long term investors.

Investor turnover of each of the Funds has been, and is expected to continue to be low.

Active or Indexed Management

Trust Management adopts active management in asset classes where there is evidence that managers can 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, and a lack of low cost indexing options.

Accordingly, the Property Fund, NZ Bond Fund, and Australasian Shares Fund adopt active management styles.

The International Bond Fund and the International Shares Fund adopt index tracking management styles.

Inourced and Outsourced Management

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

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

- The Australasian Share Fund is managed by Harbour Asset Management Limited by way of segregated mandate.
- The NZ Bond Fund is managed by Nikko Asset Management Limited by way of segregated mandate.

- The International Share Fund invests in an index tracking fund that is managed by State Street Global Advisors.
- The International Bond Fund invests in an index tracking 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 that are outsourced, investment manager selection is performed by Trust Management.

Trust Management assesses the pool of possible investment managers against criteria both in the selection of an investment manager and as part the ongoing review process. This includes;

- Risk adjusted returns relative to benchmark and peers.
- The professionals involved in managing the investments.
- Significant changes in the Manager's funds under management.
- Management strategy and style.
- Fee levels and expense ratios.
- ESG integration and approach to ethical investment.
- UNPRI signatory and PRI transparency reports.

An investment management agreement ("IMA") is entered into with segregated mandate investment managers, which details the permissible investments, and any investment limits as outlined in the Funds investment policies. A side letter is entered into when the Funds invest in an external fund. Investment Managers are monitored regularly (more details on monitoring are in section 8).

5. INVESTMENT STRATEGY

Property Fund

Investment Methodology - The Fund invests directly in a broad range of commercial properties. The rationale for investing across a wide range of properties and locations is to generate capital gains and income and to limit and diversify risk.

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
- Cash and short and long term fixed interest New Zealand securities
- Futures, options, interest rate swaps or other treasury instruments which can be used solely to reduce risk in other Authorised Investments
- Land and real estate of every description
- Shares in any company or managed investment scheme listed with NZX Limited or the Australian Stock Exchange, 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).

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 and which 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 driven almost totally by the local market returns of the New Zealand and Australian securities in the portfolio.

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 which 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 less than 365 days;
- units in a managed investment scheme or any other pooled investment that we consider invests primarily in any of the investments described above;
- any other securities or property of any kind.

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 a combination of shares listed on a recognised stock exchange, or through pooled investment vehicles that in turn invest in international shares. Specifically, the Fund may invest in:

- 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 less than 365 days;
- Forward foreign exchange contracts;
- Units in a managed investment scheme or any other pooled investment that we consider invests primarily in any of the investments described above;
- Any other securities or property of any kind.

For the avoidance of doubt, “international stock exchanges” do not include New Zealand based stock exchanges.

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, for the smaller foreign exchange exposures in the benchmark, currency proxies are used. For example US dollars are substituted for Hong Kong dollars and Euros for Swedish krona. Investors should note that the volatilities of hedged and unhedged international share portfolios are similar. This may seem counterintuitive. However hedging the foreign currency exposure makes little, if any, difference to the variability of share market returns although the returns of hedged and unhedged portfolios will certainly differ from year to year.

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 Barclays 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 less than 365 days.
- Units in a managed investment scheme or any other pooled investment that we consider invests 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 Trust Management hedges 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 basis 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.

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 Fund may invest in a combination of the following funds offered by Trust Management:

- Property Fund
- Australasian Share Fund
- NZ Bond Fund
- International Share Fund
- International Bond Fund, and
- any fund of which Trust Management is the manager that may be established in the future.
- The Fund may also invest in cash or cash equivalents and short term fixed interest securities with a maturity of less than 365 days, and units in any managed investment scheme or other pooled investment, or 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 which targets positions of being close to 100% hedged to New Zealand dollars, as well as the allocation to International Shares of which targets a position of being close to 50% foreign currency exposure is hedged. The Fund's exposure to foreign currency gains and losses is therefore 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 1: 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%
Australasian Share Fund	-	-	100%	0-100%	-	-	-	-	-	-	-	0-100%
NZ Bond Fund	-	-	-	-	100%	0-100%	-	-	-	-	-	0-100%
International Share Fund	-	-	-	-	-	-	100%	0-100%	-	-	-	0-100%
International Bond Fund	-	-	-	-	-	-	-	-	100%	0-100%	-	0-100%
Balanced Fund	32%	0-50%	17%	0-30%	21%	0-40%	20%	0-40%	10%	0-30%	0%	0-30%

The broad ranges between minimum and maximum 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 allocation for short periods of time.

Balanced Fund Strategic Asset Allocation

The Strategic Asset Allocation (“SAA”) of the Balanced Fund is set with the twin objectives of protecting and growing the real value of investors’ capital over time and providing a regular, reasonable level of income. The Balanced Fund’s allocation is designed to have a high level of efficiency, with a high expected return for the Fund’s level of risk.

The asset class weightings of the Balanced Fund are reviewed monthly and, if necessary, transactions undertaken to revise the weightings to, or towards, the strategic asset allocation. The operating tolerance threshold for rebalancing is generally +/- 3% from the strategic asset allocation. This is done 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 property portfolio acquired on the Fund’s inception, and the intended management style and investment objectives of the Fund.

Balanced Fund Tactical Asset Allocation

The Balanced Fund’s asset allocation is not changed tactically. 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 of the strategic allocation.

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/responsible-investment.

Property Fund

Environmental, social and governance (ESG) factors are assessed as part of the due diligence prior to acquisition of a property. An ESG action plan will be developed post acquisition and is monitored over time. This may include engagement with tenants and service providers.

The Fund will not acquire properties where the major tenant is a company that derives a revenue threshold of greater than:

- 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.

Australasian Share Fund

The investment decision making process incorporates and favours companies with higher Environmental, Social and Governance (ESG) scores.

The carbon intensity of the Fund seeks to be lower than that of the benchmark.

The Fund will not invest in companies that derive a revenue threshold of greater than:

- 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.

NZ Bond Fund

The investment decision making process incorporates and favours companies with higher Environmental, Social and Governance (ESG) scores.

The Fund has a preference for investment in green and social bonds if all else is equal.

The Fund will not invest in companies that derive a revenue threshold of greater than:

- 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.

International Share Fund

The Fund favours companies well positioned for climate change, including targeting the following climate metrics relative to the benchmark:

- Reduce Carbon Emission Intensity by 70% (direct and indirect greenhouse gas emissions);
- Reduce exposure to Fossil Fuel Reserves by 90% (greenhouse gas emissions resulting from fossil fuel reserves);
- Reduce exposure to Brown Revenues by 90% (revenues related to drilling, mining and other extractive activities); and
- Increase exposure to Green Revenues by 300% (revenues from low-carbon technology and “clean” energy production).

The Fund also favours companies with strong ESG ratings using State Street’s proprietary ESG scoring methodology.

The Fund will not invest in companies involved in:

- Tobacco – including those that derive revenue from the production and manufacturing of tobacco and tobacco related products (including vaping, pipes and other related product), and those that belong to the “Tobacco” Industry under the Global Industry Classification Standard (GICS), being manufacturers of cigarettes and other tobacco products;
- Controversial Weapons – including those involved in the manufacture of cluster munitions, antipersonnel mines and land mines, biological and chemical weapons, nuclear weapons, depleted uranium and incendiary weapons and white phosphorus;
- Thermal coal – including those that derive more than 10% revenue from the extraction of, or power generation from, thermal coal;
- 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.
- Extreme ESG Controversies – including those involved in events that have a severe impact on the environment and society, posing serious business risks to the company.

International Bond Fund

The Fund will not invest in corporate bond issuers associated with fossil fuels, alcohol, tobacco, gambling, adult entertainment, genetically modified organisms, military weapons, civilian firearms and nuclear power. The definitions for exclusions are based on the Bloomberg Barclays 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.

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, market risk, liquidity risk, property specific risk (such as weather-tightness).

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

Limits - The investment mandate of the Fund specifies a range of limits that mitigate the risks to investors. The key elements of the mandate are summarised below. Risks are limited by the following:

- The Fund has a target maximum exposure to a single property of 25% of 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.
- The 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 rated A2 or better by Standard and Poor’s.
- The Fund undertakes no borrowing for leverage or short-selling.

Selection Criteria - The Manager shall have regard 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 3 years are 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.

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, tax and other laws, along with Product risk, Contractor risk, Operational risk, Geographic risk, Market segment risk, Counterparty risk/Credit risk, Benchmark risk, and Derivative risk.

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

Limits - The investment mandate of the Fund specifies a range of limits that mitigate the risks to investors. The key elements of the mandate are summarised below. Risks are limited by prescribing limits on key risk parameters within the Fund's investment mandate and strategy. Within the performance objective of achieving a gross return of 2.0% per annum above the benchmark return, there are a range of risk parameters, as summarised below:

- an expected ex-ante tracking error of 3-4%.
- 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 benchmark.

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 benchmark. For companies in the benchmark with a market capitalisation greater than \$500m, the maximum exposure is the benchmark weight plus 7% (as a share of the total Fund); for other companies in the benchmark, a maximum exposure of weight of 6% of the Fund; and for companies not in the benchmark, a maximum weight of 3% of the Fund.

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.

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 duration (interest rate) risk and credit risk.

Risk level - The risk level of the Fund is relatively low, given that it has a broad spread of securities and invests in debt with a minimum investment grade credit rating. Nonetheless, any material event that adversely impacts the performance of the New Zealand economy could result in disappointing returns for investors.

Limits - The investment mandate of the Fund specifies a range of limits that mitigate the risks to investors. The key elements of the mandate are summarised below. Risks are limited by the following:

- Duration of the portfolio is kept within 1.5 years of the benchmark.
- 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.
- The portfolio is well diversified, by both type of security and maturity.
- Liquidity risk is low, with all the securities in the Fund traded daily on public markets.
- The Fund 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.
- Up to 20% of the market value of the Fund may be invested in securities issued by the Local Government Funding Authority (LGFA), Housing New Zealand Limited, or any Supranational entity with a Standard and Poor's credit rating of "AAA".

- For all other issuers, the Manager shall ensure that not more than 10% of the total market value of the fixed interest portfolio is invested in the securities of 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. 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 Exposure Limit
AAA	A1+	20-100%
AA+, AA, AA-	A1	0-80%
A+, A, A-	A2	0-60%
BBB+, BBB, BBB-		0-20%
Unrated local government bonds where the Manager is satisfied that the issue would attract a rating of A or higher if it were rated.		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 value of the Fund. Credit guidelines set out in 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. In practice, the Fund to date has only invested in physical securities.

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 conditions risk, investment specific risks, investment manager risk, interest rate risk, liquidity risk, currency risk, tax and other laws risk, product risk, contractor risk, operational risk, geographic risk, counterparty risk/credit risk, benchmark risk and derivative risk. The usual risks of investing in international share markets, summarised in 7.1.2., mean that the Fund may experience large changes in value due to change in the price of the underlying securities and currencies. Many other risks are mitigated by the strategy of the underlying indexed product. The returns of the Fund will deviate slightly from the benchmark due to two factors:

- The cost of currency hedging is assumed to be zero in the benchmark calculation. In that respect the benchmark return overstates the returns that are possible for hedged investors.

- The withholding tax rates on dividends are assumed to be those that apply to an investor based in Luxembourg. The benchmark does not therefore recognise the lower withholding tax rates that apply to New Zealand investors in certain jurisdictions.

Risk level - The risk level of the Fund is high, given that its underlying investments are international share market securities and foreign currency contracts.

Limits - The investment mandate of the underlying Fund mitigates many risk factors for investors. Risks are limited by the following:

- Stock specific risk is very low, since the portfolio is highly diversified with around 1600 stocks.
- Active management risk is negligible.
- The tracking error of the product is low, so that returns are close to that of the benchmark.
- Liquidity risk is low, with all of the underlying securities traded daily on public markets.
- The Fund undertakes no borrowing, leverage or short selling.
- The foreign exchange hedging and cash transactions are limited to registered banks with a minimum A2 S&P rating.

The risk of the Fund is also monitored by checking the monthly returns versus the benchmark.

Derivatives - The Fund may hold foreign currency forward contracts from time to time, in order to hedge 50% of the foreign currency exposure. Futures and options are not precluded - the Product Disclosure Statement includes in the list of authorised investments “any other securities or property of any kind”. The intention is to invest in managed investment schemes that invest in physical assets, with any derivative exposures only held at the margin.

International Bond Fund

Risks- Investors in the Fund are exposed to the usual risks of investing in international bond markets. The main risks here are duration (interest rate) risk and credit risk. The latter is low given that investment is limited to sovereign securities. Many other risks are limited by the indexing strategy of the underlying product. The risks of the Fund can be summarised as market conditions risk, investment specific risks, investment manager risk, interest rate risk, liquidity risk, currency risk, tax and other laws risk, product risk, contractor risk, operational risk, geographic risk, counterparty risk/credit risk, benchmark risk and derivative risk.

Risk level - The risk level of the Fund is low. Firstly, its underlying investments are international fixed interest sovereign securities. Secondly, the foreign currency contracts held in the Fund eliminate practically all of the foreign currency risk of the underlying securities. Nonetheless, any material event that adversely impacts the performance of the global economy could result in disappointing returns for investors.

Limits - 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 negligible, with the tracking error of the product relative to the benchmark.
- liquidity risk is low given that all of the underlying securities are traded daily on public markets.
- the Fund has no borrowing, leverage or short selling.
- there is effectively no currency risk, with close to 100% of the foreign exchange exposure hedged to New Zealand dollars.
- foreign exchange (related to the hedging) and cash transactions are limited to registered banks with a minimum A2 S&P rating.

The risk of the Fund is also monitored by checking the monthly returns versus the benchmark.

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 - the list of authorised investments “any other securities or property of any kind”. However the intention is to invest in managed investment schemes that invest in physical assets, with derivative exposures only held at the margin.

Balanced Fund

Risks - Investors in the Fund are exposed to the usual risks of investing in a balanced diversified Fund which invests in a combination of mainly fixed interest, shares and property. The primary risks are market conditions risk, investment specific risk, investment manager risk, interest rate risk, liquidity risk, currency risk, tax and other laws risk, product risk, contractor risk, operational risk, geographic risk, market segment risk, property market risk, tenant risk, landlord costs risk, vacancy risk, counterparty risk/credit risk, and benchmark risk.

Risk level - The risk level of the Fund is medium. 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 makes for a high level of efficiency in that 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.

Limits - The Balanced Fund has a range of limits in place to mitigate risks to investors.

- First, the overall risk of the Fund is controlled by the tolerance ranges around the Strategic Asset Allocation (refer Table 1 in section 6). These asset allocation tolerance ranges provide an important risk control and ensure that the Fund remains well diversified across asset classes.
- Second, each of the Fund’s component Funds has a well defined mandate and strategy, with prescribed limits on key risk parameters (please refer to each of the Fund’s Statement of Investment Policy and Objectives). The risk parameters of each component Fund are monitored regularly. Some of these key risk measures within the component Funds are:

- Property Fund: income component of return, capital movement, weighted average lease term, exposure to individual properties, exposure to individual tenants, diversification by property type.
- Australasian Share Fund: tracking error, individual stock exposures, Australian market exposure, currency hedge ratio (for the Australian market exposure).
- NZ Bond Fund: tracking error, duration, credit quality, individual security weightings, issue and issuer exposures.
- International Share Fund: tracking error, currency hedge ratio, volatility of return, country exposures.
- International Bond Fund: tracking error, the currency hedge ratio, volatility of return, country exposures.

The risk of the Balanced Fund is also monitored by analysing the monthly returns versus the benchmark.

Derivatives - The Fund does not hold derivative positions directly, but the underlying 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, if applicable, updated in the latest Quarterly Fund Updates, which are available on our website, www.trustmanagement.co.nz/investments.

Leverage - It is not intended that the Funds 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. 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. 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 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

Table 3: Fund benchmarks

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

For the purposes of the disclosure requirements of the Financial Markets Conduct Act 2013, the Manager has 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 2018 in relation to the Property Fund.

For the Balanced Fund, the Manager has determined that due to the Balanced Fund's 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 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 2018 in relation to the Balanced Fund.

The returns of the Australasian Share Fund and NZ Bond Fund may deviate from their benchmark, given that their composition differs from the benchmark in terms of the weightings to different sectors of the market and to individual securities.

The performance of the International Bond Fund and International Share Fund should be consistent with the benchmark, subject to certain ethical investment criteria.

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 measured monthly and published on our website (www.trustmanagement.co.nz/investments). 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 Fund's gross returns versus benchmark are reviewed monthly, and reported to investors quarterly.

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

Income and Capital Returns

The Fund's returns are split into income and capital returns, to ensure consistency with the Fund's investment objective. This analysis is performed monthly and reported to the Board quarterly.

Performance against Investment Objectives

The Fund's performance against investment objectives is reviewed annually as part of the Investment Strategy Review and the SIPO review.

Volatility

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

10. COMPLIANCE

Custodians

The Custodian of the Australasian Share Fund is Trustees Executors Limited, and the Custodian of the 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.

Middle Office

The middle office reviews all trades for the Property Fund and the Balanced Fund for compliance with the investment mandate.

The middle office conducts monthly reviews of all the Funds for compliance with the investment mandates.

The middle office reports on a monthly basis to the Compliance Committee.

Back Office

The back office 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 Executive and senior personnel.

The Investment Committee meets and receives compliance reports from the middle office, as well as monitoring performance of the Funds and addressing regulatory obligations.

Breach Escalation Policy

Breaches 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 is consistent with best practice and outlines the reports and analysis required for consideration of a property for purchase.

Trading Policy

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

- Soft dollar commissions
- Front running
- Late trading
- Gifts
- After hours trading
- Personal trades
- Use of confidential information

Code of Ethics

The Manager also has a Code of Ethics policy that sets the expectations of management and Directors of the Manager.

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 Management 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 document are complete.

Compliance Committee

Senior Executives of the Manager are appointed to the Compliance Committee. The Compliance Committee meets regularly to ensure the Manager and the Funds are meeting their regulatory

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

Internal Controls Review

The Manager engages an independent firm, currently EY, to conduct a review to the policies and procedures (NZ 3402 engagement) on an annual basis. These reviews include the functions of the property team, front office, middle office and back office.

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 register.

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

12. POLICIES

The policies referred to in this SIPO are reviewed regulatory by management and/or Directors, and may change from time to time without notice. Any material changes will be reported to investors.

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 and Property Strategy Review which are 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 Directors of the Manager.

Any changes to the SIPO are communicated to the Supervisor and advised to Unitholders where the changes are deemed to be material or could influence a decision to purchase or redeem units.