

# Statement of Investment Policy and Objectives

Adopted by the trustee with effect from 28 June 2019

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# Introduction

## Purpose

The purpose of this *Statement of Investment Policy and Objectives (SIPO)* is to provide all parties involved in the investment management of UniSaver New Zealand (**scheme**) with guidance on how the assets of the scheme are to be managed. It sets out the investment governance and management framework, philosophy, strategies and objectives of the scheme in accordance with the Financial Markets Conduct Act 2013 (**FMCA**) and the associated regulations.

The SIPO covers the following areas:

- Governance: the responsibilities in the investment process of the various parties
- Investment objectives
- Investment philosophy
- Investment strategy
- Implementation
- Risk management
- Review.

The SIPO provides a standalone picture of the investment policy and objectives of the scheme, and is consistent with the scheme's product disclosure statement (**PDS**).

## Description

The scheme is registered under the FMCA as a restricted workplace savings scheme. It is a defined contribution plan established to provide retirement benefits to members and is governed by a trust deed dated 28 June 2019 (**trust deed**).

Membership of the scheme is available to most employees of New Zealand universities (other than the Auckland University of Technology, which does not participate) and certain related employers.

Members are offered a choice of: UniSteps, which is a 'glide path' structure where the allocation to growth assets reduces over time; or their own mix of the four base options (Growth, Balanced, Conservative and Cash), each with a different, largely fixed split between growth and income assets. UniSteps uses three options – Growth, Balanced and Conservative – as 'building blocks'.

Benefits from the scheme are based on contributions made and investment returns received, after deduction of fees, expenses, and tax.

The trustee has established a crediting rate policy for determining how investment earnings are allocated to members.

## Effective date

This SIPO takes effect from 28 June 2019 and replaces the version dated 1 February 2018.

## Governance

The trustee's powers and discretions are defined in the trust deed. In particular, the trustee has responsibility for those functions and duties of a manager under the FMCA and for acting in a manner consistent with the Trustee Act 1956. In satisfying its responsibilities, the trustee may delegate decision-making and implementation to other parties as it sees fit. The consequent responsibilities of the various parties currently involved in for the management of the scheme's assets are outlined below.

### 2.1 Trustee

The trustee of the scheme is UniSaver Limited.

#### 1. Governance

- i) Establishing the SIPO and reviewing the SIPO on an annual basis.
- ii) Ensuring the SIPO is adhered to.
- iii) Appointing and regularly reviewing the appointment of all external parties identified in this SIPO.
- iv) Performing such audits of the processes and controls of the investment manager as they feel is necessary for them to obtain assurance that the scheme's investments are being managed appropriately.
- v) Monitoring the investment results in line with the criteria defined in this SIPO, in order to determine whether the investment manager has performed satisfactorily relative to the objectives.
- vi) Approving the funds and strategies offered or proposed by the investment manager, having regard to their broad parameters and structural features.
- vii) Advising the investment manager and administration manager (and other relevant parties not listed in this SIPO) of any material changes to either or both the design and operation of the scheme which could affect their role.
- viii) Satisfying the reporting requirements specified in the FMCA.
- ix) Communicating to members the results of the scheme's performance.

#### 2. Investments

- i) Establishing the investment objectives of each base option and ensuring these remain appropriate.
- ii) Establishing and reviewing the strategic asset allocation (**SAA**), including the currency hedging policy, of each base option at least once every three years.
- iii) Structuring a suitable 'glide path' for UniSteps.
- iv) Establishing and reviewing its investment philosophy.
- v) Establishing benchmarks against which performance will be monitored.
- vi) Determining the strategy (such as active or passive management) to be used for each asset class.
- vii) Establishing the rebalancing policy, having regard to the levels of risk appropriate for each of the relevant base options.
- viii) Establishing and reviewing a comprehensive work plan for managing the scheme's investment programme.
- ix) Establishing and regularly reviewing a unit pricing policy.
- x) Reporting any limit breaks (as defined in the FMCA) to the FMA in accordance with the requirements of the FMCA.

## **2.2 Investment manager**

The investment manager of the scheme is Russell Investment Group Limited.

1. Advising the trustee on all matters contained in the section 2.1.2 Investments, on the previous page.
2. Advising the trustee of any changes that may affect the way that the scheme's assets are or should reasonably be invested.
3. To the extent possible, offering funds or advice on suitable third-party products for each applicable asset class, consistent with the fundamental strategy determined by the trustee.
4. In its sole discretion, appointing underlying fund managers utilised by the funds and undertaking ongoing monitoring of the agreements and mandates with the underlying managers.
5. Instructing the administration manager to invest or divest into/from allowable investments, as required from time to time.
6. Maintaining the actual asset allocations within the specified rebalancing ranges in accordance with the rebalancing policies set out in the SIPO and advising the trustee of any limit breaks.
7. Performing efficient implementation of any fund manager and asset class transitions.
8. Presenting its research on investment strategy, as applicable.
9. Providing quarterly reporting to the trustee, covering general market commentary, asset allocations and returns (actual, benchmark and reference portfolio) in a format agreed with the trustee.
10. Participating with the trustee in the regular review of the SIPO.

## **2.3 Secretary**

The secretary of the scheme is Aon New Zealand.

1. Lodging the latest SIPO (and any amendments) and other disclosure documents on the Disclose Register.

## **2.4 Administration manager**

The administration manager of the scheme is Mercer (N.Z.) Limited.

1. Providing details of monies available for investment or funding requirements to the investment manager from time to time.
2. Investing or divesting from the funds/third party products as instructed by the investment manager from time to time.
3. Calculating unit prices for the scheme's base options in line with the agreed unit pricing policy.
4. Providing information about member liabilities and switches to the investment manager from time to time.

## Investment objectives

Based on the underlying asset allocation of each base option, the trustee currently has the following investment objectives:

**Growth** Growth is constructed with a focus on achieving returns of 2.75% above inflation over rolling 10-year periods, while keeping the risk of a member losing more than 20% after inflation in any one year reasonably small.

**Balanced** Balanced is constructed with a focus on achieving returns of 2.25% above inflation over rolling 7-year periods, while keeping the risk of a member losing more than 15% after inflation in any one year reasonably small.

**Conservative** Conservative is constructed with a focus on there being a reasonably small risk of a member losing more than 5% after inflation in any one year, while typically achieving returns of 1.25% above inflation over rolling 3-year periods.

**Cash** Cash aims to provide a return broadly in line with that of the S+P/NZX Bank Bills 90-Day Index after tax. There is a very small probability of experiencing a loss in any one year.

The return objectives are expressed net of tax and investment fees. The risk and return parameters may vary over time as economic conditions change.

See Appendix A for further information on performance expectations for the underlying asset classes.

## Investment beliefs

The trustee's investment beliefs guide the investment of the scheme's assets and, together, constitute the investment philosophy of the scheme. These investment beliefs represent a set of propositions that, while they cannot be proven, reflect current investment theory and literature, empirical evidence, individual investment experience and personal judgment.

### Governance

A well-defined governance structure that engages appropriately qualified external advisers with clear accountabilities is important in ensuring the scheme's effectiveness in providing value to members. The trustee's role is strategic in nature and entails oversight of the design and management of the scheme.

### Investment strategy

In setting the investment strategy, the scheme's membership characteristics and the fact that individuals have different needs, risk tolerances and levels of understanding in financial matters need to be considered. Accordingly, a number of distinctive portfolios, including a suitable default option, should be on offer.

### Active management

Markets are not perfectly efficient, but inefficiencies are difficult to exploit after costs. Opportunities to add value through active management are not uniformly distributed across asset classes or through time.

### Selecting managers

Expert analysis can provide valuable insight as to the likelihood of superior future performance from investment managers.

### Asset allocation

Asset allocation is the key determinant of whether or not investment objectives are achieved. In setting the asset allocation, a strategic approach that encompasses both quantitative analysis and qualitative judgment is required.

### Market timing

Market timing is not a reliable way of investing, as, in the short term, returns are largely unpredictable. Time in the market employing a disciplined approach is a more rewarding investment strategy.

### Currency

Currency exposures impact risk and return and need to be considered as part of the strategic asset allocation.

### Risk

Risk is multi-faceted and cannot be expressed in a single measure. Investors are generally rewarded for accepting greater risk by realising higher long-term returns.

### **Diversification**

Diversification, both between and within asset classes, should improve the portfolio's risk/return characteristics. However, there is a point at which the costs of further diversification outweigh the associated benefits.

### **Liquidity**

Returns can be enhanced through investing in illiquid assets but such investments must be considered in light of the associated risks.

### **Implementation**

Costs affect returns and need to be understood and managed effectively.

### **Responsible investment**

The trustee believes that responsible investment can reduce risk and impact returns positively.



## Investment strategy

The trustee, having taken advice from the investment manager, sets the investment strategy based on the objectives outlined in section 3 for each base option and the investment beliefs covered in section 4. The investment strategies are expressed as SAAs and incorporate the trustee's currency hedging policy. For the avoidance of doubt, SAA is the equivalent of the term 'target asset allocation' as used in the PDS.

### Asset classes

The SAAs currently comprise the following asset classes:

- Global equities (predominantly, shares listed on recognised stock exchanges throughout the world)
- Australasian equities (predominantly, shares listed on recognised stock exchanges in New Zealand and Australia)
- Global listed property (predominantly, shares that relate to underlying property investments listed on recognised stock exchanges throughout the world)
- Global listed infrastructure (predominantly, shares that relate to underlying infrastructure investments listed on recognised stock exchanges throughout the world)
- Global high yield (predominantly, medium- to long-term high yield debt securities issued by corporates throughout the world)
- Global fixed interest (predominantly, medium- to long-term debt securities issued by governments and corporates throughout the world)
- NZ cash (predominantly, short-term securities issued by banks and other corporates in New Zealand).

### Asset class performance benchmarks

The trustee has adopted the asset class performance benchmarks set out in Appendix A.

### Strategic asset allocations

The SAAs in place as of the date of this SIPO are set out in the table below.

Strategic asset allocations			
Asset class	Growth %	Balanced %	Conservative %
NZ cash	2	2	34
Global fixed interest (\$NZ hedged)	14	40.5	45
Global high yield (\$NZ hedged)	6.5	4.5	2
<b>Total income assets</b>	<b>22.5</b>	<b>47</b>	<b>81</b>
Global listed property (\$NZ hedged)	4.5	3	1
Global listed infrastructure (\$NZ hedged)	6.5	4.5	2
Global equities (\$NZ hedged)	51.5	35	13
Australasian equities	15	10.5	3
<b>Total growth assets</b>	<b>77.5</b>	<b>53</b>	<b>19</b>
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

The fourth base option – Cash – is allocated 100% to NZ cash.

## UniSteps

UniSteps provides a 'glide path' for members: as the member ages, the allocation to growth assets is automatically reduced. UniSteps uses the Growth, Balanced and Conservative base options as 'building blocks'. The target allocations to each of these options are based on age attained as at 1 November each year (reset date) and are shown in the following table:

UniSteps glide path			
Age attained at reset date	Growth %	Balanced %	Conservative %
44 and under	100	0	0
45	90	10	0
46	81	19	0
47	71	29	0
48	62	38	0
49	52	48	0
50	42	58	0
51	33	67	0
52	23	77	0
53	14	86	0
54	4	96	0
55	0	96	4
56	0	89	11
57	0	82	18
58	0	75	25
59	0	69	31
60	0	62	38
61	0	55	45
62	0	48	52
63	0	41	59
64	0	34	66
65	0	27	73
66	0	21	79
67	0	14	86
68	0	7	93
69 and over	0	0	100

### **Currency hedging strategy**

Investing in offshore assets introduces foreign currency risk, which can be mitigated through currency hedging. The trustee's currency hedging policy is embodied in the SAAs set out on page 8. The actual foreign currency position may deviate due to market drift and active management.

### **Active asset allocation**

The scheme does not look to deviate tactically from the SAAs shown on page 8.

### **Approach to investment management**

The trustee has outsourced the appointment of asset class managers to the investment manager. This means that upon agreement of the SAAs with the trustee, the investment manager appoints the asset class managers it considers to be best placed to execute the strategy and monitors and replaces these managers as it sees fit.

### **Active versus passive management**

Active management (as opposed to passive management) is pursued in all asset classes.

### **Responsible investment policy**

In line with the trustee's investment belief and to avoid reputational risk for the scheme's sponsors, the trustee will:

1. seek to avoid, where practical, investment in companies whose activities are materially contrary to the intent of New Zealand legislation. These activities currently include: cluster munitions, anti-personnel mines, nuclear explosive devices, and tobacco
2. require the investment manager to be a signatory to the United Nations Principles for Responsible Investment
3. require the investment manager to incorporate environmental, social and governance considerations into its investment process, with the trustee receiving regular reporting on these considerations.

The trustee has deemed a fully 'implemented' investment model to be the most practicable and cost-effective way of executing desired investment objectives for the scheme. Under such a model, choice of investment vehicles is outsourced to the investment manager. The trustee acknowledges that it has little influence over the mandate of any particular investment vehicle, the individual securities it holds, or the voting decisions and engagement activities of the managers.

## Risk management

### Rebalancing

The rebalancing ranges for the relevant base options and for individual asset classes are set out in the table below.

Asset class	Growth %	Balanced %	Conservative %
NZ cash	± 2	± 2	± 2
Global fixed interest (\$NZ hedged)	± 3	± 4	± 2
Global high yield (\$NZ hedged)	± 1.5	± 1	± 0.5
<b>Total income assets</b>	<b>± 4</b>	<b>± 4</b>	<b>± 2</b>
Global listed property (\$NZ hedged)	± 1.5	± 1	± 0.5
Global listed infrastructure (\$NZ hedged)	± 1.5	± 1	± 0.5
Global equities (\$NZ hedged)	± 4	± 4	± 2
Australasian equities	± 2	± 2	± 1
<b>Total growth assets</b>	<b>± 4</b>	<b>± 4</b>	<b>± 2</b>

The following rebalancing policies have been adopted:

- The investment manager will use the estimated split of assets across the base options (based on member liabilities information provided by the administration manager) to determine rebalancing ranges at a total portfolio level (before tax).
- Rebalancing is assessed formally generally within 10 business days after every calendar quarter-end.
- The investment manager will use weekly cash in- and out-flows such as contributions or benefit payments to support the rebalancing of the portfolio on an ongoing basis (to the extent this is practical).
- When an asset class breaches the rebalancing range, the investment manager will, as soon as is practicable (generally within no more than 10 business days), rebalance to approximately the half-way point between the strategic asset allocation and the rebalancing range that was breached.

A breach of a rebalancing range resulting from market movements, which is corrected as soon as is practicable, will not be deemed to be material for the purposes of the limit break reporting requirements under the FMCA.

### Gearing

The scheme does not borrow at total portfolio level, or within the underlying funds, against its assets.

### Diversification

An appropriate level of diversification across securities, sectors, asset classes and countries must be maintained.

### Liquidity

Liquidity must be considered and maintained at an appropriate level.

## Review and monitoring procedures

### General policy

All aspects of the investment process and all external parties involved will be reviewed by the trustee on a regular basis.

### SIPO

The SIPO will be reviewed no less frequently than annually, or sooner if appropriate due to events including but not limited to material changes in strategic asset allocations, relevant government policy, the scheme's governance model, the parties to this SIPO or market conditions.

Any changes to the SIPO must be approved via resolution by the trustee and the updated SIPO will be lodged as required by the FMCA.

The most current version of the SIPO is available under the scheme's register entry on the Disclose Register ([www.companiesoffice.govt.nz/disclose](http://www.companiesoffice.govt.nz/disclose)).

### Investment strategy

The SAAs are to be reviewed, in principle, every three years, or more frequently if there are significant changes to the economic and commercial environment.

The trustee will conduct the review in the context of advice received from the investment manager and will take into account any changes to relevant government policy, or market conditions.

Any changes to the SAAs must be approved via resolution by the trustee.

Other elements of asset class strategy not delegated to the investment manager, such as the use of active or passive approaches to asset class management, will be reviewed periodically.

### Investment manager

The investment manager's rolling 3-year performance will be regularly assessed:

- at the overall scheme level
- at the base option level
- at an asset class level.

The performance benchmarks and outperformance targets set down in Appendix A will serve as a guide in this process.

The performance of the investment manager will also be regularly assessed on a peer-relative basis.

### Performance report

The investment manager prepares a performance report every quarter for the attention of the trustee. This consolidates asset values and the performance at both asset class and total portfolio levels.

The performance report should include details of any limit breaks, or confirmation that no limit break has occurred, as applicable.

## Appendix A:

# Performance benchmarks and outperformance targets

Russell Investment Group Limited is the investment manager and is mandated by the scheme to manage the strategies and products in the different asset classes in line with the investment strategy. The performance benchmarks and outperformance targets of the products and strategies are set down in the table below.

Asset class	Benchmark	Outperformance target % p.a.	Tracking error % p.a.	Timeframe
NZ cash	S&P/NZX Bank Bills 90-Day	0.2	0.2	3 years
Global fixed interest	Bloomberg Barclays Global Aggregate \$NZ Hedged	1	1.75	3 years
Global high yield	ICE BofAML Developed Markets High Yield Constrained Index NZDH	0.75	1.5	3 years
Global listed property	FTSE EPRA/NAREIT Developed Real Estate Net Index \$NZ Hedged	1.75	2-5	3 years
Global listed infrastructure	S&P Global Infrastructure Index \$NZ Hedged	1.75	4.5	3 years
Global equities	MSCI World ACWI Net Index \$NZ Hedged	2	3-5	3 years
Australasian equities	S&P/NZX 50 with Imputation	3	3-5	3 years