

Statement of Investment Policy and Objectives for NZAM Alpha Fund

Definitions

“client”, “you” and “your” means the investors in the Fund

“Fund” means the NZAM Alpha Fund

“market” means financial markets such as markets in equities, currencies, interest rates, commodities or derivatives

“NZAM”, “we”, “us” and “our” means NZAM Funds Limited, the manager of the Fund

“SIPO” means this Statement of Investment Policy and Objectives

Description of the Fund

The Fund is a managed investment scheme. We manage it as a fund-of-funds: a portfolio of global investment funds. The assets of the Fund are held by an independent Supervisor, Public Trust.

Investment objectives

We manage your portfolio in accordance with these investment objectives:

- seek to generate, over the medium term, a positive portfolio return that is less volatile than the performance of markets themselves,
- invest primarily in global funds, diversifying by manager, investment style and market,
- manage foreign currency exposures using clearly-defined principles, and
- hold other assets (typically cash, deposits and bonds) as determined by NZAM.

Subject to those objectives, there are no specified limits on the nature, type or proportion of assets that may be invested in.

The Fund has an emphasis on diversifying fund managers* combined with some ‘absolute return’ equity managers. The strategy aims to generate aggregate returns that are superior to fixed interest performance but less volatile than traditional equities.

The underlying investment objectives for the Fund are to achieve a return that exceeds the NZ dollar gross 90 day bank bill rate and preserve accumulated capital irrespective of market conditions. In support of these objectives, a primary risk management tool employed by us is diversification across a combination of underlying funds (and fund strategies) so that in aggregate returns are less volatile than underlying markets themselves.

* Diversifying fund managers are managers whose strategies are deliberately independent of equity markets.

Investment philosophy

We invest your money in investment funds, collective investment schemes or similar entities. Our primary consideration when selecting funds is to identify manager skills and then to balance those skills across our portfolio. Our research into, and close monitoring relationships with, global managers form the cornerstone of NZAM's business. We invest internationally so as to diversify your investment across some of the best management talent available globally.

We specifically include in the portfolio a range of styles, primarily:

- **long-short equity funds** that buy undervalued equities that are expected to increase in value, and short sell overvalued equities that are expected to decrease in value, often in combinations that hedge exposure to risks associated with the market or particular sectors of the market, and
- **diversifying managers** whose investment decision-making is typically based on high-level economic factors, including systematic and discretionary macro strategies.

These are sophisticated investments that are generally available only to larger international wholesale investors. We package them in combinations intended to be accessible and useful for New Zealand domestic investors.

We use a hedging strategy to manage foreign exchange currency risks according to predictable and non-discretionary rules. As the NZ dollar strengthens to reach higher bands of deviation from its long-term averages, we unwind currency forward contracts, gradually re-applying them as the currency reverts to the mean. The strategy is entirely mechanical – in no sense does our judgement of the direction of the NZ dollar impact on hedging levels.

Investment strategy

NZAM offers “absolute return” investments. Accordingly we focus on the volatility profile of our overall portfolio, and its likely response to market extremes, and not on benchmarked asset allocations, investment limits, targeted numbers or proportions for managers and investment styles, or benchmarking against indices.

The combination of underlying funds changes over time, in response to varying market conditions and individual manager performance.

Investment policies

Our portfolio composition tends to be comparatively stable, typically with only one or two significant adjustments every half-year. Based on our in-house research and feedback from regular meetings with key personnel from the global funds we invest in, the Directors make periodic adjustments to the portfolio, after consulting our investment adviser and holding company, New Zealand Assets Management Limited.

We deliberately do not impose specific limits on the number of funds or the proportion held in a particular fund. Historically, a single fund in the portfolio has not exceeded 10% of overall holdings. In some situations, for example following exceptional manager performance or where the fund is a multi-manager, we would allow higher proportion holdings provided our diversification investment objective is still met.

You are encouraged to use our online login, which provides comprehensive reporting of the current position of your holdings. It includes the ability to “look-through” to our underlying investments in the global funds and access to “manager readings” containing their own performance commentaries. We offer all clients the opportunity of face-to-face quarterly meetings with us, to explain your quarterly report and our performance. In addition, following our regular visits to the offshore managers (at least half-yearly), we will also update you about any issues arising from those discussions.

We state performance information after deducting all fees, expenses and GST, but before accounting for your own income tax.

Methodology for measuring performance against the investment objectives

At the core of NZAM’s investment strategy is manager selection. That process incorporates both quantitative analysis of historic returns seeking to understand the manager’s effectiveness at converting risk into return, measuring correlations versus incumbent managers and analysing performance in different market conditions, focussing particularly on crisis markets. However a purely quantitative approach has limitations and so we balance it with more qualitative analysis. Meeting each fund’s CIO is essential because we are investing in their skill, judgement and integrity at least as much as the markets they invest in.

SIPO approval and review

This SIPO was approved by the Directors on 23 September 2015 and is effective from that date. While it is not expected to change frequently, it is periodically reviewed by the Directors - as required (for example when an investment strategy change is considered) and in any event every second year. The Directors are responsible for approving a new SIPO.

The current version of the SIPO is available on the schemes register.