

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 comprised predominantly 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:

- The objective of the Fund is to provide attractive risk-adjusted returns which are largely independent of other asset class returns over an investment cycle.
- Volatility, or risk, of the portfolio over an investment cycle should be less than half the volatility, or risk, of equity markets.
- The performance objective of the Fund is to outperform the New Zealand Official Cash Rate by 4% per annum over the long term, after all fees (and other expenses) but before tax.

Investment Philosophy

- We believe that superior long term returns are generated by a focus on capital preservation and the avoidance of large losses – this is the essence of “absolute return” investing.
- We believe that markets contain inefficiencies both across and within asset classes, meaning superior return opportunities are available for active management.
- We believe that an investment in a number of high-quality specialist investment managers is the best way to diversify returns and achieve our absolute return objectives.

Investment Strategy

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

We focus on the risk profile of the 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.

We invest your money primarily in investment funds, collective investment schemes or similar entities. Our first consideration when selecting funds is to identify a manager's skill, and then to balance the skills and styles across our portfolio. We invest internationally, so as to diversify your investment across some of the best management talent available around the world.

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

The focus of the Fund will be on investment in:

- **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 limit exposure to risks associated with the market or particular sectors of the market; and
- **systematic and discretionary trading strategies** invest across a variety of asset classes and investment decision-making is typically based on high-level economic and/or market factors. 'Systematic macro' managers depend on systems designed by humans to identify investment or trading opportunities, while 'discretionary macro' funds rely primarily on the ability of humans themselves to identify trends. Different managers focus on varying aspects of the markets and consider wide ranges of economic, behavioural and political issues. This results in diversity among the managers, which is part of the appeal of the investment strategy.

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

The Fund will also:

- manage foreign currency exposures using clearly-defined principles, in accordance with the Fund objectives; and
- hold other assets (typically, but not limited to, cash, deposits and bonds) as determined by NZAM and in accordance with the Fund objectives.

Investment Policies

The responsible oversight body for ensuring adherence to the SIPO is the NZAM Investment Committee. The Investment Committee meets monthly and is a committee which comprises senior members of the investment, compliance, and client relations teams.

We deliberately do not impose specific limits on the number of funds or securities, or the proportion held in the Fund. However, a key part of the risk management process is ensuring that prudent diversification is always undertaken.

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

Investment Performance Monitoring

Review

An investment performance report is presented to the Investment Committee at its monthly meetings. Performance is analysed on a rolling quarterly, 6-monthly, yearly, 3-yearly, 5-yearly, and inception basis, with a focus on the longer windows. More frequent or specific reporting occurs if the Investment Committee believes this is appropriate given specific market or Fund developments.

Performance is assessed against the relevant absolute return benchmark in the first instance. It will also be measured on a relative basis against any applicable market-based index, as well as the relevant peer group (if applicable).

Qualitative Monitoring

Communication and site visits to external managers are the key component of NZAM's ongoing investment review process. Relevant points for investigation at visits to external managers include business stability, senior personnel change and engagement, portfolio liquidity, market exposure, strategy outlook and positioning vs strategy expectations.

Quantitative Monitoring

In addition to the ongoing qualitative assessment of investments, we have a process to formally re-assess investments if actual investment results deviate significantly from expectations.

Pre-investment, the recommendation to invest will include expected parameters for the proposed investment. These will be based on a synthesis of historical data and forward-looking analysis, and will include any expected potential losses and volatility.

Within these expected parameters, limits are agreed, the breach of which will trigger a formal written review of the investment to be submitted to the Investment Committee.

The report will include an analysis and explanation of performance, and a recommendation as to whether the investment be exited, reduced, or retained at current weighting. Further, the option exists to implement a hard “stop loss” from the review level.

SIPO approval and review

This SIPO was approved by the Directors on 3 August 2017 and is effective from 6 September 2017. 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.