

Statement of Investment Policy and Objectives for NZAM Global Growth Fund

Definitions

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

“Fund” means the NZAM Global Growth 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 is growth oriented with an emphasis on equity managers. The equity managers we select must use strategies that are consistent with our ‘absolute return’ philosophy. The portfolio also includes some managers whose strategies are deliberately independent of equity markets, referred to as diversifying fund managers.

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.

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 limit 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 risk 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

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 the proportion held in a particular fund. Historically, our portfolio composition tends to be comparatively stable, typically with only one or two significant adjustments every half-year.

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 to access “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.

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, trimmed, or reduced 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.