

Statement of Investment Policy and Objectives for NZAM Kapstream Absolute Return Income Fund

Definitions

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

“Fund” means the NZAM Kapstream Absolute Return Income Fund

“Kapstream Fund” means Kapstream Wholesale Absolute Return Income 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 single manager fund: an investment in an actively managed fund of global fixed interest securities through the Kapstream Fund. The assets of the Fund are held by an independent Supervisor, Public Trust.

Investment objectives

We manage your investment in accordance with these investment objectives:

- seek to generate, over the medium term, a steady stream of income accompanied by capital stability.
- invest primarily in the Kapstream Fund (whose own benchmark objective is to achieve a total return (before taxes and fees) that exceeds a composite comprising 50% of Bloomberg AusBond Composite Bond 0-3 year Index and 50% Bloomberg AusBond Bank Bill Index and to preserve accumulated capital irrespective of market conditions),
- manage foreign currency exposures using clearly-defined principles, and
- hold other assets (typically cash and deposits) as determined by NZAM to facilitate new applications and withdrawals or distributions.

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

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 high-quality specialist investment managers is the best way to achieve our objectives.

Investment strategy

We invest your money in the Kapstream Fund. The Kapstream Fund is an “absolute return” fund. That is, it has an unconstrained approach towards investments, investing wherever the best risk adjusted opportunities can be found irrespective of the benchmark index.

By investing in the Kapstream Fund, the Fund aims to provide a steady stream of income and capital stability over the medium term while aiming to outperform its absolute return benchmark. The underlying Kapstream Fund invests in accordance with its global view of economies as a whole, focussing on factors such as changes in inflation, employment and growth and the impact of those changes on government policies and currency and bond markets. In making investment decisions, the underlying Kapstream Fund will also take into account other factors such as the sensitivity of bond prices to interest rate changes (duration), the relationship between bond yields and time to maturity (curve), comparing these factors on a relative value basis globally and across sectors. The Kapstream Fund is unconstrained in this approach, investing wherever the best risk adjusted opportunities can be found, irrespective of conventional benchmark indices. It actively manages its investment risks within cautious limits. The Kapstream Fund invests predominantly in investment grade bonds with the objective of preserving capital and providing a stable quarterly income stream. The Kapstream Fund may invest in a range of securities across the range of global markets including, to a limited extent, emerging market countries – at least 85% of the Kapstream Fund’s global fixed income securities must be investment grade. The list of possible securities may include, but is not limited to, Government and non-Government bonds, notes, corporate securities, mortgage-backed and asset-backed securities, emerging market debt, convertible securities, derivatives, including swaps, futures, foreign exchange contracts and options, cash and enhanced cash instruments. The underlying fund manager actively manages the currency exposure of the Kapstream Fund’s investments using its hedging strategies – non-Australian dollar denominated securities may be fully, partially or not hedged back to the Australian dollar.

The Kapstream Fund is an Australian dollar denominated fund and we fully hedge the foreign exchange currency risks from Australian dollars to New Zealand dollars. The New Zealand dollar hedging strategy is entirely mechanical – in no sense does our judgement of the direction of the NZ dollar impact on hedging levels.

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.

The Fund is a single manager fund that invests in the Kapstream Fund and there is no intention to change the composition of the Fund.

The Fund's investment in the Australian dollar denominated Kapstream Fund will be fully hedged to NZ dollars to manage the foreign exchange currency risk.

In reporting to you, 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 & engagement, portfolio liquidity, market exposure, strategy outlook and positioning vs strategy expectations.

Quantitative Monitoring

In addition to usual 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 immediately, trimmed, 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.