

# Statement of Investment Policy and Objectives for NZAM Global Absolute Return Equity Fund

## Definitions

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

“Fund” means the NZAM Global Absolute Return Equity 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

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The Fund is a managed investment scheme. We manage it as a fund-of-funds: a portfolio comprised predominantly of global investment equity funds, although there may be some direct investments in equity markets. The assets of the Fund are held by an independent Supervisor, Public Trust.

## Investment Objectives

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We manage your portfolio in accordance with these investment objectives:

- The objective of the Fund is to provide equity-like returns over the long term while minimising exposure to extreme sharemarket movements.
- The performance objective of the Fund is to outperform the New Zealand Official Cash Rate by 5% per annum over the long term, after all fees (and other expenses) but before tax.
- Volatility, or the risk, of the portfolio over an investment cycle should be less than 2/3rds of the volatility of equity markets.

## Investment Philosophy

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- 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 predominantly in a number of high-quality global funds is the best way to diversify returns and achieve our absolute return objectives.

## Investment Strategy

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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.

The Fund is growth oriented with an emphasis on “absolute return” equity funds.

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 manager skill, and then to balance those 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

To a lesser degree, we will seek out opportunities to invest in attractive cyclical or thematic opportunities in equity markets, including funds more biased to long exposure, as well as direct investments in equity markets.

Therefore we expect exposure to equity market direction in the Fund will vary across a cycle, being lower when risks are high, and higher when risks are low. This will be a function partly of underlying manager positioning, and partly of our asset allocation decisions.

The Fund may also:

- manage foreign currency exposures using clearly-defined principles, in accordance with the Fund objectives.
- hold other assets (typically, but not limited to, cash, deposits and bonds) as determined by NZAM in accordance with the Fund objectives.
- short sell securities and use derivatives where usage is consistent with achieving Fund objectives.

## Investment Policies

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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

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### Review

An investment performance report is presented to the Investment Committee at its regular 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

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This SIPO was approved by the Directors on 6 September 2017 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.