BNZ KiwiSaver Scheme

Statement of Investment Policy and Objectives

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Contents

1. The SIPO describes our policies and objectives for the Scheme and the Funds

The Statement of Investment Policy and Objectives (SIPO) sets out the way Harbour Asset Management Limited (Harbour, we, us or our) governs and manages investments held in the BNZ KiwiSaver Scheme.

It includes information on the investment strategy and objectives, target investment mixes and allowable investment ranges, benchmark indices and authorised investments for the Funds in the BNZ KiwiSaver Scheme.

2. The BNZ KiwiSaver Scheme offers a range of Funds

The BNZ KiwiSaver Scheme is a registered Managed Investment Scheme (MIS) and a registered KiwiSaver Scheme under the Financial Markets Conduct Act 2013 (FMCA).

The BNZ KiwiSaver Scheme offers the following funds (Funds):

- High Growth Fund
- Growth Fund
- Balanced Fund
- Default Fund
- Moderate Fund
- Conservative Fund
- First Home Buyer Fund
- Cash Fund

3. Harbour invests the BNZ KiwiSaver Scheme's assets

Harbour, the manager of the BNZ KiwiSaver Scheme, is responsible for investing the Scheme's assets. Our responsibilities include:

- the investment philosophy for the Funds
- maintaining the investment governance (oversight of how it is managed) framework and ensuring that effective investment policies and processes are in place
- setting the Funds' investment strategies, objectives and guidelines
- approving the investments that the Funds are allowed to invest in
- monitoring the Funds' investment performance
- reviewing and approving changes to this SIPO and ensuring it is adhered to.

Harbour is part of a group of investment and advisory businesses ultimately owned by FirstCape Group Limited (FirstCape).

4. Our investment philosophy

Our investment philosophy beliefs are:

- The mix of investments a Fund holds (asset allocation) has the largest influence on the level of risk and potential return.
- A well-diversified portfolio of investments helps investors meet their investment goals.
- Higher potential returns often come with more ups and downs (volatility) along the way. Accepting higher levels of volatility over the short term means there is the potential for higher returns over the long term. This volatility is often referred to as risk.
- It's important that the fees and charges investors pay are cost effective, so that they get to keep more of their returns.
- Both active management (which aims to achieve a return that is higher than that of a market index) and passive management (which aims to achieve a return that is close to that of a market index) have a place in investment management.
- Incorporating environmental, social and governance factors (ESG) into our investment process is important, as these factors are drivers of sustainable long-term returns.

We implement our investment philosophy by:

- Using investment managers who are experts in their specific markets.
- Taking positions away from the strategic asset allocations and strategic level of currency hedging (from time to time) with the aim of reducing risk/increasing potential return.
- Maintaining a robust governance structure, which leads to better decisions and enables risks to be managed more effectively.

5. Each Fund has its own investment strategy and objective

Each Fund provides different risk and potential return outcomes.

We select the mix of authorised investments for each Fund that we consider appropriately reflects its risk profile, investment strategy and objective. Investment choices must also be consistent with our investment philosophy.

The Funds will hold authorised investments

Each Fund can invest in the asset classes detailed in its fund summary table in this section of the SIPO.

The Funds can invest in underlying investment funds managed by us or underlying investment managers, and hold some operational cash to help us pay redemptions and expenses.

The current list of underlying investment managers can be found on bnz.co.nz/kiwisavermanagers. The underlying investment managers can be added to, removed or changed at any time without prior notice.

The Funds can also invest in derivatives as described in the derivatives policy set out in Section 6.

Asset class	Market index	Description
Cash and cash equivalents	Bloomberg NZBond Bank Bill Index	This index is designed to measure the performance of the New Zealand money market by representing a passively managed short-term money market portfolio.
New Zealand fixed interest[1]	Bloomberg NZBond Composite 0+Years Index	This index is designed to measure the performance of the New Zealand debt market. It constitutes a composite of Treasury, Local Government, Supra/Sovereign and Credit instruments.
International fixed interest	Bloomberg Global Aggregate Index (100% hedged to NZD)	The Bloomberg Global Aggregate Index is a flagship measure of global investment grade (Standard & Poor's BBB- rated or higher, or equivalent) debt from 24 local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitised fixed-rate bonds from both developed and emerging market issuers.
Australasian equities	S&P/NZX 50 Index (including imputation credits)	This index is designed to measure the performance of the 50 largest, eligible equities listed on the Main Board (NZSX) of the NZX by float-adjusted market capitalisation.
International equities	FTSE All World Index (60% hedged to NZD)	This index is a market capitalisation weighted index representing the performance of the large and mid-cap equities from the FTSE Global Equity Index Series. It covers both developed and emerging markets.

Benchmark indices

Each Fund's performance is measured against a benchmark index.

The benchmark index for the Cash Fund is the Bloomberg NZBond Bank Bill Index.

The benchmark index for each of the other Funds is a composite created from market indices. Each benchmark index is calculated using a market index for each asset class, weighted by the target investment mix for each Fund.

All market indices exclude fees and expenses. The S&P/NZX 50 Index includes the value of imputation credits. These are tax credits that a company can attach to its dividends, which can reduce the amount of income tax the recipient needs to pay.

The market indices and the web pages disclosed above may change or may be renamed or replaced from time to time without prior notice to you. Related disclaimers for benchmark indices can be found in the 'Disclaimers' section of this SIPO.

[1] Within the New Zealand fixed interest asset class we have the ability to use derivatives to make allocations in the US and Australian fixed interest markets, to efficiently manage interest rate risk when there are pricing discrepancies relative to New Zealand. We aim to hedge foreign currency exposures back to NZD with a tolerance of +/- 2% of the Net Asset Value of the asset class.

High Growth Fund

- **Investment strategy and objective**

  This Fund invests primarily in growth assets, which generally have higher levels of risk with the potential for higher returns. It may also allocate investment to income assets, which generally have lower levels of risk and potential returns. It aims to achieve the highest returns of the Funds over the long term.

Asset class	Target investment mix (%)	Allowable investment ranges (%)	Market indices
Cash and cash equivalents	0	0–35	Bloomberg NZBond Bank Bill Index
New Zealand fixed interest	0	0–5	Bloomberg NZBond Composite 0+Years Index
International fixed interest	0	0–5	Bloomberg Global Aggregate Index (100% hedged to NZD)
Total income assets	**0**	**0–40**	
Australasian equities	33	18–48	S&P/NZX 50 Index (including imputation credits)
International equities	67	47–80	FTSE All World Index (60% hedged to NZD)
Total growth assets	**100**	**60–100**	

Growth Fund

- **Investment strategy and objective**

  This Fund invests mostly in growth assets, which generally have higher levels of risk with the potential for higher returns. It also has a modest allocation to income assets, which generally have lower levels of risk and potential returns. It aims to achieve higher returns over the long term.

Asset class	Target investment mix (%)	Allowable investment ranges (%)	Market indices
Cash and cash equivalents	1	0–35	Bloomberg NZBond Bank Bill Index
New Zealand fixed interest	5	0–10	Bloomberg NZBond Composite 0+Years Index
International fixed interest	14	4–24	Bloomberg Global Aggregate Index (100% hedged to NZD)
Total income assets	**20**	**13–52**	
Australasian equities	27	12–42	S&P/NZX 50 Index (including imputation credits)
International equities	53	33–73	FTSE All World Index (60% hedged to NZD)
Total growth assets	**80**	**48–87**	

Balanced Fund

- **Investment strategy and objective**

  This Fund invests largely in growth assets, which generally have higher levels of risk with the potential for higher returns. It also has a sizeable allocation to income assets, which generally have lower levels of risk and potential returns. It aims to achieve a medium level of return over the medium to long term.

Asset class	Target investment mix (%)	Allowable investment ranges (%)	Market indices
Cash and cash equivalents	5	0–30	Bloomberg NZBond Bank Bill Index
New Zealand fixed interest	9	4–14	Bloomberg NZBond Composite 0+Years Index
International fixed interest	26	11–41	Bloomberg Global Aggregate Index (100% hedged to NZD)
Total income assets	**40**	**33–62**	
Australasian equities	20	10–30	S&P/NZX 50 Index (including imputation credits)
International equities	40	25–55	FTSE All World Index (60% hedged to NZD)
Total growth assets	**60**	**38–67**	

The Balanced Fund and Default Fund have the same target investment mix. However, in the Balanced Fund, a combination of active and passive management is used for the Australasian equities asset class. In the Default Fund, this asset class is passively managed.

Default Fund

- **Investment strategy and objective**

  This Fund invests largely in growth assets, which generally have higher levels of risk with the potential for higher returns. It also has a sizeable allocation to income assets, which generally have lower levels of risk and potential returns. It aims to achieve a medium level of return over the medium to long term.

Asset class	Target investment mix (%)	Allowable investment ranges (%)	Market indices
Cash and cash equivalents	5	0–30	Bloomberg NZBond Bank Bill Index
New Zealand fixed interest	9	4–14	Bloomberg NZBond Composite 0+Years Index
International fixed interest	26	11–41	Bloomberg Global Aggregate Index (100% hedged to NZD)
Total income assets	**40**	**37–55**	
Australasian equities	20	10–30	S&P/NZX 50 Index (including imputation credits)
International equities	40	25–55	FTSE All World Index (60% hedged to NZD)
Total growth assets	**60**	**45–63**	

The Balanced Fund and Default Fund have the same target investment mix. However, in the Balanced Fund, a combination of active and passive management is used for the Australasian equities asset class. In the Default Fund, this asset class is passively managed.

For the Default Fund the Australasian equities asset class is invested using a passive investment approach. For the other diversified Funds, this asset class is invested using a combination of active and passive investment approaches.

Moderate Fund

- **Investment strategy and objective**

  This Fund invests largely in income assets, which generally have lower levels of risk with the potential for lower returns. It also has a sizeable allocation to growth assets, which generally have higher levels of risk and potential returns. It aims to achieve moderate returns over the medium term.

Asset class	Target investment mix (%)	Allowable investment ranges (%)	Market indices
Cash and cash equivalents	15	5–35	Bloomberg NZBond Bank Bill Index
New Zealand fixed interest	11	1–21	Bloomberg NZBond Composite 0+Years Index
International fixed interest	34	19–49	Bloomberg Global Aggregate Index (100% hedged to NZD)
Total income assets	60	53–77	
Australasian equities	13	3–23	S&P/NZX 50 Index (including imputation credits)
International equities	27	12–42	FTSE All World Index (60% hedged to NZD)
Total growth assets	40	23–47	

Conservative Fund

- **Investment strategy and objective**

  This Fund invests mostly in income assets, which generally have lower levels of risk with the potential for lower returns. It also has a modest allocation to growth assets, which generally have higher levels of risk and potential returns. It aims to achieve relatively stable returns over the short to medium term.

Asset class	Target investment mix (%)	Allowable investment ranges (%)	Market indices
Cash and cash equivalents	25	15–40	Bloomberg NZBond Bank Bill Index
New Zealand fixed interest	14	4–24	Bloomberg NZBond Composite 0+Years Index
International fixed interest	41	26–56	Bloomberg Global Aggregate Index (100% hedged to NZD)
Total income assets	**80**	**73–92**	
Australasian equities	7	2–12	S&P/NZX 50 Index (including imputation credits)
International equities	13	3–23	FTSE All World Index (60% hedged to NZD)
Total growth assets	**20**	**8–27**	

First Home Buyer Fund

- **Investment strategy and objective**

  This Fund invests mostly in income assets, which generally have lower levels of risk with the potential for lower returns. It also has a small allocation to growth assets, which generally have higher levels of risk and potential returns. It aims to achieve relatively stable returns over the short to medium term.

Asset class	Target investment mix (%)	Allowable investment ranges (%)	Market indices
Cash and cash equivalents	60	40–100	Bloomberg NZBond Bank Bill Index
New Zealand fixed interest	6	0–11	Bloomberg NZBond Composite 0+Years Index
International fixed interest	19	0–29	Bloomberg Global Aggregate Index (100% hedged to NZD)
Total income assets	**85**	**78–100**	
Australasian equities	5	0–10	S&P/NZX 50 Index (including imputation credits)
International equities	10	0–15	FTSE All World Index (60% hedged to NZD)
Total growth assets	**15**	**0–22**	

Cash Fund

- **Investment strategy and objective**

  This Fund invests in income assets, including New Zealand cash and cash equivalent securities. It aims to achieve stable returns over the short term.

Asset class	Target investment mix (%)	Allowable investment range (%)	Market index
Cash and cash equivalents	100	N/A	Bloomberg NZBond Bank Bill Index

6. Harbour manages the Scheme

We maintain several policies and processes relevant to the BNZ KiwiSaver Scheme. A summary of these follows.

We take responsible investment considerations into account

The Harbour Asset Management Limited ESG Policy applies to the BNZ KiwiSaver Scheme. We take responsible investment, including ESG considerations, into account in the investment policies and procedures of the BNZ KiwiSaver Scheme. For an explanation of the extent to which responsible investment is taken into account in those policies and procedures, see www.harbourasset.co.nz/esg

A copy of the Harbour Asset Management Limited ESG Policy is available at www.disclose-register.companiesoffice.govt.nz

We manage conflicts of interest

Actual or perceived conflicts of interest for directors and employees of FirstCape group companies can arise from any competing interests.

Directors are required to disclose conflicts of interest and there are processes for recording and managing these conflicts.

FirstCape group companies' employees are required under the terms of their individual employment agreements to disclose and register potential or actual conflicts of interest to FirstCape so that these can be effectively managed.

We may use related parties to provide services to the Funds, including staffing services, banking facilities and investments in other investment vehicles managed by us or related parties.

We conduct all transactions with related parties of the BNZ KiwiSaver Scheme on arms' length commercial terms (as if the parties were independent) and follow the rules on related party transactions that apply to Managed Investment Schemes under the FMCA.

For more information on related-party transactions under the FMCA go to: www.fma.govt.nz/library/guidance-library/related-party-transactions-under-the-financial-markets-conduct-act-2013/

We have a currency hedging strategy

Currency hedging is a way to protect investors against the impact of changes in exchange rates that affect the value of investments made overseas.

Foreign currency hedging may be implemented within the underlying investment funds by the investment managers of those funds. We may also approve another party to implement currency hedging. Where we invest in an underlying investment fund, we consider that fund's strategic hedging policy at the time we select it, and regularly review its compliance with this policy. Section 7 of this SIPO has more details on our current approach to currency hedging. This approach may change from time to time.

We can invest in derivatives for specific purposes

A derivative is a financial instrument that has its value based on the value of an actual financial asset, index or rate (such as a particular currency, equity, or fixed interest investment).

We may use derivatives for currency hedging purposes and for maintaining asset class exposure during asset transitions. The underlying investment funds in which the Funds invest may use derivatives for managing currency, mitigating risk, efficient portfolio implementation and enhancing returns.

Our underlying investment managers do not use leverage

Leverage is borrowing money or using derivatives to gain a financial exposure that is greater than the financial exposure that can be obtained through the use of physical assets, with the purpose of increasing the potential gains on an investment. Although leverage can increase gains, it can also increase losses.

In the New Zealand fixed interest asset class, the use of swaps or derivatives will not be deemed as leverage, provided the net interest rate exposure or duration of the portfolio remains within the permissible guidelines.

We do not use leverage in the Funds, and do not allow our underlying investment managers to use leverage in the portfolios that they manage for us.

Our funds may borrow for operational purposes

Subject to any requirements of the governing document for the BNZ KiwiSaver Scheme, the Funds may borrow, on a temporary basis, for the purposes of conducting the management or operations of the Fund, including the payment of redemptions to or in respect of investors.

We maintain liquidity

An investment is liquid when it is quick and easy to convert to cash without having a significant impact on its value. It is important for our Funds to maintain an appropriate level of liquidity to be able to meet our cash flow requirements.

We maintain liquidity by investing in authorised investments that have significant levels of liquidity overall. Each of the Funds also holds some operational cash to help us pay redemptions and expenses.

We may move away from our target investment mixes

The target investment mix for each Fund reflects our strategic asset allocation (the mix of asset classes that we believe will allow us to meet our long-term performance objectives). From time to time, we may move away from the Funds' target investment mixes set out in Section 5 of this SIPO.

We do this with the aim of:

- reducing the risk of a potential loss of value; and/or
- improving the Funds' returns.

When we do this, we will only move within the allowable investment ranges that are set out in Section 5 of this SIPO.

The Funds' allowable investment ranges for Cash and cash equivalents and Total income assets (for all Funds apart from the Cash Fund and Default Fund with respect to Total income assets) have been set to enable us to significantly reduce exposure to growth assets and significantly increase exposure to Cash and cash equivalents. Such a position may be established on a temporary basis, under certain market conditions (such as an equity market downturn). It will generally lower the level of risk of a Fund and may also reduce its potential returns. The aim of doing this is to protect the Funds' investments from significant capital losses. The Funds' allowable investment ranges do not allow us to materially increase exposure to growth assets, because doing this will generally increase the level of risk of a Fund.

7. How we implement our strategies and policies

How we build each Fund

We start with determining the asset allocation (the proportion of each fund that will be invested in each asset class) for each Fund. The Funds (except for the Cash Fund) invest in more than one asset class.

We make investment decisions for the Funds directly and may appoint a range of underlying investment managers who manage the assets in each asset class. We consider a range of factors when picking these underlying investment managers, including:

- their investment philosophy and the way they invest (also known as their investment style)
- their track record of investment performance
- the way they incorporate ESG into their investment process
- the fees they charge.

We agree a set of rules (known as a mandate) with each underlying investment manager that sets out how they are expected to manage these assets.

How we invest

The underlying investment managers, or any third party delegated this function by them, buy and sell the assets of the BNZ KiwiSaver Scheme.

How we manage currency for overseas investments

The way we manage foreign currency depends on the type of asset class. We use an investment technique called hedging to do this. Hedging, in this context, seeks to reduce the effect of changes in the exchange rate between the New Zealand dollar and foreign currencies. You can find the current hedging levels in the Fund Updates available at bnz.co.nz/kiwisaverhelp

- **New Zealand fixed interest**

  Within this asset class we have the ability to make allocations in the US and Australian fixed interest markets. We aim to hedge foreign currency exposures back to the New Zealand dollar with a tolerance of +/- 2% of the Net Asset Value of the asset class.

- **International fixed interest**

  We aim to hedge 100% of the BNZ KiwiSaver Scheme international fixed interest investments to the New Zealand dollar.

- **International equities**

  We aim to hedge 60% of the BNZ KiwiSaver Scheme international equity investments to the New Zealand dollar. From time to time we may target a different hedging position to this. We are allowed to hedge between 0% and 100% of the BNZ KiwiSaver Scheme international equity investments to the New Zealand dollar.

- **Australasian equities**

  We aim to actively hedge the foreign currency exposure arising from the Australian equities held in the Australasian equities asset class to the New Zealand dollar. This means that the amount of hedging can vary from 0% to 100%.

  Some underlying funds in the Australasian equities asset class may contain up to 10% international equities (for instance, where a private New Zealand domiciled company has moved its registration overseas). We aim to actively hedge the foreign currency exposure arising from these investments to the New Zealand dollar. This means that the amount of hedging can vary from 0% to 100%.

8. We apply four risk management principles

We follow these risk management principles.

- Risk can be reduced by holding many investments across asset classes, countries, sectors, securities and styles of investing.
- Regular and ongoing monitoring of investments enables the early identification of risks and the swift implementation of actions to mitigate these risks.
- Liquidity of the Funds is a key consideration and should be maintained at an appropriate level.
- Investing in quality assets helps us meet our investment goals. For example, the BNZ KiwiSaver Scheme's fixed interest exposures mainly comprise investment-grade securities.

9. When we monitor and review

Reviewing the SIPO

We review this SIPO at least every two years.

We may also carry out an ad-hoc review due to:

- offering a new fund
- a change to a Fund's target investment mix and/or allowable investment objectives
- a change to a Fund's investment strategy and objective
- a change to the underlying investment funds and/or investment managers
- material changes in market conditions
- a change in law or regulation
- any other reason where we consider it necessary and appropriate.

When we review the SIPO, we consider our investment philosophy and the Funds' investment strategies and objectives. Any changes are approved in accordance with our internal processes. We may also consult with the Supervisor prior to approving any changes to the SIPO and provide written notice of the changes to the Supervisor before the changes take place. Any material changes to the SIPO will be outlined in the BNZ KiwiSaver Scheme annual report.

The current version of this SIPO is available on the Scheme's Disclose Register. Find this at www.disclose-register.companiesoffice.govt.nz

Monitoring target investment mixes and rebalancing

We monitor the Funds' investment mixes regularly. If a Fund's investment mix falls outside its allowable investment ranges, we act to bring the investment mix back within the allowable investment ranges. We do this by buying and selling assets:

- within five working days, or
- as soon as reasonably practicable considering factors like the ability to buy or sell assets and transaction costs.

The target investment mixes and allowable investment ranges represent the exposure to the Funds' authorised investments. However, the securities within the authorised investment are not considered when rebalancing.

Approving and reviewing authorised investments

We approve each Fund's authorised investments in accordance with Section 5 of this SIPO.

We review the Funds' authorised investments at least once a year, or more often if necessary to make sure they remain appropriate and meet the requirements of this SIPO.

Monitoring and reporting of investment performance

We regularly monitor and report on the investment performance of the Funds and the underlying investment funds.

We monitor each Fund's performance using a performance measure referred to as a benchmark index. As the Funds have multiple asset classes (except the Cash Fund), every month we monitor performance against a mix of market indices detailed in Section 5 of this SIPO.

The performance of each asset class is monitored every month against its respective market index set out in Section 5 of this SIPO.

The performance of the Funds and each asset class is measured over multiple timeframes ranging from one month to since inception.

Disclaimers

FTSE indices

LSEG is the administrator of certain indices and benchmarks as detailed at https://www.lseg.com/en/ftse-russell/benchmarks statements. No other information provided, displayed or contained in any LSEG service is made available for use as a benchmark, whether in relation to a financial instrument, financial contract or to measure the performance of an investment fund, or otherwise in a way that would require the relevant information to be administered by a benchmark administrator pursuant to the Benchmarks Regulation (the "Prohibited Use"). LSEG does not grant rights for you to access or use such information for the Prohibited Use and you may breach the Benchmarks Regulation and/or any contract with LSEG if you do. In the event that you identify the Prohibited Use of information by any person, you must promptly notify LSEG and provide such details as we may reasonably request to ensure the cessation of the Prohibited Use, where appropriate. Notwithstanding the foregoing, where you have entered into a direct license with a third-party provider which permits the Prohibited Use with respect to such third party provider's information, you are solely responsible for compliance with Benchmarks Regulation and LSEG shall have no liability or responsibility for any loss or damages that arise from or in connection with the Prohibited Use. LSEG and its affiliates do not warrant that any information is provided in compliance with the Benchmarks Regulation and accept no liability and have no responsibility for any loss or damages that arise from or in connection with the Prohibited Use of the information. "Benchmarks Regulation" means, in respect of the EEA, EU Regulation 2016/1011, in respect of UK, UK benchmarks regulation, and in respect of another country, the equivalent legislation. If you are in any doubt about the meaning of the Prohibited Use or your obligations under the Benchmarks Regulation, you should seek professional advice.

S&P indices

Bloomberg indices

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