PORTS RETIREMENT PLAN

Statement of Investment Policy and Objectives

22 February 2019

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Adopted by the Trustee effective 22 February 2019

Signed:

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D S Stevens
Chairman of Directors

1. Introduction

1.1 Purpose

This Statement of Investment Policy and Objectives (*SIPO*) applies to the Ports Retirement Plan (*Plan*). The Plan is registered as a restricted workplace savings scheme under the Financial Markets Conduct Act 2013.

The purpose of this SIPO is to document the Trustee's investment policy and objectives for the Plan, including:

- The nature or types of investments that can be made (and the limits on those).
- The limits on the proportions of each type of asset invested in.
- The methods used for developing and amending the investment strategy and measuring performance against the Trustee's investment objectives for the Plan.

In addition the SIPO:

- Details the specific objectives of the fund managers of the investment products into which we invest.
- Allocates the responsibilities between the Trustee and those fund managers.
- Specifies the terms of the investment mandates and constraints to be observed by the fund managers.

1.2 Background

This SIPO replaces the SIPO dated 20 June 2018. It has been prepared for the Trustee by Melville Jessup Weaver (*MJW*), which is the Investment Consultant to the Plan.

The most current version of this SIPO is available on the Schemes Register entry for the Plan on the Disclose website at www.disclose-register.companiesoffice.govt.nz.

1.3 Effective Date

This SIPO takes effect on 22 February 2019.

1.4 Investment beliefs

The Trustee's investment beliefs are that:

- Good governance, robust decision-making processes and well-managed implementation and monitoring are important for achieving the Plan's investment objectives over time.
- Long-term strategic asset allocation is the main determinant of investment returns.
- Diversifying a portfolio will deliver more consistent returns over time.
- Good active managers can add incremental value (after fees) over and above benchmark returns through stock selection.

- There is a trade-off between risk and return for each investment decision made.
- Good execution and minimising tax leakage and fees deliver additional returns to the Plan.

1.5 Investment options

The Plan operates two investment portfolios - Balanced and Conservative.

All the balances held for employee members are invested in the Balanced portfolio.

The Conservative portfolio is available only to members who have left service and chosen to stay in the Plan (*Deferred Members*). Deferred Members may choose to invest part or all of their balances in the Conservative portfolio and if (or to the extent that) they do not do so, their balances are invested in the Balanced portfolio.

1.6 Investment objectives

The Trustee's core investment objective for the Balanced portfolio is to provide an intermediate level of returns over the medium term. These returns are also expected to be greater over the long term than for fixed interest investments, cash and cash equivalents but have less volatility than for equities and property.

The Trustee's core objective for the Conservative portfolio is to provide a low, but stable, level of returns. These returns are expected to be modestly better than for fixed interest investments, cash and cash equivalents but have similarly low volatility.

1.7 Methodology used for developing and amending the investment strategy

The Trustee's directors meet quarterly to review the investment performance of the fund managers against the Trustee's investment objectives for the relevant asset classes.

The Trustee may amend the SIPO and its investment strategy as it considers appropriate from time to time in pursuit of its investment objectives.

1.8 Future updates to the SIPO

The next full review date of the SIPO is expected to be no later than March 2020.

2. Directory

2.1 Trustee

The Trustee of the Plan is Ports Retirement Trustee Limited.

The Secretary to the Plan is Debby Green and the Administration Manager is MJW.

2.2 Fund Managers

The managers of the products into which the Plan currently invests are:

- AMP Capital Investors (New Zealand) Limited (*AMPCI*)
- Nikko Asset Management New Zealand Limited (*Nikko*)
- ANZ New Zealand Investments Limited (*ANZ Investments*)
- Harbour Asset Management Limited (*Harbour Asset Management*).

2.3 Investment Consultant

MJW is the Investment Consultant to the Plan.

3. Investment Objectives

3.1 Introduction

The Trustee maintains two investment portfolios, each of which has a diversified asset allocation and is invested in a range of asset classes through four fund managers.

3.2 Objectives

The Trustee's core objective for the Balanced portfolio is to provide an intermediate level of returns over the medium term. These returns are also expected to be greater over the long term than for fixed interest investments, cash and cash equivalents but have less volatility than for equities and property.

The Trustee's core objective for the Conservative portfolio is to provide a low, but stable, level of returns. These returns are expected to be modestly better than for fixed interest investments, cash and cash equivalents but have similar volatility.

The Trustee has two specific performance targets for each portfolio. These are measured on a rolling three year basis, after deducting investment management fees:

Balanced

- A minimum real rate of return after tax of at least 2.0% per annum (i.e. an after-tax return 2.0% above inflation as measured by CPI increases), assuming the tax rate is the highest prescribed investor rate (*PIR*) applying from time to time under the portfolio investment entity (*PIE*) tax legislation.
- A before-tax rate of return higher than the average return of the KiwiSaver balanced funds in the MJW Investment Survey.

Conservative

- A minimum real rate of return after tax of at least 0.75% per annum (i.e. an after-tax return 0.75% above inflation as measured by CPI increases), assuming the tax rate is the highest PIR applying from time to time under the PIE tax legislation.
- A before-tax rate of return higher than the average return of the KiwiSaver conservative funds in the MJW Investment Survey.

The returns relative to the MJW Investment Survey are principally a function of strategic asset allocation, which is set by the Trustee on the advice of MJW and, in the case of the Balanced portfolio, is slightly more conservative than the asset allocation of the average KiwiSaver balanced fund in the MJW Investment Survey.

Of the targets above it is noted that in the short term the more difficult one to achieve is the real rate of return after tax.

The Trustee recognises that there will be volatility in the investment results and there will be periods where the performance lags or exceeds expectations. The asset allocations have been set such that:

- the investment returns sought for the Balanced portfolio can be expected to be achieved over a timeframe of 5 to 10 years; and

- the investment returns sought for the Conservative portfolio can be expected to be achieved over a timeframe of 3 to 5 years.

3.3 Responsibilities of the Trustee

The Financial Markets Conduct Act 2013 requires the Trustee to exercise the care, diligence and skill that a prudent person of business would exercise in the same circumstances. The Trustee Act 1956 also contemplates that when exercising any power of investment the Trustee should have regard to the following matters, among others:

- The need to maintain the real value of capital or income.
- The risk of capital loss or depreciation.
- The potential for capital appreciation.
- The likely income return.
- Tax.
- The effect of inflation.

The responsibilities of the Trustee as they relate to investments are:

- To maintain the investment governance framework for the Plan (including an effective investment policy).
- To agree the investment strategy and risk tolerance for the Plan and each investment portfolio (this includes the target asset allocation, ranges, other limits and appropriate indices).
- To review the performance of the Plan's fund managers (as reported by the Investment Consultant) relative to asset class objectives and in terms of compliance with strategy limits.
- To review the performance of the Investment Consultant.
- To communicate to members the results of the Plan's performance.

3.4 Tax

The Plan is a PIE for the purposes of the Income Tax Act 2007. Its taxable investment income is attributed in appropriate shares to each member and taxed at that member's prescribed investor rate (currently 10.5%, 17.5% or 28%). All funds invested into are PIEs.

4. Investment Parameters, Targets and Ranges

4.1 Investment Parameters

The Trustee requires the Plan's assets to be invested in accordance with the following parameters:

- All investments with the exception of the property assets are to be readily marketable.
- Reliable market quotations for investment prices are to be available at all times.
- All investment portfolios are to be fully invested. Any cash positions should be temporary and should reflect general repositioning of the portfolio or the covering of a futures position.
- Futures contracts and options are to be restricted to hedging techniques and not used to leverage either portfolio.
- Financial products may not to be lent to any other third party without the consent of the Trustee.
- Subject to the approval of the Trustee no more than five per cent of the assets under management at any one time by any fund manager is to be invested with any participating employer (or a related company of that employer).

The Nikko Alternative Investment Fund cannot be cashed up with immediate effect. Notice must be given (of a minimum of 55 business days prior to the end of the calendar quarter) with proceeds in NZD being available approximately five weeks after the calendar redemption quarter end. The fund manager may, at its discretion, reduce the pay-out period for redemption proceeds to a period less than five weeks after quarter end, should cash flows into that Fund permit.

It is accepted that as the assets of the Plan are invested through externally managed funds, those managed funds may not meet the above parameters, and that any exceptions to the above will be noted by the Trustee.

4.2 Target asset allocation and ranges

The current target asset allocations and ranges for the Balanced and Conservative portfolios are as follows:

Sector	Balanced Target %	Balanced Range %	Conservative Target %	Conservative Range %
Australasian Equities	10.50	5.50 - 15.50	5.00	2.50 - 7.50
Australasian Equities	7.00	5.00 - 9.00	5.00	2.50 - 7.50
Australian Equities	3.50	2.00 - 5.00	0.00	
International Equities	32.00	27.00 - 37.00	15.00	10.00 - 20.00
Property / Infrastructure	10.00	5.00 - 15.00	0.00	
Global Listed Property	5.00	2.50 - 7.50	0.00	
Global Listed Infrastructure	5.00	2.50 - 7.50	0.00	
Alternative Growth	2.50	0.00 - 5.00	0.00	
Total Growth Assets	**55.00**	**50.00 - 60.00**	**20.00**	**15.00 - 25.00**
Alternative Income	5.00	2.50 - 7.50	0.00	
NZ Fixed Interest	11.50	9.00 - 14.00	21.50	16.50 - 26.50
International Fixed Interest	23.50	18.50 - 28.50	43.50	38.50 - 48.50
PIMCO	11.75		21.75	
GSAM	11.75		21.75	
NZ Cash	5.00	2.50 - 7.50	15.00	10.00 - 20.00
Total Income Assets	**45.00**	**40.00 - 50.00**	**80.00**	**75.00 - 85.00**
Total Fund	**100.00**		**100.00**	
Foreign currency exposure				
Australian Equities	0.00	0.00 - 100.00	0.00	0.00 - 100.00
International Equities	50.00	0.00 - 100.00	50.00	0.00 - 100.00

The broad definitions of the above asset types are:

- *Equities, Property* and *Infrastructure* - ownership interests (held indirectly through an underlying investment fund) in a company or property entity (or, in the case of infrastructure, in such assets as roads, ports, water and airports).
- *Fixed Interest* and *Cash* – investments from which the returns derive primarily from interest accrued or received during the investment period.
- *Alternative Assets* – investments (such as options, warrants, futures, commodities, currency forwards and over-the-counter derivative instruments such as swaps) that do not fall into any of the above categories.

The Trustee may invest in:

- pooled investment vehicles which the Trustee considers fall within (or predominantly within) one of the above general asset classes; and
- other investments (not explicitly referred to or permitted) which the Trustee considers are of a type that falls within an asset class, appropriately reflects the risk profile of the Plan or the relevant portfolio (Balanced or Conservative) and

will contribute to meeting the Trustee's performance objectives for the Plan or that portfolio.

The total exposures of the Balanced and Conservative portfolios to growth and income assets are set out in bold in the above table. These override the ranges set for each individual asset class.

The actual asset allocations will vary from the targets due to market movements, or the Trustee or fund managers varying those allocations with the aim of managing risk or cash flow requirements or increasing potential returns.

4.3 Asset allocation and cash flow management

Asset allocation ranges have been set as above and the rebalancing rules which apply are as follows:

- The allocation to each asset class will be allowed to vary within the range set.
- When the asset allocation nears the range limit the Trustee will consider rebalancing the exposure back to the target position by realising relevant financial products and reinvesting the proceeds of that redemption in the other asset classes. All rebalancing must be signed off by the Trustee.
- In the event that the actual allocation goes beyond the agreed range the assets will be rebalanced as outlined above.
- The Investment Consultant will advise the Trustee when to rebalance based on the monthly reports prepared for the Plan.

In the event that an asset allocation is more than 2% outside the agreed range (which the Trustee considers a 'limit break' for the purposes of section 167 of the Financial Markets Conduct Act 2013) the Investment Consultant must advise the Trustee accordingly and endeavour to ensure the breach is corrected within 5 working days of the Trustee becoming aware of the breach. If the rebalancing is not made within 5 working days after the Trustee became aware of the breach this must be reported by the Trustee to the Financial Markets Authority as soon as practicable pursuant to regulation 94 of the Financial Markets Conduct Regulations 2014 (and the report must include the information prescribed in regulation 96).

The cash flow rules are:

- Benefit payments requiring cash-up of investments must be made from the cash sector (i.e. this applies when the weekly cash flow position in terms of contributions less benefits is negative).
- When the cash flow is positive the incoming cash flow will be invested first to make up the amount of any recent withdrawals from the cash sector and then in accordance with the target asset allocation.

4.4 Foreign currency exposure

International equities are managed on an active basis and are 50% net hedged to the New Zealand dollar. The allowable exposure range is 0% to 100% depending on the fund manager's view.

Australian equities are managed on an active basis with a target of 0% hedging and an exposure range of 0% to 100% depending on the fund manager's view.

The following asset classes are 100% hedged to the New Zealand dollar unless otherwise agreed by the Trustee:

- International listed property
- International listed infrastructure
- Alternative income assets.

5. Investment Mandates

5.1 Introduction

The investment mandates cover the following asset classes and responsibilities:

- Australasian equities
- Australian equities
- International equities
- International listed property
- International listed infrastructure
- Growth and income alternative assets
- NZ fixed interest
- International fixed interest
- Cash and cash equivalents
- Investment advice.

5.2 Australasian Equities

Manager Harbour Asset Management

The Plan invests in the Harbour Australasian Equity Fund.

Performance Benchmark S&P/NZX 50 Index.

Performance relative to benchmark over 3 years as follows

- Return: +2.0% pa Tracking Error: 4.0-7.0% pa

Parameters

The Fund has on average a 25% exposure to Australian equities and Harbour will manage the currency exposure.

Tax basis

Under current legislation the dividends are taxed and the capital gains are tax free.

5.3 Australian Equities

Manager ANZ Investments

The Plan invests in the ANZ Wholesale Australian Equity Fund.

Performance Benchmark S&P/ASX200 Accumulation Index (NZ$).

Performance relative to benchmark over 3 years as follows

- Return: +1.5% pa Tracking Error: 2.0-4.0% pa

Parameters

The Fund is typically unhedged with a 0% hedged target. However ANZ Investments has discretion to manage the currency and be 100% hedged if they so decide.

Tax basis

The securities in the Fund are primarily subject to the same tax regime as Australasian equities. It is possible that on occasion a security may be held which is subject (under current legislation) to the Fair dividend rate regime - see *International Equities*, below.

5.4 International Equities

Manager ANZ Investments

The Plan invests in the ANZ Wholesale International Share Fund

Performance Benchmark MSCI All Countries Index. The performance is measured on an unhedged basis. The management of the Plan's currency position is measured separately.

Performance relative to benchmark over 3 years as follows

- Return: +1.0% pa

Parameters

The long term overall hedge position is 50% net hedged with unlimited range each side.

Tax basis

Under current legislation the Fund is taxed under the fair dividend rate (*FDR*) method. Under FDR, investments give rise to deemed income in an income year (or part year) equal to 5% p.a. of their opening market value at the beginning of the year (with that 5% pro-rated for a period less than an income year). The hedging is on an accruals tax basis.

5.5 International Listed Property

Manager AMPCI

The Plan invests in the AMP Capital Global Property Securities Fund.

Performance Benchmark FTSE EPRA/NA REIT Developed Index (100% hedged)

Performance relative to benchmark over 3 years as follows

- Return: +0.75% pa Tracking Error: 3.0-5.0% pa

The Fund is fully hedged to the NZ dollar on a net of tax basis.

Parameters

The Fund includes exposure to Australian listed property.

Tax basis

Under current legislation the Fund is taxed under the FDR method.

5.6 International Listed Infrastructure

Manager AMPCI

The Plan invests in the AMP Capital Global Listed Infrastructure Fund.

Performance Benchmark Dow Jones Brookfield Global Infrastructure Index

Performance relative to benchmark over 3 years as follows

- Return: +1.5% pa Tracking Error: 2.0-3.0% pa

The Fund is fully hedged to the NZ dollar on a net of tax basis.

Parameters

The Fund has exposure to international listed infrastructure.

Tax basis

Under current legislation the Fund is taxed under the FDR method. The hedging is on an accruals tax basis.

5.7 Alternative Growth Assets

Manager Nikko

The Plan invests in the Nikko Option Fund.

Performance Benchmark S&P/NZX 90-day Bank Bill Index

Performance relative to benchmark over 3 years as follows

- Return: +4.0% pa

Tax basis

The Fund is taxed under the accruals regime.

5.8 NZ Fixed Interest

Manager AMPCI

The Plan invests in the AMP Capital NZ Fixed Interest Fund. The allowable ranges include a maximum 50% in cash and a minimum 50% in NZ Government, corporate and other non-government securities. Other allowable securities include those issued by local bodies and interest rate swaps.

Performance Benchmark Bloomberg NZBond Composite 0+ Yr Index.

Performance relative to benchmark over 3 years as follows

- Return: +0.5% pa

Tax basis

The Fund is taxed under the accruals regime.

5.9 International Fixed Interest

Managers Nikko and ANZ Investments

The Plan invests in the Nikko Global Fixed Interest Fund and the ANZ Wholesale International Aggregate Bond Fund.

Performance Benchmark Bloomberg Barclay's Global Aggregate Total Return Index (Hedged NZD)

Performance relative to benchmark over 3 years as follows

- An outperformance target of 1.0% pa
- Tracking Error: 2.0-3.0% pa

Parameters The total exposure is to be 100% hedged to the NZ dollar.

Tax basis

Under current legislation the Funds are taxed under the comparative value method, which measures the fluctuation in value over the relevant income year (with any increase in value attributed to investors being subject to New Zealand income tax in that year).

5.10 Cash and Cash Equivalents

Manager AMPCI

The Plan invests in the AMP Capital NZ Cash Fund.

Performance Benchmark Bloomberg NZBond Bank Bill Index

Performance relative to benchmark over 3 years as follows

- Return: +0.25% pa

Tax basis

The Fund is taxed under the accruals regime.

5.11 Alternative Income Assets

Manager Nikko

The Plan invests in the Nikko Wholesale Alternative Investment Fund which invests in the J.P. Morgan Multi-Strategy Fund II, Ltd – NZD Class C-A Shares.

Performance Benchmark S&P/NZX 90-day Bank Bill Index

Performance relative to benchmark over 3 years as follows

- Return: +2.5% pa

Parameters The total exposure is to be 100% hedged to the NZ dollar.

Tax basis

The Fund is taxed under the accruals regime.

5.12 Investment Consulting

Consultant Melville Jessup Weaver

Performance Benchmarks These are:

- To achieve the Plan’s investment objectives.
- To monitor and report to the Trustee quarterly on all aspects of the Plan’s investments.
- To confirm on a quarterly basis that the Plan’s investments comply with the SIPO.

5.13 Review period

Each fund manager's performance is continuously monitored and reviewed over rolling three-year periods and the Trustee receives monthly reports of this performance. Annually a report is produced reviewing the past performance.

6. Investment Reporting

6.1 Fund Managers

The following information is required from the fund managers on a monthly basis for each asset class under management:

- Market values as at the month end.
- Actual returns gross of fees and tax for the month, rolling quarter and year to date.
- Index returns for the same periods.
- Taxable income for the month and year to date.

For the entire portfolio managed by a fund manager, information is required on the market values at the start and end of the month and contributions and withdrawals for the month.

While the contractual arrangement with AMPCI is for it to provide the reports within 15 business days it is expected (with the possible exception of the quarterly report) that these will be available no later than 10 business days following month end.

In addition, at the end of each quarter, each manager is to provide a more comprehensive report including:

- Comment on past performance and the reason for out/under performance.
- Economic comment pertinent to the mandate and the outlook for future returns.

6.2 Investment Consultant

On a monthly basis the Investment Consultant will provide a brief investment report to the Trustee containing:

- Market values as at the end of the month (split by strategy and asset class).
- Actual returns gross of fees and tax for each portfolio for the month, rolling quarter and year to date.
- Benchmark returns for the same periods.
- Attribution analysis on the gross returns for the same periods.
- Gross sector returns for the same periods.
- Index returns for the same periods.
- How the performance compares to the investment objectives set for each portfolio (Balanced and Conservative) and each asset sector.
- Comment on performance.
- Any breaches of the asset allocation ranges.

It is noted here that the performance targets and the reporting of the results are gross of fees and tax.

On a quarterly basis, the report supplied must be expanded to include comparison against peers and the hedging position for international and Australian equities. A comprehensive report is to be produced annually.

6.3 Accountant (MJW)

The Accountant must provide a report on an annual basis (financial statements) containing:

- Statement of Accounting Policies.
- Statement of Financial Performance.
- Statement of Financial Position.
- Statement of Cash Flows.
- Notes to the Financial Statements.
- Summary Financial Statements.
- Recommendations.

6.4 Auditor (Deloitte)

The Auditor must provide a report on an annual basis containing:

- Audit Report.
- Short Audit Report.
- Audit managers' reports and recommendations.