

**PORTS RETIREMENT PLAN**

**Statement of Investment Policy and Objectives**

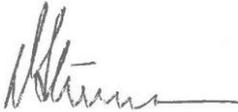
**16 September 2016**

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**Adopted** by the Trustee effective 16 September 2016

**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 (*Act*).

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 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 document replaces the last SIPO (produced in February 2015). It has been prepared for the Trustee by Melville Jessup Weaver (*MJW*).

The most current version of this SIPO is available on the register entry for the Plan on the Disclose website at [www.business.govt.nz/disclose](http://www.business.govt.nz/disclose).

### 1.3 Effective Date

This SIPO takes effect on 16 September 2016.

### 1.4 Investment beliefs

The Trustee has adopted the following investment beliefs:

- Good governance and strong decision making processes will deliver better investment outcomes over time.
  - While strategic asset allocation drives the large majority of the investment return, short term tactical movements do add value.
  - Diversifying the portfolio will deliver more consistent returns over time.
  - Good active managers can add incremental value (after fees) over and above the benchmark returns through stock selection.
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- 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 objectives**

The core objective of the strategy is to provide an intermediate level of returns to Plan members over the medium term. These returns are expected to be greater than cash and bonds over the long term but with less volatility than shares and property.

### **1.6 Methodology used for developing and amending the investment strategy**

The Trustee meets quarterly to review the investment performance of the investment managers against the investment objectives of the Plan and amends the SIPO and its investment strategy as it considers appropriate to give effect to the investment objectives.

### **1.7 Future updates to the SIPO**

The next full review date of the SIPO is expected to be no later than March 2019.

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## **2. Directory**

### **2.1 Trustee**

The Trustee of the Plan is Ports Retirement Trustee Limited.

The Secretary to the Plan is Leonie Stieller and the Administration Manager is MJW.

### **2.2 Managers**

The managers of the products into which we invest 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 Consultants**

MJW is the Investment Consultant to the Plan.

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### **3. Investment Objectives**

#### **3.1 Introduction**

The Trustee's strategy for the Plan comprises one diversified strategy with a balanced asset allocation. Under this strategy the Plan invests in a range of asset classes through four fund managers.

#### **3.2 Objectives**

The core objective of the strategy is to provide an intermediate level of returns to Plan members over the medium term. These returns are expected to be greater than cash and bonds over the long term but with less volatility than shares and property.

The Trustee's two specific performance targets are to achieve on a rolling three year basis, after deducting investment management fees:

- A minimum real rate of return after tax of 2.5% per annum (i.e. an after-tax return 2.5% 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.

The return relative to the MJW Investment Survey is principally a function of the strategic asset allocation range, which has been set by the Trustee on the advice of MJW and is slightly conservative compared to the asset allocation range of the average 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 of 2.5% per annum.

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 allocation has been set such that the investment returns sought can be expected to be achieved over a timeframe of 5 to 10 years

#### **3.3 Responsibilities of the Trustee**

The Act 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.
  - The risk of capital loss or depreciation.
  - The potential for capital appreciation.
  - The likely income return.
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- 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 (this includes the benchmark 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 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 (10.5%, 17.5% or 28%). All funds invested into are PIEs.

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## **4. Investment Parameters and Benchmarks**

### **4.1 Investment Parameters**

The Trustee requires the Plans 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 prices for investments 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 covering a futures position.
- Futures contracts and options are to be restricted to hedging techniques and not used to leverage the 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 where the assets of the Plan are invested through managed funds those managed funds may not meet the above parameters, and that any exceptions to the above will be noted by the Trustee.

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## 4.2 Benchmark asset allocation and ranges

The benchmark asset allocation and ranges are as follows:

Sector	%	Range	
		Lower	Upper
NZ Shares	8.33	6.50	10.50
Australian Shares	4.17	3.00	5.50
	12.50		
Global Shares	30.00	25.00	35.00
Property/Infrastructure			
Listed	2.50	0.00	5.00
Global	2.50	0.00	5.00
Infrastructure	5.00	2.50	7.50
	10.00		
Alternative Growth	2.50	0.00	5.00
<i>Total Growth Assets</i>	<i>55.00</i>	<i>50.00</i>	<i>60.00</i>
Alternative Income	5.00	2.50	7.50
NZ Bonds	13.25	10.75	15.75
Global Bonds			
PIMCO	10.88		
GSAM	10.88		
Total	21.75	16.75	26.75
Cash	5.00	2.50	7.50
<i>Total Income Assets</i>	<i>45.00</i>	<i>40.00</i>	<i>50.00</i>
Total	100.00		
<u>Foreign currency exposure</u>			
Global Shares	75.00	0.00	100.00
Australian Shares	0.00	0.00	100.00

The broad definitions of the above asset types are:

- *Shares, 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); and
- *Fixed Interest and Cash* – investments the returns from which 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) that it considers are of a type which falls within an asset class, appropriately reflects the risk profile of the Plan and will contribute to meeting the performance objectives of the Plan.

The Financial Markets Conduct Regulations 2014 require the use of the term 'target asset allocation' when describing benchmarks in a Product Disclosure Statement or a Fund Update. In this SIPO the Trustee prefers the industry term 'benchmark asset allocation'. The total exposure of the Plan to the growth and income assets is set out above in the table. These override the ranges set for each individual asset class.

The following tables show the benchmark asset allocations and ranges applying to those fund managers that have more than one asset class under management:

### AMPCI

Sector	%	Range	
		Lower	Upper
Property/Infrastructure			
Listed	8.8	0.0	17.7
Global	8.8	0.0	17.7
Infrastructure	17.7	8.8	26.5
NZ Bonds	46.9	37.5	56.3
Cash	17.7	8.8	26.5
Total	100.0		

### ANZ Investments

Sector	%	Range	
		Lower	Upper
Australian Shares	9.3	6.9	11.6
Global Shares	66.6	55.5	77.7
Global Bonds	24.1	18.1	30.2
Total	100.0		
<u>Foreign currency exposure</u>			
Global Shares	75.0	0.0	100.0
Australian Shares	0.0	0.0	100.0

## Nikko

Sector	%	Range	
		Lower	Upper
Alternative Growth	13.6	0.0	27.2
Alternative Income	27.2	13.6	40.8
Global Bonds	59.2	44.4	74.0
Total	100.00		

Harbour Asset Management manages only one asset class, namely NZ Shares.

The actual asset allocations will vary from the benchmarks due to market movements, or the Trustee or fund managers will vary these 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 to 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 shall consider rebalancing the exposure back to the benchmark 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 (a limit break) the assets will be rebalanced as defined directly above.
- The Investment Consultant will advise the Trustee when to rebalance based on the monthly reports prepared for the Plan.

In the event that the asset allocation is more than 2% over the agreed limit (considered a material breach) the Investment Consultant shall endeavour to ensure the breach is corrected within 5 working days of becoming aware of the breach. If the rebalancing is not made within the 5 working day period this must be reported by the Trustee to the FMA as soon as practicable pursuant to regulation 94 of the Financial Markets Conduct Regulations, together with 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 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 benchmark asset allocation.

#### 4.4 Foreign currency exposure

Global shares are managed on an active basis and are 75% net hedged to the New Zealand dollar. The allowable exposure range is 0% to 100% depending on the fund manager's view.

Australian shares are managed on an active basis with a benchmark 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:

- Global property
- Global infrastructure
- Alternative J P Morgan Fund.

## 5. Investment Mandates

### 5.1 Introduction

The investment mandates cover the following investment arrangements and responsibilities:

- NZ shares
- Australian shares
- Global shares
- NZ listed property
- Global listed property
- Global infrastructure
- Growth and income alternative assets
- NZ bonds
- Global bonds
- Cash
- Investment advice.

### 5.2 NZ Shares

**Manager** Harbour Asset Management

The Plan invests in the Harbour Australasian Equity Fund.

**Performance Benchmark** S&P/NSX50 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**

The dividends are taxed and the capital gains are tax free.

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### 5.3 Australian Shares

**Manager** ANZ Investments

The Plan invests in the ANZ Wholesale Australasian 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 benchmark. 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 the NZ shares. It is possible that on occasions a security may be held which is subject to the Fair Divided Regime.

### 5.4 Global Shares

**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 75% net hedged with unlimited range each side.

**Tax basis**

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.

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## 5.5 NZ Listed Property

**Manager** AMPCI

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

**Performance Benchmark** S&P/NZX All Real Estate Index

Performance relative to benchmark over 3 years as follows

- Return: +1.0% pa      Tracking Error: 2.0-3.0% pa

### **Parameters**

The Fund has exposure to both NZ and Australian listed property securities. While the base position on the currency is to leave the Australian exposure unhedged the manager can decide to hedge the exposure.

### **Tax basis**

The dividends are taxed and the capital gains are tax free.

## 5.6 Global Property

**Manager** AMPCI

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

**Performance Benchmark** FTSE EPRA/NA REIT 100% hedged Index

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 property.

### **Tax basis**

The Fund is taxed under the FDR method.

## 5.7 Global Infrastructure

**Manager** AMPCI

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

**Performance Benchmark** Dow Jones Brookfield Global

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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 global listed infrastructure.

**Tax basis**

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

## 5.8 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.

## 5.9 NZ Bonds

**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**      S&P/NZX NZ Government Stock Index.

Performance relative to benchmark over 3 years as follows

- Return: +0.75% pa

**Tax basis**

The Fund is taxed under the accruals regime.

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## 5.10 Global Bonds

**Managers** Nikko and ANZ Investments

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

**Performance Benchmark** Barclay's Global Aggregate (Hedged NZD) Index

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**

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).

## 5.11 Cash

**Manager** AMPCI

The Plan invests in the AMP Capital NZ Cash Fund.

**Performance Benchmark** S&P/NZX 90 Day 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.

## 5.12 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.

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***Tax basis***

The Fund is taxed under the accruals regime.

**5.13 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.

**5.14 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.

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## **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 strategy 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 the Plan 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.

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

### **6.3 Accountant (MJW)**

To 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)**

To provide a report on an annual basis containing

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