

PORTS RETIREMENT PLAN

Statement of Investment Policy and Objectives

20 May 2024

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Adopted by the Trustee effective 20 May 2024

Signed:



P G Drummond
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 managers of the managed funds into which the Plan currently invests.
- 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 29 September 2023. It has been prepared for the Trustee by 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 20 May 2024.

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.
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- Where there is insufficient confidence in the selection of an active manager, passive management can be adopted as an appropriate and cost-effective method to access the relevant asset class.
- There is a trade-off between risk and return for each investment decision made.
- Good execution and minimising tax leakage and fees will deliver additional returns to the Plan.
- A responsible investing approach, which integrates environmental, social and governance (*ESG*) factors into the investment decision-making process, can help better identify opportunities and risks and drive better risk-adjusted investment outcomes over time.

1.5 Investment options

The Plan operates two investment portfolios - Balanced and Conservative.

The Conservative portfolio is available only to members who either have left service and chosen to stay in the Plan or have reached NZ Super Age. Such 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 to long term that is greater (but has higher volatility) than would be expected from investing solely in fixed interest investments, cash and cash equivalents and is lower (but has less volatility) than would be expected from investing solely in growth assets such as equities, infrastructure and property.

The Trustee's core objective for the Conservative portfolio is to provide a low, but relatively stable, level of returns over the medium term that is modestly greater than would be expected from investing solely in fixed interest investments, cash and cash equivalents but has similarly low volatility.

1.7 Methodology used for developing and amending the investment strategy

The Trustee's directors meet quarterly to review the overall investment performance of the Plan's portfolios against their objectives, and the investment performance of the fund managers.

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 for the SIPO is expected to be no later than June 2025.

2. Directory

2.1 Trustee

The Trustee of the Plan is Ports Retirement Trustee Limited.

2.2 Secretary

The Secretary to the Plan is an appointed officer of the Rail and Maritime Transport Union of New Zealand (*RMTU*).

2.3 Administration Manager

The Administration Manager is Melville Jessup Weaver (*MJW*).

2.4 Fund Managers

The managers of the managed funds into which the Plan currently invests are:

- Mercer (N.Z.) Limited (*Mercer*)
- Nikko Asset Management New Zealand Limited (*Nikko*)
- Harbour Asset Management Limited (*Harbour*).

2.5 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 several external 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 to long term that is greater (but has higher volatility) than would be expected from investing solely in fixed interest investments, cash and cash equivalents and is lower (but has less volatility) than would be expected from investing solely in growth assets such as equities, infrastructure and property.

The Trustee's core objective for the Conservative portfolio is to provide a low, but relatively stable, level of returns over the medium term that is modestly greater than would be expected from investing solely in fixed interest investments, cash and cash equivalents but has similarly low volatility.

The Trustee has two specific performance targets for each portfolio. These are measured after deducting investment management fees:

Balanced

- To achieve on a rolling 5-to-10-year basis a real rate of return after tax of 1.5% per annum (i.e. an after-tax return 1.5% per annum 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.
- To achieve on a rolling 3-year basis a before-tax rate of return higher than the average return of the KiwiSaver balanced funds in the MJW Investment Survey.

Conservative

- To achieve on a rolling 3-to-5-year basis an after-tax rate of return matching inflation as measured by CPI increases and therefore maintaining the real value of invested funds, assuming the tax rate is the highest PIR applying from time to time under the PIE tax legislation.
- To achieve on a rolling 3-year basis 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 that there will be periods where the performance lags or exceeds expectations.

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 Trusts Act 2019 also contemplates that when exercising any power of investment the Trustee may 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 Trustee has appointed an Investment Consultant to:

- Provide strategic investment advice.
- Monitor the performance of the Plan's investments.
- Assist the Trustee in maintaining the SIPO.
- Confirm compliance with the SIPO on a quarterly basis.
- Assist with other investment-related matters as requested.

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 target asset allocations, ranges, other limits and appropriate benchmark indices).
- To review the performance of the Plan's portfolios against their objectives.
- 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 PIR. All funds invested into are PIEs, except for transactional cash.

3.5 Responsible investment

The Trustee is committed to taking ESG factors into account when selecting and reviewing fund managers. The Trustee acknowledges, however, that because the Plan's assets are invested through managed funds operated by external fund managers:

- it has no direct influence over its chosen fund managers' investment policies, investment choices, voting decisions or engagement activities; and
- its influence is limited primarily to assessing and engaging with fund managers and deciding whether to add or remove particular managers or managed funds.

Accordingly, when considering whether to appoint or retain a fund manager, or to make or retain an investment in a managed fund, the Trustee takes into account the extent to which the relevant fund manager incorporates responsible investment practices and ESG considerations into its business and investment processes.

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 are to be readily marketable.
- Reliable market quotations for investment prices are to be available at all times.
- Investment portfolios are to be fully invested. Any cash positions (except for any strategic allocation to the cash and cash equivalents asset class) should be temporary and should reflect a general repositioning of the portfolio or the covering of a futures position.
- With the exception of alternative assets, in which a limited proportion of the Plan's assets is held for diversification reasons, futures contracts and options are to be restricted to hedging techniques and not used to leverage either portfolio.
- Financial products may not be lent to any other third party without the consent of the Trustee.
- Unless otherwise approved by the Trustee, no more than 5% of the Plan's assets are to be invested in any participating employer (or any related company of that employer).

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

4.2 Target asset allocation and ranges

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

| | Balanced | | Conservative | |
|-------------------------------------|---------------|----------------------|---------------|----------------------|
| | Target % | Range % | Target % | Range % |
| Australasian Equities | 10.50 | 7.00 - 14.00 | 5.00 | 2.50 - 7.50 |
| International Equities | 32.00 | 27.00 - 37.00 | 15.00 | 10.00 - 20.00 |
| Property / Infrastructure | 12.50 | 7.50 - 17.50 | 0.00 | |
| International Listed Property | 6.25 | 3.75 - 8.75 | 0.00 | |
| International Listed Infrastructure | 6.25 | 3.75 - 8.75 | 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 |
| 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 | 100.00 | 0.00 - 100.00 | 100.00 | 0.00 - 100.00 |
| International Equities | 50.00 | 40.00 - 60.00 | 50.00 | 40.00 - 60.00 |

The targets and permitted ranges for foreign currency exposures are shown after allowing for taxation (assuming tax applies at the highest PIR).

The broad definitions of the above asset classes are:

- *Equities, Property and Infrastructure* - ownership interests in companies (being, in the case of property investments, companies which hold real property and, in the case of infrastructure investments, companies which hold 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 Income 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 objectives for the Plan's portfolios.

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

The actual asset allocations will vary from the targets due to market movements or cash flows.

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 towards a point approximately half-way between the target position and the relevant range limit.
- All such rebalancing must be signed off by the Chairman, or the licensed independent trustee Director if the Chairman is unavailable.
- If 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.

If an asset allocation is more than 2% outside the agreed range, the Trustee may consider this material for the purposes of section 167 of the Financial Markets Conduct Act 2013. Accordingly, if a range limit is exceeded by more than 2%, the Investment Consultant must advise the Trustee and the Trustee must then consider whether the breach is material and therefore a 'limit break'.

If a limit break occurs and the rebalancing is not made within 5 working days after the Trustee became aware of the limit break, the Trustee must report this 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).

Cash flows are to be managed through applications to and redemptions from the cash and cash equivalents asset class, unless this would cause that asset class to breach its allowable range, in which case the standard rebalancing rules will apply.

4.4 Foreign currency exposure

The foreign currency exposure associated with international equities is to be managed on a passive basis, with:

- a target of 50% hedging to the New Zealand dollar (net of tax for a member taxed at the highest PIR); and
- a permitted exposure range of 40% to 60% (and rebalancing back within this range required as part of the asset class rebalancing process described earlier).

The foreign currency exposure associated with Australian equities² is managed on an active basis with a target of 0% hedging and an exposure range of 0% to 100% (before tax) 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
- International fixed interest.

² This applies to any Australian equities held within the Plan's Australasian equities portfolio.

5. Investment Mandates

5.1 Introduction

The investment mandates cover the following asset classes:

- Australasian equities
- International equities
- International listed property
- International listed infrastructure
- Alternative income assets
- NZ fixed interest
- International fixed interest
- Cash and cash equivalents.

5.2 Australasian Equities

Manager Harbour

The Plan invests in the Harbour Australasian Equity Fund.

Performance Benchmark S&P/NZX 50 Gross Index including imputation credits.

An expectation of 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 manages the associated currency exposure.

Tax basis

Under current legislation the dividends are taxed (after allowing for imputation credits on New Zealand equities) and the capital gains are tax free.

Some Australian equities may be subject to the fair dividend rate tax regime - see *International Equities* below.

5.3 International Equities

Manager Mercer

The Plan will invest in the Mercer Overseas Shares Index Portfolio and the Mercer Hedged Overseas Shares Index Portfolio, with the target allocation to each fund being 50% of international equities assets (and the permitted range being 40% to 60%).

Performance Benchmarks

- Mercer Overseas Shares Index Portfolio - MSCI World (ex-New Zealand, Tobacco, Controversial and Nuclear Weapons) Net Total Return Index (NZD unhedged)
- Mercer Hedged Overseas Shares Index Portfolio - MSCI World (ex-New Zealand, Tobacco, Controversial and Nuclear Weapons) Net Total Return Index (139% NZD hedged).

An expectation of performance relative to benchmark over 3 years as follows:

- Return: +0.0% pa
- Tracking Error: 0.0-0.5% pa

Parameters

The long-term overall hedge position is 50% hedged (net of tax for a member taxed at the highest PIR).

Tax basis

Under current legislation the Fund is taxed under the fair dividend rate (*FDR*) method. Under *FDR*, investments give rise to deemed income of 5% per annum. The hedging is taxed under the accrual tax regime.

5.4 International Listed Property

Manager Mercer

The Plan invests in the Mercer Macquarie Global Listed Real Estate Fund.

Performance Benchmark FTSE EPRA Nareit Developed Index (100% NZD hedged)

An expectation of performance relative to benchmark over 3 years as follows:

- Return: +1.5% pa
- Tracking Error: 3.0-5.0% pa

The Fund is fully hedged to the NZ dollar.

Tax basis

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

5.5 International Listed Infrastructure

Manager Mercer

The Plan invests in the Mercer Macquarie Global Listed Infrastructure Fund.

Performance Benchmark Dow Jones Brookfield Global Infrastructure Index (100% NZD hedged)

An expectation of 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.

Tax basis

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

5.6 NZ Fixed Interest

Manager Mercer

The Plan invests in the Mercer Macquarie 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.

An expectation of performance relative to benchmark over 3 years as follows:

- Return: +0.5% pa

Tax basis

The Fund is taxed under the accruals regime.

5.7 International Fixed Interest

Managers Nikko and Harbour

The Plan invests in the Nikko AM Global Bond Fund and the Hunter Global Fixed Interest Fund (managed by Harbour), with the target allocation to each fund being 50% of international fixed interest assets.

Performance Benchmark Bloomberg Global Aggregate Total Return Index (100% NZD hedged)

An expectation of performance relative to benchmark over 3 years as follows:

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

Parameters The Funds are fully 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 change in value attributed to investors being subject to New Zealand income tax in that year).

5.8 Cash and Cash Equivalents

Manager Mercer

The Plan invests in the Mercer Macquarie NZ Cash Fund.

Performance Benchmark Bloomberg NZBond Bank Bill Index

An expectation of performance relative to benchmark over 3 years as follows:

- Return: +0.25% pa

Tax basis

The Fund is taxed under the accruals regime.

5.9 Alternative Income Assets

Manager Nikko

The Plan invests in the Nikko AM Wholesale Multi-Strategy Fund.

Performance Benchmark Bloomberg NZBond Bank Bill Index

An expectation of performance relative to benchmark over 3 years as follows:

- Return: +3% pa

Parameters The Fund is fully hedged to the NZ dollar.

Tax basis

The Fund is taxed under the accruals regime.

5.10 Review period

Each fund manager's performance is continuously monitored and reviewed over rolling three-year periods.

6. Investment Reporting

6.1 Fund Managers

The following information is required from the fund managers monthly 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 on contributions and withdrawals for the month.

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 provides 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.
- Gross asset class 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 for each asset class.
- Comment on performance.
- Details of 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, performance attribution analysis, and the hedging position for international equities.

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.

6.5 Tax Advisor (Deloitte)

The Tax Advisor must provide the Trustee with relevant advice with respect to its tax arrangements when requested.
