

Statement of Investment Policy and Objectives

17 July 2023

Table of contents

1. Introduction	3
2. Description of Scheme	4
3. Investment Philosophy	5
4. Investment Objectives	5
5. Investment Strategy	7
6. Investment Policies	10
7. Performance and Compliance Monitoring	12
8. Version Control	14
Schedule: Funds used by Fund Manager	15

1. Introduction

1.1 Purpose

The purpose of this Statement of Investment Policy and Objectives (SIPO) is to document the investment policy and the objectives for the Baptist Union Superannuation Scheme (the Scheme).

This SIPO identifies the investment objectives, strategy, performance measurement criteria and constraints to be observed. It also specifies that the investment management process is to be implemented in accordance with trusts legislation and especially the duty to invest prudently, the Financial Markets Conduct Act 2013 (the FMC Act) and the Scheme's Trust Deed.

1.2 Definitions

Certain terms defined in this SIPO but not otherwise defined have the meaning given to them in the Trust Deed for the Scheme.

1.3 Responsibilities

The assets of the Scheme are currently invested in managed investment products managed by Nikko Asset Management New Zealand Limited (Fund Manager).

The Investment Consultant is Melville Jessup Weaver Limited.

The Trustee is the Baptist Retirement Trustee Limited and it is responsible for the investment of the Scheme's assets. It determines the long-term objectives for investment of the Scheme's assets and, the investment strategy and monitors the performance of the Fund Manager.

The Fund Manager is responsible for:

- investing the assets of the Scheme in managed investment products managed by the Fund Manager consistently with the Benchmark Asset Allocation described in this SIPO;
- providing the Trustee with regular written reports summarising the returns and the asset allocation between the various Asset classes; and
- as requested by the Trustee, at least twice a year, attending meetings of the Trustee to discuss progress and review the written reports.

The Investment Consultant shall, as the Trustee considers necessary, assist the Trustee in overseeing the investment activities of the Scheme, in particular with respect to determining and reviewing the investment strategy, the selection of the investment manager, performance monitoring and SIPO reviews.

1.4 SIPO Review

This SIPO will be formally reviewed at least every three years. The next formal review is due no later than July 2026.

An ad-hoc review may be initiated by the Trustee if the Trustee deems it to be appropriate as a result of factors such as changes in investment strategy or investment policies.

The review process will take into account the advice of the Investment Consultant and any other matters the Trustee considers relevant at its discretion, taking into account legislative requirements and the Financial Markets Authority (FMA) SIPO Guidelines applicable at the time.

This document replaces the last SIPO (dated 2 November 2020).

The current version of this SIPO is available on the Disclose website at <https://disclose-register.companiesoffice.govt.nz/>.

1.5 Other information

This SIPO should be read together with the Product Disclosure Statement, the document titled Other Material Information, the Trust Deed for the Scheme and any other documents held on the register at Disclose in relation to the Scheme.

2. Description of the Scheme

The Scheme is a restricted workplace savings scheme for the purposes of the FMC Act that provides members with benefits in lump sum form on retirement or on leaving the Scheme before attaining the Retirement Age due to resignation, disablement or death. The Scheme is a Complying Superannuation Fund (CSF) and a portion of the contributions made by some members of the Scheme are subject to KiwiSaver equivalent lock in requirements (with limited exceptions) to age 65.

The Scheme is open to two classes of member, Class A and Class D. Class D members are not currently able to contribute to the Scheme and do not have the benefit of any employer contributions being made to the Scheme for their benefit, but they are entitled to a benefit payable (subject to insurance cover) in the event of their death or total and permanent disablement. This SIPO is therefore not applicable to the benefits payable to Class D Members.

Class A Members contribute a minimum of 6% of their Members Remuneration and may contribute more if they wish. The Employer is currently required to match the 6% Member contributions (before deduction of contribution tax).

The contributions by and on behalf of each member, not subject to a KiwiSaver equivalent lock in, are paid into individual Member No. 1 Accounts (Member contributions) and Member No. 2 Accounts (Employer's basic contributions net of contributions tax). The contributions by and on behalf of each Member that are subject to a KiwiSaver equivalent lock in are paid to the Member's CSF Balance.

See the Other Material Information document held on the register at Disclose in relation to the Scheme for information about how earnings are determined for the Scheme.

On leaving the Scheme a member is paid the amount in his or her Member No. 1 Account plus some or all of the amount in his or her Member No. 2 Account depending on the length of Scheme membership and the reason for leaving. Any amounts not paid are credited to a Reserve Fund. The Reserve Fund can be used for a variety of purposes set out in the Scheme's Trust Deed.

The Scheme's investment income is tax exempt, on the basis that the Scheme's purposes are charitable. Resident withholding tax is not payable on interest or dividend receipts of the Scheme. The Scheme does not receive any benefit from dividend imputation credits on New Zealand equities. The invested assets of the Scheme at 30 June 2023 are \$29.6m.

3. Investment Philosophy

The Trustee's investment philosophy is framed by a set of fundamental beliefs:

- Risk and return are inherently related in investing – generally, greater return requires greater risk;
- Diversification can reduce risk;
- Asset markets can be inefficient and active managers can add value over benchmarks;
- Asset allocation is the key factor determining long term investment performance in a broadly diversified portfolio of assets; and
- The Trustee does not have the appropriate expertise to make investment decisions with respect to security selection. Consequently it has decided to invest the assets of the Scheme in managed investment products managed by a professional investment manager.

4. Investment Objectives

4.1 Scheme Objectives

The investment objectives that the Trustee has determined are appropriate for the Scheme are as follows:

- 4.1.1 To hold sufficient liquid assets to meet expected benefit payments as they arise.
- 4.1.2 To comply with all legal requirements and in particular with trusts legislation, the FMC Act and the Scheme's Trust Deed.
- 4.1.3 To minimise investment risk by appropriate diversification of the Scheme's assets consistent with the Scheme's performance objectives.

The Trustee seeks to achieve earnings at annual levels consistent with the Scheme's investment performance objectives set out below.

The Scheme's tax-free status is taken into account in setting the objectives below.

4.2 Scheme Performance Objectives

The investment performance objectives that the Trustee has determined for the Scheme are as follows:

4.2.1 The Primary Investment Performance Objective

To achieve a net investment return at least 1.5% p.a. above the rate of CPI increases over every five year period.

4.2.2 The Second Investment Performance Objective

To manage investment risk so that negative gross returns are on average expected to occur no more often than 1 year in 4.

4.2.3 The Third Investment Performance Objective

That the Benchmark Return (see 4.3 below) matches or exceeds the return of the capital market index against which the performance of the Cash Asset Class is monitored (see 4.4 below) plus 1.0% pa over rolling five year periods.

4.3 Benchmark Return

The Benchmark Return for a period is calculated as the return that would have been earned had the Scheme been invested at the Benchmark Portfolio weights in Section 5.2 for the period and had each Asset Class earned the return of the Indices shown in Section 4.4.

4.4 Capital Market Indices

The capital market indices used for monitoring Asset Class performance and used for calculating the Benchmark Return are as follows:

Cash	Bloomberg NZBond Bank Bill Index
NZ Fixed Interest	Bloomberg NZBond Composite 0+ Yr Index
International Fixed Interest	Bloomberg Global Aggregate Bond Index 100% hedged to NZ\$
Australasian Equities	S&P/NZX 50 Gross Index
International Equities	MSCI All Countries World Net Total Return Index, 50% hedged to NZ\$
Australasian Property	S&P/NZX All Real Estate Gross Index

5. Investment Strategy

5.1 Investment Management

The Trustee has determined that a single professional investment manager will invest the Scheme's assets.

The Trustee has given effect to this by investing the assets of the Scheme in managed investment products managed by the Fund Manager.

The Fund Manager will make all day to day investment decisions, subject to constraints imposed by the Trustee in accordance with Section 6.

The Fund Manager will adopt an active stance in the management of the managed investment products into which the Scheme has invested, in terms of investment selection. The active approach extends to picking stocks within each Asset Class in an attempt to add value to maximise returns within the constraints set, and to meet the objectives set for the Fund Manager.

The Fund Manager may adopt either an active or a passive (that is, automated reweighting) asset allocation strategy in an attempt to add value in excess of benchmark. The Fund Manager must advise the Trustee formally in writing whether an active or a passive asset allocation strategy is being followed and how that strategy is being actioned, including details of ranges used within the managed investment products managed by the Fund Manager in which the Scheme invests. The ranges used must be within the permitted ranges shown in Section 5.2. As at the date of this SIPO, the Fund Manager is employing a passive asset allocation strategy to the investment of the Scheme's assets in investment products managed by the Fund Manager but an active strategy within those investment products.

5.2 Benchmark Asset Allocation

With advice from the Investment Consultant, the Trustee will determine the Benchmark Asset Allocation of the Scheme. The Benchmark Asset Allocation is expected to meet the performance objectives set out in Section 4.2. At the date of this SIPO, the Benchmark Asset Allocation is as shown in the table below.

The Benchmark Asset Allocation is the Trustee's target exposure for the Scheme to each particular Asset Class.

The Financial Markets Conduct Regulations 2014 require the use of the term 'target investment mix' when describing benchmarks in a Product Disclosure Statement or Fund Update. In this SIPO the Trustee prefers the industry term 'Benchmark Asset Allocation'.

Asset Class	Benchmark Asset Allocation	Permitted Range
NZ Cash	5.0%	0.0% - 10.0%
NZ Fixed Interest	15.0%	10.0% - 20.0%
International Fixed Interest	30.0%	25.0% - 35.0%
Total Income	50.0%	40.0% - 60.0%
Australasian Equities	7.5%	2.5% - 12.5%
International Equities (Hedged)	18.75%	13.75% - 23.75%
International Equities (Unhedged)	18.75%	13.75% - 23.75%
Australasian Property	5.0%	0.0% - 10.0%
Total Growth	50.0%	40.0% - 60.0%

The International Fixed Interest exposure is to be managed to a 100% hedged benchmark at all times.

The International Equities exposure is to be managed to an essentially “neutral” 50% hedged position. This is achieved by splitting the benchmark exposure between hedged and unhedged managed investment products.

5.3 Permitted Investments

The Fund Manager may only invest:

- 5.3.1 in assets falling within the Asset Classes shown above;
- 5.3.2 in managed investment products which the Fund Manager considers invest in assets which fall within (or predominantly within) one of the above Asset Classes;
- 5.3.3 with the prior written consent of the Trustee, other investments which are not explicitly referred to or permitted above that the Trustee or Fund Manager considers are of a type which should fairly be regarded as falling within one of the above Asset Classes, appropriately reflects the risk profile of the Scheme and should contribute to meeting the performance objectives of the Scheme; or
- 5.3.4 as expressly directed by the Trustee.

See the Schedule to this SIPO for a list of the managed investment products in which the Scheme is currently invested.

There is no limit on the nature or type of assets which the Trustee may make or approve the Fund Manager investing in.

The managed investment products managed by the Fund Manager in which the Scheme invests may borrow, short sell securities and use derivatives when investing in the Asset Classes.

Where the Scheme invests in a managed investment product (5.3.2) or other asset (5.3.3) which the Trustee and/or Fund Manager (as the case may be) considers invests in assets which fall within (or predominantly within) an Asset Class, the investment in that managed investment product or other asset is treated as being an investment in the relevant Asset Class.

Where the Fund Manager invests in managed investment products managed by the Fund Manager, the Fund Manager will provide the Trustee with a list of authorised investments or mandate details for those products which is consistent with this SIPO and must notify the Trustee in writing as soon as practicable if this list, or the mandate, changes. If a breach occurs, the Fund Manager must notify the Trustee as soon as they become aware of the breach.

5.4 Investment Strategy Review

The Benchmark Asset Allocation was developed by the Trustee on the advice of the Investment Consultant in order to achieve the performance objectives of the Scheme.

The Benchmark Asset Allocation will be formally reviewed by the Trustee at least once every three years to ensure that it remains appropriate for meeting the performance objectives of the Scheme. An ad hoc review may be initiated by the Trustee if there is a material change to the objectives of the Scheme or if the Trustee deems it to be appropriate.

The Trustee takes advice from the Investment Consultant in determining the Benchmark Asset Allocation for the Scheme's assets and for the selection and monitoring of the Fund Manager. The current Benchmark Asset Allocation is tested against the performance objectives of the Scheme to determine if the Benchmark Asset Allocation needs amending. Fund Manager selection entails evaluation of criteria such as past performance and fees charged, as well as ability to deliver on other objectives and requirements. Future reviews will consider the same criteria.

The Investment Consultant uses a capital asset pricing model to test the Benchmark Asset Allocation against the performance objectives of the Scheme.

Alternative Benchmark Asset Allocations are tested against the performance objectives of the Scheme to develop the Benchmark Asset Allocation and select a Benchmark Asset Allocation which the Trustee, on the advice of the Investment Consultant, considers is best suited to achieve those objectives.

6. Investment Policies

6.1 Investment Constraints

The investment of the Scheme's assets will comply with all legal requirements including the FMC Act, trusts legislation and all other applicable law, and the Scheme's Trust Deed.

6.2 Rebalancing Policy

Sector weightings will be monitored weekly by the Fund Manager and the portfolio is managed so as to rebalance it back to benchmark if the actual asset allocation differs from the Benchmark Asset Allocation by more than 4.0% of the value of the Scheme's assets or such other percentage that the Trustee may determine from time to time.

6.3 Cash Flow Policy

Cash flows are managed by the Fund Manager and used to bring sector weights closer to the Benchmark Asset Allocation by directing cashflows to be invested into those Asset Classes that are below benchmark, to increase the weighting of those Asset Classes and accordingly decreasing the weighting of the other Asset Classes unless the trustee determines otherwise.

6.4 Hedging Policy

The Trustee believes that currency exposure can increase volatility in Asset Class performance and is not desirable in all Asset Classes. Therefore, the International Fixed Interest portfolio will be managed to a 100% hedged benchmark at all times.

The Trustee believes that, within its exposure to the International Equities portfolio, currency exposure is desirable as it adds diversification and can be a source of additional return. However, it is not without risk. Therefore, the Trustee has determined that the benchmark position for International Equities is an essentially "neutral" 50% hedged position. For the reasons explained in 5.2 above, this is achieved by splitting the benchmark exposure between hedged (18.75%) and unhedged (18.75%) managed investment products.

6.5 Tactical Asset Allocation Policy

Subject to Section 5.1, the Fund Manager has discretion to apply a tactical asset allocation to the Scheme's assets (i.e. to deliberately skew away from the Benchmark Asset Allocation in order to seek to achieve greater returns).

6.6 Liquidity Policy

The Scheme must hold investments that are readily marketable or invest in managed investment products that are readily redeemable so that there is sufficient liquidity to meet benefit payments as they fall due.

6.7 Investment Risk

To limit risk the Trustee has determined that the Total Growth and Total Income Asset Class allocations must be maintained within 10% of the value of the Scheme's assets of their respective Benchmark Asset Allocations at all times. The Fund Manager will not have exposure to any Asset Class not included in the Growth and Income Asset Classes shown in Section 5.2 above without the prior written consent of the Trustee.

6.8 Market Risk Management Policy

The risk of the Scheme's returns being negatively affected by economic or regulatory events is to be mitigated by adopting a Benchmark Asset Allocation for the Scheme which is consistent with the objectives for the Scheme.

The Scheme assets are to be diversified across a broad range of securities within each Asset Class.

6.9 Credit Risk Management Policy

A wide range of securities is required to be held by the Fund Manager within the managed investment products in which the Trustee invests, resulting in diversified portfolios with limited exposure to any single investment.

The Fund Manager must provide the Trustee with a current list of the restrictions that apply to the management of Fixed Interest portfolios, including the permitted allocation to sub-investment grade or unrated securities.

6.10 Ethical Investment Policy

As far as is practicable, and consistent with its fiduciary duties, the Fund Manager must ensure that domestic investments meet the following ethical standard. Investments in domestic companies with a substantial share of earnings from gambling, alcohol, tobacco and armaments are not considered acceptable.

The Trustee recognises that where the Scheme's assets are invested through a pooled vehicle over which the Trustee and the Fund Manager have no control (e.g. where the New Zealand based Fund Manager has invested in an overseas managed fund which invests in different underlying investments), this constraint may not be practicable.

6.11 Limit Breaks

The FMC Act requires reporting to the FMA of material breaches of any limits on either of the following (a limit break):

- the nature or type of investments that may be made; or
- the proportion of each type of assets that may be invested in.

Whether or not a limit break is material is determined at the discretion of the Trustee.

7. Performance and Compliance Monitoring

7.1 Quarterly Monitoring

The performance of the Scheme relative to its performance objectives, and of the Fund Manager against its performance objectives, will be monitored half-yearly by the Investment Consultant with the assistance of the Fund Manager. Performance is to be monitored over the half-year, rolling 12 months, rolling 3 years and rolling 5 years. The reports will consider the following:

- 7.1.1 The investment performance of the Scheme relative to its long term investment objectives;
- 7.1.2 The investment performance of the Investment Manager against the agreed targets (see 7.3 below);
- 7.1.3 The Investment Manager's performance relative to other New Zealand based investment managers;
- 7.1.4 Confirmation that the Scheme's assets have been managed in accordance with this SIPO, including monitoring of limit breaks; and
- 7.1.5 Any other information that would assist the Trustee in understanding further the performance of the Scheme or the Investment Manager.

7.2 Investment Performance Objectives - Sectors

The objectives for the Scheme are set out in section 4 above.

In addition to this, as part of the overall understanding of performance, monitoring of individual Asset Classes will also be undertaken.

The individual Asset Classes will be monitored against the following targets:

Sector	Performance Target (Gross)
Cash	0.2% p.a. above the Bloomberg NZBond Bank Bill Index
NZ Fixed Interest	0.5% p.a. above the Bloomberg NZBond Composite 0+ Yr Index
International Fixed Interest	0.8% p.a. above the Bloomberg Global Aggregate Bond Index 100% hedged to NZ\$
Australasian Equities	1.8% p.a. above the S&P/NZX 50 Gross Index
International Equities	1.0% p.a. above the MSCI All Countries World Net Total Return Index, 50% hedged to NZ\$
Australasian Property	Above the S&P/NZX All Real Estate Gross Index

7.3 Satisfactory Performance - targets

The Fund Manager is expected to adopt an active style of management in the quest to add value to, and manage the risk of, the portfolio of assets to which the Scheme is exposed. The Fund Manager has been set a performance objective to achieve a gross return exceeding the Benchmark Return (see 4.3) by at least 0.50% pa over every three-year period.

The Fund Manager's performance will be considered unsatisfactory if it fails to meet this performance objective.

Fund Manager returns will also be compared with those achieved by other New Zealand based investment managers. In particular, the average rate of gross return over every rolling three year period will be monitored against the gross return of the median manager whose performance is described in the Melville Jessup Weaver Investment Survey and which invests similarly to the Scheme.

The Fund Manager's performance is to be measured over rolling three year periods (rolling 12 month periods for cash) and will take into account any matters considered relevant by the Trustee. The Trustee does not guarantee that the Fund Manager will be appointed for any specific time, irrespective of this measurement period.

8. Version Control

Version	Reason for Change	Author	Date of change	Date Adopted
1.0	FMC Act compliance	GF	May 2016	1 June 2016
1.1	Update Benchmark Asset Allocation due to change of hedging policy	GF	Aug 2016	
1.2	Update at Trustee request	ST	Oct 2016	
1.3	Annual Review	GF	Nov 2017	
1.3	Annual Review	ST	Oct 2018	22 November 2018
1.4	Changes in the capital market indices, change in Investment Consultant and minor revisions to language	BC / MJW	Nov 2019	1 November 2019
1.5	Changes to rebalancing and cash flow policies	AFC	April 2020	14 April 2020
1.6	Changes to performance objectives and benchmark asset allocation	MJW	October 2020	2 November 2020
1.7	Changes to benchmark asset allocation and update international capital market indices	MJW	June 2023	17 July 2023

Schedule: Funds used by Fund Manager

The Fund Manager may ordinarily only invest in assets falling within one of the Asset Classes set out in the table in 5.2. The Fund Manager currently invests in the following funds for each of the Asset Classes:

Asset Class	Fund
NZ Cash	Nikko AM Wholesale NZ Cash Fund
NZ Fixed Interest	Nikko AM Wholesale NZ Bond Fund
International Fixed Interest	Nikko AM Wholesale Global Bond Fund
Australasian Equities	Nikko AM Wholesale SRI Equity Fund
International Equities Hedged	Nikko AM Wholesale Global Shares Hedged Fund
International Equities Unhedged	Nikko AM Wholesale Global Shares Unhedged Fund
Australasian Property	Nikko AM Wholesale Property Fund

