Mercer KiwiSaver scheme

Statement of Investment Policy and Objectives

August 2022

welcome to brighter

Contents

Background

Introduction

This Statement of Investment Policy and Objectives (SIPO) applies to the Mercer KiwiSaver scheme (Scheme).

Principal purpose

The principal purpose of the Scheme is to provide retirement benefits directly to individuals.

Manager

Mercer (N.Z.) Limited (Mercer or Manager).

Licensed Supervisor

Trustees Executors Limited (Supervisor).

Funds

The Scheme offers five multi-sector, diversified Funds which invest in a broad range of asset classes and two single sector Funds which invest in one asset class.
The current list of Funds is set out in the table below:

Multi-sector, diversified funds	Single-sector funds
Sustainable Conservative	Cash
Sustainable Plus Moderate	Sustainable Plus Shares
Sustainable Plus Balanced	
Sustainable Plus Growth	
Sustainable Plus High Growth	

SIPO Review

The SIPO is to be reviewed annually although reviews may be completed before this. In the event of a major change to the purpose of the Scheme or a major event impacting the Scheme's investments, Mercer may consider an earlier review.

Any review will be carried out by Mercer in conjunction with the Supervisor and will consider the investment objectives of the Scheme and take account of any changes in the investment outlook which may affect the relative value and role of the different asset classes. Mercer is responsible for approving the SIPO. Any material changes to the SIPO will be advised in the Scheme's annual report.

SIPO Amendments

The SIPO may be altered by Mercer from time to time subject to the requirements of the Financial Markets Conduct Act 2013 (FMCA). Mercer may amend or replace this SIPO only after giving prior written notice to the Supervisor and after receiving the approval of the Risk, Audit and Due Diligence Committee (which is a delegated committee of the Board).

Mercer must provide a copy of the SIPO (or any alteration to the SIPO) to the Supervisor as soon as reasonably practicable prior to the SIPO or alteration taking effect, and must lodge the SIPO as required by the FMCA.

Availability of this SIPO

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

Roles and Responsibilities

Manager

Mercer is responsible for the investment of the Scheme's assets, in accordance with legislative requirements, the Trust Deed, the Product Disclosure Statement (PDS) and this SIPO.

The Manager's responsibilities include to:

- maintain the investment governance framework including effective investment policies;
- establish investment beliefs and investment process;
- set investment objectives and risk tolerance for the Funds;
- determine investment strategy for each Fund. This includes the Benchmark Asset Allocation, ranges, other limits and appropriate indices;
- implement investment strategy; and
- monitor Fund investment performance relative to objectives and compliance with strategy limits.

The investment governance framework represents the totality of systems, structures, policies, processes and people utilised to address the Manager's investment related responsibilities.

The Board has ultimate responsibility for the proper investment of the Scheme. In order to most effectively discharge its responsibilities, however, Mercer has adopted a delegated decision-making structure.

The Board has adopted a Board Charter stating the matters delegated to Board committees and management and those matters reserved for decision by the Board. A Risk, Audit and Due Diligence Committee has been established to carry out various functions (including investment governance functions, receipt of investment reports and the monitoring of Fund investment performance) on behalf of the Board.

In addition, the Board contracts certain functions to other Mercer related entities and external parties in order to meet its responsibilities. Mercer adopts a manager of manager's approach which involves delegating to investment managers within each asset class in order to implement the investment strategy. Certain administrative and operational functions are also delegated.

Mercer implements the investment strategy for the Scheme by investing the Scheme's assets in the Mercer Investment Trusts New Zealand (MITNZ). The manager of the MITNZ is Mercer and Trustees Executors Limited is the trustee. Further detail on the investment structure is shown in Section 3 – Investment Structure.

Mercer maintains a conflicts management framework to help manage potential issues that may arise as a result of delegation to related parties. Further detail is shown in Section 7 – Investment Policies.

Supervisor

The Supervisor is responsible for supervision of the Manager and the Scheme, including:

- acting on behalf of the Scheme's members in relation to the Manager and any contravention of the Manager's issuer obligations;
- supervising the performance by the Manager of its functions and the financial position of the Manager and the Scheme; and
- holding the Scheme's assets or ensuring that the assets are held in accordance with applicable legislative requirements.

Investment Structure

Mercer implements the current investment strategy for the Scheme by investing the Scheme's assets in the MITNZ.

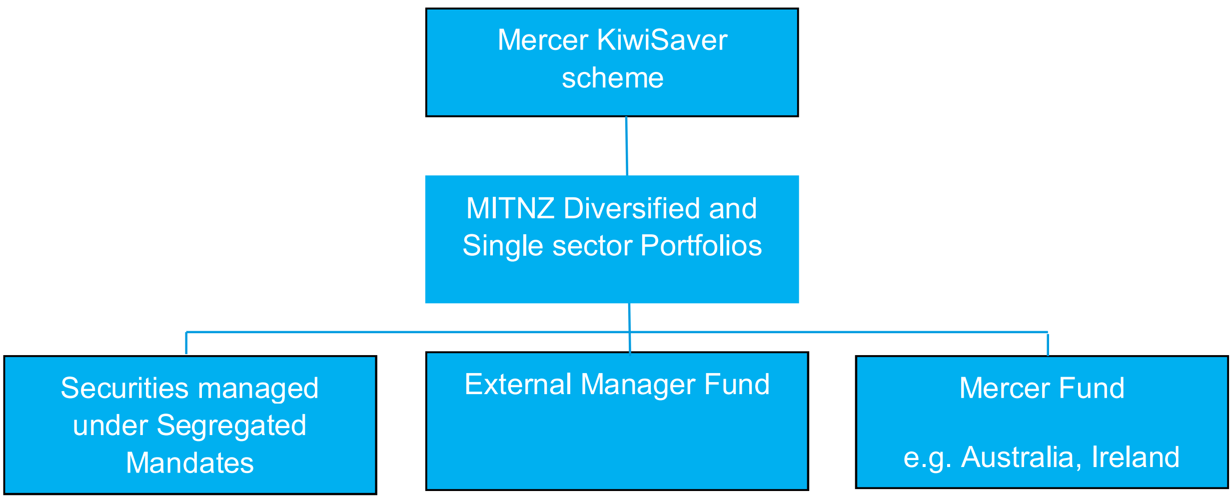
The MITNZ is a series of wholesale unit trusts which incorporates a range of single sector and diversified multi-sector portfolios. In its capacity as Manager of the Scheme, Mercer is responsible for determining and selecting the appropriate MITNZ products to achieve the objectives of the Scheme's Funds.

The MITNZ trusts are currently invested in a mix of:

- portfolios of securities managed by Investment Managers under delegation and governed by investment management agreements with Mercer. The securities managed are held under a segregated mandate managed by the relevant Investment Manager;
- Funds managed by Mercer entities, including Mercer Australia's multi-manager funds and Mercer Ireland funds; and
- managed funds offered and managed by other Investment Managers.

Mercer may change the Scheme's investment strategy from time to time, following consultation with the Supervisor. The Investment Managers and mandates of the MITNZ can be changed by Mercer from time to time. Changes may occur where a review of a particular Investment Manager and/or asset class dictates that change is necessary or desirable in the interests of investors.

For the sake of clarity, the statements above reflect that the review of asset classes and the underlying Investment Managers will occur predominantly at the MITNZ level.



Investment Beliefs and Process

Beliefs

Mercer's investment approach is based on the belief that an optimal investment strategy takes full advantage of investment opportunities by diversifying across investment classes (in a multi-sector fund) and investment styles, thereby achieving maximum investment efficiency. Mercer believes that a "manager of managers" approach is the most effective and flexible way of delivering the best outcome for investors, and that well-constructed combinations of highly rated specialist investment managers generally result in securing a portfolio of investments that provide consistent, above-average performance over time. Some asset classes may be managed by a single manager where that is appropriate or necessary.

This "manager of managers" approach is implemented through the Scheme's investment in underlying funds and not currently through the appointment of investment managers to the Scheme.

Underpinning this approach, there are five basic elements to Mercer's investment beliefs:

Active Management

Mercer believes that active management is a skill and, as evidenced by Mercer's value-add analysis, Mercer's manager research process can improve the likelihood of identifying capable and skilful managers.

Operational Efficiency

Mercer considers overall investment returns can be enhanced by having a monitoring and governance framework that focuses on evaluating and quantifying investment efficiency.

Risk Management

Mercer believes that asset allocation and diversification are the most important decisions to be made in relation to the investment process.

Mercer is also of the view that risk and return are related and that risk is itself a multidimensional concept.

Dynamic Asset Allocation

Markets can exhibit trends over the medium to long term and can be behavioural in nature, which is why Mercer believes Dynamic Asset Allocation can add value through higher returns and also mitigate downside risk in a Fund.

Sustainability

Mercer believes that environmental, social and governance (ESG) risks and opportunities can have a material impact on long-term risk and return outcomes and considers that taking a sustainable investment view is more likely to create and preserve long-term investment capital.

Mercer also believes that active ownership helps realise long-term shareholder value.

Investment Process

Setting the investment strategy

Mercer has established a range of Funds with different risk/reward profiles to suit the needs of a wide range of investors.

Mercer determines an appropriate investment strategy for the Scheme as a whole and for each individual Fund. Setting the investment strategy is a continual process that aims, first and foremost, to ensure alignment between agreed investment objectives and the structure of the individual Fund.

The methodology used by Mercer to develop the investment strategy for each Fund involves, as a first step, consideration of:

- expected risk and return relative to the Fund's objectives;
- the overall composition of the Fund's investments including the adequacy of diversification;
- the liquidity of selected investments having regard to expected cash flow requirements;
- availability and reliability of valuation information;
- expected tax consequences; and
- associated costs of investing and any other relevant matters.

The investment strategy is then formulated with reference to the Fund's risk and return objectives (plus the further considerations listed above) and in a manner that utilises the benefits of diversification within and between asset classes. The Fund's Benchmark Asset Allocations are then set and modelled on a continuing basis to assess their ongoing appropriateness in the light of expected market conditions and the asset allocation's ability to deliver on the particular Fund's investment objectives.

Strategic Asset Allocation involves setting a Benchmark Asset Allocation for the long-term (but subject to reviews). Asset allocation may be adjusted with the aim of adding value to the performance of this Benchmark Asset Allocation through Dynamic Asset Allocation as described below.

The investment strategy for each Fund is regularly reviewed to ensure an appropriate balance between risk and return and to maximise the likelihood of achieving the Fund's stated objectives. Asset allocation modelling is undertaken to assess the impact of potential changes on each Fund. Mercer formulates capital markets forecasts and employs proprietary modelling tools to support these processes.

This analysis is used to test the appropriateness of each Fund by estimating, among other metrics, the likelihood that the Fund will achieve its performance objectives, expected return, expected volatility and the probability of a negative return.

Mercer also stress-tests each Fund to assess how they might perform under different scenarios.

Reviewing the investment strategy

Mercer undertakes a formal strategy review at least every three years. Any recommended changes are supported by detailed analysis setting out the rationale for changes and the expected impact on Fund characteristics. In the interim, Mercer performs a “health check” which reviews the investment strategies for each Fund to gauge whether the agreed investment objectives and strategy remain appropriate and in the best interests of investors. At least one such health check is conducted in-between the formal triennial reviews.

Potential enhancements considered in formal reviews and health checks may include:

- the addition of a new asset class or a new type of investment;
- incorporation of new Mercer research;
- investment environmental factors including significant market events; and
- long-term market/industry trends and the outlook for growth.

The primary aim of any adjustment to a Fund’s investment strategy is to improve the balance between risk and return and maximise the chance of achieving the stated objectives.

Key considerations include:

- the degree of diversification;
- appropriate levels of liquidity, to facilitate daily pricing;
- availability of commercially attractive fees with an emphasis on value, via cost effective investment structures;
- transparency and reliability in asset valuation;
- the competitive environment, peer performance/offerings and member demands; and
- product viability.

These investment strategies are reflected in the Benchmark Asset Allocation and ranges for each Fund, as set out in Section 6 - Investment Strategy.

Dynamic Asset Allocation

The Funds, excluding the Cash Fund, are subject to a Dynamic Asset Allocation (DAA) process designed primarily for risk control, capital preservation, and incremental value-add.

DAA assessments are conducted on a regular basis and involve two stages. First, each asset class is assessed to determine whether it warrants being under or over-weighted based on a broad range of factors. Secondly, position size (i.e. the extent to which the asset class weight is 'tilted' within the benchmark ranges) is determined based on the level of conviction as to the expected value such tilts will add, and dictates the Target Allocation. This DAA approach aims to produce a more stable pattern of returns for the relevant Fund, especially during unstable market periods.

Manager Selection

Mercer focuses on selecting Investment Managers who are specialists within their particular investment markets and who have demonstrated capability and conviction in portfolio construction and the execution of investment strategies. A formalised process of screening potential managers, including a detailed assessment of their ability and performance, is coupled with on-going monitoring and formal performance reviews. The aim is to achieve a level of returns meeting or exceeding the objectives set, from time to time, for each Fund and which is consistent with the risk profile of each Fund.

Objectives

There are two types of investment objectives:

- Each Fund has a Benchmark it is aiming to outperform which may be either an appropriate market index or a composite index.
- Each multi-sector, diversified fund is aiming to achieve the applicable net real return objective. In setting these objectives. Mercer takes into consideration a range of risk-based factors:

Benchmark: Market or Composite Index

The FMCA requires managers to disclose information on the past performance of their funds in quarterly fund updates. The performance of an appropriate market index must be included alongside that information.

The market index must be a 'broad-based securities market index or indices' which is:

A. (i) widely recognised and widely used in the financial markets; or

(ii) administered by a person other than the manager of the Scheme or any associated persons; and

B. appropriate in terms of assessing movements in the market in which the specified fund invests.

Under the Financial Markets Conduct (Market Index) Exemption Notice 2018, managers are able to use a suitable peer group index where there is not appropriate market index available. In this situation, a composite index may be calculated which incorporates both market indices and peer group indices.

For each Fund, the objective is to outperform the Benchmark return over periods of one year and longer.

The Benchmark return for each Fund is calculated using the return for each relevant market or peer group index (shown in Section 6 – Investment Strategy) and the Benchmark Asset Allocation weights of each Fund (also shown in Section 6). Each index return for the relevant period is multiplied by the weight for that asset class.

Target net real return

In setting investment objectives, Mercer recognises the risk of inflation eroding the value of future returns. It has therefore set the return objectives for all multi-sector, diversified funds with reference to the achievement of a certain level of real return over a given timeframe.

More specifically, each multi-sector, diversified fund has an investment objective to earn the applicable target net real rate of return (shown both before and after tax and investment related fees, in excess of inflation as measured by consumer price index increases) specified in the table on the next page.

The objectives are reviewed from time to time and may be changed to ensure reasonableness.

Multi-sector, diversified funds	Target gross real return# (% p.a.) (after fees, before tax)	Target net real return# (% p.a.) (after fees, after tax)*	Investment Timeframe
Sustainable Conservative	1.00	0.50	At least 3 years
Sustainable Plus Moderate	2.00	1.00	At least 5 years
Sustainable Plus Balanced	3.00	2.00	At least 8 years
Sustainable Plus Growth	4.00	2.50	At least 10 years
Sustainable Plus High Growth	4.50	3.00	At least 13 years

*Tax at 28% Prescribed Investor Rate

#The target net real return should not be treated, or relied upon as a forecast, indicator or guarantee of any future returns or performance for a Fund. The value of each Fund may rise and fall.

Risk factors

In conjunction with the Investment Objectives, Mercer utilises a multi-dimensional approach when building or assessing diversified portfolios in order to better manage the risks inherent in the Funds.

The five risk factors considered are:

- probability of meeting objectives;
- volatility;
- frequency of a negative return;
- severity of the worst negative returns; and
- concentration in sources of risk.

Investment Strategy

Benchmark Asset Allocation

The table below shows the Benchmark Asset Allocation and Ranges for the Funds.

	Fund						
Asset Class/Sector	Cash	Sustainable Conservative	Sustainable Plus Moderate	Sustainable Plus Balanced	Sustainable Plus Growth	Sustainable Plus High Growth	Sustainable Plus Shares
Trans-Tasman Shares	-	5.0	9.5	12.5	15.5	20.0	26.0
Overseas Shares		15.0	22.5	35.5	50.5	61.0	74.0
Total Global Shares	-	15.0	22.5	35.5	50.5	61.0	74.0
Total Shares (excluding listed Real Assets)	-	20.0	32.0	48.0	66.0	81.0	100.0
Listed Property Shares		-	2.0	3.0	3.5	3.5	
Unlisted Property		-	2.0	3.0	3.5	3.5	
Listed Infrastructure Shares		-	2.0	3.0	3.5	3.5	
Unlisted Infrastructure		-	2.0	3.0	3.5	3.5	
Total Real Assets	-	-	8.0	12.0	14.0	14.0	-
Alternative Assets	-	-	-	-	-	-	-
NZ Sovereign Bonds		15.0	13.0	10.0	5.0	1.0	
Overseas Sovereign Bonds		18.5	14.0	11.0	5.0	1.0	
Global Credit		16.5	10.0	8.0	4.0	1.0	
Other Fixed Interest			5.0	7.0	5.0	1.0	
Total Fixed Interest	-	50.0	42.0	36.0	19.0	4.0	-
Total Cash*	100.0	30.0	18.0	4.0	1.0	1.0	-
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Growth Investments	0	20.0	40.0	60.0	80.0	95.0	100.0
Defensive Investments	100.0	80.0	60.0	40.0	20.0	5.0	0.0

*Cash may include a range of cash related investments including (i) on call cash deposits; (ii) term deposits; (iii) bank bills; (iv) notes; and (v) bonds.

Benchmark Ranges

	Fund						
Asset Class/Sector	**Cash**	**Sustainable Conservative**	**Sustainable Plus Moderate**	**Sustainable Plus Balanced**	**Sustainable Plus Growth**	**Sustainable Plus High Growth**	**Sustainable Plus Shares**
Trans-Tasman Shares	-	0-10	0-19.5	2.5-22.5	5-25.5	10-30	16-36
Global Shares	-	10-20	12.5-32.5	25.5-45.5	40.5-60.5	51-71	64-84
Real Assets	-	-	0-19	3.5-23.5	6-26	6-26	-
Alternative Assets	-	-	0-10	0-10	0-10	0-10	-
Fixed Interest	-	35-65	25-55	18-48	7-27	0-14	-
Cash	100-100	20-50	5-35	0-20	0-15	0-15	0-10
Growth Investments	0-0	15-25	20-50	40-70	60-90	75-100	90-100
Defensive Investments	100-100	75-85	50-80	30-60	10-40	0-25	0-10

Currency Hedging

Asset Class/Sector	**Benchmark**	**Active Management Range**
Global Shares[1]	50	0-100
Real Assets[2]	100	-
Global Fixed Interest[2]	100	-

[1]hedged to NZ$ such that total global shares are 50% hedged on a net of tax basis for a 28% tax payer. The level of currency hedging for global shares is managed between 0% and 100% (on a net of tax basis) and may change over time depending on Mercer's view of the relative strength (or weakness) of the New Zealand dollar.

[2]100% hedged to NZ$ on a net of tax basis for a 28% tax payer.

Actual hedge levels may also vary from benchmark due to a range of factors including market movements and cash flows.

Mercer considers currency hedging is an essential part of any long-term investment strategy. Mercer also believes that an active approach to currency hedging is appropriate and therefore manages the level of currency exposures in those Funds which are subject to the Dynamic Asset Allocation process. This implies that certain Funds will not maintain the same level of currency hedging at all times.

Currency hedging is essentially protection against changes in currency exchange rates. Those overseas assets that are not hedged will have exposure to currency exchange rate movements resulting in a benefit when the New Zealand dollar goes down, and decrease in value when the New Zealand dollar goes up.

Mercer sets a benchmark level of currency hedging for each overseas asset class, as detailed in the table above (Currency hedging). Where permitted, the Dynamic Asset Allocation process, as detailed in Section 4 – Investment Beliefs and Process, establishes the target level of currency exposure. This is then monitored as detailed under the heading of 'Rebalancing' in Section 7 – Investment Policies.

Asset Class Benchmark Indices, Tax Treatment and Hedging

The table on the next page details indices for each asset class that are used to calculate the Benchmark return that the Funds will be measured against. It also details the current tax treatment, the current NZD strategic hedging level and whether the index is a market index or peer group index.

The Benchmark return for each Fund is calculated using the return for each relevant market index or peer group index and the Benchmark Asset Allocation weights of each Fund. Each index return for the relevant period is multiplied by the weight for that asset class.

Asset Class	Benchmark Indices	Current tax treatment	Current NZD Strategic Hedging Level (before tax)[2]	Market Index (M) or Peer Group Index (P)
Trans-Tasman Shares	S&P/ NZX 50 Index with Imputation Credits	-[1]	-	M
Unhedged Overseas Shares	MSCI World Index with net dividends reinvested in NZD	FDR	0%	M
Hedged Overseas Shares	MSCI World Index with net dividends reinvested (100% hedged to NZD on an after tax basis)	FDR	139%	M
Listed Property	FTSE EPRA/NAREIT Developed Index (with net dividends reinvested) (100% hedged to NZD on an after tax basis)	FDR	139%	M
Unlisted Property	Composite: 70% MSCI/Australia Core Wholesale Monthly Property Fund Index (100% hedged to NZD on an after tax basis), & 30% MSCI/Property Council of New Zealand Annual Property Index published quarterly	FDR	139%[3]	P
Listed Infrastructure	FTSE Global Core Infrastructure 50/50 Index with net dividends reinvested (100% hedged to NZD on an after tax basis)	FDR	114%	M
Unlisted Infrastructure	MSCI Australia Quarterly Private Infrastructure Fund Index (100% hedged to NZD on an after tax basis)	FDR	139%	P
Commodities	Bloomberg Commodity Index Hedged (NZD)	CV	100%	M
New Zealand Sovereign Bonds	S&P/NZX NZ Government Bond Index	CV	-	M
Overseas Sovereign Bonds	JP Morgan Global Government Bond Index (100% hedged to NZD on an after tax basis)	CV	100%[3]	M
Global Credit	Bloomberg Barclays Global Aggregate Corporate Index (100% hedged to NZD on an after tax basis)	CV	100%	M
Cash	S&P/NZX Bank Bill 90-Day Index	CV	-	M
Other Fixed Interest	S&P/NZX Bank Bill 90-Day Index	CV	-	M

[1]NZ Equities dividends taxed on a PIE basis, Australian Equity exposure is taxed on a PIE or FDR basis depending on the stock.
[2]Currency hedging is implemented on an after tax basis. For some asset classes or strategies, the level of hedging may be higher than 100% on a pre-tax basis, due to the method in which the underlying assets and hedges are taxed. The rate of tax is assumed to be at 28%. Pre tax returns will be monitored using gross hedging ratios.
[3]Hedging applies to AUD exposure where underlying assets are fully hedged to AUD.

Tax Treatment

The Funds operate as Portfolio Investment Entities ("PIEs") with Mercer calculating and paying tax on investment income that needs to be paid on behalf of Scheme members under the PIE tax rules.

The Scheme pays tax on behalf of its members at 10.5%, 17.5% or 28% depending on each member's prescribed investor rate.

The Scheme has elected to use the exit payment method whereby the PIE tax for the year ending 31 March for members who remain in the PIE is paid by the end of the month following the end of year (i.e., 30 April). Where a member fully exits the PIE the tax will be paid by the end of the month following the month of exit.

Investment Manager List

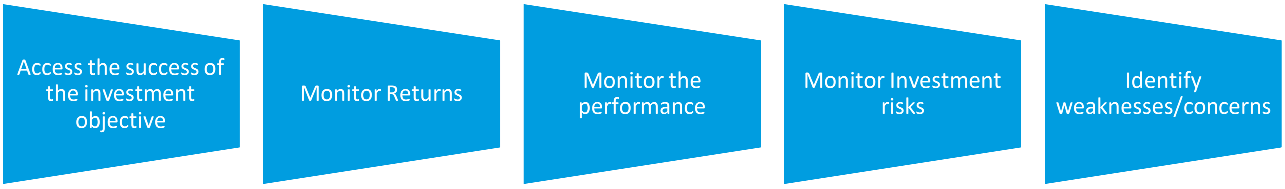
Details of the current Investment Managers appointed to invest the MITNZ portfolios are available by contacting Mercer on 0508 637 237.

Investment Policies

Mercer has adopted a range of investment policies to support its investment governance framework. Key among these are the following:

Investment Performance Monitoring Policy

The various components of the investment monitoring process are outlined below.



The principal goals of investment performance monitoring are to:

- monitor the returns of each Fund relative to its investment objectives and over the timeframes nominated in Section 5 - Objectives of this SIPO;
- assess the extent to which the Fund's investment objectives are being achieved and are expected to be achieved going forward;
- monitor the performance of individual asset classes against suitable industry standard benchmark indices and, particularly the asset class indices outlined in Section 6 – Investment Strategy;
- monitor investment risks associated with each Fund and ascertain the existence of any particular weakness/concerns with the investment strategy, Investment Manager or the Investment Manager's products utilised; and
- allow Mercer to continually assess the ability of each Investment Manager to successfully meet the objectives set for that manager.

Mercer is responsible for reviewing the performance of the appointed Investment Managers. Such monitoring is undertaken on a regular basis. Factors taken into account in these reviews will include investment style, resources, organisational strength, investment performance relative to objectives, product structure, and any other factors considered relevant to the Investment Manager's continuing ability to meet the applicable investment objective. Returns will also be compared with returns earned by a suitable peer group, such as a group of other professional investment managers.

Reporting on performance against each Fund's objectives and compliance with benchmarks is monitored on a monthly basis. Exceptions, including unexpected performance dispersion or negative outcomes are highlighted in this reporting, and any recommended remedial actions are noted.

Rebalancing Policy

Mercer rebalances the asset allocation of a Fund in order to maintain an actual asset allocation that is sufficiently close to that of the Target Asset Allocation for the Fund and in a manner that remains within the ranges permitted by this SIPO.

For each Fund and in the event that either the minimum or maximum asset allocation is exceeded (for example, as a result of market depreciation or appreciation or due to significant cash-flows), Mercer must, amongst other things, within 5 business days of being aware of the range being exceeded, re-weight the Fund to be within the permitted ranges. If the reweighting does not occur within this time frame, then Mercer must make a report to the Supervisor. Mercer is also required to provide quarterly reports to the Supervisor in connection with each Fund's adherence to its permitted asset allocation.

While market movement is one of the key triggers for rebalancing, other events that will invoke rebalancing include:

- a change in Mercer’s Dynamic Asset Allocation views;
- a funding requirement for currency hedging gain/losses;
- the addition or deletion of new asset classes (typically as part of a broader review of investment strategy); and
- the receipt of large application/redemption requests (this is expected to be rare given the level of broad-based participation in the Scheme and the general long-term nature of the membership profile).

Liquidity Management

Mercer maintains a liquidity management plan which describes the principles and processes governing liquidity management within the investment strategies of the Funds.

Mercer’s policy in regard to the liquidity of the Funds is to ensure that all Funds are able to meet their obligations, including having available funds to meet:

- member withdrawals and transfers between Funds;
- fees and expenses;
- taxation payments; and
- re-balancing requirements

Liquidity is available through each Fund holding suitable levels of liquid assets, being investment in cash and listed securities. Liquid assets are typically those assets that can be redeemed in 30 days in “normal” conditions without materially moving the price.

The procedures used by Mercer to manage liquidity for the Funds address the following key areas:

- the daily liquidity monitoring process which aims to proactively identify any potential liquidity issues;
- liquidity stress testing which considers a range of factors that may impact on liquidity, including market movements and forecasted cash flow requirements; and
- the maintenance of a range of tools to respond to a liquidity event (depending on the severity and duration of the event).

Mercer also believes that unlisted investments and Alternatives, which can be less liquid, can have an important, but limited, role to play by diversifying sources of risk and return. Mercer has carefully considered the liquidity demands of each Fund before permitting some unlisted investments and Alternatives to be included within appropriate Funds.

Derivatives

This policy covers the use of derivatives by the Funds through its multi-manager investment approach. As an extension, this policy covers the external investment managers which Mercer has appointed to manage the Funds’ assets via discrete investment portfolios.

For the purpose of this policy a derivative is defined as a transaction or arrangement which results in a financial asset or liability, the value of which depends upon, or is derived from, the value of other assets, liabilities or indices. A derivative may include, but is not limited to, forward agreements, futures contracts, options contracts, warrants, swaps, share ratios, spot and forward currency transactions, currency options or over-the-counter options.

For clarity, the use of derivatives in itself is not considered to involve the use of leverage. Mercer Funds do not use debt (or borrowing) for the dominant purpose of investing in derivatives or hedge funds. Any net economic exposure that may result from the use of derivatives is managed as outlined in this policy.

Specific purposes for which derivatives may be used include:

Prudent Portfolio Management

The use of derivatives allows investment managers to manage portfolios in more prudent and efficient ways, including:

- improving transaction efficiency and costs;
- managing duration within fixed income portfolios;
- implementing changes in asset or asset class exposures.

Hedging

Mercer considers currency hedging is an essential part of any long-term investment strategy. Mercer also believes that an active approach to currency hedging is appropriate for some Portfolios and therefore manages the level of currency exposures in those funds which are subject to the Dynamic Asset Allocation process.

Currency hedging is essentially protection against changes in currency exchange rates. Those overseas assets that are not hedged will have exposure to currency exchange rate movements resulting in a benefit when the New Zealand dollar goes down, and decrease in value when the New Zealand dollar goes up.

Mercer sets a benchmark level of currency hedging for each overseas asset class. Where permitted, the Dynamic Asset Allocation process, establishes the target level of currency exposure.

Return Generation

Derivatives may be used for purposes of return generation, including:

- creating long and short positions in underlying physical securities;
- accessing investment opportunities which may otherwise have barriers to invest such as high purchase or carry cost, or low liquidity; and
- increasing the diversification of portfolio returns, achieved through broader market exposures generated from fewer portfolio positions.

Risk Management

Derivatives may be used for purposes of risk management, including:

- covering short term market exposures during transitions; and
- reducing tracking error within portfolios.

Conflicts of Interest/ Related Parties

Conflicts Management Policy

Mercer has a Conflicts Management Policy to ensure that Mercer maintains effective systems, controls and procedures to identify and manage conflicts in accordance with our stated principles and to provide for appropriate oversight of conflicts and their management.

This enables Mercer to manage the business effectively whilst also meeting customer and other stakeholder expectations; adhering to regulatory requirements; and operating in accordance with the Marsh McLennan Code of Conduct.

A Conflicts of Interest Summary Policy is available on the Disclose register.

Sustainable Investment Policy

Mercer New Zealand's Sustainable Investment Policy is guided by:

- Our company purpose, mission, and investment beliefs
- Our clients and customer perspectives
- Our fiduciary responsibilities
- Compliance with the laws of New Zealand

Mercer is part of the Marsh & McLennan Companies, Inc, whose purpose is at the core of what we do. As a collective group, Marsh McLennan's motivation is to create a positive impact on the businesses, people and societies we serve.

At Mercer, our mission is to make a difference in people's lives and we strive to help our clients and customers advance their health, wealth and careers.

Mercer provides services to a broad range of investors, including KiwiSaver members, workplace saving schemes, endowments, foundations, financial services organisations, iwi, and other investors. The Sustainable Investment Policy sets out how Mercer will implement its beliefs on responsible and sustainable investment including for the Funds noted in this SIPO.

Beliefs

Mercer believes a sustainable investment approach is more likely to create and preserve long-term investment capital and, more specifically, that:

1. **ESG** factors can have a material impact on long-term risk and return outcomes and these should be integrated into the investment process.
2. **Taking a broader and longer-term perspective on risk**, including identifying sustainability themes and trends, is likely to lead to improved risk management and new investment opportunities.
3. **Climate change poses a systemic risk**, and investors should consider the potential financial impacts of both the associated transition to a low-carbon economy and the physical impacts of different climate outcomes.
4. **Stewardship** (or active ownership) supports the realisation of long-term shareholder value by providing investors with an opportunity to enhance the value of companies and markets.

Consequently, Mercer believes that a sustainable investment approach that considers these risks and opportunities is in the best interests of our clients.

The underlying funds apply socially responsible investment criteria to exclude certain investments. The exclusions listed below are in addition to those adopted under the Sustainable Investment Policy and are applied to Equities and Global Credit asset classes.

The underlying funds exclude Adult Entertainment, Alcohol, Fossil Fuels and Gambling using materiality thresholds which are available by contacting kiwisaver@mercer.com.

The exclusions criteria (including sectors) may change from time to time. Refer to http://www.mercerfinancialservices.co.nz for the latest exclusions.

Glossary

Active Management is an investment strategy in which the investor seeks to outperform a given benchmark.

Alternatives include assets that are expected to generate returns that are different to shares and bonds, and therefore offer increased diversification to the relevant Fund.

Asset Classes are the names given to the different financial categories or sectors in which your money may be invested. The major asset classes include shares, real assets, fixed interest, cash and alternative assets. These asset classes can be broken down further for example to include New Zealand or overseas shares, New Zealand or overseas sovereign bonds, direct (unlisted) or listed property investments. All asset classes have different risk and return characteristics.

Certain asset classes, such as property, infrastructure and alternatives contain both growth and defensive characteristics. Mercer uses the equity and debt distinction as the primary differentiator between growth and defensive investments respectively.

Benchmark Asset Allocation details the long term percentage target holding of each asset class for each Fund.

Board means the board of directors of Mercer.

Cash may include a range of cash related investments including: (i) on call cash deposits; (ii) term deposits; (iii) bank bills; (iv) notes; and (v) bonds.

Derivatives include currency exchange contracts, interest rate swaps, warrants, sharemarket index futures, commodity futures, share options and similar financial instruments.

Dynamic Asset Allocation or **DAA** means adjusting the Target Allocation to asset classes up or down to reflect a range of factors primarily for risk control, capital preservation, and incremental value add. This is also known as a tactical asset allocation.

Fund means an investment fund offered under the Scheme's product disclosure statement.

Hedging generally refers to the process of protecting investments against, or reducing the risk of, a loss. For example, in the context of currency, the value of overseas investments is affected by rises or falls in the value of the New Zealand dollar (e.g. if the New Zealand dollar rises in value, then overseas investments in New Zealand dollar terms will reduce in value.) The Manager and underlying Investment Managers can use various techniques to minimise the effect of currency movements on overseas investments – this is currency hedging.

Investment Manager, where appointed by Mercer, is a party responsible for buying and selling securities in a MITNZ fund.

Mercer or **Manager** means Mercer (N.Z.) Limited, the manager of the MITNZ who is responsible for the investment of the MITNZ's assets in accordance with the Trust Deed and for ensuring this SIPO is adhered to.

MITNZ refers to Mercer Investment Trusts New Zealand a series of wholesale unit trusts of which Mercer is the manager and Trustees Executors Limited is the trustee.

Multi-sector, diversified fund is a Fund with exposure across more than one asset class in order to gain diversification benefits or to spread the risk.

Prescribed Investor Rate means the tax rate that investments in the Scheme can be taxed at. The rates are 10.5%, 17.5% or 28%, depending on the individual investor's taxable income. For more information, see https://www.ird.govt.nz/roles/portfolio-investment-entities/find-my-prescribed-investor-rate.

Real Assets include listed property, listed infrastructure, unlisted property, unlisted infrastructure and commodities. These assets are expected to generate returns that are different to shares, and therefore offer increased diversification to the relevant Fund.

Scheme means the Mercer KiwiSaver scheme.

Single-sector fund is a Fund that invests in just one asset class or sector.

SIPO means this Statement of Investment Policy and Objectives.

Strategic Asset Allocation involves setting a Benchmark Asset Allocation for the long term (but subject to reviews). Value can be added to the performance of this Benchmark Asset Allocation through Dynamic Asset Allocation.

Supervisor is an entity independent of the Manager, responsible for supervising the performance of the Scheme and the Manager.

Target Allocation means the asset allocation being targeted to implement Dynamic Asset Allocation, taking account of each Fund's Strategic Asset Allocation and ranges.

Trust Deed is the formal agreement between the Supervisor and the Manager that outlines their respective powers, requirements and responsibilities in respect of the governance of the Scheme.

Unlisted Investments are investments into companies or assets that are not traded on the sharemarket or public exchange. Examples include unlisted property and unlisted infrastructure.

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