



Statement of Investment Policy and Objectives (SIPO)

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Simplicity's Governing Principles

- Providing our investors with greater opportunity for dignity in retirement.
- Offering New Zealanders the highest quality, lowest cost financial products.
- Giving all net profits back to members.
- Being a force for good in New Zealand.
- Providing a great place to work.

Description of the Funds

The Simplicity Investment Funds (Funds) offer three investment options – the Conservative Investment Fund, the Balanced Investment Fund and the Growth Investment Fund. The Funds are designed to deliver a range of investment outcomes, recognising that individuals have different needs and risk tolerances.

Simplicity NZ Limited is the Manager of the Funds. We, the Manager, are a “not for profit” organisation. An amount equal to 15 per cent of our management fee is paid to charities annually.

More details of how this works and the charities that benefit are on our website www.simplicityfunds.kiwi

The Supervisor of the Funds is Public Trust, and MMC Limited is the Administrator of the Funds.

Purpose and philosophy

Each of the Funds has a strategic asset allocation to the major asset classes i.e. shares (including listed property) and fixed interest (bonds).

We believe that markets are efficient and so we have adopted a ‘passive’ investment approach for all Funds. We are not in the business of picking ‘winners’ per se, because we believe that investing in the lowest cost way in the whole market will return investors more money over time.

No attempt is made to increase returns by actively over-weighting or under-weighting particular asset classes, or individual shares/bonds, at the expense of others.

Passive investing also maximises diversification, with over 5,000 different share and bond investments in each fund.

We continually monitor each Fund's asset allocation and rebalance whenever a specified threshold is reached.

The Funds all invest in the same securities, with the weightings differing according to desired risk versus return e.g. the Growth Investment Fund aims to have 86% of its investments in shares, the Conservative Investment Fund 20%.

Higher returns are possible from more volatile growth asset classes such as shares, but more conservative investors may be comfortable with the lower return and less volatility from fixed interest assets such as government stock and corporate bonds.

Where possible, the return from each asset class is generated by investing in an index fund. These funds are designed to replicate the investment return of a particular market index. For offshore investments, the Funds invest in funds managed by Vanguard Asset Management Limited (Vanguard), a subsidiary of the Vanguard Group, Inc.

Established in 1975, the Vanguard Group, Inc. is owned by its US-domiciled mutual funds, which are in turn owned by their investors. Based in Valley Forge, Pennsylvania, USA, as at 30 September 2016, it managed over NZ\$5 trillion of client funds worldwide.

If no suitable index fund is available for a particular asset class we will invest in securities that replicate the relevant market index (e.g. New Zealand shares). We will invest as closely as practically possible to the index chosen, and minimise costs wherever practicable by keeping transaction and holding costs low.

Investment objectives

The investment objective for each Fund is for its performance to be ranked in the top 20% of its respective category after tax and fees. For the Conservative Investment Fund, its category is funds with around an 80% allocation to income assets such as bonds. For the Growth Investment Fund, its category is funds with around 86% allocated to growth assets such as shares. For the Balanced Investment Fund, its category is funds with a fairly even split between income and growth assets.

Investment policies

Currency hedging

The relatively high interest rates in New Zealand compared to most developed countries means that hedging foreign currencies results in a positive adjustment to the exchange rates that apply. We believe that this positive adjustment more than offsets the additional volatility occasionally generated by fully hedging foreign currencies into New Zealand dollars. The foreign exchange exposures in each Fund are hedged as follows:

Asset Class	Hedging Style	Benchmark (%)	Range
International Equities	Passive	100	95 to 105
Australian Equities	Passive	100	95 to 105
International Fixed Interest	Passive	100	95 to 105

International markets are accessed through a series of index funds managed by Vanguard. In the case of international fixed interest Vanguard 100% hedges the foreign exchange exposures into Australian dollars and we hedge the Australian dollar exposure into New Zealand dollars. For international equities Vanguard fully hedges the exposures into New Zealand dollars.

The hedging strategy is managed using forward exchange contracts with New Zealand registered banks. The current value of all outstanding foreign exchange contracts is constantly monitored by the Administrator and advised to us daily. Sufficient cash and liquid assets are retained in each Fund to cover the current value of the outstanding forward contracts at all times.

Rebalancing

The current asset allocation of the Funds will be monitored by us on a daily basis in consultation with the Administrator.

Where a Fund is within 2.0% of the maximum or minimum permitted range of exposure to an asset class (as detailed in Schedule 1, 2 and 3 respectively) or within 2.0% of the permitted total weighting to income or growth assets, we will determine the rebalancing amounts required and will rebalance the Fund accordingly.

In the event of significant financial market volatility, there is the possibility that the asset allocation of the Funds may breach the assigned range. Any such breach must be remedied within 5 working days. We provide a report to the Supervisor setting out all breaches that occur on a quarterly basis.

Tactical asset allocation Policy

We believe that markets are efficient and we have therefore adopted a passive investment approach. No attempt is made to increase returns by actively over-weighting or under-weighting particular asset classes at the expense of others.

Derivatives Policies

Apart from forward exchange contracts to hedge currencies, our preference is not to use derivatives and the nature of our investments means this is almost always the case. Derivatives are only used if there is no cost effective means to gain an essential investment exposure using physical securities. Where derivatives are used, they will be structured to achieve the same investment returns as if the investments were held physically (commonly referred to as 'One Delta' investments).

Leverage Policies

Although a degree of leverage (maximum 20%) is permitted at the Fund level under the Trust Deed, this is only to allow cashflow management in extreme circumstances and for a limited period of time – a few days at the most. Some of the underlying assets (such as equities) may operate with some leverage. The inclusion of these assets reflects our investment philosophy to mirror the index rather than to increase returns.

Diversification Requirements/Limits

Where possible, the Funds invest into index funds that have a high level of diversification.

Where we invest into a portfolio of securities designed to replicate the investment performance of a particular index, the respective Investment Guidelines (Section 4 on page 13) are drafted to ensure that concentration risk is prudently managed.

Market Risk Management Policy

Market risk is an inevitable aspect of investing in financial markets. We believe that the strategic asset allocation of each investment option provides a diversified exposure to each asset class at an appropriate level for that option's label; Conservative, Balanced or Growth.

While market risk varies for each of the Funds, education and communication are key to understanding risk and/or being comfortable with it in the Funds. We are committed to providing the information that investors need to understand how and why markets (hence their investments) are performing as they are.

Credit Risk Management

There will be a degree of credit risk in the New Zealand Cash, New Zealand Fixed Interest and International Fixed Interest Portfolios in each of the investment options.

The New Zealand Cash portfolios are designed to ensure that any credit risk is primarily to New Zealand registered banks, or securities with a credit rating equal to, or better than, the single A rated banks. A high proportion of the New Zealand Fixed Interest portfolio will be in New Zealand government stock and only highly rated investments are Authorised Investments (set out on page 11).

The International Fixed Interest Portfolio invests in a diversified portfolio of securities (bonds) from indices containing approximately 9,600 securities (bonds) issued by governments, supranational bodies, government owned entities, government guaranteed entities, and investment-grade corporate issuers with a credit rating of BBB- or higher (by S&P or equivalent). All securities are included in well recognised international indices issued by Barclays Capital. Any exposure to a single credit risk is extremely limited; i.e. less than 0.5% of FUM.

Other Relevant Policies

Liquidity and Cash Flow Management

The Manager maintains a balance of transactional cash on call in a specific bank account for each investment option. This is to ensure that there is sufficient liquidity to fund the normal course of business.

The targeted level of cash is 2% and we will monitor this, in conjunction with the Administrator, on a daily basis. The maximum cash balance before Funds must be invested in other asset classes is 10%.

A cash flow forecast is maintained with a 10 working day time horizon. This is considered sufficient time to redeem from underlying investments if required. All authorised investments have a settlement period of less than 5 working days. Similarly, 5 working days is sufficient to ensure that inflows are invested and the 10% maximum cash balance is not exceeded.

Conflicts of Interest Policy

Conflicts of Interest may occur at multiple levels and investors' interests take priority at all times.

Our key principle is that any potential conflicts of interest are clearly disclosed by any person making decisions on behalf of our investors.

A register of potential conflicts of interest is maintained by the Managing Director of Simplicity. Any changes to the register are reported to the Board of Directors by the Managing Director at Board meetings. Continual disclosure of potential conflicts of interest is a contractual requirement for all members of staff or parties contracted to Simplicity.

Voting Policies

Where the exposure to an asset class is achieved through an index fund managed by Vanguard, the following voting policy applies:

<https://about.vanguard.com/vanguard-proxy-voting/voting-guidelines/>

Where the securities are held directly, we will vote by proxy where it is in the best interests of our investors to do so. Voting decisions are made on a case by case basis. All decisions will be based on what is in the best interest of our investors. We may decide not to vote.

Environmental, Social and Governance Policies

Our business is ultimately a social enterprise, thus investing ethically is an important issue for us and our members.

The Vanguard international share fund that we invest in specifically excludes investments in companies involved in tobacco, controversial weapons, nuclear weapons, and nuclear weapon components.

We also focus on areas of social responsibility where we can have a constructive involvement (including donating 15% of our investment management fee to charities and being an activist shareholder in those New Zealand companies we invest in).

Pricing/Valuation Policies

The nature of the Funds' authorised investments means there should always be a valuation at close of business. We have outsourced the pricing and valuation of the investments to the Administrator.

Where an investment is traded on financial markets, the Administrator will determine the valuation in accordance with the last market prices available at the valuation point. Where the investments are Vanguard unlisted trusts, the Administrator will be provided with a unit price each day by Vanguard.

The valuation of assets is generally based on information provided to the Administrator by independent third party providers. Where practicable the Administrator will look to verify this data by comparing information from a second independent source.

Taxation Policy

The Funds are Portfolio Investment Entities (PIEs). Tax on investment income is calculated at each member's prescribed investor rate (currently either 0%, 10.5%, 17.5% or 28% depending on each member's circumstances) and paid to the Inland Revenue on members' behalf annually.

Investment Performance Monitoring and Reporting

The performance of each asset class is monitored against its respective benchmark on a daily basis.

Performance is reported to the Supervisor monthly. Investors will receive a quarterly performance update, with current information available through our website on a daily basis.

Investment Strategy and SIPO Review

Investment Strategy

We believe our return objectives will be achieved via both diversification and maintaining a consistent asset allocation through market cycles. We do not believe in frequent re-balancing of asset allocations, which can cause unnecessary activity (and associated costs) and can be overly emotionally driven in times of market volatility. In our opinion this approach has not shown that it can add value to investors.

The asset allocation of each Fund is set semi-annually by applying the weightings in the Morningstar Multi Sector Indices. Our Funds are benchmarked to those with equivalent investment strategies. The report outlining these allocations is provided by Morningstar Limited, a funds management consultant based in Australia.

While we follow the Morningstar Multi Sector Indices, we do not believe our investors need to hold the levels of liquidity that the average manager holds. We are a long term investor and believe we should collect the additional return from holding long term bonds. Our approach is therefore to allocate the average cash weighting over and above what is required for cashflow management (around 2%) evenly between New Zealand and international fixed interest.

Where the average allocations amongst our peers includes unlisted investments, or those not accessible via public markets (e.g. direct property, private equity, hedge funds), we will allocate the same amount into their listed equivalents i.e. shares or bonds. Liquidity, and low costs of investing, are paramount to our investors' wellbeing.

Our asset allocation is reviewed biannually or as appropriate if either we or Morningstar believe there has been such a significant change in financial markets.

SIPO Review

A review of this SIPO is undertaken annually by us to ensure there have been no market developments that should be reflected in the SIPO. The nature of our investment philosophy means that significant changes are unlikely to be required. If changes are required, these must be reviewed and approved by the Supervisor.

An ad hoc review of this SIPO will only be undertaken if there has been a significant market development that makes the existing SIPO redundant or impossible to implement. We believe that investors are best served by maintaining a steady and consistent investment policy.

Changes to the SIPO will be proposed by us. They will then be reviewed and approved by the Supervisor, provided it believes the changes are in the best interests of investors.

The most current version of the SIPO is available at www.simplicityfunds.kiwi or on the Disclose website at www.companiesoffice.govt.nz/disclose

Schedule 1: Investment Strategy for the Conservative Investment Fund

The Conservative Investment Fund provides investors with a limited exposure to growth assets, but most of its investments are in income assets. As a result, the return from the Fund is likely to be lower over the longer term (10 years or more) than the Balanced or Growth Investment Funds, but the value of its investments are unlikely to fluctuate as much as the Balanced or Growth Investment Funds.

Where possible, the Fund's investments are in index funds, managed by Vanguard. In the case of New Zealand assets (cash, fixed interest and equities), no suitable index fund is currently available at a reasonable investment management fee.

The Manager therefore invests in a portfolio of securities for each asset class that closely approximates to the respective market. Trading is kept to a minimum to reduce costs.

Benchmark Asset Allocations and Ranges

Asset class	Benchmark Asset Allocation	Range
Cash and cash equivalents	2%	0% – 10%
New Zealand fixed interest	39%	29% – 49%
International fixed interest	39%	29% – 49%
Total Income Assets	80%	70% – 90%
New Zealand equities	4%	0% – 14%
Australian equities	4%	0% – 14%
International equities	12%	2% – 22%
Total Growth Assets	20%	10% – 30%

Authorised investments

Authorised investments for each asset class are detailed in Schedule 4 on page 13.

Schedule 2: Investment Strategy for the Balanced Investment Fund

The Balanced Investment Fund provides investors with an exposure to a mix of growth and income assets. As a result, the return from the Fund is likely to be lower over the longer term (10 years or more) than the Growth Investment Fund but higher than the Conservative Investment Fund. At the same time the value of its investments are likely to fluctuate more than the Conservative Investment Fund but are likely to be more stable than the Growth Investment Fund.

Where possible, the Fund's investments are in index funds, managed by Vanguard. In the case of New Zealand assets (cash, fixed interest and equities), no suitable index fund is currently available at a reasonable investment management fee. The Manager therefore invests in a portfolio of securities for each asset class that closely approximates to the respective market. Trading is kept to a minimum to reduce costs.

Benchmark Asset Allocations and Ranges

Asset class	Benchmark Asset Allocation	Range
Cash and cash equivalents	2%	0% – 10%
New Zealand fixed interest	21%	11% – 31%
International fixed interest	21%	11% – 31%
Total Income Assets	44%	34% – 54%
New Zealand equities	10%	0% – 20%
Australian equities	10%	0% – 20%
International equities	36%	26% – 46%
Total Growth Assets	56%	46% – 66%

Authorised investments

Authorised investments for each asset class are detailed in Schedule 4 on page 13.

Schedule 3: Investment Strategy for the Growth Investment Fund

The Growth Investment Fund provides investors with a limited exposure to income assets, but most of its investments are in growth assets. As a result, the return from the Fund is likely to be higher over the longer term (10 years or more) than the Conservative and Balanced Investment Funds, but the value of its investments are likely to fluctuate more than the Balanced and Conservative Investment Funds.

Where possible, the Fund's investments are in index funds, managed by Vanguard. In the case of New Zealand assets (cash, fixed interest and equities), no suitable index fund is currently available at a reasonable investment management fee. The Manager therefore invests in a portfolio of securities for each asset class that closely approximates to the respective market. Trading is kept to a minimum to reduce costs.

Benchmark Asset Allocations and Ranges

Asset class	Benchmark Asset Allocation	Range
Cash and cash equivalents	2%	0% – 10%
New Zealand fixed interest	6%	0% – 16%
International fixed interest	6%	0% – 16%
Total Income Assets	14%	4% – 24%
New Zealand equities	14%	4% – 24%
Australian equities	14%	4% – 24%
International equities	58%	48% – 68%
Total Growth Assets	86%	76% – 96%

Authorised investments

Authorised investments for each asset class are detailed in Schedule 4 on page 13.

Schedule 4: Asset Class Investment Guidelines

The investment guidelines and authorised investments for each Asset Class in the Funds is governed by the same restrictions:

Cash and Cash Equivalent Portfolio

Investment Policy

The Fund will invest primarily in cash on call and liquid, highly rated fixed interest securities issued in New Zealand.

Investment Objective

The objective of the Fund is to match the Benchmark Index (defined below) return on a rolling 12 month basis before tax and fees.

Benchmark Index

The Benchmark Index is the NZX 90 day Bank Bill Index as calculated and published by the NZX, or any replacement index with the agreement of the Supervisor.

Authorised Investments

Cash on call or any debt security or a derivative thereof that is denominated in New Zealand dollars.

Prudential Limits

Unless prior written approval is given to the contrary by the Supervisor, the Manager shall ensure that the Cash portfolio remains at all times within the following prudential limits:

Type of debt security	Maximum % with single issuer of debt security	Maximum % class of issuer of debt security
New Zealand government issued or guaranteed debt securities	100	100
Debt securities issued or guaranteed by a New Zealand Registered Bank rated at least A+ (S&P rating or equivalent)	30	100
Debt securities issued by the New Zealand Local Government Funding Agency Limited	100	30
In addition to Bank securities, debt securities of at least AA- (S&P rating or equivalent)	10	50
Specific authorisations	as approved by the Supervisor	

The weighted average duration of the Cash and Cash Equivalent portfolio must not exceed 60 days.

New Zealand Fixed Interest Portfolio

Investment Policy

The Fund will invest primarily in New Zealand Government Stock and highly rated liquid bonds.

Investment Objective

To match the Benchmark Index (defined below) return on a rolling 12 month basis before tax and fees.

Benchmark Index

The Benchmark is the S&P/NZX New Zealand Government Stock Index as calculated and published by the NZX, or any replacement index with the agreement of the Supervisor.

Authorised Investments

Subject to the prudential limits set out below, any debt security or a derivative thereof that is denominated in New Zealand dollars.

Prudential Limits

Unless prior written approval is given to the contrary by the Supervisor, the Manager shall ensure that the Fixed Interest Portfolio remains at all times within the following prudential limits:

Type of debt security	Maximum % with single issuer of debt security	Maximum % class of issuer of debt security
New Zealand government issued or guaranteed debt securities	100	100
Debt securities issued or guaranteed by a New Zealand Registered Bank rated at least A (S&P rating or equivalent)	30	100
Debt securities issued by the New Zealand Local Government Funding Agency Limited	100	25
In addition to the above, debt securities of at least AA- Rating (S&P rating or equivalent)	20	50
In addition to higher rated securities, debt securities of A- to A+ inclusive Rating (S&P rating or equivalent)	10	
Specific authorisations	as approved by the Supervisor	

The weighted average duration of the New Zealand Fixed Interest portfolio must be within 0.25 years of the Benchmark Index duration at all times.

International Fixed Interest Portfolio

Investment Policy

The Fund will invest in the Vanguard International Fixed Interest Fund (or its equivalent).

The Vanguard International Fixed Interest Index Fund (Hedged) invests in a diversified portfolio of securities (bonds) from an index containing approximately 1,200 securities (bonds) issued by the governments of approximately 34 countries.

Investment Objective

To match the Benchmark Index (defined below) return on a rolling 12 month basis before tax and fees.

Benchmark Index

The Benchmark Index of the Vanguard International Fixed Interest Fund is the Barclays Global Treasury Index 100% hedged into Australian dollars. We will implement forward exchange contracts to hedge returns into New Zealand dollars.

Hedging Policy

Returns from the Vanguard International Fixed Interest Fund. We will implement forward exchange contracts to hedge returns into New Zealand dollars.

New Zealand Equity Portfolio

Investment Policy

The Fund will invest in shares issued by New Zealand companies listed on the NZX, based on their weighting in the Benchmark Index (defined below).

Investment Objective

To match the Benchmark Index (defined below) return on a rolling 12 month basis before tax and fees.

Benchmark Index

The Benchmark is the S&P/NZX 50 Index as calculated and published by the NZX, or any replacement index with the agreement of the Supervisor.

Australian Equity Portfolio

Investment Policy

The Fund will invest primarily in the Vanguard Australian Shares Index Fund. The Vanguard Australian Shares Index Fund invests in approximately 290-300 of the largest companies and property trusts listed on the Australian Securities Exchange (ASX).

Investment Objective

To match the Benchmark Index (defined below) return on a rolling 12 month basis before tax and fees.

Benchmark Index

The Benchmark is the S&P/ASX300 Index 100% hedged to the New Zealand dollar, or any replacement index with the agreement of the Supervisor.

Hedging Policy

Returns from the Vanguard Australian Shares Index Fund are in Australian dollars. We will implement forward exchange contracts to hedge returns into New Zealand dollars.

International Equity Portfolio

Investment Policy

The Fund will invest primarily in the Vanguard International Shares Select Exclusions Index Fund. The Vanguard International Shares Select Exclusions Index Fund provides investors with exposure to over 1,500 of the world's largest companies listed on the exchanges of 23 of the world's major developed economies.

Investment Objective

To match the Benchmark Index return (defined below) on a rolling 12 month basis before tax and fees.

Benchmark Index

The Benchmark Index is the MSCI World ex Australia ex Tobacco ex Controversial Weapons ex Nuclear Weapons Index 100% hedged to the New Zealand dollar, or any replacement index with the agreement of the Supervisor.

Hedging Policy

Returns from the Vanguard International Shares Select Exclusions Index Fund are fully hedged into New Zealand dollars by Vanguard.