

Statement of Investment Policy and Objectives

Pathfinder Managed Investment Scheme

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The current SIPO version is to be available on the schemes register
(Disclose) www.business.govt.nz/disclose

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Purpose: This statement of investment policy and objectives (*SIPO*) sets out the investment philosophy, objectives and strategies for the following funds (each a Fund):

- Pathfinder Global Responsibility Fund
- Pathfinder Global Water Fund
- Pathfinder Global Property Fund
- Pathfinder World Equity Fund
- Pathfinder Ethical Trans-Tasman Fund
- Pathfinder Ethical Growth Fund

Units are no longer offered in the Pathfinder Commodity Plus Fund. The SIPO for this fund is included at the end of this document.

Background: Each Fund is governed by a master trust deed dated 1 April 2009 (as amended on 8 September 2016) and a separate establishment deed. For each Fund these are referred to as the *trust documents*. Each Fund is a Portfolio Investment Entity (*PIE*) for tax purposes and information on each Fund is available to investors in the product disclosure statement and document containing other material information (the *offer documents*).

Our investment philosophy is built on two foundations:

- Our ethical beliefs are core to our investment process; and
- Our investment process must be research based and robust (as well as ethical).

Ethical investment beliefs:

We believe investing ethically can include:

- 1** *Environmental, social and governance focus:* Focusing investment into companies that rate higher on environmental, social and governance (ESG) criteria (for example companies promoting fair and safe working conditions or having robust environmental practices). We believe these make better long-term investments, as well as being better for our planet and its people.
- 2** *Sustainable Development Goals:* Aspiring for investment decisions to contribute to the UN's Sustainable Development Goals. These goals are a blueprint for achieving a better and more sustainable future for all. They address key global challenges, including poverty, inequality, climate, environmental degradation, prosperity, and peace and justice.
- 3** *Climate change awareness:* We believe companies with a lower carbon intensity and a plan for managing the transition to a low carbon economy make better long-term investments. We believe they will benefit our planet and its people in a warming world.
- 4** *Aware, Fair, Care:* Avoiding investment in companies engaged in industries or activities seen as harmful. This includes companies focused on tobacco, cluster munitions, fossil fuels and several other categories (please see www.path.co.nz for a complete list for exclusions).
- 5** *Engagement:* Engaging and voting as a shareholder can bring about positive change.

The Global Responsibility Fund, Global Water Fund, Global Property Fund, Ethical Growth Fund and Ethical Trans-Tasman Fund apply all the steps above. The World Equity Fund focuses only on steps 3 and 4 (because this fund invests in exchange traded funds rather than direct shares).



Investment beliefs:

Our key investment beliefs include:

- 1** *'High level' decisions are critical:* Active allocation decisions by asset class, industry sector, investment theme and geography are a significant driver of investment returns.
- 2** *Integrating ESG:* Integrating environmental, social and governance analysis into decision making provides a deeper assessment of corporate risk and value-creation potential.
- 3** *Research is critical:* High quality research drives better investment decisions.
- 4** *Invest for the long-term:* We believe a long-term investment approach produces better outcomes for our investors (and our planet) than a short-term approach.

2 MANAGER RESPONSIBILITIES

The obligations of Pathfinder as Manager of the Funds include:

- investing assets in accordance with this SIPO, offer documents and trust documents.
- reporting to investors and Public Trust (the **Supervisor**) on each Fund
- monitoring compliance with this SIPO

The Manager will maintain an investment committee (the **Pathfinder Investment Committee**) to oversee management of the Funds.

3 INVESTMENT OBJECTIVE AND BENCHMARK

Investment objective: The objective of each Fund is set out in the table below:

Fund	Investment objective
Global Responsibility Fund	Ethical investing in international equities to achieve above average long-term risk adjusted returns
Global Water Fund	Ethical investing in global water companies to achieve above average long-term risk adjusted returns.
Global Property Fund	Ethical investing in global property companies to achieve above average long-term risk adjusted returns.
Ethical Trans-Tasman Fund	Ethical investing in Australasian equities to achieve above average long-term risk adjusted returns.
Ethical Growth Fund	Ethical investing to achieve medium to high returns with a higher risk focus.
World Equity Fund	Ethical investing in global equities to achieve above average long-term risk adjusted returns.

Fund benchmark: A benchmark is an index or security that reflects the market a fund is investing in and assists with measuring performance. Each Fund's performance will be measured against an appropriate benchmark selected by the Manager (which may be changed from time to time). The current Fund Benchmarks are set out in the table below:

Fund	Current Benchmark
Global Responsibility Fund	Morningstar Developed Markets Index (50% hedged to NZ dollars)
Global Water Fund	NASDAQ OMX Global Water Index (50% hedged to NZ dollars)
Global Property Fund	FTSE EPRA Nareit Global Real Estate Index (75% hedged to NZ dollars)
Ethical Trans-Tasman Fund	A 50/50 composite of the NZX50 index / ASX200 Index (50% hedged to NZD)
Ethical Growth Fund	A composite of: 5% Bloomberg NZ Bank Bill Index, 20% Bloomberg Barclays Global Aggregate (100% hedged to NZD), 20% S&P/ NZX50 Gross Index, 20% S&P/ASX200 index (50% hedged to NZD) and 35% Morningstar Developed Markets Net Index (50% hedged to NZD)
World Equity Fund	Morningstar Global Markets Index (50% hedged to NZ dollars)

Monitoring: Fund performance is reported monthly (reports available on the Manager's website: www.path.co.nz). Each Fund is also monitored against its investment objective at least annually by the Manager. This monitoring will involve the following metrics over the relevant period selected by the Manager (currently 3 years):

Fund	Performance monitoring
Global Responsibility Fund	<ul style="list-style-type: none"> • returns after fees and before tax vs the Fund Benchmark • volatility vs the Fund Benchmark • returns after fees and before tax vs the mean or median of a sample of global equity PIE funds
Global Water Fund	<ul style="list-style-type: none"> • returns after fees and before tax vs the Fund Benchmark • volatility vs the Fund Benchmark • returns after fees and before tax vs the mean or median of a sample of global equity PIE funds
Global Property Fund	<ul style="list-style-type: none"> • returns after fees and before tax vs the Fund Benchmark • volatility vs the Fund Benchmark • returns after fees and before tax vs the mean or median of a sample of global property PIE funds
Ethical Trans-Tasman Fund	<ul style="list-style-type: none"> • returns after fees and before tax vs the Fund Benchmark • volatility vs the Fund Benchmark • returns after fees and before tax vs the mean or median of a sample of Australasian equity PIE funds
Ethical Growth Fund	<ul style="list-style-type: none"> • returns after fees and before tax vs the Fund Benchmark • volatility vs the Fund Benchmark • returns after fees and before tax vs the mean or median of a sample of growth PIE funds



Fund	Performance monitoring
World Equity Fund	<ul style="list-style-type: none"> • returns after fees and before tax vs the Fund Benchmark • volatility vs the Fund Benchmark • returns after fees and before tax vs the mean or median of a sample of international equity PIE funds

Investment process: Each Fund's investment strategy has the following key components:

- Asset allocation (see Section 4 below)
- Equity investment (see Section 5 below)
- Currency hedging (see Section 6 below)
- Protection overlay (see Section 7 below)

4 STRATEGY: ASSET ALLOCATION

Asset classes are the different investment groups we use for managing the Funds. These are currently:

Asset class	Examples of investment exposures
Cash and Cash Equivalents	Bank deposits including term deposits.
NZ Fixed Interest	Bonds issued in New Zealand (which includes 'green bonds'). Loans made in New Zealand.
International Fixed Interest	Bonds issued outside of New Zealand which includes international 'green bonds'. Loans made outside of New Zealand.
Australasian Equities	Shares listed on a stock exchange in New Zealand or Australia (such as the NZX or ASX). Listed property shares are not included in this class.
International Equities	Shares listed on a stock exchange outside New Zealand and Australia. Listed property shares are not included in this class.
Listed Property	Property shares listed on a stock exchange.
Other Assets	These are direct investments that are unlikely to be stock exchange listed. These can include investments known as 'impact investments', 'venture capital' and 'private equity'. This category also includes unlisted property, such as direct ownership in property or ownership of property companies that are not listed on a stock exchange.



The **Target Allocation** is the desired or preferred % investment allocation to each asset class and is set by the Manager:

Asset class	Target Asset Allocation					
	Global Responsibility Fund	Global Water Fund	Global Property Fund	Ethical Trans-Tasman Fund	Ethical Growth Fund	World Equity Fund
Cash & Cash Equivalents	0%	0%	0%	0%	5%	0%
New Zealand Fixed Interest	0%	0%	0%	0%	10%	0%
International Fixed Interest	0%	0%	0%	0%	10%	0%
Australasian Equities	0%	0%	0%	90%	40%	0%
International Equities	95%	100%	0%	0%	30%	100%
Listed Property	5%	0%	100%	5%	5%	0%
Other Assets	0%	0%	0%	5%	0%	0%
Total	100%	100%	100%	100%	100%	100%

The **Permitted Range** is the limits each Fund operates inside (any move outside this range must be remedied within 5 business days of the Manager becoming aware):

Asset class	Permitted Range					
	Global Responsibility Fund	Global Water Fund	Global Property Fund	Ethical Trans-Tasman Fund	Ethical Growth Fund	World Equity Fund
Cash & Cash Equivalents	0% - 70%	0% - 70%	0% - 70%	0% - 100%	0% - 100%	0% - 70%
New Zealand Fixed Interest	0% - 20%	0% - 20%	0% - 20%	0% - 20%	0% - 70%	0% - 20%
International Fixed Interest	0% - 20%	0% - 20%	0% - 20%	0% - 20%	0% - 70%	0% - 20%
Australasian Equities	0% - 20%	0% - 20%	0% - 100%	0% - 100%	0% - 70%	0% - 20%
International Equities	30% - 100%	30% - 100%	0% - 100%	0% - 30%	0% - 70%	30% - 100%
Listed Property	0% - 30%	0% - 30%	0% - 100%	0% - 30%	0% - 30%	0% - 30%
Other Assets	0% - 10%	0% - 10%	0% - 10%	0% - 10%	0% - 20%	0% - 10%

Changes: The Manager may change the Target Allocation at any time.

Rebalancing: Actual asset class allocations will frequently differ from the Target Allocation but are to remain inside the Permitted Ranges. The Manager may at any time rebalance a Fund's holding(s) closer to the Target Allocation but is not required to do so.

Other assets: The Funds may hold private assets such as unlisted shares. Currently only the Ethical Trans-Tasman Fund has such holdings. These assets are unlisted and so will not be valued at a traded stock exchange price. Instead these will be valued quarterly by us.



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STRATEGY: EQUITY INVESTMENT

The permitted investments for each Fund have a wide scope in the trust documents. During the current term of this SIPO each Fund may get equity exposure through direct shares, ETFs or through investing in another fund.

Below is a description of how each Fund is invested and the maximum single company exposure. The single company exposure is on a “look through basis”, meaning that if ETFs or other funds are held then the “maximum” applies to each underlying company exposure:

<i>Fund</i>	<i>How each Fund will invest</i>	<i>Maximum single company exposure</i>
Global Responsibility Fund	This Fund currently invests in international equities and listed property through Pathfinder’s wholesale Responsible Investment Fund which (1) targets a portfolio of 200 companies and (2) applies ethical investment screens. Direct stocks and ETFs may also be held.	10%
Global Water Fund	The Fund (1) targets a portfolio of 50 to 100 stocks and (2) applies ethical investment screens.	10%
Global Property Fund	The Fund (1) targets a portfolio of 50 to 100 stocks, (2) applies ethical investment screens and (3) can hold up to 20% in NZ listed property stocks.	10%
Ethical Trans-Tasman Fund	Fund holdings will follow these parameters: (1) a portfolio of 10 to 40 Australasian companies (2) ethical investment screens are applied (3) stocks in a benchmark index can be completely excluded from the Fund.	10% higher than a company’s index weight (ASX 200 or NZX 50 weight)
Ethical Growth Fund	The Fund will invest in a portfolio with a higher exposure to growth assets and a lower exposure to income assets.	10%
World Equity Fund	Investing via ETFs the Manager may make short to medium term tactical asset allocation decisions based on the Manager’s views, which may include (1) the outlook for global markets (2) relative value between markets (3) market valuations (4) event risk and (5) liquidity considerations. The intention is for the Fund to have a highly diversified portfolio of more than 500 underlying exposures.	10%



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STRATEGY: CURRENCY HEDGING

Below are benchmark hedging positions and permitted ranges for hedging in each fund:

	<i>Benchmark hedge position</i>	<i>Permitted Range</i>
Global Responsibility Fund	50%	0% - 110%
Global Water Fund	50%	0% - 110%
Global Property Fund	75%	0% - 110%
Ethical Trans-Tasman Fund	50%	0% - 110%
Ethical Growth Fund	50% of non-NZD equity exposure 100% of non-NZD Fixed Interest exposure	0% - 110% 0% - 110%
World Equity Fund	50%	0% - 110%

Hedging: The benchmark hedge position reflects a “neutral view” or “base position”. For each Fund the Manager may at any time deviate from the benchmark hedge position (and may deviate significantly).

Permitted range: These are the limits each Fund operates inside (any move outside this range must be remedied within 5 business days of the date the Manager becomes aware of the breach of the limit). The permitted range is very wide to accommodate the fact that the Manager seeks to add value through the level of currency hedging. The range also allows for temporary over-hedging scenarios which may occur due to short term currency and equity prices moves.

Currency proxies: While a Fund may have exposure to several foreign currencies, it is not necessary to hedge all currencies. It may be convenient for the USD to be used as a proxy for some or all other currencies.

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STRATEGY: PROTECTION OVERLAY

Purpose: The process for reducing a Fund’s equity exposure below 100% is called the “protection overlay”. The protection overlay is not designed to eliminate losses from all downward market moves. It is intended to reduce (but cannot eliminate) losses from very large and sustained market falls.

Protection tools: The Manager can reduce market risk through a range of tools including using cash holdings, listed futures, listed options and OTC derivative transactions. In each case the reduction in market risk may be stepped.

Currency denomination: The protection tools may be denominated in NZ dollars, US dollars or another currency.

No short positions: The protection overlay does not allow overall net short positions.



8 LIQUIDITY

The majority of the Fund's investments are expected to be highly liquid under normal market conditions. It is possible a Fund could have 'Other Assets' that cannot be sold quickly or easily. These types of assets are expected to only ever be a relatively small percentage of the investments of any Fund.

9 DERIVATIVES

Derivative contracts may be used by the Fund to manage market risk exposure to equities, foreign currencies, interest rates and to other market investment risks. Derivatives can be futures, options or other instruments in any currency, whether listed on an exchange or 'over-the-counter' which means entered into directly with another party.

10 BORROWING

None of the Funds will borrow money to buy investments. There are limited circumstances permitted where borrowing may be used as a liquidity tool, for example (a) to pay Fund expenses or (b) where the Fund has cash deposits higher than the amount being borrowed.

11 VALUATION POLICY

For listed securities daily closing prices from domestic and international markets are used for valuation purposes. Where a Fund holds 'Other Assets' which are not listed then these will be valued by the Manager at least every three months based on commonly used valuation techniques.

12 CUSTODY

Supervisor: The Supervisor of the Scheme is Public Trust (PT). PT is responsible for the supervision of the Scheme and the performance of Pathfinder's duties as manager.

Custody: All assets of the Fund must be held by the Supervisor or an independent third party sub-custodian appointed by the Supervisor (which may not include the Manager). No Fund assets are to be held in the name of the Manager.

13 REVIEW

SIPO review frequency: This SIPO is to be reviewed by the Manager at least once each calendar year. It may be reviewed more frequently and can be changed at any time without prior notice to investors.

SIPO approval: The review process (and on-going changes) will include review and approval by the Pathfinder Investment Committee or the Pathfinder board and consultation with the Supervisor in respect of any changes. Revisions to the SIPO will come into effect on the effective date shown on the front cover.

Other policies: Pathfinder has internal policies that are applicable to the management of the Funds. These include Trade Allocation Policy and Compliance Manual. Each of these policies will be reviewed at least once every two years, or more frequently if required by changes in market conditions, laws or other circumstances. Each review will be signed off by Pathfinder's Chief Executive, and may also be reviewed by the Board and/or the Pathfinder Investment Committee.

14 INTERPRETATION

Some terms used in this SIPO are defined and explained below:

ETF means an exchange traded fund which is a type of investment fund traded on a stock exchange. Investment in an ETF by a Fund is intended to provide (a) diversification through a single investment, (b) operational efficiency and (c) a low cost investment tool.

Property companies are expected to predominantly own industrial, office and retail property but can include other activities (such as trading and development) and other types of real estate assets (such as residential property, medical facilities and storage units). The term "property companies" used in this SIPO includes shares, units or other interests in property entities such as companies, property trusts (REITs) and ETFs.

Water companies cover a wide range of activities including involvement in technical development, manufacturing, construction, ownership, operation and/or consulting for:

- Freshwater and wastewater utilities
- Water filtration and purification
- Water pumps, pipes and irrigation systems
- Water analysis, testing, measurement and monitoring technology
- Resource management
- Water infrastructure

Some water companies may also have business activities not related to the water industry (meaning they may not be purely a water industry exposure).





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