Adopted by the Trustee

on: 29 November 2019

Signed:

Ireen Muir
Head of Client Services
Corporate Trustee Services
Public Trust
Wellington

Employee Retirement Plan

SIPO

Statement of Investment Policy and Objectives

Contents

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Introduction

This Statement of Investment Policy and Objectives ("SIPO") applies to the Employee Retirement Plan ("Plan").

Principal Purpose

The principal purpose of the Plan is to provide retirement benefits for members.

Independent Trustee

The Independent Trustee of the Plan is Public Trust ("Trustee").

Investments

The Plan currently offers members a choice of four different Investment Options, to provide members with a range of expected risk and return outcomes:

1. Cash
2. Stable
3. Balanced
4. Growth

The Trustee has elected to delegate the investment programme to an Investment Consultant.

Asset Base

The total market value of the Plan's investment assets (as at 30 September 2019) was $696.6 million.

Effective Date

This SIPO takes effect on 20 November 2019.

Review Date

The review date of this SIPO is anticipated to be no later than November 2020 or sooner if market conditions warrant or the investment structure is altered. Changes to this SIPO are undertaken by the Trustee.

Availability

The most current version of this SIPO is available on the register entry for the Plan on the Disclose website at www.business.govt.nz/disclose.

Trust Deed

The Plan is currently expected to continue indefinitely and is governed by a Trust Deed dated 30 August 2002 as amended.

The Trust Deed provides the Trustee with broad authority to invest the Plan's assets. The Trustee shall manage the Plan in a manner expected to ensure the continuing compliance with the Trustee Act 1956, the Financial Markets Conduct Act 2013 ("FMCA") and any other relevant legislation.

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Roles and Responsibilities

Trustee

The Trustee is responsible for the investment of the Plan's assets, in accordance with legislative requirements, the Trust Deed and this SIPO.

The **Trustee** is responsible for the following:

- Maintaining the investment governance framework, including investment beliefs and investment policies
- Determining the number of Investment Options and the broad risk and return profile for each Option and regularly reviewing these
- Appointing an Investment Consultant to provide advice to the Trustee in respect of its responsibilities and to implement the investment programme
- Safe custody of the investment assets
- Monitoring investment performance relative to objectives
- Satisfying reporting requirements under the FMCA and related legislation and guidance notes
- Monitoring and reporting on the compliance of the Investment Consultant with its Investment Product's governing documents and guidelines
- Ensuring compliance with this SIPO
- Reviewing this SIPO annually.

Investment Consultant

The Trustee believes that an **Investment Consultant** can assist the Trustee with its responsibilities and is best placed to implement the investment programme, including designing investment strategies, selecting investment managers, managing the assets of the Plan and investment administration.

The **Investment Consultant** is responsible for the following:

- When requested by the Trustee, evaluating the appropriateness over time of the number of Investment Options, the investment strategy of each Option, and the investment approach
- Establishing and managing an Investment Product suitable for the implementation of the Plan's investments, including:
  - Maintaining governing document(s) that include guidelines setting out eligible investments, performance measures, constraints and exposure limits, derivative limits, monitoring and reporting requirements
  - Offering sufficient and suitable investment funds required by the Plan
  - Researching and selecting underlying investment managers

- Managing the assets of the Plan in accordance with the signed agreement between the Plan and the Investment Consultant, and in accordance with the governing documents of the Investment Product, including:
  - Regularly reviewing the strategic asset allocation for each investment fund offered under the Investment Product
  - Monitoring the investment performance of the investment funds and the underlying investment managers against the objectives set out in the governing documents and associated agreements
  - Monitoring the asset allocation of each investment fund and rebalancing as appropriate, incorporating the application of any dynamic asset allocation tilting
  - Regularly reviewing the underlying investment managers and replacing these as appropriate
  - Daily unit pricing of the Investment Product investment funds
- Certifying:
  - Compliance (or otherwise) on a quarterly basis with the governing documents of the Investment Product
  - Whether or not the Investment Consultant is aware of any breach of this SIPO.

Supplying investment reports to the Trustee including:

  - The provision of investment data to enable the Plan to fulfil its obligations under the FMCA
  - Investment performance of the Plan's Investment Options comparing these to their performance objectives
  - Updates on the Investment Product, including changes to:
    - The investment funds on offer
    - The asset allocation of the investment funds
    - Underlying investment managers
    - Material investment exposures
  - Market events and changes that may affect the manner in which the Plan's assets should be invested

- At the Trustee's request, attending Trustee meetings to present the reports
- Assisting the Trustee in the review of this SIPO.

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Investment Philosophy and Process

Investment Beliefs

The Trustee believes that a set of well-founded investment beliefs provides a sound foundation for investment success.

- Effective governance and efficient management can reduce costs and risks, and lead to better investment outcomes
- Risk and return are related. Over the long term investors are rewarded for taking on additional risk
- Broad diversification among asset classes is the cornerstone of modern portfolio management. The differing characteristics of the varying asset classes provide risk-reducing benefits from diversification when they are aggregated into a total portfolio
- Asset allocation has a greater impact on investment returns than decisions concerning which specific securities to invest in
- Taking a sustainable investment view is more likely to create and preserve long-term investment capital
- Markets are behavioural in nature and not always perfect. Active management of securities and asset allocation can sometimes (but not always) add value and reduce risk
- External investment specialists are able to offer greater resources and flexibility in relation to investment strategy design and implementation than non-specialists.

Investment Approach

Reflecting the investment beliefs set out above:

- The Plan is a long-term investor
- An Investment Consultant will be used to assist in the design of the investment strategy and the implementation of the investment programme
- The Trustee will seek an Investment Consultant with investment beliefs that align with its own
- In particular, the Trustee will seek an Investment Consultant that, in implementing the investment programme:
  - Adopts a well-diversified approach, across asset classes, types, geographies, sectors, and managers
  - Avoids unnecessary costs and complex structures
  - Prefers specialist managers

- Favours active management, but where considered appropriate, uses passive management

- As a long-term investor, emphasis will be given to monitoring the Plan's investment strategy and implementation over the medium-to-long term, although short-term monitoring also has an important role in providing guidance to the Trustee about progress.

Investment Process

The Trustee, assisted by the Investment Consultant, determines the appropriate number of Investment Options for the Plan's members, and the broad risk and return profile for each Investment Option.

The Trustee has determined to invest each Investment Option directly into corresponding investment options ("Benchmark Funds") offered by the Investment Consultant.

As such, the Trustee has delegated determination of the performance objective, risk profile, strategic asset allocation, dynamic asset allocation tilting and underlying investment managers to the Investment Consultant.

The Investment Consultant manages the assets of each Investment Option in an Investment Product. Details of the current Investment Product and the Benchmark Funds are set out in Schedule 1.

Setting investment strategy

The methodology used by the current Investment Consultant in developing the investment strategy for the Benchmark Funds involves, as a first step, consideration of:

- Expected risk and return relative to the performance objectives and risk profile
- The overall composition of the investments including the adequacy of diversification
- The liquidity of selected investments having regard to expected cash flow requirements
- Expected tax consequences
- Associated costs of investing and any other relevant matters.

Various strategies, or asset allocations, are modelled with reference to these considerations and their ability to deliver on the investment objectives. A favoured strategic asset allocation ("Benchmark Portfolio") is then identified for each investment option.

The Investment Consultant formulates capital markets forecasts and employs proprietary modelling tools to support these processes. As part of this process, the Investment Consultant also stress-tests the investment strategies to uncover how they might perform under different scenarios.

Reviewing the investment strategy

The investment strategies are periodically reviewed, with a formal strategy review at least every three years. The purpose of the review is to ensure an appropriate balance between risk and return and to maximise the likelihood of achieving the stated objectives. Asset allocation modelling is also undertaken on potential alternative asset allocations to assess the impact of possible changes.

The analysis used to test the appropriateness of the investment strategies (and any alternative strategies), estimates, among other metrics, the likelihood that each strategy will achieve the performance objectives, the expected return, expected volatility and the probability of a negative return.

Any recommended changes are supported by detailed analysis setting out the rationale for changes and the expected impact on the Plan.

Potential enhancements considered in formal reviews may include:

- The addition of a new asset class or a new type of investment
- Incorporation of new research from the Investment Consultant
- Investment environmental factors, including significant market events
- Long-term market/industry trends and the outlook for growth.

Dynamic Asset Allocation

The Benchmark Funds in which the Investment Options invest (except the Cash Option) employ the current Investment Consultant's Dynamic Asset Allocation (DAA) process. The DAA process is designed primarily for risk control, capital preservation, and incremental value-add.

The current Investment Consultant's DAA team meets regularly to consider its views on various asset classes. The process incorporates a range of valuation, momentum and sentiment measures in an effort to identify market dislocations and mispricing that may persist for several years (a time horizon that many active managers struggle to exploit). The process targets a time horizon of one to three years.

DAA assessments 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.

This DAA approach aims to produce a more stable pattern of returns for the relevant investment option, especially during unstable market periods.

Manager Selection and Review

The Investment Consultant is responsible for researching, selecting, monitoring, reviewing and, if considered appropriate, replacing, the underlying investment managers.

The current Investment Consultant 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 investment option, and which is consistent with the risk profile of each investment option.

The underlying investment managers' roles will be reviewed by the Investment Consultant on a periodic basis. Factors taken into account in these reviews will include investment style, people, processes, organisational strength, investment performance relative to objectives, and any other factors considered relevant to the investment manager's continuing ability to meet the applicable investment objective.

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Objectives

The Plan was established to provide retirement benefits for members.

Investment Objectives

The primary investment goals underlying the investment policy for the Plan are to:

- Enable members with different risk and return requirements to choose from a simple range of investment options
- Maximise long-term investment returns, subject to constraints aimed at containing fluctuations in returns over shorter periods within acceptable limits.

The Plan currently offers members a choice of four different Investment Options, to provide members with a range of expected risk and return outcomes:

1. Cash
2. Stable
3. Balanced
4. Growth

The Trustee has determined to invest each Investment Option directly into corresponding investment options ("Benchmark Funds") offered by the Investment Consultant.

Performance Objectives

The performance objectives of the Benchmark Funds are set by the Investment Consultant.

Details of the performance objectives for the Benchmark Funds (and therefore, for the Plan's Investment Options) are specified in Schedule 2.

Risk Profiles

The risk profiles of the Benchmark Funds are set by the Investment Consultant.

The risk profiles of the Benchmark Funds (and therefore the Plan's Investment Options) are specified in Schedule 2.

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Investment Strategy

The assets of the Plan will be diversified across different asset classes to reflect the risk profile and performance objectives of the Plan.

Permitted Investments

The Plan can be invested in the following general asset classes:

- New Zealand equities, incorporating an allocation to Australian equities (recognising the close economic relationship with Australia)
- Global equities, focusing on large capitalisation stocks from developed markets, but possibly also including emerging market, small capitalisation and low volatility equities
- Global property and infrastructure, including both listed and direct investments
- Natural resources, which can be sub-categorised into timber and commodities
- Alternatives, which can include allocations to hedge funds
- New Zealand fixed interest, which can be sub-categorised into sovereign and non-sovereign
- Global fixed interest, which can be sub-categorised into sovereign and non-sovereign
- Other fixed interest
- New Zealand Cash.

The Plan may also invest in managed funds/collective investments, which the Trustee considers fall within one of the above general asset classes.

Strategic Asset Allocation

The Investment Consultant is responsible for setting the strategic asset allocation (Benchmark Portfolio) of the Benchmark Funds. The current strategic asset allocations for the Benchmark Funds the Trustee has elected to invest in are set out in Schedule 3.

The exposures to the various asset classes will be monitored, taking into account the underlying exposures in any pooled investment vehicles and the impact of futures and options on an effective exposure basis.

Date

The Strategic Asset Allocation set out in Schedule 3 applies from the date of this SIPO.

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Investment Policies

General

In taking decisions on investment strategies, the Trustee will have regard to the overall circumstances of the Plan, and will comply with all applicable legislative requirements.

Dynamic Asset Allocation

Dynamic Asset Allocation ("DAA") can be thought of as asset allocation positioning that lies between very short to short term allocation (tactical asset allocation) and long term allocation (SAA) decisions. DAA involves the deliberate positioning of asset allocations away from the SAA in view of medium term expectations for the performance of different asset classes.

The Investment Consultant will apply its DAA process to the Benchmark Funds in which the Plan Investment Options invest.

It is important to note that the DAA process aims to be defensive in nature, with the primary aim being to provide an additional level of risk management to the SAA. In this sense it aims to smooth out overall returns over a full market cycle.

Rebalancing

The Investment Consultant is responsible for rebalancing the asset allocations within each Benchmark Fund in accordance with the following:

- The exposures to the various asset classes will be monitored, taking into account the underlying exposures in any pooled investment vehicles and the impact of futures and options on an effective exposure basis.
- The Benchmark Funds will be rebalanced back towards the target weights (Benchmark Portfolios as adjusted by any DAA tilts) on a regular basis.
- The regular cashflow to and from members provides an opportunity to assist in rebalancing the Investment Options towards target weights, by directing the outflows to the overweight asset class(es) and any inflows to underweight asset class(es).
- Rebalancing can also be undertaken by selling overweight asset classes to fund underweight asset classes.
- The Investment Consultant, within 5 business days of being aware of asset allocation ranges being exceeded, must reweight the Benchmark Funds to be within the permitted ranges. If the reweighting does not occur within this timeframe then the Investment Consultant must report to the Trustee, which in turn must report to the Financial Markets Authority ("FMA") as soon as practicable pursuant to regulation 94 of the Financial Markets Conduct Regulations 2014 (and provide the information prescribed in regulation 96).
- A breach of a rebalancing range resulting from market movements that is corrected within 5 working days will not be deemed material for limit break

reporting purposes (see Section 8). However, these must be advised to the Trustee as soon as reasonably practicable.

Liquidity Requirements

The Trustees require liquidity to meet payment obligations that include:

- Member withdrawals
- Fees and expenses
- Taxation
- Forward foreign exchange commitments
- Rebalancing

The Trustees require a high degree of confidence that during any periods of extreme market volatility, liquidity demands can be met.

The Trustee has assessed the Benchmark Funds and is comfortable that the liquidity is sufficient for the Plan Investment Options. The Benchmark Funds are primarily invested in liquid assets such as listed shares, bonds and cash. Units in the investment funds within the Investment Product are priced daily.

Illiquid Investments

However, the Trustee acknowledges that illiquid investments can have an important role to play in diversifying sources of risk and return and assisting to smooth asset valuations.

Illiquid investments can take many forms, including direct property, private equity, unlisted funds (such as infrastructure) and timber. In addition to offering a (possible) return premium and less volatility, these assets typically possess different risks to liquid or listed investments, have higher fees, present valuation challenges and require more intensive governance.

The Trustee notes that a level of assets within the Real and Alternative Asset segments of the Benchmark Funds is of an illiquid nature.

Plan members can manage their exposure to illiquid assets through their choice of Investment Option.

Taxation Policy

The Investment Product operates as a Portfolio Investment Entity ("PIE") with the Manager calculating and paying tax on investment income that needs to be paid on behalf of investors under the PIE tax rules.

The Trustee has elected a Prescribed Investor Rate of 28%.

Currency Policy

Currency risk is the risk that foreign currency denominated assets will lose value as the result of an adverse exchange rate movement. Unmanaged currency movements can have a material impact on investment returns over the short term.

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

The Currency Policy is the responsibility of the Investment Consultant and is developed and reviewed as part of the investment strategy for the Benchmark Funds. The Investment Consultant is responsible for implementing currency hedging in accordance with its Currency Policy.

The current Currency Policy is set out in Schedule 3.

Derivatives Policy

Derivatives may be used by the Investment Consultant for purposes including risk management, prudent investment management and to assist the realisation of fund objectives.

In order to manage risks associated with the use of derivatives, the Trustee expects the Investment Consultant to maintain a Derivatives Policy setting out the circumstances in which derivatives can be used and where appropriate, setting out the circumstances in which derivatives are not to be used.

Risk Management Policy

The Plan's assets are exposed to different risks that will lead to variations between the actual and expected returns. Plan members ultimately bear the investment risk, as fluctuations in investment performance results, over time, directly affect members' benefits.

The future is uncertain and investment markets are unpredictable. Uncertainty creates both risks and opportunities. Because of this, the Plan has delegated investment to an Investment Consultant that invests in a wide variety of assets. These assets are diversified by type, location and risk factors. Further, they are also managed by a number of specialist investment managers, which helps to mitigate risks and take advantage of opportunities.

The Trustee expects the Investment Consultant to maintain a Risk Management Policy to address risks inherent in both general investing and in relation to its own approach to investment management.

Further, the Trustee regularly monitors the Investment Consultant and the Investment Options with a view to risk management.

Related Party Policy

The Plan is prohibited from entering into a transaction that provides for a related party benefit to be given, unless the benefit is permitted under section 173 of the FMCA.

Sustainable Investment Policy

The Trustee, in its fiduciary duty to the Plan, is conscious of its obligations as an asset owner and the growing awareness of the importance of investing in a sustainable fashion with a focus on the long-term.

Consistent with its beliefs, the Trustee expects the Investment Consultant to manage the assets of the Plan with a view to long term capital creation and preservation, and to maintain its own Sustainable Investment Policy. Where appropriate, the Investment Consultant will endeavour to develop its investment practices consistent with evolving thinking regarding the significance of environmental, social and governance factors within the decision-making process.

Voting Policy

The Investment Consultant is responsible for voting as part of its investment management responsibilities.

Consistent with its beliefs, the Trustee expects the Investment Consultant to maintain a Voting Policy and to exercise all voting proxies for securities owned on its behalf in the best interests of the Plan.

Investment Guidelines

The investment guidelines and constraints of the Plan will be determined by the guidelines and constraints contained in the governing documents of the Investment Product into which the Plan invests.

The Investment Product governing documents shall include guidelines setting out eligible investments, performance measures, constraints and exposure limits, derivative limits, monitoring and reporting requirements.

Any direct investment in Participating Employers is required to be reported to the Trustee by the Investment Consultant in quarterly investment reports and is subject to the related party transactions and in-house assets restrictions in sections 172 to 177 of the Financial Markets Conduct Act 2013, which apply to the Plan as an employer-related workplace savings scheme.

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Investment Performance Monitoring

Monitoring Goals

This policy describes the principles and processes governing investment performance monitoring having regard to the investment strategies of the Plan.

The principal goals of performance monitoring are to:

- Assess the extent to which the Plan's investment objectives are being achieved
- Assess the extent to which the Plan' risk profile is being adhered to
- Compare the performance of the Plan's appointed Investment Managers against market indices, out-performance targets, and the performance of other relevant professional managers
- Ascertain the existence of any particular weakness in the Investment Product
- Allow the Trustee to continually assess the ability of the Investment Consultant and the Investment Product to successfully meet the Plan's objectives.

Plan Performance

The Trustee will regularly monitor performance of the Plan's Investment Options. Performance will be assessed against:

- The Plan's investment objectives
- The performance objectives of the Benchmark Funds
- Peers

From time to time the Trustee will also assess the Investment Options against their intended Risk Profile.

The Investment Consultant will provide monthly updates and quarterly monitoring reports to the Trustee.

Investment Consultant Performance

The role of the Investment Consultant and the Investment Product will be reviewed by the Trustee on a periodic basis. Factors taken into account in these reviews will include investment style, resources, processes, organisational strength, investment performance relative to objectives, fund manager selection process and any other factors considered relevant to the Investment Consultant's continuing ability to meet the Plan's objectives.

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Limit Breaks

The Financial Markets Conduct Act 2013 requires reporting of material breaches of the SIPO (limit breaks) to the FMA.

For the purposes of compliance with the legislation, the Trustee's compliance monitoring will include:

- Asset allocation – to ensure the Investment Options' asset allocation does not fall outside the Ranges, including currency exposure
- Related Party transactions – to ensure the Plan does not invest in a Participating Employer without the knowledge of the Trustee or in contravention of legislation.

Materiality

Whether or not a breach of this SIPO is material is determined at the discretion of the Trustee. In considering whether or not a breach is material, the Trustee will give consideration to:

- The nature of the breach
- The cause of the breach, including whether or not the breach is the result of sharp short-term market movements
- The size of the breach.

A breach of a range resulting from market movements, which is corrected within 5 business days, will not ordinarily be considered material for limit break reporting purposes.

Monitoring process

The Trustee will monitor the Plan for compliance on a monthly basis, including:

- Reporting from the Investment Consultant certifying :
  - Compliance with the governing documents of the Investment Product
  - Whether or not the Investment Consultant is aware of any breach of this SIPO; including a summary of any limit breaks during the period
- Reporting from the Investment Consultant regarding the asset allocation of the Plan's investments, including currency exposure

Resolution and Reporting

The Trustee will maintain a Compliance Register to record any breaches.

Where the Trustee becomes aware of a breach, the Investment Consultant will be instructed to remedy the breach immediately.

Where the Trustee determines that a material breach of this SIPO has occurred and that breach is not resolved within 5 business days, the Trustee will immediately report the limit break to the FMA, otherwise the Trustee will report the limit break to the FMA each quarter.

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Review

Effective Date

This SIPO takes effect from 20 November 2019.

Review Date

The review date of this SIPO is anticipated to be no later than November 2020 or sooner if market conditions warrant or the investment structure is altered.

Review Process

The Trustee is responsible for the review of this SIPO.

Schedule 1

Investment Implementation

Investment Consultant:	Mercer (N.Z.) Limited ("Mercer")
Investment Product:	Mercer Investment Trusts New Zealand ("MITNZ")
	The Trustee of the MITNZ is Mercer Investment New Zealand Limited. Mercer is the Manager of the MITNZ.

The Trustee has determined that each Investment Option will invest directly into the following MITNZ Investment Portfolios (Benchmark Funds):

ERP Investment Options	MITNZ Investment Portfolios
Cash	Mercer Cash
Stable	Mercer Conservative
Balanced	Mercer Balanced
Growth	Mercer Growth

In choosing to invest directly into the MITNZ Investment Portfolios, the Trustee has determined that the performance objective, risk profile, strategic asset allocation, dynamic asset allocation tilting process and make-up of underlying investment managers of the MITNZ Investment Portfolios are appropriate for the ERP Investment Options.

Schedule 2

Investment Objectives

Investment Objectives

In selecting to invest directly in the Benchmark Funds, the Trustee notes the investment objectives for the Benchmark Funds become the investment objectives for the Plan's Investment Options as follows:

In setting its 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 (a return after tax and investment related fees in excess of inflation as measured by consumer price index increases) specified in the table below. The objectives are reviewed from time to time to ensure reasonableness.*

In addition, for each Fund, outperformance will be sought relative to the return of the Benchmark Portfolio over periods of one year and longer.

Multi-sector, diversified Benchmark Funds	Target net real rate of return (% p.a.)	Investment timeframe	Additional Objective
Conservative	0.75	At least 3 years	Outperform the relevant benchmark over periods of 1 year and longer periods
Balanced	2.25	At least 7 years	
Growth	2.75	At least 8 years	

* Tax at 28% Prescribed Investor Rate

For single sector Funds, where a standard industry Benchmark Portfolio exists, that Benchmark Portfolio, or combination of relevant Benchmark Portfolios, has been used as the return objective.

Each single-sector Fund aims to achieve the investment objective described below.

Single-sector Benchmark Fund	Investment Objective
Cash	Outperform the relevant Benchmark Portfolio over 1 year and longer

The return of the Benchmark Portfolio for each Fund is calculated using the weighted return of each asset class (given by the relevant indices shown in Schedule 4) and the specific Benchmark Asset Allocation asset class weights of each Fund shown in Schedule 3). To do this, each publicly available index return must be sought for the relevant period, then multiplied by the weight of that asset class. This is then used to calculate the return of the Benchmark Portfolio.

Risk Profile

In selecting to invest directly in the Benchmark Funds, the Trustee notes the risk profiles for the Benchmark Funds become the risk profiles for the Plan's Investment Options as follows:

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*
- *Concentration in sources of risk.*

Schedule 3

Strategic Asset Allocation

The strategic asset allocation for each of the Benchmark Funds (with effect from 1 August 2018) is as follows:

	BENCHMARK FUND			
Asset Class/ Sector	Cash	Conservative	Balanced	Growth
Trans-Tasman Shares	-	5.0	10.0	12.0
Overseas Shares		8.8	18.5	28.6
Overseas Shares Low Volatility		2.2	3.6	5.5
Overseas Shares Small Caps		-	2.8	4.4
Emerging Markets Shares		-	3.6	5.5
Total Overseas Shares	-	11.0	28.5	44.0
Total Shares (excluding Listed Real Assets)	-	16.0	38.5	56.0
Listed Property Shares		0.9	3.0	3.5
Unlisted Property		0.9	3.0	3.5
Listed Infrastructure Shares		0.9	3.0	3.5
Unlisted Infrastructure		0.9	3.0	3.5
Natural Resources		0.5	1.5	2.0
Total Real Assets investments	-	4.0	13.5	16.0
Alternative investments	-	-	3.0	3.0
NZ Sovereign Bonds		15.0	10.0	5.0
Overseas Sovereign Bonds		18.5	12.0	7.0
Global Credit		13.5	8.0	5.0
Other Fixed Interest		3.0	5.0	4.0
Total Fixed Interest		50.0	35.0	21.0
Total Cash	100.0	30.0	10.0	4.0
Total	100.0	100.0	100.0	100.0
Growth Investments	0	20	55	75
Defensive Investments	100	80	45	25

Benchmark Ranges

Asset Class/ Sector	Cash	Conservative	Balanced	Growth
Trans-Tasman Shares	-	0 – 10	0 – 20	2 – 22
Global Shares	-	6 – 16	18.5 – 38.5	29 – 59
Real Assets investments	-	0 – 10	3.5 – 23.5	6 – 26
Alternative investments	-	-	0 – 10	0 – 10
Fixed Interest	-	35 – 65	20 – 50	11 – 31
Cash	100	20 – 50	0 – 25	0 – 20
Growth Investments	-	5 – 35	40 – 70	60 – 90
Defensive Investments	-	65 – 95	30 – 60	10 – 40

Currency Hedging

Asset Class/ Sector	Benchmark	Active Management Range (Target)
Global Shares [1]	50	0 – 100
Real Assets investments[2]	100	-
Global Fixed Interest[3]	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% 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.

[3] 100% hedged to NZ$ on a net of tax basis for a 28% tax payer.

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 the Funds as part of the Dynamic Asset Allocation process. This implies that the 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) and each MITNZ Investment Manager must comply with these requirements. The Dynamic Asset Allocation process, as detailed in Section 3, establishes the target level of currency exposure. This is then monitored using Mercer's daily cash flow model.

Schedule 4

Asset Class Benchmark Indices, Tax Treatment and Hedging

The Benchmark Indices for the Benchmark Funds (as at the date of this SIPO) are as follows:

The table below details indices for each asset class that are used to calculate the Benchmark Portfolio return that the Funds will be measured against. It also details the current tax treatment and the current NZD strategic hedging level.

The return of the Benchmark Portfolio for each Fund is calculated using the weighted return of each asset class (given by the relevant indices shown below and the specific Benchmark Asset Allocation asset class weights of each Fund).

Asset Class	Benchmark Indices	Current Tax Treatment	Current NZD Strategic Hedging Level (before tax)[2]
Trans-Tasman Shares	S&P/ NZX 50 Index with Imputation Credits	-[1]	-
Unhedged Overseas Shares	MSCI World Index with net dividends reinvested in NZD	FDR	0%
Hedged Overseas Shares	MSCI World Index with net dividends reinvested (100% hedged to NZD on an after tax basis)	FDR	139%
Overseas Low Volatility Shares	MSCI World Minimum Volatility Index with net dividends reinvested in NZD	FDR	0%
Overseas Small Companies	MSCI World Small Cap Index Net Dividends Reinvested Index in NZD	FDR	0%
Emerging Markets	MSCI Emerging Markets Index in NZD	FDR	0%
Listed Property	FTSE EPRA/NAREIT Developed Index (with net dividends reinvested) (100% hedged to NZD on an after tax basis)	FDR	139%
Unlisted Property	Composite: 70% MSCI/Mercer 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]
Listed Infrastructure	FTSE Global Core Infrastructure 50/50 Index with net dividends reinvested (100% hedged to NZD on an after tax basis)	FDR	114%

Unlisted Infrastructure	MSCI Australia Quarterly Private Infrastructure Fund Index (100% hedged to NZD on an after tax basis)	FDR	139%[3]
Natural Resources	Bloomberg Commodities Index Total Return (100% hedged to NZD on an after tax basis)	FDR	139%[3]
New Zealand Sovereign Bonds	S&P/NZX NZ Government Bond Index	CV	-
Overseas Sovereign Bonds	JP Morgan Global Government Bond Index Global (100% hedged to NZD on an after tax basis)	CV	100%[3]
Global Credit	Composite: 60% Bloomberg Barclays Global Aggregate Corporate Index (100% hedged to NZD on an after tax basis); 40% Bloomberg Barclays Global Aggregate ex-Treasury ex-Government Related Index (100% hedged to NZD on an after tax basis)	CV	100%[3]
Cash	S&P/ NZX Bank Bill 90-day Index	CV	-
Alternative Investments	HFRI FOF: Market Defensive Index (100% hedged to NZD on an after tax basis)	FDR	100%
Other Fixed Interest	S&P/ NZX Bank Bill 90-day Index	CV/ FDR	

[1] NZ Equities 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