



THE RETIRE FUND

STATEMENT OF INVESTMENT POLICY AND OBJECTIVES

10 AUGUST 2016

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1. INTRODUCTION

This Statement of Investment Policy and Objectives (“**SIPO**”) applies to The Retire Fund (“**Fund**”).

The SIPO provides a complete standalone picture of the investment policy and objectives of the Fund.

The SIPO:

- specifies the Trustee’s overall investment objectives for the Fund;
- details the Fund’s investment strategy;
- allocates responsibilities between the Trustee and its Investment Committee;
- specifies the terms of the investment mandates and constraints to be observed by the Investment Committee; and
- details the process to follow in the event of a breach of the SIPO.

This SIPO takes effect on the date that the Trustee elects under clause 19(1)(a) of Schedule 4 to the Financial Markets Conduct Act 2013 (“**FMC Act**”) to be the date that the Fund is treated as a registered scheme under that Act. The next review of the SIPO is anticipated to be no later than November 2017. However, in the event of a major change in the profile of the Fund’s members or a major event impacting the Fund’s investments the Trustee will consider reviewing the SIPO earlier.

The SIPO has been prepared with the assistance of an external investment consultant.

When the Trustee adopts the FMC Act with respect to the Fund, a copy of this SIPO will be made available on the register entry for the Fund (on the Disclose website www.business.govt.nz/disclose).

1.1 Fund details

The Fund is a defined contribution retirement scheme and its primary purpose is as a retirement savings vehicle for clergy and other workers of the Anglican Church and other associated religious organisations.

The Fund was established by a trust deed dated 11 June 1991 and is governed by a consolidated trust deed dated 11 June 1991 as amended from time to time.

Under the FMC Act, the Fund is designated as:

- a restricted workplace savings scheme in respect of all members other than the private member category; and
- a restricted legacy superannuation scheme in respect of private members.

The Fund is no longer open to new members.

The Fund provides lump sums to its members on and during retirement or when ceasing membership prior to retirement.

The Fund offers two investment pools for members to invest in - the Balanced Pool and the Conservative Pool ("**Investment Pools**"). Members can invest in either Investment Pool or a mix of both Investment Pools.

1.2 **Trustee**

The FMC Act requires the Trustee to exercise the care, diligence and skill that a prudent person whose profession or business is (or includes) acting as a trustee or investing money on others' behalf would exercise in the same circumstances.

The key responsibilities of the Trustee, as they relate to the investments made by the Fund, are:

- to maintain an investment governance framework;
- to agree investment beliefs and an investment process;
- to set investment objectives and risk tolerances for each Investment Pool;
- to determine an investment strategy (including benchmark asset allocations and permitted ranges) for each Investment Pool;
- to implement that investment strategy; and
- to monitor each Investment Pool's performance and compliance with strategic limits.

The Trustee of the Fund is The New Zealand Anglican Church Pension Board ("**Board**").

1.3 **Investment Committee**

The Board has devolved the exercise of its power of investment, but not its investment responsibilities, to an Investment Committee of the Board ("**Committee**"). The Committee is appointed in accordance with section 4.9(a) of Title B Canon XIV, part of the Code of Canons of the Anglican Church.

The Committee must comply with the investment policies set by the Board.

The Committee has developed a Policies, Authorities and Limits ("**PALS**") document which sets out the context within which it works.

The Committee maintains a conflicts of interest policy and each Committee member is required to disclose interests which the member believes may have the potential to lead to conflicts or may be relevant to the perception of their conduct as a member of the Committee.

The Committee implements the investment strategy for each Investment Pool by investing that Investment Pool's assets (excluding forests and forest land) in The New Zealand Anglican Church Pension Board Investment Trust ("**Investment Trust**"), an underlying investment fund of which the Board is trustee and which is managed by the Committee.

The Board employs professional investment management staff who invest most of the Investment Trust's investments directly on behalf of the Committee. The Board's management are also accountable for:

- monitoring all aspects of the Fund's investments and reporting on a quarterly basis to the Committee;

- confirming on a quarterly basis whether the Fund's investments comply with the SIPO; and
- advising on the appointment of any external fund managers and on the overall strategy and tactical asset allocation for each Investment Pool.

2. INVESTMENT PHILOSOPHY

The Board stresses capital preservation, diversification and endeavouring to enhance returns for a range of risk profiles.

The Board aims to add value by making active decisions on investments over time. The Board believes that although investment markets are generally efficient, asset prices do not always reflect fair value and investors do not always behave rationally.

The Board recognises that long term strategic asset allocations will be the prime source of investment returns. Where appropriate, the Board seeks to add further value via stock selection.

This philosophy governs the basis on which the Committee implements the investment strategy for each Investment Pool on behalf of the Board. The investment results are monitored with this philosophy in mind.

2.1 Ethical investment policy

The Board endeavours to avoid direct investments:

- in the armament manufacturing industry, gaming industry, tobacco industry, pornography industry and breweries;
- which result in unnecessary exposure to companies whose primary focus is the extraction and production of fossil fuels (subject to retaining the ability to hedge energy price risk);
- where the activities of the individuals in key positions raise serious ethical concerns;
- in companies with a poor environmental record or consistently bad industrial relations; and
- where management appears to be excessively concerned with its own remuneration.

This policy does not preclude investment in tracker funds, or in diversified or composite equity funds, alternative strategy funds or fixed interest funds, for the purpose of gaining diversification. If the Fund invests in any of those types of diversified products, to that extent it may indirectly invest in assets which do not meet the ethical criteria set out above.

The Board acknowledges that, as a fiduciary, there are limitations on its ability to exclude investments. The Board's Ethical Investment Policy can be found at the following website: <https://www.acpb.org.nz/publications/Ethics.pdf>.

3. INVESTMENT STRATEGY & OBJECTIVES

3.1 Setting the investment strategy

Establishing an investment strategy involves ensuring alignment between the Board's agreed investment objectives and the structure of the Fund's investments. The strategy setting process includes consideration of:

- expected risk and return relative to the objectives for the Investment Pools;
- the overall composition of the investments held for the Investment Pools (including the adequacy of diversification);
- the expected liquidity of selected investments
- availability and reliability of valuation information; and
- associated costs of investing and other relevant matters.

The investment strategy is formulated with reference to the Board's risk and return objectives for the Investment Pools, as well as the considerations listed above.

The investment strategy is reviewed every three years, and more frequently if required. Normally, an independent consultant is engaged to produce a report recommending one or more investment strategies for each Investment Pool. The report is discussed by the Committee which makes recommendations to the Board accordingly.

3.2 Objectives

Balanced Pool

The Board's objective for the Balanced Pool is to achieve medium returns over a long term horizon by accepting a medium degree of risk. The Board does this by investing in a diversified range of growth assets (shares, private equity, forests and forest land) and income assets (cash and short term deposits, fixed interest and mortgages) with the allocation to growth assets equal to the allocation to income assets (50%/50%).

Conservative Pool

The Board's objective for the Conservative Pool is that there is the highest possible level of income for short, medium and long term investment with the least possible capital loss. The Board does this by investing in a diversified range of income assets (cash and short term deposits, fixed interest and mortgages).

Measurement

In assessing performance against the investment objective for each Pool the Board has regard to the performance of each asset class against the relevant benchmark (if any) for that asset class, as described in section 5 below. In addition, the Board assesses the overall performance of each Pool against a number of measures, including the rate of inflation (on a rolling 3 year basis) and other benchmarks.

3.3 Risk level

The Balanced Pool has been assessed as having a risk category of 3 (where 1 is 'very low' and 7 is 'very high') with an annualised standard deviation in returns of 2% or more but less than 5% over the 5 years ended on 30 June 2016. This correlates to 'medium' volatility.

The Conservative Pool has been assessed as having a risk category of 2 (where 1 is 'very low' and 7 is 'very high') with an annualised standard deviation in returns of 0.5% or more but less than 2% over the 5 years ended on 30 June 2016. This correlates to 'low' volatility.

3.4 Investment strategy

The Board aims to meet its investment objectives for each Investment Pool by investing in accordance with the benchmark (i.e. target) asset allocations and ranges set out below. Investment in these asset classes is specifically permitted for the purposes of the FMC Act.

Balanced Pool:	Benchmark	Sector Range	
		Min	Max
Australasian Shares	15.0%	5.0%	25.0%
Overseas Shares	30.0%	20.0%	40.0%
Alternative Assets	5.0%	0.0%	7.5%
	50.0%		
New Zealand Fixed Interest	20.0%	10.0%	30.0%
Overseas Fixed Interest	20.0%	10.0%	30.0%
Cash	10.0%	0.0%	25.0%
	50.0%		
	100.0%		
Conservative Pool:	Benchmark	Sector Range	
		Min	Max
New Zealand Fixed Interest	35.0%	25.0%	45.0%
Overseas Fixed Interest	35.0%	25.0%	45.0%
Cash	30.0%	15.0%	50.0%
	100.0%		

Australasian Shares means shares in companies which are listed in Australia and/or New Zealand.

Overseas Shares means shares in companies which are publicly listed on a securities exchange and generally do not meet the definition of Australasian Shares.

Alternative Assets means investments which do not fall within any of the other asset classes described in this SIPO but which the Board considers appropriately reflect the risk profile of the relevant Investment Pool and will contribute to meeting the performance objectives for that Investment Pool. Examples of these can include:

- private equity investments, which are ownership interests in operating companies not publicly listed on a securities exchange;

- forests, which is ownership of trees being established and grown for harvesting purposes on forest land (together with associated carbon credits); and
- forest land, which is ownership of land on which trees are being established and grown for harvesting purposes.

New Zealand Fixed Interest means:

- registered first mortgages; and
- loans made in New Zealand dollars to the New Zealand Government, the New Zealand Local Government Funding Agency, local authorities, banks and corporates, and investments in fixed interest products issued by foreign issuers approved by the Reserve Bank of New Zealand.

Overseas Fixed Interest means investments in funds which invest into a diversified portfolio of loans which may include loans to governments, major local authorities, banks and corporate organisations, and other fixed interest securities, which are predominantly outside New Zealand.

Cash means short-term, interest-bearing products such as deposits, bank bills, floating rate notes, on call deposits and fixed interest securities with maturity periods of less than one year.

The Board may invest in other investments (not explicitly referred to or permitted) that it considers are of a type which falls within an asset class, appropriately reflects the risk profile of the relevant Investment Pool and will contribute to meeting the performance objectives for that Investment Pool.

3.5 Use of managed funds

The Board may invest in each asset class by investing in managed funds which in turn ultimately invest in (or predominantly in) underlying assets falling within that asset class.

The managers of the managed funds into which the Board invests may operate those funds in a manner inconsistent with this SIPO.

Where the Board invests in an asset class through a managed fund, that managed fund may also have allocations to other asset classes. For example, where the Board invests in Overseas Shares by investing in a managed fund, that managed fund may have an allocation to Australasian Shares. An investment in such a managed fund is treated by the Board as an investment entirely in the core asset class of that managed fund (in this example Overseas Shares) for the purposes of this SIPO.

3.6 Rebalancing of the portfolio and cash flow management

Asset allocation ranges have been set as above and the rebalancing rules which apply are as follows:

- The allocation to each asset class for each Investment Pool will be allowed to vary within the ranges set (with variations being caused by market movements, cash flows and tactical investment decisions);
- If a report to the Board advises that the allocation to an asset sector varies from the benchmark allocation, the Board may at any time arrange for a rebalancing to take

place such that the actual allocation corresponds to or is nearer the relevant benchmark;

- If any asset allocations move materially outside their ranges, or if there is any material non-compliance with the Board's Ethical Investment Policy or another aspect of this SIPO, the Board shall ensure as soon as practicable (but in any event within no more than 5 working days) that, as applicable, the allocations are rebalanced back to within the ranges set or the material non-compliance is remedied.¹

The above rebalancing provisions are without prejudice to the Board's ability to alter the asset allocation ranges.

Cash flows are one of the causes of asset allocation fluctuations within the Investment Pools. The various funds and pools managed by the Committee each have differing liquidity needs. On a daily basis the assets in the Investment Trust (into which both the Fund and other schemes invest) are allocated among the various funds and pools managed by the Committee so that they are all invested in a way which corresponds as closely as possible to their individual target asset allocations while meeting their liquidity requirements. The cash flows of the Investment Pools will affect the allocations to the other funds and pools and the cash flows of the other funds and pools will affect the allocations to the Investment Pools.

3.7 Tax

The Fund is a portfolio investment entity. The amount of tax a member pays is based on the member's prescribed investor rate (PIR). The Fund pays tax on behalf of its members at 10.5%, 17.5% or 28% depending on each member's PIR.

4. INVESTMENT GUIDELINES

This SIPO does not prohibit any investments, including those that would be non-compliant with the Board's Ethical Investment Policy.

Borrowing is prohibited without the specific consent of the Board.

No more than 5% of the assets of the Investment Trust shall be invested in any one asset with the exception of:

- authorised cash investments;
- forests and forest land; and
- index funds (where the limit is 10% per index fund).

No more than 10% of the Investment Trust's funds shall be invested in mortgages.

¹ If the rebalancing does not occur (or the material breach is not remedied) within the 5 working day period, this must be reported to the FMA as soon as practicable after that period expires (and the report to FMA must contain the information set out in regulation 96 of the Financial Markets Conduct Regulations 2014).

4.1 Hedging policy

Currency is not treated as a separate asset class. However, the Board enters into foreign currency contracts as required to protect the value of offshore assets and returns against currency movements. Hedging may be achieved through the use of derivatives.

The Board believes that an active approach to currency hedging is appropriate. Currency exposures are monitored, and adjusted as appropriate, on a weekly basis. Accordingly, the Investment Pools will not maintain the same level of currency hedging at all times.

The currency risk benchmarks and ranges for the extent to which various asset classes will be hedged to the New Zealand dollar are as follows:

Sector	Currency Hedge	
	Benchmark	Range
Overseas Fixed Interest	100%	
Overseas shares	50%	25%-75%
Alternative Assets (overseas)	50%	25%-75%

5. INVESTMENT PERFORMANCE

5.1 Australasian Shares

The Board invests directly into the New Zealand and Australian share markets through the Investment Trust.

The Committee assesses the Balanced Pool's investment performance in the Australasian Shares sector by reference to the S&P/NZX50 index (for New Zealand shares) and the S&P/ASX200 (50% hedged) for Australian shares over three months, one year, three years, five years and ten years. In addition, the Committee compares performance to the median manager return for Australasian shares reported in the MJW Investments Survey.

5.2 Overseas Shares

The Board invests directly into the international share markets through the Investment Trust.

The Committee assesses the Balanced Pool's investment performance in the Overseas Shares sector by reference to the MSCI World Index 50% hedged over three months, one year, three years, five years and ten years. In addition, the Committee compares performance to the median manager return for overseas shares reported in the MJW Investments Survey.

5.3 Alternative Assets

The Board currently has (and may in future have) allocations which do not fall within any of the other asset classes described in this SIPO, but which the Board considers appropriately reflect the risk profile of the Fund and will contribute to meeting the performance objectives of the Fund. Alternative Assets which the Board may invest in include (but are not limited to) private equity interests, forests and forest land.

The Committee does not use benchmarks for assessing the Balanced Pool's investment performance with respect to Alternative Assets, due to the unavailability of appropriate benchmarks.

5.4 New Zealand Fixed Interest

The Board invests directly into the New Zealand bond market through the Investment Trust.

The Board provides registered first mortgage finance at competitive rates to clergy and other Christians who meet the Board's lending criteria. The Board invests a portion of the New Zealand Fixed Interest asset allocation in that mortgage portfolio.

For bonds, the Committee assesses the Investment Pools' performance in the New Zealand Fixed Interest sector by reference to the S&P/NZX Composite Investment Grade Bond Index over three months, one year, three years, five years and ten years. The Committee does not use a benchmark for assessing the investment performance of the mortgage portfolio, due to the unavailability of an appropriate benchmark.

The Committee also compares performance to the median manager return for New Zealand fixed interest reported in the MJW Investments Survey.

5.5 Overseas Fixed Interest

The Board outsources the management of its overseas fixed interest investments to reputable fund managers.

The Committee assesses the Investment Pools' performance in the Overseas Fixed Interest sector by reference to the Barclay's Global Aggregate Index (Hedged) over three months, one year, three years, five years and ten years. In addition, the Committee compares performance to the median manager return for overseas fixed interest reported in the MJW Investments Survey.

5.6 Cash

The Board's management operates the cash sector with consideration for the liquidity requirements of the Investment Pools, including ensuring sufficient funds are available to meet withdrawals.

The Committee assesses the Investment Pools' performance in the Cash sector by reference to the S&P/NZX 90 Day Bank Bill Index over three months, one year, three years, five years and ten years. In addition, the Committee compares performance to the median manager return for cash reported in the MJW Investments Survey.

6. INVESTMENT REPORTING

6.1 Performance reporting

The Committee reports to the Board on a quarterly basis.

The reporting includes a commentary on the current state of the markets, a commentary on the investment strategy and tactical asset allocation decisions, performance reports (and supporting commentary) including gross returns, returns relative to benchmarks (by asset class), attribution analysis (the contribution of asset allocation, stock selection and hedging to overall performance, by asset class) and return relative to peers.

6.2 Compliance reporting

A daily report is run identifying any SIPO limit breaks. The Board is advised immediately of any limit break and the action that will be taken to remedy the breach.

On a quarterly basis, the Committee reports to the Board any breaches (and associated remedies) that occurred during the previous quarter.

On an annual basis, the Committee reports any changes to its PALS document to the Board.

7. CONFLICTS OF INTEREST

We and the Investment Committee maintain conflict of interest policies. Members of the Board and the Investment Committee are required to disclose interests which they believe may have the potential to lead to conflicts of interest or may be relevant to the perception of their conduct as a member of the Board and/or Investment Committee.

Notwithstanding the interests of the parties which have appointed them, all of the Board's members must act honestly and in the members' best interests, treat members equitably and not use Scheme information either for improper advantage or to cause detriment to members. The Board must also, in exercising any power or performing any duty, exercise the care, diligence and skill that a prudent person engaged in that profession would exercise in those circumstances.

Where the Board has entered, or enters, into any transaction providing for a related party benefit (as defined in the FMCA) to be given:

- that transaction must be in the members' best interest or on arm's length terms (or otherwise comply with the FMCA related party transactions provisions); and
- the Board, with the consent of the Licensed Independent Trustee Board member, must certify accordingly.

If any particular conflicts of interest do arise in relation to the Fund then the Board's members will identify and record those conflicts and take steps to manage them (as appropriate) on a case by case basis. Those steps might include (for example):

- taking independent legal or other advice; and

- having a Board member who is conflicted due to having a direct personal interest in a matter under consideration withdraw from the discussions and decision-making process.

8. EARNINGS RATE

We currently calculate an earnings rate for each Pool on a quarterly basis. These returns can be positive, negative or zero. If we declare a negative earnings rate for any Pool in which you have invested, we will reduce your account balance. Currently we allocate investment earnings to your account quarterly.

We calculate each Pool's returns using a methodology determined by us from time to time which takes into account (without limitation):

- the earnings of the Pool;
- taxation liabilities and provisions;
- the liquidity of investments; and
- such other matters as the Board may consider relevant;

and which is determined after deducting any amounts that we think appropriate to provide for expenses, fees, charges or costs associated with the administration and management of the Fund.

After the end of each quarter we decide the Earnings Rate for each Pool with respect to that quarter taking into account only the matters listed above.

Our current methodology for determining the Earnings Rate to be allocated (expressed as a percentage) is:

Earnings Rate = $A \div B$

Where

A = Investment income and non-investment income
 LESS investment expenses and non-investment expenses
 LESS interest allocated on withdrawals since the previous allocation
 PLUS amount remaining in reserve after previous allocation

and

B = The daily average balance of Members' holdings across the period.

Approved by the Trustee
 10 August 2016