



# Medical Assurance Society KiwiSaver Plan

## Statement of Investment Policy and Objectives (SIPO)

2 November 2020



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## Section 1: **Introduction**

This Statement of Investment Policies and Objectives (SIPO) sets out the way that the Trustees of the Medical Assurance Society KiwiSaver Plan (the 'Plan') govern and manage investments held in the Plan.

It includes information on the investment strategy and objectives, target investment mixes and allowable investment ranges, benchmark indices and authorised investments for the Funds in the Plan.

The most current version of the SIPO, the Product Disclosure Statement (PDS), and other documentation relating to the Plan can be found on the Disclose Register at [business.govt.nz/disclose](https://business.govt.nz/disclose).

In this document 'we', 'our' or 'us' refers to the Trustees of the Medical Assurance Society KiwiSaver Plan.

## Section 2: Description of the Plan

The Plan is a managed investment scheme under the Financial Markets Conduct Act 2013 (FMCA) and is governed by a trust deed between us and Medical Assurance Society New Zealand Limited (MAS) as the Founder of the Plan.

There are seven Funds you can choose from:

<b>Fund</b>	<b>Recommended investment term</b>	<b>Expected return objective (% p.a.)<sup>1</sup></b>	<b>Potential for negative annual return</b>	<b>Income assets vs growth assets allocation (%)</b>
Cash	1 year +	CPI - 0.7	negligible	100/0
Conservative	3 years +	CPI + 0.4	1 in 3.1 years	80/20
Moderate	4 years +	CPI + 1.2	1 in 3.1 years	65/35
Balanced	5 years +	CPI + 2.2	1 in 3.0 years	45/55
Growth	7 years +	CPI + 3.1	1 in 2.9 years	25/75
Aggressive	10 years +	CPI + 3.6	1 in 2.9 years	15/85
Global Equities	10 years +	CPI + 4.3	1 in 2.8 years	0/100

Note 1: Expected returns after fees and Consumer Price Index (CPI) i.e. after inflation but before tax over the respective investment term.

Please refer to Section 9 for further information about the Funds.

The terms and conditions of the offer of membership of the Plan are set out in the latest PDS.

## Section 3: **Our investment philosophy**

Our investment philosophy is based on six key beliefs. We believe:

- Asset allocation is the key driver of returns. Markets rise over time but also mean revert, meaning the ability to take strategic tilts, within parameters, delivers the best opportunity for returns.
- Risk is rewarded with higher long-term returns although it can lead to higher volatility of returns over the short term.
- Diversification across and within asset classes reduces risk and volatility, however too much diversification may be costly.
- A return premium exists for illiquid assets. The acceptance of a long-term timeframe means investment in illiquid assets is fine, so long as there are sufficient liquid assets to provide regular cashflow, plus reserves for emergencies and other opportunities.
- Fees and costs are a drag on performance and should be kept to a minimum.
- While markets are competitive, active management and conviction-based tilts can add value. Tactical currency management can also add value.

We implement our investment philosophy by:

- Having a clear and transparent governance framework to provide trust by setting appropriate risk management instruments and controls; ensuring segregation of duties; and carrying out compliance and performance monitoring and ongoing review to ensure the investment objectives of the Funds are met.
- Having the investment strategy of each Fund guided by the underlying investor characteristics, including member's identified risk tolerance. The general long-term time horizon and high level of member trust allows for a higher tolerance for return volatility.
- Identifying quality investment managers that will outperform against an index over time.
- Investing in a way that represents what matters in our Members' worlds – a sustainable and healthy future.

## Section 4: **Investment strategy and objectives**

### **Investment strategy**

Each Fund has different levels of risk and provides different potential returns.

Our choice of authorised investments for each Fund takes into account the Fund's risk profile, objectives and investment strategy.

The investment strategy of a Fund takes into account:

- Investment objectives;
- Benchmark asset allocation (referred to as "target investment mix" in the PDS);
- Benchmark asset allocation ranges (or limits; and
- The index that the Fund's performance will be measured against.

See Section 9 for more information on the strategies and objectives of the Funds.

### **Investment managers**

We work with investment managers to manage the assets of each Fund. The investment managers we currently work with are outlined in Section 10.

### **Benchmark indices**

The performance of each Fund is measured against a market index. The market index for a Fund comprises the benchmark index return of each of the asset classes the Fund invests in, weighted by the Fund's benchmark asset allocation to each asset class.

All benchmark indices exclude fees and expenses. The S&P/NZX50 Index includes the value of imputation credits. These are tax credits that a company can attach to its dividends, which reduce the amount of income tax the recipient needs to pay.

The benchmark indices used by the Plan are outlined in Section 10.

### **Authorised investments**

The Funds can invest either directly in securities, or in underlying investment funds managed by us or underlying investment managers. The Fund's authorised investments are outlined in Section 11.

## Section 5: Investment policies

The investment policy of the Plan is to invest the assets of each Fund according to the investment strategy described in this SIPO. In doing so, we seek to comply with the requirements of the Plan trust deed and with all applicable laws.

### Responsible investment policy

The Plan's investments are made according to the following guidelines:

- The Funds will not invest in companies whose principal business activity is the manufacture and sale of armaments or tobacco, or the exploration, extraction, refining or processing of fossil fuels. In addition, the Funds will not invest in any utility that primarily burns fossil fuels.
- Environmental, social and governance (ESG) practices of a company will be evaluated when considering investing in securities of that company.
- We appoint agents who will regularly engage with companies regarding their ESG practices and carefully consider all voting matters.
- More information about our approach to responsible investment can be found at [mas.co.nz/investment/responsible-investments](https://mas.co.nz/investment/responsible-investments).

### Rebalancing policy

The investment managers rebalance the Funds at least monthly to meet the target asset allocation.

### Hedging policy

The Funds use currency hedging to mitigate currency risk and potentially improve returns. The Funds will carry out currency hedging in line with the hedging style, benchmark and ranges set out in the table below for the applicable asset class. Currency hedging is generally implemented using derivatives such as forward foreign exchange contracts or options.

Currency hedging is monitored each business day to check that it is in line with the Funds' desired hedging level and within the Funds' currency hedging ranges.

Asset class	Hedging style	Benchmark (%)	Range (%)
New Zealand Fixed interest	Not applicable	Not Applicable	Not applicable
International fixed interest	Passive	100%	Targets 100%
Australian equities	Active	138% <sup>1</sup>	0-138% <sup>1</sup>
International equities	Active	69% <sup>2</sup>	0-138% <sup>1</sup>

Note 1: equivalent to 100% after allowing for tax at a rate of 28%

Note 2: equivalent to 50% after allowing for tax at a rate of 28%

## Currency hedging model

For international equities and Australian equities, the level of hedging takes into account the historical level of the New Zealand dollar relative to the US dollar and Australian dollar respectively. If the New Zealand dollar is a defined amount above an historical average level for the relevant currency, the level of hedging may decrease. If the New Zealand dollar is a defined amount below an historical average level for the relevant currency, the level of hedging may increase.

## Tactical asset allocation policy

Our investment manager, JBWere (NZ) Pty Ltd, use tactical asset allocation to set each Fund's desired investment mix (within the benchmark asset allocation ranges), based on how they believe an asset class is likely to perform over the short term. They also vary the investment mix to manage risk and cashflow.

## Liquidity policy

Each Fund must hold a minimum on-call cash balance. This balance is based on analysis of the maximum expected drawdown over a one-month period. These dollar values are reviewed annually.

## Conflict of interest policy

In order to avoid, mitigate and manage potential conflicts, we have adopted a Conflicts of Interest Policy. The key principle is that any potential conflicts of interest are avoided where possible. If that is not possible, then they are clearly disclosed by any person making decisions on behalf of the Plan and mitigated to the greatest extent possible.

The Conflicts of Interest Policy can be found on the Offer Register at [business.govt.nz/disclose](https://business.govt.nz/disclose).

## Market risk management policy

The value of investments can go up and down over time because of changes in market conditions. We spread our investments across different markets to reduce the likelihood or impact of this risk.

## Credit risk policy

For cash and New Zealand fixed interest, we apply credit quality criteria (such as credit rating and issuer and class limits) to reduce the likelihood or impact of the risk of default by an issuer of such securities.

## Trade allocation and execution policy

Trades for the Funds, other than foreign currency hedging, are executed by JBWere NZ (Pty) Ltd. Their Trade Allocation and Execution Policy ensures that all clients are treated fairly and equitably when trades are allocated across Funds with respect to priority of execution of orders and in the allocation of trades.

Foreign exchange hedging is undertaken by BNZ and the method of trade execution is set out in an agreement for foreign currency hedging services.

The Trade Allocation and Execution Policy can be found on the Offer Register at [business.govt.nz/disclose](https://business.govt.nz/disclose).



## **Proxy voting policy**

For Australasian equities we have employed Institutional Investor Services to vote on our behalf. For the responsible investing mandate component of international equities, the sub-contracted manager (BlackRock) votes according to their policies.

The Proxy Voting Policy can be found on the Offer Register at [business.govt.nz/disclose](https://business.govt.nz/disclose).

## **Derivatives policy**

The Funds may use derivatives for risk management purposes (including to hedge foreign currency exposure). Derivatives may not be used to leverage a Fund.

## **Gearing policy**

Gearing is an investment technique where money is borrowed to enhance returns. Although the terms of the Plan Trust Deed allows Funds to borrow, the current policy of the Trustees is not to do so.

## **Pricing and valuation policy**

The nature of the Plan's authorised investments means that there should be a valuation at close of each business day in almost all cases. We have agreed to the sub-contracting of pricing and valuation to MMC Limited.

The Pricing and Valuation Policy can be found on the Offer Register at [business.govt.nz/disclose](https://business.govt.nz/disclose).

## **Tax policy**

The Plan is a Portfolio Investment Entity (PIE). Tax on investment income is calculated at each member's prescribed investor rate (currently 10.5%, 17.5% or 28% depending on each member's circumstances) and paid annually to Inland Revenue on the member's behalf.

## Section 6: **Investment performance monitoring**

Each month we receive performance reporting from the investment managers. We monitor the performance of each Fund against its market index for the month, quarter and year (refer Section 10 for further information on the market index for each Fund). We also monitor the performance of each asset class against the relevant benchmark index over the same time frames.

Each quarter we monitor the performance of each Fund against other similar KiwiSaver funds over the previous three months and the previous year. We also monitor the performance of each asset class against that of other appropriate investment managers over the quarter and year.

Each year we monitor the performance of the Funds against:

- Fund objectives.
- The relevant market index over one, three and five years. This includes consideration of the volatility of Fund returns versus the market index.
- Other similar KiwiSaver funds over one, three and five years.

Each year we also monitor the performance of each asset class against:

- The relevant market index over one, three and five year periods. This includes consideration of the volatility of Fund returns versus the market index.
- Other appropriate investment managers over one, three and five years.

## Section 7: **Investment strategy review**

### **Benchmark asset allocation**

We review the benchmark asset allocation at least once every three years. Factors taken into account include:

- The investment manager's expectations of future returns and risk of individual asset classes.
- The benchmark asset allocations of other similar KiwiSaver funds.

### **Monitoring of investment managers**

The role of individual investment managers is reviewed annually. Factors taken into account in these reviews include investment style, resources, organisational strength and investment performance relative to objectives.

We may remove an investment manager and appoint a new investment manager at any time.

## Section 8: **SIPO compliance and review**

### **Compliance**

We monitor the Funds each month for compliance with the investment objectives, strategies and policies in this SIPO.

Each Fund has limits on the amount of income assets (such as cash and cash equivalents and fixed interest) and growth assets (such as equities and listed property) it can hold. If a Fund moves outside a limit (a 'Limit Break') we will instruct our investment managers to correct the allocation of assets for that Fund within five working days of discovering the Limit Break or as soon as practicable where circumstances are outside our control (such as a suspension in market trading).

See Section 9 for the limits on income and growth assets for each Fund.

### **Review**

We review the SIPO in conjunction with the investment managers annually and on an ad-hoc basis as required. An ad-hoc review may come about as a result of fundamental changes in the investment or regulatory environment or any changes to the Fund's investment objectives.

Any material changes to the SIPO will be reported in the Plan's next annual report.

## Section 9: Fund objectives and strategy

### Cash Fund

#### Description

Invests in a range of cash and cash equivalent investments.

#### Recommended investment term

1 year +

#### Objectives

Achieve an annual return (after annual fund charges and before tax) that over the long-term is 0.7% below inflation (allowing for a negligible possibility of the annual return being negative).

#### Benchmark asset allocation and ranges

Asset class	Benchmark (%)	Range (%)
Cash & Cash Equivalents	100	100-100
<b>Total Income Assets</b>	<b>100</b>	<b>100-100</b>

### Conservative Fund

#### Description

Invests around 80% in income assets (such as cash, cash equivalents and fixed interest) and around 20% in growth assets (such as Australasian equities and international equities).

#### Recommended investment term

3 years +

#### Objectives

Achieve an annual return (after annual fund charges and before tax) that over the long-term is 0.4% over inflation (allowing for the potential of a negative return one year in every 3.1 years).

#### Benchmark allocation and ranges

Asset class	Benchmark (%)	Range (%)
Cash & Cash Equivalents	10	5-60
New Zealand Fixed Interest	25	12-33
International Fixed Interest	45	23-62
<b>Total Income Assets</b>	<b>80</b>	<b>70-100</b>
Australasian Equities	6	0-10
International Equities	14	0-20
Alternatives	0	0-5
<b>Total Growth Assets</b>	<b>20</b>	<b>0-30</b>

## Moderate Fund

### Description

Invests around 65% in income assets (such as cash, cash equivalents and fixed interest) and around 35% in growth assets (such as Australasian equities and international equities).

### Recommended investment term

4 years +

### Objectives

Achieve an annual return (after annual fund charges and before tax) that over the long-term is 1.2% over inflation (allowing for the potential of a negative return one year in every 3.1 years).

### Benchmark allocation and ranges

Asset class	Benchmark (%)	Range (%)
Cash & Cash Equivalents	6	0-50
New Zealand Fixed Interest	21	11-32
International Fixed Interest	38	20-59
<b>Total Income Assets</b>	<b>65</b>	<b>50-95</b>
Australasian Equities	11	0-25
International Equities	24	0-40
Alternatives	0	0-10
<b>Total Growth Assets</b>	<b>35</b>	<b>5-50</b>

## Balanced Fund

### Description

Invests around 55% in growth assets (such as Australasian equities and international equities) and around 45% in income assets (such as cash, cash equivalents and fixed interest).

### Recommended investment term

5 years +

### Objectives

Achieve an annual return (after annual fund charges and before tax) that over the long-term is 2.2% over inflation (allowing for the potential of a negative return one year in every 3.0 years).

### Benchmark allocation and ranges

Asset class	Benchmark (%)	Range (%)
Cash & Cash Equivalents	4	0-50
New Zealand Fixed Interest	16	5-26
International Fixed Interest	25	9-48
<b>Total Income Assets</b>	<b>45</b>	<b>30-80</b>
Australasian Equities	17	0-35
International Equities	38	15-50
Alternatives	0	0-15
<b>Total Growth Assets</b>	<b>55</b>	<b>20-70</b>

## Growth Fund

### Description

Invests around 75% in growth assets (such as Australasian equities and international equities) and around 25% in income assets (such as cash, cash equivalents and fixed interest).

### Recommended investment term

7 years +

### Objectives

Achieve an annual return (after annual fund charges and before tax) that over the long-term is 3.1% over inflation (allowing for the potential of a negative return one year in every 2.9 years).

### Benchmark allocation and ranges

Asset class	Benchmark (%)	Range (%)
Cash & Cash Equivalents	2	0-35
New Zealand Fixed Interest	8	0-18
International Fixed Interest	15	4-34
<b>Total Income Assets</b>	<b>25</b>	<b>10-70</b>
Australasian Equities	23	5-35
International Equities	52	25-65
Alternatives	0	0-20
<b>Total Growth Assets</b>	<b>75</b>	<b>30-90</b>

## Aggressive Fund

### Description

Invests around 85% in growth assets (such as Australasian equities and international equities) and around 15% in income assets (such as cash, cash equivalents and fixed interest).

### Recommended investment term

10 years +

### Objectives

Achieve an annual return (after annual fund charges and before tax) that over the long-term is 3.6% over inflation (allowing for the potential of a negative return one year in every 2.9 years).

### Benchmark allocation and ranges

Asset class	Benchmark (%)	Range (%)
Cash & Cash Equivalents	0	0-40
New Zealand Fixed Interest	5	0-11
International Fixed Interest	10	0-19
<b>Total Income Assets</b>	<b>15</b>	<b>0-55</b>
Australasian Equities	26	10-40
International Equities	59	35-70
Alternatives	0	0-25
<b>Total Growth Assets</b>	<b>85</b>	<b>45-100</b>

# Global Equities Fund

## Description

Usually only invests in growth assets (such as Australasian equities and international equities).

## Recommended investment term

10 years +

## Objectives

Achieve an annual return (after annual fund charges and before tax) that over the long-term is 4.3% over inflation (allowing for the potential of a negative return one year in every 2.8 years).

## Benchmark allocation and ranges

Asset class	Benchmark (%)	Range (%)
Cash & Cash Equivalents	0	0-40
New Zealand Fixed Interest	0	0-7
International Fixed Interest	0	0-13
<b>Total Income Assets</b>	<b>0</b>	<b>0-40</b>
Australasian Equities	30	15-50
International Equities	70	45-80
Alternatives	0	0-30
<b>Total Growth Assets</b>	<b>100</b>	<b>60-100</b>



## Section 10: Investment managers and benchmark indices

The performance of each Fund is measured against a market index. The market index for a Fund comprises the benchmark index return of each of the asset classes the Fund invests in, weighted by the Fund's benchmark asset allocation to each asset class. The current benchmark index and manager for each asset class is outlined in the table below.

<b>Asset class</b>	<b>Investment manager</b>	<b>External investment manager</b>	<b>Benchmark index</b>
Cash and cash equivalents	Bancorp Treasury Services Limited	Not Applicable	S&P/ NZX Bank Bills 90-Day Index
New Zealand Fixed Interest	Bancorp Treasury Services Limited	Not applicable	Bloomberg NZ Bond Composite 0+ Yr Index
International Fixed Interest	Bancorp Treasury Services Limited	Hunter Investment Management Limited	Barclays Global Aggregate Index (hedged to NZD)
Australasian Equities	JBWere (NZ) Pty Limited	Not applicable	S&P/NZX 50 Gross Index
International Equities	JBWere (NZ) Pty Limited	BlackRock	MSCI All Country World Total Return Index (69% hedged to NZD)
Foreign currency hedging	Bancorp Treasury Services Limited	BNZ	Not applicable

These indices may be updated or changed at any time. More information on the market indices may be obtained from the following webpages:

S&P indices: [us.spindices.com](https://us.spindices.com)

(e.g. [/regional-exposure/asia-pacific/new-zealand](#))

Barclays: [index.barcap.com](https://index.barcap.com)

MSCI: [msci.com/indexes](https://msci.com/indexes)

Bloomberg: [bloomberg.com/professional/product/indices/bloomberg-ausbond-index/](https://bloomberg.com/professional/product/indices/bloomberg-ausbond-index/)

These webpages are current at the date of the SIPO and may change.

## Section 11: **Authorised investments**

The Plan may invest in any cash, assets, property (as defined in the Trustee Act 1956), securities, rights (contractual or otherwise, including derivatives such as futures, options and swaps, and contractual rights under underwriting agreements) or interest (equitable or otherwise) including, without limitation such class or classes of investments agreed with the Trustees and includes (without limitation) any of the following (whether or not they are investments authorised by law for the investment of trust moneys by trustees) in New Zealand or elsewhere:

- (a) ordinary and preference shares or capital of any person;
- (b) any share or other interest in any partnership, joint venture or syndicate formed or carrying on business in New Zealand or elsewhere;
- (c) deposits with or loans to any person whether secured or unsecured;
- (d) debentures, bonds, notes or similar obligations of any person whether secured or unsecured;
- (e) bank bills, bonds, commercial paper, structured investment products, options, foreign exchange contracts, hybrid securities, and equity warrants;
- (f) bills of exchange, promissory notes and other forms of negotiable instruments made, drawn or accepted by any person;
- (g) financial futures contracts and swap contracts;
- (h) units, sub-units or other shares or interest in any managed investment scheme established in New Zealand or elsewhere;
- (i) any stock, bonds, obligations, or other securities issued or guaranteed by any government or governmental agency or local municipal or statutory authority of any country;
- (j) underwriting or sub-underwriting contracts;
- (k) foreign exchange (including foreign exchange forward and option contracts);
- (l) any investment fund managed by any associated person of the Trustees or Investment Manager either in New Zealand, Australia or elsewhere;
- (m) any securities issued by a person incorporated or carrying on business that are guaranteed by a Bank;
- (n) any instrument or arrangement for hedging or reducing any currency risk or interest rate risk or market movement or commodity price risk or other financial risk whether or not at any particular time the instrument or arrangement constitutes an asset;
- (o) commodities;
- (p) shares, debt and other similar investments in private capital opportunities.

The investments noted above are what the Plan will usually invest in, however the Plan may also invest in any other investment or asset not covered by the above and approved by the Trustees.

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The RIAA Certification Symbol signifies that a product or service offers an investment style that takes into account certain environmental, social, governance or ethical considerations. The Symbol also signifies that the Medical Assurance Society KiwiSaver Plan adheres to the strict operational and disclosure practices required under the Responsible Investment Certification Program for the category of Superfund Option. The Certification Symbol is a Registered Trade Mark of the Responsible Investment Association Australasia (RIAA). Detailed information about RIAA, the Symbol and the Medical Assurance Society KiwiSaver Plan's methodology and performance can be found at [www.responsiblereturns.com.au](http://www.responsiblereturns.com.au), together with details about other responsible investment products certified by RIAA.

The Responsible Investment Certification Program does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Appropriate professional advice should be sought prior to making an investment decision. RIAA does not hold an Australian Financial Services Licence.

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