



MAS Retirement Savings Scheme

Statement of Investment Policy and Objectives (SIPO)

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Signatory of:



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1. Introduction

This Statement of Investment Policies and Objectives (SIPO) sets out the way that Medical Funds Management Limited (MFM, we, us, our) as Manager of the MAS Retirement Savings Scheme, governs and manages investments held in the MAS Retirement Savings Scheme (the Scheme). MFM is a wholly owned subsidiary of Medical Assurance Society New Zealand Limited (MAS).

This SIPO 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 Scheme.

The Product Disclosure Statement (PDS) and other documentation relating to the Scheme can be found at mas.co.nz/retirement-savings and on the Disclose Register – Scheme Register at disclose-register.companiesoffice.govt.nz

2. Description of the Scheme

The MAS Retirement Savings Scheme is a managed investment scheme registered under the Financial Markets Conduct Act 2013 (FMCA) and is governed by a Trust Deed as amended from time to time between us and the Supervisor, Public Trust.

There are 7 Funds you can choose from.

| Fund | Minimum suggested investment timeframe | Growth assets vs income assets allocation (%) |
|-----------------|---|--|
| Global Equities | 12 years | 100/0 |
| Aggressive | 11 years | 90/10 |
| Growth | 10 years | 80/20 |
| Balanced | 7 years | 60/40 |
| Moderate | 5 years | 40/60 |
| Conservative | 3 years | 20/80 |
| Cash | No minimum | 0/100 |

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

The terms and conditions of the Scheme are set out in the latest PDS which is available at [mas.co.nz/retirement-savings](https://www.mas.co.nz/retirement-savings)

3. Our investment philosophy

Our investment philosophy is based on the following beliefs.

- Asset allocation is the key driver of return and risk. Asset class returns are partly predictable, and returns may revert toward a mean over time.
- Higher long-term returns can be achieved through taking more risk and accepting higher volatility of returns.
- Diversification across and within asset classes reduces risk and volatility of returns. As diversification increases the marginal potential improvement in return decreases and the cost of implementation increases.
- A potential return premium exists for illiquid assets. Investment in such assets is appropriate for Funds with a long-term timeframe and sufficient liquid assets to meet Fund needs.
- Costs and taxes need to be considered as part of the investment decision-making process.
- While markets are competitive, active management can add value.
- Investing responsibly can support a sustainable future.

We implement our investment philosophy by:

- having a robust governance framework that seeks to add value through:
 - managing risk
 - setting return and timeframe expectations
 - setting responsible investment parameters
 - enabling clear decision making
 - establishing accountability
 - optimising controls, monitoring and reporting to ensure Fund objectives are met.
- Having a range of Funds that provide investors with a choice of risk tolerances. This provides opportunity for competitive performance through accepting higher short-term volatility, with risk managed through diversification and active management of asset allocation and holdings.
- Identifying investment managers that can outperform a market index over time. The ability to do so may vary between asset classes and over time and therefore appointed investment managers must be consistently monitored.
- Investing in line with our Responsible Investment Policy.

4. Investment strategy and objectives

Investment strategy

Each Fund has different levels of risk and provides different potential returns. The investment strategy of a Fund takes into account:

- investment objectives
- benchmark asset allocation (referred to in the PDS as 'target investment mix')
- benchmark asset allocation ranges (or limits)
- the index or indices that the Fund's performance will be measured against.

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

Investment objectives

Each Fund has a different investment objective. See Section 9 for more information on the objective and strategy for each Fund.

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 benchmark indices used by the Funds in the Scheme are outlined in Section 10.

Authorised investments

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

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.

Investing in related funds

The Funds in the Scheme may invest into the MAS Wholesale Investment Funds (the MAS Wholesale Funds) also managed by MFM.

The MAS Wholesale Funds only invest in the authorised investments of the Scheme, and help pool assets to provide efficiency of investment. MFM does not charge a management fee to the Funds for investing into the MAS Wholesale Funds.

5. Investment policies

The investment policy of the Scheme 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 Scheme's Trust Deed and with all applicable laws.

Responsible Investment

The MAS Responsible Investment Policy details the approach we take to responsible investing and how we apply that approach to the investments made by the Scheme. The MAS Responsible Investment Policy and more information about our approach to responsible investing, can be found at mas.co.nz/responsible-investments

The MAS Responsible Investment Policy is applied to the Scheme's investments in the following ways.

- Screening exclusions: The Funds will not be invested in any company whose principal business activity is:
 - the manufacture or sale of weapons
 - the production or manufacture of tobacco, tobacco-based products or nicotine alternatives, or the sale of tobacco
 - the exploration, extraction, refining, or processing of fossil fuels
 - a utility that generates energy from primarily burning fossil fuels.

Principal business activity is defined in this context as activities that generate revenues of 10% or more of total company revenues, or 0% of total revenues for companies that manufacture or produce tobacco, tobacco-based products or nicotine alternatives, or manufacture or sell controversial weapons including cluster munitions, anti-personnel mines and nuclear explosive devices.

- Investments in metallurgical coal and private equity are approved exceptions to the MAS Responsible Investment Policy.
- ESG integration: Environmental, social, and governance (ESG) factors, which includes climate factors, will be considered as part of the investment decision making process, and implemented via our specialist investment managers. Companies involved in 'very severe and ongoing controversies' as identified by MSCI's ESG Controversy assessment are also excluded from all funds.

The ESG integration approach in the majority (75% benchmark) of our international equities asset class, is a customised strategy that combines the MSCI Climate Paris Aligned Index Methodology with MAS's screening exclusions. This customised strategy seeks to reduce exposure to climate risk and increase exposure to positive climate themes.

- Active ownership: We appoint agents who will regularly engage with companies regarding their ESG practices and carefully consider all voting matters.
- Member associations: We are a member of industry associations that help us maintain responsible investment best practice.

Rebalancing policy

A Fund's investment mix is generally monitored each business day to check that it is within its target investment mix ranges.

Factors that may cause a Fund's ranges to be exceeded may include:

- size and timing of cash flows
- market volatility.

If a Fund's ranges are likely to be exceeded, we will rebalance its actual investment mix to bring it back within the ranges. This process usually occurs within 5 business days.

Currency hedging policy

Currency hedging may be used to protect the Funds from changes in exchange rates that adversely affect the value of overseas investments held by the Funds.

Currency hedging is generally implemented by the investment managers using derivatives such as forward foreign exchange contracts or options. Where the Funds invest in an underlying fund, we consider that funds' strategic hedging policy at the time we select it.

The Funds will carry out currency hedging in line with the hedging style, benchmark and ranges as set out in the next table for the applicable asset class.

| Asset class | Hedging style | Benchmark (%) | Range (%) |
|------------------------------|---------------|------------------|-------------|
| International Equities | Active | 50 | 0-100 |
| Australasian Equities | Active | 100 ¹ | 0-100 |
| International Fixed Interest | Passive | 100 | Targets 100 |

¹100% of the foreign currency exposure arising from the Australian equities in this asset class.

Currency hedging model

For international equities and Australasian equities, the level of currency 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 a historical average level for the relevant currency, the level of hedging may decrease. If the New Zealand dollar is a defined amount below a historical average level for the relevant currency, the level of hedging may increase.

Currency hedging is monitored each business day by the investment managers or underlying investment managers to check that it is in line with the applicable policies.

Tactical asset allocation policy

The investment manager responsible for tactical asset allocation, JBWere (NZ) Pty Limited (JBWere), uses 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.

Liquidity policy

The Funds invest in authorised investments that are generally readily realisable. In addition, each Fund must hold a minimum on-call cash balance. This balance is based on analysis of the expected drawdown over a typical 1-month period. These dollar values are reviewed annually.

Conflicts 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 clearly disclosed by any person making decisions on behalf of the Scheme and carefully managed.

More information on conflicts of interests can be found in the MAS Retirement Savings – Other Material Information (OMI) document at mas.co.nz/retirement-savings

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 policies

Trades for MAS Wholesale Funds (other than foreign currency hedging) in which the Scheme invests, are executed by the underlying investment managers using their respective trade allocation and execution policies. This is designed to ensure that all investors are treated fairly and equitably when trades are allocated across investment portfolios, with respect to priority of execution of orders and in the allocation of trades.

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

Proxy voting policy

As an active steward of your money, we endeavour to vote on all shareholdings via our proxy voting agent. Our ambition is to use shareholder voting rights to influence companies to conduct their business in a socially and environmentally responsible manner.

We have contracted Institutional Shareholder Services (ISS) as proxy voting agent for the MAS Wholesale Australasian Equities Fund and the MAS Wholesale International Equities Fund, which are MAS Wholesale Funds that the Scheme invests into.

ISS is delegated by us to vote on behalf of the MAS Wholesale Funds in accordance with ISS's Socially Responsible Investment proxy voting guidelines.

Additional information about ISS's proxy voting guidelines is available on their website.

Please refer to the SRI International Voting Guidelines document under Specialty Policies at issgovernance.com/policy-gateway/voting-policies

Derivatives policy

A derivative is a financial instrument that derives its value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices.

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 potentially enhance returns, if the cost of borrowing is less than the return on the investments made with the borrowed money.

Although the terms of the Trust Deed for the Scheme allow Funds to borrow, our current policy is not to do so. Any change in this policy would require the approval of the Supervisor.

Pricing and valuation policy

The nature of the Scheme's authorised investments means that there will generally be a valuation at close of each business day in almost all cases. Pricing and valuation are undertaken by Apex Investment Administration (NZ) Limited.

More information about pricing and valuations can be found in the MAS Retirement Savings – OMI document at mas.co.nz/retirement-savings

Tax policy

The Scheme is a multi-rate 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.

6. Investment performance monitoring

Each month we receive performance reporting from the investment managers. We use this to 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 investment funds over the previous 3 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:

- the relevant market index over 1, 3 and 5 years – this includes consideration of the volatility of Fund returns versus the market index and Fund returns before and after fees
- other similar investment funds over 1, 3 and 5 years.

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

- the relevant benchmark index over 1, 3 and 5 year periods – this monitoring includes consideration of the volatility of Fund returns versus the benchmark index
- the performance of other appropriate investment managers over 1, 3 and 5 years.

7. Investment strategy review

Benchmark asset allocation

We review the benchmark asset allocation for each Fund at least annually. The term 'benchmark asset allocation' is the commonly accepted industry expression for the term 'target asset mix' used in the PDS.

Factors taken into account in this review include:

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

Monitoring of investment managers

The continued appointment of individual investment managers is reviewed annually. Factors taken into account in these reviews include:

- investment style
- resources
- organisational strength
- investment performance relative to objectives.

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

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) it can hold. If a Fund moves outside a limit (Limit Break) the investment manager must correct the allocation of assets for that Fund as soon as practicable (generally within 5 working days) after discovering the Limit Break. Where circumstances are outside the control of the investment manager (such as a suspension in market trading), we will agree a remedy for the Limit Break with the investment manager. All breaches of SIPO limits are notified to the Supervisor.

The underlying investments of the Funds are screened against the MAS Responsible Investment Policy criteria on a quarterly basis. Investments that are identified that no longer meet the responsible investment criteria are divested as soon as reasonably practicable, taking factors such as market liquidity into consideration.

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

Review

We review the SIPO in conjunction with the investment manager 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 a Fund's investment objectives.

We will agree any changes to the SIPO with the Supervisor and members will be given at least 1 month's prior notice of any material changes.

9. Fund objective and strategy

Global Equities Fund

Description

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

Objective

Aims to provide higher returns over the long term.

Minimum suggested investment timeframe

12 years

Benchmark allocation and ranges

| Asset class | Benchmark (%) | Range (%) |
|------------------------------|---------------|---------------|
| International Equities | 70 | 45–80 |
| Australasian Equities | 30 | 15-50 |
| Other ¹ | 0 | 0–30 |
| Total Growth Assets | 100 | 60–100 |
| International Fixed Interest | 0 | 0–13 |
| New Zealand Fixed Interest | 0 | 0–7 |
| Cash and Cash Equivalents | 0 | 0–40 |
| Total Income Assets | 0 | 0–40 |

¹ Other includes alternative assets such as private equity and hedge funds.

Aggressive Fund

Description

Invests around 90% in growth assets (such as Australasian equities and international equities) and around 10% in income assets (such as cash and cash equivalents, and fixed interest).

Objective

Aims to provide higher returns over the long term.

Minimum suggested investment timeframe

11 years

Benchmark allocation and ranges

| Asset class | Benchmark (%) | Range (%) |
|------------------------------|---------------|---------------|
| International Equities | 62.5 | 35–70 |
| Australasian Equities | 27.5 | 10–40 |
| Other ¹ | 0 | 0–25 |
| Total Growth Assets | 90 | 45–100 |
| International Fixed Interest | 6.5 | 0–19 |
| New Zealand Fixed Interest | 3.5 | 0–11 |
| Cash and Cash Equivalents | 0 | 0–40 |
| Total Income Assets | 10 | 0–55 |

¹ Other includes alternative assets such as private equity and hedge funds.

Growth Fund

Description

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

Objective

Aims to provide strong returns over the long term.

Minimum suggested investment timeframe

10 years

Benchmark allocation and ranges

| Asset class | Benchmark (%) | Range (%) |
|------------------------------|---------------|--------------|
| International Equities | 55.5 | 25–65 |
| Australasian Equities | 24.5 | 5–35 |
| Other ¹ | 0 | 0–20 |
| Total Growth Assets | 80 | 30–90 |
| International Fixed Interest | 12 | 4–34 |
| New Zealand Fixed Interest | 6.5 | 0–18 |
| Cash and Cash Equivalents | 1.5 | 0–35 |
| Total Income Assets | 20 | 10–70 |

¹ Other includes alternative assets such as private equity and hedge funds.

Balanced Fund

Description

Invests around 60% in growth assets (such as Australasian equities and international equities) and around 40% in income assets (such as cash and cash equivalents, and fixed interest).

Objective

Aims to provide a medium level of return over the medium to long term.

Minimum suggested investment timeframe

7 years

Benchmark allocation and ranges

| Asset class | Benchmark (%) | Range (%) |
|------------------------------|---------------|--------------|
| International Equities | 41.5 | 15–50 |
| Australasian Equities | 18.5 | 0–35 |
| Other ¹ | 0 | 0–15 |
| Total Growth Assets | 60 | 20–70 |
| International Fixed Interest | 22.5 | 9–48 |
| New Zealand Fixed Interest | 14 | 5–26 |
| Cash and Cash Equivalents | 3.5 | 0–50 |
| Total Income Assets | 40 | 30–80 |

¹ Other includes alternative assets such as private equity and hedge funds.

Moderate Fund

Description

Invests around 60% in income assets (such as cash and cash equivalents, and fixed interest) and around 40% in growth assets (such as Australasian equities and international equities).

Objective

Aims to provide moderate returns over the short to medium term.

Minimum suggested investment timeframe

5 years

Benchmark allocation and ranges

| Asset class | Benchmark (%) | Range (%) |
|------------------------------|---------------|--------------|
| International Equities | 27.5 | 0–40 |
| Australasian Equities | 12.5 | 0–25 |
| Other ¹ | 0 | 0–10 |
| Total Growth Assets | 40 | 5–50 |
| International Fixed Interest | 35 | 20–59 |
| New Zealand Fixed Interest | 19.5 | 11–32 |
| Cash and Cash Equivalents | 5.5 | 0–50 |
| Total Income Assets | 60 | 50–95 |

¹ Other includes alternative assets such as private equity and hedge funds.

Conservative Fund

Description

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

Objective

Aims to preserve capital while providing a steady return over the short to medium term.

Minimum suggested investment timeframe

3 years

Benchmark allocation and ranges

| Asset class | Benchmark (%) | Range (%) |
|------------------------------|---------------|---------------|
| International Equities | 14 | 0-20 |
| Australasian Equities | 6 | 0-10 |
| Other ¹ | 0 | 0-5 |
| Total Growth Assets | 20 | 0-30 |
| International Fixed Interest | 45 | 23-62 |
| New Zealand Fixed Interest | 25 | 12-33 |
| Cash and Cash Equivalents | 10 | 5-60 |
| Total Income Assets | 80 | 70-100 |

¹ Other includes alternative assets such as private equity and hedge funds.

Cash Fund

Description

Invests in a range of cash and cash equivalent investments.

Objective

Aims to achieve stable returns over the short term.

Minimum suggested investment timeframe

No minimum.

Benchmark allocation and ranges

| Asset class | Benchmark (%) | Range (%) |
|----------------------------|---------------|----------------|
| Cash and Cash Equivalents | 100 | 100-100 |
| Total Income Assets | 100 | 100-100 |

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 asset classes that the Funds of the Scheme invest into can be managed by different underlying investment managers.

The current benchmark index and manager for each asset class is outlined in the table below.

| Asset class | Investment Manager | External investment manager | Benchmark index | Benchmark index website ¹ |
|------------------------------|---|--|--|---|
| International Equities | JBWere | BlackRock Inc. | MSCI All Country World Total Return Index (ACWI) (50% hedged to NZD) | msci.com/indexes |
| Australasian Equities | JBWere | Not applicable | S&P/NZX 50 Gross Index | spglobal.com (and refer to New Zealand indices) |
| International Fixed Interest | Bancorp Treasury Services Limited (Bancorp) | Hunter Investment Management (Hunter) PIMCO Australia Pty Ltd via the Hunter Global Bond Fund | Bloomberg Barclays Global Aggregate Index (hedged to NZD) | bloomberg.com/professional/product/indices |
| New Zealand Fixed Interest | Bancorp | Not applicable | Bloomberg NZBond Composite 0+ Yr Index | bloomberg.com/professional/product/indices |
| Cash and Cash Equivalents | Bancorp | Not applicable | S&P/NZX Bank Bills 90-Day Index | |
| Foreign currency hedging | Bancorp | BNZ | Not applicable | |

These indices may be updated or changed at any time.

¹ Additional information on the benchmark indices may be obtained from the websites listed. These websites are current at the date of the SIPO and may change.

11. Authorised investments

The Scheme may invest in any assets, property, securities, rights and interests, including (without limitation):

- (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 Manager 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.