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# Hunter Investment Funds

## Statement of Investment Policy and Objectives

Effective Date 26 August 2020

Issued by Implemented Investment Solutions Limited

This document gives you important information about this investment to help you decide whether you want to invest. There is other useful information about this offer on [www.disclose-register.companiesoffice.govt.nz](http://www.disclose-register.companiesoffice.govt.nz). Implemented Investment Solutions Limited has prepared this document in accordance with the Financial Markets Conduct Act 2013 ('FMC Act'). You can also seek advice from a financial adviser to help you make an investment decision.



## A. Description of the managed investment scheme

The Hunter Investment Funds ('Scheme') is a managed investment scheme. The Scheme offers one single sector investment fund, the Hunter Global Fixed Interest Fund ('Hunter Global Fixed Interest Fund'), which provides investors with exposure to international fixed interest (hedged to New Zealand Dollars), and two diversified funds ('Hunter Diversified Funds') which provide investors with exposure to a range of asset types. These three funds are collectively referred to as the Funds.

The Hunter Global Fixed Interest Fund, or any underlying investment portfolio of the Hunter Global Fixed Interest Fund ('Hunter Global Fixed Interest Fund Portfolio'), is actively managed. The Hunter Global Fixed Interest Fund may invest in direct securities (including derivatives) or through other managed investment schemes.

The Hunter Diversified Funds provide investors with access to two low cost diversified portfolios of assets. These Funds are diversified across asset classes (i.e. equities and bonds) both in New Zealand and internationally. The Hunter Diversified Funds are managed with the objective of performing broadly in line with each Fund's benchmark.

## B. Roles and responsibilities

Implemented Investment Solutions Limited ('IIS') is the licensed manager ('Manager') of the Scheme. The Manager's key roles and responsibilities are:

- Preparation of disclosure material;
- Promotion and distribution of the Funds;
- Establishing, reviewing and maintaining this Statement of Investment Policy and Objectives ('SIPO');
- The ongoing management and oversight of the Funds. This includes appointing, managing and monitoring specialist providers for administration and investment management; and
- Monitoring investment performance and outcomes.

### Hunter Global Fixed Interest Fund:

Hunter Investment Management Limited ('Hunter') is the investment advisor for the Hunter Global Fixed Interest Fund. As investment advisor, Hunter is responsible for selecting and monitoring the Hunter Global Fixed Interest Fund's investment mandate and investment manager(s). It also monitors the Hunter Global Fixed Interest Fund's investment performance and provides some promotion and distribution services.

PIMCO Australia Pty Ltd ('PIMCO') is the investment manager for the Hunter Global Fixed Interest Fund and is responsible for:

- Investing and managing the assets of the Hunter Global Fixed Interest Fund; and
- Managing currency hedging.

Key administration functions for the Hunter Global Fixed Interest Fund, being fund accounting, and unit pricing, are currently performed by BNP Paribas Fund Services Australasia Pty Limited. Registry services for the Hunter Global Fixed Interest Fund are provided by MMC Limited.

### Hunter Diversified Funds:

Hunter is the investment manager for the Hunter Diversified Funds and is responsible for decisions about what the Hunter Diversified Funds invest in. The Hunter Diversified Funds are invested in accordance with this SIPO and Hunter's investment philosophy and process.

The Hunter Diversified Funds may invest in passively and actively managed underlying funds selected by Hunter.

Hunter also participates in reviewing this SIPO.

Key administration functions for the Hunter Diversified Funds, being registry, fund accounting, and unit pricing, are currently performed by Adminis NZ Limited.

Public Trust, is the Scheme's Supervisor. The Supervisor is responsible for supervision of the Manager and the Scheme, including:

- Acting on behalf of the Scheme's investors in relation to the Manager and any contravention of the Manager's issuer obligations;
- Supervising the performance by the Manager of its functions and the financial position of the Manager and the Scheme; and
- Holding the Scheme property or ensuring that the assets are held in accordance with applicable legislative requirements. BNP Paribas Fund Services Australasia Pty Limited has been appointed by the Supervisor as Custodian for the Hunter Global Fixed Interest Fund. Adminis Custodial Nominees Limited has been appointed by the Supervisor as Custodian for the Hunter Diversified Funds.

### C. Investment philosophy

Hunter's investment philosophy is based on the following beliefs:

- both active and passive investment strategies can play valuable roles within portfolio construction;
- strategic asset allocation is an important component in determining long-term investment returns and the trade-off between risk and return;
- diversification across a range of geographic regions, asset classes and securities is an important risk mitigation factor;
- regular rebalancing is beneficial to ensure appropriate risk tolerances are maintained so long as this is undertaken in a cost effective way;
- fees reduce returns to investors and are an important consideration; and
- taxation can also be a drag on returns and structuring of investment matters.

The Hunter Diversified Funds have been structured to provide a range of diversified funds to meet each investor's risk profile whilst incorporating these investment beliefs. Each of the Hunter Diversified Funds invests in the same range of underlying funds. In order to achieve the desired risk/return trade-off for each of the Hunter Diversified Funds, the relative weightings of each asset class is adjusted. For example, the Balanced Fund, which targets moderate returns and risk will hold a higher proportion of lower risk assets such as cash and fixed interest than the Growth Fund. Conversely, the Growth Fund, which targets higher returns and risk will hold a lower proportion of lower risk assets and a higher proportion of higher risk assets such as shares than the Balanced Fund.

PIMCO has been appointed as the underlying specialist investment manager of the Hunter Global Fixed Interest Fund. PIMCO's fixed income philosophy revolves around the principle of diversification. PIMCO believes that no single risk should dominate returns. By diversifying strategies, or relying on multiple sources of value, PIMCO is confident that it will be able to generate a solid track record with a high degree of consistency. PIMCO seeks to add value through the use of "top-down" strategies such as its exposure to interest rates, or duration, changing volatility, yield curve positioning and sector rotation. PIMCO also employs "bottom-up" strategies involving analysis and selection of specific securities. By combining perspectives from both the portfolio level and the security level, PIMCO seeks to consistently add value over time while incurring acceptable levels of portfolio risk.

## D. Fund Investment Objectives and Strategies

The investment objectives and strategies for the Funds are:

### Hunter Global Fixed Interest Fund

#### Investment Objectives

The investment objective of the Fund is to provide a total return, before costs and tax, 1% per annum higher than the Bloomberg Barclays Global Aggregate Index – 100% New Zealand dollar hedged over a rolling 3 year period. The ex-post tracking error is expected to be below 3%.

#### Investment Strategy

##### *Benchmark index*

- Bloomberg Barclays Global Aggregate Index – 100% New Zealand dollar hedged.

##### *Benchmark asset allocation*

- 100% International fixed interest.

##### *Asset allocation ranges:*

- 95%-100% International fixed interest<sup>1</sup> ('Portfolio').
- 0% - 5% funding account (holds NZD cash and cash equivalents).

##### *Credit Quality:*

- The minimum average Portfolio credit quality is A-.

##### *Duration range*

- The average duration of the Portfolio must be within +/- 3 years of the average duration of the Benchmark Index.

##### *Appointed specialist investment manager:*

- The current investment manager of the Portfolio is PIMCO Australia Pty Ltd.

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<sup>1</sup> The Investment Manager has authority to take actions in connection with exchanges, reorganisations, conversions or other corporate events that could result in the receipt of securities (including, but not limited to, common stock) that may or may not be permitted investments. The Investment Manager may, in the best interest of the portfolio, hold these for a reasonable amount of time (as determined by the Investment Manager in its commercially reasonable discretion). The Portfolio may invest in New Zealand fixed interest. This is included in its asset allocation to international fixed interest.

*Permitted investments:*

The Portfolio can invest in:

- Government and Agency Securities, Supranational Securities, Local Authorities Bonds, Corporate Securities, Event-linked Bonds, Money Market Instruments, Bank Loans, Yankee and Euro Bonds, Mortgage-Backed Securities (including CMOs and REMICs), Mortgage Derivatives, Asset-Backed Securities, Preferred Stock, Convertible Securities, Emerging Market Securities, Private Placements, Structured Notes, Futures and Forwards, Foreign Exchange, Options, Caps and Floors, Swaps and Swaptions, Credit Default Swaps (Long and Short), Spread trades, CDOs, CLOs and CBOs;
- Cash and cash equivalents. Cash equivalents are defined by PIMCO as being securities rated at least A- with a duration generally one year or less; and
- Derivative instruments including currency hedging instruments.

The Portfolio may use derivatives such as options, futures, swaps or credit derivatives for the purpose of:

- Protecting against risks such as unfavourable changes in an investment's price;
- Enhancing returns by taking advantage of pricing inefficiencies;
- As a cost-effective alternative to purchasing physical assets;
- Implementing the investment objectives of the Fund; and
- Currency management.

*Prohibited investments:*

Investment in the following assets is specifically prohibited (derivative positions that may include exposures as part of a basket are exempt from these restrictions, e.g. Basket CDS for spread trade or hedging etc.):

- Tobacco companies;
- Armament manufacturers;
- Cluster munitions development or production; and
- The Portfolio will not invest in companies whose only, core, or majority business is the exploration, extraction, refining or processing of fossil fuels. In addition, the Portfolio will not invest in any utility who primarily burns fossil fuels.

*Rebalancing policy:*

- As a single-sector fund, there is no need for a rebalancing policy.

*Currency management*

- The Fund targets being fully hedged to New Zealand dollars. Hedging is performed by PIMCO, who may also take active currency positions between currencies (for example, increasing or decreasing the Fund's exposure to different underlying currencies).

*Funding account*

- The purpose of the funding account is to manage non-investment related liquidity amounts primarily attributable to fund expenses and investor contributions or withdrawals. Large investor contributions or withdrawals may result in the funding account exposure temporarily being outside the 0%-5% range.

IIS aims to have a funding account balance of less \$NZ500,000. The funding account balance is monitored daily and surplus amounts of \$NZ500,000 or more are

transferred to the Portfolio for investment by PIMCO. IIS makes no active investment decisions in relation to the funding account cash holding.

*Other:*

- The Fund can borrow up to 20% of the aggregate value of its investments but only for the purposes of providing short-term liquidity (i.e. to temporarily fund redemptions, securities settlement, or pay expenses).

## Hunter Balanced Fund

### *Investment Objective*

The Fund aims for mid-range long-run returns by investing in a diversified portfolio with a balance of income and growth assets. The Fund is managed with the objective of performing broadly in line with the return of its investment benchmark.

### *Investment benchmark*

The weighted average return (before tax, fees and other expenses) of the asset class benchmark indices (as set out in the table below).

### *Investment Manager*

Hunter is the investment manager for the Fund. Hunter selects underlying funds and/or appoints investment managers. Related parties of Hunter may be appointed to manage a portion of the Fund. Details of the Fund's underlying specialist managers and portfolio configuration can be obtained by contacting Hunter or the Manager.

### *Authorised investments*

The Fund invests in the asset classes in the table below. Investment can be either directly in securities (including derivatives) or via a suitable fund.

Asset class <sup>2</sup>	Benchmark asset allocation %	Range %	Benchmark Index
Cash and cash equivalents	2%	0% - 10%	Bloomberg NZBond Bank Bill Index
New Zealand fixed interest	12%	0% - 20%	Bloomberg NZBond Composite 0+ Yr Index
International fixed interest	26%	10% - 40%	Bloomberg Barclays Global Aggregate Index (100% hedged to NZD)
Total income assets	40%		
Australasian equities	20%	10% - 30%	S&P/NZX 50 Index (gross and including imputation credits)

<sup>2</sup> Accrued fund expenses and other fund liabilities are excluded for the ranges in this table. Cash and cash equivalents excludes any cash held within other asset classes.

International equities - unhedged	40%	25% - 55%	MSCI World Net Index in NZD
Total growth assets	60%		

### ***Rebalancing policy***

Hunter and IIS monitor the Fund's asset allocations daily. If the allocation between income and growth assets deviates more than 5% from the benchmark asset allocation, the Fund will be rebalanced. In addition, if an asset allocation moves outside its range the Fund will be rebalanced.

### ***Tactical asset allocation policy***

We do not aim to increase returns by actively over-weighting or under-weighting asset classes.

### ***Currency hedging policy***

The Fund targets being:

- 100% hedged to New Zealand dollars for international fixed interest, and
- Unhedged to New Zealand dollars for international equities.

### ***Other***

The Fund can borrow up to 10% of the aggregate value of its investments but only for the purposes of providing short-term liquidity (i.e. to temporarily fund redemptions, settle securities trades or pay expenses).

## **Hunter Growth Fund**

### ***Investment Objective***

The Fund aims for high long-run returns by investing in a diversified portfolio weighted towards growth assets but with some income asset exposure. The Fund is managed with the objective of performing broadly in line with the return of its investment benchmark.

### ***Investment benchmark***

The weighted average return (before tax, fees and other expenses) of the asset class benchmark indices (as set out in the table below).

### ***Investment Manager***

Hunter is the investment manager for the Fund. Hunter selects underlying funds and/or appoints investment managers. Related parties of Hunter may be appointed to manage a portion of the Fund. Details of the Fund's underlying specialist managers and portfolio configuration can be obtained by contacting Hunter or the Manager.

### ***Authorised investments***

The Fund invests in the asset classes in the table below. Investment can be either directly in securities (including derivatives) or via a suitable fund.

Asset class <sup>3</sup>	Benchmark asset allocation %	Range %	Benchmark Index
Cash and cash equivalents	2%	0% - 10%	Bloomberg NZBond Bank Bill Index
New Zealand fixed interest	3%	0 % - 15%	Bloomberg NZBond Composite 0+ Yr Index
International fixed interest	15%	5% - 25%	Bloomberg Barclays Global Aggregate Index (100% hedged to NZD)
Total income assets	20%		
Australasian equities	26%	16% - 36%	S&P/NZX 50 Index (gross and including imputation credits)
International equities - unhedged	54%	39% - 69%	MSCI World Net Index in NZD
Total growth assets	80%		

### ***Rebalancing policy***

Hunter and IIS monitor the Fund's asset allocations daily. If the allocation between income and growth assets deviates more than 5% from the benchmark asset allocation, the Fund will be rebalanced. In addition, if an asset allocation moves outside its range the Fund will be rebalanced.

### ***Tactical asset allocation policy***

We do not aim to increase returns by actively over-weighting or under-weighting asset classes.

### ***Currency hedging policy***

The Fund targets being:

- 100% hedged to New Zealand dollars for international fixed interest, and
- Unhedged to New Zealand dollars for international equities.

### ***Other***

The Fund can borrow up to 10% of the aggregate value of its investments but only for the purposes of providing short-term liquidity (i.e. to temporarily fund redemptions, settle securities trades or pay expenses).

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<sup>3</sup> Accrued fund expenses and other fund liabilities are excluded for the ranges in this table. Cash and cash equivalents excludes any cash held within other asset classes.



## **E. Investment Policies**

### **Taxation**

The Funds have elected to be a Portfolio Investment Entities ('PIEs') and are therefore taxed under the PIE regime.

The taxation implications of an investment method, such as holding assets directly or investing in a managed investment scheme, are taken into account when determining the most appropriate approach for the Funds. Note that taxation is not the sole consideration when choosing an investment method; other factors taken into account include cost and implementation feasibility.

### **Liquidity**

The liquidity risk of the Funds is assessed with reference to liquidity of the underlying assets and securities. The Manager then establishes an appropriate application and redemption frequency for the Funds. The Funds invest predominantly in liquid securities and hence have daily applications and redemptions. Market conditions can, however, change resulting in some assets becoming difficult to sell. Hence if the Funds were to experience liquidity problems the Manager may defer or suspend redemptions for a period of time.

### **Related-party transactions**

Related-party transactions, other than the type described below are prohibited.

The Funds may invest in other managed investment schemes. If these schemes are managed by related parties (for example where the Hunter Diversified Funds invest in the Hunter Global Fixed Interest Fund), and are permitted under section 174 of the FMC Act, they are permitted investments for the Funds. The Manager will report transactions in managed investment schemes managed by related parties to its Supervisor in accordance with section 173(2) of the FMC Act.

### **Trade allocations and transactions**

If the Funds invest directly in securities, the investment manager must have best execution, brokerage and soft dollar policies governing their investment management activity on behalf of the Funds.

### **IIS Investment Management Policy**

The Manager's policies and procedures in relation to appointing and monitoring investment managers. In particular the policy covers:

- Investment management governance,
- Investment manager selection and appointment, and
- Investment manager monitoring and compliance.

### **Other relevant policies**

Summaries of the key relevant policies are set out below.

#### *Unit Pricing and Unit Register Policy*

The purpose of this policy is to set out how IIS manages its unit pricing and unit register obligations, and the way in which IIS exercises its discretions authorised by the Trust Deed and the establishment documentation for the Funds.

This policy also links to IIS's Outsourcing Policy reflecting that we outsource functions including registry, fund administration and unit pricing to third parties. In particular, the policy

governs how IIS selects, monitors and undertakes ongoing due diligence on third party providers.

Within the bounds of what is reasonable and practical, our goals are to:

- Have unit prices that reflect fair, realisable value of underlying assets and liabilities;
- Ensure equitable treatment of investors entering, exiting or remaining in a Fund;
- Have a consistent and objective process for determining unit prices; and
- Comply with our governing documents, offer documents and the law.

#### *Conflicts of Interest and Related Party Transactions Policy*

The Conflicts of Interest and Related Party Transactions Policy sets out the principles and procedures relating to identifying, recording and managing conflicts of interest within IIS. The policy applies to all of IIS's directors, relevant officers, senior management and employees.

The core policy statement is:

*'As a licensed manager of Managed Investment Schemes, IIS must act honestly and in the best interests of the Scheme participants. IIS recognises that in order to satisfy this duty, it and its Staff must put the interests of Scheme participants ahead of those of itself or Staff members.'*

#### **F. Investment performance monitoring**

IIS, with the advice of Hunter, monitors investment performance of the Funds on a monthly basis. Performance is measured and assessed on the following basis for 1, 3 and 5 year periods:

- Gross return
- Net of charges and gross of tax
- Net of charges and gross of tax at highest investor PIR (28%)
- Benchmark index return
- Performance relative to benchmark
- Annualised standard deviation of gross return
- Annualised standard deviation of benchmark index return
- Annualised tracking error

IIS reports performance to the Supervisor and also to the IIS board.

The IIS board has responsibility for oversight of investment manager performance. The IIS board aims to meet at least quarterly.

#### **G. SIPO monitoring and review**

The IIS board is responsible for governance oversight of the SIPO.

The Manager's compliance processes include periodic policy reviews. SIPOs are reviewed annually by the IIS Fund Hosting Due Diligence Committee with the outcomes of the review reported to the IIS board. In addition, IIS management may initiate an ad hoc review, with examples of events that could lead to this being:

- The investment manager recommending changes to the SIPO;
- A change in roles and responsibilities; or
- A permanent change in risk and return characteristics of the relevant market.

SIPO reviews take into account the views of IIS and each investment manager and if required the views of external experts.

The Manager can make changes to the SIPO in accordance with the Trust Deed and the FMC Act. Before making changes to the SIPO, the Manager will consider if the changes are in the best interests of investors and consult with the Supervisor. Any changes to the SIPO require IIS board approval, as well as written approval of the Supervisor. The Manager will give notice to investors before implementing any material SIPO changes.

The Manager is responsible for monitoring adherence to the SIPO and reporting any breaches to the IIS board and the Supervisor.

This SIPO was approved by the IIS board on 21 August 2020 and takes effect on 26 August 2020.

## *Glossary*

**Act** and **FMC Act** means the Financial Markets Conduct Act 2013.

**PIMCO** means PIMCO Australia Pty Limited.

**Benchmark index** means the financial index or indices against which the performance of a Fund is measured.

**Funds** means the managed funds offered within the Scheme, being the Hunter Global Fixed Interest Fund, the Hunter Balanced Fund and the Hunter Growth Fund.

**IIS** means Implemented Investment Solutions Limited.

**Manager** means IIS.

**Scheme** means the Hunter Investment Funds, a managed investment scheme established under a trust deed dated 1 December 2016 and offered in accordance with the Act.

**Supervisor** means the supervisor of the Scheme, which is Public Trust.

**Tracking error** means the annualised standard deviation of the difference between the returns of a Fund and the benchmark against which its performance is measured.

**Underlying fund** means any other investment fund into which a Fund invests.