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# Hunter Investment Funds

## Statement of Investment Policy and Objectives

Effective Date 30 September 2021

Issued by Harbour Asset Management 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). Harbour Asset Management 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).

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.

## **B. Roles and responsibilities**

Harbour Asset Management Limited ('Harbour') 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 Fund;
- Establishing, reviewing and maintaining this Statement of Investment Policy and Objectives ('SIPO');
- The ongoing management and oversight of the Fund. This includes appointing, managing and monitoring specialist providers for administration and investment management; and
- Monitoring investment performance and outcomes.

PIMCO Australia Pty Ltd ('PIMCO') has been appointed as the underlying specialist 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.

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.

## **C. Investment philosophy**

The Hunter Global Fixed Interest Fund philosophy is to appoint a global manager that in our view will add value through active management.

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 strategy for the Fund is:

##### **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;
- The Portfolio will not invest in companies who derive more than 10% of their earnings from pornography or gambling; 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.

Any exposures to pornography and gambling companies at the effective date of this SIPO will be sold over time at the Investment Manager's discretion.

*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.

Harbour 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. Harbour 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).

## **E. Investment Policies**

### **Taxation**

The Fund has elected to be a Portfolio Investment Entities ('PIEs') and is 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 Fund. 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 Fund is assessed with reference to liquidity of the underlying assets and securities. The Manager then establishes an appropriate application and redemption frequency for the Fund. The Fund invests predominantly in liquid securities and hence has daily applications and redemptions. Market conditions can, however, change resulting in some assets becoming difficult to sell. Hence if the Fund were to experience liquidity problems the Manager may defer or suspend redemptions for a period of time.

### **Related-party transactions**

Related-party transactions are prohibited.

### **Trade allocations and transactions**

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

### **Harbour External Manager Selection and Monitoring 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 Harbour manages its unit pricing and unit register obligations, and the way in which Harbour exercises its discretions authorised by the Trust Deed and the establishment documentation for the Fund.

Harbour outsource functions including registry, fund administration and unit pricing to third parties. In particular, the policy governs how Harbour 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 the Fund;
- Have a consistent and objective process for determining unit prices; and
- Comply with our governing documents, offer documents and the law.

## F. Investment performance monitoring

Harbour monitors investment performance of the Fund 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

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

## G. SIPO monitoring and review

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

The Manager's compliance processes include periodic policy reviews. SIPOs are reviewed annually (or sooner if required), with the outcomes of the review reported to the Harbour board. In addition, Harbour 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 Harbour 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 Harbour 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 Harbour board and the Supervisor.

This SIPO was approved by the Harbour board on 24 September 2021 and takes effect on 30 September 2021.

## *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.

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

**Harbour** means Harbour Asset Management Limited.

**Manager** means Harbour.

**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.