
ACI Funds

Statement of Investment Policy and Objectives

Investment management by Stewart Group Asset
Management Limited

Effective Date 13 April 2023

Issued by FundRock NZ Limited



A. Description of the Managed Investment Scheme

The ACI Funds (Scheme) is a managed investment scheme. The Scheme offers two diversified funds, the ACI Conservative Fund and the ACI Growth Fund (Funds). Both Funds provide investors with exposure to a range of asset types. These Funds are diversified across asset classes (i.e. cash, fixed interest, equities and property) both in New Zealand and internationally.

Investors may also elect to invest in a pre-defined strategy, the ACI Balanced Strategy, which is made up of a mix of the Funds.

B. Roles and Responsibilities

The manager of the Scheme is FundRock NZ Limited (FundRock, Manager we, us, our).

The Manager's key roles and responsibilities are:

- Preparation of disclosure material;
- 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:
 - Fund administration; and
 - Investment management
- Monitoring investment performance and outcomes.

FundRock has appointed Stewart Group Asset Management Limited (Stewart Group) as the investment manager for the Funds. Stewart Group is responsible for making decisions about what the Funds and strategy invest in. The Funds are invested in accordance with this SIPO. The Funds may invest in passively and actively managed underlying funds selected by Stewart Group.

Stewart Group also participates in reviewing this SIPO.

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

The supervisor of the Scheme is Public Trust (Supervisor). The Supervisor is responsible for supervising us and the Scheme, including:

- Acting on behalf of investors in each Fund 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. Adminis NZ Limited has been appointed by the Supervisor as custodian for the Funds.

C. Investment Philosophy

Stewart Group believes that modern financial markets are relatively efficient resulting in security prices that immediately reflect all available information as it becomes known and that higher expected returns are associated with higher levels of risk. Within this, there is a belief that targeting certain investment style factors leads to the potential for better risk and return outcomes.

Based on these core beliefs, the following investment principles are applied when undertaking portfolio construction:

- high quality academic research and data analysis are integral parts of portfolio management;
- strategic asset allocation across asset classes and within sub-asset classes is the key determinant of long-term investment outcomes (i.e, returns);
- diversification across a range of geographic regions, asset classes and securities is an important risk mitigation factor and generally contributes to reduced volatility;
- investment style factors relating to a company's size, relative price and profitability are relevant in determining their long-run expected returns;
- a disciplined approach to portfolio re-balancing which considers transaction costs and long-term expected returns is beneficial to ensure appropriate risk tolerances are maintained;
- environmental, social, and governance matters impact investment outcomes and therefore are an important consideration of the overall investment process; and
- fees reduce returns to investors and are an important consideration.

The Scheme has been structured to provide a range of investment options to cater for different investment risk profiles. In order to achieve the desired risk/return trade-off for each investment option, the relative weighting of each asset class is adjusted.

For example, the ACI Conservative Fund, which targets moderate returns and risk will hold a higher proportion of lower risk assets, such as cash and fixed interest, than the ACI Growth Fund. Conversely, the ACI 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 ACI Conservative Fund.

D. Fund Investment Objectives and Strategies

The investment objectives and strategies for the Funds are:

ACI Conservative Fund

Investment objective

The ACI Conservative Fund's objective is to provide relatively consistent returns, with a modest degree of capital growth over the long term. The fund aims to achieve a rate of return (net of fees but before tax) of at least 1.75% per annum above inflation (as measured by Statistics New Zealand's Consumer Price Index) over the longer term. 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

Stewart Group is the investment manager for the Fund. Stewart Group selects underlying funds and/or appoints investment managers. Related parties of Stewart Group 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 Stewart Group or us.

Authorised investments

The Fund invests in the asset classes in the table below. As at the date of this SIPO, all investments (excluding cash which may also be held directly) are held via underlying funds. Underlying funds may use derivatives to manage large cashflows and forward contracts for hedging foreign currencies.

Asset Class ¹	Target Asset Allocation %	Range %	Benchmark Index
Cash and cash equivalents	1.00%	0%-40%	Bloomberg NZBond Bank Bill Index
International fixed interest	66.00%	40%-80%	Bloomberg Global Aggregate Bond Index (NZD Hedged)
Total income assets	67.00%		
Australasian equities	5.60%	0%-20%	75% S&P/NZX 50 Index (gross and including imputation credits) 25% S&P ASX 300 (TR) Index
International equities	22.40%	0%-40%	80% MSCI World ex Australia Index (50% NZD Hedged) 20% MSCI Emerging Markets Index
Listed Property	5.00%	0%-10%	MSCI World Real Estate Index
Total growth assets	33.00%		

Rebalancing policy

As the performance of a portfolio component varies over time, component weights may deviate from their target allocations. It can also deviate as a result of cash flow and withdrawal timing.

Rebalancing is a tool to manage such deviations and can help maintain an asset allocation in line with the pre-defined target of the fund and the allowed tolerance. Therefore, rebalancing is a key part of implementing the Fund's investment objective.

As part of the Fund's portfolio monitoring process, cashflows are used to move actual asset allocation closer to their target allocation. Inflows are used to invest in underweighted underlying funds while redemptions are funded by selling those underlying funds that are overweight.

This structured approach is performed regularly (usually daily), while ensuring appropriate management of transaction costs.

¹ Accrued fund expenses and other fund liabilities are excluded for the ranges in this table. If we invest in a suitable fund to gain exposure to an asset class in this table, we do not look through to the underlying asset class exposure of that fund. The suitable fund is regarded as being 100% invested in the relevant asset class.

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;
- 50% hedged to New Zealand dollars for international equities (excluding Australian and emerging market equities which are unhedged); and
- 100% hedged to New Zealand dollars for listed property.

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).

ACI Growth Fund

Investment objective

The ACI Growth Fund aims to provide a portfolio of mainly growth oriented assets in order to maximise the potential for capital growth over the long- term. The diversified portfolio is weighted towards growth assets while still holding some income assets and aims to achieve a rate of return (net of fees but before tax) of at least 4.5% per annum above inflation (as measured by Statistics New Zealand's Consumer Price Index) over the longer term. 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

Stewart Group is the investment manager for the Fund. Stewart Group selects underlying funds and/or appoints investment managers. Related parties of Stewart Group 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 Stewart Group or us.

Authorised investments

The Fund invests in the asset classes in the table below. As at the date of this SIPO, all investments (excluding cash which may also be held directly) are held via underlying funds. Underlying funds may use derivatives to manage large cashflows and forward contracts for hedging foreign currencies.

Asset Class²	Target Asset Allocation %	Range %	Benchmark Index
Cash and cash equivalents	0.50%	0% - 40%	Bloomberg NZBond Bank Bill Index
International fixed interest	9.50%	0% - 40%	Bloomberg Global Aggregate Bond Index (NZD Hedged)
Total income assets	10.00%		
Australasian equities	17.00%	0% - 30%	75% S&P/NZX 50 Index (gross and including imputation credits) 25% S&P ASX 300 (TR) Index
International equities	68.00%	40% - 80%	80% MSCI World ex Australia Index (50% NZD Hedged) 20% MSCI Emerging Markets Index
Listed Property	5.00%	0% - 10%	MSCI World Real Estate Index
Total growth assets	90.00%		

Rebalancing policy

As the performance of a portfolio component varies over time, component weights may deviate from their target allocations. It can also deviate as a result of cash flow and withdrawal timing.

Rebalancing is a tool to manage such deviations and can help maintain an asset allocation in line with the pre-defined target of the fund and the allowed tolerance. Therefore, rebalancing is a key part of implementing the Fund's investment objective.

As part of the Fund's portfolio monitoring process, cashflows are used to move actual asset allocation closer to their target allocation. Inflows are used to invest in underweighted underlying funds while redemptions are funded by selling those underlying funds that are overweight.

This structured approach is performed regularly (usually daily), while ensuring appropriate management of transaction costs.

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;
- 50% hedged to New Zealand dollars for international equities (excluding Australian and emerging market equities which are unhedged); and
- 100% hedged to New Zealand dollars for listed property.

² Accrued fund expenses and other fund liabilities are excluded for the ranges in this table. If we invest in a suitable fund to gain exposure to an asset class in this table, we do not look through to the underlying asset class exposure of that fund. The suitable fund is regarded as being 100% invested in the relevant asset class.

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).

ACI Balanced Strategy

Investment objective

The ACI Balanced strategy aims to achieve a rate of return (net of fees but before tax) of at least 3.125% per annum above inflation (as measured by Statistics New Zealand's Consumer Price Index) over rolling five-year periods.

Investment benchmark

The weighted average return (before tax, fees and other expenses) of the asset class benchmark indices based on a 50/50 split (as set out in the table below).

Asset Class	Target Asset Allocation %	Benchmark Index
Cash and cash equivalents	0.75%	Bloomberg NZBond Bank Bill Index
International fixed interest	37.75%	Bloomberg Global Aggregate Bond Index (NZD Hedged)
Australasian equities	11.30%	75% S&P/NZX 50 Index (gross and including imputation credits) 25% S&P ASX 300 (TR) Index
International equities	45.20%	80% MSCI World ex Australia Index (50% NZD Hedged) 20% MSCI Emerging Markets Index
Listed Property	5.00%	MSCI World Real Estate Index

Authorised investments

The strategy invests in the Funds in the table below.

Fund	Target Fund Allocation %
ACI Conservative Fund	50.00%
ACI Growth Fund	50.00%

Rebalancing Policy

As the performance of the Funds varies over time, Fund weights may deviate from their Target Allocation (as set out in the table above). Stewart Group will monitor investors in the Balanced Strategy and will rebalance them quarterly, at 31 March, 30 June, 30 September and 31 December, if an investor's fund allocation diverges more than 10% from the strategy's stated Target Fund Allocation.

E. Investment Policies

Taxation

The Funds have elected to be 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 and 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. We then establish 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 we may defer or suspend redemptions for a period of time.

Related-party transactions

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

Parties related to the Funds, including the staff of Stewart Group and their families, and the staff of FundRock and their families may from time to time invest in the Funds.

The Funds may invest in other managed investment schemes. If these schemes are managed by related parties, and are permitted under section 174 of the FMC Act, they are permitted investments for the Funds. We 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.

FundRock investment management policy

This document sets out FundRock'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.

Pricing and Asset Valuation Policy

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

This policy also links to FundRock’s Outsourcing Policy reflecting that we outsource functions including registry, fund administration and unit pricing to third parties. In particular, the policy governs how FundRock 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 applicable laws.

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 FundRock. The policy applies to all of FundRock’s directors, relevant officers, senior management and employees.

The Conflicts of Interest and Related Party Transactions Policy provides guidance on:

- What is meant by a conflict of interest; and
- What constitutes a related party transaction.

The core policy statement is:

‘As a licensed manager of Managed Investment Schemes, FundRock must act honestly and in the best interests of the Scheme participants. FundRock 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

FundRock, with the advice of Stewart Group, 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 at an assumed 28% prescribed investor rate (PIR);
- benchmark index return;
- performance relative to benchmark;
- annualised standard deviation of fund returns (based on monthly returns);
- annualised standard deviation of benchmark index returns (based on monthly returns); and
- annualised tracking error (based on monthly returns).

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

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

G. SIPO Monitoring and Review

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

Our compliance processes include periodic policy reviews. The SIPO is reviewed annually by FundRock management with the outcomes of the review reported to the FundRock board. In addition, FundRock 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 FundRock and the Funds' investment manager and if required the views of external experts.

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

We are responsible for monitoring adherence to the SIPO and reporting any breaches to the FundRock board and the Supervisor.

This SIPO was approved by the FundRock board on 12 April 2023 and takes effect 13 April 2023.