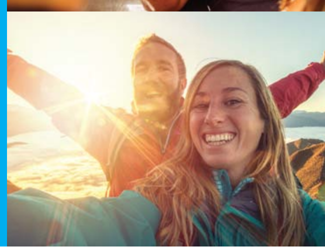
Generate™ Unit Trust Scheme




Statement of Investment Policy and Objectives

3 October 2019

NEW ZEALAND MADE

PRI Principles for Responsible Investment

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1. Introduction

This SIPO sets out the policies and objectives governing decisions made by Generate Investment Management Limited (Generate, the Manager, we, us, or our) in regard to the investment and management of the Generate Unit Trust Scheme (the Scheme) assets.

The Manager is a New Zealand owned and operated investment specialist.

The purpose of the Scheme is to provide a professionally managed fund for investment purposes.

The Scheme is a registered managed investment scheme under the Financial Markets Conduct Act 2013 (FMCA). The Scheme is structured as a unitised trust, governed by a trust deed which appointed Generate as manager and Public Trust as supervisor. The name of the Scheme fund is the Generate Focused Growth Trust (the Trust). This is an aggressive growth style fund.

The most current version of this SIPO is available on the Disclose Register at www.business.govt.nz/disclose (Disclose) and on our website at generatewealth.co.nz/forms-and-downloads.

2. Philosophy

The Manager's general philosophy is that markets are not efficient and that an actively managed portfolio of diversified assets can exploit these inefficiencies. The Manager has an Investment Committee (IC) which is made up of experienced investment professionals. The IC is responsible for overseeing investment decisions of the Trust that are made by the Investment Executive (IE) and monitoring compliance with the SIPO.

The members of the IC or IE may change from time to time without notice to you.

The IE is made up of senior members of the Investment Team and the CEO.

The Trust invests, or may invest, in cash, fixed interest, property and infrastructure* assets, Australasian equities and international equities.

The Manager utilises a combination of underlying funds and direct stock holdings for the international equities allocation. The Manager has identified high quality underlying funds that primarily invest in equities. These underlying funds are actively managed which means they don't have a fixed weighting and can be replaced if the IE believes a certain underlying fund is unlikely to meet its expectations.

3. Investment Objectives

3.1 Focused Growth Trust

The objective of the Focused Growth Trust is to provide a higher growth investment return over the long-term through investment in a portfolio of actively managed cash, fixed interest, property and infrastructure* assets, Australasian equities and international equities.

Volatility and long-term returns are likely to be elevated due to the Trust's weighting of growth assets.

3.2 Long-term Performance Objectives

The performance objective of the Trust is to outperform (before fees, expenses and tax) the notional return of the relevant benchmark index over the long-term. See 'Benchmark Market Indices' in the next section for further information.

* The Manager takes a broad view of what constitutes property and infrastructure assets.

4. Investment Strategy

4.1 Target Asset Allocations

The Target Asset Allocations in Table 1 below represent the Manager's current long-term targets. However, in the short to medium term the tactical asset allocations of the Trust may differ from the targets set out in Table 1, as long as they remain within the ranges set out in Table 3 below.

Specific unanimous IC approval is required to move outside a 15% +/- 'tolerance range' on either side of the Target Asset Allocations. As an example, in order for the Focused Growth Trust to hold more than 80% (that's 65% plus 15%) in international equities the IE would need unanimous IC approval. Aside from this, the Manager may change the Target Asset Allocations with prior unanimous approval from the IC. The Manager will provide notice to the Supervisor of any changes and update this SIPO.

Table 1 – Target Asset Allocations

	FOCUSED GROWTH TRUST %
Cash	5.0%
Fixed Interest	0.0%
Property and Infrastructure*	30.0%
Australasian equities	0.0%
International equities	65.0%
	100.0%

See further explanation in section 4.6.

Asset Allocation Ranges

Table 2 – Growth and Income Asset Ranges

	FOCUSED GROWTH TRUST %
Growth Assets†	0%-100%
Income Assets††	0%-100%

† The growth assets are property and infrastructure* and equities
†† The income assets are cash and fixed interest

Table 3 – Asset Class Ranges

	FOCUSED GROWTH TRUST %
Cash	0%-100%
Fixed Interest	0%-35%
Property and Infrastructure*	0%-100%
Australasian equities	0%-35%
International equities	0%-100%

4.2 Benchmark Market Indices for the Asset Classes

Each asset class that the Trust has exposure to has a benchmark market index against which the Manager measures performance. The table below shows these indices for each asset class that the Trust can be invested in.

ASSET CLASS	BENCHMARK INDEX
Cash	S&P/NZX Bank Bills 90-Day Index
Fixed Interest	S&P/NZX Investment Grade Corporate Bond Index
Property and infrastructure*	S&P/NZX 50 Index Gross
Australasian equites	S&P/NZX 50 Index Gross
International equities	MSCI World Index (50% hedged)

4.3 Benchmark Market Indices for the Funds

The benchmark market index for the Trust is a composite benchmark. This is determined by using the benchmark market index for each asset class and combining the index returns based on the Trust's Target Asset Allocation weighting to each asset class for the relevant period.

The performance of the Trust compared with its relevant composite benchmark will be provided in the Manager's Fund Updates. See generatewealth.co.nz/fund-updates.

More information on the relevant market indices can currently be found at the following web pages:

- S&P/NZX: us.spindices.com/regional-exposure/asia-pacific/new-zealand
- MSCI: msci.com/indexes

* The Manager takes a broad view of what constitutes property and infrastructure assets.

4.4 Authorised Investments

The IC will keep an Approved Issuer List (AIL) of all the assets that the Trust is allowed to invest into (excluding cash and cash equivalents). In order for a new asset to be added to the AIL it must receive unanimous approval from the IC.

We publish summaries of the Trust's assets on a quarterly basis via Fund Updates which we publish on our website and lodge on the Disclose Register.

The asset classes that the Trust can invest in are:

- New Zealand and international cash and cash equivalents;
- New Zealand, Australian (and sometimes international) fixed interest investments;
- New Zealand, Australian (and sometimes international) listed property and infrastructure investments;*
- Australasian equities;
- International equities;
- Derivative contracts used to manage foreign exchange, interest rate and share market risk.

Under our Responsible Investment Policy direct and underlying fund investments into companies involved in the following activities are excluded**:

- Cluster munitions;
- Anti-personnel mines;
- Chemical weapons;
- Nuclear weapons;
- Whaling; or
- Manufacture of tobacco.

4.5 Investment Approach

The Manager will actively manage all assets.

New Zealand and international cash and cash equivalents

Exposure to this asset class is predominantly through on call deposits but can also be short term (less than 12 month) term deposits held with certain banks.

New Zealand, Australian (and sometimes international) fixed interest investments

Exposure to this asset class, if applicable, can be through bank term deposits, corporate bonds, hybrid securities, asset backed securities, local authority bonds and government bonds. Investments in this asset class will be predominantly investment grade minimum where rated or, where unrated, predominantly be of equivalent quality to investment grade bonds in the opinion of the IC.

Property and infrastructure* investments

Exposure to this asset class will be predominantly through listed property, aged care and infrastructure securities on the NZX and the Australian Stock Exchange (ASX). The Manager takes a broad view of what constitutes infrastructure assets. The Manager's definition expands to include telecommunications, transport, and logistics companies.

Australasian equities

The Manager has the ability to hold up to 35% of the portfolio in Australasian equities with a long-term target allocation of 0%. This flexibility allows the Manager to reduce the allocation to property and infrastructure investments in favour of Australasian equities when the Manager expects this to better optimise risk and return (for instance, in a prolonged rising interest rate environment).

Exposure to this asset class, if applicable, will be predominantly through listed securities in the NZX50 and ASX200.

International equities

Exposure to this asset class will be through both underlying funds that invest in equities and direct investments in listed international equities that have large capitalisations (greater than USD 25 billion).

The managers of underlying funds may also use commodities, derivatives, currencies, fixed interest and other securities to help them achieve their investment strategies. They may also have the ability to short-sell assets and use leverage.

Derivative contracts used to manage foreign exchange risk

The derivatives will be predominantly forward foreign exchange contracts. The counterparty must be a "Big Four" local bank.

Derivative contracts used to manage interest rate risk

The derivatives, if applicable, will be predominantly interest rate swaps. The counterparty must be a "Big Four" local bank.

Derivative contracts used to manage share market risk

The derivatives, if applicable, will be predominantly futures and/or options.

Underwriting

With unanimous approval of the IC, the Scheme may from time to time underwrite or sub-underwrite an issue of shares on the NZX or ASX, but only where the issuing company is on the Approved Issuer List. Any underwriting fees paid by the issuer or primary underwriter will be for the benefit of the Scheme's unitholders.

* The Manager takes a broad view of what constitutes property and infrastructure assets.

** See the Responsible Investment Policy for more detail on the exclusion process.

5. Investment Policies

5.1 Investment Concentrations

It is the IE's responsibility to ensure that the Trust's investments do not breach the investment concentration restrictions set out below:

New Zealand and international cash and cash equivalents	No investment(s) in a deposit taking entity is to exceed 15% of the assets of the Trust. Exception being 30% limit of the assets within the Trust for deposits with one of the "Big Four" local banks. ^
New Zealand, Australian (and sometimes international) fixed interest investments	No investment(s) in an issuer is to exceed 10% of the assets within each Fund. ^
Property and infrastructure*	No investment(s) in an issuer is to exceed 10% of the assets of the Trust. ^
International equities	No investment in an underlying fund is to exceed 15% of the assets of the Trust. Direct investments in large capitalisation international stocks (that are not underlying funds) are not to individually exceed 5%** of the assets of the Trust.

5.2 Liquidity

It is the IE's responsibility to ensure that the Trust's investments do not breach the liquidity restrictions set out below.

New Zealand and International cash and cash equivalents	No investment should exceed 5% of the total debts of the issuer.
New Zealand, Australian (and sometimes international) fixed interest investments	No investment should exceed 10% of a specific fixed interest issue, unless the IC deems the investment to be a core holding.
Property and infrastructure* and Australasian equities	No investment should exceed 5% of the market capitalisation of the issuing entity unless the IC deems the investment to be a core holding. Core holdings will not exceed 10% of the issuer's market capitalisation.
International equities	No investment in an underlying fund should exceed 7.5% of the underlying fund's NAV.

The IE monitors liquidity to ensure the Trust can meet its obligations during normal market conditions. This includes having sufficient funds to cover taxation payments, withdrawals, fees and expenses. The IE seeks to manage liquidity risk by investing predominantly in liquid securities and markets.

5.3 Rebalancing

Rebalancing is the process followed to ensure the actual asset allocation of the Trust remains in line with the target or any tactical asset allocation.

The Trust's actual asset allocation is monitored by the IE against its target asset allocation and any tactical asset allocation, generally each business day. Asset allocation is regularly reported to both the Supervisor and the IC.

The threshold for rebalancing is generally +/- 1% from the target or any tactical asset allocation. Rebalancing will generally occur each business day except where it is not considered appropriate to rebalance.

Factors the IE takes into consideration impacting the timing of rebalancing include the size of any deviations, volatility across financial markets (including currency markets), and the timing and size of expected cash flows into or out of the Trust.

5.4 Hedging

(i) Foreign Exchange Hedging

The Manager actively manages currency exposures by deciding whether or not to fully or partially offset the impact of currency movements via entering into foreign exchange transactions. Derivative contracts – predominantly foreign exchange forwards – are used for foreign exchange risk management.

At each meeting, the IC will review the foreign exchange hedging position. The IE executes the strategy. The main philosophy of the Manager's foreign exchange policy is to smooth the impact of currency movements on the value of the Trust's offshore holdings. As such the long term foreign exchange hedging target is 50%. Where the IE believes a relevant currency is over or undervalued it can alter the relevant foreign exchange hedging ratio by up to +/- 15% either side of the long term foreign exchange hedging target at the time the trade is executed. In order for the IE to modify a foreign exchange hedging ratio by more than +/- 15% either side of the long term foreign exchange hedging target unanimous IC approval is required.

(ii) Interest Rate Hedging

The Manager is able to employ interest rate derivatives (predominantly swaps) to hedge the Scheme's interest rate risk. Unanimous IC approval is required prior to undertaking interest rate swaps.

(iii) Share Market Hedging

The Manager is able to employ futures and/or options to hedge the Trust's share market risk. Unanimous IC approval is required prior to undertaking share market futures or options.

^ Should the Trust invest in the cash and cash equivalents and/or the equity and/or the term deposits/bonds of a specific issuer the combined investment is not to exceed 15% of the assets of the Trust. The exception to this is for "Big Four" local banks whereby the aggregate exposure of the Trust's holdings in cash and cash equivalents and/or the equity and/or term deposits/bonds is not to exceed a limit of 30%.

* The Manager takes a broad view of what constitutes property and infrastructure assets.

** Except for Berkshire Hathaway which has a 15% limit

5.5 Responsible Investment

Generate's Responsible Investment Policy integrates environmental, social and governance issues as part of the investment process. For further detail regarding how these are considered in the investment decision making process see the Responsible Investment Policy.

5.6 Tactical Asset Allocation

The Manager employs tactical asset allocation with the goal of enhancing investment performance. As explained earlier the IE is able to alter asset allocation up to a tolerance range of +/- 15% from the long-term Target Asset Allocations. Anything outside these tolerance levels requires unanimous IC approval. The IE typically employs tactical asset allocation when it views an asset class as being cheap or expensive.

5.7 Cashflow Management Policy

The IE ensures the Trust has sufficient cash on hand to cater for the expected level of unitholder withdrawals in normal market conditions.

5.8 Settlement Risk Management Policy

Domestic transactions settle via NZClear.

International transactions settle via the delivery versus payment method in order to reduce counter-party risk.

5.9 Conflicts of Interest and Related Party Transactions Policy

Generate has a Conflicts of Interest and Related Party Transactions Policy.

5.10 Debt Policy

The Trust will not take on any borrowings. However, the underlying funds may use leverage. The Manager invests in underlying funds that have no or acceptable levels of leverage.

5.11 Tax Policy

The taxation treatment of a specific asset class differs according to the investment.

Where there is optionality in the tax treatment for a particular asset class, the Manager advises the Scheme Administrator (MMC Limited) on how the individual investments are to be taxed. Any change in the tax treatment of an investment must be unanimously approved by the IC.

The Manager seeks advice from the Trust's tax adviser, if required.

5.12 Pricing/ Valuation Policy

The Manager has delegated the task of producing daily unit prices on the Trust to the Administrator. The Administrator has supplied the Manager with their Unit Pricing Policy and Framework.

The Policy has been constructed with reference to industry best practice and relevant NZIFRS accounting standards, and informed by standards and guidelines introduced in Australia.

The Policy will comply with any legislation introduced in New Zealand by relevant authorities.

The Administrator adopts calculation methodologies that ensure a unit price is an equitable division of the Trust's net asset value (NAV) and ensures the process of unit pricing is transparent and consistent in application.

6. Investment Performance Monitoring

The IE updates the Portfolio Valuation Report on a daily basis and the Administrator provides daily unit pricing (with a one business day delay). Daily changes in the Portfolio Valuation Report are reconciled with the Administrator's daily unit pricing. The daily unit pricing is used to monitor the performance of the Trust, generally on a daily basis.

Absolute performance is reported to the Supervisor as part of the Manager's report on a monthly basis and relative performance versus the Trust's benchmarks is reported quarterly in the Manager's report. The performance figures reported to the Supervisor are after fees but before tax.

Absolute performance is disclosed on our website and on the Disclose Register on a quarterly basis via our fund updates. Performance figures disclosed in our fund updates include returns after fees and both before and after tax.

7. Investment Strategy Review

The IE continually reviews tactical asset allocation and makes changes / new investments as described earlier.

Asset allocation and investment strategy is reviewed by the IC every two months at the IC meeting.

Long-term Target Asset Allocations are formally reviewed by the IC at least once every two years.

8. SIPO Review

The IC will formally review the SIPO once a year from the date the first SIPO commenced. In this review the IC will consider, amongst other things, asset allocation and hedging policies.

Ad hoc reviews may be triggered by an event such as the IE requesting a change to the Target Asset Allocation of the Trust.

The Manager may vary the SIPO at any time by approval of the IC and with prior consultation with the Supervisor. Any changes to the SIPO will be lodged on Disclose within five business days of the change taking effect.

Please see www.disclose-register.companiesoffice.govt.nz.

Notes

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