Maritime KiwiSaver Scheme

Statement of Investment Policy and Objectives

Date: 30 September 2022

Introduction

This Statement of Investment Policy and Objectives (**SIPO**) applies to the Maritime KiwiSaver Scheme (**Scheme**) which is a restricted KiwiSaver scheme registered under the Financial Markets Conduct Act 2013 (**Act**).

Principal Purpose

The principal purpose of the Scheme is to provide retirement benefits to

- workers within the waterfront industry
- seafarers who are members of the Maritime Union of New Zealand (**MUNZ**).

The Scheme solely invests into and is a member of the Maritime Retirement Scheme. The principal purpose of the Maritime Investment Scheme is the same as the Scheme's.

Governance and Administration

The Scheme is governed by trustees appointed by MUNZ to represent members and by employer organisations or the trustees to represent the employers of waterside workers and the employers of seafarers. These trustees also appoint an independent chairman and a Licensed Independent Trustee.

The Scheme is administered by Melville Jessup Weaver (**MJW**). MJW is also the Scheme's Investment Consultant.

Member Choices

The Scheme offers its members three investment options, a growth portfolio, a balanced portfolio and a conservative portfolio, with members having the right to invest in any of these portfolios and the right to shift their funds between these portfolios. This gives members a choice of investment options so that they can match their investments to their individual financial circumstances. The members can elect to split their investment across multiple portfolios.

Tax Treatment

The Scheme operates as a Portfolio Investment Entity (**PIE**). Tax is paid on behalf of members based on the individual Prescribed Investor Rates notified by members.

Effective and Review Dates

This SIPO takes effect on 30 September 2022 and will next be reviewed, in consultation with the Scheme's Investment Consultant, no later than March, 2023. Depending on the overall performance of the Scheme, the trustees may review this SIPO at any time.

Availability of this SIPO

The most current version of this SIPO is available on the register entry for MKS on the Disclose website at https://disclose-register.companiesoffice.govt.nz/.

Roles and Responsibilities

The trustees are responsible for the investment of the Scheme's assets in accordance with the legislative requirements of the Act, the Trust Deed, the Product Disclosure Statement (**PDS**) and this SIPO. The Act requires the trustees to exercise the care, diligence and skill that a prudent person of business would exercise in the same circumstances.

The trustees' roles and responsibilities include:

- maintaining an investment governance framework
- defining their investment beliefs and prescribing their investment processes
- setting investment objectives and a risk tolerance for each investment option
- determining the investment strategy for each investment option, including target asset allocations, tolerance ranges, and benchmark indices
- implementing the investment strategies including the appointment of investment managers
- monitoring the investment performance of the portfolios relative to their objectives, and the performance of each investment manager and product relative to their benchmark indices and the returns for equivalent investment products
- communicating investment performance to members.

The trustees seek advice from time to time from its Administrator and Investment Consultant (MJW), recognising that the trustees are ultimately responsible for the investment of the funds of the Scheme.

Investment Beliefs and Philosophies

The beliefs and philosophies of the trustees are:

- asset allocations between growth and income assets is the primary determinant of investment returns and risks
- portfolios with more growth assets and less income assets are expected to realise higher long-term returns but these returns are expected to be more volatile with more risk of negative returns and conversely portfolios with less growth assets and more income assets are expected to realise lower long-term returns but these returns are expected to be less volatile with less risk of negative returns
- well-constructed diversified portfolios reduce overall volatility and delivers more consistent returns
- although investment markets are generally efficient, asset prices do not always reflect fair value and investors do not always behave rationally – hence good fund managers can potentially add value from active management (stock selection) but tactical asset allocation is a less reliable source of added value
- good governance, robust decision-making processes and well-managed implementation and monitoring are important to achieving the Scheme's objectives.

Objectives

The objective of the growth, balanced and conservative portfolios is to outperform, over the medium term, the weighted average return of the market indices used to measure the performance of the underlying assets of each portfolio.

The growth portfolio aims to achieve a return which is higher than the return from fixed income and cash. Over the long term, the growth portfolio aims to grow the real value of the capital invested (i.e. allowing for the effects of inflation), after fees and tax are deducted.

The Balanced Portfolio aims to achieve a return which is higher than the return from fixed income and cash but is less volatile than the growth portfolio. Over the long term, the balanced portfolio aims to modestly grow the real value of the capital invested, after fees and tax are deducted.

The Conservative Portfolio aims to achieve a return which is less volatile than the Balanced Portfolio, but which is marginally better than could be had from investing solely in fixed income and cash. Over the long term, the Conservative Portfolio aims to maintain the real value of the capital invested, after fees and tax are deducted.

The trustees recognise that investment markets are volatile and there will be times when investment returns lag or exceed expectations. The asset allocations have been set in the expectation that the investment returns being sought will be achieved over a medium-term timeframe of 5 to 10 years and that they might not be achieved over the short term.

Strategic Asset Allocation

In determining a strategic asset allocation for each investment option, i.e. the growth, balanced and conservative portfolios, the trustees determine the overall allocation to growth and income assets, and then the allocation to each sector within the growth and income asset classes, taking into account:

- expected risks and returns of different mixes of assets relative to the objectives of each investment option
- overall composition and diversification of the portfolios
- availability of suitable investment opportunities within each sector.

The current target asset allocations and ranges of the portfolios are:

Asset Class/Sector	Growth Portfolio (%)		Balanced Portfolio (%)		Conservative Portfolio (%)	
	Target	Range	Target	Range	Target	Range
Growth Assets						
Global Equities	60	50-70	45	35-55	15	10-20
Australasian Equities	20	13-27	15	10-20	5	2-8
Subtotal –Growth Assets	80	75-85	60	55-65	20	15-25
Income Assets						
Global Bonds	12	7-17	25	15-35	46.5	36.5-56.5
NZ Bonds	5	2-8	10	5-15	18.5	10-27
Subtotal - Bonds	17	10-27	35	25-45	65	55-75
Cash	3	0-8	5	0-10	15	10-20
Subtotal – Income Assets	20	15-25	40	35-45	80	75-85
Total	100		100		100	

The target currency allocations are to hedge currency 100% for global bonds and 50% (after tax at 28%) for global equities. These hedging strategies are managed passively unless fund managers can demonstrate they can add value from active management.

The Scheme's previous target asset allocation included a weighting to alternative assets. The allocation to this asset sector has been removed effective from the end of March 2020. The timing of the rebalancing has been delayed due to the Fund Manager's redemption schedule, with the majority of funds due to be received by the end of 2022. Once all funds are received, the asset allocation will accord with the Scheme's asset allocation shown above.

The Maritime KiwiSaver Scheme seeks to achieve these target asset allocations by investing solely into and being a member of the Maritime Retirement Scheme. The strategic asset allocation of the Maritime Retirement Scheme is identical to the Scheme's.

Investments

The investment policy of the Maritime KiwiSaver Scheme is identical to the investment policy of the Maritime Retirement Scheme which is to invest into pooled investment products, managed by specialist investment managers within their investment market, generally with mandates to invest in the full range of investment opportunities within their sector. The trustees seek products that are well constructed and have achieved above average returns, consistent with the risk profile of each portfolio.

Specific factors taken into account by the trustees of the Maritime Retirement Scheme in selecting fund managers and products for each asset sector include, inter alia:

- clearly defined and consistently applied investment philosophies
- investment styles consistent with their philosophies
- sound and disciplines investment processes
- the availability and reliability of valuation information
- the need for liquidity having regard to expected cash flow requirements
- tax efficiency
- investment management fees
- past performance.

The table below lists the current investments including their benchmark indices against which returns are measured. It also shows currency hedging arrangements and tax treatment for each investment.

Asset Sector	Fund Manager	Investment Product	Benchmark Index (& Performance Objective)	Currency Hedge	Tax Treatment
Global Equities	ANZ NZ Investments Ltd	Wholesale International Share Fund (Multi-Manager)	MSCI ACWI Index (excl Aust) plus 2%	100% after tax (139% before tax)	FDR
	Mercer Investments	Mercer Overseas Shares Index Portfolio A	MSCI World Index	0% hedged	FDR
Australasian Equities	Fisher Funds Management Ltd	Australian Growth Fund	S&P ASX 200	70% hedged	Taxed on dividends only
	Fisher Funds Management Ltd	Trans-Tasman Equity Fund	S&P/NZX50 Gross Index (50%) / S&P/ASX 200 Index (50%)	70% hedged on the Australian component	Taxed on dividends only
	Salt Funds Management	Salt NZ Core Fund	S&P/NZX50 Gross Index (incl Imputation Credits)	NZ	Taxed on dividends only
Global Bonds	Harbour Asset Management Ltd	Hunter Global Fixed Interest Fund	Bloomberg Global Aggregate plus 0.75%	100%	CV
	Nikko AM New Zealand	Global Bond Fund	Bloomberg Global Aggregate plus 1%	100%	CV
NZ Bonds	ANZ NZ Investments Ltd	Fixed Interest Domestic (Sovereign)	S&P/NZX NZ Government Bond Index plus 0.5%	NA	CV
	ANZ NZ Investments Ltd	Fixed Interest Domestic (High Grade)	S&P/NZX Investment Grade Corporate Bond index plus 0.5%	NA	CV
Cash	ANZ NZ Investments Ltd	ANZ Wholesale Cash Fund	S&P/NZX Bank Bills 90-Day Index plus 0.3%	NA	CV

Restrictions that trustees impose on the Scheme's investments are:

- futures contracts and options are generally to be restricted to hedging techniques and not be used to leverage the portfolio
- financial products may not be lent to any third party without the consent of the trustees.

Implementation Policies and Procedures

The trustees have a range of policies and procedures to support its investment governance framework, as follows:

Investment Performance Monitoring

The trustees continuously review the overall performance and risks of each portfolio and of each investment. This process involves:

- monitoring the returns of each portfolio relative to the investment objectives set down in this SIPO and the returns of equivalent products
- assessing the extent to which the objectives of each portfolio are being achieved and are expected to be achieved in the future
- monitoring the performance of each asset sector and each investment against the selected asset sector benchmarks set down in this SIPO
- assessing the value being added from the active management of each asset sector
- monitoring the investment risks associated with each portfolio and identifying and assessing any particular weaknesses or concerns with the investment strategies of each portfolio, fund manager or investment product
- assessing whether each investment is expected to successfully meet its objectives.

This monitoring is generally undertaken on a quarterly basis with advice from the Investment Consultant. In addition to investment performance, factors taken into account in monitoring fund managers include investment style, organisational strength including personnel changes, and other factors considered relevant to the manager's continuing ability to meet the applicable investment objectives.

Benchmark Returns and Rebalancing

The trustees employ a rebalancing process to ensure that generally the actual asset allocations of each portfolio are close to the target asset allocation. Rebalancing may be required as a consequence of variations between the returns of the different asset sectors or members shifting their investments between portfolios. A tolerance range of plus or minus 1.5% is applied.

The Investment Consultant monitors the actual allocations against the target allocations on a monthly basis and if the actual allocations of any asset sector is outside a tolerance range of 1.5% the portfolios are generally rebalanced. This rebalancing can often be achieved within the cash flow resulting from member contributions and benefit payments but it also may involve selling investments in asset sectors that are overweight and reinvesting in asset sectors that are underweight.

The trustees may decide not to rebalance to be within the 1.5% tolerance range provided the actual asset allocations to each sector are within the target asset allocation ranges.

For the avoidance of doubt, a breach of the 1.5% tolerance will not be treated as a limit break for the purpose of reporting to the Financial Markets Authority.

Liquidity Management

Liquidity is maintained to meet member benefit payments, fees and expenses, and taxation payments. Most investments are in pooled products of equities and bonds, which can be redeemed at short notice to avoid distorting overall asset allocations.

The Administrator closely monitors cash flow requirements. Generally, cash investments are utilised initially to meet liquidity requirements and investments are subsequently rebalanced as necessary.

Conflicts of Interest

Most of the trustees are appointed by MUNZ to represent members and employer organisations or the trustees to represent the contributing employers. The chairman and the MUNZ appointed trustees are members of the Scheme.

Notwithstanding the individual interests of these members and the interests of employers, all trustees recognise their responsibility to act in the wider interests of all members and to treat members equitably.

Trustees, the Administrator and other professional services providers all recognise and acknowledge the requirement for them to avoid improper use of information and to comply with general prohibitions regarding unauthorised transactions between related parties.

Any specific conflicts of interest are managed as they arise. If a conflict arises, the process for managing the conflict will entail identifying and recording the conflict, assessing the conflict and taking appropriate measures, if necessary, to manage the conflict. In the case of trustees, this could involve the trustee standing aside from any decisions related to the conflict.

Risk Management

The trustees mitigate risks by solely investing in the Maritime Retirement Scheme, which in turn spreads investments across a range of growth and income assets, including cash and alternative assets (if suitable investment products are available).

Equities are spread across global and Australasian markets and bonds are spread across global and New Zealand markets. Managers are appointed with pooled products that spread the investments within their sectors across a wide range of investments.

The table below describes each investment risk and the measures adopted by the trustees of the Maritime Retirement Scheme to mitigate these risks:

Risk	Description	Mitigation Measures
Market risks	Macro-economic effects, global and in New Zealand, can and do affect investment markets and hence affect overall investment returns and/or the returns of individual asset classes.	The trustees engage an Investment Consultant who monitors macro-economic trends and advises the trustees on changes to portfolio asset allocations and investment management appointments to take account of macro-economic trends.
Stock selection risks	The trustees generally engage active managers. This policy of active management of investments may result in investments under-performing benchmark returns if managers make poor short-term stock selections.	The trustees rigorously assess managers during the selection process and select managers which are considered to have the capability to achieve superior results based on good stock selections. The trustees continuously monitor the performance of the selected fund managers with advice from the Investment Consultant
Interest rate and credit risks	Movements in interest rates and risks of credit defaults may adversely affect the value of securities and the return on bond investments.	The trustees invest in bond pools with managers who have discretion to take account of expected movements in interest rates and credit risks.
Currency risks	Global investments denominated in foreign currencies can be adversely affected if the NZ dollar appreciates in value.	Global bond investments are fully hedged back to NZ dollars and global equity investments are partially hedged.
Liquidity risks	The Scheme periodically needs cash to pay member benefits, tax and other expenses. There is a risk that the Scheme may not be able to redeem investments to make such payments or, if investments in only some investment sectors can be redeemed, asset allocations may deviate from the target allocations.	The Scheme invests primarily in pools of equities and bonds that are generally liquid. Also the portfolios have cash holding.
Derivative risks	Using derivatives could expose the Scheme to additional investment risks.	Derivatives are generally restricted to hedging techniques and not used to leverage portfolios.