



Statement of Investment Policy and Objectives

For the following funds:

- Pathfinder Global Responsibility Fund
- Pathfinder Global Water Fund
- Pathfinder Global Property Fund
- Pathfinder Commodity Plus Fund
- Pathfinder World Equity Fund

27 August 2018

Version 3

The current SIPO version is to be available on the schemes register (*Disclose*)
www.business.govt.nz/disclose

1. Introduction

Purpose: A statement of investment policy and objectives (**SIPO**) sets out the investment governance and management framework, philosophy, strategies and objectives of a managed investment scheme and its investment funds. This SIPO relates to the Pathfinder Managed Investment Scheme and the following funds (each a **Fund**) managed by Pathfinder Asset Management Limited (**Pathfinder** or **Manager**):

- Pathfinder Global Responsibility Fund
- Pathfinder Global Water Fund
- Pathfinder Global Property Fund
- Pathfinder World Equity Fund
- Pathfinder Commodity Plus Fund

Background: Each Fund is a registered unit trust governed by a master trust deed dated 1 April 2009 (as amended on 8 September 2016) and a separate establishment deed. For each Fund these are referred to as the **trust documents**. Each Fund is a PIE for tax purposes and information on each Fund is available to investors in the product disclosure statement and document containing other material information (the **offer documents**).

Investment philosophy: Pathfinder's key investment philosophy and beliefs are as follows:

- 1) *Socially responsible investing:* We expect share prices of companies that score highly on environmental, social and governance (**ESG**) metrics to perform better than low scoring companies over long time periods. This may be explained through business advantages that improved ESG provides such as:
 - a. lowering reputational risk
 - b. raising employee satisfaction (meaning greater productivity)
 - c. increasing consumer engagement (meaning greater customer loyalty) and
 - d. stronger corporate governance and oversight
- 2) *The most critical investment decisions are at a high level:* Liquid international listed equity markets are predominantly efficient. This means the equity investment strategy should focus on "factor investing" and high level allocation decisions (such as sector and geographic allocations).
- 3) *Simple solutions:* Simpler investment strategies and more transparent investment structures are preferable to more complicated strategies and structures.
- 4) *Impact of losses vs gains:* Generally the "pain" investors feel from an investment loss is multiple times greater than the "satisfaction" of an investment gain. This asymmetry of the investor experience means downside protection should be a proportionately weighted component of the investment strategy.
- 5) *Investing for the long term:* A long term approach to investing will produce better risk weighted returns than a short-term investment horizon.

Fund overview: Below is an overview of each Fund:

Fund	Overview
Global Responsibility Fund	The Fund provides investment exposure to global equities that satisfy Pathfinder's socially responsible investment screening. The Fund's investment strategy includes flexible hedging of currency exposures and the ability to implement downside protection.
Global Water Fund	The Fund provides investment exposure to listed water companies that satisfy Pathfinder's socially responsible screening. The Fund's investment strategy includes flexible hedging of currency exposures and the ability to implement downside protection.

Global Property Fund	The Fund provides investment exposure to listed global property stocks that satisfy Pathfinder's socially responsible screening. The Fund's investment strategy includes flexible hedging of currency exposures and the ability to implement downside protection.
World Equity Fund	The Fund provides investment exposure to global equities that satisfy Pathfinder's socially responsible screening. The Manager may adjust weightings (called "tactical tilts") based on the following criteria: (a) geographic region (b) capitalisation or size (c) sector or (d) other grouping such as high dividend yield stocks. The Fund's investment strategy includes flexible hedging of currency exposures and the ability to implement downside protection.
Commodity Plus Fund	The Fund provides investment exposure to commodities that satisfy Pathfinder's socially responsible screening. The Fund follows a mainly rules based model (the Commodity Strategy) for weighting individual commodities and for switching between commodities and cash (which includes income securities). The rules may be changed or amended by the Manager. The Fund's investment strategy includes hedging of currency exposures.

2. Manager responsibilities

The obligations of Pathfinder as Manager of the Funds include:

- investing assets in accordance with this SIPO, offer documents and trust documents.
- reporting to investors and Public Trust (the **Supervisor**) on each Fund
- monitoring compliance with this SIPO
- reviewing this SIPO every year

The Manager will maintain an investment committee (the **Pathfinder Investment Committee**) to oversee management of the Funds.

3. Investment objective and benchmark

Investment objective: The objective of each Fund is set out in the table below:

Fund	Objective
Global Responsibility Fund	<ul style="list-style-type: none"> ▪ invest in global equities that satisfy Pathfinder's socially responsible screening; and ▪ achieve a return higher than the Fund's Benchmark (after fees but before tax) over medium to long term (3-year +) horizons
Global Water Fund	<ul style="list-style-type: none"> ▪ invest in companies involved in the water industry that satisfy Pathfinder's socially responsible screening; and ▪ achieve a return higher than the Fund's Benchmark (after fees but before tax) over medium to long term (3-year +) horizons
Global Property Fund	<ul style="list-style-type: none"> ▪ invest in global property stocks that satisfy Pathfinder's socially responsible screening; and ▪ achieve a return higher than the Fund's Benchmark (after fees but before tax) over medium to long term (3-year +) horizons
World Equity Fund	<ul style="list-style-type: none"> ▪ invest in global equities from both developed and emerging markets incorporating socially responsible screening; and ▪ achieve a return higher than the Fund's Benchmark (after fees but before tax) over medium to long term (3-year +) horizons
Commodity Plus Fund	<ul style="list-style-type: none"> ▪ invest in the growth potential of commodities (generally by using derivatives) and cash; and ▪ achieve a return higher than the Fund's Benchmark (after fees but before tax) over medium to long term (3-year +) horizons <p>For the Commodity Plus Fund "cash" includes income securities.</p>

Fund benchmark: A benchmark is an index or security that reflects the market a fund is investing in and assists with measuring performance. Each Fund's performance will be measured against an appropriate benchmark selected by the Manager (which may be changed from time to time). The current Fund Benchmarks are set out in the table below:

<i>Fund</i>	<i>Current Benchmark</i>
Global Responsibility Fund	Morningstar Developed Markets Index, 50% hedged to NZ dollars
Global Water Fund	NASDAQ OMX Global Water Index, 50% hedged to NZ dollars
Global Property Fund	Morningstar Real Estate Sector Index, 75% hedged to NZ dollars.
World Equity Fund	Morningstar Global Markets Index, 50% hedged to NZ dollars
Commodity Plus Fund	Bloomberg Commodity Index fully currency hedged to NZ dollars

Monitoring: Fund performance is reported monthly (reports available on the Manager's website: www.path.co.nz). Each Fund is also monitored against its investment objective at least annually by the Manager. This monitoring will involve the following metrics over the relevant period selected by the Manager (currently 3 years):

<i>Fund</i>	<i>Performance monitoring</i>
Global Responsibility Fund	<ul style="list-style-type: none"> ▪ returns after fees and before tax vs the Fund Benchmark ▪ volatility vs the Fund Benchmark ▪ returns after fees and before tax vs the mean or median of a sample of global equity PIE funds
Global Water Fund	<ul style="list-style-type: none"> ▪ returns after fees and before tax vs the Fund Benchmark ▪ volatility vs the Fund Benchmark ▪ returns after fees and before tax vs the mean or median of a sample of global equity PIE funds
Global Property Fund	<ul style="list-style-type: none"> ▪ returns after fees and before tax vs the Fund Benchmark ▪ volatility vs the Fund Benchmark ▪ returns after fees and before tax vs the mean or median of a sample of global property PIE funds
World Equity Fund	<ul style="list-style-type: none"> ▪ returns after fees and before tax vs the Fund Benchmark ▪ volatility vs the Fund Benchmark ▪ returns after fees and before tax vs the mean or median of a sample of global equity PIE funds
Commodity Plus Fund	<ul style="list-style-type: none"> ▪ returns after fees and before tax vs the Fund Benchmark ▪ volatility vs the Fund Benchmark ▪ returns after fees and before tax vs the Commodity Strategy ▪ tracking error vs the Commodity Strategy ▪ returns after fees and before tax vs the mean or median of a sample of commodity PIE funds

Investment process: Each Fund's investment strategy has the following key components:

- Asset allocation (see Section 4 below)
- Equity / Commodity investment (see Section 5 below)
- Currency hedging (see Section 6 below)
- Protection overlay (see Section 7 below)

4. Strategy: asset allocation

The **Target Mix** is the desired or preferred % investment allocation to each asset class and is set by the Manager. For a Fund the sum of each Target Mix must add up to 100%. The **Permitted Range** is the limits each Fund operates inside (any move outside this range must be remedied within 5 business days of the date the Manager becomes aware of the breach of the limit). For the Commodity Plus Fund these bands are very wide as the Fund can have 100% exposure to commodities (0% cash) or 100% exposure to cash (0% commodities) or any combination in between. For the Commodity Plus Fund "cash" includes income securities.

For the other Funds:

- a) **Cash:** actual cash holdings are not expected to exceed 10% of the Fund unless unusual circumstances apply, such as (a) large cash in-flows or out-flows or (b) implementation of the protection overlay (see section 7 below)
- b) **Shares:** It is possible that market price moves, currency moves, fund unitholder flows or other events outside the control of the Manager may move the allocation to shares to above 100%. This is permitted so long as the allocation returns inside the Permitted Range within 5 business days of the date the Manager becomes aware of the breach of the limit.

The Target Mix and Permitted Range for each Fund are set out in the tables below:

Commodity Plus Fund	Asset class	Target Mix² (assumes fully invested in commodities¹)	Permitted Range
	Cash (including income securities)	0%	0% - 100%
	Commodities ¹	100%	0% - 100%

¹ "Commodities" are the permitted exposures to commodities described in this SIPO. These include commodity derivative contracts and associated cash.

² The table shows Target Mixes for when the Commodity Strategy is fully invested in commodities. The actual mix will vary from the Target Mix as commodity and cash allocations change. For the Commodity Plus Fund "cash" includes income securities.

	Asset class	Target Mix	Permitted Range
Global Responsibility Fund	Cash	0%-5%	0% - 70%
	Shares	95%-100%	30% - 100%
Global Water Fund	Cash	0%	0% - 70%
	Shares	100%	30% - 100%
Global Property Fund	Cash	0%	0% - 70%
	Shares	100%	30% - 100%
World Equity Fund	Cash	0%	0% - 70%
	Shares	100%	30% - 100%

5. Strategy: equity / commodity investment

The permitted investments for each Fund have a wide scope in the trust documents. During the current term of this SIPO each Fund will only invest in:

- those investment exposures listed in the table below (these may be changed at the discretion of the Manager)

- cash, term deposits, cash PIE funds and cash-like investments (for the Commodity Plus Fund “cash” includes income securities, examples of which extend to Green Bonds, ESG Bonds and ETFs or funds investing in these).
- currency hedging or protection instruments (including derivatives)

<i>Fund</i>	<i>Equity / commodity Investment exposures</i>
Global Responsibility Fund	The Fund invests in global equities. It can invest in stocks, ETFs or through Pathfinder’s wholesale Responsible Investment Fund. Socially responsible screening is applied.
Global Water Fund	The Fund invests in listed water companies. The preferred access is directly via investment in listed water companies. Holdings in water ETFs are also permitted as a liquidity tool. Socially responsible screening is applied.
Global Property Fund	The Fund invests in listed property stocks. The preferred access is directly via investment in listed property stocks. Holdings in property ETFs are also permitted as a liquidity tool. Socially responsible screening is applied.
World Equity Fund	The Fund invests in global equities. It can invest in individual stocks directly, however the preferred strategy is to invest in ETFs. Socially responsible screening is applied.
Commodity Plus Fund	The Fund does not acquire or hold physical commodities, but instead uses derivatives and other instruments such as futures contracts, swap agreements, commodity structured notes and commodity ETFs. Socially responsible screening is applied.

Individual Holding Target: The target exposure for a Fund to each individual commodity, share or ETF is called the **Individual Holding Target**. These are set by the Manager as follows:

<i>Fund</i>	<i>Setting the Individual Holding Targets</i>
Global Responsibility Fund	This Fund currently invests in global equities through Pathfinder’s wholesale Responsible Investment Fund, so the Individual Holding Targets for the Responsible Investment Fund will apply. Direct stocks and ETFs may also be held (in which case Individual Holding Targets will be set).
Global Water Fund	At least once each calendar year the Manager will select stocks for the Fund through a structured process and will set Individual Holding Targets. Fund holdings will follow these parameters: (1) a portfolio of 50 to 100 stocks (2) no single stock to exceed 15% of the Fund (3) ETF holdings are not intended to exceed 5% of the Fund for an extended period (4) Socially Responsible Investment (SRI) screens are applied (5) up to 20% of the Global Property Fund can be held in NZ listed property stocks. Individual stocks can be added or removed at any time.
Global Property Fund	
World Equity Fund	Investing via ETFs the Manager may make short to medium term tactical asset allocation decisions based on the Manager’s views, which may include (1) the outlook for global markets (2) relative value between markets (3) market valuations (4) event risk and (5) liquidity considerations. The intention is for the Fund to have a highly diversified portfolio of more than 500 underlying exposures. No single underlying stock exposure will be more than 10% of the Fund.
Commodity Plus Fund	The Fund follows a predominantly rules-based model for weighting individual commodities and for switching between commodities and cash (the <i>Commodity Strategy</i>). “Cash” includes income securities.

	If Commodity Strategy allocations change then the Manager will endeavour to change Individual Holding Targets within 3 business days (and must make such change within 5 business days).
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Tolerance: There are “soft” and “hard” limits applicable to the Individual Holding Targets. Soft limits are the preferred holding ranges that the Manager will endeavour to remain within. Hard limits are the maximum tolerated limits. Any holding outside its hard limit must be reweighted within 5 business days of the date the Manager becomes aware of the breach of the hard limit. The tolerance limits are expressed as a range (in absolute terms) either side of the Individual Holding Target. See also the exception for when a significant fund rebalancing is taking place (see below the table) where each hard limit can be expanded from +/-5% to +/-10%:

Fund	Tolerance limit applies to:	Soft limit	Hard limit
Global Responsibility Fund	Each stock or ETF holding	+/- 3%	+/- 5%
Global Water Fund	Each water stock holding	+/- 3%	+/- 5%
Global Property Fund	Each property stock holding	+/- 3%	+/- 5%
World Equity Fund	Each ETF holding	+/- 3%	+/- 5%
Commodity Plus Fund	Each commodity exposure ¹	+/- 3%	+/- 5%

¹ “Commodities” are the permitted exposures to commodities described in this SIPO. These include commodity derivative contracts and associated cash.

Rebalancing: Actual allocations may differ from time to time from the Target Mixes (asset allocation) or Individual Holding Targets due, for example, to market movements or applications/redemptions. The Manager may at any time rebalance Fund holding(s) broadly in line with targets. When a significant rebalancing is being undertaken for a fund (which follows an Investment Committee review) then hard limits for that fund are expanded to +/- 10% of Holding Targets.

6. Strategy: currency hedging

Below are benchmark hedging positions and permitted ranges for hedging in each fund:

	Benchmark hedge position	Permitted Range
Global Responsibility Fund	50%	0% - 110%
Global Water Fund	50%	0% - 110%
Global Property Fund	75%	0% - 110%
World Equity Fund	50%	0% - 110%
Commodity Plus Fund	100%	0% - 110%

Hedging: The benchmark hedge position reflects a “neutral view” or “base position”. For each Fund the Manager may at any time deviate from the benchmark hedge position.

Permitted range: These are the limits each Fund operates inside (any move outside this range must be remedied within 5 business days of the date the Manager becomes aware of the breach of the limit). The permitted range is very wide to accommodate the fact that the Manager seeks to add value through the level of currency hedging. The range also allows for temporary over-hedging scenarios which may occur due to short term currency, equity and/or commodity prices moves.

Currency proxies: While a Fund may have exposure to several foreign currencies, it is not necessary to hedge all currencies. It may be convenient for the USD to be used as a proxy for some or all other currencies.

7. Strategy: protection overlay

Purpose: The process for reducing a Fund's commodity or equity exposure below 100% is called the "protection overlay". The protection overlay is not designed to eliminate losses from all downward market moves. It is intended to reduce (but cannot eliminate) losses from very large and sustained market falls.

<i>Fund</i>	<i>Overview of protection overlay</i>
Global Responsibility Fund	Each Fund is generally intended to target net equity market exposure of close to 100% unless due to market conditions (or expected changes in market conditions) a lower target is set by the Manager. Any implementation of protection on more than 25% of the Fund must be notified to the Pathfinder Investment Committee.
Global Water Fund	
Global Property Fund	
World Equity Fund	
Commodity Plus Fund	The Fund targets the mix of commodities and cash determined by the Commodity Strategy. This mix changes based on market conditions, commodity price moves and adjustments to the Commodity Strategy rules. The Fund may hold 100% cash and 0% commodities ("cash" includes income securities).

Protection tools: The Manager can reduce market risk through a range of tools including those set out in the table below. In each case the reduction in market risk may be stepped.

<i>Fund</i>	<i>Protection tools (these are examples only and are not an exclusive list)</i>
Global Responsibility Fund	<ul style="list-style-type: none"> ▪ allocating to cash ▪ buying futures or options in a liquid market index (such as the S&P500) ▪ interest rate futures or options ▪ entering "over-the-counter" protection derivative transactions (known as "OTC" derivative transactions, these are entered directly with another party and not via an exchange).
World Equity Fund	
Global Water Fund	
Global Property Fund	
Commodity Plus Fund	Cash, income securities, deposits, term deposits and cash equivalent assets or investments.

Currency denomination: The protection tools may be denominated in NZ dollars, US dollars or another currency.

No short positions: The protection overlay does not allow overall net short positions.

8. Management – cash and custody

Cashflow management: Below is an overview of expected Fund cashflow sensitivities:

<i>Fund</i>	<i>Comment on liquidity</i>
Global Responsibility Fund	The Fund's equity investments are expected to be highly liquid under normal market conditions. This means a significant cash buffer is unlikely to be required as a reserve for unexpected Fund redemptions.
Global Water Fund	
Global Property Fund	
World Equity Fund	
Commodity Plus Fund	The majority of the Fund's investments are expected to be liquid under normal market conditions.

Bank accounts: For all bank accounts only the Supervisor (and not Pathfinder) is to have signing authority for external transfers. Each Fund is expected to have the following bank accounts, which can be in NZ dollars and/or another currency:

- *Applications account:* for receipt of applications money and the distribution of redemptions money.
- *Trading account:* for transferring/receiving as part of the trading and investment activities of the Fund. This account will also be used for paying Fund expenses.
- *Broker account:* Cash (in NZ dollars or other currencies) may be held at a cash account with the Fund's broker.
- *Other accounts:* Other accounts in NZD or other currencies may be set up for the Fund (which may include term investments).

Custody: All assets of a Fund must be held by the Supervisor or an independent third party sub-custodian appointed by the Supervisor (which may not include the Manager). No cash for any Fund can pass through the Manager's bank accounts and no assets of the Fund are to be held in the name of the Manager.

9. Management – derivatives and leverage

Derivatives: Derivative contracts may be used in the following ways:

Fund	Permitted use of derivatives
Global Responsibility Fund	to manage exposures to equities, foreign currencies, interest rates and to market investment risks.
World Equity Fund	
Global Water Fund	
Global Property Fund	
Commodity Plus Fund	to provide exposure to commodities and manage exposures to foreign currencies

Leverage: Leverage (the borrowing of money to buy risk units) is not permitted by a Fund. There are very limited circumstances permitted under the trust documents which allow borrowing as a liquidity tool, for example (a) to pay Fund expenses or (b) where the Fund has cash deposits higher than the amount being borrowed.

Other policies: The Manager has internal policies that are applicable to the management of each Fund. These include:

- Socially Responsible Investment Policy
- Exclusions Policy
- Personal Account Trading Policy
- Compliance Manual

10. Review

SIPO review frequency: This SIPO is to be reviewed by the Manager at least once each calendar year. It may be reviewed more frequently.

SIPO approval: The review process will include consultation with the Supervisor. Changes to the SIPO require approval from Pathfinder's board.

11. Interpretation

Some terms used in this SIPO are defined and explained below:

ETF means an exchange traded fund which is a type of investment fund traded on a stock exchange. Investment in an ETF by a Fund is intended to provide (a) diversification through a single investment, (b) operational efficiency and (c) a low cost investment tool.

Property stocks are expected to predominantly own industrial, office and retail property but can include other activities (such as trading and development) and other types of real

estate assets (such as residential property, medical facilities and storage units). The term "property stocks" used in this SIPO includes shares, units or other interests in property entities such as companies, property trusts (REITs) and ETFs.

Water companies cover a wide range of activities including involvement in technical development, manufacturing, construction, ownership, operation and/or consulting for:

- Freshwater and wastewater utilities
- Water filtration and purification
- Water pumps, pipes and irrigation systems
- Water analysis, testing, measurement and monitoring technology
- Resource management and
- Water infrastructure

Some water companies may also have business activities not related to the water industry (meaning they may not be purely a water industry exposure).

Approval: This SIPO is dated 27 August 2018 and was authorised by the Board on 27 August 2018.



Signatory of:

