



# Stewart Investors (NZ) Managed Investment Scheme



Stewart Investors



## Statement of Investment Policy and Objectives

Investment management by First Sentier Investors (Australia) IM Ltd

**Effective date: 13 April 2023**

Issued by FundRock NZ Limited



## A. Description of the managed investment scheme

The Stewart Investors (NZ) Managed Investment Scheme ('Scheme') is a managed investment scheme. The Scheme has on offer one single sector investment fund, the Stewart Investors Worldwide Leaders Sustainability Fund ('Fund') which provides investors with exposure to global equities.

The Fund is actively managed. The Fund invests in a diversified portfolio of equity or equity-related securities of larger capitalisation companies which are listed, traded or dealt in on any of the regulated markets worldwide.

## B. Roles and responsibilities

### The Licensed Manager

FundRock NZ Limited ('FundRock', 'we', 'us', 'our' or 'Manager') is the licensed manager of the Scheme. The Manager's key roles and responsibilities are:

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

### The Investment Manager

First Sentier Investors (Australia) IM Ltd ('First Sentier Investors' or 'Investment Manager') is the Scheme's Investment Manager and is responsible for deciding what the Fund invests in, in accordance with this SIPO. In turn, the Investment Manager may sub-delegate any of its duties, responsibilities, functions or powers to manage the assets of the Fund to one or more affiliates within the First Sentier Investors group. As at the date of this PDS, investment management responsibilities are undertaken by Stewart Investors, who are an independent investment team within the First Sentier Investors group.

The Fund is invested in accordance with this SIPO and Stewart Investors' investment philosophy.

Stewart Investors and First Sentier Investors participate in reviewing this SIPO.

### Other Service Providers

BNP Paribas Funds Services Australasia Pty Limited ('BNP') is the custodian and administration manager.

Apex Investment Administration (NZ) Limited is the registrar.

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 Fund 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.
- Holding the Scheme property or ensuring that the assets are held in accordance with applicable legislative requirements. BNP has been appointed by the Supervisor as Custodian for the Fund.

## C. Investment strategy

The Investment Manager applies a bottom-up approach and aims to invest only in well-stewarded, high quality companies with sustainability at the heart of all investment considerations. Investment decisions around companies focuses on quality:

- Quality of management including integrity, attitude to environmental and social impacts, corporate management, long-term performance and risk.
- Quality of the company franchise including its social usefulness, their environmental impacts and efficiency and responsible business practices.
- Quality of the company's financials including a preference for low net debt, strong cash flows and fair tax practices, as well as robust financial performance.

The Investment Manager recognises and supports the need for societies to maintain a sustainable ecological footprint as they develop and believe a company's ability to contribute to and benefit from helping societies to achieve this – i.e. its sustainability positioning – is a key indicator of its quality.

The Fund does not hedge currency risk.

## D. Responsible Investment

The Manager has delegated investment management decisions for the Fund to the Investment Manager pursuant to the Investment Management Agreement ('IMA'). The Investment Manager takes into account labour standards and environmental, social and ethical considerations for the purposes of selecting, retaining or realising investments.

The Investment Manager is part of First Sentier Investors. The Investment Manager takes an integrated and holistic approach to embedding Responsible Investment ('RI') principles in its investment processes and business practices.

This approach is focused on three pillars of activity: investment quality, stewardship, and employee engagement, learning and development – all overseen and informed by a strong governance framework. Each year the Investment Manager publishes a responsible investment and stewardship report which outlines its progress in these areas and profiles each of the investment team's approaches to responsible investment. You can obtain a copy of this report on the Investment Manager's website at [www.firstsentierinvestors.com/nz/en/adviser/responsible-investment/responsible-investment-reports-and-policies.html](http://www.firstsentierinvestors.com/nz/en/adviser/responsible-investment/responsible-investment-reports-and-policies.html).

### The Fund's approach to labour standard and environmental, social and governance (ESG) factors

The investment process applied by the Fund is deeply qualitative, based on fundamental, bottom-up research that integrates analysis of the sustainability positioning of companies. When managing the Fund, the Investment Manager recognises there is no such thing as a perfect company and believes positive engagement plays an important part in improving shareholder value and protecting the value of client portfolios over the long-term. They meet regularly with company management teams, conduct site visits and commission third-party research. Their assessment of sustainability for the Fund focuses on; sustainability positioning of products and services, quality of management and treatment of all stakeholders, operational performance and environmental and social impacts, and the ability to navigate sustainability headwinds and tailwinds such as changing regulations.

Labour standards, as well as ESG factors are taken into account in the selection, retention or realisation of investments in the Fund, but the extent to which any one of these factors is considered in any particular investment decision will vary at the discretion of the Investment Manager, and in certain circumstances, the Investment Manager may not consider these factors to be relevant to a particular investment decision.

### Harmful products and services

The bottom-up investment process results in portfolios composed of companies without material exposure<sup>1</sup> to harmful products and services. All harmful business activities are defined and publicly disclosed, and subject to a materiality assessment by the Investment Manager. The Investment

Manager's position on harmful activities and investment exclusions for the Fund is available at <https://sfg.stewartinvestors.com/our-position-on-harmful-and-controversial-products-and-services> and in summary:

- **Environmental issues:** Environmentally harmful activities include the exploration, production or generation of fossil fuels and nuclear power. Companies that fail to discharge their environmental stewardship responsibilities in line with the UN Global Compact and other global standards are also excluded.
- **Social issues:** Socially harmful activities include the production of alcohol products, tobacco products and armaments; involvement in gambling operations; the production and sale of pornography; poor animal welfare practices; animal testing that breaches ethical principles and regulatory standards; failure to respect sexual and reproductive health rights; genetic and embryonic and adult stem cell research activities that fail to meet the highest ethical, safety and regulatory standards or are aimed at the reproductive cloning of humans or animals; failure to comply with globally accepted human rights, norms and standards in relation to modern slavery, child labour, customary land tenure and indigenous rights; and unethical and discriminatory employment practices.
- **Governance issues:** Unacceptable governance practices include carrying out operations with and within oppressive regimes; systematic bribery and corruption; tax avoidance and unacceptably low levels of tax payments; and poor ethical conduct when dealing with customers, suppliers and competitors.

If an investment is held in a company that has a material exposure to harmful products and services, this will be disclosed on the Investment Manager's website and in periodic reports, and the reasons for the exception and for maintaining the holding explained. Exceptions may occur if a company is winding down a legacy commercial activity (in which case the company will be engaged and encouraged to cease the commercial activity concerned), or if a company is only indirectly exposed to a harmful industry or activity, for example, a company making safety products for a wide range of industries may also have customers in the fossil fuel or defence industries.

In rare instances the Fund may hold such an investment, for example in cases where the Investment Manager considers the overall sustainability positioning of the company to be high and the exposure is indirect or being wound down. Further information around the Investment Manager's approach and rationale for any decisions made is available at <http://www.stewartinvestors.com/all/sustainable-funds-group.html>.



CERTIFIED BY RIAA

RIAA's RI Certification Symbol signifies that a product or service offers an investment style that takes into account environmental, social, governance or ethical considerations. The Symbol also signifies that the Fund adheres to the strict operational and disclosure practices required under the Responsible Investment Certification Program for the category of Product. The Certification Symbol is a Trademark of the Responsible Investment Association Australasia ('RIAA'). Detailed information about RIAA, the Symbol and the Fund's methodology, performance and stock holdings can be found at [www.responsiblereturns.co.nz](http://www.responsiblereturns.co.nz), together with details about other responsible investment products certified by RIAA<sup>2</sup>.

1. The Investment Manager has set a materiality threshold for direct involvement in the relevant activities of 5% of revenue as at the date of this SIPO. For tobacco production and controversial weapons the threshold is 0% of revenue as at the date of this SIPO. Where exposure is above the 5% threshold, the Investment Manager will disclose its reasoning for maintaining that holding.

2. The Responsible Investment Certification Program does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Appropriate professional advice should be sought prior to making an investment decision. RIAA does not hold a Financial Advice Provider licence.

## E. Fund investment objectives and strategies

### Stewart Investors Worldwide Leaders Sustainability Fund

The investment objectives and strategy of the Fund are:

#### Objectives

To achieve long-term capital growth by investing directly or indirectly in a diversified portfolio of equity or equity-related securities of larger capitalisation companies which are listed, traded or dealt in on any of the regulated markets worldwide. The Fund aims to exceed the MSCI All Country World Index (NZD) over rolling five-year periods before fees and tax<sup>1</sup>. The benchmark is not used to limit or constrain how the Fund's portfolio is constructed.

The Fund invests in companies which are positioned to contribute to, and benefit from sustainable development. Larger capitalisation companies are currently defined for the purposes of this Fund as companies with a minimum investible market cap (free float) of US\$5 billion at the time of investment. The Investment Manager may revise this definition as considered appropriate. The Fund may have exposure to developed markets or emerging markets whilst maintaining its geographical diversity.

#### Investment Strategy

##### Benchmark index

- MSCI All Country World Index (NZD)<sup>2</sup>

##### Target investment mix

- 10% cash and cash equivalents
- 90% global equities

##### Asset allocation ranges<sup>3</sup>:

- 0%-20% cash and cash equivalents
- 80%-100% global equities

##### Appointed investment manager:

- First Sentier Investors (Australia) IM Ltd

##### Permitted investments:

- Cash and cash equivalents
- Equities listed on recognised international securities exchanges, including ordinary shares, preference shares, American depository receipts ('ADRs'), real estate investment trusts ('REITs'), Master Limited Partnerships ('MLPs'), stapled securities
- IPOs, Reg S securities and 144A securities

##### Rebalancing policy:

- There is no rebalancing policy

##### Currency policy:

- The Fund does not hedge currency risk

##### Other

- The number of stocks to be held by the portfolio is typically between 40 – 60, but the minimum number required is 20
- Not more than 12% of the market value of the portfolio will be invested in one company

- The Fund will not acquire more than 20% of a company's free floating capital
- No more than 20% of the Fund may be held in individual stocks with a market capitalisation of less than US\$5 billion
- Short selling of equity securities is not permitted

## F. Investment policies

### Taxation policy

The Fund has elected to be a Portfolio Investment Entity ('PIE') and is therefore taxed under the PIE regime.

At the date of this document, the Fund calculates the taxable income accruing from investments in global shares listed outside of New Zealand and Australia using the Fair Dividend Rate ('FDR') method.

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 policy

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 withdrawal frequency for the Fund. The Fund invests in liquid investments and hence has daily applications and withdrawals. 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 suspend withdrawals for a period of time.

### Related-party transactions

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

Parties related to the Fund, including the staff of First Sentier Investors and their families, Stewart Investors and their families, and the staff of FundRock and their families may from time to time invest in the Fund. The Manager will report such transactions by related parties to the Supervisor in accordance with section 173(2) of the Financial Markets Conduct Act 2013 ('FMC Act').

### Trade allocations and transactions

As the Fund invests directly in securities, and the Investment Manager trades the same securities for other portfolios it manages which have a similar investment philosophy, the Investment Manager has best execution and brokerage processes governing their investment management activity on behalf of the Fund.

### Other relevant policies

Summaries of the other 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.

1. The investment objective is not intended to be a forecast. It is merely an indication of what the Fund aims to achieve over the longer term on the assumption that equity markets remain relatively stable throughout the investment term. The Fund may not be successful in meeting this objective. Returns are not guaranteed.

2. The benchmark is not used to limit or constrain how the Fund's portfolio is constructed.

3. The investment allocation is only a target, actual allocations can change within the ranges significantly and sometimes quickly.

This policy also links to FundRock's Outsourcing Policy reflecting that it outsources 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 the Fund;
- Have a consistent and objective process for determining unit prices; and
- Comply with our governing documents, offer documents and the law.

#### Conflicts of Interest and Related Party Transactions Policy

The Conflicts of Interest and Related Party Transaction Policy sets out the principles and procedures relating to the management of 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, the Manager must act honestly and in the best interests of the Scheme participants. The Manager recognises that in order to satisfy this duty, it and its staff members must put the interests of its customers ahead of those of itself or of the staff members.'**

#### 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.

## G. Investment performance monitoring

FundRock 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 fees and gross of tax at an assumed 28% PIR;
- Benchmark index return;
- Performance relative to benchmark;
- Annualised standard deviation of gross return<sup>1</sup>;
- Annualised standard deviation of benchmark index return<sup>1</sup>; and
- Annualised tracking error<sup>1</sup>.

FundRock reports performance to the Supervisor and to the FundRock Board.

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

1. Standard deviations and tracking error calculated based on monthly returns.

## H. SIPO monitoring and review

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

The Manager's compliance processes include periodic policy reviews. SIPOs are reviewed annually by FundRock management, including ensuring the investment strategy and asset allocation ranges remain appropriate, 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; and
- A permanent change in risk and return characteristics of the relevant market.

SIPO reviews take into account the views of FundRock and the Investment Manager and if required the views of external experts.

The Manager can make changes to the SIPO at any time 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 Board approval, as well as written approval of the Supervisor. The Manager will give notice to Fund investors before implementing any material SIPO changes and all SIPO changes will be advised in the annual report for the Scheme.

The Manager is 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 on 13 April 2023.

This SIPO is subject to change from time to time without notice to investors (provided written notice is given to the Supervisor). The most current version of this SIPO is available on the Disclose Register at [www.companiesoffice.govt.nz/disclose](http://www.companiesoffice.govt.nz/disclose).