

Statement of Investment Policy and Objectives (SIPO)

NZ Core Equity Trust

Approver: Smartshares Limited Board

Owner: NZX Funds Management Oversight Committee

Version: 1.1

Date: 7 November 2016



Document history

Version	Date	Changes
1.0	9 September 2016	SIPO adopted.
1.1	7 November 2016	Investment policies updated.



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1. Description of the Scheme

The NZ Core Equity Trust (**Scheme**) is a managed investment scheme managed by Smartshares Limited (**Smartshares**).

Smartshares is a wholly-owned subsidiary of NZX Limited (**NZX**).

2. Investment philosophy

The Scheme is actively managed. This means the investment manager buys and sells financial products based on its own assessment of what is happening in the market.

The investment manager for the Scheme is DFA Australia Limited (**DFA**). DFA's investment philosophy is based on the following principles:

Investing is not speculating

What is promoted in the media as investment is often just speculation that involves making short-term and concentrated bets. Few investors succeed this way, particularly after fees are taken into account. Instead of trying to outguess the market, investors can use information in prices to build diversified strategies built around the known drivers of long-term performance.

Markets work

Financial markets are highly competitive. Prices represent the collective judgement, based on current information, of millions of investors. No-one can really know if the current price of a security is the "right" price, but we can say it is the best estimate of its actual value. This means individual investors can harness the collective power of the market and minimise unnecessary and avoidable risks associated with individual stocks and sectors. This is a scientific approach that requires no forecasting or guesswork.

Focus on drivers of return

Once investors accept that markets work, they can focus on identifying the long-term drivers of return. These drivers have been shown by research to be pervasive across markets, persistent across time periods and capable of being captured efficiently. DFA uses information in market prices to identify and target reliable dimensions of expected returns – market, size, relative price and profitability. DFA implement portfolios that focus on getting consistent and continuous exposure to these dimensions of expected returns in cost-effective, well-diversified portfolios to achieve higher expected returns.

Diversification is essential

A sound portfolio doesn't just capture reliable sources of expected return. It also reduces unnecessary risks like holding too few stocks, sectors or countries. Diversification both reduces those idiosyncratic risks and increases the reliability of outcomes. The goal, then, is to diversify a portfolio as broadly as possible, across different securities, sectors, industries and countries.

Costs and taxes matter

Investment portfolios should be built and maintained with an eye to costs and taxes. Day-to-day moves in the market are temporary, but costs are permanent. Higher costs and inefficient tax structures can drag on returns and hamper wealth accumulation.

Discipline is paramount

A major influence on portfolio performance is investor behaviour. Distracted by "noise" from the media and financial services industry, investors harm their long-term returns by trying to

manage short-term events. Greed leads them to buy at the top; fear to sell at the bottom. The alternative is to stay disciplined and focus on what they can control, like maintaining cost-efficient, diversified portfolios that match their individual needs and risk tolerances.

3. Investment objective

The Scheme aims to provide investors with the benefits of long-term capital growth by investing in a diversified portfolio of financial products listed in New Zealand, with increased exposure to small companies and value companies relative to a market weighted portfolio.

The return on the Scheme is assessed against the S&P/NZX 50 Portfolio Index. The S&P/NZX 50 Portfolio Index is made up of 50 of the largest financial products listed on the NZX Main Board. The S&P/NZX 50 Portfolio Index is made up of the same financial products as the S&P/NZX 50 Index, but with a 5% cap on the weight of each product.

Further information about the S&P/NZX 50 Portfolio Index is available at <http://us.spindices.com/indices/equity/sp-nzx-50-portfolio-index>.

4. Investment strategy

Target asset allocation

The Scheme’s target asset allocation and asset allocation ranges are set out in the following table:

Asset class	Target	Range
Cash and cash equivalents	0%	0% - 10%
New Zealand fixed interest	-	-
International fixed interest	-	-
Australasian equities ¹	100%	90% - 100%
International equities	-	-
Listed property	-	-
Unlisted property	-	-
Commodities	-	-
Other	-	-

Permitted investments

The Scheme may invest in the following assets:

¹ The Scheme may invest in listed property trusts listed in New Zealand. This is included in its asset allocation to Australasian equities.

- financial products listed in New Zealand; and
- cash and cash equivalents issued or guaranteed by New Zealand entities.

The Scheme may use derivatives, provided that the derivatives are used to gain exposure to financial products that the Scheme may invest in. If such derivatives do not exist, other derivatives can be used, provided they gain broadly equivalent exposure.

The Scheme may use the following types of derivatives:

- exchange traded futures contracts;
- exchange traded options on futures contracts;
- exchange traded options on financial products that the Scheme may invest in and options on such financial products issued by the issuer of those financial products;
- exchange traded warrants on financial products that the Scheme may invest in and warrants on such financial products issued by the issuer of those financial products; and
- derivatives received as part of a corporate action by the issuer of financial products held by the Scheme.

The Scheme will only invest in cash and cash equivalents when holding distributions from the financial products held by the Scheme or to provide liquidity. Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments (and managed investment products that primarily invest in cash and cash equivalents).

Investment restrictions

The Scheme must invest in a minimum of 20 financial products listed in New Zealand.

All investments must be New Zealand dollar denominated.

The Scheme may not borrow or use derivatives to lever the Scheme.

5. Investment policies

Rebalancing

Rebalancing involves periodically buying and selling assets so that a fund's actual asset allocation is consistent with its target asset allocation.

The Scheme does not undertake rebalancing and the Scheme's actual asset allocation can be anywhere within its asset allocation range.

Hedging

Hedging involves removing some or all of the foreign currency risk implicit in owning international assets. This limits the impact of foreign exchange rate movements on investment performance.

The Scheme does not undertake hedging.

Tactical asset allocation

Tactical asset allocation involves varying the actual asset allocation away from the target asset allocation, to take advantage of short-term market conditions.

The Scheme does not undertake tactical asset allocation.

Derivatives

Derivatives are financial instruments that replicate the behaviour and performance of certain types of investments. Typically, they are linked to:

- individual financial products such as shares;
- indexes, such as the S&P/NZX 50 Portfolio Index, which aggregate the performance of a group of financial products; and
- reference rates (such as an exchange rates or interest rates).

The Scheme may use derivatives.

Outsourcing

Smartshares outsources the investment management of the Scheme to an investment manager.

When appointing an investment manager, Smartshares will consider, amongst other things:

- whether the investment manager has the capability to provide a return that meets the investment objective for the fund; and
- the investment manager's operational infrastructure, financial resources and governance arrangements.

Asset valuation and unit pricing methodology

The value of the assets held by the Scheme and the net asset value of the Scheme will be determined in accordance with the Scheme's governing documents and on a consistently applied basis.

The assets held by the Scheme that are quoted on a financial product market are valued for each business day based on:

- the last quoted sale price on the day for which the valuation is being made; or
- if no sale price was quoted for that day, the last bid or buying price on that day; or
- at the option of Smartshares, the amount certified by a firm of stockbrokers or other dealers in the relevant market.

Smartshares may use alternative valuation methods (including for assets that are quoted on a financial product market), provided the valuation method used is applied on a consistent basis over time. Smartshares must consult with the Scheme's supervisor prior to using an alternative valuation method.

The unit price for the Scheme is calculated for each business day by dividing the net asset value of the Scheme by the number of units then on issue in the Scheme.

The net asset value of the Scheme is determined for each business day using the formula set out in the Scheme's governing documents.

Unit prices are rounded down to four decimal places.



Trade execution

Where an investment manager appointed by Smartshares buys or sells financial products for a fund, the investment manager is responsible for trade execution. Smartshares will consider an investment manager's trade execution policy prior to appointing an investment manager and at least annually after that.

Voting

Where an investment manager appointed by Smartshares makes investment decisions for a fund, the investment manager is responsible for voting in respect of the assets held by the fund. Smartshares will consider an investment manager's voting policy prior to appointing the investment manager and at least annually after that. In limited circumstances, Smartshares may direct an investment manager as to how to vote and may also restrict the investment manager from voting.

Conflicts of interest

The NZX Group's directors, senior managers, and employees who have a significant impact on the investment decisions of Smartshares must immediately notify Smartshares of conflicts of interest that could materially influence its investment decisions or the investment decisions of the investment managers it has appointed (or both), together with the nature of the conflict.

The Smartshares Board will consider any conflict and either:

- approve the measures that have been, or will be, taken to manage the conflict of interest; or
- instruct the Head of Compliance to develop alternative measures to manage the conflict of interest.

Smartshares will disclose a conflict of interest, together with the following information, on the offer register at www.business.govt.nz/disclose:

- the nature of the conflict of interest;
- the funds that are or may be affected by the conflict of interest;
- the circumstances in which, and how, the conflict of interest would, or could reasonably be expected to, materially influence the investment decisions of Smartshares or the investment manager (or both) in respect of the Scheme; and
- the measures that have been, or will be, taken to manage the conflict of interest.

Where Smartshares is outsourcing investment management to an investment manager, it will assess the investment manager's arrangements to identify and manage conflicts of interest prior to appointing the investment manager and at least annually after that.

Related party transactions

The NZX Group's directors and senior managers must immediately notify Smartshares of related party transactions where a benefit is either given out of Scheme property, or creates an exposure to loss for Scheme property, and is given to, or received by, a related party of the Scheme.

The Smartshares Board will consider any related party transaction and either:

- approve the transaction on the basis that it is on arm's length terms; or

- approve the transaction on the basis that one of the exceptions in the Financial Markets Conduct Act 2013 applies to the transaction; or
- approve the transaction subject to the consent of the supervisor of the Scheme; or
- reject the transaction.

Where the Smartshares Board approves a related party transaction, Smartshares will notify the supervisor of the transaction.

Where Smartshares is outsourcing a function in respect of its managed investment scheme manager operations, it will assess the outsource arrangements to identify any related party transactions prior to appointing the outsource provider and at least annually after that.

6. Investment governance and management

Smartshares Board

The Smartshares Board is responsible for managing and overseeing the business and affairs of Smartshares, including:

- approving the investment strategies and the SIPOs for the managed investment schemes managed by Smartshares;
- monitoring compliance with the SIPOs; and
- considering any limit breaks (a limit break is a material breach of a SIPO) and deciding how to correct the limit break, and how to minimise the risk of a recurrence of that type of limit break or to ensure early notification and correction of that type of limit break.

Smartshares' directors are appointed by NZX.

NZX Funds Management Oversight Committee

The NZX Funds Management Oversight Committee is responsible for overseeing Smartshares' operations, including:

- reviewing the investment strategies and the SIPOs for the managed investment schemes managed by Smartshares;
- monitoring compliance with the SIPOs; and
- considering any breaches of the SIPOs and deciding whether a breach is a limit break.

The members of the NZX Funds Management Oversight Committee are senior managers of Smartshares or NZX, and are appointed by the Smartshares Board.

The NZX Funds Management Oversight Committee reports to the Smartshares Board.

Head of Compliance

The Head of Compliance is responsible for:

- overseeing the compliance of Smartshares' operations; and
- reporting all material issues or failures to comply with compliance obligations to the Smartshares Board.



The Head of Compliance is a senior manager of NZX and reports to NZX's Chief Executive Officer, the Smartshares Board and the NZX Funds Management Oversight Committee.

Supervisor

The supervisor supervises Smartshares' operations to protect the interests of investors.

The supervisor is independent of Smartshares.

The supervisor is Public Trust.

Custodian

The custodian holds the Scheme's assets on behalf of investors.

The custodian is appointed by the supervisor and is independent of Smartshares.

The custodian is BNP Paribas Fund Services Australasia Pty Limited (**BNP Paribas**).

Investment manager

The investment manager provides investment management services.

The investment manager is DFA.

Administration manager

The administration manager provides asset valuation, unit pricing and fund accounting services.

The administration manager is BNP Paribas.

Unit registrar

The unit registrar provides registry services.

The unit registrar is BNP Paribas.

7. Investment performance monitoring and reporting

DFA monitors the investment performance of the Scheme.

Every month, Smartshares prepares an investment performance report (using information provided by BNP Paribas). The report sets out, amongst other things, the investment performance of the Scheme on a one month, three months, six months, one year, three years average, five years average and ten years average (or, if the Scheme has been in existence for less than ten years, the average for the period since the Scheme started accepting contributions), together with the movement of the index that the Scheme is being assessed against.

The investment performance report is provided to the NZX Funds Management Oversight Committee and the Smartshares Board.

The NZX Funds Management Oversight Committee and the Smartshares Board monitor the investment performance of the Scheme.



8. Investment strategy review

The NZX Funds Management Oversight Committee will review the Scheme's investment strategy annually. When undertaking the review, the NZX Funds Management Oversight Committee will consider whether changes to market conditions necessitate changes to either: (1) the nature or types of investments that can be made and any limits on those; and/or (2) any limits on the proportions of each type of asset invested in.

The NZX Funds Management Oversight Committee will undertake an ad hoc review of the Scheme's investment strategy if:

- changes to market conditions necessitate changes to either: (1) the nature or types of investments that can be made and any limits on those; and/or (2) any limits on the proportions of each type of asset invested in; or
- the Smartshares Board instructs the NZX Funds Management Oversight Committee to review the Scheme's investment strategy.

The NZX Funds Management Oversight Committee will report to the Smartshares Board as to the outcome of its review, together with any proposed changes to the Scheme's investment strategy.

The Smartshares Board will consider the NZX Funds Management Oversight Committee's report and may approve the changes to the Scheme's investment strategy.

9. SIPO review

The NZX Funds Management Oversight Committee will review this SIPO annually. When undertaking the review, the NZX Funds Management Oversight Committee will consider: (1) whether changes to the law or the Financial Markets Authority's guidance necessitate changes to the Scheme's investment policies and objectives; and (2) whether changes to the Scheme's investment strategy (made as part of an annual review of investment strategy) necessitate changes to this SIPO.

The NZX Funds Management Oversight Committee will undertake an ad hoc review of this SIPO if:

- changes to the law or the Financial Markets Authority's guidance necessitate changes to the Scheme's investment policies and objectives; or
- the Smartshares Board instructs the NZX Funds Management Oversight Committee to review this SIPO; or
- changes to the Scheme's investment strategy (made as part of an ad hoc review of investment strategy) necessitate changes to this SIPO.

The NZX Funds Management Oversight Committee will report to the Smartshares Board as to the outcome of its review, together with any proposed changes to this SIPO.

The Smartshares Board will consider the NZX Funds Management Oversight Committee's report and may approve the changes to this SIPO.

Where the changes to this SIPO materially affect investors, Smartshares will, prior to effecting any such changes, give at least 30 days' written notice to investors and if such notice is required, the change will not be effective until such notice period has expired.

