

Generate Unit Trust Scheme (Managed Funds)

Statement of Investment Policy and Objectives

25 OCTOBER 2023

[GenerateWealth.co.nz](https://www.GenerateWealth.co.nz)

A product disclosure statement for the Generate Unit Trust Scheme is available at [generatewealth.co.nz](https://www.generatewealth.co.nz) or by contacting us on 0800 855 322. The issuer is Generate Investment Management Limited.



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 professionally managed funds 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 Scheme has five funds* for members to select (each a **Fund**), each with a different level of risk. The Funds are the Generate Conservative Managed Fund, the Generate Balanced Managed Fund, the Generate Focused Growth Managed Fund, the Generate Australasian Managed Fund*, and the Generate Thematic Managed 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/documents-and-forms.

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 Scheme that are made by the Investment Executive (**IE**).

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.

The assets that the Scheme invests, or may invest, into are held indirectly via certain wholesale funds managed by us, and include cash, fixed interest, property and infrastructure assets, Australasian equities and international equities. References in this SIPO to the assets of the Fund or the assets that a Fund or the Scheme invests into are also references to those assets as invested by wholesale funds that are also managed by us.

The Manager utilises a combination of 'direct' stock holdings (i.e. holdings that are held directly rather than indirectly, by the wholesale funds) and third party underlying funds. 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.

* Note the Generate Australasian Managed Fund and Generate Thematic Managed Fund are new funds and are available for investment from 3 July 2023.

3. Investment Strategy

3.1 Target Asset Allocations

The target asset allocations for each Fund, as set out in the schedules, represent the Manager's current long-term targets. However, in the short to medium term the tactical asset allocations of the Scheme may differ from the targets, as long as they remain within the relevant asset class ranges.

Specific 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 Managed Fund to hold more than 80% (that's 65% plus 15%) in international equities the IE would need IC approval. Aside from this, the Manager may change the target asset allocations with prior approval from the IC. The Manager will provide notice to the Supervisor of any changes and updates to this SIPO.

3.2 Benchmark Market Indices for the Managed Funds

The benchmark market index for each of the Funds is a composite benchmark. This is determined by using the benchmark market index for each asset class and combining the index returns based on each Fund's target asset allocation weighting to each asset class for the relevant period.

The performance of the Funds compared with their relevant composite benchmark will be provided in the fund updates. See generatewealth.co.nz/managed-funds/fund-updates.

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

- <https://www.spglobal.com/spdji/en/indices/fixed-income/sp-nzx-call-rate-deposit-index/#overview>
- <https://www.spglobal.com/spdji/en/indices/fixed-income/sp-nzx-investment-grade-corporate-bond-index/#overview>
- <https://www.spglobal.com/spdji/en/indices/fixed-income/sp-asx-corporate-bond-0-index/#overview>
- <https://www.spglobal.com/spdji/en/indices/equity/sp-nzx-50-index/#overview>
- <https://www.spglobal.com/spdji/en/indices/equity/sp-nzx-all-real-estate-sector/#overview>
- MSCI: [msci.com/indexes](https://www.msci.com/indexes)

3.3 Authorised Investments

The IC will keep an Approved Issuer List (**AIL**) of all the assets that the Scheme 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 approval from the IC.

We publish summaries of the Scheme's assets in our quarterly fund updates which are available on our website and the Disclose Register.

The asset classes that the Funds can invest in are:

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

The Funds have the ability to invest in unlisted property, infrastructure and equity investments. The following table sets out the maximum allowable allocations of directly invested unlisted equity, infrastructure and property investments for the Funds:

	CONSERVATIVE	BALANCED	FOCUSED GROWTH	AUSTRALASIAN [^]	THEMATIC [^]
Unlisted equity % limit of each fund	2%	5%	6%	15%	0%

Under our Responsible Investment Policy, all investments (including third party underlying fund investments) into companies involved in the following activities are excluded*:

- the manufacture of cluster munitions;
- the manufacture of anti-personnel mines;
- the manufacture or testing of nuclear explosive devices;
- the processing of whale meat; or
- the manufacture of tobacco.

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

[^] Available for investment from 3 July 2023.

3.4 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 and investment grade commercial paper.

New Zealand, Australian and international fixed interest investments

Exposure to this asset class can be through bank term deposits, corporate bonds, hybrid securities (including Additional Tier 1 securities), asset backed securities, local authority bonds, sovereign, supranational and agency bonds. Investments 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 IE.

New Zealand, Australian and international Property and infrastructure investments

Exposure to this asset class is predominantly through listed property, aged care and infrastructure securities on the NZX and the Australian Stock Exchange (ASX). The Manager may also invest via third party underlying funds.

Australasian equities (excluding infrastructure)

Exposure to this asset class is predominantly through listed securities on the NZX and ASX.

International equities

With the exception of the Conservative Managed Fund and the Thematic Managed Fund, exposure to this asset class is through both direct investments in listed international equities that typically have capitalisations greater than USD5 billion and third

party underlying funds that invest in equities.

Third party 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 approved by the IC.

Derivative contracts used to manage interest rate risk

The derivatives, if applicable, will be predominantly interest rate swaps. The counterparty must be approved by the IC.

Derivative contracts used to manage share market risk

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

Underwriting

With 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 AIL. Any underwriting fees paid by the issuer or primary underwriter will be for the benefit of the Scheme's unitholders.

Soft Dollar Arrangements

The Manager may also elect to use soft dollar commission arrangements with certain brokers to extract more value from the trading expenses arising in a fund. Soft dollars can be earned where the manager makes use of certain brokers with whom the manager has an agreement in place. These soft dollars can then be used to access third-party research and research tools and services to enhance the investment management decision making process. These soft dollars will not be used for research which will solely benefit a fund that did not generate them.

4. Investment Policies

4.1 Investment Concentrations

It is the IE's responsibility to ensure that the Scheme's investments do not breach the investment concentration restrictions set out below. IC approval is required for an investment that falls outside these guidelines:

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

4.2 Liquidity

The IC has set the following liquidity guidelines for the IE. IC approval is required for an investment that falls outside these guidelines:

New Zealand and International cash and cash equivalents	No investment should ordinarily exceed 5% of the total debts of the issuer.
New Zealand, Australian and international fixed interest investments	No investment should ordinarily 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 ordinarily 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 ordinarily exceed 10% of the issuer's market capitalisation. No investment in a third party underlying fund should ordinarily exceed 7.5% of the underlying fund's NAV.
International equities	No investment in a third party underlying fund should ordinarily exceed 7.5% of the underlying fund's NAV. There are no liquidity constraints on direct investments given their large capitalisations.

^ Should a Fund 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 that Fund. The exception to this is for "Big Four" local banks whereby the aggregate exposure of the Fund's holdings in cash and cash equivalents and/or the equity and/or term deposits/bonds is not to exceed a limit of 30%. There are no investment concentration restrictions on sovereign, supranational or agency bonds that have a long term rating of AA (or the equivalent) and above. 30% of a fund can be held in these bonds with a long term rating above "A" but below "AA".

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

** The long-term foreign exchange hedging target for fixed interest is 100%.

The IE monitors each Fund's liquidity to ensure the Scheme 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, underlying funds and markets.

4.3 Rebalancing

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

Each Fund'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 a Fund.

4.4 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 positions. 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 Scheme's offshore holdings. As such the long-term foreign exchange hedging target for equities 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 IC approval is required.

Should market movements or the buying or selling of shares take a foreign currency hedging ratio outside of the +/- 15% band or outside of the IC approved hedging ratio it is not considered a breach of this SIPO. The IE will move the hedge back within the +/- band as soon as it is practical to do so.

(ii) Interest Rate Hedging

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

4.5 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.

4.6 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 IC approval. The IE typically employs tactical asset allocation when it views an asset class as being cheap or expensive.

4.7 Cashflow Management Policy

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

4.8 Trading Between Funds

The IE may buy and sell assets between the Funds on normal commercial terms at the previous day's closing price.

4.9 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.

4.10 Conflicts of Interest and Related Party Transactions Policy

Generate has a Conflicts of Interest and Related Party Transactions Policy. This sets out the processes to identify and manage conflicts between the interests of Generate, its directors, senior managers, and investment managers and the interests of members of the Scheme. Generate aims to quickly resolve any issues in a way that is fair to investors. For more information see the Conflict of Interest and Related Party Transactions Policy.

4.11 Debt Policy

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

4.12 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 Apex Investment Administration (NZ) Limited (the **Scheme Administrator**) on how the individual investments are to be taxed. Any change in the tax treatment of an investment must be approved by the IC.

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

4.13 Pricing/ Valuation Policy

The Manager has delegated the task of producing daily unit prices on the Scheme's Funds to the Scheme Administrator. The Scheme 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 Scheme Administrator adopts calculation methodologies that ensure a unit price is an equitable division of a Fund's net asset value (NAV) and ensures the process of unit pricing is transparent and consistent in application.

This includes the treatment of trading expenses where the Manager may elect to implement swing pricing mechanisms so that trading expenses are more fairly allocated between unitholders.

5. Investment Performance Monitoring

The Scheme Administrator provides daily unit pricing (with a one business day delay) which is used by the IE to monitor the performance of the funds, 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 Funds' 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.

6. 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.

We actively manage the underlying funds, the IE can remove underlying funds if an underlying fund is not meeting its expectations.

Long-term target asset allocations are formally reviewed by the IC at least once every two years.

7. 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 for one or more of the Funds.

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

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

8. Relevant Policies

A copy of Generate's relevant policies are available on request from the Manager on 0800 855 322 or at info@Generatewealth.co.nz.

Schedule 1: Generate Conservative Managed Fund

Investment Objective

The Generate Conservative Managed Fund aims to provide a modest return over the short term. It invests in an actively managed portfolio made up largely of income assets with a small allocation of growth assets. Volatility is likely to be low to medium. Returns will vary and may be low or negative at times.

Minimum Recommended Investment Timeframe

2 years.

ASSET CLASS	BENCHMARK	TARGET ASSET ALLOCATION	ASSET ALLOCATION RANGE
Cash and Cash Equivalents	S&P/NZX Call Rate Deposit Index	5%	0% - 50%
Fixed Interest	80% S&P/NZX Investment Grade Corporate Bond Index; 20% S&P/ASX Corporate Bond Index 0+ NZD Hedged Index	75%	55% - 95%
Income Assets		80%	65% - 95%
Property and Infrastructure	60% S&P/NZX 50 Index Gross; 40% S&P/NZX Real Estate Index;	6.75%	0% - 25%
Australasian Equities	S&P/NZX50 Index Gross	6.75%	0% - 25%
International Equities	50% MSCI World ex Australia Net Total Return 100% hedged to NZD and 50% MSCI World ex Australia Net Total Return in NZD	6.50%	0% - 25%
Growth Assets		20%	5% - 35%
		100%	

Schedule 2: Generate Balanced Managed Fund

Investment Objective

The Generate Balanced Managed Fund aims to provide a medium return over the medium term. It invests in an actively managed portfolio made up of slightly more growth assets than income assets. Volatility is likely to be medium to high. Returns will vary and may be low or negative at times.

Minimum Recommended Investment Timeframe

5 years.

ASSET CLASS	BENCHMARK	TARGET ASSET ALLOCATION	ASSET ALLOCATION RANGE
Cash and Cash Equivalents	S&P/NZX Call Rate Deposit Index	5%	0% - 50%
Fixed Interest	80% S&P/NZX Investment Grade Corporate Bond Index; 20% S&P/ASX Corporate Bond Index 0+ NZD Hedged Index	35%	15% - 55%
Income Assets		40%	20% - 60%
Property and Infrastructure	60% S&P/NZX 50 Index Gross; 40% S&P/NZX Real Estate Index;	15%	0% - 35%
Australasian Equities	S&P/NZX50 Index Gross	15%	0% - 35%
International Equities	50% MSCI World ex Australia Net Total Return 100% hedged to NZD and 50% MSCI World ex Australia Net Total Return in NZD	30%	10% - 50%
Growth Assets		60%	40% - 80%
		100%	

Schedule 3: Generate Focused Growth Managed Fund

Investment Objective

The Generate Focused Growth Managed Fund aims to provide a higher return over the long term. It invests in an actively managed portfolio made up predominately of growth assets with a minor allocation of income assets. Volatility is likely to be high. Returns will vary and may be low or negative at times.

Minimum Recommended Investment Timeframe

8 years.

ASSET CLASS	BENCHMARK	TARGET ASSET ALLOCATION	ASSET ALLOCATION RANGE
Cash and Cash Equivalents	S&P/NZX Call Rate Deposit Index	5%	0% - 35%
Fixed Interest	80% S&P/NZX Investment Grade Corporate Bond Index; 20% S&P/ASX Corporate Bond Index 0+ NZD Hedged Index	0%	0% - 20%
Income Assets		5%	0% - 35%
Property and Infrastructure	60% S&P/NZX 50 Index Gross; 40% S&P/NZX Real Estate Index;	15%	0% - 35%
Australasian Equities	S&P/NZX50 Index Gross	15%	0% - 35%
International Equities	50% MSCI World ex Australia Net Total Return 100% hedged to NZD and 50% MSCI World ex Australia Net Total Return in NZD	65%	45% - 85%
Growth Assets		95%	65% - 100%
		100%	

Schedule 4: Generate Australasian Managed Fund

(available for investment from 3 July 2023)

Investment Objective

The Generate Australasian Managed Fund aims to provide a higher return over the long term. It invests in an actively managed portfolio of growth assets located predominately in New Zealand and Australia with a very minor allocation of income assets. Volatility is likely to be high. Returns will vary and may be low or negative at times.

Minimum Recommended Investment Timeframe

10 years.

ASSET CLASS	BENCHMARK	TARGET ASSET ALLOCATION	ASSET ALLOCATION RANGE
Cash and Cash Equivalents	S&P/NZX Call Rate Deposit Index	2%	0% - 35%
Fixed Interest	80% S&P/NZX Investment Grade Corporate Bond Index; 20% S&P/ASX Corporate Bond Index 0+ NZD Hedged Index	0%	0%
Income Assets		2%	0% - 35%
Property and Infrastructure	60% S&P/NZX 50 Index Gross; 40% S&P/NZX Real Estate Index;	49%	0% - 100%
Australasian Equities	S&P/NZX50 Index Gross	49%	0% - 100%
International Equities	50% MSCI World ex Australia Net Total Return 100% hedged to NZD and 50% MSCI World ex Australia Net Total Return in NZD	0%	0%
Growth Assets		98%	65% - 100%
		100%	

Schedule 5: Generate Thematic Managed Fund

(available for investment from 3 July 2023)

Investment Objective

The Generate Thematic Managed Fund aims to provide a higher return over the long term. It invests in an actively managed portfolio of growth assets predominately made up of mid-large cap international equities with a very minor allocation of income assets. Volatility is likely to be high. Returns will vary and may be low or negative at times.

Minimum Recommended Investment Timeframe

10 years.

ASSET CLASS	BENCHMARK	TARGET ASSET ALLOCATION	ASSET ALLOCATION RANGE
Cash and Cash Equivalents	S&P/NZX Call Rate Deposit Index	2%	0% - 35%
Fixed Interest	80% S&P/NZX Investment Grade Corporate Bond Index; 20% S&P/ASX Corporate Bond Index 0+ NZD Hedged Index	0%	0%
Income Assets		2%	0% - 35%
Property and Infrastructure	60% S&P/NZX 50 Index Gross; 40% S&P/NZX Real Estate Index;	0%	0%
Australasian Equities	S&P/NZX50 Index Gross	0%	0%
International Equities	50% MSCI World ex Australia Net Total Return 100% hedged to NZD and 50% MSCI World ex Australia Net Total Return in NZD	98%	65% - 100%
Growth Assets		98%	65% - 100%
		100%	

Notes

Generate[™]
Together.