

First Sentier Investors (NZ) Scheme

Statement of Investment Policy and Objectives

Investment management by
First Sentier Investors (Australia) IM Ltd

Effective date: 26 February 2024
Issued by: FundRock NZ Limited

A. Description of the managed investment scheme

The First Sentier Investors (NZ) Scheme (**Scheme**) is a managed investment scheme. The Scheme has on offer one single sector investment fund, the First Sentier Responsible Listed Infrastructure Fund (**Fund**) which provides investors with exposure to infrastructure securities.

The Fund is actively managed. The Fund invests in a globally diversified portfolio of infrastructure securities, It only invests in companies that the Investment Manager believes can contribute to, or benefit from, sustainable development which is assessed by reference to the United Nations' Sustainable Development Goals¹ (**SDGs**).

B. Roles and responsibilities

The Licensed Manager

FundRock NZ Limited (**FundRock, we, us, our** or **Manager**) is the licensed manager (**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.

The Fund is invested in accordance with this SIPO and the investment philosophy stated below.

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 (**Apex NZ**) 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's 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; and
- 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 philosophy

The Fund seeks to invest in the shares of high quality infrastructure companies that contribute to or benefit from sustainable development as determined under the Fund's investment process referred to below. Through direct engagement with companies and relevant stakeholders, the First Sentier Responsible Listed Infrastructure team seek to understand key issues and effect change. They look for companies that are delivering sustainable solutions from an environmental, social and economic point of view. They believe that investing in this way may create opportunities to improve investment returns and may lower the overall risk of a portfolio.

The team are conservative investors of their clients' capital, recognising that capital preservation is critical to achieving long-term capital growth. They focus on fundamental value and conduct thorough due diligence to minimise downside. They place strong emphasis on proprietary research and direct contact with companies and regulators.

The team invest in companies they believe to be quality companies. Real infrastructure assets with barriers to entry and pricing power are a good start. For infrastructure to deliver its full potential, the team also require management alignment, independent boards, appropriate gearing, transparent regulation and cultures which are working to sustain their licence to operate. The team seek to engage with companies to drive positive change.

The team believe investing in long-dated assets requires a long-term perspective. Since infrastructure assets are long-dated assets, it is important to understand both how they serve society now; and how they will continue to do so into the future. This understanding is key to valuing them appropriately and assessing stranded asset risk² accurately. The market can take a short-term view, with day-to-day sentiment regularly overriding long-term fundamentals. This is where active management allows the team to capture mispricing.

D. Responsible investment

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

For information in relation to how the Investment Manager incorporates environmental, social and governance (**ESG**) considerations into the management of the Fund please refer to 'The Fund's approach to sustainability and ESG' section below.

1. The SDGs, also known as the Global Goals, were adopted by the United Nations in 2015. The 17 SDGs are integrated - they recognise that action in one area will affect outcomes in others, and that development must balance social, economic and environmental sustainability. The SDGs can be viewed on the United Nations' website at sdgs.un.org/goals.

2. The risk that an asset may become economically unviable more quickly than anticipated, for example as a result of technological or regulatory developments.

The Fund's approach to ESG

Overview

This Fund's investment process, with respect to ESG factors, may differ to other funds managed by the Investment Manager.

With respect to this Fund, the Investment Manager employs an eight step investment process: (1) screening; (2) fundamental research; (3) value ranking model; (4) quality ranking model; (5) sustainability analysis; (6) stock selection; (7) macro risk management; and (8) portfolio construction.

ESG analysis is integrated into the investment process through step 4: the quality ranking model and step 5: sustainability analysis. Together, the total quality scores and the sustainability analysis for each stock are informed and determined by the fundamental research, analysis and engagement carried out by the Investment Manager.

Quality ranking model

The quality ranking model consists of 25 criteria that the Investment Manager utilises. A score out of ten is assigned to each criterion (with ten being the maximum and one the minimum) giving each stock a maximum potential total score of 250. ESG factors are captured both explicitly, through the respective scores assigned to the criteria 'Environmental', 'Social' and 'Governance' (further detail on these three ESG criteria are below), and implicitly, where ESG factors are relevant to the other criteria considered by the Investment Manager and that are not strictly 'ESG' criteria (such as the Disruption criterion, which may involve consideration of whether a utility is investing in renewable generation, at the expense of its older thermal generation fleet).

In determining the respective quality scores for the Environmental, Social and Governance criteria, the Investment Manager considers ESG factors it believes may affect an investment's return. These factors include, but are not limited to, the following:

- **Environmental factors:** an entity's carbon emissions; its share of non-renewable energy consumption and production; activities negatively affecting biodiversity-sensitive areas; and emissions to water.
- **Social factors:** an entity's compliance with the UN Global Compact principles, and the OECD's Guidelines for Multinational Enterprises; its record and approach to workplace health and safety; and Board gender diversity levels.
- **Governance factors:** an entity's board structure (which may include factors such as board independence, the separation of chairman and CEO roles and audit and remuneration committee independence) and the protection of minority interests.

The total quality score, combined with the value score (being step 3 of the investment process, which ranks stocks according to the Investment Manager's view on potential mispricing), provides an overall ranking of the stocks. This overall ranking is used to inform stock selection. All else being equal, a lower ranking generally makes it harder for a stock to be selected for

inclusion within the portfolio. It is possible that a stock with low ESG-related quality scores may still be considered eligible for inclusion in the portfolio – subject to the outcome of the sustainability analysis, described below.

The emphasis placed by the Investment Manager on a particular ESG factor when determining each Environmental, Social and Governance criterion's quality score, is based on the Investment Manager's assessment of the extent to which that factor is likely to have an impact on the returns of the relevant stock over the long-term. As a result, consideration of a particular ESG factor may vary by sector and/or region, as well as being influenced by stock specific details.

Sustainability analysis

The sustainability analysis (being step 5 of the investment process) is explained below.

Sustainable Development

The Investment Manager considers the extent to which each company contributes to, or benefits from, sustainable development, which is assessed by reference to the United Nations' SDGs. Typically, this analysis involves looking at the forecast capital expenditure of each company, and then mapping this expenditure against the SDGs to determine whether a positive, neutral or negative contribution is being made. In undertaking this assessment, the Investment Manager considers the following SDGs to be the most relevant to infrastructure companies: SDG 6: Clean Water and Sanitation; SDG 7: Affordable and Clean Energy; SDG 9: Industry, Innovation and Infrastructure; SDG 11: Sustainable Cities and Communities; SDG 12: Responsible Consumption and Production; and SDG 13: Climate Action.

The Fund will only invest in stocks which the Investment Manager believes contribute to, or benefit from, sustainable development, which is assessed by reference to the UN SDGs (as explained above).

Other ESG-related parameters

Another aspect of the sustainability analysis involves the consideration of other ESG-related parameters. For example, the Fund seeks to invest in:

- utilities that can demonstrate a declining carbon intensity over rolling five year periods (as measured by tons of carbon emitted per MWh of electricity generated)³; or that can demonstrate carbon intensity of at least 25% below the average of utility companies in the Investment Manager's investment universe; and
- utilities where coal generation assets represent less than 20% of the company's overall assets.

The Fund also monitors for adherence to the OECD Guidelines for Multinational Enterprises⁴ and the UN Global Compact⁵.

Any failures to meet other ESG-related parameters considered by the Investment Manager or breaches of the OECD Guidelines for Multinational Enterprises or the UN Global Compact identified are reviewed and assessed by the Investment Manager. Such failures or breaches do not automatically prevent the Fund from investing in the relevant company, or lead to divestment from

3. The measure of carbon intensity over time may be adjusted to take into account circumstances including but not limited to corporate restructurings or changes in capacity factors. Carbon Intensity statistics are provided by a third party data provider.

4. The OECD Guidelines for Multinational Enterprises are recommendations addressed by governments to multinational enterprises operating in or from adhering countries. They provide non-binding principles and standards for responsible business conduct in a global context.

5. The UN Global Compact is an initiative of the UN Secretary General designed to encourage companies to align their operations and strategies with Ten Principles in the areas of human rights, labour, environment and anti-corruption.

the company by the Fund. Rather, the Investment Manager will monitor and assess the situation and, where deemed necessary, engage with entity management to determine how the entity is responding to the relevant failure or breach. Persistent or systematic failures or breaches may lead to divestment by the Fund, in circumstances where the Investment Manager considers that an entity has not responded adequately to the engagement process.

Exclusion of certain investments

In addition to the above ESG analysis, the management of the Fund is also subject to the exclusion of investment (either in equity or debt (as applicable)) in entities that:

- derive any gross revenue directly from the manufacture of Controversial Weapons (defined below) or Tobacco Products (defined below); or
- own 50% or more interest in entities that derive any gross revenue directly from the manufacture of Controversial Weapons or Tobacco Products.

This exclusion is subject to the following qualifications:

- For the purposes of this exclusion, Tobacco Products means: traditional cigarettes and other tobacco products, such as cigars and chewing tobacco, vaping and e-cigarette products.
- For the purposes of this exclusion, Controversial Weapons means: anti-personnel mines, cluster weapons, biological and chemical weapons, depleted uranium, nuclear weapons and white phosphorus munitions.
- This exclusion does not apply to investments in entities with minority investments (i.e. less than 50% interest in the entity) in other entities or joint ventures that are involved in the manufacture of Controversial Weapons or Tobacco Products.
- The implementation of this exclusion is dependent on information relating to either reported revenues or revenue estimates provided by reputable third-party research providers. Where such information turns out to be inaccurate or there are delays in accessing such information, the implementation of this exclusion may in turn be delayed, particularly where there has been material changes in the nature of certain investments.

If any existing investment is subsequently assessed to be captured by the above exclusion, the relevant investment team will generally seek an orderly sale of that investment within three months, but this timeframe may vary on a case-by-case basis.



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 First Sentier Responsible Listed Infrastructure 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 First Sentier Responsible Listed Infrastructure Fund's methodology, performance and stock holdings can be found at www.responsiblereturns.co.nz, together with details about other responsible investment products certified by RIAA.⁶

E. Fund investment objectives and strategies

First Sentier Responsible Listed Infrastructure Fund

The investment objectives and strategy of the Fund are:

Investment Objectives⁷

The Fund aims to achieve capital growth and inflation-protected income by investing in a globally diversified portfolio of infrastructure securities, and only investing in companies that the Investment Manager believes can contribute to, or benefit from, sustainable development which is assessed by reference to the United Nations' SDGs. Typically, this analysis involves looking at the forecast capital expenditure of each company, and then mapping this expenditure against the SDGs to determine whether a positive, neutral or negative contribution is being made. The Fund aims to outperform the FTSE Developed Core Infrastructure ex – Pipelines Net Total Return Index (NZD hedged), after fees and expenses, but before investor taxes, over rolling five-year periods.

6. 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 Services Licence.

7. 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.

Investment Strategy

The Fund invests in shares of listed companies around the world that own or operate infrastructure assets. The infrastructure sector includes operating assets from the transport, utilities, energy and communications sectors. The assets held by these companies typically offer high barriers to entry, pricing power, and structural growth. The strategy is based on active, bottom-up security selection which seeks to identify mispricing. The Fund seeks to minimise risk through on-the-ground research, an emphasis on quality, and sensible portfolio construction. In identifying companies for investment, the Fund takes into account environmental, social and governance considerations; and will only invest in companies that the Investment Manager believes can contribute to, or benefit from, sustainable development which is assessed by reference to the United Nations' SDGs. Typically, this analysis involves looking at the forecast capital expenditure of each company, and then mapping this expenditure against the SDGs to determine whether a positive, neutral or negative contribution is being made.

Currency exposure will be hedged back into New Zealand dollars using forward currency contract derivatives.

Benchmark index

FTSE Developed Core Infrastructure ex – Pipelines Net Total Return Index (NZD hedged)⁸

Target investment mix

- 2% Cash and cash equivalents
- 98% International equities (listed infrastructure securities)

Asset allocation ranges:⁹

- 0%-10% Cash and cash equivalents
- 90%-100% International equities (listed infrastructure securities)

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
- Forward currency contract derivatives (for the purposes of currency hedging)

Rebalancing policy:

- There is no rebalancing policy.

Currency policy:

- The Fund is hedged to New Zealand dollars using forward currency contract derivatives.

Other

- No holding may exceed 10% of the Fund's net asset value (NAV)
- The number of stocks to be held by the portfolio is typically between 35 – 45, but the minimum number required is 20
- The Fund will not acquire more than 5% of the issued capital of any one company
- The Fund is not permitted to invest in stocks with a market capitalisation of less than US\$500 million
- The Fund invests in infrastructure companies. These companies are typically included in, but not limited to, the following sectors: energy storage and transportation, airport services, highways and rail tracks, railroads, marine ports and services, waste management, mobile towers and data centres, and multi/electric/gas/water utilities
- The Fund may invest in companies located anywhere in the world. The Fund's exposure in aggregate to countries not in the OECD must not exceed 20%
- The Fund's holdings of unlisted securities must not exceed 10% of the Fund (including IPO's which are expected to be listed within 12 months)
- The Fund may utilise FX forwards and Non-Deliverable Forwards for the purpose of currency hedging
- Short selling is not permitted
- The Fund can borrow up to 10% of the aggregate value of its investments for operational purposes including the provision of short-term liquidity (for example, to temporarily fund redemptions, settle securities trades or pay expenses)

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, and forward currency contracts used for the purposes of currency hedging, 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 redemption frequency for the Fund. The Fund invests in liquid investments and hence has daily applications and redemptions. 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 redemptions for a period of time.

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

9. The asset allocation is a range, actual allocations can change within the ranges significantly and sometimes quickly.

Related-party transactions

Related-party transactions, other than the types permitted under the Financial Markets Conduct Act 2013 (FMC Act) are prohibited.

The Fund may enter into transactions with related parties if permitted under section 174 of the FMC Act or consented to by the Supervisor under section 173(2)(a). Examples of such transactions include:

- the Fund investing in a First Sentier fund offshore; or,
- a related party of the Investment Manager being appointed to provide investment services for the Fund; or,
- parties related to the Fund, including the staff and directors of First Sentier Investors and their families, and the staff of FundRock and their families from time to time investing in the Fund.

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 pricing and asset valuation obligations, and the way in which FundRock exercises its discretions authorised by the Trust Deed.

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. 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 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;¹⁰
- annualised standard deviation of benchmark index return;¹⁰ and
- annualised tracking error.¹⁰

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

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

¹⁰. 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 FundRock Board approval, as well as written approval of the Supervisor.

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 22 February 2024 and takes effect on 26 February 2024.

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