

# Cook Islands National Superannuation Fund

## Statement of Investment Policies and Objectives



## Table of Contents

<b>Introduction</b> .....	<b>3</b>
<b>Roles &amp; Responsibilities</b> .....	<b>6</b>
<b>Investment Principles and Beliefs</b> .....	<b>8</b>
<b>Objectives</b> .....	<b>9</b>
<b>Investment Strategy</b> .....	<b>10</b>
<b>Monitoring</b> .....	<b>12</b>
<b>Investment Strategy Review</b> .....	<b>13</b>
<b>Investment Governance Review</b> .....	<b>13</b>
<b>Approval</b> .....	<b>13</b>
<b>Appendix 1</b> .....	<b>14</b>
<b>CINSF Conservative Fund (default fund)</b> .....	<b>14</b>
<b>CINSF Balanced Fund</b> .....	<b>15</b>
<b>CINSF Growth Fund</b> .....	<b>16</b>
<b>Appendix 2</b> .....	<b>17</b>

# Introduction

## Purpose

The purpose of the Statement of Investment Policies and Objectives (SIPO) is to assist the Trustee, the Board Members of the Cook Islands National Superannuation Fund (CINSF, or the “Fund”), and any Financial Supervisor or Regulator, to effectively supervise, monitor, and evaluate the management of the CINSF. The CINSF investment program is defined in the various sections of the SIPO by:

1. Stating in a written document the CINSF’s attitudes, expectations, objectives, and guidelines for the investment of the assets.
2. Setting forth an investment strategy for managing CINSF. This strategy includes various asset classes, investment policies, asset allocations and acceptable ranges, that in total, are expected to produce an appropriate level of overall diversification and total investment return over the investment time horizon.
3. Establishing formal criteria to monitor, evaluate and compare the performance results achieved by the investment managers (fund managers) on a regular basis.
4. Encouraging effective communications between the Trustee, Board Members, and interested parties.
5. Complying with all applicable fiduciary, prudence and due diligence requirements experienced investment professionals would utilize, and with all governing legislation, that may impact CINSF.

## Background

The Cook Islands National Superannuation Fund was established under the Cook Islands National Superannuation Fund Act 2000 (the “Act”) and is governed under the terms of a Trust Deed dated 19 September 2001 between the CINSF Board (the “Board”) and the Trustee for the purpose of providing retirement pensions to its members.

The Act was amended in July 2017 to reflect changes to the Board appointments, the forfeiture of members’ employer contributions, and the portability of members’ funds on their permanent departure from the Cook Islands.

Subject to the Act and the Trust Deed, all persons employed in the Cook Islands from the age of 18 - 60 years old are required to contribute 5% of their wages and 5% from their employers.

The Board is the Cook Islands National Superannuation Fund Board established under the Act.

The Trustee is Public Trust, a crown entity established under the Public Trust Act 2001 (New Zealand legislation).

The Fund is a sponsored contributory defined contribution superannuation scheme.

The Trust Deed provides the Trustee with broad authority to invest the Fund’s assets.

This document establishes the framework for the governance and investment of the Fund’s investment assets by providing a clear statement of the investment policies and objectives that must be adhered to when investing the Fund’s assets.

The Trustee shall invest the assets of the Fund in a manner expected to ensure the continuing compliance of the Trustee Act 1956 (New Zealand legislation) and any other relevant legislation.

## Tax Status

The Act provides the Fund with a tax exemption of all income tax under the Income Tax Act 1997.

The Fund is considered a non-resident for New Zealand tax purposes allowing the Trustee to utilise the Approved Issuer Levy Regime to invest directly into securities in New Zealand. In addition, two of the underlying Investment Products that the CINSF currently invests into elected to be Foreign Investment Rate Portfolio Investment Entities (“FIVS”). As a non-resident investor in the FIVS, the Fund incurs tax on related interest income paid by the FIVS at the rate of 1.44%. In respect of equity investments, the tax applying to New Zealand dividends allocated to FIVS is set out in the table below.

Fully imputed dividend (where no supplementary dividend is paid)	0%
Fully imputed dividend (where supplementary dividend is paid) and supplementary dividends	15%
Unimputed dividend where investor is from a country that has a DTA (Double Tax Agreement) with New Zealand	15%

## Membership and Accounts

In accordance with the Trust Deed, the Trustee will establish for a Member the following accounts within the Fund:

- Compulsory Accounts to hold mandated employee and employer contributions;
- Voluntary Accounts to hold voluntary contributions;

On a Member becoming a pensioner, Pension Accounts are established to hold sums credited from the Compulsory Accounts and other sums as may be credited under the provisions of the Trust Deed.

The Trustee may also establish a Reserve Account and Pension Reserve Account in its name, in accordance with the Trust Deed.

Members can choose a combination of investment options, namely between Conservative (default), Balanced and Growth Funds (together referred to as the CINSF Investment Funds, individually a Portfolio) for amounts held in their Compulsory and Voluntary Accounts. This choice is referred to as “Investment Direction”. Additional information on when and how Investment Directions can be given or amended can be found in the Members’ Handbook.

All amounts held in the Pension Accounts can only be allocated to the Balanced Fund.

Reserve Account funds are allocated to the Conservative Fund, as are the contributions of members who do not make an investment choice.

Additional detail about the types of accounts can be found in the Trust Deed.

**Benefit Design**

The benefits provided by the Fund are the accumulation of Member and Employer contributions with interest.

A pension is payable to Members who become Pensioners at the normal retirement age of 60, although in certain circumstances an early retirement benefit can be paid, and Members can elect to defer their retirement age. Pension rates are determined by the Trustee on actuarial advice.

A Group Life Insurance Policy ("Policy") is held for Members with a lump sum payable to a deceased Member's legal representative or dependents and to a Member in the case of terminal illness or injuries resulting in dismemberment and major burns. Certain criteria of eligibility (as set down in the Policy) must be met.

**Effective date**

This SIPO takes effect from 11 November 2019 and supersedes all prior-dated SIPO documents.

**Review dates**

The SIPO shall be reviewed annually from the effective date unless, in the opinion of the Trustee or the Board, an earlier review is deemed necessary.

# Roles & Responsibilities

## **Board of Directors are responsible for:**

- Ensuring that the Fund is run in accordance with the Act
- Appointing and monitoring the Trustee
- Appointing Investment and Audit Committees
- Appointing the CEO, and delegating duties to the CINSF Office

## **Trustee is responsible for:**

- Carrying out the obligations under the Trust Deed
- Appointment of the, Investment Manager(s), Administration Manager, Auditor, Insurers and Actuary
- Investment of the Fund in accordance with the SIPO
- Establishing benchmarks and reviewing the performance of the Investment Funds and the underlying Investment Products against them

## **The Board and Trustee are jointly responsible for:**

- Establishing and periodically reviewing the SIPO
- Establishing, and periodically reviewing, the risk and return objectives for the Investment Funds
- Determining, and periodically reviewing, the investment strategy of the Fund and the Investment Funds, including strategic asset allocations and investment policies
- Monitoring the performance of the Service Providers

## **The Investment Manager is responsible for:**

- Providing regular reporting to the Trustee and to the CINSF Office on the performance of the Investment Funds and the underlying Investment Products in a format agreed with the Trustee
- Participating in regular meetings with the Trustee and/or the Board to review the performance reports
- Advising the Trustee and the CINSF Office of any material changes in relation to the Investment Manager or the Investment Products
- Advising the Trustee and the CINSF Office of any material breaches of the investment mandates, investment guidelines or SIPOs relevant to the Investment Products as soon as is reasonably practical
- Participating, where required, in the regular review of this SIPO

## **The Fund Administrator is responsible for:**

- Providing a Quarterly Administration Report to the Trustee and to the CINSF Office in a format agreed with the Trustee

- Rebalancing the Investment Funds back towards Benchmark Asset Allocations in accordance with the Rebalancing Policy outlined below, in consultation with the Trustee and Investment Manager
- Advising the Trustee and the CINSF Office of any material instances where the Investment Funds have breached this SIPO
- Providing operational support to the CINSF Office
- Payment of Benefits
- Maintaining accounting and membership records
- Provision of Quarterly Management Accounts, Annual Report and Annual Audited Financial Statements.
- Distribution of Annual Member Statements.

**The Actuary is responsible for:**

- Recommending the interim monthly and final annual crediting rates for the CINSF Member Accounts, Pensioner Accounts and Reserve Accounts
- Completing the three-yearly actuarial review of the Fund as required under the Act

**CINSF Chief Executive Officer**

- Responsibilities delegated by the Board and Trustee.

**Service Providers**

To follow is a listing of the service providers to the Cook Islands National Superannuation Fund:

<b>Trustee</b>	Public Trust of New Zealand
<b>Administrators</b>	Cook Islands National Superannuation Fund Office Link Market Services Limited (Link)
<b>Underlying Investment Managers</b>	Russell Investment Group Limited
<b>Investment Advisor</b>	Mark Brennan (Direct Investments)
<b>Auditors</b>	Deloitte
<b>Actuaries</b>	AON Hewitt
<b>Insurance Broker</b>	Mercer Marsh
<b>Insurer</b>	AIA International Limited (trading as AIA New Zealand) Wills Towers Watson

The only service provider with a Service Level Agreement (SLA) is Link. The services of Mark Brennan are on a consultant basis, and a contract is established for any work he is engaged to perform for the Fund.

# Investment Principles and Beliefs

The Board and Trustee agree on the following investment principals and beliefs and apply this to the CINSF:

## **Governance**

Good governance with clear decision-making structures that provide decisiveness, efficiency, and accountability, and are effective, add value to the Fund.

## **Asset Allocation**

Asset Allocation is the key determinant of investment outcomes.

## **Diversification**

Diversification, both between and within asset classes, improves the return to risk ratio of a portfolio. However, diversification has a diminishing marginal benefit so there is a point at which the costs of further diversification outweigh the benefits.

## **Risk**

Risk and return are strongly related. Investors are generally compensated for accepting greater risk, or increased volatility of returns, by higher returns over an appropriate timeframe.

## **Liquidity**

Returns may be enhanced through investing in illiquid assets, but such investments must be considered in light of the associated risks.

## **Active Management**

Markets are highly competitive but not always perfectly efficient. Therefore, skilled active managers can add value over the long term.

## **Execution**

Costs affect returns and need to be understood and managed effectively.



## Objectives

The Cook Islands National Superannuation Fund (CINSF) was established by the Government of the Cook Islands to provide a retirement savings vehicle which supports security in retirement for the people of the Cook Islands.

The objective for the CINSF is to assist members in growing their retirement savings. It does this by providing a range of Investment Funds which allows members to choose the fund, or combination of funds, that best matches their risk profile, and also by providing a suitable default option for members who do not make a choice.

### **Time Horizon**

The age demographic of the Funds membership base ranges from 18 - 70+, with the members being split into 2 main categories, contributing members and pensioners.

The majority of members are between 18 - 50 years of age. This provides a large range in investment horizons from 10 - 40 years for contributing members.

The current Minority is Pensioners, and under the CINS Act 2000 the Fund is required to continue to invest a pensioner's account after retirement, as the Fund provides a pension for life. The CINSF's most recent actuarial report refers to the New Zealand Period Life Tables 2010-12 with life expectancy for Maori Females of 76.5 years, and Maori Males 72.8 years. This gives us an estimate of some 12 to 17 years in retirement as an additional investment horizon.

Assuming that there are no significant drawdown requirements, changes to the Act, or Trust Deed, then our conservative investment time horizon for the Fund is set at 20 years.

Over the next 10 years the demographic is expected shift and a review of the time horizon must be reviewed by 2028. Should other circumstances change such that more significant withdrawals are likely or there is the possibility of a major withdrawal requirement (ie greater than 5% of the Portfolio), then the policy shall be reviewed with a focus on greater liquidity and lower volatility.

# Investment Strategy

## Asset allocation

The Board and the Trustee are jointly responsible for setting the investment strategy for each Investment Fund, including the Strategic Asset Allocations (SAAs).

Three Investment Funds are currently offered; Conservative, Balanced and Growth.

The SAA for each Investment Fund may include the following asset classes:

Income Assets:

- Cash
- Domestic Fixed Interest
- \*Pacific Fixed Interest
- Global Fixed Interest

Growth Assets:

- Domestic Equities
- \*Pacific Equities
- Global Equities

*\* Pacific means securities issued by entities in New Zealand, Australia, and the Pacific Islands.*

For full details of the Asset Classes, Exposures, and Rebalancing limits, for each of the Investment Funds refer to Appendix 1.

## Domestic assets

The Act allows for up to 20% of the CINSF assets to be invested in domestic (Cook Islands) investments. While there is currently no domestic exposure, the Strategic Asset Allocation exposures and ranges allow for the inclusion of domestic assets in the future.

Any investment into a domestic asset is likely to be direct, rather than through a managed fund, and therefore would be subject the CINSF Direct Investment Policy.

## Asset class benchmarks

The Board and the Trustee have agreed the following asset class benchmarks and outperformance targets:

Asset Class	Benchmark index	Alpha target (gross p.a.)
Pacific equities	S&P/NZX 50	1.25%
Global equities	MSCI ACWI \$NZ Hedged	2.00%
Pacific Fixed Interest	Bloomberg NZ Bond Composite	0.75%
Global Fixed Interest	Bloomberg Barclays Global Aggregate \$NZ Hedged	1.00%
Domestic assets	Reference portfolio	n/a

**Currency hedging**

Currently, all foreign currency exposures are hedged back to the New Zealand Dollar.

**Rebalancing**

The Fund Administrator is responsible for rebalancing the asset allocations within each of the Investment Funds, subject to approval from the Trustee.

Each of the Investment Funds will be rebalanced back towards their Strategic Asset Allocation monthly, or whenever actual weightings (asset class or Growth/Income splits) deviate from the allowed asset class ranges specified in Appendix 1.

The regular cash flows to and from Members provides an opportunity to assist in rebalancing the Investment Funds toward Strategic Asset Allocations, by funding the outflows from the overweight asset class(es) and investing inflows into underweight asset class(es).

Where possible redemptions will be avoided by the utilisation of the cash inflows from members.

**Benchmarks**

Two benchmarks have been established for monitoring the performance of the Investment Managers and the Investment Funds; a Market Benchmark and a Consumer Price Index (CPI) Benchmark.

Market Benchmark:

With a strong association to New Zealand, the CINSF members have an awareness and understanding of the New Zealand KiwiSaver Funds. Therefore, the performance of each of the CINSF Investment Funds is measured against its KiwiSaver peers, as detailed in Appendix 1.

CPI Benchmark:

In order to ensure that the real (inflation-adjusted) value of the assets is maintained, each Investment Fund is expected to outperform the NZ CPI by an agreed margin over a reasonable timeframe. The expectations are detailed in Appendix 1.

In addition to these Investment Fund benchmarks, the performance of the underlying products relative to their stated benchmarks and to their peers will also be monitored.

# Monitoring

## Performance Monitoring

The principal goals of performance monitoring are to:

- Assess the extent to which the CINSF Investment Funds' performance objectives are being achieved.
- Compare the performance of the CINSF Investment Funds against the performance of benchmark indices (which includes against the performance of other suitable investment funds in the market).
- Ascertain the existence of any particular weakness in the underlying Investment Products into which the CINSF invests and its Investment Managers.
- Allow the Trustee and CINSF Office to continually assess the ability of underlying Investment Products into which the CINSF invests and the Investment Managers to meet the CINSF Investment Funds' objectives.

The Trustee and CINSF Office will monitor the performance of the Investment Funds quarterly by:

- Monitoring the returns achieved by the Investment Funds in relation to their stated objectives.
- Monitoring the overall Performance of the CINSF Investment Funds on a regular basis with a view to an annual evaluation on a rolling 3-year basis.
- Monitoring the returns achieved by the underlying Investment Products into which the CINSF invests or in the case of direct management, the returns achieved by the Investment Manager in relation to stated objectives and indices.
- Comparing the performance of the underlying Investment Products into which the CINSF invests or in the case of direct management, the returns achieved by the Investment Manager against the performance of suitable peer groups and investment funds in the market.

## Measuring Costs

The Board and Trustee will review at least annually all costs associated with the management of the Fund's investment program, including:

1. Any investment provider fees.
2. Expense ratios of each Investment Fund against the expense ratio of the peer group funds against which the performance is measured.
3. Custody fees: The holding of the assets, collection of the income and disbursement of payments.
4. Investment Management Entity - cost of management (if appropriate).

## Investment Strategy Review

The Board and Trustee will review the investment strategy, including SAA, at least once every 3 (three) years to determine whether stated investment objectives are still relevant and the continued feasibility of achieving the same. It is not expected that the investment strategy will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the strategy.

## Investment Governance Review

The Board and Trustee will implement procedures to ensure that the fiduciary framework for managing the assets is working effectively.

Internal and external reviews are well-recognised tools to evaluate risks and ensure the effectiveness of policies and procedures. Furthermore, the trend in international best practice is toward more formality in documenting (1) policies and procedures and (2) implementing processes that ensure the policies and procedures are effective.

A review of the governance practices will be undertaken every two years to confirm effectiveness of governance and to identify any opportunities for improvement. This is consistent with governance best practice.

## Approval

---

Trustee

Date:

---

Board

Date:

# Appendix 1

## CINSF Conservative Fund (default fund)

### Investment Objectives

To produce rates of return over time that are in excess of inflation by investing a small percentage of the assets in growth assets while keeping the probability of a negative return at low levels.

To provide a Total Fund Return that is higher than that of the median manager amongst Conservative Funds in the Morningstar KiwiSaver Survey, measured over rolling 3-year periods.

To provide a Total Fund Return that exceeds the Benchmark Return by 0.3% p.a. over rolling 3-year periods.

This Fund is expected to provide a Total Fund Return that exceeds the New Zealand CPI by at least 2.0% p.a., measured over rolling 3-year periods.

The Benchmark Return is the return that would have been achieved had the Investment Fund been invested in line with its Strategic Asset Allocation and earned the benchmark index returns of each asset class.

Total Fund Return is the Investment Fund return net of investment manager fees.

### Benchmark asset allocation and underlying investment funds

Asset Class	Benchmark %	Range %	Underlying Investment Product
Pacific Equities	10	8 - 12	Russell Investments NZ Share Fund
Global Equities	20	16 - 24	Russell Global Opportunities Fund (\$NZ Hedged Class B) Fund Class B
<b>Total Growth Assets</b>	<b>30</b>	<b>25 - 35</b>	
Cash	0	0 - 5	<ul style="list-style-type: none"> <li>• Cash at bank; or</li> <li>• Bank Floating Rate Notes; or</li> <li>• Investment in a registered Managed Investment Scheme provided it is unitised, daily priced, subject to the Trustee's prior approval.</li> </ul> The maximum duration is 180 days.
Pacific Fixed Interest	14	12 - 16	Russell Investments NZ Fixed Interest Fund
Global Fixed Interest	56	52 - 60	Russell Global Bond Fund Class B
<b>Total Income Assets</b>	<b>70</b>	<b>65 - 75</b>	
*Domestic Growth & Income Assets	0	0 - 20	Investment in a Cook Islands domiciled entity
<b>Total Domestic Assets</b>	<b>0 - 20</b>	<b>0 - 20</b>	

\*Domestic Growth & Income Assets are reflective of the CINS Act 2000 that imposes a limit of 20% of the total Portfolio being invested in the Cook Islands. That investment may take the form of Growth and/or Income Assets, but not exceed a combined total of 20% of the total Portfolio. Whilst there is currently no exposure to the domestic market, if a domestic investment is made, a reduction will be made to the corresponding Asset Classes in the Growth or Income Assets to retain the 70%/30% Income/Growth split.

## CINSF Balanced Fund

### Investment Objectives

To produce rates of return over time that are in excess of inflation by investing more of the assets in growth assets while keeping the probability of a negative return at medium levels.

To provide a Total Fund Return that is higher than that of the median manager amongst Balanced Funds in the Morningstar KiwiSaver Survey, measured over rolling 3-year periods.

To provide a Total Fund Return that exceeds the Benchmark Return by 0.4% p.a. over rolling 3-year periods.

This Fund is expected to provide a Total Fund Return that exceeds the New Zealand CPI by at least 3.5% p.a., measured over rolling 3-year periods.

The Benchmark Return is the return that would have been achieved had the Investment Fund been invested in line with its Strategic Asset Allocation and earned the benchmark index returns of each asset class.

Total Fund Return is the Investment Fund return net of investment manager fees.

### Benchmark asset allocation and underlying investment funds

Asset Class	Benchmark %	Range %	Underlying investment fund
Pacific Equities	20	18 – 22	Russell Investments NZ Share Fund
Global Equities	40	36 - 44	Russell Global Opportunities Fund (\$NZ Hedged Class B) Fund Class B
Total Growth Assets	60	55 – 65	
Cash	0	0 – 5	<ul style="list-style-type: none"> <li>• Cash at bank; or</li> <li>• Bank Floating Rate Notes; or</li> <li>• Investment in a registered Managed Investment Scheme provided it is unitised, daily priced, subject to the Trustee's prior approval.</li> </ul> The maximum duration is 180 days.
Pacific Fixed Interest	8	6 – 10	Russell Investments NZ Fixed Interest Fund
Global Fixed Interest	32	28 – 36	Russell Global Bond Fund Class B
Total Income Assets	40	35 – 45	

*Domestic Growth & Income Assets	0	0 – 20	Investment in a Cook Islands domiciled entity
Total Domestic Assets	0 – 20	0 – 20	

\*Domestic Growth & Income Assets are reflective of the CINS Act 2000 that imposes a limit of 20% of the total Portfolio being invested in the Cook Islands. That investment may take the form of Growth and/or Income Assets, but not exceed a combined total of 20% of the total Portfolio. Whilst there is currently no exposure to the domestic market, if a domestic investment is made, a reduction will be made to the corresponding Asset Classes in the Growth or Income Assets to retain the 40%/60% Income/Growth split..

## CINSF Growth Fund

### Investment Objectives

To produce rates of return over time that are well in excess of inflation by investing the majority of the assets in growth assets while accepting a higher probability of a negative return.

To provide a Total Fund Return that is higher than that of the median manager amongst Growth Funds in the Morningstar KiwiSaver Survey, measured over rolling 3-year periods.

To provide a Total Fund Return that exceeds the Benchmark Return by 0.5% p.a. over rolling 3-year periods.

This Fund is expected to provide a Total Fund Return that exceeds the New Zealand CPI by at least 4.5% p.a., measured over rolling 3-year periods.

The Benchmark Return is the return that would have been achieved had the Investment Fund been invested in line with its Strategic Asset Allocation and earned the benchmark index returns of each asset class.

Total Fund Return is the Investment Fund return net of investment manager fees.

### Benchmark asset allocation and underlying investment funds

Asset Class	Benchmark %	Range %	Underlying investment fund
Pacific Equities	26	24 - 28	Russell Investments NZ Share Fund
Global Equities	54	50 - 58	Russell Global Opportunities Fund (\$NZ Hedged Class B) Fund Class B
<b>Total Growth Assets</b>	<b>80</b>	<b>75 - 85</b>	
Cash	0	0 - 5	<ul style="list-style-type: none"> <li>• Cash at bank; or</li> <li>• Bank Floating Rate Notes; or</li> <li>• Investment in a registered Managed Investment Scheme provided it is unitised, daily priced, subject to the Trustee's prior approval.</li> </ul> The maximum duration is 180 days.
Pacific Fixed Interest	4	2 - 6	Russell Investments NZ Fixed Interest Fund
Global Fixed Interest	16	12 - 20	Russell Global Bond Fund Class B
<b>Total Income Assets</b>	<b>20</b>	<b>15 - 25</b>	

*Domestic Growth & Income Assets	0	0 - 20	Investment in a Cook Islands domiciled entity
<b>Total Domestic Assets</b>	<b>0 - 20</b>	<b>0 - 20</b>	

\*Domestic Growth & Income Assets are reflective of the CINS Act 2000 that imposes a limit of 20% of the total Portfolio being invested in the Cook Islands. That investment may take the form of Growth and/or Income Assets, but not exceed a combined total of 20% of the total Portfolio. Whilst there is currently no exposure to the domestic market, if a domestic investment is made, a reduction will be made to the corresponding Asset Classes in the Growth or Income Assets to retain the 20%/80% Income/Growth split..



# Appendix 2

## 1.0 Investment Policy - Direct Investments

### 1.1 General

The CINSF Board has approved to expand the investment options available to the Fund to include Direct Investment opportunities.

This investment policy outlines a set of guiding principles and the frameworks to be applied when assessing Direct Investments to ensure the risk and return requirements of CINSF are appropriately considered and addressed in the investment approval decision.

### 1.2 Investment Beliefs and Objectives

As part of the evaluation to expand into Direct Investment opportunities, the Board identified a set of beliefs and established a set of investment objectives for these types of investments:

- Any Direct Investment needs to be considered on a commercial merit first basis. The CINSF Board recognises Direct Investments can offer external benefits to the Fund including increased employment and taxation revenues. While these may be assessed as positive to the broader government / community, any Direct Investment must first meet an objective that demonstrates an appropriate commercial return is expected for it to be considered as an acceptable investment for the Fund
- In expanding into Direct Investments, the Board recognises that these types of investments will introduce a greater level of investment and liquidity risk to the portfolio and, as a result, the Fund needs to be appropriately compensated in the return received for taking on this additional risk.
- As unlisted market investments, Direct Investments offer potential uncorrelated return performance when compared to the financial market investments undertaken through Russell Investments. By entering Direct Investments, there is an objective to reduce the level of volatility in the total CINSF portfolio and reduce the impact financial market events have on the total portfolio.

### 1.3 Roles & Responsibilities

Inclusion of Direct Investments as an asset class requires different governance and assessment structures when compared to financial market investments.

The assessment and monitoring process requires contributions from CINSF Management, CINSF Board and the Trustee. Furthermore, there is scope to appoint specialist consultants as required to import capabilities in the analysis and assessment processes at management and board levels.

The responsibilities outlined below relate to Direct Investment opportunities and are in addition to the responsibilities specified in the Roles & Responsibilities section on page 6.

#### Responsibilities of CINSF Management

- Communicate to the investee market the CINSF investment policies and constraints relating to Direct Investment proposals

- Undertake assessment of Direct Investment proposals in line with the Investment Policy (refer section 1.4 below) and Assessment Framework (refer section 1.5 below) to ensure compliance with requirements
- Submit assessments and recommendations to CINSF Board for review and approval
- Formulate a reporting structure to address relevant monitoring requirements and additional issues raised by the Board
- Action reporting program to monitor investment and risk performance of investments
- Submit to CINSF Board any remedial actions required to address performance issues on investments
- Submit to CINSF Board proposals to revalue investments in line with Investment Policy
- Submit to CINSF Board recommendations for Investment Policy amendments as required.

#### Responsibilities of CINSF Board

- Assess submitted proposals comply with Investment Policy and assumptions employed in analysis are consistent with investment forecasts and expectations
- Monitor investment performance and approve any remedial actions submitted
- Consider Investment Policy recommendations submitted by Management.

#### Responsibilities of Trustee

- Review of the CINSF Board approved Investment Policy as it relates to Direct Investments
- Assess CINSF Board approved Direct Investments to ensure compliance with Investment Policy.

#### Responsibilities of Consultants

External consultants offering investment and project specific technical expertise can be engaged as required to provide guidance to CINSF Management and Board in assessment and management of Direct Investments.

In the development stages of CINSF's expansion into Direct Investments, the role of an investment consultant includes:

- Assist Management through assessment of Direct Investment opportunities to ensure submissions presented to the Board are of appropriate standard to enable an informed investment decision
- Guide Management in monitoring risks and performance of Direct Investments undertaken by CINSF to be consistent with the Fund's objectives to members
- Counsel the Board on its assessment of Direct Investment opportunities and the submissions received from Management to enable an informed investment decision.

Technical expertise may be engaged for technical specific elements in a project with responsibility to provide Management and Board with an assessment of project issues and offer an explanation of these from a non-technical perspective.

### **1.4 Investment Policy**

Direct Investment opportunities are broad in scope and introduce materially different risks compared to financial market investments. As a result, a separate policy is applied to ensure relevant risk issues and exposures are sufficiently managed or mitigated while also providing an appropriate contribution to the return profile to members.

The terms of a Direct Investment proposals will differ on a case-by-case basis. It recognised that inconsistency in the investment terms in each proposal makes it difficult to formulate a discrete set of investment policies. Within this context, a list of investment policy criteria is listed in Table 1 below as guiding principles in determining an appropriate Direct Investment.

### **1.5 Assessment Framework**

An additional component of the Direct Investment policy is a working framework for CINSF Management to use as the base assessment tool in formulating a submission and recommendation to the CINSF Board. The Assessment Framework is a working document and as a result is a separate document to this Investment Policy.

### **1.6 Assessment Process**

The process to be undertaken to assess Direct Investment opportunities submitted to CINSF is outlined in Table 2.

### **1.7 Direct Investment Funding**

Assessment of prospective Direct Investment transactions requires an appraisal of funding the transaction. Funding is to be considered on a case-by-case basis with consideration of the risk profile and return expected from the investment together with how these factors will align to the Conservative, Balanced and Growth investment options offered to members.

**Table 1 – Investment Policy Criteria**

Criteria	Description	Policy
Investment Type	<p>Considers the life-stages of an investment opportunity.</p> <p><i>Start-up:</i> Green fields project with build phase yet to commence, revenues and cash flows not expected for a period of time</p> <p><i>Infant:</i> Build phase completed or near completion with business recently operational. May not yet be profitable</p> <p><i>Mature:</i> Business operational with a developed market</p>	<p>Any investment type will be considered</p> <p>Approval of investment will be subject to adequately addressing subsequent policy criteria</p>
Revenue Certainty	<p>Probability of revenue to be derived from investment.</p> <p><i>Government:</i> Revenues linked to Government entity, state owned body or supported by a form of government guarantee or certainty</p> <p><i>High certainty:</i> Revenues driven by underlying enforceable commitment (e.g. take or pay arrangement) or unique, monopoly or market position</p> <p><i>Market Influenced:</i> Revenue uncertainty &amp; fully reliant on market status / position where no unique, leading or point of differentiation is held in the market</p>	<p>Limited to government, state owned enterprise, infrastructure, unique or leading market position or monopoly opportunities offering a degree of certainty in market position and revenues</p> <p>No market influenced opportunities to be considered (e.g. resort)</p>
Investment Hurdle Rate	<p>Minimum hurdle based on IRR (internal rate of return) analysis to be achieved by investment</p>	<p>Minimum 12% IRR required</p> <p>A lower IRR may be considered based on a corresponding reduction in the level of risk incurred on an investment e.g. government guarantee</p>
Ownership Requirements	<p>A minimum level of ownership required to allow sufficient influence to be retained in decision-making on an investment</p>	<p>CINSF seeks a material level of ownership to ensure sufficient influence is retained on decisions. Minimum 20%</p>

		A reduction in minimum ownership can be considered where an ownership consortium structure is entered
Board Representation	Investment contingent upon board representation thresholds to ensure CINSF interests are represented in critical decisions	Minimum representation on investee board based on level of ownership: <ul style="list-style-type: none"> <li>• 20% - 40%: one board rep</li> <li>• 40% - 50%: two board reps</li> <li>• Majority ownership: Majority representation</li> </ul> Variation to minimum requirements can be considered where an ownership consortium structure is entered
Revaluation	Policy to specify frequency of investment revaluation and acceptable methodologies	Asset revaluation undertaken every 3 -5 years Conservative assumptions to be applied to minimise variability in revised valuation
Liquidity / Exit	Flexibility to be retained in a Direct Investment to facilitate an exit from an investment via a transparent and, as much as possible, liquid mechanism	Investee required to have formal mechanism for share sale included in shareholder agreement
Concentration Limit	Policy to ensure CINSF's total portfolio is not overly exposed to a single asset	Maximum exposure to a single asset limited to 10% of total portfolio
Conflicts of Interest	Direct Investment opportunities may introduce exposure to conflicted interests by CINSF Management and / or Board	It is the duty of a member of the board or management to identify and appropriately raise any actual or potential conflicts in a Direct Investment transaction  Recognised conflicts are managed by excluding the conflicted party from <u>any</u> involvement in the assessment or decision processes in a transaction
Reporting	Any investment requires the investee to warrant delivery of reporting requirements to enable timely performance monitoring and, if required, remedial actions	Investee required to warrant in shareholder agreement  Agreement to explicitly specify reporting requirement & delivery dates

**Table 2 – Assessment Process**

