



**Pathfinder Investment Funds**

**Statement of  
Investment  
Policy  
and Objectives**



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The current SIPO version is to be available on the schemes register (Disclose) [www.business.govt.nz/disclose](http://www.business.govt.nz/disclose)

Join the future of investment:  
0800 ETHICAL (384 4225)  
pathfinder.kiwi apply@pathfinder.kiwi  
Level 37, PwC Tower,  
15 Customs St West, Auckland, 1010

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## 1. Introduction

### Purpose

This statement of investment policy and objectives (**SIPO**) sets out the investment philosophy, objectives and strategies for the following funds (each a **Fund**):

- Pathfinder Global Responsibility Fund
- Pathfinder Global Water Fund
- Pathfinder Global Property Fund
- Pathfinder Ethical Trans-Tasman Fund
- Pathfinder Ethical Growth Fund
- Pathfinder Green Bond Fund

### Background

The scheme is governed by a Master Trust Deed dated 1 April 2009 (as amended on 8 September 2016 and 2 February 2021) and a separate establishment deed for each Fund. These are referred to as the **Trust Deeds**. The SIPO, Trust Deeds and any other investment policies are referred to as the governing documents. Each Fund is a Portfolio Investment Entity (**PIE**) for tax purposes and information on each Fund is available to investors in the Product Disclosure Statement (**PDS**) and an Other Material Information document (**OMI**) known as the **offer documents**.

### Our investment philosophy

#### Our investment philosophy is built on two foundations:

- Our ethical beliefs are core to our investment process; and
- Our investment process must be research based and robust (as well as ethical).

#### Ethical investment beliefs:

Please refer to Section 4 (Ethical Investing) and our Ethical Investment Policy for details on how we address values, climate change awareness and Environmental, Social and Governance (**ESG**) considerations in the way we invest. You can find a copy of our Ethical Investment Policy on our website at [www.pathfinder.kiwi](http://www.pathfinder.kiwi) or the [Disclose Register](#).

#### Investment beliefs:

Our key investment beliefs include:

1. 'High level' decisions are critical: Active asset allocation decisions by asset class, industry sector, investment theme and geography are a significant driver of investment returns.
2. Integrating ESG: Integrating environmental, social and governance analysis into decision making provides a deeper assessment of corporate risk and value-creation potential.
3. Research is critical: High quality research drives better investment decisions.
4. Invest for the long-term: We believe a long-term investment approach produces better outcomes for our investors (and our planet) than a short-term approach.



## 2. Manager responsibilities

The obligations of Pathfinder as Manager of the Funds include:

- investing assets in accordance with the governing and offer documents,
- reporting to investors and Public Trust (the Supervisor) on each Fund,
- monitoring compliance with this SIPO, trust deeds and other investment policies.

The Manager will maintain an ethics and investment committee (the ***Ethics and Investment Committee***) to oversee management of the Funds.

## 3. Investment objective and benchmark

### Investment objective:

The objective of each Fund is set out in the table below:

Fund	Investment Objective
Global Responsibility Fund	Ethical investing in international equities and listed property to achieve above average long-term risk adjusted returns.
Global Water Fund	Ethical investing in global water companies to achieve above average long-term returns.
Global Property Fund	Ethical investing in global property companies to achieve above average long-term risk adjusted returns.
Ethical Trans-Tasman Fund	Ethical investing in Australasian equities, listed property and other assets to achieve above average long-term risk adjusted returns.
Ethical Growth Fund	Ethical investing to achieve medium to high returns with a higher risk focus.
Green Bond Fund	Investing in Green Bonds to achieve above average long-term risk adjusted returns. Green Bonds are a type of financing where the money borrowed is used for a specific project targeting climate and environmental solutions.



**Fund benchmark:** A benchmark is an index or security that reflects the market a fund is investing in and assists with measuring performance. Each Fund's performance will be measured against an appropriate benchmark selected by the Manager (which may be changed from time to time). The current Fund Benchmarks are set out in the table below:

Fund	Current Benchmark	
Global Responsibility Fund	Morningstar Developed Markets Index <sup>1</sup> (Net of dividends and tax, 50% hedged to NZD)	<a href="https://www.morningstar.com/indices/ixus/msdmusdn/quote">https://www.morningstar.com/indices/ixus/msdmusdn/quote</a>
Global Water Fund	NASDAQ OMX Global Water Index (Net of dividends and tax, 50% hedged to NZD)	<a href="https://indices.nasdaqomx.com/">https://indices.nasdaqomx.com/</a>
Global Property Fund	FTSE ERPA Nareit Global Real Estate Index (Net of dividends and tax, 75% hedged to NZD)	<a href="https://www.ftserussell.com/products/indices/epra-nareit">https://www.ftserussell.com/products/indices/epra-nareit</a>
Ethical Trans-Tasman Fund	A 50/50 composite of the NZX50 index / ASX200 Index (Gross of dividends and tax, 50% hedged to NZD)	<a href="https://www.nzx.com/markets/indices">https://www.nzx.com/markets/indices</a> <a href="https://www.asx.com.au/asx/statistics/indexInfo.do">https://www.asx.com.au/asx/statistics/indexInfo.do</a>
Ethical Growth Fund <sup>2</sup>	Morningstar <sup>®</sup> Target Allocation Index <sup>™</sup> : Growth Multisector for New Zealand <sup>1</sup>	<a href="https://indices.morningstar.com/our-indices/multi-asset/F0000174LJ">https://indices.morningstar.com/our-indices/multi-asset/F0000174LJ</a>
Green Bond Fund	Bloomberg Global Aggregate Index (100% hedged to NZD)	<a href="https://www.bloomberg.com/quote/LEGATRUU:IND">https://www.bloomberg.com/quote/LEGATRUU:IND</a> Bloomberg identifier: IT00035NZ

**Note 1:** Pathfinder Global Responsibility Fund and Ethical Growth Fund are not sponsored, endorsed, sold or promoted by Morningstar Research Limited or any of its affiliates (all such entities, collectively "Morningstar Entities"). The Morningstar Entities make no representation or warranty, express or implied, to the owners of the Morningstar indexes or any member of the public regarding the advisability of investing in the relevant markets generally or in the above listed Morningstar Indexes to track general market performance.

**Note 2:** The Benchmark for the Ethical Growth Fund changed on 1 October 2021. The previous index was a composite of 5% Bloomberg NZ Bank Bill Index, 20% Bloomberg Barclays Global Aggregate Total Return Index (gross of interest and tax; 100% hedged to NZD), 20% S&P/NZX50 Gross Index (gross of dividends and net of tax), 20% S&P/ASX200 Gross Return index (gross of interest and net of tax; 50% hedged to NZD) and 35% Morningstar Developed Markets Net Return Index (net of dividends and tax; 50% hedged to NZD), used from the fund inception to the end of Sep 2021.



**Monitoring:** Fund performance is reported on the Manager’s website: [www.pathfinder.kiwi](http://www.pathfinder.kiwi) and at regular Ethics and Investment Committee meetings. Each Fund is also reviewed at least annually by Pathfinder using the metrics below. The preferred data period is 3 years, although we may instead use a different period including data since inception of the Fund:

Fund	Performance Monitoring
Global Responsibility Fund	<ul style="list-style-type: none"> <li>returns after fees and before tax vs the Fund Benchmark</li> <li>volatility vs the Fund Benchmark</li> <li>returns after fees and before tax vs the mean or median of a sample of international equity PIE funds</li> </ul>
Global Water Fund	<ul style="list-style-type: none"> <li>returns after fees and before tax vs the Fund Benchmark</li> <li>volatility vs the Fund Benchmark</li> <li>returns after fees and before tax vs the mean or median of a sample of international equity PIE funds</li> </ul>
Global Property Fund	<ul style="list-style-type: none"> <li>returns after fees and before tax vs the Fund Benchmark</li> <li>volatility vs the Fund Benchmark</li> <li>returns after fees and before tax vs the mean or median of a sample of international property PIE funds</li> </ul>
Ethical Trans-Tasman Fund	<ul style="list-style-type: none"> <li>returns after fees and before tax vs the Fund Benchmark</li> <li>volatility vs the Fund Benchmark</li> <li>returns after fees and before tax vs the mean or median of a sample of Australasian equity PIE funds</li> </ul>
Ethical Growth Fund	<ul style="list-style-type: none"> <li>returns after fees and before tax vs the Fund Benchmark</li> <li>volatility vs the Fund Benchmark</li> <li>returns after fees and before tax vs the mean or median of a sample of growth PIE funds</li> </ul>
Green Bond Fund	<ul style="list-style-type: none"> <li>returns after fees and before tax vs the Fund Benchmark</li> <li>volatility vs the Fund Benchmark</li> <li>returns after fees and before tax vs the mean or median of a sample of bond PIE funds</li> </ul>

Pathfinder monitors compliance with our SIPO. Our investment team check the following aspects, and a regular check is signed off by our Compliance team:

- Ethical Investing (see Section 4 below)
- Asset allocation (see Section 5 below)
- Investment exposure (see Section 6 below)
- Currency hedging (see Section 7 below)
- Protection overlay (see Section 8 below)



## 4. Ethical Investing

Ethical investing is the practice of using an ethical framework, based on principles, as a primary filter for how to select investments. We do this as part of our mission, which is to generate individual wealth and collective well-being by investing ethically.

Different terms are used to describe investing based on more than just financial factors. Our preference is the term 'ethical' which makes it clear that values are taken into account. We recognise that values are not absolute, and vary person-to-person and community-to-community. The term 'ethical' overlaps with other terms like 'responsible', 'sustainable' and 'socially responsible'.

**Application:** Our ethical investing framework applies to each of our Funds and to all investments<sup>1</sup> (whether equities, fixed interest or private assets).

**Avoiding harm:** We want to avoid investing in industries or activities that create significant harm or that transgress our three filters of respecting people, planet and animals. These can be (1) based on regulatory settings such as New Zealand law or international conventions and/or (2) relate to industries or activities that we believe do more social or environmental harm than good. Our Ethical Investment Policy includes:

- **Exclusions detail:** Definitions of the activity, application, industry classification and revenue threshold applicable to each exclusion.
- **Exclusions register:** Detail of the register recording investments that breach any part of the Ethical Investment Policy and continue to be held.
- **Companies of concern:** Detail of the register recording material concerns raised for any company invested in, and reasons why it is determined the company does not breach the policy.

**Positive screening:** Positive screening is set out in our Ethical Investment Policy and has several levels:

- **ESG:** Because there's sound evidence that companies who address environmental, social and governance issues perform better and are more resilient than companies who don't, we consider a company's ESG score as part of our investment process.
- **Positive investment themes:** We tilt our portfolio towards companies whose operations align with our themes and that meet our financial investment criteria. Our themes are – renewable energy, energy efficiency, water, community housing and individual positive investments.
- **Commitments:** We support the United Nations Sustainable Development Goals which act as a blueprint to help achieve a better and more sustainable future for all. We are a signatory to the UN Principles of Responsible Investment (**UNPRI**). Our commitments under the UNPRI are set out in the Ethical Investment Policy.

**Note 1:** Excluding the Alvarium Sustainable Income Fund.



**Good stewardship:** Stewardship obligations are set out in our Ethical Investment Policy and include:

- **Climate change:** We support the transition to a low-carbon world as this will help to mitigate the effects of climate change (which we see as possibly the single greatest threat to the future of our society and ecosystems). We strive to select investments with lower emissions in comparing to MSCI All Country World Index to drive down the overall emission profile of our investing.
- **Active ownership:** This involves voting as a shareholder, engaging with companies and advocating to actively encourage ethical investment.
- **Oversight:** Our Ethics and Investment Committee and ESG Analyst monitor ongoing adherence to our policy.

**Monitoring and divestment:** To ensure our investments meet the criteria set out in the Ethical Investment Policy, our ESG Analyst monitors our companies for compliance with the policy at least quarterly. In the interim, they continually review data on reported ESG metrics, news alerts and qualitative research (such as industry surveys & interacting with the companies directly).

**Transparency:** Our Ethical Investment Policy sets out where our investment holdings will be disclosed and our annual reporting on sustainability metrics.







## 5. Strategy: asset allocation

Asset classes are the different investment groups we use for managing the Funds. These are currently:

Asset Class	Examples of Investment Exposures
Cash and Cash Equivalents	Bank deposits including term deposits.
NZ Fixed Interest	Bonds issued in New Zealand (which includes 'green bonds'). 90% of the target allocation to New Zealand and International Fixed Interest will have a minimum credit rating or internally assessed credit rating of BBB-.
International Fixed Interest	Bonds issued outside of New Zealand (which includes international 'green bonds'). 90% of the target allocation to New Zealand and International Fixed Interest will have a minimum credit rating or internally assessed credit rating of BBB-.
Australasian Equities	Shares listed on a stock exchange in New Zealand or Australia (such as the NZX or ASX). Listed property shares are not included in this class.
International Equities	Shares listed on a stock exchange outside New Zealand and Australia. Listed property shares are not included in this class.
Listed Property	Property shares listed on a stock exchange.
Other Assets	These are investments that are unlikely to be stock exchange listed, and includes securities for which there is no tradable market. These can include investments known as 'impact investments', 'venture capital', 'private loans' and 'private equity'. This category also includes unlisted property, such as direct ownership in property or ownership of property companies that are not listed on a stock exchange.

The Ethics and Investment Committee may add or change these asset classes. When we refer to "shares" within any asset class we also mean preference shares and other equivalent products. Any of these exposures may be obtained by investing in another fund.



The Target Asset Allocation is our preferred long-term average expected investment allocation to each asset class and is set out below:

Asset Class	Target Asset Allocation					
	Global Responsibility Fund	Global Water Fund	Global Property Fund	Ethical Trans-Tasman Fund	Ethical Growth Fund	Green Bond Fund
Cash and Cash Equivalents	0%	0%	0%	0%	7.7%	0%
NZ Fixed Interest	0%	0%	0%	0%	8.8%	0%
International Fixed Interest	0%	0%	0%	0%	11.7%	100%
Australasian Equities	0%	0%	0%	95%	20.6%	0%
International Equities	95%	100%	0%	0%	41.5%	0%
Listed Property	5%	0%	100%	5%	4.7%	0%
Other Assets	0%	0%	0%	0%	5.0%	0%
Total	100%	100%	100%	100%	100%	100%



**Permitted Ranges** are the limits each Fund operates inside (any move outside this range is expected to be remedied within 5 business days of the Manager becoming aware):

Asset Class	Permitted Range					
	Global Responsibility Fund	Global Water Fund	Global Property Fund	Ethical Trans-Tasman Fund	Ethical Growth Fund	Green Bond Fund
Cash and Cash Equivalents	0%-70%	0%-70%	0%-70%	0%-100%	0%-100%	0%-100%
NZ Fixed Interest	0%-20%	0%-20%	0%-20%	0%-20%	0%-70%	0%-70%
International Fixed Interest	0%-20%	0%-20%	0%-20%	0%-20%	0-70%	0%-100%
Australasian Equities	0%-20%	0%-20%	0%-20%	0%-100%	0-90%	0%
International Equities	30% - 100%	30% - 100%	0% - 100%	0% - 30%	0-90%	0%
Listed Property	0%-30%	0%-30%	0%-100%	0%-30%	0-20%	0%
Other Assets	0%-10%	0%-10%	0%-10%	0%- 10%	0%-15%	0%-10%

**Changes:** The Manager may change the Target Asset Allocation and Permitted Range at any time upon approval from the Ethics and Investment Committee.

**Rebalancing:** Actual asset class allocations will frequently differ from the Target Asset Allocation but are to remain inside the Permitted Ranges. The Manager may at any time rebalance a Fund's holding(s) closer to the Target Allocation but is not required to do so.



## 6. Strategy: investment exposures

The permitted investments for each Fund have a wide scope in the trust documents. Each Fund may get equity exposure through direct shares, exchange traded funds (**ETFs**) or through investing in another fund.

Below is a description of how each Fund is invested and the maximum single company exposure. The single company exposure is on a “look through basis”, meaning that if ETFs or other funds are held then the “maximum” applies to each underlying company exposure:

Fund	How Each Fund Invests	Maximum Single Exposure
<b>Global Responsibility Fund</b>	This Fund currently invests in international equities through Pathfinder’s wholesale Responsible Investment Fund which (1) targets a portfolio of up to 200 companies and (2) applies our ethical investment approach. Direct shares and ETFs may also be held.	10% for single company
<b>Global Water Fund</b>	The Fund (1) targets a portfolio of 50 to 100 companies and (2) applies our ethical investment approach.	10% for single company
<b>Global Property Fund</b>	The Fund (1) targets a portfolio of 50 to 100 companies, (2) applies ethical investment screens and (3) can hold up to 20% in NZ listed property companies.	10% for single company
<b>Ethical Trans-Tasman Fund</b>	This Fund invests in Australasian equities, listed property, and other assets through the Wholesale Ethical Trans-Tasman Fund (WETT), a wholesale fund managed by us. Direct holdings or holdings of the WETT follow these parameters: 1. A portfolio of 10 to 40 Australasian companies. 2. Applies our ethical investment approach. 3. Companies in a benchmark index can be completely excluded from the Fund.	10% higher than a company’s index weight (ASX 200 or NZX 50 weight)
<b>Ethical Growth Fund</b>	The Fund invests in a portfolio with a higher exposure to growth assets and a lower exposure to income assets. Our ethical investment screens are applied to this fund.	10% for single company (equity); 10% for single issuer (fixed interest)
<b>Green Bond Fund</b>	The Fund invests in a global portfolio of predominately bonds, other fixed or floating-rate debt securities and short-term debt securities typically issued by sovereigns, corporates or supranational entities.	Up to 25% for single issuer (depending on the issuer’s credit rating)



## 7. Strategy: currency hedging

Below are benchmark hedging positions and permitted ranges for hedging in each Fund against gross fund value:

Fund	Benchmark Hedge Position	Permitted Range
Global Responsibility Fund	50%	-10% - 110%
Global Water Fund	50%	-10% - 110%
Global Property Fund	75%	-10% - 110%
Ethical Trans-Tasman Fund	50%	-10% - 110%
Ethical Growth Fund	Non-NZD fixed interest 100%; Other non-NZD assets 50%	-10% - 110%
Green Bond Fund	100%	95%-105%

**Hedging:** The benchmark hedge position reflects a “neutral view” or “base position”. For each Fund, the Manager may at any time deviate from the benchmark hedge position (and may deviate significantly).

**Permitted range:** These are the limits each Fund operates inside (any move outside this range must be remedied within 5 business days of the date the Manager becomes aware of the breach of the limit). Except for the Green Bond Fund, the permitted range is very wide to accommodate the fact that the Manager seeks to add value through the level of currency hedging. The range also allows for temporary over-hedging scenarios which may occur due to short term currency and equity prices moves.

**Currency proxies:** While a Fund may have exposure to several foreign currencies, it is not necessary to hedge all currencies. It may be convenient for the USD to be used as a proxy for some or all other currencies.



## 8. Strategy: protection overlay

**Purpose:** The process for reducing a Fund's equity exposure below 100% is called the "protection overlay". The protection overlay is not designed to eliminate losses from all downward market moves. It is intended to reduce (but cannot eliminate) losses from very large and sustained market falls.

**Protection tools:** The Manager can reduce market risk through a range of tools including using cash holdings, listed futures, listed options and OTC derivative transactions. In each case the reduction in market risk may be stepped.

**Currency denomination:** While a Fund may have exposure to several foreign currencies, it is not necessary to hedge all currencies. It may be convenient for the USD to be used as a proxy for some or all other currencies.

**No short positions:** The protection overlay does not allow overall net short positions.

## 9. Liquidity

The majority of the Fund's investments are expected to be highly liquid under normal market conditions. It is possible a Fund could have 'Other Assets' that cannot be sold quickly or easily. These types of assets are expected to only ever be a relatively small percentage of the investments of any Fund.

## 10. Derivatives

Derivative contracts may be used by a Fund to manage market risk exposure to equities, foreign currencies, interest rates and to other market investment risks. Derivatives can be futures, options or other instruments in any currency, whether listed on an exchange or 'over-the-counter' which means entered into directly with another party.

## 11. Borrowing

None of the Funds will borrow money to buy investments. There are limited circumstances permitted where borrowing may be used as a liquidity tool, for example (a) to pay Fund expenses or (b) where the Fund has cash deposits higher than the amount being borrowed. A Fund may from time to time use an overdraft, rather than borrowing, for temporary liquidity.

## 12. Valuation Policy

For listed securities daily closing prices from domestic and international markets are used for valuation purposes. The Funds may hold private assets such as unlisted shares and private credit. These assets are unlisted and so will not be valued at a traded stock exchange price. Instead these will be valued at least quarterly by us dependent on market conditions. You can find more information in our [Private Asset Valuation Policy](#) a copy of which is available on the Disclose Register.



## 13. Supervision and Custody

**Supervisor:** The Supervisor of the Scheme is Public Trust (**PT**). PT is responsible for the supervision of the Scheme and the performance of Pathfinder's duties as manager.

**Custody:** All assets of a Fund must be held by the Supervisor or an independent third party sub-custodian appointed by the Supervisor (which may not include the Manager). No Fund assets are to be held in the name of the Manager.

## 14. Review

**SIPO review frequency:** This SIPO is to be reviewed by the Manager at least once each calendar year. It may be reviewed more frequently and can be changed at any time without prior notice to investors.

**SIPO approval:** The review process (and on-going changes) will include review and approval by the Ethics and Investment Committee or the Pathfinder board and consultation with the Supervisor in respect of any changes. Prior notice of material changes to the SIPO will be given to investors and will be noted in our annual report. Revisions to the SIPO will come into effect on the effective date shown on the front cover.

**Other policies:** Pathfinder has internal policies that are applicable to the management of the Funds. These include Ethical Investment Policy, Private Asset Valuation Policy, Trade Allocation Policy and Compliance Manual. Each of these policies will be reviewed at least once every two years, or more frequently if required by changes in market conditions, laws or other circumstances. Each review will be signed off by Pathfinder's Chief Executive, and may also be reviewed by the Board and/or board Committee.

## 15. Interpretation

Some terms used in this SIPO are defined and explained below:

**Property companies** are expected to predominantly own industrial, office and retail property but can include other activities (such as trading and development) and other types of real estate assets (such as residential property, medical facilities and storage units). The term "property companies" used in this SIPO includes shares, units or other interests in property entities such as companies and property trusts (**REITs**).

**Water companies:** cover a wide range of activities including involvement in technical development, manufacturing, construction, ownership, operation and/or consulting for:

- Freshwater and wastewater utilities
- Water filtration and purification
- Water pumps, pipes and irrigation systems
- Water analysis, testing, measurement and monitoring technology
- Resource management and
- Water infrastructure

Some water companies may also have business activities not related to the water industry (meaning they may not be purely a water industry exposure).