



Milford KiwiSaver Plan  
Other Material Information

Other Material  
Information

# 1. General information

## In this Document

This document contains information about who is involved in delivering, overseeing and managing the Milford KiwiSaver Plan ('Plan'), a general overview of the types of risks associated with investing in the Plan and how they affect your investment and other Important Information.

It should be read in conjunction with the Product Disclosure Statement ('PDS').

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## 2. Who is involved?

### Who is the Manager?

Milford Funds Limited ('Milford', 'we', 'us' or 'our') is the manager of the Plan.

Milford has been granted a Managed Investment Scheme ('MIS') licence under the Financial Markets Conduct Act 2013 ('FMCA') by the Financial Markets Authority ('FMA').

### Parent Company of the Manager

Milford is a wholly-owned subsidiary of Milford Asset Management Limited ('Milford Asset Management'), which is a well-established, award-winning investment management company that, at the date of this document, has over \$6 billion in funds under management.

### Milford Funds Limited

Milford was created in 2007 to enable investors to invest with us and gain the advantage of the investment expertise and experience of the Milford Asset Management team. Milford is managed by an experienced team of investment professionals with significant investment industry experience and expertise and offers the Milford Unit Trust PIE Funds alongside the Plan.

### Our Directors

The names of our directors can be obtained from the Companies Office website at <https://companies-register.companiesoffice.govt.nz/>

Milford's directors may change from time to time.

### Responsibilities of the Manager

We are responsible for:

- offering the managed investment products;
- issuing the managed investment products;
- managing the Plans' investments; and
- administering the Plan.

We may authorise any person or persons to act as our delegate (in the case of a joint appointment, jointly and severally) to perform any act, or exercise any discretion within our power, including appointing investment managers, administration managers and experts.

When we exercise our powers and duties as manager, we must:

- act honestly in acting as manager;
- in exercising any powers or performing any duties as manager:
  - act in the best interests of those investing in the Plan ('Members'); and
  - treat the Members equitably;
- exercise the care, diligence and skill that a prudent person engaged in the profession or business of acting as manager would exercise in the same circumstances;
- carry out our functions in accordance with the trust deed for the Plan ('Trust Deed'), the Statement of Investment Policies and Objectives ('SIPO') and all our other obligations; and
- not make use of information acquired through being the manager in order to:
  - gain an improper advantage for ourselves or any other person; or
  - cause detriment to the Members.

## Supervisor

The Supervisor of the three funds within the Plan ('Funds') is Trustees Executors Limited ('Supervisor').

The address of the Supervisor is:  
Level 7, 51 Shortland Street  
Auckland 1010

The directors of the Supervisor may change from time to time. The names of the Supervisor's directors and its address may be obtained from the Companies Office website <https://companies-register.companiesoffice.govt.nz/> or by phoning the Supervisor on 0800 878 783.

The Supervisor has been granted a full licence under the Financial Markets Supervisors Act 2011 to act as a Supervisor of a KiwiSaver scheme. The Supervisor's licence was renewed for five years with an effective date of 17 January 2018 and is subject to reporting conditions. The licence expires on 16 January 2023.

Further information on the Supervisor's licence is publicly available on the FMA website ([www.fma.govt.nz](http://www.fma.govt.nz)) and also on the Registrar of Financial Service Providers Register website ([www.companiesoffice.govt.nz/fsp](http://www.companiesoffice.govt.nz/fsp)).

## Responsibilities of the Supervisor

The Supervisor is responsible for the following functions:

- acting on behalf of the investors in relation to the manager, any matter connected to the Trust Deed or the terms of the offer of the Funds, and any contravention or alleged contravention by the manager of its issuer obligations or of any other person in connection with the Funds;
- supervising the performance by the manager of its functions and its issuer obligations;

- supervising the financial position of the manager and the Plan to ascertain they are adequate;
- acting on behalf of Members in relation to the Plan and the manager;
- reporting to FMA any contravention, or likely contravention, of a manager or issuer obligation;
- holding the Plan's property, or ensuring that it is held, in accordance with the FMCA; and
- performing or exercising any other functions, powers, and duties conferred or imposed on the Supervisor by or under the FMCA, the Financial Markets Supervisor Act 2011, and the Trust Deed.

### The Supervisor must:

- act honestly in acting as a supervisor;
- in exercising any powers or performing any duties as supervisor, act in the best interests of Members;
- exercise reasonable diligence in carrying out its functions as a supervisor;
- do all the things it has the power to do to cause any contravention referred to in section 152(1)(a) of the FMCA to be remedied (unless it is satisfied that the contravention will not have a material adverse effect on Members);
- act in accordance with any direction given by a special resolution of the Members that is not inconsistent with any enactment, rule of law, or the Trust Deed in relation to:
  - seeking a remedy to a contravention referred to in section 152(1)(a) of the FMCA; and
  - any other matter connected with the supervisor's functions; and
- exercise the care, diligence, and skill that a prudent person engaged in the business of acting as a licensed supervisor would exercise in the same circumstances.

The Supervisor is not liable for anything done, or omitted to be done, in good faith in giving effect to a direction of Members.

As the Plan is established under a trust deed, the Supervisor is the trustee of the Plan and has the same duties and liability in the performance of its functions as supervisor as it would if it performed those functions as a trustee (except to the extent that those duties are altered by or are inconsistent with the FMCA).

The Supervisor may also appoint agents and may appoint a nominated person as custodian for the Plan. The Supervisor has appointed National Australia Bank Limited ('NAB') to hold the Plan's assets as custodian.

For more information on the roles and responsibilities, powers and termination of the Supervisor, please see the Trust Deed, which can be found at [www.disclose-register.companiesoffice.govt.nz](http://www.disclose-register.companiesoffice.govt.nz) or by phoning us on 0800 662 346.

## Custodian

National Australia Bank Limited ABN 12 004 044 937 ('NAB') is the custodian of the assets of the Plan. NAB's role is limited to holding the assets of the Plan as custodian nominated by the Supervisor. NAB has no supervisory role in relation to the operation of the Plan and is not responsible for protecting your interests. NAB has no liability or responsibility to you for any act done or omission made in accordance with the terms of the custody agreement between NAB and the Supervisor.

NAB will hold investments of the Plan as bare trustee and such investments are not investments of NAB or any other member of the NAB group of companies ('NAB Group').

Neither NAB, nor any other member of NAB Group, guarantees the performance of the investments or the underlying assets of the Plan, or provides a guarantee or assurance in respect of the obligations of us, the Supervisor or our related entities.

NAB has given and not withdrawn its consent to be named in this document. NAB makes no statement in this document and has not authorised or caused the issue of it.

## Administration Manager

MMC Limited is the administration manager ('Administration Manager') for the Plan.

MMC Limited performs unit pricing, fund accounting and registry functions for the Plan.

## Related Party Interests

The Supervisor, Custodian and Administration Manager are independent of us, but they are not required to be independent of each other).

We have not appointed an investment manager. As manager, we have responsibility for the investment of the Plan. We are the manager of both the Plan and the Plan's Funds.

Our directors, the directors and employees of Milford Asset Management, the Administration Manager, the Custodian, our Professional Advisors and the Supervisor may from time to time hold units in the Plan.

We have agreed a Services Agreement with Milford Asset Management whereby Milford Asset Management provides administration, operation, investment and other services to Milford, in exchange for fees payable by Milford.

## Auditors and Solicitors

The auditor of the Plan is PricewaterhouseCoopers ('PwC'). PwC has obtained registration and its audit partners have obtained full licences under the Auditor Regulation Act 2011.

PwC also carries out tax compliance services for the Plan. The provision of these services does not impair its independence from the Plan.

MinterEllisonRuddWatts are Milford's solicitors. DLA Piper are the solicitors for the Supervisor.

# 3. Material contracts and other important information

## Indemnities and Related Matters

Subject to the limits on permitted indemnities under the FMCA, we and the Supervisor, and each of our directors, officers and employees, are entitled to a general right of indemnity from the Plan and the Funds (as appropriate). This does not indemnify us or the Supervisor against any liability to the extent that doing so would be void under any relevant requirements.

Subject to the FMCA, we may indemnify out of the assets of the Funds any investment manager, administration manager, or custodian that we or the Supervisor (as appropriate) appoint in accordance with the Trust Deed.

## Plan Description

The Plan is registered on the register of managed investment schemes under the FMCA as a KiwiSaver scheme. This means the operation of the Plan is governed by both the FMCA and the KiwiSaver Act.

The FMCA and the KiwiSaver Act may be amended from time to time and any such amendment may impact on the Plan. Each person who becomes a Member of the Plan will be bound by the terms of the Plan.

## Material Contracts

### Trust Deed

The Trust Deed is dated 1 August 2016. Certain key terms of the Trust Deed are summarised below. The information provided is intended to be a general summary only. If more detailed information is required, Members and potential Members can find a copy of the Trust Deed by visiting [www.disclose-register.companiesoffice.govt.nz](http://www.disclose-register.companiesoffice.govt.nz) or by phoning us on 0800 662 346.

### Appointment and Removal of Us

The Plan must have a manager who is licensed under the FMCA to act as a manager of managed investment schemes and who is not a related party of the Supervisor.

We can retire as manager of the Plan by giving at least 90 days' written notice to the Supervisor.

We can be removed as the manager of the Plan:

- by the Supervisor if they deem it in the best interests of the Members; or
- by special resolution of the Members; or
- by the High Court in accordance with provisions in the FMCA.

In the case of any of these instances, we must procure a new manager to be appointed who must meet the eligibility requirements in the FMCA and be approved by the Supervisor. Once a new manager has been appointed, we must hand over records and give reasonable assistance to the new manager in accordance with the requirements of the FMCA.

### Appointment and Removal of the Supervisor

The Plan is required to have an independent licensed Supervisor.

The Supervisor can retire as supervisor of the Plan, with the FMA's prior consent, by giving us at least six months' written notice.

The Supervisor can be removed from its position:

- by the FMA if the FMA is satisfied the Supervisor no longer meets the requirements of the FMCA;
- by the FMA or us under Part 2 of the Financial Markets Supervisors Act 2011;
- if the Plan's Members approve a special resolution.

Generally, no removal or retirement of the Supervisor will take effect until a new supervisor has been appointed by us.

### Amendments to the Trust Deed

The Trust Deed can be altered by us and the Supervisor. Amendments to the Trust Deed must comply with the KiwiSaver Act and the FMCA.

### Alteration of Fees

The Trust Deed allows us to increase the fees we charge, by giving the Supervisor and Members 30 days' notice of the change.

### Outsourcing Agreements

We have an outsourcing agreement with MMC Limited. We have appointed MMC Limited to undertake unit pricing, fund accounting and registry functions for the Funds within the Plan.

NAB has been appointed as custodian for the Plan.

The contracts in place with the key providers stipulate the services to be provided, the fees and the contract duration.

### Services Agreement

We have a Services Agreement with Milford Asset Management. Under this agreement, Milford Asset Management provides agreed administration, human resources, investment, operational, compliance, financial and management functions for the Plan to Milford.

This ensures that we are able to perform those functions to the standards required by law.

## 4. Risks

### Risks and your Investment

#### **There are risks associated with investing.**

The underlying assets of a Fund may rise or fall in value and returns may be negative from time to time. Returns are not guaranteed and you may get more or less than the amounts you have contributed when you leave the Plan. The following sections supplement section 4 of the PDS – “What are the risks of investing?”

In the PDS, we set out what we believe are the more significant investment risks that apply to investing in the Plan. These investment risks are those risks that may cause a Fund’s value to move up or down, and which may affect the Fund’s risk indicator. In this document under “General Investment Risks” we cover those more significant investment risks, as well as examples of other general investment risks, that we believe apply to the Plan.

We also highlight a specific risk that is particular to the Plan compared to other schemes or funds that is not reflected in the risk indicator. This specific risk is a circumstance which we believe exists or is likely to arise that significantly increases the risk on returns to investors in the Plan (‘Members’). In this document this is set out in a table format under “Other Specific Risks”.

In addition, under “Other General Risks” this document sets out examples of other general risks that are not covered in the PDS. This document does not cover all risks, but it does cover the risks we believe to be the most important.

### General Investment Risks

The main risks that you face are that you may not receive the returns you expect, that the capital value of your investments may end up less than you originally invested, or that you may be unable to get your money back when you need it.

Returns and risks vary, depending on the types of assets a Fund invests in.

Generally, the level of risk is related to the potential return from the investment. Income assets such as cash and fixed interest typically provide more consistent yet lower returns. Growth assets such as equity and property have the potential for higher returns however they can fluctuate significantly in value and have a greater possibility of a negative return.

Before investing, you should carefully consider the following risk factors which will affect returns positively or negatively and which may affect your ability to recover money invested in the Plan. As set out in the PDS, there are different types of risks that contribute to investment risk. We believe the investment risks that apply to the Plan are described below.

| <b>Risk</b>                                     | <b>Description of the Risk</b>   |
|---|--|
| <b>Investment return risk</b>                   | Past performance is not a guarantee of future performance. As Milford is an active manager, there is a risk that a Fund may underperform compared with its investment objective or with the market.  |
| <b>Market Risk</b>                              | Returns of a Fund will be affected by the performance of the investments chosen for that Fund which may in turn, be affected by the performance of the investment markets generally. This risk, related to market performance, includes demand and supply in the market and economic and regulatory conditions, including market sentiment, inflation, interest rates, employment, political events, environmental and technological issues, and consumer demands.   |
| <b>Interest rate risk</b>                       | This refers to the risk that the market value of the investments of a Fund can change due to changes in interest rates. The market value of fixed interest securities can fluctuate significantly with relatively small changes in interest rates.   |
| <b>Credit risk</b>                              | The value of debt securities may be impacted by the issuer's ability to pay interest and principal owed as they become due. If there is a negative perception of the issuer's ability to meet its payment obligations, the value of the debt security may decrease.  |
| <b>Liquidity risk</b>                           | Some investments may not be easily converted into cash with little or no loss of capital and minimum delay, because of insufficient availability of buyers, suspension of trading on request from the market regulator or the entity involved, fund outflows, or disruptions in the market place. Securities of small entities in particular may, and especially in falling markets, become less liquid. Milford may hold a small number of unlisted securities that are far less liquid than listed securities. |
| <b>Currency risk</b>                            | Where underlying investments are invested in jurisdictions outside of New Zealand, the returns may be affected by movements between the other currencies and the New Zealand dollar.   |
| <b>Equity risk</b>                              | A Fund's investment in an entity may be affected by unexpected changes in that entity's operations or business environment, including the risk that the entity may become insolvent. If this occurs the Fund may receive a smaller or no return from, or it may lose, its investment in the entity.  |
| <b>Underlying managed fund performance risk</b> | When we select other managers there is a risk the manager underperforms relative to the market or relevant fund's objective.   |

| Risk  | Description of the Risk   |
|---|---|
| <b>Counterparty risk</b>                    | A counterparty to a contract may fail to meet their obligations under it, causing loss to a Fund. This potentially arises with various investments including derivatives and fixed interest.  |
| <b>Country concentration risk</b>           | Funds which invest in essentially only one country will have greater exposure to market, political, legal, economic and social risks of that country than a Fund which diversifies country risk across a number of countries. There is a risk that a particular country may impose foreign exchange and/or conversion controls or regulate in such a way as to disrupt the way the markets in that country operate. |
| <b>Derivative risk</b>                      | Because we may use derivative instruments such as futures and options, the investment movements may be more volatile than if a Fund is invested solely in equities or bonds. This means that our use of derivatives can lead to higher gains or losses than a portfolio that does not use derivatives.  |
| <b>Small and medium sized entities risk</b> | There are risks associated with investing in small and medium sized entities as the prices of securities associated with such entities are usually more volatile (compared to those of larger entities), and the securities are generally less liquid.  |

## Other Specific Risks

The information in this section forms part of the PDS for the Plan. It describes the other specific risk that we are aware exists or is likely to arise that significantly increases the risk to Members’ returns, other than the general investments risks described above that have been reflected in the risk indicator.

| Risk                      | Description of the Risk  | How we seek to mitigate the risk   |
|---------------------------|--|--|
| <b>Fund of funds risk</b> | The Funds invest primarily into Milford Wholesale Funds. The Funds’ may also invest into externally managed funds. An investment of a Fund in an underlying managed fund may be affected by unexpected changes in that underlying managed fund’s operations or business environment. There may also be a risk that the underlying managed fund may have its assets frozen for a period of time or that the manager of that fund suspends withdrawals. This may have an impact on your ability to withdraw, transfer to another KiwiSaver scheme or switch between Funds. | To reduce this risk we have adopted an External Manager Policy that establishes criteria for the underlying funds. We regularly monitor such funds for compliance with the policy. |

## Other General Risks

The value of your investment and your ability to withdraw funds may be affected by some or all of the following risks. The below table sets out the other general risks which we believe may affect the Plan along with our approach to reducing the risk.

| Risk                           | Description of the Risk   | How we seek to mitigate the risk   |
|--------------------------------|---|--|
| <b>Service provider risk</b>   | You could be adversely affected if any of the various parties involved in the operation of a Fund, including us, or underlying administration managers and underlying investment managers, fail to perform their obligations. This could impact your returns or the ability to withdraw your funds. | Milford actively monitors and reviews the performance of all key service providers in performing their agreed contractual arrangements.                      |
| <b>Operational risk</b>        | This is the risk of technological or process failure or impacts from the wider financial market in general. This could impact your returns or the ability to withdraw your funds.   | We have a risk management policy that incorporates our business continuity plan in order to minimise business disruption from failures or unforeseen events. |
| <b>PIE status risk</b>         | If a Fund loses its status as a PIE then the Fund will be taxed as a widely-held superannuation fund rather than under the PIE regime, and the tax treatment of Members in the Plan will differ accordingly. This could reduce the after-tax returns to Members.                                    | To reduce this risk, PIE tax eligibility rules are monitored within the business monthly and incorporated within our compliance plan.                        |
| <b>Regulatory and tax risk</b> | Fund performance may be affected by regulatory changes and changes to tax legislation in New Zealand or other global jurisdictions, which could have an impact on the value of your investment.   | To reduce these risks, our investment process takes into account the tax and regulatory implications of our investment decisions.                            |
| <b>Borrowing risk</b>          | A Fund may have the ability to borrow. Such borrowing may increase the volatility of the return that can be expected by that Fund.  | No borrowing arrangements are in place for any of the Milford KiwiSaver Plan Funds.  |

| Risk                                     | Description of the Risk  | How we seek to mitigate the risk  |
|--|--|---|
| <b>Valuation risk</b>                    | A Fund may invest in unquoted and/or illiquid investments which have a risk of mispricing. In such situations an objective, verifiable source of market value may not be available. This could impact Members' returns.  | Milford has a valuation policy. Any exceptions are reviewed by our Pricing Committee and external verification sought as appropriate and are reported to the Milford Asset Management Board Investment Committee. |
| <b>Fund liquidity and repayment risk</b> | This is the risk that the Plan cannot make withdrawal payments on time. This is due to a mismatch between the maturity profile of the investments and the amounts required to meet repayments. We have the right to suspend withdrawals, switches and transfers if we believe the realisation of assets to meet the repayment is not practicable, or would be materially prejudicial to Members. | Milford aims to have the Funds invest in liquid assets and markets with appropriate diversification.<br><br>We also monitor the liquidity profile of each Fund and the historic withdrawal profile.               |
| <b>Insolvency risk</b>                   | The risk the Plan or a Fund becomes insolvent and is placed in receivership, liquidation or statutory management, making it unable to meet its financial obligations. If the Plan or a Fund becomes insolvent, you may not recover the full amount of your investment in the Plan.   | Milford seeks to have the Funds primarily invested in liquid assets.  |

**The above risks are not exhaustive. Because of the risks set out in this document, it is foreseeable that you may receive back less than you invest into the Plan.**

## 5. Policies

### Conflicts of Interest

This section sets out information about any conflict of interest that could reasonably be expected to materially influence the investment decisions in our role as Manager of the Plan.

#### Background

Milford is a wholly owned subsidiary of Milford Asset Management Limited ('Milford Asset Management').

Directors of Milford may also be directors of Milford Asset Management. All staff involved with the Plan are employed and remunerated by Milford Asset Management. These relationships have the potential to create an inherent conflict of interest.

Milford Asset Management provides the people and the infrastructure to Milford in order for Milford to carry out the investment management on its own accord, as manager of the Plan.

#### Funds affected

All Funds in the Plan are affected by the potential conflict of interest.

#### How conflicts may or could materially influence our investment decisions

Milford, as Manager of the Plan, has an incentive to invest into other Milford funds ahead of funds managed by external fund managers or investment managers. When the Plan is invested in other Milford funds, the relevant Fund will be fully rebated for any management fees charged by that other Milford fund (to ensure there is no "double-dipping" of management fees by us).

However, those rebates do not extend to any performance fees charged (if any) by that other Milford fund.

#### Management of conflicts of interest

The FMCA imposes the following statutory controls on conflicts of interest:

1. A transaction that provides for a related party benefit to be given in respect of a Fund may only be entered into if the transaction(s) is notified to the Supervisor and:
  - a. we certify the benefit is "permitted" on the basis that the benefit is:
    - i. on arms-length terms;
    - ii. on terms that were less favourable terms to the related party; or
    - iii. is another type of benefit permitted under the FMCA and the Financial Markets Conduct Regulations 2014; or
  - b. we obtain the Supervisor's consent to the transaction(s).
2. As Manager of the Plan, we are subject to various statutory duties in the performance of our duties as manager, including the requirement to act honestly and in the best interests of Members.
3. Where we contract out our functions to other parties, our liability for the performance of those functions is not affected and we must take reasonable steps to ensure the persons to whom we contract those functions perform them in the same manner and are subject to the same duties and restrictions as if we were performing them directly. These include the statutory duties referred to above. We must also monitor the performance of the parties that carry out contracted functions.

4. We, as Manager of the Plan, must comply with a professional standard of care and must exercise the care, diligence and skill that a prudent person engaged in the profession would exercise in the same circumstances. The same professional standard also applies to all our Funds' external fund managers.
5. Milford Asset Management and its subsidiaries ('Milford Group') have established a Staff Trading Policy. To avoid any personal conflict, other than in very limited circumstances, staff can only invest in Milford products and staff are not permitted, under any circumstances, to take an investment opportunity away from Members.

### Code of Conduct and directors' Code of Ethics

Milford Group has a Code of Conduct that all staff are expected to follow. This includes a requirement to avoid conflicts of interest and disclose and discuss with management where any actual or potential conflicts may arise or have arisen.

Milford Asset Management has a Code of Ethics that sets out the expectations on the directors of Milford Asset Management group entities, including directors' requirements to avoid actual or potential conflicts of interest and how they should deal with them.

### Conflicts of interest and Gifts policy

Milford Group's conflicts of interest and gifts policy sets out what a conflict of interest is, how to identify a conflict and how to avoid or manage it. It also details the Milford Group's gifts and hospitality policy.

Milford Group's approach to conflicts of interests is to consider each potential conflict on its own merits and then to:

- recognise the conflict;
- discuss with management;
- assess the impact of the potential conflict;
- avoid (if possible) or manage the conflict; and.
- disclose the conflict.

Any conflict of interest is also recorded in a central database for conflicts of interest and reviewed on a regular basis.

We have in place a process with the Supervisor for identifying, notifying and certifying or obtaining consent for related party transactions as required by the FMCA.

## Unit Pricing and Valuation Policy

### Key Procedures and Requirements

Milford's key principle is that unit prices and asset valuations are calculated by an independent external party with agreed appropriate methodologies and controls in place.

Accordingly, Milford has reviewed and adopted the following Policies of MMC Ltd our specialist outsource provider.

MMC's policies and approaches are set out in the following policy documents:

- MMC Unit Pricing Policy and Framework
- MMC Asset and Liability Policy
- MMC Unit Pricing taxation policy

As outlined, in their policy documents, MMC maintains a robust and comprehensive pricing methodology that delivers updated unit prices for the close of business each day.

Where assets are unlisted or viewed as illiquid, their valuation will be agreed by Milford's Pricing Committee. This committee meets monthly, or on an ad-hoc basis as required. The Committee has a charter in place which contains a comprehensive description of its objectives and operating procedures.

### Monitoring – Pricing and Valuation

Adherence to this policy is maintained through the activities of the Pricing Committee. Minutes of the Pricing Committee are reviewed by the Investment Committee. Milford performs an annual review of MMC's pricing and valuation policies alongside a review that the pricing and valuation policy is functioning as intended. The Operations Team perform a daily NAV reconciliation between Charles River (Milford trading records) and MMC.

## Trade Execution and Trade Allocation Policy

### Purpose

To ensure that all trading activity and allocation is conducted equitably and in the best interests of our investors. Milford's Central Dealing Desk optimises execution of trades for Milford funds in the markets in which we operate and supports compliant trading practices through a central point of control.

### Key Procedures and Requirements

- All equity trades are conducted through the Central Dealing Desk and not the Portfolio Managers.
- Orders originate with Portfolio Managers and are transacted by the dealing desk
- There are documented procedures for market activity and regular reporting and monitoring of trading activity

- All deals will be placed with approved brokers / intermediaries
- All deals are recorded in the Charles River Investment Management System ('CRIMS')
- The Central Dealing Desk negotiates all transfers of positions between funds.

### Overview

Milford operates a Central Dealing Desk (Dealing) which has responsibility for executing all transactions for Milford funds involving external markets/counterparties. In order to facilitate order management both internally and externally to Milford, Milford uses CRIMS.

### Trading approach

As a New Zealand licensed investment manager we operate in accordance with the requirements of the FMCA and Regulations and fall under the rules and regulations of the FMA. This guides our trading principles but as investors in global markets we also seek to abide by local regulations in dealing in those overseas markets.

The Central Dealing Desk trading principles have been formulated with the market conduct regulations of the FMCA and the NZX trading obligations and considerations in mind.

## Responsible Investment Policy

### Milford is committed to ESG

In its fiduciary role, and as a responsible asset management company, Milford integrates environmental, social, and governance ('ESG') analysis into its investment decision making process. The following list, which is not exhaustive, describes some of the most important environmental, social and governance factors considered in the investment process.

## Environmental:

Milford believes that companies with a strong emphasis on environmental issues deliver superior long-term sustainable returns for investors. The following factors broadly represent the main environmental issues taken into consideration in the investment process:

- Climate change (e.g. greenhouse gas emissions, carbon footprint)
- Natural capital (e.g. biodiversity and land use, raw material sourcing, water stress)
- Pollution and waste (e.g. electronic waste, packaging material, toxic emissions and waste)
- Environmental opportunities (e.g. clean technology, green building, renewable energy)

## Social:

Milford believes that companies should place a strong emphasis on social outcomes, particularly in respect of human rights, the elimination of discrimination, and inclusion and diversity in the workplace. In assessing social performance, the following are important issues:

- Human capital (e.g. health and safety, labour management, labour standards, supply chain)
- Community and stakeholder relations
- Animal welfare
- Product liability (e.g. health and demographic risk, product safety and quality, chemical safety, privacy and data security)

## Governance:

Milford believes that an effective board with a balance of independence, skills, perspectives, gender, age and expertise helps deliver strong corporate governance. In assessing governance, the following factors broadly represent the relevant issues:

- Overall corporate governance (e.g. remuneration and incentives, accounting, risk management and board composition)
- Controversial investments
- Ownership, particularly staff shareholders
- Overall corporate behaviour (e.g. business ethics, anti-competitive practices, corruption and instability, tax transparency)

As an important part of Milford's commitment to ESG, Milford is a signatory to the United Nations sponsored Principles for Responsible Investment ('PRI') and a member of the Responsible Investment Association Australasia ('RIAA').

The PRI is a voluntary and aspirational scheme which aims to illuminate the financial relevance of ESG issues and provide a framework for contribution to the development of a more stable and sustainable financial system. Becoming a signatory is a public commitment to adhere to the Signatories' Commitment and the six principles of the United Nations PRI.

## Signatories' Commitment

*"As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time).*

*We also recognize that applying these Principles may better align investors with the broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:*

*Principle 1*

*We will incorporate ESG issues into investment analysis and decision-making processes.*

*Principle 2*

*We will be active owners and incorporate ESG issues into our ownership policies and practices.*

*Principle 3*

*We will seek appropriate disclosure on ESG issues by the entities in which we invest.*

*Principle 4*

*We will promote acceptance and implementation of the principles within the investment industry.*

*Principle 5*

*We will work together to enhance our effectiveness in implementing the principles.*

*Principle 6*

*We will each report on our activities and progress towards implementing the principles.*

*The Principles for Responsible Investment were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices. The process was convened by the United Nations Secretary-General.*

*In signing the Principles, we as investors publicly commit to adopt and implement them, where consistent with our fiduciary responsibilities. We also commit to evaluate the effectiveness and improve the content of the Principles over time. We believe this will improve our ability to meet commitments to beneficiaries as well as better align our investment activities with the broader interests of society.*

*We encourage other investors to adopt the Principles.”*

Milford has also become a member of RIAA because it seeks to promote the concept of responsible investment across the finance industry and to the investing public, with the objective of increasing the uptake and impact of responsible investment.

### **Responsible investing beliefs**

Milford believes that proactively managing ESG considerations will deliver stronger long-term investment returns.

Milford and Milford’s clients are partial owners of the companies we invest in and we rely on management and boards to make the correct decisions to achieve superior environmental, social, and financial performance. Therefore, Milford believes good corporate governance is particularly important. As an active manager, engaging with companies on ESG matters is an important aspect of Milford’s investment approach which includes encouraging companies to appropriately disclose and adopt better ESG practices.

Milford utilises several approaches to ESG in the investment process but believes integration of ESG factors and active company engagement allow for the most comprehensive understanding of ESG risk and opportunity, and for the delivery of superior company ESG outcomes.

Milford believes that the investment industry has a joint responsibility to promote acceptance and implementation by companies of ESG considerations.

### Responsible investing approach

There are several approaches that can be taken for ESG investing:

- **ESG integration:** The inclusion of ESG factors in the investment decision making process.
- **Negative or norms-based screening:** The exclusion of certain sectors or companies involved in activities deemed unacceptable or controversial, or which do not meet international minimum standards e.g. the UN Global Compact.
- **Positive or best-in-class screening:** Investment in sectors, companies or projects selected for positive ESG performance relative to industry peers.
- **Sustainability themed investing:** The selection of assets specifically related to sustainability in single or multi-themed funds.
- **Impact investing:** Targeted investments, typically made in private markets, aimed at solving social or environmental problems.
- **Engagement investing:** Actively engaging with management and other stakeholders to improve ESG factors and voting on all shareholder resolutions.

Milford applies the following approaches in its investment process: negative screening, ESG integration, and engagement investing.

Milford takes a whole-of-fund approach to ESG integration whereby important ESG issues are taken into consideration when investing. ESG analysis is included in Milford's investment decision making process in two ways.

### Exclusion List and ESG integration

First, an Exclusion List is maintained which excludes direct investment in companies that do not meet Milford's ESG requirements. This list is produced based on Milford's commitment that it will not directly invest in entities that are directly involved in certain activities.

To view Milford's current Exclusion List please see [www.milfordasset.com/new-to-investing/our-investment-approach](http://www.milfordasset.com/new-to-investing/our-investment-approach).

Milford may add companies to that list whose activities Milford deems would be regarded as unethical by a substantial majority of the New Zealand public. While Milford recognises that many New Zealanders may believe various other activities are unethical (for example, involvement in gambling, fast food, sugary soft drinks, alcoholic beverages, factory farming, or mining), Milford does not envisage imposing a blanket restriction on investing in those industries unless New Zealand's Parliament passes laws or introduces significant public policy to ban these activities in New Zealand.

To the extent it is feasible and commercially prudent, Milford will avoid indirect investment in companies on the Exclusion List (i.e. through ETFs or other collective investment vehicles). These types of investments are assessed on a case-by-case basis by our portfolio managers and any potential for indirect exposure is carefully considered and factored into investment selection.

Second, Milford integrates ESG analysis into its investment analysis of companies. This promotes consideration of companies which provide positive ESG benefits in addition to the required financial return. All other factors being equal, a company with superior ESG factors is likely to receive a more positive recommendation by the investment team. Milford may utilise research from external providers to assess companies' ESG factors.

Milford does not exclude companies based purely on a negative ESG rating. Any high risk ESG issues or areas of concern that are identified during our investment analysis are discussed with the company during the assessment process. Where appropriate, companies will be engaged on ESG matters to encourage an improvement in their corporate behaviour.

### Active Engagement

Milford is an active owner of the shares it holds. Engagement with companies is an important part of Milford's investment process and an integral element of our approach to responsible investment.

Engagement is typically with the directors, CEO, CFO, and other senior management of the company. It may take the form of face-to-face meetings, phone conversations, or written communication. The purpose of engagement is to provide insight into the quality of a company's management, strategy, operations, governance structure and approach to ESG issues. When material conflicts arise with respect to a company's strategic direction, remuneration, ESG controversy, or other issues, Milford will engage with the board of directors, senior management, other investors, and impacted stakeholders to find a satisfactory outcome. Engagement is undertaken pragmatically and subject to Milford's size of investment, resource, and ability to influence positive outcomes.

### Proxy Voting

Milford is an advocate for strong corporate governance, shareholder rights, and transparency. Milford endeavours to exercise its proxy voting rights wherever possible and in a manner which reflects an understanding of the environmental, social, and governance impact of the companies in which Milford invests.

Milford primarily makes voting decisions in-house but does subscribe to proxy advisory services to assist with voting matters. Milford will subscribe to other proxy advisors if it is considered appropriate.



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