



TAHITO

TAHITO Te Tai ō Rehua Fund

STATEMENT OF INVESTMENT POLICY AND OBJECTIVES

17 June 2021

Issued by
Clarity Funds Management Limited, in partnership with TAHITO Limited

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Description of the Fund

This Statement of Investment Policy and Objectives (**SIPO**) applies to the TAHITO Te Tai ō Rehua Fund (the **Fund**) and plays an important role in ensuring the effectiveness of the overall accountability framework for the Fund. It does this by clearly articulating the philosophy, strategies, objectives and parameters of the offering.

Clarity Funds Management Limited is the Manager of the Fund and is referred to as “**Clarity**”, “**we**”, “**us**” or “**our**” in this document. We have appointed TAHITO Limited as the investment adviser for the Fund. Any reference to “**you**” or “**your**” refers to a person or entity who invests in the Fund.

The Fund is managed by Clarity as part of our Managed Investment Scheme, consisting of a series of other Funds. As a managed investment scheme, your money will be pooled with other investors’ money and invested in various investments as described in this document. The Fund is divided into units and you invest by buying units. The value of units fluctuates according to the changing value of the assets in which the Fund has invested.

The Fund is a Portfolio Investment Entity (**PIE**).

Clarity was incorporated in New Zealand under the Companies Act 1993 on 13 September 2007. Clarity is a boutique funds management business committed to helping our clients achieve their investment objectives.

Clarity’s parent company is Investment Services Group Limited (**ISG**). ISG provides operational functions on an outsource basis to its subsidiaries, including Clarity. ISG is also the parent company of TAHITO Limited.

The supervisor of the Scheme is The New Zealand Guardian Trust Company Limited (the **Supervisor**).

The effective date for this SIPO is ~~XX~~ June 2021. We may amend the investment policy and objectives for the Fund from time to time, in consultation with the Supervisor. We will notify you of any significant changes to the SIPO and when they will take effect. The most current version is available on the scheme’s register at <https://disclose-register.companiesoffice.govt.nz/> or at www.tahito.co.nz.

Who else is involved?

| Role | Name | Description |
|------------------------|---|---|
| Administration Manager | MMc Limited | Appointed by us to provide various administration functions in respect of the Fund, including registry, unit pricing and fund accounting. |
| Custodian | BNP Paribas Fund Services Australasia Pty Limited | Appointed by the Supervisor to hold the assets of the Fund on behalf of investors. |
| Supervisor | The New Zealand Guardian Trust Company Limited | Supervisor of the Fund. |

If you should wish to contact the Supervisor to discuss any matters in respect of the Fund, New Zealand Guardian Trust Limited’s contact details:

The New Zealand Guardian Trust Company Limited

Level 6, 191 Queen Street, Auckland 1010

PO Box 274, Shortland Street, Auckland 1140

Telephone: 0800 683 909

Email: ct-auckland@nzgt.co.nz

The TAHITO investment philosophy is based upon indigenous ethical and sustainable investing. We apply ancestral Māori knowledge to benefit future generations. The TAHITO investment process is a unique way of measuring companies using Māori ancestral knowledge combined with sophisticated Environmental, Social and Governance (**ESG**) data capture technology and strong financial analysis.

Our investment philosophy focuses on providing high quality ethical and sustainable investment services to investors. It is based on the following principles:

1. We are ethical and sustainable investors.
2. We are values-based investors. We invest in high quality investments that display connectivity and relational behaviours and qualities, have or are committed to a low environmental impact and have a high level of social and corporate responsibility.
3. We integrate MSCI ESG research on a values basis in our ethical screening.
4. All securities undergo fundamental valuation and financial quality analysis.
5. We take a long-term view.
6. We are active investors.
7. We have a disciplined approach to risk management.

TAHITO Principles

Māori ethics put people and the environment first because both are fundamental to living and thriving. This thinking falls out of the ancestral Māori worldview which centres on connection and the interdependence of all things. “Everything is interrelated, nothing exists of itself”.

The Māori worldview ultimately follows nature’s models:

- Its ethics strive for balance and consensuality.
- Its behaviour is complementary and co-operational.
- Its target is reciprocity and harmony.



In applying this investment philosophy, we are endeavouring to select New Zealand and Australian securities that best display the collective and relational values and ethics derived from indigenous Māori culture and ancestry. We aim to invest in companies that display the following values:

- **Whanaungatanga – tō ao**
Relational – understanding all relationships in the interconnected world; internal and external, commercial, social, environmental and cultural.
- **Whakapapa – tō mana**
Interdependent – understanding that the business is interdependent and relies on its total environment to succeed. Serious about ethics. Care for people and the environment and they will care for you.
- **Whakarongo – tō hiwa**
Balanced – the company strives to reach the best balance across all its relationships. Circular economy principles; kia mimiti, kia tukuruu, kia whakahau (reduce, reuse, regenerate).
- **Whakatau – tō kaha**
Consensual – Understand the collective strength across the business. Acts positively and with integrity.
- **Honotahi – tō wairua**
Complementary – Competitive forces are dealt with in a complementary manner. Core principles and values extend beyond physical and material gain.
- **Mahitahi – tō tapu**
Co-operational – Strive to co-operate with all forces and agents in your ecosystem. Strong social, environmental and cultural ethics are imbued in the organisation, measured and acted upon.
- **Utu – tō mauri**
Reciprocal – Care for the environment and give back to the local communities. Identify the key drivers to success and repay the source. i.e. stakeholders, people, clients, environment, communities.
- **Humarie – tō mārama**
Harmony – Seek harmony in its business across all systems and relationships. Be clear and transparent, display honesty and integrity, and communicate clearly. Be conciliatory and collaborative in negotiations.
- **Kawa – tō ora**
Cyclical – Success beyond financial. Celebrate and encourage successful behaviours. Long term sustainability.

When we assess the behaviours of companies against these values, we predominantly use information in the public domain. We access this information both through the MSCI ESG Manager platform, and via companies' public documents such as annual reports, charters and policies. We do also supplement this publicly available information with periodic direct contact with company representatives such as directors and members of the executive and management teams.



Investment Strategy and Objectives

Objective: The Fund will provide actively managed exposure to a portfolio of primarily New Zealand and Australian companies that have been selected in accordance with the TAHITO investment philosophy. The Fund aims to generate a better return than the benchmark over the medium to long term.

Strategy: The Fund is an indigenous ethical and sustainable fund which uses positive ESG integrated screens in selecting investments. Māori indigenous values and principles serve as the foundation to the Fund's philosophy and investment selection process. The Fund aims to generate capital growth over the medium to long term by actively investing in a select portfolio of well researched New Zealand and Australian companies.

Benchmark: 50% S&P/NZX50 Portfolio Index Gross with Imputation and 50% S&P/ASX200 Accumulation Index in New Zealand dollars.

Holdings: The Fund will typically hold shares in 20-30 New Zealand and Australian companies. The Fund may also invest in cash or cash equivalents depending on market conditions. The Fund is actively managed, which means the holdings may differ considerably from the relevant benchmark index.

Suitability: The Fund is best suited for investors who:

1. Want their investment funds aligned to a high level of values and principles;
2. Want their investment to be sustainably managed across a well-researched portfolio of primarily New Zealand and Australian equities; and
3. Would like to see their capital applied ethically in investments with positive social and environmental purposes.

The target asset allocation ranges shown below are the expected average asset mix of the Fund over the long term. The TAHITO Fund will be managed within its given ranges.

| Asset Sector | Target Asset Allocation % | Range % |
|--|---------------------------|---------|
| Cash and Cash Equivalents Including short-term securities, deposits and currency hedging | 2 | 0 - 30 |
| New Zealand Equities | 49 | 30 - 70 |
| Australian Equities | 49 | 30 - 70 |
| | 100 | |

The Fund can invest in any of the asset classes and security types listed above either directly or via investment in other managed funds. We may also participate in underwriting and sub-underwriting contracts for issues of permitted equity securities.

There are general restrictions that apply to the stated objectives:

- No more than 10% of the Fund can be held in any single security.
- No borrowing or short-selling is permitted.

Hedging: The foreign currency exposure arising from Australian equities will typically be unhedged but we do have the ability to hedge this exposure anywhere in the range from 0-100%. Please refer to the Currency Hedging Policy of this SIPO for further information.

Distribution: We do not make any cash distributions from the Fund.



Investment Governance

The Board of TAHITO Limited has responsibility for the high-level adherence of the Fund to the TAHITO values and ethics.

The TAHITO Board has delegated responsibility for this to the TAHITO Investment Committee to ensure that the TAHITO screening process and security selection is consistent with the TAHITO values and ethics.

The TAHITO Investment Committee is the body responsible for selecting and allocating securities in accordance with the requirements set out in this SIPO. The Investment Committee meets every six weeks, or more frequently if required. The TAHITO Investment Sub-Committee meets weekly, or more frequently if required.

The scope of this Committee includes:

- Analyse and research securities, markets and economic conditions
- Review investment and economic performance of asset sectors
- Monitor performance and investment strategy
- Monitor the TAHITO process
- Strategic/tactical asset allocation reviews
- Investment economic outlook
- Risk and compliance management.

Environmental, Social, Governance – Sustainability, Ethics and Impact Policy (ESG – SEI Policy)

The TAHITO ESG – SEI Policy describes the TAHITO investment philosophy, and its alignment with indigenous values, ethics and behaviours. The policy outlines the TAHITO positive screening process (T Score) and defines the ways in which ESG data is integrated within the investment decision-making process for the TAHITO Fund.

The policy also sets out the key negative screens (exclusions) for the TAHITO Fund. We do not invest in companies (along with their subsidiaries) involved in the following products or activities:

- Alcohol producers
- Gambling
- Tobacco
- Cluster Bombs
- Landmines
- Weapons Production
- Firearms
- Nuclear Power
- Breach of Global Sanctions
- Fossil Fuels

We monitor the companies in which we invest on an ongoing basis against these screens. If our ongoing monitoring determines that a company already in the Fund has become directly involved in any of the above activities, the Investment Committee will be informed and will form a view on the most appropriate course of action to take. These actions may include divesting from the company, or working with company management to determine whether the activity can be discontinued by the company.

The ESG – SEI Policy is prepared by TAHITO Limited, reviewed and monitored by the TAHITO Investment Committee and approved by the TAHITO Board. The policy is available on our website at www.tahito.co.nz, or on request.

The TAHITO investment process integrates ESG with the following order of priority:

1. **Values-based investing:** we seek to align our portfolio of securities with our TAHITO values and principles.
2. **Impact:** we aim to invest capital to drive change in social and environmental purposes e.g. lower carbon emissions.
3. **Risk management:** we use ESG integration to improve the risk-return characteristics of the Fund.

Corporate Governance and Voting Policy

We form our own views on proposed resolutions and aim to ensure that voting is consistent with our TAHITO values and ethics. We aim to vote on all resolutions where we have the authority to do so. However, we will not seek to interfere with the executive operations of the companies whose securities we hold in the Fund. We will continue to provide appropriate advice and support when requested by such companies and at company meetings and presentations.

We may enlist the services of external research providers to access independent advice on proxy voting and corporate governance issues to determine our voting intentions.

Conflict of Interest, Staff Trading and Related Parties Policy

We expect that our directors and employees will conduct themselves ethically and in accordance with what are generally accepted as 'good business practices'. To this end, we have adopted a number of internal policies and procedures that set out the company's expectations and guiding principles. These include Conflicts of Interest, Staff Investment Transactions and Related Party Transactions policies. The purpose of these policies is to ensure that:

- our employees act in the best interest of our clients
- our employees undertake their duties with care and diligence
- we meet our legislative and regulatory obligations.

All dealings with, or through, a related party are reported to our Compliance Manager. Where a related party transaction provides a related party benefit, as prescribed under legislation, we must notify the Supervisor and provide them with reporting quarterly.

Trading and Rebalancing Policy

The Fund is actively managed, and the Investment team has the discretion to make investment trades for the Fund within agreed limits (refer Investment Strategy and Objectives on page 7).

Trading will typically occur when the Fund experiences a large cash flow, investment weightings change, market prices move or there is a change in underlying securities. Investment allocations and targets are set by the Investment team in line with investment limits and are subject to Investment Committee approval. We rebalance as required to keep the Fund within the approved investment ranges and according to the Fund's allocations and targets.

We must act in accordance with the following principles when allocating securities among the different funds offered by Clarity:

- We have a fiduciary duty to ensure that trades are allocated fairly and equitably among all clients without giving unfair preference to any particular fund;
- Allocation decisions may not be influenced by fee arrangements;
- Once a trade has been allocated, no subsequent adjustments or changes to the original allocation are allowed without the approval of Clarity's Compliance team; and
- Trade executions must be entered promptly in the trading and accounting systems.

Liquidity Policy

Liquidity is considered as part of our investment valuation process. The Fund holds a level of cash, in line with its investment parameters, for liquidity purposes ensuring the ability to meet investor cash flows, fees and expenses, taxation payments, trading and re-balancing requirements. Where necessary, we have the ability to transact to ensure there is sufficient liquidity for the Fund.

When we assess the liquidity profile of individual securities, we will consider their inclusion within the Fund if our analysis indicates that there is an appropriate risk adjusted return available. Smaller, less liquid securities are typically smaller active positions in the Fund.

Currency Hedging Policy

The Fund faces currency risk when we invest in securities denominated in foreign currencies. The Fund value may be negatively or positively impacted by the appreciation or depreciation of that currency in New Zealand dollar terms. This is because the value of the portfolio is calculated in New Zealand dollars.

We do not expect the Fund to be hedged initially but we may seek to mitigate the risk of currency exposures in the future by offsetting the impact of currency fluctuations using foreign exchange forward contracts that will lock in an exchange rate for a currency transaction at a future date, known as 'currency hedging'.

Currency hedging provides some protection against changes in currency exchange rates.

We follow the ranges set out below:

| Asset Class | Hedging Target % | Hedging Rate % |
|---------------------|------------------|----------------|
| Australian Equities | 0 - 100% | 0 - 100% |

Investment Risk Policy

Our Investment Risk policy recognises that investment risk exists and is a normal part of investing. Optimal investment returns are derived by clearly identifying, understanding and then managing investment risk. We ensure that investment risk is monitored and managed by:

- Measuring our exposure to individual investments, countries and currencies, and ensuring they are consistent with this SIPO;
- Measuring tracking error and other risk analytics on a regular basis; and
- Reviewing the Fund at our regular Investment Committee meeting.

An investment in the Fund should be regarded as a long-term proposition. There are no guarantees that the return objectives of the Fund will be achieved. We refer to investment risk as the probability that the value of an investment could fall and therefore your return could be negative.

Key Person Risk Policy

People are a critical component to our business. Our policy for managing key person risk is to ensure that:

- All roles have a person clearly identified as a back-up;
- The back-up person is highly skilled in the key person's role;
- We have close and open communication with all staff;
- All staff are treated with respect and remunerated fairly; and
- We build a degree of latency into our organisation so that capacity exists to manage the departure of a key person if this should occur.

Settlement Risk Policy

The Fund may be exposed to settlement risk associated with default at settlement time and any timing differences in settlement between the trade counterparties.

We have adopted a settlement process to ensure that trade settlements occur as agreed. This includes reconciliation of trade instructions to contract notes both by BNP Paribas, as the trade counterparty and custodian, and MMc, as the administration manager and registrar.



The asset allocation ranges, objectives and other limits stated in this SIPO act as the limits of our investment approach. Our internal processes measure and report against these limits.

We review all asset allocation targets and specified limits daily to ensure they are within the parameters stipulated in this SIPO.

Higher levels of cash may be held in the event of large contributions or withdrawals. In such an event, should the cash and cash equivalents exceed the asset allocation range limits, it will not be treated as a SIPO limit breach.

Where the Fund invests in an underlying fund, the amount invested in the underlying fund will be allocated to the principal asset sector in which the underlying fund invests for determining compliance with the SIPO.

Investment performance (active returns versus benchmark returns) is formally monitored monthly, with analysis of our over or under performance undertaken by the Investment Committee. Exceptions, including unexpected performance or negative outcomes, are highlighted and any recommended actions are noted.

This review considers whether the individual security positions and asset allocations for each fund are aligned with the Investment Committee's current investment view.

Depending on the information required by the Investment Committee our investment analysts are also able to provide additional reports on performance statistics (including volatility and tracking error), attribution analysis as well as absolute and relative performance returns.

Additionally, Clarity is required to provide a monthly report and a quarterly director's certificate to the Supervisor to monitor SIPO compliance.

Investment performance is reported quarterly to investors. Performance returns are measured over the previous year, five-years (where applicable) and since fund inception. Actual performance is measured net of fees and expenses.

Review of the SIPO

A full review of the SIPO is undertaken by us annually to ensure that the investment objectives and parameters for the Fund are clearly articulated and remain relevant.

Whilst changes are not expected, if they are required we will consult with our Supervisor before making the changes and obtaining Directors' approval of the SIPO. If changes are made that materially impact investors, we will give you at least 30 days written notice of those changes.

Thank you for taking the time to read this SIPO. If you have any questions, please don't hesitate to contact us at info@tahito.co.nz if you have any further questions.



TAHITO

Indigenous Ethical Investing

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