# NZAS RETIREMENT FUND

# CREDITING RATE POLICY DOCUMENT

**Adopted by the Trustee effective from 9 September 2024**

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# 1

# Introduction

## 1.1. Purpose

The purpose of this document is to set out the policies which the Trustee has adopted for allocating investment earnings to members of NZAS Retirement Fund (the Fund).

## 1.2. Policy Review

The Trustee is responsible for reviewing this crediting rate policy document and updating it as necessary. Specifically, it is recommended that the policies should be reviewed annually by the Trustee to ensure they remain relevant, current and consistent with all applicable laws governing the Trustee's activities and functions. The Trustee must approve any changes to the policies.

Any policy change approved by the Trustee that requires implementation must have regard to operational process requirements including the issue of authorised instructions to the relevant delegate.

# 2

# Guiding Principles and Obligations

The Trustee's obligations to members form the basis upon which to develop policies in relation to crediting rates.

These obligations reflect the Trustee's general fiduciary duties (e.g., to act fairly and in the best interests of members), statutory obligations, and the requirement to adhere to the governing documents of the Fund. Obligations can also arise from provisions contained in existing contracts with service providers.

The following set out the key issues and obligations considered by the Trustee in forming their policies.

## 2.1. Governing Documents

The Fund is governed by a Trust Deed as amended from time to time.

The Trust Deed contains provisions regarding the timing and determination of crediting rates. To the extent necessary, the governing documents' provisions override any disclosure or policies.

## 2.2. Equity

The key obligation in allocating investment earnings is to ensure that members are treated equitably, both at a particular point in time and over time. This is particularly relevant given that there are different groups of members over time (e.g., new members, exiting members, ongoing members) with different characteristics (e.g., different expected timeframes).

A key aspect of equity is to apply a consistent and fair investment earnings allocation methodology. In practice such a methodology needs to balance a number of issues including requirements from regulations or governing documents, cost constraints, the ability to effectively disclose and communicate the methodology as well as situations where members may be able to "select" against the interests of others (e.g., in times of extreme market movements). It is worth noting that another common practical consideration in relation to cost constraints is materiality – i.e., the increasing benefit of accuracy relative to the costs required to achieve it.

## 2.3. Assumptions and Estimates

The Trustee has adopted procedures that involve using the latest information available within appropriate timeframes and, where necessary, supplemented by assumptions and estimates.

The Trustee's view is that any assumptions and estimates used should seek equity, be based on a reasonable and sound basis and not be biased.

The Trustee notes that adjustments arising from a consistent and appropriate application of policy, including the updating of estimates, are not errors requiring compensation (refer section 5.2).

## 2.4. Documentation

The Trustee supports the need for documentation of policies and procedures as this promotes efficiency, consistency, and a common understanding across all parties involved. Documentation also acts as a key means by which to mitigate risk. Accordingly, the Trustee has prepared this document setting out their crediting rate policy.

The Trustee believes that an appropriate level of information needs to be provided to members regarding the crediting rate policy. This information should be clear, accurate, complete, and timely and highlight important issues to allow comparison. To this end, the Trustee see websites and periodic statements as the main means by which to disclose relevant crediting rate information to existing and prospective members.

The Trustee is committed to reviewing documentation and disclosure relating to investment earnings allocation on an annual basis or more frequently where necessary.

# 3

# Investments

## 3.1. Fund investments

The Fund utilises a number of sector specialist investment managers. As at the date of this policy, the investments of the Fund are invested with the following managers:

| Asset Class | Manager |
|---|---|
| Australasian Equities | Harbour Asset Management Limited<br>Nikko Asset Management (New Zealand) Limited |
| International Equities | Mercer (N.Z.) Limited |
| New Zealand Fixed Interest | Mercer (N.Z.) Limited |
| International Fixed Interest | Harbour Asset Management Limited<br>Salt Investment Funds Limited |
| Real Assets<br>- International Listed Property<br>- International Listed Infrastructure | Mercer (N.Z.) Limited |
| Cash and Cash Equivalents | Mercer (N.Z.) Limited |

All investments are Portfolio Investment Entities (PIEs), with a Prescribed Investor Rate (PIR) as decided by the Trustee from time to time.

## 3.2. Investment options

Members of the Fund can choose to invest their account balances and contributions in one of four investment options - Cash, Conservative, Balanced, and Growth. The benchmark asset allocations, effective 31 July 2024, for the four options are as follows:

| Asset Class | Cash | Conservative | Balanced | Growth |
|---|---|---|---|---|
| Australasian Equities | 0 | 6 | 10 | 18 |
| International Equities | 0 | 16 | 35 | 54.5 |
| Listed Property (International) | 0 | 4 | 6 | 6 |
| Other (International Listed Infrastructure) | 0 | 6 | 9 | 11.5 |
| NZ Fixed Interest | 0 | 21 | 12 | 2 |
| International Fixed Interest | 0 | 18 | 18 | 6 |
| Cash and Cash Equivalents | 100 | 29 | 10 | 2 |

Members' account balances are not unitised.

Members are able to choose to change their investment strategy at any time effective from the 1st of the following month.

One switch per month is permitted.  Switches are effective from the 1st of the following month and are completed once the prior month's crediting rates have been confirmed each month (Refer Section 4.1).

## 3.3. Bank account

The Fund also maintains a bank account from which it pays benefits and expenses and receives contributions. The bank account balance is maintained at a suitable level to ensure payments can be made without the need for frequent redemptions from the Fund's investments, but without significantly reducing the level of funds available for investment. The bank account earns interest which is taxed at 28% and credited monthly.

# 4

# Crediting Rates

## Application of crediting rates

The Trustee declares the following crediting rates in respect of the Fund's investment options/funds:

1. Final crediting rates (based on actual investment performance and year-end financial statements)
2. Monthly crediting rates (based on actual investment performance for the month)

In addition to the declared rates, the following interim rates are applied for the period between declared rates:

1. Weekly crediting rates (based on estimated investment performance)
2. Daily crediting rates (where performance is not used)
3. Late payment interest (for the period after the date of termination)

Crediting rates are applied to all member and employer accounts in the same manner. In addition the Trustee maintains a Reserve Account.

## Crediting rate policies

Based on the guiding principles and obligations outlined earlier, the Trustee has adopted a number of policies with respect to the determination of crediting rates. These are outlined below for the four options.

### 4.1. Monthly crediting rates

The crediting rates for each month are usually calculated in the middle of the following month, once all the required information is made available, and apply for the month following that for which the most recent final crediting rate has been declared.

It is the Trustee's policy to calculate monthly crediting rates based on the funds' actual return, net of tax and investment fees, including an approximation of the investment consulting fees. Each investment's return is weighted by the benchmark applicable for each option to calculate the option return.

An allowance for tax is made by utilising the PIE tax information provided by the managers of the investments. See section 4.6 for further information.

An expense margin is deducted from the returns as a provision for the Fund's investment consulting expenses. See sections 4.7 and 4.8 for further information.

The crediting rates calculated for June are interim rates which are revised once the year-end financial statements have been prepared (see section 4.3).

| | |
|---|---|
| **Authorised Delegations** | The Trustee has delegated its duty to calculate the monthly crediting rates to Mercer (N.Z.) Limited (Mercer). |
| **Control** | The Trustee reviews the monthly crediting rates at regular meetings and reviews the process annually. |

## 4.2. Interim crediting rates

Until the monthly crediting rates are determined, an interim crediting rate will apply.

***Weekly crediting rates***

The weekly crediting rates for each investment fund are generally calculated every Tuesday. These rates are only an approximation of the investment earnings of the funds for the period from the effective date of the most recent monthly crediting rate to the date of the latest Friday (i.e. the date of the available unit price). Where a public or office holiday interrupts the process, the day the returns are calculated for the week will be adjusted accordingly. For example, if one day of Friday, Monday or Tuesday is a holiday, the weekly rate will be calculated on Wednesday (or the next working day); if two days of Friday, Monday or Tuesday are holidays, the weekly rate will be calculated on Thursday (or the next working day). Rates are also calculated using the same process at the end of each month, prior to the actual monthly rate being available.

It is the Trustee's policy to calculate weekly crediting rates based on the returns measured by the change in the unit price of options within the Mercer Super Trust (MST) that are considered reflective of the characteristics of the Fund's Cash, Conservative, Balanced and Growth investment options. The MST options used for this purpose are:

| Fund Option | Proxy Fund: Mercer Super Trust Option |
|---|---|
| Cash | Mercer Super Trust Cash Fund |
| Conservative | Mercer Super Trust Conservative Fund |
| Balanced | Mercer Super Trust Balanced Fund |
| Growth | Mercer Super Trust High Growth Fund |

No margin is deducted for expenses from each of the interim rates.

***Daily crediting rates***
Daily crediting rates apply for the period following that for which the most recent weekly crediting rates have been calculated.

It is the Trustee’s policy to use a Fixed Notional Rate equal to the OCR (net of tax).

***Late payment interest***
The late payment earnings policy applies for the period from the day following the date of termination to the date of payment.

It is the Trustee’s policy to use a Fixed Notional Rate equal to the OCR (net of tax).

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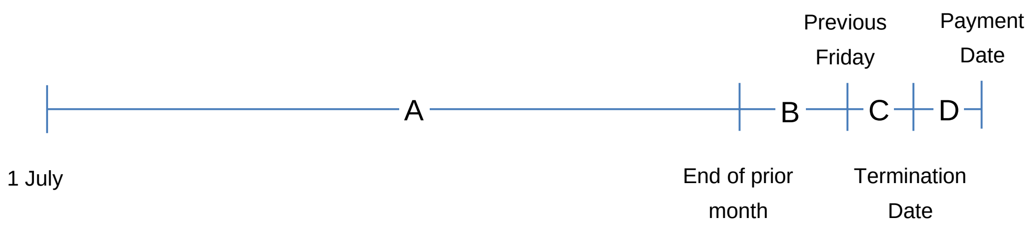
|---|---|
| **Authorised Delegations** | The Trustee has delegated its duty to calculate the interim crediting rates to Mercer. |
| **Control** | The Trustee reviews the interim crediting rate procedure at regular meetings and at least annually. |

## Summary

The diagram below maps out the different rates that apply to account balances for the period following the last annual review:




Period A: Compounded monthly rates, using actual manager returns and benchmark allocations
Period B: Return on proxy MST options

Period C: Fixed Notional Rate equal to the OCR (net of tax)
Period D: Fixed Notional Rate equal to the OCR (net of tax)

## 4.3. Final crediting rates (based on year-end financial statements)

Final crediting rates for each investment fund are declared for the financial year to 30 June to distribute earnings (which may be positive or negative) to member accounts as part of the annual review process. This is achieved by adjusting the monthly crediting rate calculated for June.

The Trustee declares the final crediting rates for the year to 30 June based on the audited year-end financial statements of the Fund and any other information which may be relevant.

The earnings of the Fund for the year, including the bank account interest and after the deduction of tax and all investment related expenses, is taken from the financial statements. In addition, the difference between the amounts that the Trustee determines are required to be held in the Reserve Accounts and the amounts in these accounts rolled forward from the prior year end is calculated, which may be positive or negative.

These amounts are added together and are compared to the amount credited to members' accounts through the application of the monthly crediting rates determined during the year. The June crediting rates are then adjusted retrospectively to allocate the available Fund's earnings and expenses to members' accounts. Members who exit prior to the declaration of the final crediting rates receive interest at the provisionally calculated June rate and subsequent monthly and weekly crediting rates.

| | |
|---|---|
| **Authorised Delegations** | The Trustee has delegated its duty to calculate the final crediting rates to Mercer, but retains responsibility for approving them before implementation. |
| **Control** | The Trustee declares the final crediting rates based on relevant advice from the Fund's administrator. |

## 4.4. Contingency arrangements

In the event that a monthly crediting rate or interim crediting rates cannot be determined in accordance with the above policies (e.g. investment markets close, systems failure, etc.), the Trustee will accept a provisional crediting rate based on an approved alternative methodology.

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|---|---|
| **Authorised Delegations** | None. |
| **Control** | Mercer to advise the Trustee if circumstances dictate an alternative method for crediting rates and suggest suitable alternatives. |

## 4.5. Extreme market movements

In the event there is significant market volatility, the Trustee retains the right to revise interim crediting rates and the methodology for calculating rates at its discretion.

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|---|---|
| **Authorised Delegations** | None. |
| **Control** | Not applicable. |

## 4.6. Provision for tax

The monthly crediting rates make a deduction for the level of tax payable on the investment returns. For PIE investments, the information made available by the investment manager is sufficient to calculate the tax payable and this actual tax information is used.

In all cases, tax deductions are calculated as 28% of the taxable return.

The MST unit prices used for the weekly interim calculations are net of tax (on these proxy investment options). Therefore, the method of calculating the crediting rates as outlined in section 4.2 has an implicit provision for tax.

The final crediting rate method outlined in section 4.3 explicitly allows for the actual tax incurred by the Fund over the year.

## 4.7. Provision for investment management fees

The monthly crediting rates make a deduction for the investment management fees charged by the investment managers. Allowance is made for tax relief at 28% on these fees.
The MST unit prices are net of the actual investment management fees incurred on these proxy investment options. Therefore, the method of calculating the crediting rates as outlined in section 4.2 has an implicit provision for investment management fees, albeit those charged by the MST.

The final crediting rate method outlined in section 4.3 explicitly allows for the actual investment management fees, net of tax, incurred by the Fund over the year.

## 4.8. Provision for other expenses

Investment consulting expenses are allowed for in the calculation of the monthly crediting rates through an explicit margin deducted from the returns calculated. For the year ending 30 June 2025, the expense rate has been set at 0.072% p.a., after tax relief at 28%. No explicit deduction is made from the weekly rates, other than any allowance built into the MST unit price.

Final crediting rates for June are calculated allowing for the actual expenses incurred over the year, deducting them from the income received after allowing for tax relief.

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|---|---|
| **Authorised Delegations** | None. |
| **Control** | The Trustee reviews the expense provision at least annually. |

## 4.9. Materiality for compensation

The Trustee will:

- Deem that the impact of the errors at a member level as material if it is at least 30 basis points; and
- Not pay compensation amounts of less than $20 to any exited member.

The Trustee reserves the right to change this threshold depending on the circumstances of the error involved.

| | |
|---|---|
| **Authorised Delegations** | None. |
| **Control** | Not applicable. |

# 5

## Error Management

### 5.1. Management of issues and errors identified

Crediting rate issues, including errors, may be identified by a number of sources including, but not limited to, service provider, internal and external audits and member queries or complaints. Once an issue is identified, reporting and escalation occurs via the Trustee's established breach/incident reporting process.

The Trustee has adopted a framework for dealing with crediting rate issues. The first step is to assess whether the issue represents an error or whether it represents the outcome of a consistent application of business rules and policies.

Where an issue identified has been deemed to be an error, the following steps are to be followed to manage the error:

- Limit the impact of the error (e.g. eliminate the impact of the error to future transactions) and manage any arbitrage risks that arise until the error is remediated;
- Identify an appropriate methodology to assess the impact of the error, particularly where there are multiple errors involved, allowing for loss of opportunity;
- Assess the impact and extent of the error including number of members affected, which members are disadvantaged and which have gained and by how much;
- Identify all legal obligations arising from such an error;
- Notify the regulators (as appropriate);
- Evaluate the case for compensation or claw back (see below) and quantify the value for affected members, both current and exited if applicable;
- Interact with service providers regarding their role and responsibility for the error;
- Determine a strategy to communicate with affected members on:
  - Describing the error and how it has impacted members (and former members);
  - The steps required to fix the error;
  - The timing of such steps;
  - If compensation is payable, how and when such payments will be made;
  - Payment of compensation (if required).

Once all of the above issues have been resolved, compensation can then be made to the relevant members as set out below. Furthermore, the Trustee will consider what changes or process improvements should be made to prevent the issue from recurring.

## 5.2. Compensation

Compensation issues will arise when crediting rate errors occur that are material and adversely impact on the benefits of members. The amount and method of any compensation will depend on the specifics of each particular case but will be determined with regard to many factors including:

- Legal requirements;
- Provisions of governing rules and guidance notes issued by regulators;
- Relevant member disclosure;
- Equity and fair treatment of members;
- Provisions of relevant agreements with service providers;
- The risk management and compliance framework;
- Whether compensation can be recovered under insurance arrangements; and
- Whether members impacted are ongoing or have exited.

The Trustee expects that the party responsible for the error correct the error at its own expense and finance any compensation deemed payable to affected members.

## 5.3. Claw back

Where an error benefits some members, the Trustee or an authorised delegate will assess and decide whether to seek reimbursement of windfall gains in light of likely costs and the implications of doing (or not doing) so.

## 5.4. Materiality for compensation

While the Trustee's aim with regards to compensation is to return each affected member to the financial position that would have existed if the error had not occurred, the Trustee considers that in some cases there should be a threshold below which it is not practical to consider such compensation given the significant costs involved in investigating and correcting the error. This is particularly the case given that crediting rates are calculated using estimates and assumptions and a small deviation might not take the crediting rate outside the range that is considered fair and reasonable. Section 4.9 sets out the policy on materiality.

## 5.5. Approval and payment of compensation

Once the case for compensation has been established, each payment will be approved by the Trustee (or their delegate) prior to payment to affected members. Where proposed amounts are material in nature, as determined by the Trustee or their delegate, the calculations may be subject to review and sign-off by an independent appointed third party advisor, depending on the magnitude of each case.

Compensation may take various forms, depending on the nature of the crediting rate error and the loss suffered by affected members. Notwithstanding, compensation payments will take one or more of the following forms:

- Additional dollar amounts added to relevant members' account balances;
- Additional cash benefit payment to exited members;
- An increase to the crediting rate applied to members' account balances.

Any compensation paid may be adjusted for the time value of money.