



**Administrative Rules for the NZRPA
Benevolent and Welfare Fund**

Date: February 2008

Contents

1.	Definitions	1
2.	Investment of Fund	2
3.	Establishment of Advisory Body	2
4.	Functions of Advisory Body	3
5.	Applications	3
6.	Investment Policies and Objectives	4
7.	Payments	4
8.	Interested NZRPA member	5
9.	Limitation of liability and indemnity	5
10.	Accounts and audit	6
11.	Pecuniary profit	6
12.	Meetings	7
13.	Amendment of rules	7
14.	Dissolution	7
	Appendix 1 Investment Policy	8
	Appendix 2 NZRPA Board Guidelines for payment	10
	Appendix 3 NZRU Investment Policy Statement	11

These **Administrative Rules for the NZRPA Benevolent and Welfare Fund** were approved by the members of the NZRPA Board in a meeting on 7 March 2007.

Introduction

- A. The NZRPA wishes to use certain funds for a benevolent and welfare fund for Applicants.
- B. The purpose of the Fund is to provide payments to Applicants when a Member is no longer able to play professional rugby due to sickness, injury, accident or death or to make payments to Applicants who are suffering Hardship.
- C. In the long term, the NZRPA may extend the application of the Fund (by amending these rules) to benefit Applicants in other ways.

It is agreed

1 Definitions

In these Rules, unless the context requires otherwise:

- (a) **Account** means the separate account set up by the NZRPA to hold the money set aside for the Fund;
- (b) **Advisory Body** means the group of persons appointed under rule 3, and includes the person acting as an Alternate from time to time.
- (c) **Alternate** means a person nominated by a member of the Advisory Body to act in the place of that member on the Advisory Body should that member be unable to act by reason of illness, absence, or Conflict Situation, and whose appointment as an Alternate has been approved by the NZRPA Board.
- (d) **Applicant** means a Member or a Member's immediate family.
- (e) **Application** means any application made by an Applicant for a payment, or other form of assistance, from the Fund.
- (f) **Conflict Situation** is defined in rule 8.1.
- (g) **Fund** means the NZRPA Benevolent and Welfare Fund.
- (h) **Hardship** means unforeseen or unfortunate circumstances that, in the opinion of the NZRPA Board, results in hardship for the Applicant.

- (i) **Investment Policy** means the investment strategy for the Fund as set out in the statement of investment policies and objectives adopted by NZRPA under rule 6.3 from time to time.
- (j) **Member** means a member of the NZRPA.
- (k) **NZRPA** means the New Zealand Rugby Players Association Incorporated.
- (l) **NZRPA Board** means the governing body of the NZRPA.
- (m) **NZRU** means the New Zealand Rugby Union Incorporated.
- (n) **Property** means all property (whether real or personal) and includes choses in action and money.
- (o) **Recipient** means an Applicant whose application is approved by the NZRPA Board.
- (p) **Recommended Application** means an Application that has been recommended by the Advisory Body to the NZRPA Board for payment, or other form of assistance, from the Fund.

2 Investment of Fund

- 2.1 The NZRPA shall have in the administration, management and investment of the Fund all the rights, powers and privileges of a natural person.
- 2.2 Without limiting the powers set out in rule 2.1, the NZRPA may:
 - (a) contribute any Property to the Fund;
 - (b) invest all or any of the Fund in any Property;
 - (c) dispose of any Property or any part of the Fund.

3 Establishment of Advisory Body

- 3.1 The NZRPA Board shall appoint, an Advisory Body.
- 3.2 There shall be at all times three Advisory Body members.
- 3.3 The Advisory Body shall consist of two representatives appointed by the NZRPA and one appointed by the NZRU. The appointment of the NZRU representative shall be made by the NZRU in consultation with the NZRPA Board.

- 3.4 The term of each Advisory Body member is determined by the NZRPA Board but shall be not longer than 3 years nor shorter than 1 year, subject to rule 3.5.
- 3.5 The NZRPA Board may remove a member of the Advisory Body at any time by notice in writing to that member to that effect, and in respect of a member who is an NZRU representative, will do so at the request of the NZRU provided that if the NZRPA Board proposes to remove the NZRU representative, the reasons for this will be advised to the NZRU and the parties will consult in good faith over the proposal before any final decision is made.
- 3.6 Subject to clause 3.3, The NZRPA Board may appoint a new member of the Advisory Body at any time and must appoint a new member if the number of members of the Advisory Body falls below three.
- 3.7 A meeting of the Advisory Body may be convened at any time by notice in writing given by:
- (a) The NZRPA Board;
 - (b) Any member of the Advisory Board
- not less than 5 days prior to the meeting specifying the time and place for the meeting and the business to be considered at the meeting. The meeting may be conducted by the contemporaneous linking together of the members by telephone or video-conference.
- 3.8 A quorum for a meeting of the Advisory Body shall be any two members provided that one of those is the NZRU representative or their alternate.
- 3.9 Subject to rules 3.7 and 3.8, the Advisory Body may regulate the manner in which any meeting is conducted.

4 Functions of Advisory Body

- 4.1 The functions of the Advisory Body are to:
- (a) act as the NZRPA's expert advisers in relation to Applications;
 - (b) analyse Applications;
 - (c) make recommendations in respect of Applications;
 - (d) recommend and review at regular intervals the investment strategy for the Fund; and
 - (e) implement the investment strategy for the Fund as fixed by the current Investment Policy.

5 Applications

- 5.1 An Application can only be considered by the Advisory Body if it:
- (a) relates to an Applicant; and
 - (b) relates to an accident, injury or sickness of a Member that will prevent the Member from playing professional rugby ever again; or
 - (c) relates to the death of an Applicant; or
 - (d) relates to the Hardship of the Applicant.

Where an Applicant has received, or will receive a payout under the Group Life and Crisis Insurance Policy paid for by the Player Payment Pool, any Application to the Fund will be treated as a Hardship Application.

- 5.2 The Advisory Body will develop the procedures and forms (if any) that need to be followed, or completed, in order for an Application to be considered.
- 5.3 The Advisory Body will consider an Application received in relation to any Applicant.
- 5.4 The Advisory Body may request further information about an Application when it determines that this is necessary.
- 5.5 The Advisory Body may request the NZRPA to engage external advisers to help the Advisory Body in reviewing and analysing an Application.
- 5.6 For each Application, the Advisory Body will advise the NZRPA Board:
- (a) whether or not the Application is a Recommended Application including whether the Application is or not recommended by all Advisory Body members and if not the reasons for any dissenting view.
 - (b) who the potential Recipient(s) is or are; and
 - (c) the amount of payment (if any) or other form of assistance (if any), provided any payment is within the guidelines determined by the NZRPA Board under rule 7.1.
- 5.7 The Advisory Body shall, when requested by the NZRPA Board, provide the NZRPA Board with a report that:
- (a) outlines the number of Applications in the period covered by the report;
 - (b) briefly outlines the nature of each Application; and

- (c) states whether or not each Application was a Recommended Application and (where necessary) who the Recipient was, or will be; and
 - (d) the recommended payments (if any) or other form of assistance (if any).
- 5.8 The Advisory Board will regard each case on its merits. Any Recommended Application by the Advisory Body or payment determined by the NZRPA Board in accordance with the rules will not create a binding precedent.
- 5.9 The NZRPA Board retains the right to decline any Application.

6 Investment Policies and Objectives

- 6.1 The Advisory Body will recommend from time to time an investment strategy for the Fund, comprising a statement of investment objectives and policies including reserving and asset allocation, based on the draft statement of Investment Policy in Appendix 1;
- 6.2 The Advisory Body may request the NZRPA to engage external financial advisers to help the Advisory Body in considering an investment strategy for the Fund under rule 6.1;
- 6.3 The investment strategy recommended under rule 6.1 may not be implemented unless formally approved and adopted (with or without amendment) by the NZRPA Board;
- 6.4 The Advisory Body will oversee the implementation of the Investment Policy, and to that end, with the approval of the NZRPA Board appoint an investment manager or managers to invest the assets of the Fund in accordance with the Investment Policy;
- 6.5 Provide the NZRPA Board and the NZRU with such reports and at such times as required by the NZRPA Board on the standing and performance of the Fund from time to time.

7 Payments

- 7.1 The NZRPA Board will set the guidelines for payments from the Fund. At the date of approval of these Rules, the guidelines will be those set out in Appendix 2. The NZRPA Board may, in its absolute discretion, review those guidelines at any time to determine:
- (a) whether set amounts will be provided for certain Applications; and
 - (b) if set amounts are to be provided, what those set amounts are; and
 - (c) the conditions (if any) that must be satisfied by the Applicant or the Recipient before the set amount is to be paid.

- 7.2 The NZRPA Board may decline an Application notwithstanding the fact that it is a Recommended Application.
- 7.3 The NZRPA Board may approve an Application notwithstanding the fact that it is not a Recommended Application.

8 Interested NZRPA member

- 8.1 A Conflict Situation exists for a member of the NZRPA Board or a member of the Advisory Body if the member is an “Interested Member”. A member is an “Interested Member” if the member is:
- (a) the Applicant;
 - (b) the person the subject of an Application;
 - (c) related to the Applicant whether by blood, custom, law or marriage;
 - (d) has a financial interest in the outcome of an Application or the meeting of the Advisory Board;
 - (e) is a professional adviser to or a close personal friend of an Applicant;
 - (f) the NZRPA Board considers, in its absolute discretion, that in a matter before, or to be considered by, the Advisory Body, the member of the Advisory Board is an Interested Member for the purposes of this clause 8.1.
- 8.2 When a Conflict Situation exists:
- (a) the member for whom the Conflict Situation exists must declare the nature of the conflict or the potential conflict at a meeting of the NZRPA Board or the Advisory Body, as the case may be; and
 - (b) the member must not take part in any deliberations or proceedings, including voting or other decision-making, relating to the Conflict Situation; and
 - (c) if the member contravenes paragraphs (a) or (b) of this rule, his or her vote or other decision will not be counted, and neither will the member be counted in the quorum present at the meeting.

9. Limitation of liability and indemnity

- 9.1 None of the NZRPA, any member of the Advisory Body or member of the NZRPA Board is liable for the consequence of any act or omission or for any loss suffered to the Fund, including any loss which arises because the investments of the Fund are not diversified or are inadequately diversified, unless the consequence or loss is attributable to that person’s dishonesty.

- 9.2 No member of the Advisory Body or member of the NZRPA Board is bound to take any proceedings against another member of the Advisory Body or member of the NZRPA Board, as the case may be, for any action or omission by the member of the Advisory Body or member of the NZRPA Board.
- 9.3 The NZRPA and Advisory Body are not liable for any loss or cost to the NZRPA by any breaches of these rules or defaults of any attorney, delegate, manager, agent, secretary, employee or any other person (including, without limitation, any expert or professional person) appointed or engaged or employed by them, despite any rule of law to the contrary.
- 9.4 Each member of the Advisory Body and each member of the NZRPA Board is fully indemnified by and out of the Fund for any loss or liability that he or she or it incurs in the carrying out or omission of any function, duty, power or discretion under these Rules and in respect of any outlay or expenses incurred by him or her or it in the management and administration of the Fund unless the loss or liability is attributable to his or her dishonesty.
- 9.5 The indemnity given by rule 9.4 extends to any loss or liability which a person incurs, after ceasing to be a member of the Advisory Body or a member of the NZRPA Board, through the carrying out of any function, duty, power or discretion, whether the carrying out took place before, during or after the period in which the person was a member of the Advisory Body or a member of the NZRPA.

10 Accounts and audit

- 10.1 The NZRPA Board must ensure that financial records relating to the Account and Fund are kept.
- 10.2 The financial records must present the Fund's receipts, credits, payments, liabilities and all other matters necessary or appropriate in a way that shows the true state and condition of the financial position of the Fund.
- 10.3 The financial records must be prepared by a chartered accountant or other appropriate person or body appointed by the NZRPA Board.
- 10.4 The NZRPA Board must have the financial records audited by a chartered accountant or other appropriate person or body appointed by the NZRPA Board.
- 10.5 The financial records will be kept at the NZRPA's office or at such other place as the NZRPA thinks fit and will be available to the NZRU on request.
- 10.6 The Account and Fund will also form part of the NZRPA's annual accounts.

11 Pecuniary profit

- 11.1 It is intended that no private pecuniary profit shall be made from the Fund by any Applicant or potential Recipient or member of the Advisory Board.

12 Meetings

- 12.1 Meetings of the NZRPA Board in relation to decisions about the Fund or any Application or Recommended Application will be conducted in accordance with the NZRPA's constitution.
- 12.2 Meetings of the Advisory Body will be conducted in accordance with any rules determined by the Advisory Body.

13 Amendment of rules

The NZRPA has power to amend, revoke or add to any of the provisions of these Rules (except this Rule 13 and Rule 14.1).

14 Dissolution

- 14.1 Subject to the provisions of any applicable Collective Agreement, the NZRPA may at any time dissolve the Fund pursuant to a resolution passed at a meeting of the NZRPA provided that at least 75% of the Members present at that meeting vote in favour of the dissolution. The NZRU will be consulted prior to any meeting to consider such dissolution.
- 14.2 On the dissolution, the NZRPA will pay or apply such of the Fund as then remains to or for the benefit of the NZRPA.

Certified as a true copy of the Administrative Rules for the NZRPA Benevolent and Welfare Fund adopted at a meeting of the NZRPA Board on the _____ day of _____ 2007.

Board Member

Board Member

Appendix '1'

NZRPA Benevolent & Welfare Fund

**Statement of Investment Policy and Objectives adopted for the Fund by the
Board of New Zealand Rugby Players Association Inc. ('NZRPA')
on the 7th day of March 2007**

1. Introduction

This Statement of Investment Policy and Objectives (the "Investment Policy") adopted by the NZRPA Board sets out the objectives, policies and beliefs governing decisions about investments in relation to NZRPA Benevolent & Welfare Fund ("the Fund")

The NZRPA Board intends to have this Investment Policy reviewed annually or more frequently if there is a significant change in the Fund's circumstances.

Terms used in the Rules constituting the Fund shall have the same meaning where used in this statement.

2. Constitution of the Fund

The Fund has been constituted to provide payments to Applicants when a Member is no longer able to play professional rugby due to sickness, injury, accident or death or to make payments to Applicants who are suffering Hardship.

In the long term, the NZRPA may extend the application of the Fund (by amending these rules) to benefit Applicants in other ways.

3. Investment Objectives

NZRPA will adopt a policy of investing the assets of the Fund across a range of investments designed to achieve the following objectives:

- (a) maintain the real value of the capital of the Fund with regard to inflation (recognising the adjustment to the capital of the Fund which may result from a payment required to be made on the occurrence of an "event" as defined in the NZRPA Board Guidelines for Payment set out in Appendix 2).
- (b) Maximise the total amount of income that can be provided by the investments of the Fund over the long term subject to a prudent level of portfolio risk.

4. Investment Policies

The NZRPA has adopted a number of specific investment policies designed to assist in meeting the investment objectives identified in section 3 above.

- (a) An appropriate level of portfolio risk will be determined and accepted by the NZRPA in consultation with professional advisers.
- (b) The portfolio will accept risks in a prudent manner and investment risk will be minimised for the expected level of return.

- (c) An appropriate level of diversification across asset classes, securities, sectors, and countries must be maintained.
- (d) Consistent with the stated objectives, the NZRPA will demonstrate a preference for investment choices that provide an income flow from the portfolio to allow for stability of payment in respect of Recommended Applications.
- (e) A disciplined reserving policy will be implemented and a general reserve maintained to allow stability in available funding for Recommended Applications.
- (f) Liquidity must be considered and maintained at an appropriate level.

5. Asset Allocation Strategy

The NZRPA regards the choice of asset allocation policy as the decision which has the most influence on the likelihood that it will achieve its investment objectives. The NZRPA has retained responsibility for this decision which is made on the recommendation of the Advisory Body and investment advisers retained for this purpose, who have carried out an asset-allocation study to assess the likelihood of the NZRPA's objectives being met.

At the date of approval of these Rules, the NZRPA Board has resolved that it should adopt the same asset allocation policy as the NZRU as detailed in its Investment Policy Statement dated 22 February 2007 which is attached as Appendix 3.

It is the NZRPA's policy to review the above asset allocation policy annually. If, in the opinion of the NZRPA, there is a significant change in the capital markets or the circumstances of the Fund, an earlier review will be conducted accordingly. A review must be undertaken if the NZRU changes its current Investment Policy Statement as set out in Appendix 3.

6. Investment Management Structure

The NZRPA has decided to retain the NZRU to manage its investments for the time being. This policy may be reviewed at any time by the NZRPA Board, in its discretion, and must be reviewed annually. The NZRPA does not rule out employing active professional management for its investments.

Investment managers, if appointed by the NZRPA will be chosen on their ability to meet the Fund's objectives. The Fund will continuously assess the ability of the managers to meet the Fund's objectives.

“Appendix “2”

NZRPA Board Guidelines for Payment

The current guidelines for payments from the Fund, as determined by the NZRPA Board in accordance with Rule 5.1 of the Rules, and adopted at a meeting of the NZRPA Board on 15 August 2013 are as follows.

If there is a career ending sickness, injury, accident or death (the **event**) the payment amounts from the Fund are as per the table below:

Contract status	26 years of age & under	27- 30 years of age (80% of maximum payment)	31-33 years of age (60% of maximum payment)	34 years of age and over
Employed on a NZ Rugby Contract	200 000	160 000	120 000	nil
Employed on a NZRU Sevens Contract (Men) or NZ Rugby Wider Training Group Contract	100 000	80 000	60 000	nil
Employed on a Provincial Union Contract or NZRU Sevens Contract (Women)	30 000	24 000	18 000	nil

For the avoidance of doubt:

- All payments are inclusive of any applicable taxes: **and**
- The age is determined by the date at which the event is deemed by the NZRPA Board to have occurred.

The payment is made provided that:

- at the time the event occurs the Member to whom the Application relates is or was a Member of the Rugby Players' Collective: **and**
- the event results in preventing the Member from playing competitive rugby ever again; **and**
- the Member has not received, or will not receive, a pay out from the Group Life and Crisis Insurance Policy paid for by the Player Payment Pool.

Payments in all other circumstances (including Hardship) are at the discretion of the NZRPA Board.

If in the opinion of the NZRPA Board the **event** occurred as a result of illegal or irresponsible behaviour by the Member or while the Member was involved in illegal or irresponsible activities the NZRPA Board shall not be obliged to follow the above guidelines for payment. In such circumstances any payment shall be at the discretion of the NZRPA Board.

For the sake of clarity;

- Where a player has had a professional rugby career with a medical condition (including an illness, injury and wear and tear (i.e. gradual process)) and subsequently makes application on the basis that the medical condition will now prevent the Member from playing competitive rugby again such application will only qualify for a payment in accordance with these guidelines if the Member has suffered an acute event that has resulted in the medical condition altering to the point that it now prevents the Member from been able to play competitive rugby again.
- Where a player makes application based on neurological complications at least two independent neurological specialists approved by the NZRPA Board must make clear recommendation that the Member not only should not play but should not be allowed to play competitive rugby again due to the respective neurological complications.

A Recommended Application may be approved for payment by the NZRPA Board subject to conditions fixed in consultation with the Applicant as to:

- how the payment will be made (e.g., directly to the Applicant or the Applicant's family);
- when the payment will be made (e.g., at the end of the Applicant's current contract);
- what form the payment will be made (e.g., in two instalments or more);
- whether the Recipient or potential Recipient must be a party to some form of Agreement; and
- whether it is appropriate to hold a function involving the relevant Recipient or potential Recipient to raise funds to offset (partially, or in full) any payment from the Fund.

The NZRPA Board retains the right to decline any Application.

“Appendix “3”

NZRU Investment Policy Statement

Date: 22 February 2007

Review Date: February 2009

Purpose

This Investment Policy Statement (IPS) defines the procedures and exposure limits that govern the investment of NZRU funds. This applies to all New Zealand Dollar and foreign currency funds but does not govern the management of foreign exchange rate risk. The IPS consolidates and replaces the previous NZRU Investment Policy (July 2004) and the NZRU Banking and Investments Credit Risk Policy (October 2004).

This document is intended to capture existing and anticipated acceptable investments. It should be read in conjunction with the more narrowly defined mandate/ Investment Guidelines that apply to the management of specific investment portfolios in a particular currency. The Investment Guidelines form the set of operating rules which the Fund Manager will operate under, The guidelines flow from this IPS, however while the guidelines can be more narrowly defined than the IPS, the guidelines will never exceed the boundaries set by the IPS. The guidelines are included as a schedule to the legal agreement between NZRU and the Fund Manager, and therefore any amendment to the Investment Guidelines will require Board approval.

Definitions

For the purposes of this IPS the following definitions apply:

- Fund Manager – The Investment Manager appointed by the NZRU to manage the NZRU Investment portfolio, where no Investment Manager has been appointed, the Fund Manager will be the NZRU.
- Approved Bank – A bank that is registered under the Reserve Bank of New Zealand Act 1989 and has a short term credit rating of A-1 or higher from Standard & Poor's Ratings Group.

Risk Coverage

The Investment Policy Statement covers management of the following risks associated with management of NZRU funds.

- 1) *Interest Rate Risk:* This risk reflects exposure to the extent which changes in market interest rates affect investment returns. This may be either a mark-to-market (unrealised) or a realised loss on an investment if market interest rates rise after the investment has been made. Conversely there is the opportunity loss if short-term investments are made and market interest rates fall, meaning reinvestment occurs at a lower interest rate. Overall portfolio duration will be the measure of interest rate risk.

- 2) *Credit Risk*: This is the risk of default or the risk of a fall in the value of an investment if the creditworthiness of the security issuer declines. Credit ratings from Standard & Poor's Ratings Group or an equivalent rating agency recognised by the US Securities and Exchange Commission will be used to express measures of credit risk.
- 3) *Counterparty Risk*: Similar to credit risk, counterparty risk is the risk that a bank with whom a transaction has been agreed, but not yet settled fails and is unable to execute the transaction on the settlement date. Credit ratings from Standard & Poor's Ratings Group or an equivalent rating agency recognised by the US Securities and Exchange Commission will be used to express measures of counterparty risk.
- 4) *Liquidity Risk*: Liquidity risk is the risk that a security or investment cannot be sold inside a desired timeframe, or that the market price that can be realised may be poor, due to a lack of willingness from bank counterparties to provide a bid for the security at a satisfactory price.

Foreign exchange rate risk is not covered in this IPS. Foreign exchange rate risk is the risk that the price of foreign currency changes against the New Zealand Dollar or any other currency where NZRU has a financial obligation, when assets or receivables are held or denominated in other foreign currencies. Foreign exchange rate risk is managed through the NZRU Foreign Exchange policy.

Exposure Limits

The investment of NZRU funds shall be governed by the following exposure limits:

Duration:

- The weighted average duration of the investments made in any given currency shall not exceed 3 years.
- No individual investment may have a maturity date greater than 5 years. The expected maturity date may be used where an investment has an uncertain maturity date.

Credit

- The minimum credit rating of any investment is 'A-' long-term, or 'A-1' short-term from Standard & Poor's Rating Agency, or an equivalent rating agency recognised by the United States Securities and Exchange Commission.
- The maximum exposure to any investment, expressed as a percentage of total funds in a given currency is as follows:

Issuer	Long-term Rating	Maximum Long-term Exposure
NZ Government or guaranteed by the NZ Government	AAA	100%
An Approved Bank	AA- or higher	40%
Other Issuers	AAA	20%
	AA+, AA, AA-	15%
	A+, A, A-	10%
	BBB+ and lower	Nil
	Unrated	Nil

Issuer	Short-term Rating	Maximum Short-term Exposure
NZ Government or guaranteed by the NZ Government	A-1+	100%
An Approved Bank	A-1+	40%
Other Issuers	A-1+	20%
	A-1	10%
	A-2 or lower	Nil
	Unrated	Nil

- The maximum aggregate exposure to all investments of a given credit ratings basket, expressed as a percentage of total funds in a given currency is as follows:

Long-term Rating	Maximum Aggregate Long-term Exposure
AAA	100%
AA+, AA, AA-	100%
A+, A, A-	50%
BBB+ and lower	Nil

Short-term Rating	Maximum Aggregate Short-term Exposure
A-1+	100%
A-1	50%
A-2 or lower	Nil

- Credit ratings for existing investments are to be monitored by the Fund Manager on a continuous basis. In the event of a security being downgraded below an acceptable level, the security shall be sold immediately unless approval to retain the investment is granted by the NZRU Board or its authorised delegate.

- A summarised explanation of Standard & Poor's ratings is attached to this IPS as attachment 1, the attachment also contains a ratings reconciliation for rating Standard & Poor's to those of Moodys and Fitch Ratings.

Counterparty Risk

- Investment transactions are to be entered with Approved Banks
- Investment transactions are to be settled within seven (7) business days, with the exception of forward foreign exchange contracts which are separately covered in the NZRU Foreign Exchange Policy.

Liquidity Risk

- All securities/investments must be marketable debt securities, i.e. readily realisable in normal market conditions.
- No investment may be made, if in the opinion of the Fund Manager at the time of the investment, there are reasons to believe that market illiquidity for the security is likely to materially reduce the proceeds from sale that might reasonably be expected for a comparable, liquid security.

Eligible Investments

The following securities are eligible for inclusion in the NZRU investment portfolios:

- Cash at call with an approved bank
- Bank-issued Registered Certificates of Deposit
- Bank deposits
- Commercial Paper
- Floating Rate Notes with a maximum maturity date or expected average life of 5 years
- Bonds or fixed rate securities.
- New Zealand Local Authority Stock
- Mortgage-backed securities
- Asset backed securities
- Securities issued or guaranteed by the New Zealand Government.

The following securities **may not** be held in the NZRU investment portfolios:

- Unrated securities
- Finance Company debentures
- Capital Notes
- Equities

Derivative instruments may not be held in investment portfolios, with the exception of hedging instruments, as specified by the NZRU Foreign Exchange Policy.

No investment may be made that is not specified in this policy statement without the express consent of the NZRU Board.

Reporting

Reporting of the portfolio position and performance in accordance with policy will be presented to the Board on a monthly basis. Any intra month breaches of policy will be reported to the Board.

Primary Responsibility – General Manager Corporate Services**Other Relevant Documents**

- Attachment 1 - Standard & Poor's Ratings Definitions
- Fund Managers Mandate - Investment Guidelines

Attachment 1 - Standard & Poor's Ratings Definitions

A Standard & Poor's credit rating is a current assessment of the ability of an obligor's overall financial capacity (its creditworthiness) to pay its financial obligations. The ratings are based, in varying degrees, on the following considerations:

- Likelihood of default-capacity and willingness of the borrower to make timely payment of interest and repayment of principal;
- Nature and provisions of the obligation; and
- Protection afforded by and relative position of, the obligation in the event of bankruptcy, reorganization, or other arrangements under the laws of bankruptcy and those affecting creditors' rights.

Long-term Ratings

- **AAA** – An obligation/obligor rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is **EXTREMELY STRONG**.
- **AA** - An obligation/obligor rated 'AA' differs from the highest rated obligations only in small degree. The obligor's capacity to meet its financial commitment on the obligation is **VERY STRONG**.
- **A** - An obligation/obligor rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations/obligor in higher rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still **STRONG**.
- **BBB** - An obligation/obligor rated 'BBB' exhibits **ADEQUATE** protection parameters. However adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to the obligor to meet its financial commitment on the obligation.

An obligation/obligor rated 'BB', 'B', 'CCC', 'CC' and 'C' are regarded as having significant speculative characteristics. While such obligations are likely to have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.

Examples of current rated entities

- **AAA** – New Zealand Government, Auckland Healthcare, Toyota, senior ranking mortgage-backed securities.
- **AA** – ANZ, BNZ, Westpac, ASB Bank, Fonterra, Transpower, NZ Post, several Local Authorities.
- **A** – Auckland Airport, ANZ subordinate debt, Telecom, Telstra, Watercare (owned by the 7 Auckland Local Authorities).
- **BBB** – Mighty River Power and most other power companies, MARAC.
- **Lower rated and risky unrated issuers** – Subordinated debt issued by Fletcher Challenge, GPG, Capital Properties, Nuplex, Sky TV, Tower, finance company debentures. Not recommended.

Short-term ratings

- **A-1** – A short-term rating of ‘A-1’ is the highest category by Standard & Poor’s. The obligor’s capacity to meet its financial commitment on the obligation is **STRONG**. Within this category, certain obligations are designated with a plus sign ‘+’. This indicates that the obligor’s capacity to meet its financial commitment on the obligation is **EXTREMELY STRONG**.
- **A-2** – A short-term obligation/obligor rated ‘A-2’ is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher ratings categories. However the obligor’s capacity to meet its financial commitment on the obligation is **SATISFACTORY**.
- **A-3** - A short-term obligation/obligor rated ‘A-3’ exhibits **ADEQUATE** protection measures. However adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

Long and Short-term ratings correlations

The standard correlation of short-term ratings is shown below.

- A-1+ short-term rating applies to long-term ratings of AAA, AA+, AA, AA- and A+.
- A-1 short-term rating applies to long-term ratings of A+, A and A-
- A-2 short-term rating applies to long-term ratings of A, A-, BBB+ and BBB.

Note there is some crossover between the correlations.

Rating Agency rating scale comparatives

The table below provides a reconciliation of the ratings equivalents across the three rating agencies most commonly used. Note all three are recognised by the United States Securities and Exchange Commission.

Standard & Poors	Moody's	Fitch Ratings
AAA	Aaa	AAA
AA+	Aa1	AA+
AA	Aa2	AA
AA-	Aa3	AA-
A+	A1	A+
A	A2	A
A-	A3	A-
BBB	Baa	BBB

Manager's Mandate

INVESTMENT GUIDELINES

SECTION 1 – GENERAL

1.1 General

- 1.1.1 The Manager shall invest in New Zealand fixed interest and Sterling and United States Dollar cash as defined in Section 2.
- 1.1.2 The Manager shall not borrow against the security of the Portfolio.
- 1.1.3 The Manager shall submit a confirmation of compliance with these guidelines in writing on a monthly basis.

1.2 Benchmark

- 1.2.1 The benchmark for the New Zealand cash portfolio is the NZX 90 Day Bank Bill Index.
- 1.2.2 The benchmark for the Sterling cash portfolio is the Merrill Lynch British Pound 1 month LIBID Index.
- 1.2.3 The benchmark for the United States Dollar cash portfolio is the Merrill Lynch USD 1 month LIBID Index.

1.3 Investment Objective

- 1.3.1 The Manager's investment performance is expected to exceed the benchmark for each portfolio over a rolling three year time horizon by the amounts specified below.

Portfolio

	<i>Outperformance Target</i>
New Zealand Cash portfolio	0.10% per annum
Sterling Cash portfolio	0.00% per annum
US Dollar Cash portfolio	0.00% per annum

1.4 Performance Measurement

- 1.4.1 The Client will assess investment performance based on the time-weighted rates of return achieved by the Manager.
- 1.4.2 Out-performance will be considered on the basis of both returns (calculated after the deduction of transaction costs but before the deduction of management fees) and risk (measured by the standard deviation of returns).
- 1.4.3 The Manager will also be compared quarterly to other managers within each asset class.

(d) SECTION 2 - NEW ZEALAND CASH

2.1 Eligible Investments

2.1.1 New Zealand cash investments shall consist of marketable debt securities denominated in New Zealand dollars with a maturity or redemption date that is not more than three years. The securities must be issued or guaranteed by the New Zealand Government or Reserve Bank of New Zealand, or issued in New Zealand by approved banks. (An approved bank means a bank that is registered under the Reserve Bank of New Zealand Act 1989 and has a short-term credit rating of A-1 or higher from Standard & Poor's Ratings Group). The Manager may also invest in marketable debt securities denominated in New Zealand dollars of other entities rated A-1 or higher. All securities/investments must be marketable debt securities or deposits, i.e. they must be readily realizable in normal market conditions. Eligible security types include the following:

- Cash at call with an approved bank
- Bank-issued Registered Certificates of Deposit
- Bank deposits
- Commercial Paper
- Floating Rate Notes with a maximum maturity date or expected average life of 5 years
- Bonds or fixed rate securities.
- Local Authority Stock
- Mortgage-backed securities
- Asset-backed securities
- Securities issued or guaranteed by the New Zealand Government.

2.1.2 The following securities may not be held in the New Zealand cash portfolio.

- Unrated securities
- Finance Company debentures
- Capital Notes
- Equities

2.2 Exposure Limits

2.2.1 The Manager shall ensure that no more than 40% of the New Zealand cash portfolio is invested in the securities of any one approved bank, and no more than 10% of the New Zealand cash portfolio is invested in the securities of any entity that is not an approved bank, other than the New Zealand Government or Reserve Bank of New Zealand. In addition, aggregate exposure limits, specified in section 5 below, apply.

2.2.2 The Manager shall ensure that at least 70% of the New Zealand cash portfolio is invested in the securities of the New Zealand Government or Reserve Bank of New Zealand, or securities issued by an approved bank. Total exposure to other entities must not exceed the following total limits by rating:

Credit Rating at S&P		Exposure Limit
Short-term Rating	Long-term Rating	
A-1	A+, A, A-	30% in total
less than A-1	less than A-	Not permitted

2.2.3 The Manager shall ensure that no more than 30% of the New Zealand cash portfolio is invested in Floating Rate Notes with a legal maturity greater than twelve months.

2.3 Duration

2.3.1 The Manager shall ensure that the duration of the portfolio does not exceed 18 months.

2.4 Derivatives

2.4.1 Derivatives, including hedging instruments, are not permitted in the portfolio.

(e) SECTION 3 – BRITISH POUND CASH

3.1 Eligible Investments

3.1.1 British cash investments shall consist of bank deposits denominated in British Pounds with a maturity or redemption date that is not more than one year. Securities must be issued by approved banks. (An approved bank means a bank with a short-term credit rating of A-1 or higher from Standard & Poor's Ratings Group. All securities/investments must be marketable debt securities or deposits, i.e. they must be readily realizable in normal market conditions. Eligible security types include the following:

- Cash at call with an approved bank
- Bank-issued Registered Certificates of Deposit
- Bank deposits

3.1.2 Unrated securities may not be held in the British Pound portfolio.

3.2 Exposure Limits

3.2.1 The Manager may hold up to 100% of the British Pound cash portfolio in the securities or deposits of any one approved bank, subject to aggregate exposure limits, specified in section 5 below.

3.3 Duration

3.3.1 The Manager shall ensure that the duration of the portfolio does not exceed 18 months.

3.4 Derivatives

3.4.1 Derivatives, including hedging instruments, are not permitted in the portfolio.

(f) SECTION 4 – UNITED STATES DOLLARS CASH

4.1 Eligible Investments

4.1.1 United States cash investments shall consist of bank deposits denominated in United States Dollars with a maturity or redemption date that is not more than one year. Securities must be issued by approved banks. (An approved bank means a bank with a short-term credit rating of A-1 or higher from Standard & Poor's Ratings Group). All securities/investments must be marketable debt securities or deposits, i.e. they must be readily realizable in normal market conditions. Eligible security types include the following:

- Cash at call with an approved bank
- Bank-issued Registered Certificates of Deposit
- Bank deposits

4.1.2 Unrated securities may not be held in the United States Dollars portfolio.

4.2 Exposure Limits

4.2.1 The Manager may hold up to 100% of the United States Dollars cash portfolio in the securities or deposits of any one approved bank, subject to aggregate exposure limits, specified in section 5 below.

4.3 Duration

4.3.1 The Manager shall ensure that the duration of the portfolio does not exceed 18 months.

4.4 Derivatives

4.4.1 Derivatives, including hedging instruments, are not permitted in the portfolio.

SECTION 5 – AGGREGATE EXPOSURE LIMITS**5.1 Exposure Limits**

5.1.1 The Manager shall ensure that no more than 40% of the aggregate New Zealand, British and United States cash portfolios is invested in the securities of any one approved bank, and no more than 10% of the aggregate New Zealand, British and United States cash portfolios is invested in the securities of any entity that is not an approved bank, other than the New Zealand Government or Reserve Bank of New Zealand.