WESTPAC NEW ZEALAND STAFF SUPERANNUATION SCHEME

CREDITING RATE POLICY DOCUMENT

Adopted by the Trustee on 20 April 2016, and updated on 2 March 2020 and 29 October 2021.

Chairman of the Trustee
Westpac New Zealand Staff Superannuation Scheme Trustee Limited
(Trustee of the Scheme)

welcome to brighter

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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 Westpac New Zealand Staff Superannuation Scheme (the Scheme).

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.

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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 Scheme. Obligations can also arise from provisions contained in existing contracts with service providers.

The following sets out the key issues and obligations considered by the Trustee in forming its policies.

2.1. Governing Documents

The Scheme is governed by a Trust Deed dated 31 August 2016.

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 and members with defined benefits, including pensioners) 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 should treat all members equitably, should use a reasonable and sound basis and, should 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).

The principal assumption is that the assets of the Scheme are always invested in line with the benchmark (see section 3.2). Deviations from the benchmark create gains or losses which are absorbed by the Scheme through changes to the funded status of the defined benefit section. However, the defined benefit section unit price does not reflect the impact of any mismatch.

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 its 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 sees 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.

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Investments

3.1. Scheme investments

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

Asset Class	Manager
Australasian Equities	BT Funds Management (NZ) Limited
International Equities	BT Funds Management (NZ) Limited
Real Assets:	
Property	BT Funds Management (NZ) Limited
Infrastructure	First Sentier Investors (Australia) IM Limited
New Zealand Fixed Interest	BT Funds Management (NZ) Limited
International Fixed Interest	BT Funds Management (NZ) Limited
New Zealand Cash	BT Funds Management (NZ) Limited

All investments are Portfolio Investment Entities (PIEs), with a Prescribed Investor Rate (PIR) of 28%.

3.2. Investment options

Members of the Scheme can choose to invest their account balances and contributions in one or more of five investment options - Cash, Defensive, Moderate Balanced, Growth and High Growth. The benchmark asset allocations, effective 29 October 2021, for the five options are as follows:

Asset Class	**Cash %**	**Defensive %**	**Moderate Balanced %**	**Growth %**	**High Growth %**
Australasian Equities	0.0	2.5	10.5	15.0	23.5
International Equities	0.0	6.0	23.0	34.5	51.00
49% Unhedged	0.0	2.94	11.27	16.90	24.99
51% Hedged	0.0	3.06	11.73	17.60	26.01
Real Assets	0.0	1.5	6.5	10.5	15.5
New Zealand Fixed Interest	0.0	10.0	10.0	8.0	2.0
International Fixed Interest[+]	0.0	30.0	30.0	23.0	6.0
New Zealand Cash	100.0	50.0	20.0	9.0	2.0

In addition, the assets backing the defined benefit section are invested in accordance with the Growth option, although the cash investment is split between the Scheme’s bank accounts and the Cash mandate.

Members’ account balances are unitised.

Members are able to choose to change their investment strategy at any time, effective once the next unit price is struck.

Two switches per scheme year are available free of charge. An administration fee of $81.22 will be charged for each investment fund switch after the first two free switches in each scheme year. Switches are processed on a Friday, after the weekly unit price is struck to minimise arbitrage opportunities.

3.3. Bank account

The Scheme 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 Scheme'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.

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Unit Prices and Crediting Rates

Determination of Unit Prices

In order to apply the returns to members' accounts, a unit price series is used for each of the investment options.

The Trustee declares unit prices in respect of the Scheme's investment options/funds, based on actual investment performance.

Unit prices are determined using the following formula:

$$UP_1 = UP_0 \times (1 + CR)$$

Where UP_1 = The new unit price
UP_0 = The previous unit price
CR = The calculated crediting rate

Crediting rates are calculated on a weekly basis (see 4.1), with an additional rate to determine the unit prices at the Scheme's balance date, 30 June.

Returns are applied to all In-Tandem member and employer accounts in the same manner. The returns determined for the defined benefit members are used to update their member accounts, which can be used to determine a benefit on withdrawal prior to retirement age. The balance of assets in the Scheme that do not back the In-Tandem accounts are used to fund the benefits of members in the defined benefit section, including pensioners.

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 five In-Tandem Fund options, plus the defined benefit unit price.

4.1. Weekly crediting rates

The crediting rates for each week are usually calculated every Thursday afternoon, once all the required information is made available, and are used to update the unit price series. The Unit price applies until the next crediting rates are calculated.

It is the Trustee's policy to calculate weekly crediting rates based on the funds' actual return, net of an allowance for tax and investment manager fees. The return for each investment option is arrived at actual returns for each sector weighted by the applicable benchmark allocation, with allowance for any Dynamic Asset Allocation decisions made by the Scheme's Investment consultant.

An allowance for tax is made by approximating the level of taxable income earned each week for each sector. At the end of the tax year, any difference between the actual tax incurred (as provided by the managers of the investments) is compared to the tax deducted and the unit price is adjusted accordingly. See section 4.6 for further information.

An expense allowance is deducted from the returns as a provision for the Scheme's investment manager expenses. No further expense deductions are made. See sections 4.7 and 4.8 for further information.

Authorised Delegations	The Trustee has delegated its duty to calculate the weekly crediting rates and unit prices to Mercer (N.Z.) Limited (Mercer).
Control	The Trustee reviews the weekly unit price series at regular meetings and reviews the process annually.

4.2. Interim crediting rates

As the unit price series is only updated weekly, it is the Trustee's policy to use a nil rate of return for the period between crediting rate calculations.

4.3. Final crediting rates

Unit prices as at 30 June (or the last working day prior to 30 June) are calculated for each investment fund and are declared final for the financial year. There is no reconciliation with the Scheme's audited year-end financial statements, and any mismatch between the actual returns earned and those calculated through the weekly process is passed through to the defined benefit section.

Authorised Delegations	The Trustee has delegated its duty to calculate the 30 June crediting rates to Mercer.
Control	The Trustee reviews the process annually.

4.4. Contingency arrangements

In the event that a weekly 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.

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. The Trustee also retains the right to suspend benefit payments if it feels interim rates do not adequately capture the movements in the underlying investments.

Authorised Delegations	None
Control	Not applicable

4.6. Provision for tax

The weekly crediting rates make a deduction for the level of tax payable on the investment returns. Since 1 April 2016 the accrued investment tax payable is calculated using the actual amount of taxable income, investor rebates, foreign tax credits and imputation credits for each sector. Foreign tax credits (where available) are only assumed to be usable if the relevant sector has sufficient taxable income.

In all cases, where applicable, the tax rate used to determine the amount of accrued tax is 28%.

4.7. Provision for investment management fees

The weekly crediting rates used in the determination of the unit price series make a deduction for the investment management fees charged by the investment managers. The level of investment fees applicable from 29 October 2021 are as follows:

Asset Class	**Manager**	**Investment Fee (p.a.)**
Australasian Equites	BT Funds Management (NZ) Ltd	0.46%*
International Equities	BT Funds Management (NZ) Ltd	0.48%*
Real Assets		0.60%#
Property	BT Funds Management (NZ) Ltd	0.46%*
Infrastructure	First Sentier Investors (Australia) IM Limited	0.70%^
New Zealand Fixed Interest	BT Funds Management (NZ) Ltd	0.16%*
International Fixed Interest	BT Funds Management (NZ) Ltd	0.36%*
New Zealand Cash	BT Funds Management (NZ) Ltd	0.08%*

*Includes administration fees of 0.04% p.a.
^ Includes BTFM external manager monitoring fee of 0.10% p.a.
# Weighted average of Property (66.7%) and Infrastructure (33.3%)

Allowance is made for tax relief on the investment fees, at the rate of 28%.

4.8. Provision for other expenses

There are no other deductions made for expenses, as these are met by the Sponsoring Employer.

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 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

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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 Scheme's Licensed Independent Trustee;
- 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 its delegate) prior to payment to affected members. Where proposed amounts are material in nature, as determined by the Trustee (or its 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 units added to relevant members' accounts;
- 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.

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