

# Sharesies Investment Management Limited

## Side-Pocketing Policy

<b>Effective</b>	30th November 2021
<b>Owner</b>	GM Superannuation & Funds
<b>Reviewer</b>	Investments & Disclosure Management Committee
<b>Approved by</b>	SIML Board
<b>Last Review</b>	8 February 2024
<b>Next Review</b>	March 2025

### Purpose

This policy illustrates the approach adopted by Sharesies Investment Management Limited (**SIML**) with respect to the way an investment option in the Self-Select Fund (**Fund**) within the Sharesies KiwiSaver Scheme (**Scheme**) is managed when it experiences a ‘liquidity event’. The policy aims to:

- describe how side-pocketed investments will be equitably administered
- assist in standardisation of practices
- ensure awareness of accountabilities and responsibilities

This policy reflects special arrangements that the Supervisor and SIML have agreed in regards to side-pocketed assets and liabilities as envisaged by clause 11.3 of the Governing Document. This policy does not prevent the Supervisor and SIML from agreeing additional arrangements in regards to side-pocketed assets and liabilities.

### Legal requirements

Clause 11.3 of the Governing Document for the Scheme provides that the manager and the supervisor may agree special arrangements relating to the side-pocketed assets and liabilities and the related units in a fund (or in an investment option within a fund), subject to the supervisor’s confirmation that it considers in good faith that this is in the best interests of the relevant members of the Scheme.

Section 56(4) of the KiwiSaver Act 2006 (**KiwiSaver Act**) states that a scheme provider is required, upon receipt of a transfer notification from the provider of a member’s new KiwiSaver scheme, to redeem and transfer that member’s accumulation to the new scheme within 10 working days or any longer period agreed between the providers of the old and new schemes.

In order to ensure the redemption time frame in section 56(4) of the KiwiSaver Act can be met, an investment option in the Self-Select Fund has a standard redemption time frame of no longer than eight working days.

## Liquidity Event

A 'Liquidity Event' is where circumstances impacting the liquidity of the investment underlying a fund, or an investment option within a fund, are such that SIML and the Supervisor determine that units in the fund (or investment option) are unable to be realised in a reasonable period of time. For example (but without limitation), a liquidity event may occur where an investment is suspended from trading or the issuer of the investment is subject to an insolvency event.

If a Liquidity Event occurs, a fund's (or an investment options) redemption procedure may become impaired and thereby no longer able to comply with the standard redemption time frame of eight working days or less. In this circumstance, redemption of units in the fund or investment option (as the case may be) may also no longer be able to comply with the ten working days requirement of section 56(4) of the KiwiSaver Act.

Under clause 11.3 of the Governing Document, a fund or an investment option subject to a Liquidity Event shall be side pocketed (**Side-Pocketed**) into Side-Pocketed Assets and Liabilities (as defined below) and thereby become segregated from the Member's Non-Side-Pocketed Assets and Liabilities.

## Side-Pocketing: Self-Select Fund

Where:

- (a) A Liquidity Event in respect of the investment underlying an investment option within the Fund impacts the liquidity of the investment option, such that SIML and the Supervisor determine that units within the relevant investment option will not be, or are unlikely to be, realised within 8 working days; and
- (b) SIML and the Supervisor consider it is in the interests of Members generally;

SIML may, with effect from a particular date (**Record Date**) and without the agreement of, consultation with, or prior notice to, Members:

- (a) Determine that particular assets and/or liabilities relating to an investment option should be side-pocketed (**Side-Pocketed Assets and Liabilities**); and
- (b) Reclassify, divide or otherwise reconstruct the Unit holdings of Members in that investment option as at the Record Date so that those holdings consist of:
  - (i) Units that relate to the assets and liabilities that have not been side-pocketed (**Non-Side-Pocketed Assets and Liabilities**); and
  - (ii) Units that relate to the Side-Pocketed Assets and Liabilities.

## Consequences of side-pocketing

While particular assets and/or liabilities relating to an investment option in the Fund are Side-Pocketed:

- (a) a Member cannot make any withdrawal or transfer in respect of the Side-Pocketed investment option except where, subject to the Scheme's Governing Document (**Governing Document**), the FMCA and the KiwiSaver Act, a Member provides a direction to SIML to withdraw or transfer their interest out of the Scheme, in which case SIML and the Supervisor will agree the equitable basis for the value of the Side-Pocketed Assets and Liabilities so that the Member's interests that relate to the Side-Pocketed Assets and Liabilities (**Side-Pocketed Investment**) can be removed.

Where a Side-Pocketed Investment is to be withdrawn in accordance with the above, the net proceeds and any income or other receipts arising from (if any) the disposal (that are attributable to the Member's units) will be applied to the Member's Accumulation (as that term is defined in the KiwiSaver Act and calculated in accordance with the Governing Document) for the purposes of such withdrawal or transfer.

- (b) SIML may, with the consent of the Supervisor, suspend the issue of further units relating to the Side-Pocketed Assets and Liabilities.
- (c) SIML will remove the Side-Pocketed Investment option from the Member's investment plan and will notify the Member accordingly.
- (d) SIML and the Supervisor shall agree on equitable arrangements for the payment or recovery of any fees, expenses or taxes associated with holding or realising a Member's Side-Pocketed Investment. This may include payment or recovery from the Member concerned either from the Member's Accumulation or from the Member directly.
- (e) Subject to any requirement of the FMCA, FMC Regulations or any other law, SIML may not provide pricing or valuations or separate financial statements on Side-Pocketed Assets and Liabilities (as a result of those assets being quarantined, in accordance with the Governing Document) to Members, but will continue to reflect the value of the Side-Pocketed Investments as at the most recent price received from the issuer, or pricing source, of that investment in a Member's personal report.
- (f) Where there are outstanding orders by Members for units that relate to a Side-Pocketed Investment which were not fulfilled prior to Record Date, where possible SIML will cancel those orders and the order amount will be invested in line with the Member's investment plan (unless otherwise agreed with the Supervisor).

SIML and the Supervisor may agree on any other arrangements that they consider necessary or desirable in relation to the administration of, and maintenance of records in respect of, a Side-Pocketed Assets and Liabilities, provided that such other arrangements are in the best interests of affected Members.

## Reinstatement of side-pocket investment

When, and if, SIML and the Supervisor agree that Side-Pocketed Assets and Liabilities are no longer subject to a Liquidity Event:

- the investment may be reinstated and form part of the Non-Side-Pocketed Assets and Liabilities;

- new units may be issued in the investment option that was subject to Side-Pocketing;
- SIML may reinstate a Member’s investment plan to resume investing into the investment option that was subject to Side-Pocketing and will notify the Member accordingly.

## Review

The Investment & Disclosure Management Committee will review this policy at least annually, and make any recommendations on material changes as necessary to the Board. The Investment & Disclosure Management Committee will ensure that any review takes into account the interests of Members.

## Amendments

The Side-Pocketing Policy may be amended from time to time by written agreement between SIML and the Supervisor, where consent to amend the Side-Pocketing Policy shall not be unreasonably withheld by either party. The Investment & Disclosure Management Committee may approve non-material changes to this policy.

## Review History

Date	Amendments Made	Reviewer	Approved by
30 November 2021	Creation of policy	Matt Macpherson	SIML Board
10 November 2022	Nil	Matt Macpherson	SIML MRCC
9 March 2023	Nil	Matt Macpherson	SIML MRCC
28 September 2023	Nil	Matt Macpherson	SIML MRCC
12 October 2023	Minor updates to consequences	Matt Macpherson	SIML MRCC
8 February 2024	Nil	Matt Macpherson	SIML MRCC