

## FONTERRA SHAREHOLDERS' FUND

### STATEMENT OF INVESTMENT POLICY AND OBJECTIVES

Adopted with effect from 1 November 2016

#### Overview

1. This Statement of Investment Policy and Objectives ("**SIPO**") sets out the investment policy and objectives of the Fonterra Shareholders' Fund (the "**Fund**"), as required by section 164 of the Financial Markets Conduct Act 2013 ("**FMCA**").

#### Nature of the Fund

2. The Fund is a unitised investment trust established to be the "Authorised Fund" under Fonterra's constitution. It is a "managed investment scheme" under the FMCA and its governing document is the Fonterra Shareholders' Fund Trust Deed (the "**Trust Deed**") dated 23 October 2012, as amended from time to time. The Fund has a life of 80 years. Units in the Fund ("**Units**"), which are "managed investment products" under the FMCA, are quoted on the NZX Main Board and the Australian Securities Exchange.
3. The purpose of the Fund is to enable members of the public to invest in the economic performance of Fonterra Co-operative Group Limited. The Fund also supports liquidity in the Fonterra Shareholders' Market, which is a private market operated by the NZX that allows farmer shareholders to trade shares in Fonterra Co-operative Group Limited ("**Shares**") among themselves.
4. The Manager of the Fund is FSF Management Company Limited ("**Manager**"), which is licensed under Part 6 of the FMCA. The Manager plays a relatively contained role in relation to the Fund, as described below.
5. Underlying the Fund are Shares held by Fonterra Farmer Custodian Limited ("**Custodian**"). The Custodian has declared a trust in respect of the "Economic Rights" of the Shares it holds from time to time under the Fund arrangements in favour of the Supervisor of the Fund. (The "**Economic Rights**" in a Share include, for example, the right to receive dividends paid on the Share.) For each such Share held by the Custodian, the Manager of the Fund is required to issue a Unit in the Fund. In this way, the Fund is designed to have the effect that each Unit on issue in the Fund will represent the Economic Rights derived from a single Share.
6. The wider investment community is given the opportunity to invest in Units. The Fund structure has been designed with the intention that Shares and Units should trade at very similar prices. The Fund arrangements allow the effective "exchange" of Units for Shares and vice versa (by persons entitled to hold Shares - such persons may redeem Units and receive the corresponding number of Shares from the Custodian).
7. As the Fund is designed to track the performance of Shares, there is no investment discretion, and as such no investment strategy, investment philosophy or performance measures. Instead the Fund is a passive investment vehicle (ie, it will not actively solicit Economic Rights or the redemption of Units except for the initial offer made in the course of establishment of the Fund).

#### Nature or type of investments

8. The Fund is a passive investment vehicle which is not permitted to actively trade in Shares. The key concept underpinning the Fund is a 1:1 correspondence between Shares and Units, as described above.

9. Under the Trust Deed, the investments that may be made under the Fund are limited to "Authorised Investments" (being Economic Rights, cash and other benefits paid by Fonterra in respect of Shares held by the Custodian). The Fund does not actively seek to make any "Authorised Investments" - this is initiated by persons transferring Shares to the Custodian under the Fund arrangements, or by Fonterra paying a dividend or other benefit in respect of Shares held by the Custodian. The value of those Economic Rights and the amount of any benefit paid in respect of the Units is therefore dependent on the economic performance of Fonterra Co-operative Group Limited, its Shares and distributions paid in respect of them.
10. The issue of a Unit when a Share is transferred to the Custodian under the Fund arrangements, and the transfer of a Share to a redeeming Unit holder, are automated through a computer system created and maintained by Computershare. The Manager does not have any discretion or ability to intervene in this automated process. Also, dividends and other cash benefits paid in respect of Shares held for the Fund are paid directly to Unit holders by Fonterra on behalf of the Manager, meaning the benefit does not pass through the Manager's hands.

#### **Limitations on proportions of types of asset**

11. There is no limit on the proportion of different "Authorised Investments". In practice, the only investment of the Fund is the Economic Rights in Shares, as dividends and other distributions are paid directly by Fonterra to Unit holders.

#### **Methodology for developing/amending and measuring performance**

12. As the Manager has minimal discretion in connection with the Fund arrangements under the Trust Deed, there is no "investment strategy" as such, and this SIPO will not be reviewed regularly or periodically. The investment objectives of the Fund are met by ensuring the relationship between Shares and Units described above is maintained, and (as this is automated) there is no need for formal measurement of economic performance of the Fund relative to any investment objectives. The Supervisor's ability to alter the investment objectives or strategy of the Fund is similarly constrained by the Fund arrangements.
13. To the extent that there is a change to the Trust Deed, the nature of the Fund or the role of the Manager, this document will be reviewed by the Manager and the Supervisor as and when such change occurs.