



26th October 2017

Port Moresby Stock Exchange
Level 4, Defense Haus
Cnr of Hunter Street & Champion Pde
Port Moresby
National Capital District

Dear Ms. Elizabeth Wamsa,

KINA ASSET MANAGEMENT LIMITED – INVESTMENT STRATEGY

Please see attached a copy of the KAML Investment Strategy for your information

Should there be any queries, please do not hesitate to contact the undersigned.

Yours faithfully,
Kina Asset Management Limited

A handwritten signature in black ink, appearing to be 'Deepak Gupta', written over a horizontal line.

.....
Deepak Gupta
Executive General Manager - Wealth

Kina Asset Management Limited



INVESTMENT STRATEGY

VERSION 1.0

Board Approved Date: 29 August 2017

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Prepared by Kina Funds Management Limited

1.0 Purpose

The purpose of this Investment Strategy document is to provide guidance from the KAML Board to the Investment Manager in managing KAML's investment portfolio in order that the investments objectives of KAML are achieved. It aims at providing a systematic approach to the management of the investment portfolio for the Board and Investment Manager. It also serves the purpose of monitoring and measuring the performance of the Investment Manager.

2.0 Investment Objectives

The investment objectives set by the Board are:

- Provide a positive rate of return to Shareholders via a combination of capital growth and income
- Provide shareholders with regular dividends
- Preserve the capital of the company

In pursuing the objectives, KAML will predominantly be a medium to long term investor in Listed Equities both domestic and off-shore.

3.0 Investment Strategy

The strategy guides the Investment Manager of the Company in its investment activities towards achieving a positive rate of return for its investment funds.

This strategy addresses issues of:

- Asset Allocation
- Risk Assessments and Risk Management
- Sector diversification
- Performance benchmarks

3.1 Asset Allocation

The strategy calls for an allocation of 40-50% to domestic assets and 50-60% in off-shore assets.

While the majority of investments will be in equities, up to 15% of domestic assets may be invested in Government inscribed stock (GIS) where the Investment Manager considers yields to be particularly attractive.

The table below summarises these limits.

Table 3.1 – Investment Limits

Asset Category	Limit	
Domestic Assets*	40% - 50%	
Off-shore Assets	50% - 60%	

*Up to 15% of domestic assets may be invested in GIS

3.2 Offshore Assets

Off-shore assets will comprise of mainly listed equities. The objectives in investing off-shore are:

- To provide a counterweight to the impact of the PNG economic cycle on KAML's earnings
- To secure greater investment opportunities pending stronger growth within PNG
- To provide greater sector diversity than is available in PNG
- To provide access to asset forms not available in PNG

3.3 Unlisted Equities

Subject to Board approval, a maximum of 25% of the investment portfolio may be invested in Unlisted Equities when suitable opportunities become available.

3.4 Cash

Cash or Cash Equivalents will be held only for operational purposes unless the Investment Manager advises the Board that market uncertainties or some other specific consideration calls for higher levels of cash.

3.5 Single & Related Entity Exposure

Investment in single entities or combined related entities is to be limited to a maximum of 15% of the portfolio unless otherwise approved by the Board

4.0 Risk Assessment

Risk is the chance of something happening that will have a material impact upon the investment strategy and its objectives.

A systematic evaluation of the risks to the earnings and capital value of the company's investments include consideration of possible adverse developments in liquidity, interest rates,

inflation, exchange rates and solvency. Assessment of country risk including sovereign risk and the risk of adverse developments in regulatory regimes such as taxation or exchange control is also needed.

Risks to the health of the local and global economies and their potential to affect the investment portfolio also need to be assessed.

Some specific measures of risk and means of managing risk are incorporated in this strategy.

However, the Investment Manager is expected to continuously assess all relevant risks in its management of the portfolio where appropriate with the advice and research of independent experts in the field and to draw any significant adverse developments in the risk environment to the attention of the Board in a timely manner.

The nature of these risks may vary over time and assume different significance between different asset classes. Some brief comments on the various risks are set out below:

4.1 Liquidity risk

As a closed end fund, overall liquidity risk is minimal. However, the company's ability to liquidate large parcels of investments listed on POMSoX at short notice can at times be quite difficult, requiring attention to domestic cash flow management.

4.2 Currency risk

A general rise in the value of the Kina (PGK) against other currencies would reduce the valuation of offshore investments and tend to diminish the value of dividends received.

4.3 Solvency risk

These are relevant to investments in all Listed Equities. Risk needs to be evaluated by individual stocks, by sector, market and the equity market in general.

4.4 Country risk

To the extent that the company holds funds in foreign jurisdictions, a variety of risks may arise in addition to currency risk – such as changes in local economic conditions, changes in local regulatory requirements or in some instances, non-transparent governance arrangements.

5.0 Risk Management

In practice, the available means of management of risk centre on diversification across different markets and forms of asset and exclusion of some forms of investment considered to involve undue risk.

5.1 Diversification

Entity Diversification -The maximum exposure to any one entity or related entities (combined) is not to exceed 15% of the total portfolio unless otherwise approved by the Board

Sector Diversification -The Investment Manager will invest the portfolio across a number of sectors/industries to mitigate against risk factors unique to one particular sector/industry. Weightings in each sector/industry will be reviewed regularly by the Investment Manager to ensure appropriate diversification is maintained.

The POMSox index is the index used by the fund to track and measure the performance of the fund. The POMSoX index includes weightings of Bank South Pacific (BSP) and Credit Corporation Limited (CCP), which are financial stocks. As a result the portfolio has (and will usually have) a high weighting towards financial stocks.

Market Diversification - As discussed in Section 3, the portfolio will be invested in markets as follows: 40% - 50% Domestic /50% - 60% Off-shore

5.2 Exclusions

- Investments will be made only in well regulated securities exchanges where country risk is considered acceptable.
- There will be no investments in Derivatives, other than explicitly as a means of offsetting risk.
- There will be no gearing in the investment portfolio.
- The Board may from time to time require other forms of exclusion or limitation in the range of permitted investments.

6.0 Performance Benchmarks

- Kina Securities Limited Home index (KSHi) is an index that tracks the overall performance of all listed equities on POMSox. KSHi will be used as a performance benchmark for individual domestic stocks by the Investment Manager. The index was developed based on a model similar to the indexes of other major stock exchanges.
- The S&P/ASX 50 (XFL) is an index that represents the large-cap component of the Australian stock market. It contains the ASX top 50 companies by way of float-adjusted market capitalisation and accounts for 62% (March 2017) of the Australian equity

market. This benchmark will be used to measure the performance of investments in ASX listed stocks.

- To track the performance of domestic Government Inscribed Stock, the Investment Manager will use the going rate for the 3 year Government Inscribe Stock (GIS) as published at GIS Auction. Benchmark for any period will be the weighted arithmetic average over that period based on the current 3 year GIS rate.
- The benchmark for international equities investment will be the MSCI All Country World Index (ACWI) ex Australia. The MSCI ACWI ex Australia has 2,424 index constituents which are a mix of large and mid-cap stocks in Developed Markets excluding Australia and Emerging markets.

7.0 Reporting

The Investment Manager will provide the Board with monthly and annual reports which will outline the performance of the Company's investment portfolio for the period, outline all fees paid from the Company to the Manager and give guidance to the Board of the Manager's intention for the upcoming periods. A more detailed description of the Manager's reporting requirements are set out in the Management Agreement signed 12 May 2008.