

Kina Asset Management Limited



INVESTMENT STRATEGY

Contents

		Page
1.0	Purpose	3
2.0	Investment Objectives	3
3.0	Asset Allocation	3
4.0	Risk Assessment	4
5.0	Risk Management	5
6.0	Performance Benchmarks	5
7.0	Reporting	6



Prepared by Kina Funds Management Limited

1.0 Purpose

This Investment Strategy documents a systematic approach to management of the Fund to ensure that the KAML Board's investment objectives are achieved. It also documents a framework for monitoring and measuring the performance of the Fund's Investment Manager.

2.0 Investment Objectives

The **investment objectives** set by the Board are to:

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

In pursuing these objectives, the Fund will adopt a medium to long term investment horizon and invest predominantly in domestic and international equities.

This **Investment strategy** documents:

- Asset Allocation
- Risk Assessments and Risk Management
- Sector Diversification
- Performance Benchmarks

3.0 Asset Allocation

3.1 Domestic Assets

The fund will maintain a strong focus on PNG, subject to the availability of suitable investment opportunities. In current circumstances, the Investment Manager will aim for a minimum of 40% of the portfolio in domestic assets, predominantly in listed equities. Identification of suitable unlisted investments could lift this percentage significantly, but no more than 20% of the portfolio will be so invested.

3.2 International Assets

The rationale for investment in international assets is:

- To provide diversification from the impact of the PNG economic cycle on the Fund's earnings;
- To provide greater industry sector diversity and access to asset classes than those available in PNG;

In current circumstances, up to 60% of the portfolio will be deployed offshore, broadly

- 2/3 in individual listed Australian stocks;
- 1/3 in global or regional indexed funds, split approximately equally between mature and developing markets.

The level of international asset allocation would be reviewed in the event of greater investment opportunities in PNG.

3.3 Cash

In normal circumstances, cash is held to the minimum level necessary for operational needs - 3% or less, recognising however

- the periodic need to accumulate cash for particular investment purposes or dividend payments, and
- the possibility of precautionary balances in circumstances of accentuated domestic or global uncertainty

3.4 Summary

In current circumstances, a typical disposition of the portfolio could be

Asset Class	Domestic	International
Cash	1.5%	1.5%
GIS	3.0%	-
Listed Equities	37.0%	40.0%
Global Developed		8.5%
Global Emerging		8.5%
Total	41.5%	58.5%

The broad asset allocation will be reviewed by the Board periodically, in light of prevailing circumstances and advice from the investment manager.

4.0 Risk Assessment

Risk may be defined as the likelihood or probability of variability in the expected return of an investment.

Systematic risk describes risks inherent to an entire market or market segment. Examples include adverse developments in economic activity, interest rates, inflation, and political stability.

Unsystematic risk describes risks to a smaller number of investment assets. Examples include adverse developments in regulatory regimes such as taxation or foreign exchange control, competition, developments in technology, and management changes.

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

In addition to these broad risk categories, some specific risk types and corresponding management strategies are briefly set out below.

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

4.1 Liquidity risk

As a closed fund, liquidity risk is considered to be limited. However, the ability of the Fund to liquidate unlisted domestic assets, or large parcels of POMSx listed equities at short notice can be difficult, requiring attention to domestic cash flow management.

4.2 Currency risk

A rise in the value of the Kina (PGK) against other currencies would reduce the value of international investments, and diminish the value of dividends received.

4.3 Solvency risk

Relevant to investments in all listed equities.

4.4 Country risk

A variety of risks may affect international investments - in addition to currency risk – such as changes in local economic conditions, regulatory requirements or in some instances, non-transparent governance arrangements.

5.0 Risk Management

In practice, the available means of management of risk are centred on diversification across different markets, asset types, and the exclusion of some asset types considered to involve excessive risk.

5.1 Diversification

Single-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 Fund across a number of industry sectors to mitigate risk factors unique to one particular industry sector. Weightings in each sector/industry will be reviewed regularly by the Investment Manager to ensure appropriate diversification is maintained.

However, the Fund will usually have a high weighting towards financial services stocks, given their dominance in the domestic market.

Market Diversification - The Fund will be invested in domestic and international markets as outlined in Section 3 above.

5.2 Exclusions

- Investments will be made only in well regulated securities exchanges where country risk is considered acceptable;
- There will be no exposure to Derivatives, other than as a means of risk mitigation, and with Board approval;
- There will be no gearing of the Fund;

- The Board may from time to time require other forms of exclusion or limitation in the universe of authorised investments.

6.0 Performance Benchmarks

In order to reflect the strategy to be predominantly invested in domestic and international equities, the Fund's performance will be benchmarked against corresponding market indices:-

- Domestic assets will be benchmarked against the Kina Securities Limited Home Index (KSHi). The KSHi is an index that tracks the performance of equity prices for companies listed on the Port Moresby Stock Exchange (POMSox).
- International assets will be benchmarked against the MSCI World Index (Global), and the S&P/ASX200 Index. The MSCI World Index is an index comprising 1,632 large and mid-cap companies listed in 23 developed market countries, covering ~85% of the free float adjusted market capitalisation in each country. The S&P/ASX200 Index comprises the largest 200 ASX listed companies by free float adjusted market capitalisation, and represents ~85% of the Australian equity market.

The respective weights of the performance benchmark indices is shown in the table below:-

Asset Class	Benchmark	Index
Domestic Assets	40.0%	Kina Securities Home Index
International Assets	60.0%	
<i>Australian Equities</i>	<i>40.0%</i>	S&P/ASX200 Accumulation Index
<i>Global Equities</i>	<i>20.0%</i>	MSCI World Index (ex-Australia)

7.0 Reporting

The Investment Manager will provide the Board with monthly and annual reports which will review the performance of the Fund for the period, outline all fees paid from the Fund to the Manager, and give guidance to the Board of the Manager's investment intentions for the upcoming periods. A more detailed description of the Manager's reporting requirements are set out in the Management Agreement dated 12 May 2008, as amended by agreement.