Nambawan Super

Policy on the Use of Derivatives

Contents

1. GOVERNANCE AND REGULATORY REQUIREMENTS

1.1 Legal and Regulatory Provisions

Nambawan Super Fund ("the Fund") is an Authorised Superannuation Fund ("ASF") pursuant to s8 of the Superannuation (General Provisions) Act 2000 ("SGP Act") and is authorized by the Bank of Papua New Guinea ("the Bank") to operate as a superannuation fund.

The Bank has determined the Superannuation Prudential Standard 1/2014 Approved Superannuation Funds' Investments ("PS1/2014") to prescribe requirements about an ASF's investments and related matters.

Nambawan Super Limited as Trustee for Nambawan Super Fund (the Fund), in consultation with the Licensed Investment Manager (LIM), has developed this Policy on Use of Derivatives to capture, measure, and manage the potential risks of any derivatives positions taken, directly or indirectly. The Policy on the Use of Derivatives is published in the Annual Report to members, and in the public section of the Fund's web site.

2. PURPOSE OF THIS POLICY

The purpose of the Policy on the Use of Derivatives is to provide guiding principles for the use and oversight of derivatives in management of the Fund's investment assets.

2.1 Background

In formulating the Fund's Policy on the Use of Derivatives, the Trustee Board will ensure that the Investment Portfolio will not at any time include a derivative either directly or indirectly unless each Director on the Trustee Board fully understands and is able to explain the potential risks of any derivatives positions taken.

The Trustee Board will also ensure that derivatives, if used, may only be used to reduce the risk of existing investments or currency positions, and would only ever be utilized when the exposure is fully covered by the assets of the Fund.

3. WHAT IS A DERIVATIVE?

3.1 Definition

A derivative is a financial instrument whose value depends on, or is derived from, the value of some other underlying asset, including but not limited to interest rate, currency rate or a variety of indices.

3.2 Main Categories

Generally there are five main categories of derivatives identified by the assets from which they are derived:

(a) Equity derivatives,
(b) Currency derivatives,
(c) Interest rate derivatives,
(d) Credit derivatives, and
(e) Commodity derivatives.

Common types of derivatives include forward contracts, future contracts, options and swaps, each with its own regulatory, risk and documentation requirements.

Derivatives can be traded through exchanges or privately 'over the counter' (OTC).

3.3 Why use Derivatives?

(a) Derivatives are commonly used to improve the risk/return profile of an investment portfolio and to improve the chances of the portfolio meeting its objectives;

(b) Derivatives can facilitate the management of investment risks and/or provide an efficient means implementing various market exposures and investment strategies;

(c) Common uses of derivatives include the following:

- (i) Derivatives can be used to hedge or control investment risks, such as using forward foreign exchange contracts to hedge currency risks;
- (ii) Derivatives can be used to gain access to investment exposures that are otherwise unavailable (for example, to international equities when it is not possible to buy the underlying equities due to shortages of foreign currency, or because the market is not open to PNG investors);
- (iii) Derivatives can be used to gain quick access to the economic exposure to a market, before the cash is gathered to invest in the underlying investments. Once the cash is gathered, the derivative can be reversed as the underlying investments are purchased;
- (iv) Derivatives can be used to gain economic exposure to certain international asset classes, and yet avoid currency risks which arise when PNG Kina is converted to foreign currency and used to invest in the underlying investments;
- (v) Derivatives can be used to implement investment strategies in a low cost and efficient manner;
- (vi) Derivative can be used to create 'leverage' positions;
- (vii) Derivatives can be used to create economic exposure to a wider set of investment opportunities than might be available in the Fund's home market, or within the Fund's regular investment universe.

4. RISK MANAGEMENT

The Trustee Board and the LIM understand that derivatives are tools that may make it easier to managed investment risk.

The Trustee Board, in consultation with the LIM, will develop, document and maintain an appropriate risk management framework to capture, measure, monitor and manage the potential risks of any derivatives positions taken directly or indirectly.

That risk management system forms part of the Fund's overall Risk Management Framework, and is sophisticated enough to measure risks on an aggregate basis, and is specific to the risk management of derivatives.

5. REVIEW

The Trustee Board regularly reviews the Policy on the Use of Derivatives in consultation with the LIM, and at least annually.

6. DOCUMENT CONTROL

Document owner	Chief Investment Officer
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Document version /change control

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Document Approvals

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