

[REDACTED]

From: [REDACTED]
Sent: Thursday, 22 July 2021 9:38 am
To: Sarah Owen; [REDACTED]
Cc: [REDACTED]
Subject: RE: [Heads-up] SIPSP RI section and RI Framework changes early 2022

From the timetable she was working on yesterday, [REDACTED] plans to start the substantive updates to the SIPSP/RIF around November. There is some preparatory work required leading up to that, and also the CFI RI framework should reach a landing by that time.

[REDACTED]

From: Sarah Owen [REDACTED]
Sent: Thursday, 22 July 2021 9:21 AM
To: [REDACTED]
Subject: FW: [Heads-up] SIPSP RI section and RI Framework changes early 2022

Hi
Yip these should go through the RC so we won't have our usual timetable- I suggested to [REDACTED] that we need to kick this off late this calendar year
S

From: [REDACTED]
Sent: Thursday, 22 July 2021 5:30 AM
To: [REDACTED]
Cc: Sarah Owen
Subject: [Heads-up] SIPSP RI section and RI Framework changes early 2022

Hi [REDACTED]
[REDACTED] been working with [REDACTED] on success metrics for the RI Compass work in 2021-22, and these have now been agreed by Stephen. They include updating the SIPSP and the RI Framework to include Sustainable Finance.

You may want to touch base with [REDACTED] to understand if [REDACTED] sees these changes going through the IC and if so, whether you might want a slightly different approach next year for changes to the RI SIPSP section and the RI Framework (e.g. update these parts ahead of the usual update on the whole docs so it fits into timings you'll have for the Risk Committee review, before the docs head to the Board in June)

Also be worth checking with [REDACTED] whether the RI changes are likely to impact both the NZSuperfund and Venture Capital Fund SIPSPs / RI Framework.

Sarah / [REDACTED] would want to be contributors to any changes to the RI section.

Cheers
[REDACTED]

RI SIPSP Review Plan and Timeline

23 December 2021

1 Purpose

The purpose of this plan is to set out the objectives, scope, process and timeline for the review of the Responsible Investments section of the Guardians' [SIPSP](#) in the first half of 2022. The review of the RI section will form part of the annual review of the SIPSP which will be presented to the Guardians' Board in June 2022.

2 Objectives

The objectives of the review are to:

- Integrate the Guardians' sustainable finance goals into the SIPSP;
- Ensure the RI section in the SIPSP is appropriate from the legal and operational perspectives;
- Ensure that the RI section of the SIPSP is consistent with related sections in the SIPSP and with all supporting documents, including the [RI Framework](#);
- Ensure that policy and procedures in the RI section of the SIPSP and supporting documents are workable and practical to implement.

In addition the review should:

- Identify and address the implications of RI policy changes on other Guardians' policies;
- Identify what further changes might be required in the 2022-23 SIPSP review as the sustainable finance goals are implemented.

3 Scope

The scope of this review includes:

- The RI policy, any relevant or associated parts of the SIPSP,
- The RI Framework itself, whether the RI Framework should form a part of the policy,
- The impact of changes to the RI policy on any other Guardians' policies,
- Who needs to be consulted internally on the revised RI policy (Heads, IC, LT, Board);
- External stakeholder consultation (if required);
- Internal communication/education required to roll out the revised RI section, policy and framework.

4 Background

5 Internal communications, consultation and education

5.1 **Internal comms:** During the review, there should be internal communications to ensure the wider Guardians' team is aware of the review and why it is being done. Internal comms should include:

- Heads up to the LT about the RI SIPSP review, invitation to provide input
- Heads up to the Investment Heads – ask Investment Heads to let their teams know, invite input, point to where they can get further information
- Heads up repeated in the CIO blog and/or RI blog
- Heads up to Comms
- Notice in a staff announcement in the lead up to internal consultation
- Include in RI Compass updates
- Add information to RI page on SuperCharged (or on RI Compass Project page)
- Communication to staff once changes have been approved by the Guardians' Board
- [REDACTED] – This section is based on the idea that we are just giving the team a heads up that it is happening. Do you want to seek input and suggestions more actively? I think the heads up approach is sufficient, but you might have a different view.

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5.2 **Internal consultation:** Some teams will need to be consulted directly. Internal consultation should include:

- Consultation on early drafts with Legal (February and April)
- Consult with Strategic Development on review and how it fits with the annual SIPSP review
- Check in with CIO on process and drafts
- Update about the review to the IC (February or March)
- [REDACTED] – are there any other internal teams that need to be consulted?
- I've assumed that the RI policy in the SIPSP and the separate RI Framework (if developed) should go to the IC. What do you think needs to go to the IC and when?
- Is a specific Guardians' Board update needed or can this be covered in the RI Compass work?

5.3 **Other policies:** In addition to general internal consultation, there needs to be specific consultation about the impact on other Guardians' policies.

[REDACTED] Do we need to check with [REDACTED] about how this could happen, who is best to do it or do we need to identify these ourselves?

5.4 **Education:** Once the new RI policy (and framework?) is developed we will develop a communications and education approach for the wider team. This could be done on its own or as a part of education sessions about the Guardians' sustainable finance goals and it could cover any improved processes (new RI Framework or guidelines). It would roll out after the June 2022 Board meeting. This would be an opportunity to promote training opportunities in sustainable finance as well. This would include:

- Investment Forum presentation
- Investment team education sessions
- Special workshops might be an option

6 External Communications

Stakeholder relations – [REDACTED] to check with Comms regarding the need for engagement with Treasury about the review and what consultation is required.

CFIs – Give the Crown Financial Institutions a heads up about the review and Treasury engagement at the quarterly CFI RI meetings.

External comms – Once we are clear with the shape of the new policy, discuss with Comms how it should be communicated externally. One option is to include it in comms around the sustainable finance approach. Initial plans are to focus on this in the October 2022 annual report.

7 Timetable

What	Responsible	When	Status
Initial draft of changes	[Redacted]	End Jan	
Internal comms (see para 5.1)	Comms	Jan/Feb	
Check in with Legal	[Redacted]	Feb	
Internal consultation (para 5.2)	[Redacted]	Feb/March	
CFIs heads up at CFI RI quarterly meeting	[Redacted]	Feb	
Treasury engagement if required	Comms, [Redacted]	March	
Investment Committee paper	[Redacted]	March	
Update draft	[Redacted]	March/April	
Check in with Legal	[Redacted]	March/ April	
Other policies (para 5.3)	?	March/April	Is this the right timing?
Finalise for Board	[Redacted]	April - June	
Plan education programme	Comms [Redacted]	May - June	
Implement education programme	Comms, [Redacted]	July - Sept	
External comms (annual report?)	Comms	October	

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From: [Redacted]
Sent on: Thursday, February 10, 2022 9:29:02 PM
To: [Redacted]
Subject: FW: RI SIPSP review plan and timetable
Attachments: 3348085-1-RI_SIPSP_review_plan_and_timeline_Decembeer_2021.DOCX. (28 Bytes)

Thanks [Redacted] – I will have a look at this next week. Linking in [Redacted] as well.

From: [Redacted]
Sent: Thursday, 10 February 2022 3:28 PM
To: [Redacted]
Subject: FW: RI SIPSP review plan and timetable

Kia ora
 Interesting chat this morning!! This is the plan and timeline I prep'd for [Redacted] following the workshop last year. She hasn't given me any feedback on it and, as far as I know, this is still the broad plan [Redacted] has got the docs and will put time into [Redacted] calendar as I suggested.
 Ngā mihi
 [Redacted]

From: [Redacted]
Sent: Thursday, 23 December 2021 5:04 PM
To: [Redacted]
Subject: RI SIPSP review plan and timetable

Hi [Redacted]
 This is a draft plan and timetable for the RI SIPSP review. I've included a few questions for you to consider.
 Cheers

[Redacted]

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From: [Redacted]
Sent on: Monday, March 14, 2022 11:14:26 PM
To: [Redacted]
CC: [Redacted]
Subject: RE: SIPSP - RI Compass

Hi [Redacted] Section 9(2)(a) Privacy

I spoke with [Redacted] today during our 11am meeting and put these only in as notes but not deadlines for you. Will call once I have spoken to [Redacted].

Thank you

[Redacted]

From: [Redacted]
Sent: Tuesday, 15 March 2022 12:11 PM
To: [Redacted]
Cc: [Redacted]
Subject: FW: SIPSP - RI Compass

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Hi [Redacted] (& [Redacted] FYI from a programme perspective)

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I see the SIPSP IC paper was added back as a work flow in the RI Compass Teams page.

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I haven't had a response on the below as yet, but as [Redacted] has a lot on I suggest you pencil in some interim updates/discussions in diaries to ensure this keeps moving.

To my understanding the current actions we set in December last year are still with [Redacted] - i.e. to review [Redacted]'s work plan and also present a summary of [Redacted]'s proposed approach to the SIPSP (mapping out key elements) for the wider group (incl [Redacted] to consider.

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Thanks

[Redacted]

[Large Redacted Block]

Section 9(2)(h) Legal Professional Privilege

From: [REDACTED]
Sent: Friday, 1 April 2022 2:31 pm
To: [REDACTED]; Cristina Billett; [REDACTED]; Mark Fennell; [REDACTED]; Paula Steed; Stephen Gilmore; [REDACTED]
Cc: [REDACTED]
Subject: Annual SIPSP/RI Framework and Underlying Policies Review - Confirmation due by Friday, 6 May
Attachments: 3178298-1-Questions_to_consider_for_annual_policy_reviews.DOCX.DRF; 3389200-1-NZ_Super_Fund_Statement_of_Investment_Policies_Standards_and_Procedures_-_For_Review_(2022-04-01).DOC.DRF; 3389254-1-VCF_Statement_of_Investment_Policies_Standards_and_Procedures_-_For_Review_(2022-04-01).DOC.DRF; 3389179-1-Responsible_Investment_Framework_-_For_Review_(2022-04-01).PPT.DRF
Follow Up Flag: Follow up
Flag Status: Completed

Hi Team,

Each year our **SIPSP** (NZ Super Fund), the **VCF SIPSP** (Elevate Fund), **RI Framework** (part of each SIPSP) and the **Policies** underlying each SIPSP need to be reviewed to confirm they are "*current and fit for purpose*" (in line with relevant legislation and the Guardians' vision, purpose values and strategy).

By **Friday, 6 May 2022**, GMs responsible for each SIPSP / RI Framework / relevant Policies are required to send Corporate Affairs ([REDACTED] and myself) the following confirmation:

"The relevant policies, standards and procedures for which I am responsible, have been reviewed and are:

- a) fit for purpose; and*
- b) are consistent with the statutory investment mandate for the relevant Fund.*

I am not aware of material non-compliance issues."

Attached is a set of questions/items to consider when undertaking your policy review. Please note Strategic Development [REDACTED] will be checking all policies for changes to reflect the new purpose and vision and any updates required will be included in our annual SIPSP paper.

So what's required by **Friday, 6 May**?

1. **Heads** (please see the three tables below)
 - a. **Review the SIPSP sections** I've noted your name against and mark-up any changes required in the attached doc (**# 3389200 – to be set up in Teams**)
 - b. **Review the policies that underlie each SIPSP** (noted in the second table below, again with suggested reviewers) so your GM can complete the confirmation above.
Please advise me (and copy your GM) of any changes you'd like to make to these policies, so we can include them in a Risk Committee paper due by **12 May** (which will then go to the Board).
 - c. **Review the VCF SIPSP sections** I've noted your name against and mark-up any changes required in the attached doc (**# 3389254 – to be set up in Teams**)
2. **GMs** - Please send me the confirmation noted above by **Friday, 6 May**.

a. SIPSP (NZ Super Fund) Sections for review (see #3389200 attached – I will upload into Teams – please preserve all ‘tracked changes’, do not accept any marked up changes)

Suggested Reviewer	SIPSP Section	GM Owner
	5. Responsible Investment RI Framework PPT (see #3389179 attached)	Stephen G Stephen G

Out of Scope

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Out of Scope

b. Policies underlying the SIPSP to be reviewed (see current versions on the Supercharged policy page – I can provide a MSWord version if you need to make changes)

Suggested Reviewer	Policy	GM Owner

Out of Scope

c. VCF SIPSP (Elevate Fund) Sections for review (see #3389254 attached – I will upload into Teams – please preserve all ‘tracked changes’, do not accept any marked up changes)

Suggested Reviewer	VCF SIPSP Section	GM Owner
	6. Responsible Investment	Stephen G

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Out of Scope

Thank you,



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Questions to consider for the annual policy review

Please note:

- Policies should be high level so will not need frequent change. Procedures that are set out in the Schedules are more detailed and will require more frequent change.
- If a Policy or Procedure is not clearly understood or is ignored in practice then either it needs to change or there needs to be better communication and training for the Policy or Procedure.

Since the policy was last reviewed....

- Has there been a significant change in the business operations covered by the policy or procedures? eg new products or activities
- Have there been regulatory changes that need to be reflected in the policy? [Consult with Legal]
- Have new public sector or industry best practice guidelines been issued that need to be reflected in the policy or procedures? [relevant to non-investment policies]
- Have there been any 'Lessons Learned' that need to be reflected in the policy or procedures?
- Are the policy statements and procedures still relevant, understood and consistent with actual practice?
- Do expected behaviours need to be clarified or boundaries set?
- Have there been technology changes that need to be reflected in the policy or procedures?
- Have there been changes in roles, authorities or responsibilities that need to be reflected in the policy or procedures?
- Are there any additional redactions that need to be made to the policy on our external website? Check existing redactions and consider if these are still appropriate

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**STATEMENT OF INVESTMENT POLICIES,
STANDARDS AND PROCEDURES**

22 JUNE 2022



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1 Introduction

1.1 Purpose

This Statement of Investment Policies, Standards and Procedures (Statement) establishes the framework set by the Guardians of New Zealand Superannuation (Guardians) for the governance and investment of the New Zealand Superannuation Fund (Fund) by providing a clear statement of the investment policies, standards and procedures that must be adhered to in investing the Fund.

In establishing and adhering to the policies, standards and procedures, Guardians must exercise its expert judgement. Guardians operates independently of the government and utilises its substantial experience, training, and expertise in the management of financial investments in its role.

1.2 Legislative Requirements

Section 37 of the New Zealand Superannuation and Retirement Income Act 2001 (Act) establishes the Fund.

Section 40 of the Act provides that the Fund is the property of the Crown.

Section 48 of the Act and s 7 of the Crown Entities Act 2004 establishes the Guardians of New Zealand Superannuation as an Autonomous Crown Entity.

Section 51 makes it a function of the Guardians to manage and administer the Fund in accordance with the Act.

Section 58(2) Act requires the Guardians to:

“invest the Fund on a prudent, commercial basis and, in doing so, must manage and administer the Fund in a manner consistent with –

- (a) best-practice portfolio management; and
- (b) maximising return without undue risk to the Fund as a whole; and
- (c) avoiding prejudice to New Zealand’s reputation as a responsible member of the world community.”

Section 60 of the Act requires that:

- (1) “The Guardians must establish, and adhere to, investment policies, standards and procedures for the Fund that are consistent with its duty to invest the Fund on a prudent, commercial basis, in accordance with Section 58; and
- (2) The Guardians must review those investment policies, standards and procedures for the Fund at least annually.”

Section 61 of the Act requires that:

“A statement of investment policies, standards and procedures must cover (but is not limited to) –

- (a) the classes of investments in which the Fund is to be invested and the selection criteria for investments within those classes; and
- (b) the determination of benchmarks or standards against which the performance of the Fund as a whole, and classes of investments and individual investments will be assessed; and
- (c) standards for reporting the investment performance of the Fund; and
- (d) ethical investment, including policies, standards or procedures for avoiding prejudice to New Zealand’s reputation as a responsible member of the world community; and
- (e) the balance between risk and return in the overall Fund’s portfolio; and
- (f) the Fund management structure; and
- (fa) the governance framework for the implementation and operation of Fund Investment Vehicles referred to in section 59A; and
- (g) the use of options, futures, and other derivative financial instruments; and

- (h) the management of credit, liquidity, operational, currency, market, and other financial risks; and
- (i) the retention, exercise or delegation of voting rights acquired through investments; and
- (j) the method of, and basis for, valuation of investments that are not regularly traded at a public exchange; and
- (k) prohibited or restricted investments or any investment constraints or limits.”

1.3 New Zealand Directive

As an Autonomous Crown Entity, Guardians operates on a statutorily independent basis. The Act provides for the Government to give directions regarding the Fund's performance and the Guardians must have regard to it.

Section 64 of the Act states that:

- (1) “The Minister may, after consultation with the Guardians, give directions to the Guardians regarding the Government's expectations as to the Fund's performance, including the Government's expectations as to risk and return.
- (2) Despite anything to the contrary in the Crown Entities Act 2004, the Minister –
 - (a) must not give a direction that is inconsistent with the Guardians' duty to invest the Fund on a prudent, commercial basis, in accordance with section 58; and
 - (b) must not give a direction to the Guardians in respect of the Fund except in accordance with this section.
- (3) The Guardians must notify the Minister of how the entity proposes to have regard to any direction.
- (4) The Guardian's annual report must include a statement of how the entity is having regard, or has had regard, during the year to any Ministerial directions given under this section.”

On 14 May 2009 the Guardians received a letter from the Minister of Finance containing the following direction:

“The Government believes that it is in the national interest for the Fund to have significant investments in New Zealand. Consequently, pursuant to section 64 of the [Act], I direct the Guardians to note that it is the Government's expectation, in relation to the Fund's performance, that opportunities that would enable the Guardians to increase the allocation of New Zealand assets in the Fund should be appropriately identified and considered by the Guardians.”

On 2 June 2009 we provided a detailed response to the Minister outlining broad areas of investment opportunities that we were exploring in New Zealand. We concluded by saying:

“We will have regard for your directive by:

- Actively considering those investment opportunities in New Zealand that offer prospective terms and conditions that meet the criteria under section 58(2) of the Act, and;
- Seeking to identify methods of assessing and managing investments in the areas of opportunity outlined [in our letter].”

A full copy of both the Minister’s directive and our response can be found on our website.

1.4 Investment Policies

The Guardians investment and operational practices are governed by a suite of policies and the Responsible Investment Framework. Incorporated in to this Statement are the following policies:

- *Investment Risk Allocation Policy*, which broadly covers the classes of investments that we invest in, the value adding strategies we use, and the investment constraints we apply.
- *Externally Managed Investments Policy*, which covers how we invest with external investment managers.
- *Portfolio Completion and Internally Managed Securities Policy*, which covers how we ensure the Fund meets our desired risk allocations and the related management of internal investment mandates.
- *Strategic Tilting Policy*, which covers the value adding strategy we use to adjust the Fund’s risk exposures in response to changes in expected returns.
- *Direct Investment Policy*, which covers direct investments we make in investments not covered by the Portfolio Completion and Internally Managed Securities Policy.
- *Risk Management Policy*, which covers how we manage operational risks for the Guardians.
- *Procurement and Outsourcing Policy*, which covers how we enter into major procurement contracts other than with external investment managers.
- *Delegations Policy*, which covers how authorities are delegated from the Board to the Chief Executive Officer and to management.
- *Derivatives Policy*, which covers how we and our managers use derivatives in our management of the Fund.

- *Investment Valuation Policy*, which covers how we measure the fair value of all Fund investments.

For the most part the policies and standards described in s 61 of the Act (see 1.2 above) are contained in one or more of those policies. This Statement refers readers to the relevant section of the applicable policies. Usually the policies contain further policies or standards beyond what is required by s 61. In some instances the particular policy required by statute does not fit with one of the policies described in this section. In that case the policy and standards are described in this Statement.

This document refers to the Policies, Standards and Procedures we abide by when investing. Our Investment Beliefs and our approach to investing is explained on the How we Invest section in www.nzsuperfund.co.nz.

Procedures are referenced to the relevant policy specified in this Statement.

1.5 Interpretation

To assist with the interpretation of this Statement and the policies referred to above, we have a comprehensive Glossary of Terms, which defines all technical and investment terms used. A copy of the Glossary can be found on our website.

1.6 Review

This document is effective 22 June 2022 and supersedes all previous versions. It will be subject to at least annual review and amendment as our strategy for managing the Fund evolves. A history of the evolution of this document can be found in section 12.

Only the Board of the Guardians can approve material changes to this Statement.

2 Asset Classes and Selection Criteria

Section 61(a) – the classes of investments in which the Fund is to be invested and the selection criteria for investments within those classes

The Fund has two broad classes of investments: 1) the asset classes that comprise the Reference Portfolio and 2) opportunities to add value to the Reference Portfolio.

2.1 Policy

- 2.1.1 Policy statements relating to classes of investments can be found in section 6 (Asset Classes and Benchmarks) and section 8 (Value Adding Strategies and Opportunities) of the *Investment Risk Allocation Policy*.
- 2.1.2 Selection of assets within approved classes of investments is at the discretion of the Fund's investment managers (whether internal or external) subject to any constraints that we may place upon them.
- 2.1.3 Policy statements relating to selection of assets for internal investment management can be found in the *Portfolio Completion and Internally Managed Securities Policy*, the *Direct Investment Policy* and the *Responsible Investment Framework*.
- 2.1.4 Policy statements relating to selection of assets for external investment managers can be found in the *Externally Managed Investments Policy*.

2.2 Standards

- 2.2.1 Standards relating to the selection of investments can be found in Schedule 4 (Process for Opportunity Evaluation, Risk Budgeting and Fund-wide Liquidity Management) of the *Investment Risk Allocation Policy*.

2.3 Procedures

- 2.3.1 Procedures relating to classes of investments and the selection criteria for investments within those classes are referenced to the Policies specified above.

3 Benchmarks

Section 61(b) – the determination of benchmarks or standards against which the performance of the Fund as a whole, and classes of investments, and individual investments will be assessed

Benchmarks are a tool against which to measure the effectiveness of investment strategy either at a whole of Fund level, at an investment class or strategy level, or at the mandate level.

The general principle of benchmarks at an investment class or mandate level is they should be replicable – that is, it should be possible to create a portfolio of securities which mirrors (or at least very closely resembles) that used within the benchmark.

For some asset classes replicable benchmarks that are representative of the exposures of a given mandate may not exist, in which case performance may be measured against other measures such as the return on Treasury bills.

3.1 Policy

- 3.1.1 The benchmarks we use for the Fund as a whole will measure the value added by the Fund relative to a risk-free alternative and the value added by the Fund relative to a low-cost passive implementation of the Fund (the Reference Portfolio).
- 3.1.2 Policy statements relating to the Fund's Reference Portfolio benchmarks can be found in section 7 (Reference Portfolio) of the *Investment Risk Allocation Policy*.
- 3.1.3 Policy statements relating to the Fund's value-adding investments can be found in section 6 (Asset Classes & Benchmarks) of the *Investment Risk Allocation Policy*.
- 3.1.4 The benchmarks we use to judge the performance of individual classes of investment must be broadly representative of that class, or where a representative benchmark is not available, of a suitably risk adjusted alternative.
- 3.1.5 The benchmarks we use to judge the performance of individual mandates (whether internal or external) must either be the benchmark for the investment class within which that mandate is managed or (as the case may be) broadly representative of the universe of investments from which the manager selects investments for the mandate or a suitably risk adjusted alternative. In a limited number of cases, some internal mandates have benchmarks that represent funding costs or have no benchmarks.

3.2 Standards

- 3.2.1 The performance benchmarks we use for the Fund as a whole are to exceed over rolling 20-year periods:

- The New Zealand Treasury Bill return; and
- The return for the Reference Portfolio, being the weighted average return of the Reference Portfolio's constituent asset class benchmarks.

3.2.2 The performance benchmarks we use for classes of investments can be found in Schedule 2 (Asset Classes and Benchmarks) of the *Investment Risk Allocation Policy*.

3.2.3 We measure performance after the deduction of foreign taxes but before New Zealand tax.

3.3 Procedures

3.3.1 Procedures relating to performance benchmarks are referenced to the Policies specified above.

4 Reporting Standards

Section 61(c) – standards for reporting the investment performance of the Fund

Comprehensive reporting is critical for two reasons:

- it enables the Guardians to assess the reasons behind the performance of access points, opportunities, value add strategies and the Fund as a whole; and
- it enables the Fund's stakeholders to be fully informed of the activities of the Fund either through regular updates to the Fund's website or through the formal statutory reporting documents.

4.1 Policy

4.1.1 Policy statements relating to reporting on the performance of the Reference Portfolio, the performance of value adding strategies, compliance with the capital and risk constraints, and use of the Fund's risk budget can be found in section 12 (Reporting) of the *Investment Risk Allocation Policy*.

4.1.2 Policy statements relating to reporting on the performance of externally managed investments can be found in section 12 (Reporting) of the *Externally Managed Investments Policy*.

4.1.3 Policy statements relating to reporting on the performance of internal investment mandates can be found in section 13 (Reporting) of the *Portfolio Completion and Internally Managed Securities Policy*.

- 4.1.4 Policy statements relating to reporting on the performance of direct investments can be found in section 10 (Reporting) of the *Direct Investment Policy*.
- 4.1.5 Policy statements relating to reporting on the performance of strategic tilting can be found in section 8 (Reporting) of the *Strategic Tilting Policy*.
- 4.1.6 Policy statements relating to external reporting on the performance of the Fund can be found in section 11 (Reporting) of the *Communications Policy*.

4.2 Standards

- 4.2.1 Standards relating to reporting on the performance of the Reference Portfolio, the performance of value adding strategies, compliance with the capital and risk constraints, and use of the Fund's risk budget can be found in Schedule 8 (Reporting Framework) of the *Investment Risk Allocation Policy*.
- 4.2.2 Standards relating to reporting on the performance of externally managed investments can be found in Schedule 6 (Reporting Framework) of the *Externally Managed Investments Policy*.
- 4.2.3 Standards relating to reporting on the performance of internal investment mandates can be found in Schedule 9 (Reporting and Accountability Framework) of the *Portfolio Completion and Internally Managed Securities Policy*.
- 4.2.4 Standards relating to reporting on the performance of direct investments can be found in Schedule 6 (Reporting Framework) of the *Direct Investment Policy*.
- 4.2.5 Standards relating to reporting on the performance of strategic tilting can be found in Schedule 3 (Reporting Framework) of the *Strategic Tilting Policy*.
- 4.2.6 Standards relating to external reporting on the performance of the Fund can be found in Schedule 2 (External Communications Issues) of the *Communications Policy*.

4.3 Procedures

- 4.3.1 Procedures relating to reporting are referenced to the Policies specified above.

5 Responsible Investment

Section 61(d) – ethical investment, including policies, standards, or procedures for avoiding prejudice to New Zealand's reputation as a responsible member of the world community

Section 61(i) – the retention, exercise or delegation of voting rights acquired through investments.

Our Act states that we must invest the Fund on a prudent, commercial basis and, in doing so, must manage and administer the Fund in a manner consistent with:

- Best-practice portfolio management; and
- Maximising return without undue risk to the Fund as a whole; and
- Avoiding prejudice to New Zealand's reputation as a responsible member of the world community

Our policy on responsible investment is consistent with meeting this mandate and also addresses matters that our Act requires to be covered in our SIPSP.

Responsible investment has become the predominant framework for what was known as "ethical investment" at the time the Act was passed. Responsible investment is understood internationally to involve integrating environmental, social and governance (ESG) considerations, including climate change, into investment management. When we refer to the term "Responsible Investment" we see it as encompassing ethical investment. Our own approach to Responsible Investment is also intended to be consistent with s 61(d) to ensure the Fund is managed and administered in a manner consistent with avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

This section of the Statement and the Responsible Investment Framework also addresses aspects of s 61(i) regarding the retention, exercise and delegation of voting rights. Section 8 of this Statement directly addresses other aspects required by s 61(i).

One of our Investment Beliefs (referred to in section 1.4 of the Statement) is that environmental, social and governance considerations, including climate change, are fundamental to long-term risk and return.

We consider sustainable finance to be emerging best practice and consistent with our mandate. We have a goal to incorporate sustainability considerations into investment decision-making and to support the development of a sustainable financial system within the context of our legislative purpose. We are developing a sustainable finance strategy to support these goals which will be integrated into the Statement and Responsible Investment Framework as work progresses.

The Responsible Investment Framework also supports the implementation of the Climate Change Investment Strategy.

We use internationally recognised responsible investment principles as our standard for addressing environmental, social and governance considerations, including exercising voting rights.

We have developed our Responsible Investment Framework to cover procedures and factors that we consider in applying the judgement needed to implement our responsible investment policy when investing the Fund including meeting our obligations under sections 58(2), 61(d)

and (i) of our Act.

Our Responsible Investment Framework can be found on our website.

Responsible Investment actions include investment integration, engagement, voting and exclusion from the Fund. We invest across a wide range of asset classes and regions. With such a breadth of investments we need to prioritise the issues and companies we focus on. There will be, from time to time, holdings in the Fund that need special consideration under our Responsible Investment Framework including with respect to exclusion and engagement.

5.1 Policy

5.1.1 We are committed to integrating consideration of Responsible Investment issues into our investment decision making process.

5.1.2 We believe that applying responsible investment best practice supports managing and administering the Fund in a manner consistent with avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

5.1.3 We are committed to developing and integrating a sustainable finance strategy in support of our sustainable finance goals within the context of our legislative purpose.

5.1.4 We will apply standards and procedures that focus on:

- Meeting relevant obligations under our Act;
- Our investment belief that "Environmental, social and governance considerations including climate change are fundamental to long-term risk and return";
- Developing guidelines to integrate RI considerations across different types of investments;
- Supporting our climate change investment strategy
- Effective engagement with the external investment managers and advisors we use and the companies we invest in;
- Exercising our voting rights in investee companies;
- Considering investments which provide positive ESG benefits in addition to the required financial return;
- Maintaining a robust analytical and decision making process in responding to investee companies breaching standards contained in our RI Framework including decisions to exclude or engage with companies; and

- Benchmarking our performance against the UN-supported Principles for Responsible Investment (a globally accepted standard).

- 5.1.5 We have developed our Responsible Investment Framework to cover procedures and factors that we consider in applying the judgement needed to implement our responsible investment policy when investing the Fund including meeting our obligations under sections 58(2), 61(d) and (i) of our Act
- 5.1.6 A policy statement relating to the constraint on investing in securities excluded by application of our Responsible Investment Framework can be found in section 11 (Investment Constraints) of the *Investment Risk Allocation Policy*.
- 5.1.4 Where we participate in securities lending, we will retain the right to recall shares to vote and the right to withhold shares from lending, in order to exercise our voting rights on those securities.
- 5.1.5 From time to time we may participate in class actions against investee companies. The decision to participate involves a range of considerations including (a) whether the Fund suffered a loss/disadvantage and the materiality of the loss/disadvantage, (b) the severity of the issue or the conduct of the company, (c) the cost versus benefit of pursuing the action, and (d) whether it is in the Fund's best interests to participate.

5.2 Standards

- 5.2.1 We refer to international standards for guidance on best practice.
- 5.2.2 We are committed to the UN-supported Principles for Responsible Investment (PRI). The principles promote integration of ESG issues into investment analysis and asset ownership. We use the PRI, a globally recognised standard, for guidance on best practice in Responsible Investment and to benchmark our own performance.
- 5.2.3 Our voting decisions take into account national and international standards of good corporate governance, including shareholder voting rights. International standards include the International Corporate Governance Network Guidelines and the G20/OECD Principles of Corporate Governance. For New Zealand listed companies we endorse the New Zealand Corporate Governance Forum Guidelines and the NZX Corporate Governance Code.

5.3 Procedures

- 5.3.1 RI is integrated into investment of the Fund through the Responsible Investment Framework and the application of it by the investment staff of the Guardians.
- 5.3.2 Procedures relating to Responsible Investment are contained or referenced in the Responsible Investment Framework.

6 Balance Between Risk and Return

Section 61(e) – the balance between risk and return in the overall Fund portfolio

Section 58(2)(b) of the Act requires the Fund to be invested in a manner consistent with “maximising return without undue risk to the Fund as a whole”.

In general the investment strategy adopted by the Fund, and in particular the Reference Portfolio, will have a dominant influence on the returns generated. The Reference Portfolio specifies the broad equilibrium mix between growth and income assets for the Fund which the Guardians believe best meets their statutory obligations. The Actual Portfolio of the Fund is the sum of:

- Reference Portfolio exposures; plus
- asset/investment exposures obtained through the Active Return Strategies; plus
- adjustments to Reference Portfolio exposures to accommodate the asset/investment market exposures described above.

The extent to which we can deviate from the risk exposures inherent in the Reference Portfolio is established by setting risk and capital constraints and an expectation of the average active risk as expressed by the Total Active Risk Budget.

6.1 Policy

6.1.1 Policy statements relating to the balance between risk and return in the Fund can be found in sections 7 (Reference Portfolio), 8 (Value Adding Strategies and Opportunities) and 10 (Investment Constraints) of the *Investment Risk Allocation Policy* and section 6 (Portfolio Completion) of the *Portfolio Completion and Internally Managed Securities Policy*.

6.2 Standards

6.2.1 Standards relating to the balance between risk and return in the Fund can be found in Schedules 3 (Reference Portfolio), 4 (Processes for Opportunity Evaluation, Risk Budgeting and Fund-wide Liquidity Management), 5 (Value Adding Strategies & Opportunities), 7 (Constraints) and 10A (Risk Budget) of the *Investment Risk Allocation Policy* and Schedule 2 (Portfolio Completion Frameworks) of the *Portfolio Completion and Internally Managed Securities Policy*.

6.3 Procedures

6.3.1 Procedures relating to the balance between risk and return in the Fund are referenced to the policies specified above.

7 Fund Management Structure

Section 61(f) – the Fund management structure

We manage the Fund using a mixture of internal staff and external investment managers, custodians, suppliers and advisers to manage assets, provide advice on investment strategy, and administer the assets in the Fund.

The decision of whether to manage activities internally or outsource them to a third party is a complex one and must take into account a variety of factors including, but not limited to:

- Our ability to identify and contract with third parties with appropriate capability;
- Our ability to attract suitably skilled staff to undertake the role;
- The relative costs and resource intensity of undertaking the activity internally versus externally;
- The degree to which the third party's interests can be aligned with our interests.

To manage the Fund effectively we may use a range of specialist third-party agents including: custodians; prime brokers; portfolio completion agents; and securities lending agents.

7.1 Policy

- 7.1.1 Whether the preferred access is direct or via a manager will depend upon which offers the best risk adjusted returns, whether there is or can be sufficient internal capacity and skill to successfully implement and manage, and where there is the best alignment of interest.
- 7.1.2 We will continually monitor the use of external suppliers versus internal provision of services as part of an ongoing review of our business model.
- 7.1.3 A Master Custodian will be used to provide safe keeping of assets and trade settlement services.
- 7.1.4 Policy statements relating to delegations of authority can be found in the *Delegations Policy*.
- 7.1.5 Policy statements relating to the selection, appointment and ongoing monitoring of external investment managers can be found in sections 6 (Active Investment Decision Framework), 7 (Conviction and Monitoring), 8 (Investment Manager Fees), 9 (New Investment Implementation), 10 (Approvals) and 11 (Monitoring) of the *Externally Managed Investments Policy*.
- 7.1.6 Policy statements relating to the assessment, implementation and monitoring of direct investments in assets when external managers are not used and the investment is not a Financial Market Transaction governed by the *Portfolio*

Completion and Internally Managed Securities Policy can be found in the *Direct Investments Policy*.

- 7.1.7 Policy statements relating to the selection and appointment of the Master Custodian¹, suppliers and external advisers can be found in sections 7 (Procurement) and 8 (Outsourcing) of the *Procurement and Outsourcing Policy*.
- 7.1.8 Policy statements relating to the selection and appointment of non-master custodians¹, prime brokers, securities lending agents² (other than Securities Lending Investment Managers) and portfolio completion agents can be found in section 9 (Counterparty, Portfolio Completion Agent and Non-Master Custodian Selection and Exposure Management) of the *Portfolio Completion and Internally Managed Securities Policy*.

7.2 Standards

- 7.2.1 The quality, cost and degree of alignment of interests of an outsourced alternative provide the benchmarks against which opportunities to undertake roles internally will be judged.
- 7.2.2 Standards relating to delegations of authority can be found in the *Delegations Policy*.
- 7.2.3 Standards relating to the selection, appointment and ongoing monitoring of external investment managers can be found in Schedules 2 (Active Investment Decision Framework), 3 (Conviction and Monitoring Framework), 4 (Investment Manager Fees) and 5 (New Investment Implementation Framework) of the *Externally Managed Investments Policy*.
- 7.2.4 Standards relating to the assessment, implementation and monitoring of direct investments in assets when external managers are not used and the investment is not a Financial Market Transaction governed by the *Portfolio Completion and Internally Managed Securities Policy* can be found in schedules 2 (Due Diligence: Investment Case), 3 (Due Diligence: Implementation), 4 (Director Appointment and Monitoring), 5 (Investment Management) of the *Direct Investments Policy*.
- 7.2.5 Standards relating to the selection and appointment of the Master Custodian, suppliers and external advisers can be found in Schedules 2 (Procurement

¹ Note that if we also use the custodian as a cash deposit institution then it is, for that activity, a Counterparty and the policies and standards applying to counterparties, as set out in the *Portfolio Completion and Internally Managed Securities Policy*, will also apply to it.

² Note this applies only if the securities lending agent is appointed to act without discretionary authority. If given a discretionary mandate then they will be a Securities Lending Investment Manager and the policies and standards in the *Externally Managed Investments Policy* will apply.

Framework) and 3 (Outsourcing Framework) of the *Procurement and Outsourcing Policy*.

- 7.2.6 Standards relating to the selection and appointment of custodians, prime brokers, securities lending agents (other than Securities Lending Investment Managers) and portfolio completion agents can be found in Schedule 6 (Counterparty Selection and Exposure Management and Minimum Requirements for PCAs and Non-Master Custodians) of the *Portfolio Completion and Internally Managed Securities Policy*.

7.3 Procedures

- 7.3.1 Procedures relating to the Fund management structure are referenced to the policies specified above.

7A Governance framework for Fund investment vehicles

Section 61(fa) - Governance framework for Fund investment vehicles

We may establish or control an entity for the purpose of holding, facilitating, or managing the investments of the Fund (a **Fund investment vehicle**).

There are a variety of reasons why we may use a Fund investment vehicle, including enabling us to structure and access investments more efficiently and help minimise liability and risk.

The decision of whether to use a Fund investment vehicle must take into account a variety of factors including:

- The primary prohibition on controlling an entity set out in s59 of the Act.
- Demonstrable benefits including enhancement of the efficiency, performance and management of risk and liability for the Fund.
- Ensuring that the Guardians does not conduct the day to day management and operation of a business.
- The costs of establishment, maintenance and winding up a Fund investment vehicle.

7A.1 Policy

7A.1.1 A Fund investment vehicle may only be used for the purpose of holding, facilitating or managing investments of the Fund.

7A.1.2 The use of a Fund investment vehicle must be consistent with the Guardians' mandate to invest the Fund on a prudent, commercial basis and in a manner consistent with:

- best-practice portfolio management,
- maximising return without undue risk to the Fund as a whole, and
- avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

- 7A.1.3 A Fund investment vehicle may not be used by the Guardians in a manner that causes it to contravene the Act or to circumvent the Act's restrictions on the Guardians.
- 7A.1.4 Fund investment vehicles will hold, facilitate and manage investments in accordance with the Policy Statements and the Investment Policies, that the Guardians adhere to in investing the Fund as are appropriate for that Fund investment vehicle and consistent with the management and administration of the Fund as a whole.
- 7A.1.5 The Investment Policies are listed in Section 1.4 above. The Policy Statements are Sections 2 (Asset Classes and Selection Criteria), 3 (Benchmarks), 4 (Reporting Standards), 5 (Responsible Investment), 6 (Balance Between Risk and Return), 7 (Fund Management Structure), 8 (Derivatives, Short Selling and Securities Lending), 9 (Risk Management), 10 (Valuation of Unlisted Assets), and 11 (Investment Constraints).
- 7A.1.6 Fund investment vehicles that are controlled by the Guardians will be included in the annual financial statements for the Fund and will be audited in accordance with the requirements of the Public Audit Act 2001 and/or other applicable law.
- 7A.1.7 The Official Information Act does not apply to the Fund investment vehicles. However, the Act will apply to the Guardians and the Guardians will ensure that the Guardians has the information about the Fund investment vehicles necessary for the Guardians to manage and administer the Fund in accordance with its mandate. Policy statements relating to the Official Information Act are found in the Communications Policy.

7A.2 Standards

- 7A.2.1 Fund investment vehicles will hold, facilitate and manage investments in accordance with the investment standards that the Guardians adhere to in investing the Fund as are appropriate for that Fund investment vehicle and consistent with the management and administration of the Fund as a whole.
- 7A.2.2 The Standards are referenced in Sections 2 (Asset Classes and Selection Criteria), 3 (Benchmarks), 4 (Reporting Standards), 5 (Responsible Investment), 6 (Balance Between Risk and Return), 7 (Fund Management Structure), 8 (Derivatives, Short Selling and Securities Lending), 9 (Risk Management), 10 (Valuation of Unlisted Assets), and 11 (Investment Constraints).
- 7A.2.3 Standards relating to the reporting of the nature and purpose of the Fund investment vehicles utilised can be found in Schedule 1 (Matters Reserved to the Board, Board Committees and Chief Executive) of the *Delegations Policy*.
- 7A.2.4 Standards relating to the application of the Official Information Act can be found in Schedule 4 (Responding to Official Information Act requests) of the *Communications Policy*.

7A.3 Procedures

7A.3.1 Applicable procedures relating to the Guardians' investment policies and reporting standards will apply to the holding, facilitating or managing of investments by Fund investment vehicles. Procedures relating to Fund Investment Vehicles in particular are referenced to this Statement of Investment Policies and Procedures.

8 Derivatives, short selling and securities lending

Section 61(g) – the use of options, futures, and other derivative financial instruments

In accordance with Section 50 of the Act, we have sought and received the Minister's approval to use derivatives and other specific instruments subject to certain conditions.

The Minister of Finance's current expectation is that we have the appropriate level of knowledge, skill, transparency and controls in place when we use derivatives, in order to ensure that negative financial or reputational outcomes do not impact the Crown.

Our assessment of the appropriate level of knowledge, skill, transparency and control in the use of derivatives will include:

- the objectives of the investment mandates,
- the overall risk profile of the investment mandates,
- the markets in which the investment mandates will be investing,
- the investment style to be employed,
- the experience, qualifications and skills available within the external investment managers and internal teams to use derivatives,
- the quality of internal controls/risk management procedures relevant to the use of derivatives,
- the characteristics of the specific derivative market – liquidity, quality of counterparty and availability of valuations and legal structure and the overall cost of establishing and maintaining a derivative position vs. a suitable equivalent cash security alternative, and
- reporting derivative usage including risk associated with their use together with expected returns.

We, and our appointed investment managers and portfolio completion agents, may enter into derivatives transactions on behalf of the Fund.

Derivatives are financial instruments whose value and characteristics are derived from, or linked to, underlying assets, indexes, or reference rates (such as an exchange rates or interest rates). Wide assortments of instruments are classified as derivatives: they include foreign exchange hedging, futures, swaps, repurchase agreements, warrants

and options.

There is a variety of purposes for which it may be appropriate for the Fund to invest using derivatives. These include risk, liquidity and counterparty management, transactional efficiency, and value adding investment strategies.

Derivatives can be a useful risk management tool by helping the Guardians to obtain desired exposures for the Fund. Derivatives that are highly liquid can also be useful, by helping to mitigate the risk of the Fund not having sufficient liquidity to meet its payment obligations.

Short selling of physical securities is a means by which we, or an investment manager, can take advantage of a view that the price of a security will fall. As its name implies short selling involves selling a security that we don't own. We do that by first borrowing the security from a securities lender. When we borrow we will be required to provide collateral in the form of cash or some other security. We pay a fee for borrowing securities. Short selling may also be used to hedge a long exposure.

When we lend securities we may lend them to short sellers, usually through a securities lending agent: in return the borrower (short seller) provides collateral for the period they borrow for. We receive a fee for lending the securities.

8.1 Policy

- 8.1.1 Policy statements relating to the use of derivatives by the Guardians and its managers are found in sections 4 (Scope) and 6 (Use of Derivatives) of the *Derivatives Policy*. Policy statements relating to short selling by the Guardians and its managers are found in Section 12 (Short Selling) of the *Portfolio Completion and Internally Managed Securities Policy*.
- 8.1.2 Policy statements covering the risks inherent in derivative use and the policy framework for managing those risks are set out in section 4 (Scope) of the *Derivatives Policy*.
- 8.1.3 Policy statements relating to Ministerial Consents and Expectations regarding the use of derivatives are set out in section 6 (Use of Derivatives) of the *Derivatives Policy*.
- 8.1.4 We may short sell physical securities to enhance the returns of the Fund, or to offset or otherwise manage certain exposures. Short selling will only be done after full consideration of the related risks, including the credit quality of the lender of the securities.
- 8.1.5 We will provide the amount and type of collateral consistent with market requirements. Collateral shall be required to be held by the prime broker or lender in a manner designed to safeguard it, to the extent possible, from the interests of other creditors of the lender. The short sale securities (borrowed securities) and the collateral shall be marked to market daily so that exposures may be monitored.
- 8.1.6 We may permit external investment managers to short sell securities where we are satisfied the investment manager has the necessary controls in place

to ensure prudent use of that ability and such use is consistent with the investment guidelines given to the investment manager.

- 8.1.7 We will not engage in or permit 'naked' short selling of physical securities, so will borrow securities to 'cover' a short sale of physical securities.
- 8.1.8 We may loan securities where we are satisfied with the credit quality of the counterparty who borrows the securities and that we are appropriately collateralised for the securities lent and the fee received is fair compensation for the use of our securities and the operational complexity involved.
- 8.1.9 We will apply our Responsible Investment approach and framework on withholding or recalls for voting purposes. Policy statements relating to securities lending are found in Section 11 (**Securities Lending**) of the *Portfolio Completion and Internally Managed Securities Policy*.
- 8.1.10 We may permit our external investment managers to loan securities where we are satisfied that the external investment manager has appropriate standards to evaluate the credit quality of the counterparty who borrows the securities and to ensure that we are appropriately collateralised for the securities lent. We will apply our Responsible Investment approach and framework on withholding or recalls for voting purposes.

8.2 Standards

- 8.2.1 Standards relating to the maintenance of appropriate standards to evaluate our competency and that of external investment managers to use derivatives as part of investment management can be found in Schedules 4 and 4A (Standards & framework for managing derivative Investment and non-Investment Risk) of the Derivatives Policy.
- 8.2.2 Standards relating to delegations of authority can be found in the *Delegations Policy*.
- 8.2.3 Standards relating to short selling can be found in Schedule 12 (Short Selling) of the *Portfolio Completion and Internally Managed Securities Policy*.
- 8.2.4 Standards relating to reporting of Derivative use and exposure are out in Schedule 3 (Reporting Framework) of the *Derivatives Policy*.
- 8.2.4 Standards relating to the maintenance of appropriate standards to evaluate credit quality of the counterparty who borrows securities, approved markets for lending, approved collateral and margin requirements as well as reporting on securities lending programme are outlined in the Securities Lending Internal Investment Mandate.

8.3 Procedures

- 8.3.1 We may authorise Securities Lending Investment Managers to manage any or all components of the programme's administration, cash collateral

reinvestment and risk management.

- 8.3.2 If we lend securities we will retain our rights to withhold or recall shares to exercise our voting rights. We will maintain guidance on when to withhold or recall shares. We will work with our securities lending agents to encourage good practice standards by borrowers including not borrowing for the primary purpose of voting.

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9 Risk Management

Section 61(h) – the management of credit, liquidity, operational, currency, market, and other financial risks

Managing the Fund involves accepting and managing a wide variety of risks. Our approach to risk management involves the Board, Guardians' staff, and external partners.

9.1 Policy

- 9.1.1 Policy statements relating to the management of financial (including credit, liquidity, currency and market) risks can be found in sections 7 (Reference Portfolio), 9 (Proxies), and 10 (Investment Constraints) of the *Investment Risk Allocation Policy*, sections 6 (Portfolio Completion), 7 (Internal Investment Mandates), 8 (Product Approval) and 9 (Counterparty, Portfolio Completion Agent and Non-Master Custodian Selection and Exposure Management) of the *Portfolio Completion and Internally Managed Securities Policy* and sections 4 (Scope) and 6 (Use of Derivatives) of the *Derivatives Policy*.
- 9.1.2 Policy statements relating to the management of operational risks can be found in section 10 (Direct Transaction Management) of the *Portfolio Completion and Internally Managed Securities Policy*, sections 6 (Risk Appetite Statement), 7 (Risk Management Framework), 8 (Risk Assessment Framework) and 9 (Enterprise Risk Management) of the *Risk Management Policy* and sections 9 (New Investment Implementation) and 11 (Monitoring) of the *Externally Managed Investments Policy*.

9.2 Standards

- 9.2.1 Standards relating to the management of financial (including credit, liquidity, currency and market) risks can be found in Schedules 3 (Reference Portfolio), 6A (Proxy System), and 7 (Constraints) of the *Investment Risk Allocation Policy* and Schedules 2 (Portfolio Completion Frameworks), 5A (Approved Products), 6 (Counterparty Selection and Exposure Management and Minimum Requirements for PCAs and Non-Master Custodians) of the *Portfolio Completion and Internally Managed Securities Policy* and Schedule 4 and 4A (Standards and framework for managing derivative investment and Non-investment Risk) of the *Derivatives Policy*.
- 9.2.2 Standards relating to the management of operational risks can be found in Schedule 7 (Authorised Dealers and Dealing Controls) of the *Portfolio Completion and Internally Managed Securities Policy*, the schedules of the *Risk Management Policy* and Schedules 3 (Conviction and Monitoring Framework) and 5 (New Investment Implementation Framework) of the *Externally Managed Investments Policy*.

9.3 Procedures

- 9.3.1 Procedures relating to risk management are referenced to the policies specified above.

10 Valuation of Unlisted Assets

Section 61(j) – the method of, and basis for, valuation of investments that are not regularly traded at a public exchange

Many of the investments of the Fund are regularly traded on recognised exchanges and can be valued accordingly. Where they are not traded on recognised exchanges, the objective is to value those assets at fair value wherever possible.

10.1 Policy

10.1.1 Policy statements relating to the method and frequency of the valuation of all investments of the Fund can be found in sections 6 (Valuation approach), 7 (Valuation methodology categories), 8 (Hierarchy of fair value), 9 (Independent third party valuers), 10 (Frequency of valuations) and 11 (Consistency of valuations) of the *Investment Valuation Policy*.

10.2 Standards

10.2.1 Standards relating to the valuation of Fund investments can be found in Schedules 2 (Valuation methodology categories) and 3 (Frequency of valuations) of the *Investment Valuation Policy*.

10.2.2 Standards relating to reporting to the Board on valuation matters are found in Schedule 4 (Reporting framework) of the *Investment Valuation Policy*.

10.3 Procedures

10.3.1 Procedures relating to the valuation of unlisted assets are referenced to the Policy specified above.

11 Investment Constraints

Section 61(k) – prohibited or restricted investments or any investment constraints or limits

The Act does not proscribe investment in any particular asset or class of assets. Prohibitions and constraints are therefore imposed by the Guardians' policy and can be categorised as follows:

- capital or risk constraints that limit the variance of the Actual Portfolio from the Reference Portfolio
- investments that are prohibited by virtue of the Fund's Responsible Investment policies (see section 5); and
- the constraints within individual investment mandates.

11.1 Policy

- 11.1.1 Policy statements relating to investment constraints used to manage risk within the Fund can be found in section 10 (Investment Constraints) of the *Investment Risk Allocation Policy*.
- 11.1.2 Policy statements relating to investment constraints used to manage risk within individual investment mandates directly managed by the Guardians can be found within section 7 (Internal Investment Mandates) of the *Portfolio Completion and Internally Managed Securities Policy*.
- 11.1.3 We will set investment constraints used to manage risk within individual investment mandates managed externally as appropriate on a case by case basis.
- 11.1.4 Policy statements relating to investment constraints arising from application of the Guardians' Responsible Investment framework can be found in section 5 of this document and section 10 (Investment Constraints) of the *Investment Risk Allocation Policy*.

11.2 Standards

- 11.2.1 Standards relating to investment constraints used to manage risk within the Fund can be found in Schedule 7 (Constraints) of the *Investment Risk Allocation Policy*.
- 11.2.2 Standards relating to investment constraints used to manage risk within individual investment mandates directly managed by the Guardians can be found within Schedule 7 (Constraints) of the *Investment Risk Allocation Policy* and Schedules, 5A (Approved Products), and 6A (Counterparty Exposure Limits and Calculation) of the *Portfolio Completion and Internally Managed Securities Policy*.

- 11.2.3 Standards relating to investment constraints arising from application of the Guardians' Responsible Investment policies are referred to at section 5.2 of this Statement.

11.3 Procedures

- 11.3.1 Procedures relating to investment constraints are referenced to the policies specified above.

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12 Version Control

This is the twenty seventh version of this Statement of Investment Policies, Standards and Procedures. The history of the evolution of this Statement is as follows:

Version	Approved by Board	Change from Preceding Version
1	13 October 2003	Interim policy
2	10 November 2003	Derivatives section revised
3	29 March 2004	Ethical and voting policies revised
4	28 June 2004	Review of format to ensure consistency across each section
5	2 May 2006	Updated for revised Strategic Asset Allocation and other developments
6	19 June 2006	Minor changes throughout. Revised Investment Beliefs
7	31 July 2006	Revised Derivatives section and minor changes to section 12
8	11 September 2006	Revised section 6 (ethical investment) and section 11 (voting rights)
9	31 May 2007	Revised throughout. Voting & Ethical Investment combined into Responsible Investment. Securities Lending section added
10	31 May 2008	Revised throughout. Updated revised Strategic Asset Allocation and other developments
11	20 October 2008	Two revised benchmarks in section 4.3 and modification to wording of section 3.2.5
12	9 December 2008	Addition of section 3.2.3 on strategic tilting and some minor changes elsewhere to reflect strategic tilting. Section 3.2.4 on currency hedging updated for 10% target. Addition to section 3.2.5 to clarify rebalancing process.
13	9 February 2009	Revised treatment of hybrid securities in the asset class definitions in section 3.4, modification of wording in sections 3.3 and 3.4, and clarification added to section 9.2 on derivative exposures.
14	23 June 2009	Revised throughout for internal investment mandates. Introduction of cash as an asset class and concepts of duration and credit spread. Revised wording for investment beliefs in 2.2 and use of derivatives for liquidity and counterparty management purposes in 9.
15	7 July 2010	Revised throughout for Reference Portfolio concept and 2010 reference portfolio review. Revised wording for investment beliefs in 2.2 and changed approach to currency hedging.
16	1 July 2011	Comprehensive structural review to link to underlying policies.
17	12 June 2012	Minor revisions to sections 5 and 10.
18	18 June 2013	Modest changes to sections 5, 7 and 10.
19	19 June 2014	Changes in light of the Risk Budget to sections 4, 6 and 11 and other modest changes to sections 7, 8 and 10.
20	17 June 2015	Changes in light of the approval of a standalone Derivatives Policy and Valuation Policy in 2015. Changes in light of replacement of the "How we Invest" document with internal procedures.
21	17 June 2015	Changes in light of the requirements relating to the governance of Fund Investment Vehicles.
22	21 June 2016	Minor revisions to sections 2, 5, 7 and 9.
23	6 April 2017	Revisions to sections 5 and 8 for the Securities Lending

		programme.
24	19 June 2018	Annual Review
25	20 June 2019	Annual Review
26	24 June 2020	Annual Review
27	24 June 2021	Annual Review
28	22 June 2022	Annual Review

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**VENTURE CAPITAL FUND
STATEMENT OF INVESTMENT POLICIES,
STANDARDS AND PROCEDURES**

~~24-22~~ JUNE 20212022

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1 Introduction

1.1 Purpose of this document and the VCF

This Statement of Investment Policies, Standards and Procedures (**Statement**) establishes the framework set by the Guardians of New Zealand Superannuation (**Guardians**) for the governance and investment of the Venture Capital Fund (**VCF**). It provides a statement of the investment policies, standards and procedures that must be adhered to in investing, managing and administering the VCF.

This Statement also reflects that at commencement of the VCF, the Guardians is required to appoint New Zealand Growth Capital Partners Limited (**NZGCP**), previously called New Zealand Venture Investment Fund Limited (**NZVIF**), as the manager of all of the VCF, on a “fund of funds” basis.

The purpose of the VCF is specified in **section 9** of the Venture Capital Fund Act 2019 (**VCF Act**) as follows:

“to contribute to a sustainable and productive economy by:

- (a) increasing the venture capital available to New Zealand entities; and
- (b) developing New Zealand’s venture capital markets to function more effectively so that over time—
 - (i) more venture capital becomes available to New Zealand entities from sources other than the VCF; and
 - (ii) New Zealand entities that receive venture capital become more likely to grow into successful and sustainable businesses; and
 - (iii) those markets become self-sustaining (including through more investment from New Zealand investors).”

The Guardians are not directly responsible for achieving that purpose. The VCF Act and the Ministerial policy statement issued under the VCF Act (refer to section 1.3 below) specify the broad manner and parameters within which the Guardians must manage and administer the VCF.

Those parameters have been set with the intention that if the Guardians manages and administers the VCF in accordance with them, and where necessary the Government successfully implements of range of ancillary measures to support the further development of New Zealand’s venture capital markets, the purpose described above is expected to be achieved. The key requirements of the VCF Act in relation to the Guardians are summarised below.

1.2 Legislative Requirements

Section 17 of the VCF Act requires the Guardians to:

“invest the VCF in New Zealand’s venture capital markets using best-practice investment management that is appropriate for institutional investment in those markets.”

That obligation is subject to any directions in the Ministerial policy statement that the VCF Act requires the Guardians to give effect to, and the requirement in the VCF Act for Guardians to appoint NZVIF as sole manager for the VCF.

Section 18 of the VCF Act requires the Guardians to:

“manage and administer the VCF in a manner consistent with—

- (a) the policy statement in effect under section 19; and
- (b) avoiding prejudice to New Zealand’s reputation as a responsible member of the world community.”

Section 27 of the VCF Act provides that:

- “(1) The Guardians must establish, and adhere to, investment policies, standards, and procedures for the VCF that are consistent with its duty to invest the VCF in accordance with sections 16 to 24.
- (2) The Guardians must review those investment policies, standards and procedures for the VCF at least annually.”

Section 28 of the VCF Act provides that:

“A statement of investment policies, standards and procedures must cover (but is not limited to)—

- (a) the selection criteria that the Guardians use for deciding who will be appointed under section 29 and how the Guardians will monitor the performance of persons appointed under that section; and
- (b) the selection criteria that the Guardians will use for making investment decisions (where the Guardians undertake the investment of any part of the VCF other than through a person appointed under section 29); and
- (c) the determination of standards against which the performance of the VCF as a whole will be assessed; and
- (d) standards for reporting the investment performance of the VCF; and
- (e) ethical investment, including policies, standards, or procedures for avoiding prejudice to New Zealand’s reputation as a responsible member of the world community; and

- (f) the VCF management structure; and
- (g) the governance framework for the implementation and operation of VCF investment vehicles referred to in section 25; and
- (h) the use of derivative financial instruments; and
- (i) the management of credit, liquidity, operational, currency, market, and other financial risks; and
- (j) the method of, and basis for, valuation of investments that are not regularly traded at a public exchange; and
- (k) prohibited or restricted investments or any investment constraints or limits.”

1.3 Ministerial Policy Statement

On 19 December 2019 the Minister of Finance issued a policy statement to Guardians pursuant to section 19 of the VCF Act. As noted above, this is a critical document given that it is intended to result in achievement of the policy purpose and will directly influence the financial performance of the VCF.

In broad terms, the Guardians is required to “give effect to” the following key matters in managing and administering the VCF:

- the investment of the VCF in the New Zealand venture capital market based on a fund-of-funds model;
- the investment of the VCF wholly or substantially (ie a minimum of 70% of net committed capital) in funds with a New Zealand connection, with those funds investing wholly or substantially (ie a minimum of 75% of aggregate investable capital) in Series A and B Capital in New Zealand entities;
- that the maximum proportion of the VCF that may be invested via foreign fund investments in New Zealand entities is 30% of the VCF’s net committed capital, and a minimum 75% of such foreign fund capital must be allocated for investment in Series A and B capital;
- that the maximum proportion of the VCF that may be invested as a co-investment alongside underlying funds is 20% alongside underlying funds with a New Zealand connection and 20% alongside foreign funds (and the policy statement specifies the situations in which this may be done); and
- that each underlying fund must have aggregate committed capital from other investors (in the case of a foreign fund, being capital available for investment only in New Zealand entities alongside the VCF’s capital) at least equal to the VCF’s committed capital in that fund.

In addition, the Guardians is required to “have regard to” the following key matters in managing and administering the VCF:

- VCF capital is expected to be deployed in an initial five-year investment period;
- VCF capital (uncommitted, or recycled funds) may be committed after that period as a follow-on investment or co-investment;
- at the completion of the programme (anticipated to be after a minimum of 15 years), residual funds are expected to be returned to the Crown net of costs and fees; and

- relevant aspects of the Government’s economic strategy and plan to transition to a low carbon economy.

On 19 December 2019 we provided a response to the Minister as required under section 36 of the VCF Act outlining how we propose to (as applicable) give effect or have regard to these matters. In summary, we propose to:

- “give effect to” the relevant matters listed above by including appropriate provisions in the contractual arrangements with NZGCP, being principally the limited partnership agreement for the newly established Venture Capital Fund LP (the VCF LP) and the management deed between the VCF LP and NZGCP, and by undertaking our investment management and conviction oversight of NZGCP in our role as manager and administrator of the VCF and limited partner of the VCF LP; and
- “have regard to” the relevant matters listed above by including appropriate provisions in the contractual arrangements with NZGCP and through our usual engagement with officials and the Minister as relevant.

A full copy of both the policy statement and our response can be found on our website.

1.4 Investment Policies

The Guardians’ investment and operational practices in relation to the VCF are governed by a suite of policies and the Responsible Investment Framework. Of particular relevance to this Statement are the following policies:

- *Externally Managed Investments Policy*, which covers how we invest with external investment managers such as NZGCP.
- *Procurement and Outsourcing Policy*, which covers how we enter into major procurement contracts other than with external investment managers.
- *Delegations Policy*, which covers how authorities are delegated from the Board to the Chief Executive Officer and to management.
- *Investment Valuation Policy*, which covers how we measure the fair value of all VCF investments.

For the most part the policies and standards described in 1.2 above are contained in one or more of those policies. This Statement refers readers to the relevant section of the applicable policies. Usually the policies contain further policies or standards beyond what is required by section 28. In some instances the particular policy required by statute does not fit with one of the policies described in this section. In that case the policy and standards are described in this Statement.

Aspects of these policies are still being updated to reflect the VCF Act and establishment of the VCF. Where that is the case, the relevant policy referred to in this Statement applies with all necessary changes as the context may require.

Procedures are referenced to the relevant policy specified in this Statement.

1.5 Interpretation

To assist with the interpretation of this Statement and the policies referred to above, we have a comprehensive Glossary of Terms, which defines all technical and investment terms used. A copy of the Glossary can be found on our website.

1.6 Review

This Statement is effective **24 June 2021**. It will be subject to at least annual review and amendment as our strategy for managing the VCF evolves. A history of the evolution of this Statement can be found in section 13.

Only the Board of the Guardians can approve material changes to this Statement.

Released under the OIA

2 Investment Manager Selection Criteria and Monitoring

Section 28(a) – the selection criteria that the Guardians use for deciding who will be appointed under section 29 and how the Guardians will monitor the performance of persons appointed under that section

As at inception of the VCF, the Guardians have, via a dedicated limited partnership, appointed NZGCP to undertake the investment of all of the VCF on a “fund of funds” basis. The appointment of NZGCP was required under the VCF Act. Accordingly, since Guardians was not making the selection decision, its selection criteria were not applicable to that appointment.

The process for the Guardians to monitor the performance of NZGCP is specified in the *Externally Managed Investments Policy*, with applicable requirements being specified in NZGCP’s terms of appointment.

2.1 Policy

2.1.1 Policy statements relating to the monitoring of NZGCP in its role of undertaking the investment of all of the VCF can be found in the *Externally Managed Investments Policy*.

2.2 Standards

2.2.1 Standards relating to the monitoring of NZGCP in its role of undertaking the investment of all of the VCF can be found in Schedule 3 (Conviction and Monitoring Framework) of the *Externally Managed Investments Policy*.

2.3 Procedures

2.3.1 Procedures relating to the monitoring of NZGCP are referenced to the Policies specified above.

3 Selection Criteria for Direct Investments

Section 28(b) – the selection criteria that the Guardians will use for making investment decisions (where the Guardians undertake the investment of any part of the VCF other than through a person appointed under section 29)

As at inception of the VCF, the VCF will be invested through a fund of funds managed by NZGCP and NZGCP will make all investment decisions.

Accordingly, the Guardians will not initially make any direct investment decisions itself, and there is not currently a need for any policies, standards or procedures relating to the selection criteria that the Guardians will use for making direct investment decisions.

Released under the OIA

4 Standards for Assessing VCF Performance

Section 28(c) – the determination of standards against which the performance of the VCF as a whole will be assessed

The VCF's performance needs to be assessed in light of the broader framework and purpose of the Act (refer section 1).

Under the Act there is no benchmark return for the VCF, reflecting that a key purpose of establishing the VCF is that it is expected to result in a more developed and sustainable New Zealand venture capital market.

In addition, any returns from venture capital investments are only likely to be realised towards the latter part of the anticipated 15 year initial programme and will be influenced by the terms of the Ministerial policy statement (refer section 1) which is designed to facilitate the market development objective rather than necessarily maximise financial performance.

Within that context, we will measure the performance of the VCF after the deduction of foreign taxes but before New Zealand tax. We will report investment performance of the VCF quarterly as appropriate.

Guardians is not directly responsible for market development activities, and our primary role will be to monitor NZGCP's performance against our manager conviction framework. We will also report on certain metrics that will assist the Minister to assess the effectiveness of the Ministerial policy statement issued under the Act, and other policy initiatives that sit outside the VCF programme, in accomplishing the wider market development objectives.

Released under the OIA

5 Reporting Standards

Section 28(d) – standards for reporting the investment performance of the VCF

The VCF Act requires us to ensure that financial statements for the VCF are prepared for each financial year in accordance with generally accepted accounting practice, as defined in the Financial Reporting Act 2013.

5.1 Policy

5.1.1 Policy statements relating to reporting on the performance of the VCF can be found in section 12 (Reporting) of the *Externally Managed Investments Policy*.

5.2 Standards

5.2.1 Standards relating to reporting on the performance of the VCF can be found in Schedule 6 (Reporting Framework) of the *Externally Managed Investments Policy*.

5.2.2 An analysis and explanation of the performance of the VCF for each financial year is included in the Guardians Annual Report for that financial year.

5.3 Procedures

5.3.1 Procedures relating to reporting are referenced to the Policies specified above.

6 Responsible Investment

Section 28(e) – ethical investment, including policies, standards, or procedures for avoiding prejudice to New Zealand’s reputation as a responsible member of the world community

Responsible investment has become the predominant framework for what is known as "ethical investment" in the VCF Act. Responsible investment is understood internationally to involve considering and giving effect to environmental, social and governance (ESG) factors in investment management.

When we refer to the term "Responsible Investment" we see it as encompassing ethical investment. Our own approach to Responsible Investment is also intended to ensure the VCF is managed and administered in a manner consistent with avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

One of our Investment Beliefs is that environmental, social and governance considerations, including climate change, are fundamental to long-term risk and return.

We have developed our Responsible Investment (RI framework) to cover procedures, including the integration of RI considerations into our investment process, and factors that we consider in applying the judgement needed to manage and administer the VCF including meeting our obligations under the VCF Act.

We believe that adherence to responsible investment best practice supports managing and administering the VCF in a manner consistent with avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

The RI framework supports the implementation of the climate change investment strategy, and is consistent with the requirement under the Ministerial policy statement issued under the VCF Act for Guardians to "have regard to" the Government's commitment to a low-emissions economy.

RI actions in respect of the VCF (including engagement, exclusion, ensuring integration of ESG issues as well as consideration of positive environmental and social impacts into investment decisions where appropriate) are reflected in the terms of appointment of NZGCP - to undertake investment of all of the VCF on a "fund of funds" basis.

In implementing our RI framework we are conscious of the boundaries of responsibility, the degrees of influence and the different roles and functions that exist between the Guardians, NZGCP as the designated fund of funds manager for the VCF, and the underlying funds and their general partners (GP) / managers as shareholders in companies.

For New Zealand's venture capital markets, good practice can be promoted by NZGCP engaging with the GPs of underlying funds, and those GPs being represented on investee company boards and engaging with investee company management.

6.1 Policy

6.1.1 We are committed to integrating consideration of RI issues into the investment decision making process in respect of the VCF as applicable. We are also committed to having regard to the Government's commitment to a low-emissions economy.

6.1.2 We will maintain and adhere to a RI Framework that (to the extent relevant to the VCF, taking into account the Ministerial policy statement issued under the VCF Act) focuses on:

- Ensuring we meet our obligations under the VCF Act;
- Our investment belief that ESG considerations are fundamental to long-term risk and returns;
- Consideration of investments which provide positive ESG benefits in addition to complying with our mandate under the VCF Act;
- Benchmarking our performance against the RI standards to which we aspire;
- Effective engagement with NZGPC and the advisors we use; and
- Maintaining a robust analytical and decision-making process in responding to breaches of our RI standards.

6.1.3 A constraint on investing in securities excluded by application of our RI Framework is contained in the terms of appointment for NZGCP.

6.2 Standards

6.2.1 Our RI Framework includes references to international standards for guidance on best practice.

6.2.2 We use globally recognised standards in two main ways: 1) to benchmark our own performance (eg UNPRI); and 2) to benchmark the entities we invest in (eg UN Global Compact).

6.2.3 We are committed to the UN-backed Principles for Responsible Investment (PRI). The principles promote integration of ESG issues into investment analysis and asset ownership.

6.2.4 We have adopted the UN Global Compact principles as a benchmark for expected standards of corporate behavior. The UN Global Compact asks companies to embrace, support, and enact within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption measures.

~~6.2.5 We are committed to the UN-backed Principles for Responsible Investment (PRI). The principles promote integration of ESG issues into investment analysis and asset ownership.~~

6.3 Procedures

6.3.1 RI is integrated into investment of the VCF through the RI Framework which,

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to the extent applicable, has been reflected in the terms of appointment of NZGCP to manage the VCF.

6.3.2 Procedures relating to RI are contained or referenced in the RI Framework.

Released under the OIA

7 VCF Management Structure

Section 28(f) – the VCF management structure

As required by the VCF Act, the Guardians have appointed NZGCP to undertake the investment of all of the VCF on a “fund of funds” basis through a limited partnership (the Elevate NZ Venture Fund LP). In the marketplace, the VCF operates under the brand Elevate NZ Venture Fund.

Guardians is the sole limited partner of the Elevate NZ Venture Fund LP. Elevate NZ Venture Fund GP Limited (a subsidiary of NZGCP) is the general partner, and NZGCP is the manager, of the Elevate NZ Venture Fund LP. Accordingly, NZGCP will be responsible for identification and selection of underlying venture capital funds to invest in, and the day to day management and operation of the Elevate NZ Venture Fund LP. The Guardians’ role in relation to those activities will be to apply its usual ongoing manager conviction and monitoring process in relation to NZGCP, and to provide certain specified approvals over key matters in its capacity as limited partner or through representation on a limited partner advisory committee.

7.1 Policy

7.1.1 Policy statements relating to delegations of authority can be found in the *Delegations Policy*.

7.1.2 Policy statements relating to the ongoing monitoring of NZGCP can be found in section 7 (Conviction and Monitoring) of the *Externally Managed Investments Policy*.

7.1.3 Policy statements relating to the selection and appointment of suppliers and external advisers can be found in sections 7 (Procurement) and 8 (Outsourcing) of the *Procurement and Outsourcing Policy*.

7.2 Standards

7.2.1 Standards relating to delegations of authority can be found in the *Delegations Policy*.

7.2.2 Standards relating to the ongoing monitoring of NZGCP can be found in Schedule 3 (Conviction and Monitoring Framework) of the *Externally Managed Investments Policy*.

7.2.3 Standards relating to the selection and appointment of the suppliers and external advisers can be found in Schedules 2 (Procurement Framework) and 3 (Outsourcing Framework) of the *Procurement and Outsourcing Policy*.

7.3 Procedures

7.3.1 Procedures relating to the VCF management structure are referenced to the policies specified above.

8 Governance framework for VCF investment vehicles

Section 28(g) – the governance framework for the implementation and operation of VCF investment vehicles

We may form or control an entity for the purpose of holding, facilitating, or managing the investments of the VCF (a **VCF investment vehicle**).

As at the inception of the VCF, all of the investments of the VCF will be held in a VCF investment vehicle – the Elevate NZ Venture Fund LP. As noted above, the Elevate NZ Venture Fund LP has appointed NZGCP and its subsidiary Elevate NZ Venture Fund GP Limited as manager and general partner respectively. That appointment was required by the VCF Act.

8.1 Policy

8.1.1 A VCF investment vehicle may only be used for the purpose of holding, facilitating or managing investments of the VCF.

8.1.2 The use of a VCF investment vehicle must be consistent with:

- the Guardians' mandate to invest the VCF in New Zealand's venture capital markets using best-practice investment management that is appropriate for institutional investment in those markets, subject to the directions that the VCF Act requires the Guardians to give effect to; and
- avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

8.1.3 It is anticipated that the Elevate NZ Venture Fund Limited Partnership will be the only VCF investment vehicle in respect of the VCF. That VCF investment vehicle will be managed by NZGCP in accordance with NZGCP's terms of appointment. Where appropriate, those terms of appointment reflect the applicable policies in this Statement.

8.1.4 VCF investment vehicles that are controlled by the Guardians will be included in the annual financial statements for the VCF, which financial statements will be audited in accordance with the requirements of [the Public Audit Act 2001](#) and/or other applicable law.

8.1.5 The Official Information Act does not apply to VCF investment vehicles. However, the Act will apply to the Guardians and the Guardians will ensure that the Guardians has the information about VCF investment vehicles necessary for the Guardians to manage and administer the VCF in accordance with its mandate. Policy statements relating to the Official Information Act are found in the *Communications Policy*.

8.2 Standards

8.2.1 As at the inception of the VCF, all of the investments of the VCF will be held in a VCF investment vehicle – the Elevate NZ Venture Fund Limited Partnership. That VCF

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investment vehicle will initially be managed by NZGCP in accordance with NZGCP's terms of appointment. Those terms of appointment reflect the applicable policies in this Statement.

8.2.2 Standards relating to the application of the Official Information Act can be found in the *Communications Policy*.

8.3 Procedures

8.3.1 Applicable procedures relating to the Guardians' investment policies and reporting standards will apply to the holding, facilitating or managing of investments by VCF investment vehicles. Procedures relating to VCF investment vehicles in particular are referenced to this Statement.

Released under the OIA

9 Derivatives, short selling and securities lending

Section 28(h) – the use of derivative financial instruments

The Guardians does not envisage using derivative financial instruments in the course of its role in managing and administering the VCF, and accordingly there is not currently a need for any policies, standards or procedures relating to the use of derivatives.

Released under the OIA

10 Risk Management

Section 28(i) – the management of credit, liquidity, operational, currency, market, and other financial risks

The VCF Act and accompanying Ministerial policy statement require the Guardians to appoint a single manager (NZGCP) to manage the VCF as a fund of funds. It also requires that the VCF is invested in a single asset class (New Zealand venture capital) that is illiquid and carries a high level of investment risk.

The Crown as owner of the VCF is willing to accept the high level of investment risk in order to develop a well-functioning venture capital market in New Zealand to support investment in internationally competitive firms and capabilities which will in turn support New Zealand to shift to a more productive, sustainable, and inclusive economy.

The role of NZGCP is to select private venture capital funds that meet the requisite criteria for investment. In turn, the managers of these private venture capital funds are responsible for making the investment decisions about which businesses to invest in within the parameters of their individual investment mandates, and for appropriately managing the associated investment risk (such as market risk, foreign currency risk, interest rate risk, credit risk, liquidity risk and counterparty risk).

NZGCP will monitor the investment risk of the venture capital funds that it invests in within a monitoring framework agreed with us. We manage the risk associated with the manager of the VCF through on-going monitoring using our conviction process.

Our approach to risk management in respect of the VCF therefore involves:

- including appropriate constraints and prudential requirements in the terms of appointment with NZGCP as the manager for the VCF; and
- our ongoing monitoring and conviction assessment of NZGCP.

10.1 Policy

- 10.1.1 Policy statements relating to the management of applicable risks can be found in sections 7 (Conviction and Monitoring) and 9 (New Investment Implementation) of the *Externally Managed Investments Policy*.

10.2 Standards

- 10.2.1 Standards relating to the management of applicable risks can be found in Schedules 3 (Conviction and Monitoring Framework) and 5 (New Investment Implementation Framework) of the *Externally Managed Investments Policy*.

10.3 Procedures

- 10.3.1 Procedures relating to risk management are referenced to the policies specified above.

11 Valuation of Unlisted Assets

Section 28(j) – the method of, and basis for, valuation of investments that are not regularly traded at a public exchange

The underlying investments of the VCF are not traded on public exchanges. The objective is to value those assets at fair value wherever possible.

11.1 Policy

11.1.1 Policy statements relating to the method and frequency of the valuation of VCF investments can be found in sections 6 (Valuation approach), 7 (Valuation methodology categories), 8 (Hierarchy of fair value), 9 (Independent third party valuers), 10 (Frequency of valuations) and 11 (Consistency of valuations) of the *Investment Valuation Policy*.

11.2 Standards

11.2.1 Standards relating to the valuation of VCF investments can be found in Schedules 2 (Valuation methodology categories) and 3 (Frequency of valuations) of the *Investment Valuation Policy*.

11.2.2 Standards relating to reporting to the Board on valuation matters are found in Schedule 4 (Reporting framework) of the *Investment Valuation Policy*.

11.3 Procedures

11.3.1 Procedures relating to the valuation of unlisted assets are referenced to the Policy specified above.

12 Investment Constraints

Section 28(k) – prohibited or restricted investments or any investment constraints or limits

The VCF Act requires that the VCF is invested into New Zealand's venture capital markets. It also provides for a Ministerial policy statement which contains certain requirements around making capital available through the VCF available to "New Zealand entities" and through funds which have a "New Zealand connection" as defined by the Minister.

Other than these broad requirements, the VCF Act does not proscribe investment in any particular asset or class of assets. Prohibitions and constraints are therefore imposed by the Guardians' policy and can be categorised as follows:

- investments that are prohibited by virtue of the Guardians' Responsible Investment framework (see section 6); and
- the constraints within individual investment mandates – initially, just the terms of the arrangement with NZGCP.

12.1 Policy

12.1.1 We have set investment constraints to manage risk within the investment mandate including the Limited Partnership Agreement with NZGCP.

12.1.2 Policy statements relating to investment constraints arising from application of the Guardians' Responsible Investment framework can be found in section 6 of this Statement.

12.2 Standards

12.2.1 Standards relating to investment constraints arising from application of the Guardians' Responsible Investment framework can be found in the Responsible Investment Framework, available on our website.

12.3 Procedures

12.3.1 Procedures relating to investment constraints are referenced to the policies specified above.

13 Version Control

This is the third version of this Venture Capital Fund Statement of Investment Policies, Standards and Procedures. The history of the evolution of this Statement is as follows:

Version	Approved by Board	Change from Preceding Version
1	21 January 2020	Interim Policy
2	24 June 2020	Annual Review
3	24 June 2021	Annual Review
4	<u>22 June 2022</u>	<u>Annual Review</u>

Released under the OIA



TITLE:

Responsible Investment Framework

Released under the OIA

AUTHOR:

Guardians of New Zealand Superannuation

EVENT | PRESENTATION:

June 2021

Overview

- Policy and Framework
- Standards
- Activities and Procedures

Released under the OIA

Policy and Framework

Our responsibilities under our Act

- Our governing legislation says that we must invest the Fund on a prudent, commercial basis and, in doing so, must manage and administer the Fund in a manner consistent with:
 - Best-practice portfolio management; and
 - Maximising return without undue risk to the Fund as a whole; and
 - Avoiding prejudice to New Zealand’s reputation as a responsible member of the world community
- None of these three legs has precedence over the other so we must manage and administer the Fund in a manner consistent with all three.
- Our Responsible Investment (RI) Framework is consistent with our mandate (s 58) and is intended to provide further detail on standards and provide procedures as referred to in the statement of investment policies, standards and procedures which sections 61(d) and (i) of our Act specify must include:
 - ethical investment including policies, standards and procedures for avoiding prejudice to New Zealand’s reputation as a responsible member of the world community; and
 - the retention, exercise or delegation of voting rights acquired through investments
- Responsible investment has become the predominant framework for what was known as "ethical investment" at the time the Act was passed. Responsible investment is understood internationally to involve considering and giving effect to environmental, social and governance (ESG) factors in investment management. When we refer to the term "Responsible Investment" we see it as encompassing ethical investment. Our own approach to Responsible Investment is also intended to ensure the Fund is managed and administered in a manner consistent with avoiding prejudice to New Zealand’s reputation as a responsible member of the world community.

Policy and Framework

We are committed to integrating consideration of environmental, social and governance (ESG) issues into our investment decision making process

- We will apply standards and procedures that focus on:
 - meeting relevant obligations under our Act
 - our investment belief that “environmental, social and governance considerations including climate change, are fundamental to long-term risk and return”
 - developing guidelines to integrate RI considerations across different types of investments
 - supporting our climate change investment strategy
 - effective engagement with the external investment managers and advisors we use and the companies we invest in
 - exercising our voting rights in investee companies
 - considering investments which provide positive ESG benefits in addition to the required financial return
 - maintaining a robust analytical and decision-making process in responding to investee companies breaching standards contained in our RI framework, including decisions to exclude, or engage with, companies
 - benchmarking our performance against the UN-supported Principles for Responsible Investment (a globally accepted standard)

The Responsible Investment Framework

Governance, Policy and Strategy

Mandate, Beliefs, Values, Philosophy

Work streams

Integration

Ownership

Disclosure
(Company Reporting)

Best Practice and
Collaboration

Communication

P1

P2

P3

P4 and 5

P6

Standards and Benchmarks

Principles for Responsible Investment (PRI) (Principles 1-6)

- United Nations Global Compact (all principles) and other good practice standards

Activities and Procedures (examples)

- Integrate RI considerations including climate change, into the choice of investment opportunities
- Integrate RI guidelines for opportunities and asset classes
- Positive Investment
- Integrate RI into manager selection, monitoring & conviction, and direct investment management

- Stewardship over investment portfolios
- Direct and collaborative engagements with companies
- Corporate Governance & Stewardship Codes, voting guidelines & execution
- Portfolio Monitoring
- Apply exclusions

- Promote good practice ESG reporting by companies
- Disclosure on climate change-related risks, management and emissions

- Participation in Forums and working groups
- Engagement with regulators and advisors
- Collaboration with CFIs and global peers

- Public reporting of RI activity and benchmarking
- Internal reporting
- Stakeholder engagement
- Report on our climate change investment strategy and progress against goals

Standards for investors

■ PRI – RI Principles for Investors

P1-6	GNZS Work Stream	Principle Description
P1	Integration	We will incorporate ESG issues into investment analysis and decision-making processes
P2	Ownership	We will be active owners and incorporate ESG issues into our ownership policies and practices
P3	Disclosure	We will seek appropriate disclosure on ESG issues by the entities in which we invest
P4	Best Practice	We will promote acceptance and implementation of the Principles within the investment industry
P5	Collaboration	We will work together to enhance our effectiveness in implementing the Principles
P6	Communication	We will each report on our activities and progress towards implementing the Principles

ESG Standards for companies

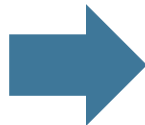
Why these ?

Universally recognised by world community

Signatories include our peers, investment managers and investee companies

Unlikely to be superseded

Corporate Governance guidelines



International Corporate Governance Network; OECD

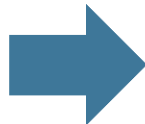
NZ Corporate Governance Forum Guidelines

Industry Standards (other)

Health & Safety Standards

Climate Change-related Industry Standards

UN Global Compact



Subject area

Principles

Human rights

1. Support and respect human rights
2. No complicity in abuses

Labour

3. Uphold freedom of association
4. Eliminate forced/compulsory labour
5. Abolish child labour
6. Eliminate discrimination

Environment

7. Precautionary approach
8. Act to promote greater responsibility
9. Encourage environmentally friendly technologies

Anti-Corruption

10. Work against corruption

Standards for voting

Corporate governance and voting guidelines

- We aim to promote best practice corporate governance as it is in the long-term interests of the Fund.
- Voting rights and engagement with companies are important for maintaining shareholder stewardship and oversight of directors, boards and company policies.
- Our voting guidelines reflect our specific mandate and utilise general best practice principles and guidelines published by the New Zealand Corporate Governance Forum, the NZX, the International Corporate Governance Network (including on Securities Lending) and the OECD.
- Our voting generally follows our customised global voting policy guidelines set out by our elected proxy voting agency and other applicable codes of good practice. We retain our right to instruct voting on shares we own taking account of the individual or market context.
- If we lend securities we will retain our rights to withhold or recall shares to exercise our voting rights. We will maintain guidance on when to withhold or recall shares. We will work with our securities lending agents to encourage good practice standards by borrowers including not borrowing for the primary purpose of voting.

Activities and Procedures: Overview

Overview

- To best satisfy our mandate (s 58), and to further other RI outcomes, we utilise the following activities and procedures, as we consider appropriate:
 - Integration
 - Active ownership;
 - Voting;
 - Monitoring;
 - Engagement; and
 - Exclusion.

Released under the OIA

Activities and Procedures: Integration

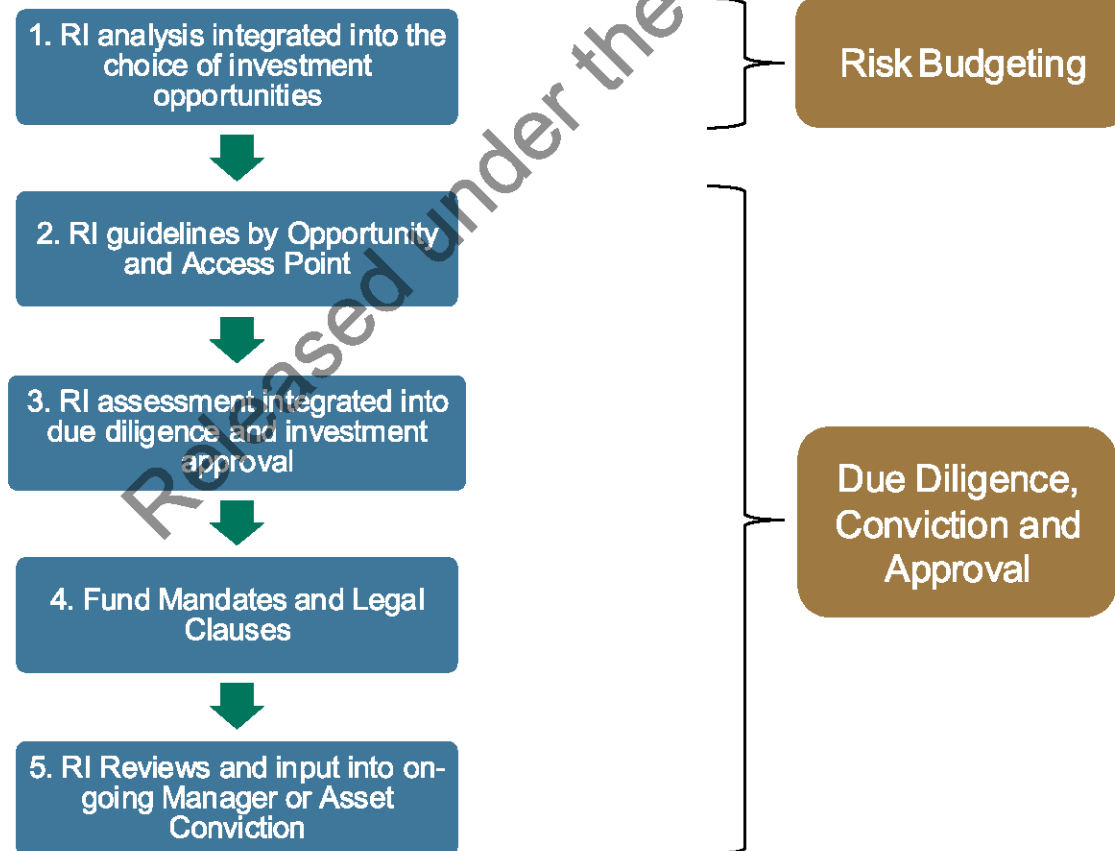
Investment selection and management

- Why integrate RI into investment process?
 - Responsible investors must have concern for environmental, social and governance factors because they are material to long-term returns
 - Investment professionals, managers and advisors can help us to implement our RI policy and meet our PRI commitments
 - It gives effect to our obligations to manage and administer the Fund consistent with s 58(2) of our Act

- Activities include:
 - ESG risks and benefit analysis integrated into prioritisation of investment opportunities
 - Supporting our climate change investment strategy
 - RI guidelines across investment opportunities and access points
 - RI training and education across teams
 - Manager selection, due diligence and ongoing portfolio management
 - Manager RI assessment
 - RI requirements in legal contracts
 - Awareness and management of RI issues
 - Substantial owner & direct investments - RI due diligence, meetings and site visits as required
 - Positive investment – financial + social returns intended
 - Exclusions applied (legal contracts, portfolio monitoring)

Activities and Procedures: Integration

Integration of RI into Investment Framework



Activities and Procedures: Integration

Integrate Positive Investments

- We are committed to considering investments which provide positive social and environmental benefits in addition to the required financial return. We will:
 - identify and consider positive investment opportunities within the investment strategies of the Fund, including those providing climate-related benefits.
 - aim for positive investment mandates that deliver tangible, measurable, social, governance or environmental benefits.
 - develop a positive investment plan to assess:
 - the environmental and social benefit of investment opportunities
 - managers' ability to deliver environmental and social benefit in addition to financial returns
 - integration into the investment framework

Activities and Procedures: Ownership

Active Ownership

- Why is active ownership important?
 - We believe environmental, social and governance considerations, including climate change, are fundamental to long-term risk and return.
 - Institutional investors are “universal owners” and through collaboration can reduce value destroying practices across markets
 - Exercising rights as shareholders helps to reduce agency risk and improve shareholder oversight
- Activities
 - **Governance and Voting** – to encourage high governance standards across markets and asset classes, in particular in the New Zealand market
 - **Monitoring and Engagement** – dialogue with companies over significant breaches of standards or other issues potentially relevant to our Act and to encourage best practice
 - **Substantial owner** – engagement on material RI issues with companies in which we have a significant stake
- **Class actions** – We maintain internal guidance on the approach we take to class actions including considering the loss or disadvantage to the Fund, the severity of the issue, corporate conduct, the cost:benefit of the action, and whether it is in the Fund’s best interests.

Activities and Procedures: Ownership

Voting

- Our voting at company AGMs and EGMs is based on corporate governance and voting guidelines and our mandate, but we respond on a case-by-case basis where special circumstances arise.
- For our overseas holdings we will generally direct our elected proxy voting agency to vote in line with our customised global voting policy. We retain the right to instruct voting decisions on the shares we own.
- For our New Zealand equity holdings, we instruct our voting directly. We consider the recommendations of both our proxy voting agency and our New Zealand investment managers in our New Zealand voting decisions.
- Our customised global voting policy can be found on our website and our proxy voting agency's guidelines can be found at <http://www.issgovernance.com/policy>.
- We will maintain guidelines for circumstances under which we may withhold or recall shares from loan to exercise our full voting rights. We will monitor securities lending and retain a minimum holding of shares to vote in each company on loan.

Activities and Procedures: Ownership

Monitoring

- Our portfolio holdings are monitored by specialist research providers against environmental, social and governance best practice standards.
- Our research providers analyse breaches of these standards by companies to assess if they:
 - Are a significant environmental, social or governance risk;
 - Have a long-term or short-term social impact;
 - Are an isolated incident or a structural problem
- Companies in the MSCI World Index are covered by this service. Companies outside this universe are considered on a case-by-case basis from other relevant sources of information.
- We will undertake additional in-house analysis and seek expert or other input as appropriate.

Released under the OIA

Activities and Procedures: Ownership

Engagement

- We focus our engagement efforts by exercising our judgement and taking into account, (as relevant):
 - our understanding of the significance of the breach
 - strength of grounds to believe a breach may occur, or may have occurred
 - significance of the Fund's holding in the company
 - ability to collaborate with other investors, engage directly with the company or through our external managers and advisors
 - potential effectiveness of engagement (given context and responsiveness)
 - resources required
 - the requirements of our mandate
- Where we consider companies have made sufficient progress, engagement ends and the company is monitored for further breaches.
- We will engage in a manner that is most appropriate in the circumstances, that may include (but is not limited to) direct engagement, engagement via UNPRI collaboration, or outsourcing engagement.
- Where companies have not responded to engagement or we consider engagement is unlikely to be effective, the Guardians may consider whether exclusion is an appropriate response.
- Our engagement priority issues and approach may change over time based on our assessment of overall RI priorities, changes in company practices and other matters.

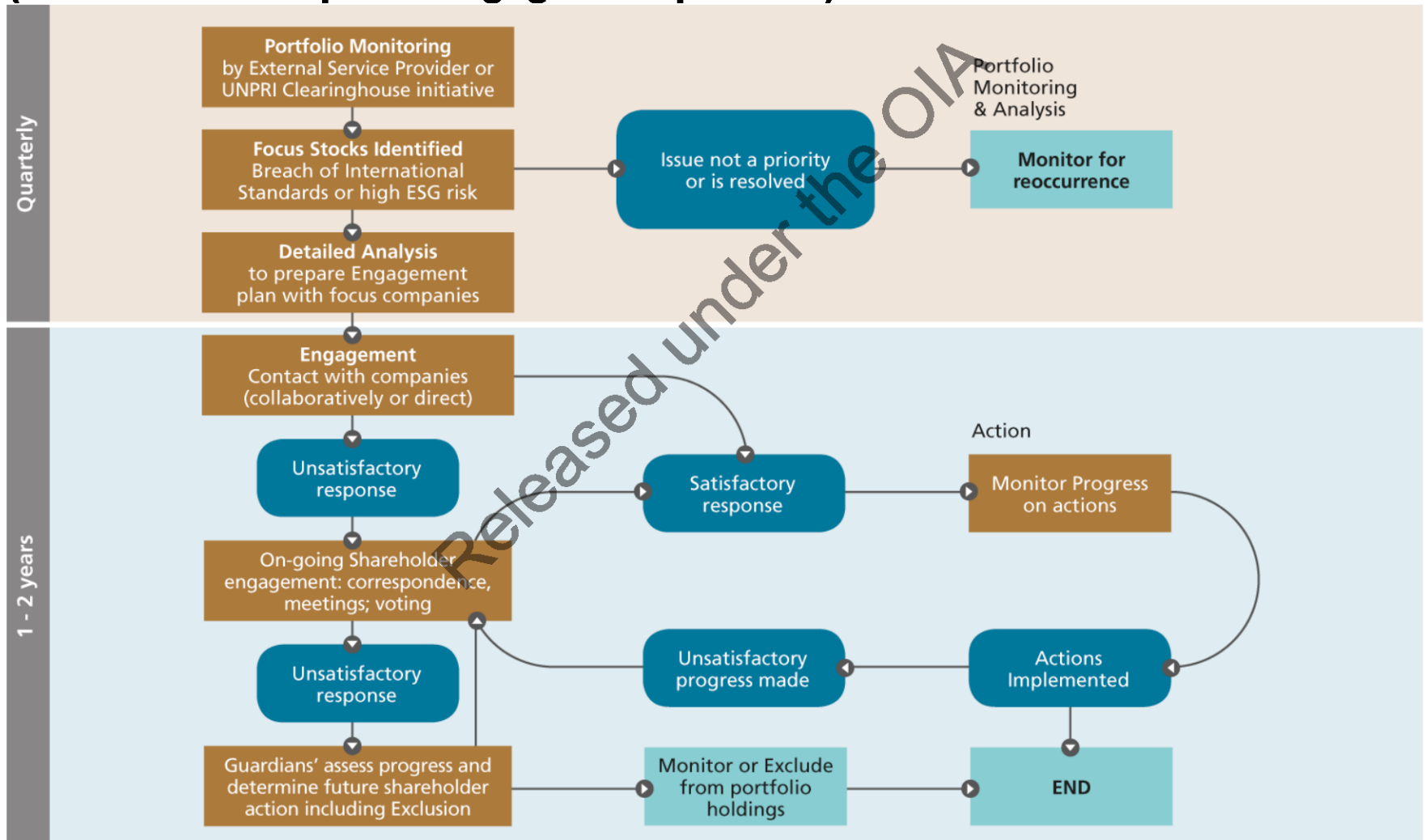
Activities and Procedures: Ownership

Exclusion

- In some limited cases the Fund will exclude securities issued by companies from the portfolio. This may occur where we believe that companies are involved in certain activities or breaches of standards and that exclusion is the appropriate course of action. We exercise judgement in making these decisions and, as relevant, take account of:
 - The requirements of our mandate
 - New Zealand or other national law
 - International law, including conventions to which New Zealand is a signatory
 - Significant policy positions of the New Zealand Government
 - Impact of exclusion on expected Fund returns
 - Actions of our peers
 - Severity of breach/action
 - Likelihood of success of alternative course of action (engagement)
 - Expert or other advice where relevant
 - Other relevant factors on a case-by-case basis
- The Fund will exclude investment in the government bonds of any nation state where:
 - there is widespread condemnation or sanctions by the international community and New Zealand has imposed meaningful diplomatic, economic or military sanctions aimed at that government.
- We endeavour to apply exclusions to Collective Investment Vehicles (CIVs), to the extent this is feasible and commercially prudent. CIVs are evaluated on a case-by-case basis and agreements are entered where possible. The potential for indirect exposure to excluded securities through CIVs is factored into the selection of access points.

Activities and Procedures: Ownership Overview

(schematic example of engagement process)



Activities and Procedures: Disclosure

Corporate Disclosure

- Why encourage companies to report on ESG practices?
 - Integration into investment analysis and ownership activities are dependent on access to relevant ESG information
 - Disclosure on climate change-related risks, management and emissions is important to the implementation of our climate change investment strategy

- Activities
 - Engagement with companies and relevant organisations to encourage ESG disclosure against good practice standards
 - Encourage investment analysts and managers to use this information
 - Encourage reporting on climate change strategy and greenhouse gas emissions

Released under the OIA

Activities and Procedures: Best Practice

■ Why develop RI best practice?

- Statutory requirements of our mandate
- RI is still evolving as a discipline and we want to promote relevant best practice standards
- Promote best practice amongst managers and advisors

■ Activities

- RI Reviews of managers and investments
- PRI and other working groups to develop RI guidelines
- Regional RI industry associations promoting best practice e.g. Responsible Investment Association Australasia (RIAA)
- Conferences, industry reviews, information sharing
- Initiatives on sustainable finance

Released under the OIA

Activities and Procedures: Collaboration

- Why collaborate with other investors?
 - Collaboration is more effective and resource efficient than standing alone
 - RI requires inclusiveness – peers, managers, advisors and stakeholders

- Activities
 - RI Agreement with other Crown Financial Institutions
 - Collaboration with peers on engagement and RI standards
 - Membership of relevant organisations to provide access to global expertise, best practice & education
 - While we collaborate we must also recognise that our mandate may sometimes require us to take positions not shared by other entities

Activities and Procedures: Communication

- Why communicate on RI activities?
 - Benefits internal integration and inclusiveness
 - We are committed to transparency
 - Maintaining stakeholder trust

- Activities
 - Internal reporting to Board, internal committees and team
 - Public reporting
 - PRI assessment and case studies
 - Stakeholder engagement and events

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Document History

Version	Date	Changes/ Modifications	Approved By:	Status
V. 5	19 June 2014	Modified ESG Investment Belief	Board	Final
V. 6	17 June 2015	Change to reflect updated approach to exclusion of government bonds. Also more minor changes to reflect RAP and other initiatives	Board	Final
V.7	21 June 2016	Change to reflect exclusion approach to CIVs and to include NZCGF under ownership and collaboration.	Board	Final
V.8	6 April 2017	Reflect voting rights as part of securities lending program	Board	Final
V.9	19 June 2018	Reflect implementation of the Climate Change Investment Strategy, bringing voting in-house and adding the process for Class Actions to sit within the RI Framework.	Board	Final
V.10	20 June 2019	Updated codes and standards. Include key initiatives on sustainable finance and climate change. Update RI Integration process slide to include direct assets.	Board	Final
V.11	24 June 2020	Update wording for ESG investment belief and minor clarifications.	Board	Final
V.12	24 June 2021	Minor edits for clarification.	Board	Final

From: Cristina Billett [REDACTED]
Sent: Monday, April 4, 2022 9:47 PM
To: [REDACTED]
Subject: RE: RI Section 5 SIPSP - Long and short options

Section 9(2)(a) Privacy

Thanks

Keep me posted.

FYI here is an extract from the Board paper being presented on the RIF/SIPSP (it makes reference to further detail but I can't see this in the paper)

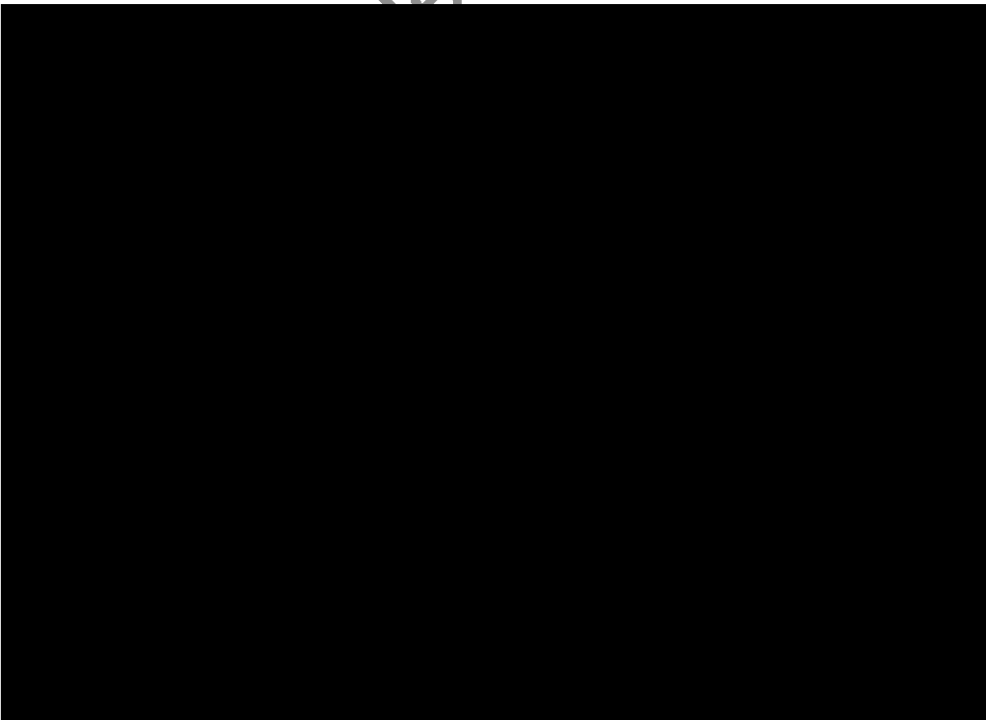
When [REDACTED] had [REDACTED] catch up with Matt I clarified that the window had closed for any material changes to the RIF/SIPSP this year – [REDACTED] and agreed and it said it would be very light touch this year

Cristina

Integration of sustainable finance into the Guardians' SIPSP and RI Framework

The SIPSP is reviewed annually. Work to integrate sustainable finance will be combined with the 2022 review. A workshop with the Legal team was held in December 2021; a work plan has been developed; work on the SIPSP review has started (see below for detail). The draft SIPSP is expected to be completed in March, ready to go to the IC in April and then to Board (June 2022). The Communications team will engage on the changes with Treasury (if required) before the June Board meeting. The Sustainable Finance goals will be introduced into the SIPSP this year with reference to key elements. We envisage that the 2023 update will transition the SIPSP more fully from RI to Sustainable Finance

In progress



Section 9(2)(h) Legal Professional Privilege

Page redacted

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TITLE:

Responsible Investment Framework

AUTHOR:

Guardians of New Zealand Superannuation

EVENT | PRESENTATION:

June 2021

SuperDocs #792787 Version 12

Released under the OIA

Overview

- Policy and Framework
- Standards
- Activities and Procedures

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Policy and Framework

Our responsibilities under our Act

- Our governing legislation says that we must invest the Fund on a prudent, commercial basis and, in doing so, must manage and administer the Fund in a manner consistent with:
 - Best-practice portfolio management; and
 - Maximising return without undue risk to the Fund as a whole; and
 - Avoiding prejudice to New Zealand's reputation as a responsible member of the world community
- None of these three legs has precedence over the other so we must manage and administer the Fund in a manner consistent with all three.
- Our Responsible Investment (RI) Framework is consistent with our mandate (s 58) and is intended to provide further detail on standards and provide procedures as referred to in the statement of investment policies, standards and procedures which sections 61(d) and (f) of our Act specify must include:
 - ethical investment including policies, standards and procedures for avoiding prejudice to New Zealand's reputation as a responsible member of the world community; and
 - the retention, exercise or delegation of voting rights acquired through investments
- Responsible investment has become the predominant framework for what was known as "ethical investment" at the time the Act was passed. Responsible investment is understood internationally to involve considering and giving effect to environmental, social and governance (ESG) factors in investment management. When we refer to the term "Responsible Investment" we see it as encompassing ethical investment. Our own approach to Responsible Investment is also intended to ensure the Fund is managed and administered in a manner consistent with avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

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Slide 3

This section is replaced by the Introduction to SIPSP Section 5. Other than the three legs to the mandate which we could keep in RI Framework - perhaps it should be in Section 5 as well.

29/04/2022

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Policy and Framework

We are committed to integrating consideration of environmental, social and governance (ESG) issues into our investment decision making process

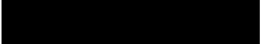
- We will apply standards and procedures that focus on:
 - meeting relevant obligations under our Act
 - our investment belief that “environmental, social and governance considerations including climate change, are fundamental to long-term risk and return”
 - developing guidelines to integrate RI considerations across different types of investments
 - supporting our climate change investment strategy
 - effective engagement with the external investment managers and advisors we use and the companies we invest in
 - exercising our voting rights in investee companies
 - considering investments which provide positive ESG benefits in addition to the required financial return
 - maintaining a robust analytical and decision-making process in responding to investee companies breaching standards contained in our RI framework, including decisions to exclude, or engage with, companies
 - benchmarking our performance against the UN-supported Principles for Responsible Investment (a globally accepted standard)

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Slide 4

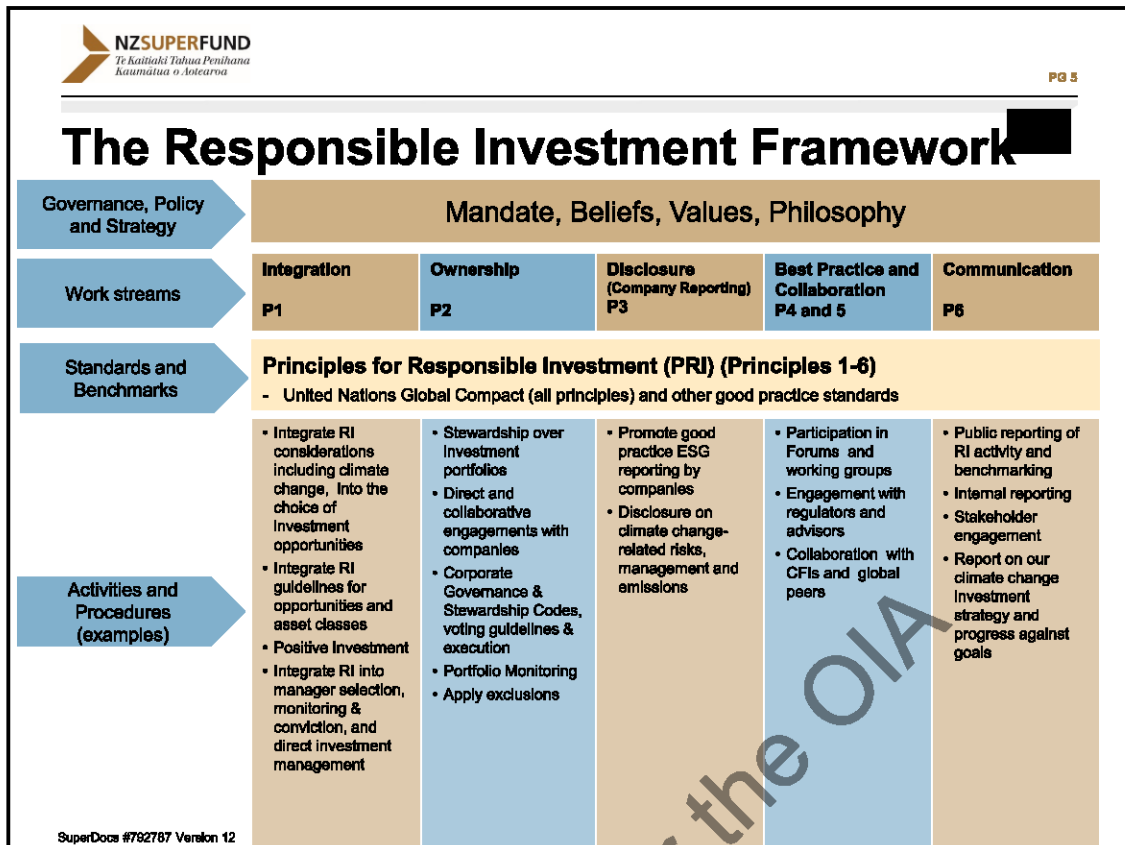


Content in this slide is included in new RI Framework in full.



29/04/2022

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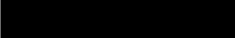


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Slide 5



This has been removed all together - repetitive and too much detail.

 29/04/2022

Released under the OIA

Standards for investors

■ PRI – RI Principles for Investors

P1-6	GNZS Work Stream	Principle Description
P1	Integration	We will incorporate ESG issues into investment analysis and decision-making processes
P2	Ownership	We will be active owners and incorporate ESG issues into our ownership policies and practices
P3	Disclosure	We will seek appropriate disclosure on ESG issues by the entities in which we invest
P4	Best Practice	We will promote acceptance and implementation of the Principles within the investment industry
P5	Collaboration	We will work together to enhance our effectiveness in implementing the Principles
P6	Communication	We will each report on our activities and progress towards implementing the Principles

Released under the OIA

Slide 6

The detail of the standard has been removed but we could expand the RI Framework Standards section with the 6 principles.

29/04/2022

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NZSUPERFUND
Te Kaitiaki Takekōwhiri
Kaumātua o Aotearoa

PG 7

ESG Standards for companies

Corporate Governance guidelines →

Industry Standards (other)

UN Global Compact →

Why these ?	
Universally recognised by world community	
Signatories include our peers, investment managers and investee companies	
Unlikely to be superseded	

International Corporate Governance Network; OECD	
NZ Corporate Governance Forum Guidelines	
Health & Safety Standards	
Climate Change-related Industry Standards	

Subject area	Principles
Human rights	1. Support and respect human rights 2. No complicity in abuses
Labour	3. Uphold freedom of association 4. Eliminate forced/compulsory labour 5. Abolish child labour 6. Eliminate discrimination
Environment	7. Precautionary approach 8. Act to promote greater responsibility 9. Encourage environmentally friendly technologies
Anti-Corruption	10. Work against corruption

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Slide 7

Removed as the best standards to assess companies on vary according to the context. Also this is more relevant as part of procedure - but I have left reference to corporate standards in the SIPSP and RI Framework standards section. I do think our legisaltin is really asking what standards we apply to ourselves though.

29/04/2022

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Standards for voting

Corporate governance and voting guidelines

- We aim to promote best practice corporate governance as it is in the long-term interests of the Fund.
- Voting rights and engagement with companies are important for maintaining shareholder stewardship and oversight of directors, boards and company policies.
- Our voting guidelines reflect our specific mandate and utilise general best practice principles and guidelines published by the New Zealand Corporate Governance Forum, the NZX, the International Corporate Governance Network (including on Securities Lending) and the OECD.
- Our voting generally follows our customised global voting policy guidelines set out by our elected proxy voting agency and other applicable codes of good practice. We retain our right to instruct voting on shares we own taking account of the individual or market context.
- If we lend securities we will retain our rights to withhold or recall shares to exercise our voting rights. We will maintain guidance on when to withhold or recall shares. We will work with our securities lending agents to encourage good practice standards by borrowers including not borrowing for the primary purpose of voting.

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Slide 8



Updated to be consistent with Section 5 SIPSP on the Standards. The other points in this slide are not about standards but are policy or procedures.



29/04/2022

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Activities and Procedures: Overview

Overview

- To best satisfy our mandate (s 58), and to further other RI outcomes, we utilise the following activities and procedures, as we consider appropriate:
 - Integration
 - Active ownership;
 - Voting;
 - Monitoring;
 - Engagement; and
 - Exclusion.

Released under the OIA

Activities and Procedures: Integration

Investment selection and management

- Why integrate RI into investment process?
 - Responsible investors must have concern for environmental, social and governance factors because they are material to long-term returns
 - Investment professionals, managers and advisors can help us to implement our RI policy and meet our PRI commitments
 - It gives effect to our obligations to manage and administer the Fund consistent with s 58(2) of our Act

- Activities include
 - ESG risks and benefit analysis integrated into prioritisation of investment opportunities
 - Supporting our climate change investment strategy
 - RI guidelines across investment opportunities and access points
 - RI training and education across teams
 - Manager selection, due diligence and ongoing portfolio management
 - Manager RI assessment
 - RI requirements in legal contracts
 - Awareness and management of RI issues
 - Substantial owner & direct investments - RI due diligence, meetings and site visits as required
 - Positive investment – financial + social returns intended
 - Exclusions applied (legal contracts, portfolio monitoring)

Released under the OIA

Slide 10

This is a communications statement not a policy standard or procedure.

29/04/2022

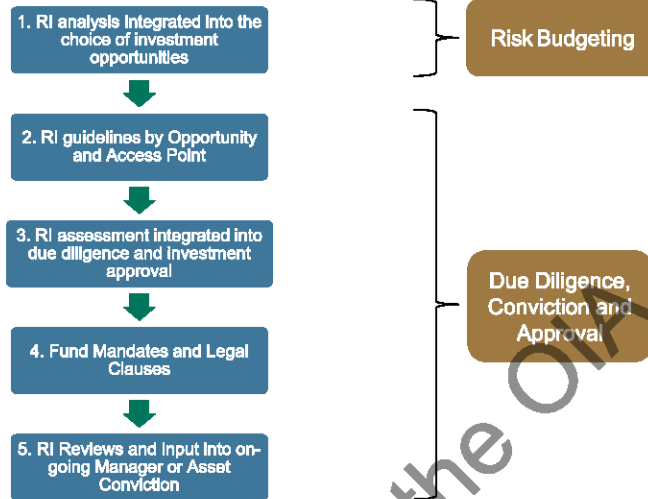
I have removed this level of detail from the RI Framework as part of the SIPSP. IT is more appropriate for a more detailed communications guidance document. We may not comply with all these activities all the time.

29/04/2022

Released under the OIA

Activities and Procedures: Integration

Integration of RI into Investment Framework



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Slide 11

Same comment as for Slide 10. We will still publish a document describing in more detail what we mean by Integration.

29/04/2022

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Activities and Procedures: Integration

Integrate Positive Investments

- We are committed to considering investments which provide positive social and environmental benefits in addition to the required financial return. We will:
 - identify and consider positive investment opportunities within the investment strategies of the Fund, including those providing climate-related benefits.
 - aim for positive investment mandates that deliver tangible, measurable, social, governance or environmental benefits.
 - develop a positive investment plan to assess:
 - the environmental and social benefit of investment opportunities
 - managers' ability to deliver environmental and social benefit in addition to financial returns
 - integration into the investment framework

Released under the OIA

Activities and Procedures: Ownership

Active Ownership

- **Why is active ownership important?**
 - We believe environmental, social and governance considerations, including climate change, are fundamental to long-term risk and return.
 - Institutional investors are “universal owners” and through collaboration can reduce value destroying practices across markets
 - Exercising rights as shareholders helps to reduce agency risk and improve shareholder oversight
- **Activities**
 - **Governance and Voting** – to encourage high governance standards across markets and asset classes, in particular in the New Zealand market
 - **Monitoring and Engagement** – dialogue with companies over significant breaches of standards or other issues potentially relevant to our Act and to encourage best practice
 - **Substantial owner** – engagement on material RI issues with companies in which we have a significant stake
- **Class actions** – We maintain internal guidance on the approach we take to class actions including considering the loss or disadvantage to the Fund, the severity of the issue, corporate conduct, the cost:benefit of the action, and whether it is in the Fund's best interests.

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Slide 13



Same comment as for Slide 10



29/04/2022

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Activities and Procedures: Ownership

Voting

- Our voting at company AGMs and EGMs is based on corporate governance and voting guidelines and our mandate, but we respond on a case-by-case basis where special circumstances arise. [REDACTED]
- For our overseas holdings we will generally direct our elected proxy voting agency to vote in line with our customised global voting policy. We retain the right to instruct voting decisions on the shares we own. [REDACTED]
- For our New Zealand equity holdings, we instruct our voting directly. We consider the recommendations of both our proxy voting agency and our New Zealand investment managers in our New Zealand voting decisions. [REDACTED]
- Our customised global voting policy can be found on our website and our proxy voting agency's guidelines can be found at <http://www.issgovernance.com/policy>. [REDACTED]
- We will maintain guidelines for circumstances under which we may withhold or recall shares from loan to exercise our full voting rights. We will monitor securities lending and retain a minimum holding of shares to vote in each company on loan. [REDACTED]

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Slide 14

Retained in RI Framework 2022

██████████ 29/04/2022

Retained in RI Framework 2022

██████████ 29/04/2022

Updated - although I will edit as is a bit clunky. " We put in place voting processes including adopting voting policies and guidelines and exercising our votes at shareholder meetings. Our voting is based on corporate governance and voting guidelines, but we respond on a case-by-case basis when voting directly or where special circumstances arise. We report on our voting activities publicly.

██████████ 29/04/2022

left this bullet point out as do not like links in policy documents.

██████████ 29/04/2022

Have a more direct statement - "we may withhold or recall shares from loan to exercise our our voting rights". Suggest though I add the monitoring securities lending back in.

██████████ 29/04/2022

Released under the OIA

Activities and Procedures: Ownership

Monitoring

- Our portfolio holdings are monitored by specialist research providers against environmental, social and governance best practice standards.
- Our research providers analyse breaches of these standards by companies to assess if they:
 - Are a significant environmental, social or governance risk;
 - Have a long-term or short-term social impact;
 - Are an isolated incident or a structural problem
- Companies in the MSCI World Index are covered by this service. Companies outside this universe are considered on a case-by-case basis from other relevant sources of information.
- We will undertake additional in-house analysis and seek expert or other input as appropriate.

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Slide 15

[REDACTED] This whole slide simplified into Clause 1.3.5 - it has detail that could date. In the RI Framework we make a simple statement that we need to focus our efforts. I am not sure we need to explain in detail how we do that.

[REDACTED] 29/04/2022

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Activities and Procedures: Ownership Engagement

- We focus our engagement efforts by exercising our judgement and taking into account, (as relevant):
 - our understanding of the significance of the breach
 - strength of grounds to believe a breach may occur, or may have occurred
 - significance of the Fund's holding in the company
 - ability to collaborate with other investors, engage directly with the company or through our external managers and advisors
 - potential effectiveness of engagement (given context and responsiveness)
 - resources required
 - the requirements of our mandate
- Where we consider companies have made sufficient progress, engagement ends and the company is monitored for further breaches.
- We will engage in a manner that is most appropriate in the circumstances, that may include (but is not limited to) direct engagement, engagement via UNPRI collaboration, or outsourcing engagement.
- Where companies have not responded to engagement or we consider engagement is unlikely to be effective, the Guardians may consider whether exclusion is an appropriate response.
- Our engagement priority issues and approach may change over time based on our assessment of overall RI priorities, changes in company practices and other matters.

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Slide 16

[REDACTED] I have left the content of this slide out of the RI Framework. It is too much detail to comply with. It is also somewhat repetitive of points in next slide.

[REDACTED] 29/04/2022

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Activities and Procedures: Ownership Exclusion

- In some limited cases the Fund will exclude securities issued by companies from the portfolio. This may occur where we believe that companies are involved in certain activities or breaches of standards and that exclusion is the appropriate course of action. We exercise judgement in making these decisions and, as relevant, take account of:
 - The requirements of our mandate
 - New Zealand or other national law
 - International law, including conventions to which New Zealand is a signatory
 - Significant policy positions of the New Zealand Government
 - Impact of exclusion on expected Fund returns
 - Actions of our peers
 - Severity of breach/action
 - Likelihood of success of alternative course of action (engagement)
 - Expert or other advice where relevant
 - Other relevant factors on a case-by-case basis
- The Fund will exclude investment in the government bonds of any nation state where:
 - there is widespread condemnation or sanctions by the international community and New Zealand has imposed meaningful diplomatic, economic or military sanctions aimed at that government.
- We endeavour to apply exclusions to Collective Investment Vehicles (CIVs), to the extent this is feasible and commercially prudent. CIVs are evaluated on a case-by-case basis and agreements are entered where possible. The potential for indirect exposure to excluded securities through CIVs is factored into the selection of access points

Released under the OIA

Slide 17

The factors we analyse listed in this slide are relevant for both monitoring engagement and exclusion. I have lifted all these points into a separate clause on RI analysis and judgement. 1.3.10

29/04/2022

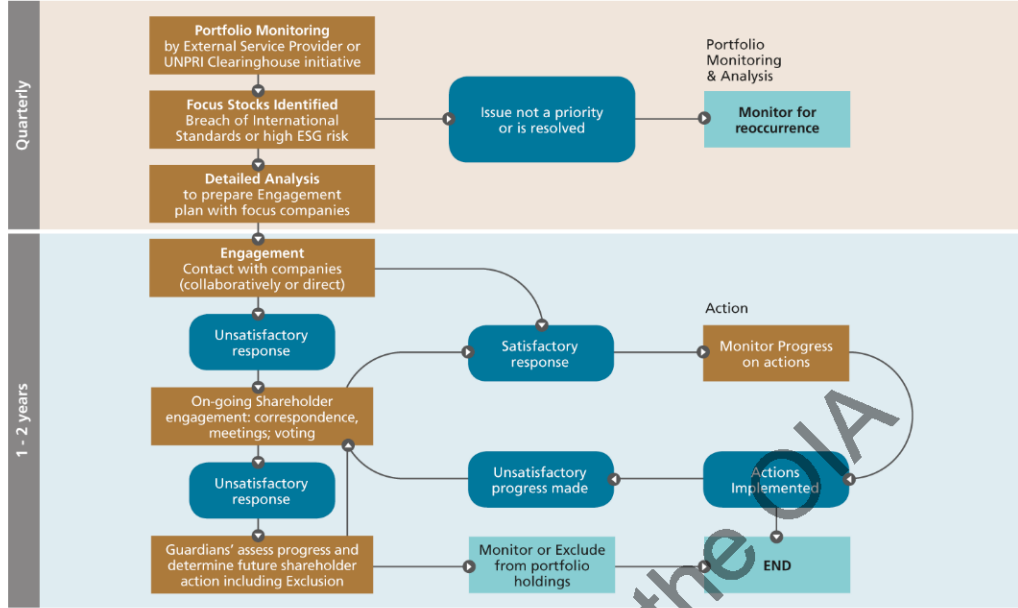
This is now 1.3.9 in full.

29/04/2022

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Activities and Procedures: Ownership Overview

(schematic example of engagement process)



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Slide 18



I have left this descriptive slide out - it is a communicaitons tool and as per comment on slide 10 too much detail.

29/04/2022

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Activities and Procedures: Disclosure

Corporate Disclosure

- Why encourage companies to report on ESG practices?
 - Integration into investment analysis and ownership activities are dependent on access to relevant ESG information
 - Disclosure on climate change-related risks, management and emissions is important to the implementation of our climate change investment strategy

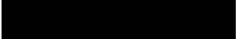
- Activities [REDACTED]
 - Engagement with companies and relevant organisations to encourage ESG disclosure against good practice standards
 - Encourage investment analysts and managers to use this information
 - Encourage reporting on climate change strategy and greenhouse gas emissions

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Slide 19




summarise: 1.3.6 as part of engagement



29/04/2022

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Activities and Procedures: Best Practice

- Why develop RI best practice?
 - Statutory requirements of our mandate
 - RI is still evolving as a discipline and we want to promote relevant best practice standards
 - Promote best practice amongst managers and advisors
- Activities 
 - RI Reviews of managers and investments
 - PRI and other working groups to develop RI guidelines
 - Regional RI industry associations promoting best practice e.g. Responsible Investment Association Australasia (RIAA)
 - Conferences, industry reviews, information sharing
 - Initiatives on sustainable finance

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Slide 20

Content in this slide is not included - prefer we refer to best practice standard UNPRI as the main guide as we do in the SIPSP. Activities also change and evolve in terms of who we work with. Captured in other communications

29/04/2022

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Activities and Procedures: Collaboration

- Why collaborate with other investors?
 - Collaboration is more effective and resource efficient than standing alone
 - RI requires inclusiveness – peers, managers, advisors and stakeholders

- Activities
 - RI Agreement with other Crown Financial Institutions
 - Collaboration with peers on engagement and RI standards
 - Membership of relevant organisations to provide access to global expertise, best practice & education
 - While we collaborate we must also recognise that our mandate may sometimes require us to take positions not shared by other entities

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Slide 21



Same comment as for Slide 20. We report on these things in our Annual Report in RI Section.

 29/04/2022

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Activities and Procedures: Communication

- Why communicate on RI activities?
 - Benefits internal integration and inclusiveness
 - We are committed to transparency
 - Maintaining stakeholder trust

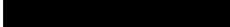
- Activities
 - Internal reporting to Board, internal committees and team
 - Public reporting
 - PRI assessment and case studies
 - Stakeholder engagement and events

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Slide 22



Not in the RI Framework - replaced by 1.3.15 clause on Communication.

 29/04/2022

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Document History

Version	Date	Changes/ Modifications	Approved By:	Status
V. 5	19 June 2014	Modified ESG Investment Belief	Board	Final
V. 6	17 June 2015	Change to reflect updated approach to exclusion of government bonds. Also more minor changes to reflect RAP and other initiatives	Board	Final
V.7	21 June 2016	Change to reflect exclusion approach to CIVs and to include NZCGF under ownership and collaboration.	Board	Final
V.8	6 April 2017	Reflect voting rights as part of securities lending program	Board	Final
V.9	19 June 2018	Reflect implementation of the Climate Change Investment Strategy, bringing voting in-house and adding the process for Class Actions to sit within the RI Framework.	Board	Final
V.10	20 June 2019	Updated codes and standards. Include key initiatives on sustainable finance and climate change. Update RI Integration process slide to include direct assets.	Board	Final
V.11	24 June 2020	Update wording for ESG Investment belief and minor clarifications.	Board	Final
V.12	24 June 2021	Minor edits for clarification.	Board	Final

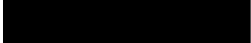
SuperDocs #792787 Version 12

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Slide 23



I need to carry this Table over and give explanation for the Changes. I will draft this.



29/04/2022

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Page redacted

Catherine Etheredge

From: [REDACTED] Section 9(2)(a) Privacy
Sent: Wednesday, 4 May 2022 5:01 pm
To: Stephen Gilmore
Subject: RE: Annual SIPSP/RI Framework and Underlying Policies Review - Confirmation ready for GM final review
Attachments: 3400619-1-Responsible_Investment_Framework_2022_-_SIPSP_Review.DOC.DRF;
 3398221-1-SIPSP_Review_-_Section_5
 _RI_Penultimate_-_ [REDACTED] edits_(2022-04-01).DOC.DRF
Section 9(2)(a) Privacy

Hi Stephen

Sorry for the delay - [REDACTED]

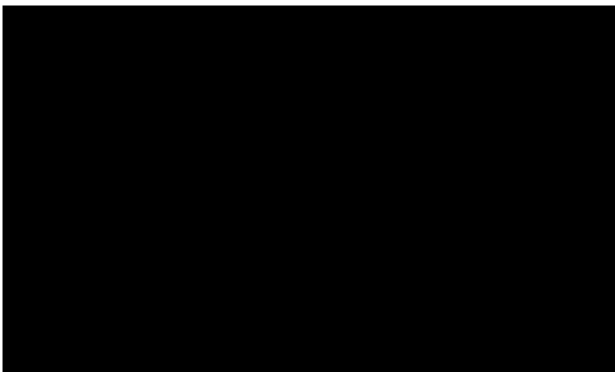
Section 9(2)(h) Legal Professional Privilege

Please review the attached RI Framework. One edit is I need to correct page numbering.

I am unable to reopen the SIPSP document.

Please look at Section 5 in the attached SIPSP – and I will ensure the few changes to this and any comments you make are transferred into the formal #3389200.

Thank you



Section 9(2)(a) Privacy

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From: [REDACTED]
Sent: Wednesday, 4 May 2022 8:12 AM
To: [REDACTED]
Cc: Stephen Gilmore [REDACTED]
Subject: Annual SIPSP/RI Framework and Underlying Policies Review - Confirmation ready for GM final review

Morena all,

Checking that you have all now completed your part in this review so SG can now do his final checks which he has time blocked today to complete. Any speedbumps please advise.

Thanks

Section 9(2)(a) Privacy



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Please consider the environment before printing this e-mail.

From: [Redacted]
Sent: Friday, 29 April 2022 5:00 PM
To: [Redacted]
Cristina Billett
George Crosby [Redacted] Mark Fennell
[Redacted] Paula Steed
[Redacted] Stephen Gilmore
[Redacted]

Subject: REMINDER: Annual SIPSP/RI Framework and Underlying Policies Review - Confirmation due by Friday, 6 May

Hi Team,

A friendly reminder that GM Annual Confirmations are **due by next Friday, 6 May**.

Thank you to those who have already emailed their confirmations.

Have a great weekend!



From: [Redacted]
Sent: Friday, 1 April 2022 2:31 pm
To: [Redacted]
Cristina Billett
George Crosby [Redacted]
Mark Fennell [Redacted]

[Redacted]; Paula Steed [Redacted] Stephen Gilmore

Subject: Annual SIPSP/RI Framework and Underlying Policies Review - Confirmation due by Friday, 6 May

Hi Team,

Each year our **SIPSP** (NZ Super Fund), the **VCF SIPSP** (Elevate Fund), **RI Framework** (part of each SIPSP) and the **Policies** underlying each SIPSP need to be reviewed to confirm they are *“current and fit for purpose” (in line with relevant legislation and the Guardians’ vision, purpose values and strategy)*.

By **Friday, 6 May 2022**, GMs responsible for each SIPSP / RI Framework / relevant Policies are required to send Corporate Affairs [Redacted] and myself) the following confirmation:

“The relevant policies, standards and procedures for which I am responsible, have been reviewed and are:

- a) fit for purpose; and*
- b) are consistent with the statutory investment mandate for the relevant Fund.*

I am not aware of material non-compliance issues.”

Attached is a set of questions/items to consider when undertaking your policy review. Please note Strategic Development [Redacted] will be checking all policies for changes to reflect the new purpose and vision and any updates required will be included in our annual SIPSP paper.

So what’s required by **Friday, 6 May**?

1. **Heads** (please see the three tables below)
 - a. **Review** the **SIPSP sections** I’ve noted your name against and mark-up any changes required in the attached doc (**# 3389200 – to be set up in Teams**)
 - b. **Review** the **policies that underlie each SIPSP** (noted in the second table below, again with suggested reviewers) so your GM can complete the confirmation above. Please advise me (and copy your GM) of any changes you’d like to make to these policies, so we can include them in a Risk Committee paper due by **12 May** (which will then go to the Board).
 - c. **Review** the **VCF SIPSP sections** I’ve noted your name against and mark-up any changes required in the attached doc (**# 3389254 – to be set up in Teams**)
2. **GMs** - Please send me the confirmation noted above by **Friday, 6 May**.

a. **SIPSP (NZ Super Fund) Sections for review** (see #3389200 attached – I will upload into Teams – please preserve all ‘tracked changes’, do not accept any marked up changes)

Suggested Reviewer	SIPSP Section	GM Owner
[Redacted]	[Redacted]	[Redacted]
[Redacted]	5. Responsible Investment	Stephen G
[Redacted]	RI Framework PPT (see #3389179 attached)	Stephen G
[Redacted]	[Redacted]	[Redacted]

Out of Scope

Section 9(2)(a) Privacy

Out of Scope

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Out of Scope

b. Policies underlying the SIPSP to be reviewed (see current versions on the Supercharged policy page – I can provide a MSWord version if you need to make changes)

Suggested Reviewer	Policy	GM Owner

Out of Scope

c. VCF SIPSP (Elevate Fund) Sections for review (see #3389254 attached – I will upload into Teams – please preserve all ‘tracked changes’, do not accept any marked up changes)

Suggested Reviewer	VCF SIPSP Section	GM Owner
	6. Responsible Investment	Stephen G

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Out of Scope

Thank you,



Section 9(2)(a) Privacy

From: [REDACTED]
Sent: Thursday, 5 May 2022 4:20 pm
To: [REDACTED] Stephen Gilmore; [REDACTED]
Cc: [REDACTED]
Subject: RE: Annual SIPSP/RI Framework and Underlying Policies Review - Confirmation due by Friday, 6 May
Attachments: 3398221-1-SIPSP_Review_-_Section_5_RI_Penultimate_-_edits_(2022-04-01).DOC.DRF

See attached.

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From: [REDACTED]
Sent: Thursday, 5 May 2022 4:07 PM
To: [REDACTED]
Cc: [REDACTED]
Subject: RE: Annual SIPSP/RI Framework and Underlying Policies Review - Confirmation due by Friday, 6 May

Thank you [REDACTED]

Yes please send through the other version and I will file this along with Stephen's confirmation email.

Thank you,
 [REDACTED]

From: [REDACTED]
Sent: Thursday, 5 May 2022 3:47 pm
To: [REDACTED]

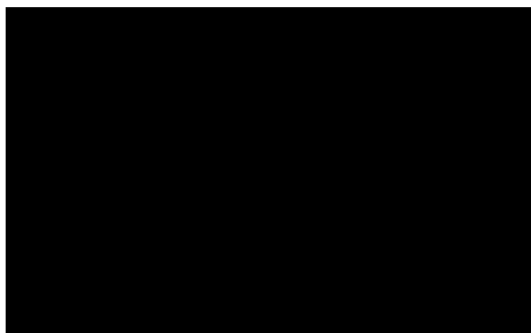
Subject: RE: Annual SIPSP/RI Framework and Underlying Policies Review - Confirmation due by Friday, 6 May

Hi [REDACTED]
 The section 5 changes have been integrated into the #3389200 (if you want the other version let me know).

Find attached the updated RI Framework Stephen is referring to which will now take the place of the old Powerpoint version.

Feel free to rename the document appropriately.

Thank you



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From: Stephen Gilmore [Redacted]
Sent: Thursday, 5 May 2022 2:54 PM
To: [Redacted]
Cc: [Redacted]
Subject: RE: Annual SIPSP/RI Framework and Underlying Policies Review - Confirmation due by Friday, 6 May

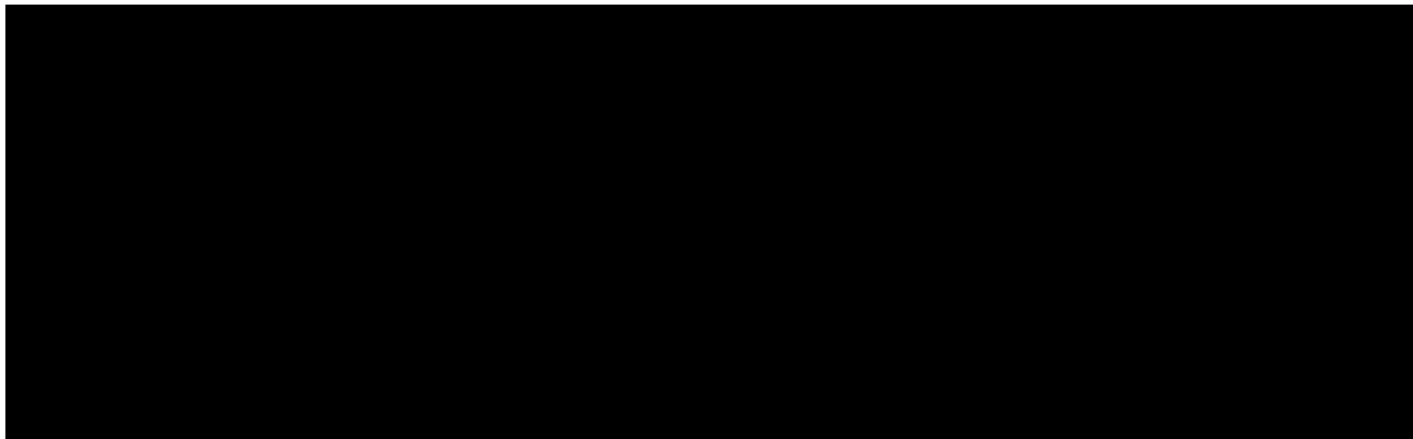
I confirm that the relevant policies, standards and procedures for which I am responsible, have been reviewed and are:

- a) fit for purpose; and
- b) are consistent with the statutory investment mandate for the relevant Fund.

I am not aware of material non-compliance issues.

In reviewing the material please note the following observations:

Out of Scope



137

4. I looked at two versions of Section 5 of the SIPSP on RI. The separate updated version edited by [REDACTED] is the version I signed off on. That has to be integrated into the final SIPSP. [REDACTED] has been copied for reference.

Stephen

From: [REDACTED]

Sent: Friday, 1 April 2022 2:31 PM

To: [REDACTED]

Cristina Billett

George Crosby

Mark Fennell

Paula Steed

Stephen Gilmore

Subject: Annual SIPSP/RI Framework and Underlying Policies Review - Confirmation due by Friday, 6 May

Hi Team,

Each year our **SIPSP** (NZ Super Fund), the **VCF SIPSP** (Elevate Fund), **RI Framework** (part of each SIPSP) and the **Policies** underlying each SIPSP need to be reviewed to confirm they are *“current and fit for purpose” (in line with relevant legislation and the Guardians’ vision, purpose values and strategy)*.

By **Friday, 6 May 2022**, GMs responsible for each SIPSP / RI Framework / relevant Policies are required to send Corporate Affairs [REDACTED] and myself) the following confirmation:

“The relevant policies, standards and procedures for which I am responsible, have been reviewed and are:

a) fit for purpose; and

b) are consistent with the statutory investment mandate for the relevant Fund.

I am not aware of material non-compliance issues.”

Attached is a set of questions/items to consider when undertaking your policy review. Please note Strategic Development [REDACTED] will be checking all policies for changes to reflect the new purpose and vision and any updates required will be included in our annual SIPSP paper.

So what’s required by **Friday, 6 May**?

1. **Heads** (please see the three tables below)
 - a. **Review the SIPSP sections** I’ve noted your name against and mark-up any changes required in the attached doc (# 3389200 – to be set up in Teams)
 - b. **Review the policies that underlie each SIPSP** (noted in the second table below, again with suggested reviewers) so your GM can complete the confirmation above.
Please advise me (and copy your GM) of any changes you’d like to make to these policies, so we can include them in a Risk Committee paper due by **12 May** (which will then go to the Board).
 - c. **Review the VCF SIPSP sections** I’ve noted your name against and mark-up any changes required in the attached doc (# 3389254 – to be set up in Teams)
2. **GMs** - Please send me the confirmation noted above by **Friday, 6 May**.

a. **SIPSP (NZ Super Fund) Sections for review** (see #3389200 attached – I will upload into Teams – please preserve all ‘tracked changes’, do not accept any marked up changes)

Suggested Reviewer	SIPSP Section	GM Owner
[Redacted]	[Redacted]	[Redacted]
[Redacted]	5. Responsible Investment	Stephen G
[Redacted]	RI Framework PPT (see #3389179 attached)	Stephen G
[Redacted]	[Redacted]	[Redacted]

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Out of Scope

b. Policies underlying the SIPSP to be reviewed (see current versions on the Supercharged policy page – I can provide a MSWord version if you need to make changes)

Suggested Reviewer	Policy	GM Owner
[Redacted]	[Redacted]	[Redacted]

Out of Scope

c. VCF SIPSP (Elevate Fund) Sections for review (see #3389254 attached – I will upload into Teams – please preserve all ‘tracked changes’, do not accept any marked up changes)

Suggested Reviewer	VCF SIPSP Section	GM Owner
[Redacted]	[Redacted]	[Redacted]
[Redacted]	6. Responsible Investment	Stephen G
[Redacted]	[Redacted]	[Redacted]

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Out of Scope

Thank you,

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1 Introduction

1.1 Purpose

This Statement of Investment Policies, Standards and Procedures (Statement) establishes the framework set by the Guardians of New Zealand Superannuation (Guardians) for the governance and investment of the New Zealand Superannuation Fund (Fund) by providing a clear statement of the investment policies, standards and procedures that must be adhered to in investing the Fund.

In establishing and adhering to the policies, standards and procedures, Guardians must exercise its expert judgement. Guardians operates independently of the government and utilises its substantial experience, training, and expertise in the management of financial investments in its role.

1.2 Legislative Requirements

Section 37 of the New Zealand Superannuation and Retirement Income Act 2001 (Act) establishes the Fund.

Section 40 of the Act provides that the Fund is the property of the Crown.

Section 48 of the Act and s 7 of the Crown Entities Act 2004 establishes the Guardians of New Zealand Superannuation as an Autonomous Crown Entity.

Section 51 makes it a function of the Guardians to manage and administer the Fund in accordance with the Act.

Section 58(2) Act requires the Guardians to:

"invest the Fund on a prudent, commercial basis and, in doing so, must manage and administer the Fund in a manner consistent with –

- (a) best-practice portfolio management; and
- (b) maximising return without undue risk to the Fund as a whole; and
- (c) avoiding prejudice to New Zealand's reputation as a responsible member of the world community."

Section 60 of the Act requires that:

- (1) "The Guardians must establish, and adhere to, investment policies, standards and procedures for the Fund that are consistent with its duty to invest the Fund on a prudent, commercial basis, in accordance with Section 58; and
- (2) The Guardians must review those investment policies, standards and procedures for the Fund at least annually."

Section 61 of the Act requires that:

"A statement of investment policies, standards and procedures must cover (but is not limited to) –

- (a) the classes of investments in which the Fund is to be invested and the selection criteria for investments within those classes; and
- (b) the determination of benchmarks or standards against which the performance of the Fund as a whole, and classes of investments and individual investments will be assessed; and
- (c) standards for reporting the investment performance of the Fund; and
- (d) ethical investment, including policies, standards or procedures for avoiding prejudice to New Zealand's reputation as a responsible member of the world community; and
- (e) the balance between risk and return in the overall Fund's portfolio; and
- (f) the Fund management structure; and

- (fa) the governance framework for the implementation and operation of Fund Investment Vehicles referred to in section 59A; and
- (g) the use of options, futures, and other derivative financial instruments; and
- (h) the management of credit, liquidity, operational, currency, market, and other financial risks; and
- (i) the retention, exercise or delegation of voting rights acquired through investments; and
- (j) the method of, and basis for, valuation of investments that are not regularly traded at a public exchange; and
- (k) prohibited or restricted investments or any investment constraints or limits.”

1.3 New Zealand Directive

As an Autonomous Crown Entity, Guardians operates on a statutorily independent basis. The Act provides for the Government to give directions regarding the Fund's performance and the Guardians must have regard to it.

Section 64 of the Act states that:

- (1) “The Minister may, after consultation with the Guardians, give directions to the Guardians regarding the Government’s expectations as to the Fund’s performance, including the Government’s expectations as to risk and return.
- (2) Despite anything to the contrary in the Crown Entities Act 2004, the Minister –
 - (a) must not give a direction that is inconsistent with the Guardians’ duty to invest the Fund on a prudent, commercial basis, in accordance with section 58; and
 - (b) must not give a direction to the Guardians in respect of the Fund except in accordance with this section.
- (3) The Guardians must notify the Minister of how the entity proposes to have regard to any direction.
- (4) The Guardian’s annual report must include a statement of how the entity is having regard, or has had regard, during the year to any Ministerial directions given under this section.”

On 14 May 2009 the Guardians received a letter from the Minister of Finance containing the following direction:

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"The Government believes that it is in the national interest for the Fund to have significant investments in New Zealand. Consequently, pursuant to section 64 of the [Act], I direct the Guardians to note that it is the Government's expectation, in relation to the Fund's performance, that opportunities that would enable the Guardians to increase the allocation of New Zealand assets in the Fund should be appropriately identified and considered by the Guardians."

On 2 June 2009 we provided a detailed response to the Minister outlining broad areas of investment opportunities that we were exploring in New Zealand. We concluded by saying:

"We will have regard for your directive by:

- Actively considering those investment opportunities in New Zealand that offer prospective terms and conditions that meet the criteria under section 58(2) of the Act, and;
- Seeking to identify methods of assessing and managing investments in the areas of opportunity outlined [in our letter]."

A full copy of both the Minister's directive and our response can be found on our website.

1.4 Investment Policies

The Guardians investment and operational practices are governed by a suite of policies and the Responsible Investment Framework. Incorporated in to this Statement are the following policies:

- *Investment Risk Allocation Policy*, which broadly covers the classes of investments that we invest in, the value adding strategies we use, and the investment constraints we apply.
- *Externally Managed Investments Policy*, which covers how we invest with external investment managers.
- *Portfolio Completion and Internally Managed Securities Policy*, which covers how we ensure the Fund meets our desired risk allocations and the related management of internal investment mandates.
- *Strategic Tilting Policy*, which covers the value adding strategy we use to adjust the Fund's risk exposures in response to changes in expected returns.
- *Direct Investment Policy*, which covers direct investments we make in investments not covered by the Portfolio Completion and Internally Managed Securities Policy.
- *Risk Management Policy*, which covers how we manage operational risks for the Guardians.

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- *Procurement and Outsourcing Policy*, which covers how we enter into major procurement contracts other than with external investment managers.
- *Delegations Policy*, which covers how authorities are delegated from the Board to the Chief Executive Officer and to management.
- *Derivatives Policy*, which covers how we and our managers use derivatives in our management of the Fund.
- *Investment Valuation Policy*, which covers how we measure the fair value of all Fund investments.

For the most part the policies and standards described in s 61 of the Act (see 1.2 above) are contained in one or more of those policies. This Statement refers readers to the relevant section of the applicable policies. Usually the policies contain further policies or standards beyond what is required by s 61. In some instances the particular policy required by statute does not fit with one of the policies described in this section. In that case the policy and standards are described in this Statement.

This document refers to the Policies, Standards and Procedures we abide by when investing. Our Investment Beliefs and our approach to investing is explained on the How we Invest section in www.nzsuperfund.co.nz.

Procedures are referenced to the relevant policy specified in this Statement.

1.5 Interpretation

To assist with the interpretation of this Statement and the policies referred to above, we have a comprehensive Glossary of Terms, which defines all technical and investment terms used. A copy of the Glossary can be found on our website.

1.6 Review

This document is effective 24 June 2021 and supersedes all previous versions. It will be subject to at least annual review and amendment as our strategy for managing the Fund evolves. A history of the evolution of this document can be found in section 12.

Only the Board of the Guardians can approve material changes to this Statement.

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2 Asset Classes and Selection Criteria

Section 61(a) – the classes of investments in which the Fund is to be invested and the selection criteria for investments within those classes

The Fund has two broad classes of investments: 1) the asset classes that comprise the Reference Portfolio and 2) opportunities to add value to the Reference Portfolio.

2.1 Policy

- 2.1.1 Policy statements relating to classes of investments can be found in section 6 (Asset Classes and Benchmarks) and section 8 (Value Adding Strategies and Opportunities) of the *Investment Risk Allocation Policy*.
- 2.1.2 Selection of assets within approved classes of investments is at the discretion of the Fund's investment managers (whether internal or external) subject to any constraints that we may place upon them.
- 2.1.3 Policy statements relating to selection of assets for internal investment management can be found in the *Portfolio Completion and Internally Managed Securities Policy*, the *Direct Investment Policy* and the *Responsible Investment Framework*.
- 2.1.4 Policy statements relating to selection of assets for external investment managers can be found in the *Externally Managed Investments Policy*.

2.2 Standards

- 2.2.1 Standards relating to the selection of investments can be found in Schedule 4 (Process for Opportunity Evaluation, Risk Budgeting and Fund-wide Liquidity Management) of the *Investment Risk Allocation Policy*.

2.3 Procedures

- 2.3.1 Procedures relating to classes of investments and the selection criteria for investments within those classes are referenced to the Policies specified above.

3 Benchmarks

Section 61(b) – the determination of benchmarks or standards against which the performance of the Fund as a whole, and classes of investments, and individual investments will be assessed

Benchmarks are a tool against which to measure the effectiveness of investment strategy either at a whole of Fund level, at an investment class or strategy level, or at the mandate level.

The general principle of benchmarks at an investment class or mandate level is they should be replicable – that is, it should be possible to create a portfolio of securities which mirrors (or at least very closely resembles) that used within the benchmark.

For some asset classes replicable benchmarks that are representative of the exposures of a given mandate may not exist, in which case performance may be measured against other measures such as the return on Treasury bills.

3.1 Policy

- 3.1.1 The benchmarks we use for the Fund as a whole will measure the value added by the Fund relative to a risk-free alternative and the value added by the Fund relative to a low-cost passive implementation of the Fund (the Reference Portfolio).
- 3.1.2 Policy statements relating to the Fund's Reference Portfolio benchmarks can be found in section 7 (Reference Portfolio) of the *Investment Risk Allocation Policy*.
- 3.1.3 Policy statements relating to the Fund's value-adding investments can be found in section 6 (Asset Classes & Benchmarks) of the *Investment Risk Allocation Policy*.
- 3.1.4 The benchmarks we use to judge the performance of individual classes of investment must be broadly representative of that class, or where a representative benchmark is not available, of a suitably risk adjusted alternative.
- 3.1.5 The benchmarks we use to judge the performance of individual mandates (whether internal or external) must either be the benchmark for the investment class within which that mandate is managed or (as the case may be) broadly representative of the universe of investments from which the manager selects investments for the mandate or a suitably risk adjusted alternative. In a limited number of cases, some internal mandates have benchmarks that represent funding costs or have no benchmarks.

3.2 Standards

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3.2.1 The performance benchmarks we use for the Fund as a whole are:

- To exceed the compound New Zealand Treasury Bill over rolling 20 year periods; and
- To exceed the benchmark return for the Reference Portfolio being the weighted average return of the Reference Portfolio's constituent asset class benchmarks.

3.2.2 The performance benchmarks we use for classes of investments can be found in Schedule 2 (Asset Classes and Benchmarks) of the *Investment Risk Allocation Policy*.

3.2.3 We measure performance after the deduction of foreign taxes but before New Zealand tax.

3.3 Procedures

3.3.1 Procedures relating to performance benchmarks are referenced to the Policies specified above.

4 Reporting Standards

Section 61(c) – standards for reporting the investment performance of the Fund

Comprehensive reporting is critical for two reasons:

- it enables the Guardians to assess the reasons behind the performance of access points, opportunities, value add strategies and the Fund as a whole; and
- it enables the Fund's stakeholders to be fully informed of the activities of the Fund either through regular updates to the Fund's website or through the formal statutory reporting documents.

4.1 Policy

4.1.1 Policy statements relating to reporting on the performance of the Reference Portfolio, the performance of value adding strategies, compliance with the capital and risk constraints, and use of the Fund's risk budget can be found in section 12 (Reporting) of the *Investment Risk Allocation Policy*.

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- 4.1.2 Policy statements relating to reporting on the performance of externally managed investments can be found in section 12 (Reporting) of the *Externally Managed Investments Policy*.
- 4.1.3 Policy statements relating to reporting on the performance of internal investment mandates can be found in section 13 (Reporting) of the *Portfolio Completion and Internally Managed Securities Policy*.
- 4.1.4 Policy statements relating to reporting on the performance of direct investments can be found in section 6 (Reporting) of the *Direct Investment Policy*.
- 4.1.5 Policy statements relating to reporting on the performance of strategic tilting can be found in section 8 (Reporting) of the *Strategic Tilting Policy*.
- 4.1.6 Policy statements relating to external reporting on the performance of the Fund can be found in section 11 (Reporting) of the *Communications Policy*.

4.2 Standards

- 4.2.1 Standards relating to reporting on the performance of the Reference Portfolio, the performance of value adding strategies, compliance with the capital and risk constraints, and use of the Fund's risk budget can be found in Schedule 8 (Reporting Framework) of the *Investment Risk Allocation Policy*.
- 4.2.2 Standards relating to reporting on the performance of externally managed investments can be found in Schedule 6 (Reporting Framework) of the *Externally Managed Investments Policy*.
- 4.2.3 Standards relating to reporting on the performance of internal investment mandates can be found in Schedule 9 (Reporting and Accountability Framework) of the *Portfolio Completion and Internally Managed Securities Policy*.
- 4.2.4 Standards relating to reporting on the performance of direct investments can be found in Schedule 6 (Reporting Framework) of the *Direct Investment Policy*.
- 4.2.5 Standards relating to reporting on the performance of strategic tilting can be found in Schedule 3 (Reporting Framework) of the *Strategic Tilting Policy*.
- 4.2.6 Standards relating to external reporting on the performance of the Fund can be found in Schedule 2 (External Communications Issues) of the *Communications Policy*.

4.3 Procedures

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4.3.1 Procedures relating to reporting are referenced to the Policies specified above.

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5 Responsible Investment

Section 61(d) – ethical investment, including policies, standards, or procedures for avoiding prejudice to New Zealand’s reputation as a responsible member of the world community

Section 61(i) – the retention, exercise or delegation of voting rights acquired through investments

Our Act states that we must invest the Fund on a prudent, commercial basis and, in doing so, must manage and administer the Fund in a manner consistent with:

- Best-practice portfolio management; and
- Maximising return without undue risk to the Fund as a whole; and
- Avoiding prejudice to New Zealand’s reputation as a responsible member of the world community

Our policy on responsible investment is consistent with meeting this mandate and also addresses matters that our Act requires to be covered in our SIPSP.

Responsible investment has become the predominant framework for what was known as "ethical investment" at the time the Act was passed. Responsible investment is understood internationally to involve ~~integrating considering and giving effect to~~ environmental, social and governance (ESG) considerations ~~into~~ investment management. When we refer to the term "Responsible Investment" we see it as encompassing ethical investment. Our own approach to Responsible Investment is also intended to be consistent with s 61 (d) to ensure the Fund is managed and administered in a manner consistent with avoiding prejudice to New Zealand’s reputation as a responsible member of the world community.

Commented [redacted] Clarification - "giving effect to" is not a widely understood term

This section of the Statement and the Responsible Investment Framework also addresses aspects of s 61(i) regarding the retention, exercise and delegation of voting rights. Section 8 of this Statement directly addresses other aspects required by s 61(i).

One of our Investment Beliefs (referred to in section 1.4 of the Statement) is that environmental, social and governance considerations, including climate change, are fundamental to long-term risk and return.

We consider sustainable finance to be emerging good best practice and consistent with our mandate. We have a goal to incorporate sustainability considerations into investment decision-making and to support the development of a sustainable financial system within the context of our legislative purpose. We are developing a sustainable finance strategy to support these goals which it will take time to develop and embed our sustainable finance strategy in support of these goals and this strategy will be integrated into the Statement and Responsible Investment Framework -SIPSP as work progresses.

Commented [redacted] Update as part of new Purpose and RI Compass project. Forward looking.

The Responsible Investment Framework also supports the implementation of the Climate Change Investment Strategy (CCIS).

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We adopt internationally recognised responsible investment principles as our standard for addressing environmental, social and governance considerations, including exercising voting rights. We believe that applying adherence to responsible investment best practice supports managing and administering the Fund in a manner consistent with avoiding prejudice to New Zealand’s reputation as a responsible member of the world community.

Commented [redacted] Clarification - Adherence makes it sound like a checklist you can comply with

Commented [redacted] Shifted to main body of Policy section. Removes repetition in the Intro section.

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We have developed our Responsible Investment Framework (RI Framework) to cover procedures, including the integration of RI considerations into our investment process, and factors that we consider in applying the judgement needed to implement our responsible investment policy when investing the Fund including meeting our obligations under sections 58(2), 61(d) and (i) of our Act.

Our RI Framework can be found on our website.

RI actions include investment, integration, engagement, voting and exclusion from the Fund. We invest across a wide range of asset classes and regions. With such a breadth of investments we need to need to prioritise the issues and companies we focus on. There will be, from time to time, holdings in the Fund that need special consideration under our RI Framework including with respect to exclusion and engagement.

The RI Framework supports the implementation of the climate change investment strategy (CCIS).

Commented [redacted]: Redundant - This is inherent and covered in first paragraph

Commented [redacted]: Clarification - RI is not only concern for investing the fund

Commented [redacted]: [redacted] - can we remove repetition? I think this whole para can come out. We have the policies and standards and procedures below.

Commented [redacted]: Widely accepted e.g. PRI, OECD, institutional investors cannot address every ESG issue or concern with regards to companies they hold shares in.

5.1 Policy

5.1.1 We are committed to integrating consideration of RI issues into our investment decision making process.

5.1.2 We believe that applying responsible investment best practice supports managing and administering the Fund in a manner consistent with avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

Commented [redacted]: Shifted from Introduction box into the policy clauses. Use word "applying" rather than "adherence to" as best practice is not a compliance checklist.

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5.1.3 We are committed to developing and integrating a sustainable finance strategy in support of our sustainable finance goals within the context of our legislative purpose.

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Commented [redacted]: New - including Sustainable Finance and current stage in our shift from RI to SF.

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5.1.25.1.4 We will apply standards and procedures that focus on:

- meeting relevant obligations under our Act;
- Our investment belief that "Environmental, social and governance considerations including climate change are fundamental to long-term risk and return";
- Developing guidelines to integrate RI considerations across different types of investments;
- Supporting our climate change investment strategy
- Effective engagement with the external investment managers and advisors we use and the companies we invest in;

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- exercising our voting rights in investee companies;
- Considering investments which provide positive ESG benefits in addition to the required financial return;
- Maintaining a robust analytical and decision making process in responding to investee companies breaching standards contained in our RI Framework including decisions to exclude or engage with companies; and
- Benchmarking our performance against the UN-supported Principles for Responsible Investment (a globally accepted standard).

5.1.5 We have developed our Responsible Investment Framework to cover procedures and factors that we consider in applying the judgement needed to implement our responsible investment policy when investing the Fund including meeting our obligations under sections 58(2), 61(d) and (i) of our Act.

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Commented [Redacted] Redundant - This is inherent and covered in first paragraph

Commented [Redacted] Clarification - RI is not only concern for investing the fund

5.1.35.1.6 A policy statement relating to the constraint on investing in securities excluded by application of our RI Framework can be found in section 11 (Investment Constraints) of the *Investment Risk Allocation Policy*.

- 5.1.4 Where we participate in securities lending, we will retain the right to recall shares to vote and the right to withhold shares from lending, in order to exercise our voting rights on those securities.
- 5.1.5 From time to time we may participate in class actions against investee companies. The decision to participate involves a range of considerations including (a) whether the Fund suffered a loss/disadvantage and the materiality of the loss/disadvantage, (b) the severity of the issue or the conduct of the company, (c) the cost versus benefit of pursuing the action, and (d) whether it is in the Fund's best interests to participate.

5.2 Standards

5.2.1 We refer to international standards for guidance on best practice.

5.2.2 We use globally recognised standards in two main ways: 1) for guidance on best practice in RI for investors and to benchmark our own performance (eg UNPRI); and 2) guidance on ESG best practice for companies which we use to assist our RI analysis (eg UN Global Compact).

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Commented [Redacted] Suggest removing this?

5.2.3 We are committed to the UN-supported Principles for Responsible Investment (PRI). The principles promote integration of ESG issues into investment analysis and asset ownership. We use the PRI, a globally recognised standard, for guidance on best practice in Responsible Investment and to benchmark our own performance.

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5.2.4 ~~We use relevant ESG corporate standards to provide guidance for our RI monitoring and analysis of corporate practice. We have adopted the UN Global Compact principles as a benchmark for expected standards of corporate behavior. The UN Global Compact asks companies to embrace, support, and enact within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption measures~~

Commented [REDACTED] Update and clarification – there are a range of standards so selecting one is no longer as relevant as it was. In addition corporate standards are simply a monitoring and analysis tool and belongs in the procedures section. It is not a standard for the Guardians own activities. Move to RIF.

5.2.5 Our voting decisions take into account national and international standards of good corporate governance. International standards include the International Corporate Governance Network Guidelines and the G20/OECD Principles of Corporate Governance. For New Zealand listed companies we endorse the New Zealand Corporate Governance Forum Guidelines and the NZX New Zealand Corporate Governance Code, published by the New Zealand Corporate Governance Forum.

Commented [REDACTED] Update.

5.3 Procedures

5.3.1 RI is integrated into investment of the Fund through the RI Framework and the application of it by the investment staff of the Guardians.

5.3.2 Procedures relating to RI are contained or referenced in the RI Framework.

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6 Balance Between Risk and Return

Section 61(e) – the balance between risk and return in the overall Fund portfolio

Section 58(2)(b) of the Act requires the Fund to be invested in a manner consistent with "maximising return without undue risk to the Fund as a whole".

In general the investment strategy adopted by the Fund, and in particular the Reference Portfolio, will have a dominant influence on the returns generated. The Reference Portfolio specifies the broad equilibrium mix between growth and income assets for the Fund which the Guardians believe best meets their statutory obligations. The Actual Portfolio of the Fund is the sum of:

- Reference Portfolio exposures; plus
- asset/investment exposures obtained through the Active Return Strategies; plus
- adjustments to Reference Portfolio exposures to accommodate the asset/investment market exposures described above; plus
- Strategic Tilting exposures;

The extent to which we can deviate from the risk exposures inherent in the Reference Portfolio is established by setting risk and capital constraints and an expectation of the average active risk as expressed by the Total Active Risk Budget.

6.1 Policy

6.1.1 Policy statements relating to the balance between risk and return in the Fund can be found in sections 7 (Reference Portfolio), 8 (Value Adding Strategies and Opportunities) and 10 (Investment Constraints) of the *Investment Risk Allocation Policy* and section 6 (Portfolio Completion) of the *Portfolio Completion and Internally Managed Securities Policy*.

6.2 Standards

6.2.1 Standards relating to the balance between risk and return in the Fund can be found in Schedules 3 (Reference Portfolio), 4 (Processes for Opportunity Evaluation, Risk Budgeting and Fund-wide Liquidity Management), 5 (Value Adding Strategies & Opportunities), 7 (Constraints) and 10A (Risk Budget) of the *Investment Risk Allocation Policy* and Schedule 2 (Portfolio Completion Frameworks) of the *Portfolio Completion and Internally Managed Securities Policy*.

6.3 Procedures

6.3.1 Procedures relating to the balance between risk and return in the Fund are referenced to the policies specified above.

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7 Fund Management Structure

Section 61(f) – the Fund management structure

We manage the Fund using a mixture of internal staff and external investment managers, custodians, suppliers and advisers to manage assets, provide advice on investment strategy, and administer the assets in the Fund.

The decision of whether to manage activities internally or outsource them to a third party is a complex one and must take into account a variety of factors including, but not limited to:

- Our ability to identify and contract with third parties with appropriate capability;
- Our ability to attract suitably skilled staff to undertake the role;
- The relative costs and resource intensity of undertaking the activity internally versus externally;
- The degree to which the third party's interests can be aligned with our interests.

To manage the Fund effectively we may use a range of specialist third-party agents including: custodians; prime brokers; portfolio completion agents; and securities lending agents.

7.1 Policy

- 7.1.1 Whether the preferred access is direct or via a manager will depend upon which offers the best risk adjusted returns, whether there is or can be sufficient internal capacity and skill to successfully implement and manage, and where there is the best alignment of interest.
- 7.1.2 We will continually monitor the use of external suppliers versus internal provision of services as part of an ongoing review of our business model.
- 7.1.3 A Master Custodian will be used to provide safe keeping of assets and trade settlement services.
- 7.1.4 Policy statements relating to delegations of authority can be found in the *Delegations Policy*.
- 7.1.5 Policy statements relating to the selection, appointment and ongoing monitoring of external investment managers can be found in sections 6 (Active Investment Decision Framework), 7 (Conviction and Monitoring), 8 (Investment Manager Fees), 9 (New Investment Implementation), 10 (Approvals) and 11 (Monitoring) of the *Externally Managed Investments Policy*.

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- 7.1.6 Policy statements relating to the assessment, implementation and monitoring of direct investments in assets when external managers are not used and the investment is not a Financial Market Transaction governed by the *Portfolio Completion and Internally Managed Securities Policy* can be found in the *Direct Investments Policy*.
- 7.1.7 Policy statements relating to the selection and appointment of the Master Custodian¹, suppliers and external advisers can be found in sections 7 (Procurement) and 8 (Outsourcing) of the *Procurement and Outsourcing Policy*.
- 7.1.8 Policy statements relating to the selection and appointment of non-master custodians¹⁴, prime brokers, securities lending agents² (other than Securities Lending Investment Managers) and portfolio completion agents can be found in section 9 (Counterparty, Portfolio Completion Agent and Non-Master Custodian Selection and Exposure Management) of the *Portfolio Completion and Internally Managed Securities Policy*.

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7.2 Standards

- 7.2.1 The quality, cost and degree of alignment of interests of an outsourced alternative provide the benchmarks against which opportunities to undertake roles internally will be judged.
- 7.2.2 Standards relating to delegations of authority can be found in the *Delegations Policy*.
- 7.2.3 Standards relating to the selection, appointment and ongoing monitoring of external investment managers can be found in Schedules 2 (Active Investment Decision Framework), 3 (Conviction and Monitoring Framework), 4 (Investment Manager Fees) and 5 (New Investment Implementation Framework) of the *Externally Managed Investments Policy*.
- 7.2.4 Standards relating to the assessment, implementation and monitoring of direct investments in assets when external managers are not used and the investment is not a Financial Market Transaction governed by the *Portfolio Completion and Internally Managed Securities Policy* can be found in schedules 2 (Due Diligence: Investment Case), 3 (Due Diligence:

¹ Note that if we also use the custodian as a cash deposit institution then it is, for that activity, a Counterparty and the policies and standards applying to counterparties, as set out in the *Portfolio Completion and Internally Managed Securities Policy*, will also apply to it.

² Note this applies only if the securities lending agent is appointed to act without discretionary authority. If given a discretionary mandate then they will be a Securities Lending Investment Manager and the policies and standards in the *Externally Managed Investments Policy* will apply.

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Implementation), 4 (Director Appointment and Monitoring), 5 (Investment Management) of the *Direct Investments Policy*.

7.2.5 Standards relating to the selection and appointment of the Master Custodian, suppliers and external advisers can be found in Schedules 2 (Procurement Framework) and 3 (Outsourcing Framework) of the *Procurement and Outsourcing Policy*.

7.2.6 Standards relating to the selection and appointment of custodians, prime brokers, securities lending agents (other than Securities Lending Investment Managers) and portfolio completion agents can be found in Schedule 6 (Counterparty Selection and Exposure Management and Minimum Requirements for PCAs and Non-Master Custodians) of the *Portfolio Completion and Internally Managed Securities Policy*.

7.3 Procedures

7.3.1 Procedures relating to the Fund management structure are referenced to the policies specified above.

7A Governance framework for Fund investment vehicles

Section 61(fa) - Governance framework for Fund investment vehicles

We may establish or control an entity for the purpose of holding, facilitating, or managing the investments of the Fund (a **Fund investment vehicle**).

There are a variety of reasons why we may use a Fund investment vehicle, including enabling us to structure and access investments more efficiently and help minimise liability and risk.

The decision of whether to use a Fund investment vehicle must take into account a variety of factors including:

- The primary prohibition on controlling an entity set out in s59 of the Act.
- Demonstrable benefits including enhancement of the efficiency, performance and management of risk and liability for the Fund.
- Ensuring that the Guardians does not conduct the day to day management and operation of a business.
- The costs of establishment, maintenance and winding up a Fund investment vehicle.

7A.1 Policy

7A.1.1 A Fund investment vehicle may only be used for the purpose of holding, facilitating or managing investments of the Fund.

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7A.1.2 The use of a Fund investment vehicle must be consistent with the Guardians' mandate to invest the Fund on a prudent, commercial basis and in a manner consistent with:

- best-practice portfolio management,
- maximising return without undue risk to the Fund as a whole, and
- avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

7A.1.3 A Fund investment vehicle may not be used by the Guardians in a manner that causes it to contravene the Act or to circumvent the Act's restrictions on the Guardians.

7A.1.4 Fund investment vehicles will hold, facilitate and manage investments in accordance with the Policy Statements and the Investment Policies, that the Guardians adhere to in investing the Fund as are appropriate for that Fund investment vehicle and consistent with the management and administration of the Fund as a whole.

7A.1.5 The Investment Policies are listed in Section 1.4 above. The Policy Statements are Sections 2 (Asset Classes and Selection Criteria), 3 (Benchmarks), 4 (Reporting Standards), 5 (Responsible Investment), 6 (Balance Between Risk and Return), 7 (Fund Management Structure), 8 (Derivatives, Short Selling and Securities Lending), 9 (Risk Management), 10 (Valuation of Unlisted Assets), and 11 (Investment Constraints).

7A.1.6 Fund investment vehicles that are controlled by the Guardians will be included in the annual financial statements for the Fund and will be audited in accordance with the requirements of the Public Audit Act 2001 and/or other applicable law.

7A.1.7 The Official Information Act does not apply to the Fund investment vehicles. However, the Act will apply to the Guardians and the Guardians will ensure that the Guardians has the information about the Fund investment vehicles necessary for the Guardians to manage and administer the Fund in accordance with its mandate. Policy statements relating to the Official Information Act are found in the Communications Policy.

7A.2 Standards

7A.2.1 Fund investment vehicles will hold, facilitate and manage investments in accordance with the investment standards that the Guardians adhere to in investing the Fund as are appropriate for that Fund investment vehicle and consistent with the management and administration of the Fund as a whole.

7A.2.2 The Standards are referenced in Sections 2 (Asset Classes and Selection Criteria), 3 (Benchmarks), 4 (Reporting Standards), 5 (Responsible Investment), 6 (Balance Between Risk and Return), 7 (Fund Management

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Structure), 8 (Derivatives, Short Selling and Securities Lending), 9 (Risk Management), 10 (Valuation of Unlisted Assets), and 11 (Investment Constraints).

7A2.3 Standards relating to the reporting of the nature and purpose of the Fund investment vehicles utilised can be found in Schedule 1 (Matters Reserved to the Board, Board Committees and Chief Executive) of the *Delegations Policy*.

7A2.4 Standards relating to the application of the Official Information Act can be found in Schedule 4 (Responding to Official Information Act requests) of the *Communications Policy*.

7A.3 Procedures

7A.3.1 Applicable procedures relating to the Guardians' investment policies and reporting standards will apply to the holding, facilitating or managing of investments by Fund investment vehicles. Procedures relating to Fund Investment Vehicles in particular are referenced to this Statement of Investment Policies and Procedures.

8 Derivatives, short selling and securities lending

Section 61(g) – the use of options, futures, and other derivative financial instruments

In accordance with Section 50 of the Act, we have sought and received the Minister's approval to use derivatives and other specific instruments subject to certain conditions.

The Minister of Finance's current expectation is that we have the appropriate level of knowledge, skill, transparency and controls in place when we use derivatives, in order to ensure that negative financial or reputational outcomes do not impact the Crown.

Our assessment of the appropriate level of knowledge, skill, transparency and control in the use of derivatives will include:

- the objectives of the investment mandates,
- the overall risk profile of the investment mandates,
- the markets in which the investment mandates will be investing,
- the investment style to be employed,
- the experience, qualifications and skills available within the external investment managers and internal teams to use derivatives,
- the quality of internal controls/risk management procedures relevant to the use of derivatives,

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- the characteristics of the specific derivative market – liquidity, quality of counterparty and availability of valuations and legal structure and the overall cost of establishing and maintaining a derivative position vs. a suitable equivalent cash security alternative, and
- reporting derivative usage including risk associated with their use together with expected returns.

We, and our appointed investment managers and portfolio completion agents, may enter into derivatives transactions on behalf of the Fund.

Derivatives are financial instruments whose value and characteristics are derived from, or linked to, underlying assets, indexes, or reference rates (such as an exchange rates or interest rates). Wide assortments of instruments are classified as derivatives: they include foreign exchange hedging, futures, swaps, repurchase agreements, warrants and options.

There is a variety of purposes for which it may be appropriate for the Fund to invest using derivatives. These include risk, liquidity and counterparty management, transactional efficiency, and value adding investment strategies.

Derivatives can be a useful risk management tool by helping the Guardians to obtain desired exposures for the Fund. Derivatives that are highly liquid can also be useful, by helping to mitigate the risk of the Fund not having sufficient liquidity to meet its payment obligations.

Short selling of physical securities is a means by which we, or an investment manager, can take advantage of a view that the price of a security will fall. As its name implies short selling involves selling a security that we don't own. We do that by first borrowing the security from a securities lender. When we borrow we will be required to provide collateral in the form of cash or some other security. We pay a fee for borrowing securities. Short selling may also be used to hedge a long exposure.

When we lend securities we may lend them to short sellers, usually through a securities lending agent: in return the borrower (short seller) provides collateral for the period they borrow for. We receive a fee for lending the securities.

8.1 Policy

- 8.1.1 Policy statements relating to the use of derivatives by the Guardians and its managers are found in sections 4 (Scope) and 6 (Use of Derivatives) of the *Derivatives Policy*. Policy statements relating to short selling by the Guardians and its managers are found in Section 12 (Short Selling) of the *Portfolio Completion and Internally Managed Securities Policy*.
- 8.1.2 Policy statements covering the risks inherent in derivative use and the policy framework for managing those risks are set out in section 4 (Scope) of the *Derivatives Policy*.

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- 8.1.3 Policy statements relating to Ministerial Consents and Expectations regarding the use of derivatives are set out in section 6 (Use of Derivatives) of the Derivatives Policy.
- 8.1.4 We may short sell physical securities to enhance the returns of the Fund, or to offset or otherwise manage certain exposures. Short selling will only be done after full consideration of the related risks, including the credit quality of the lender of the securities.
- 8.1.5 We will provide the amount and type of collateral consistent with market requirements. Collateral shall be required to be held by the prime broker or lender in a manner designed to safeguard it, to the extent possible, from the interests of other creditors of the lender. The short sale securities (borrowed securities) and the collateral shall be marked to market daily so that exposures may be monitored.
- 8.1.6 We may permit external investment managers to short sell securities where we are satisfied the investment manager has the necessary controls in place to ensure prudent use of that ability and such use is consistent with the investment guidelines given to the investment manager.
- 8.1.7 We will not engage in or permit 'naked' short selling of physical securities, so will borrow securities to 'cover' a short sale of physical securities.
- 8.1.8 We may loan securities where we are satisfied with the credit quality of the counterparty who borrows the securities and that we are appropriately collateralised for the securities lent and the fee received is fair compensation for the use of our securities and the operational complexity involved.
- 8.1.9 We will apply our Responsible Investment approach and framework on withholding or recalls for voting purposes. Policy statements relating to securities lending are found in Section 11 (**Securities Lending**) of the *Portfolio Completion and Internally Managed Securities Policy*.
- 8.1.10 We may permit our external investment managers to loan securities where we are satisfied that the external investment manager has appropriate standards to evaluate the credit quality of the counterparty who borrows the securities and to ensure that we are appropriately collateralised for the securities lent. We will apply our Responsible Investment approach and framework on withholding or recalls for voting purposes.

8.2 Standards

- 8.2.1 Standards relating to the maintenance of appropriate standards to evaluate our competency and that of external investment managers to use derivatives as part of investment management can be found in Schedules 4 and 4A

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(Standards & framework for managing derivative Investment and non-Investment Risk) of the Derivatives Policy.

- 8.2.2 Standards relating to delegations of authority can be found in the *Delegations Policy*.
- 8.2.3 Standards relating to short selling can be found in Schedule 12 (Short Selling) of the *Portfolio Completion and Internally Managed Securities Policy*.
- 8.2.4 Standards relating to reporting of Derivative use and exposure are out in Schedule 3 (Reporting Framework) of the *Derivatives Policy*.
- 8.2.4 Standards relating to the maintenance of appropriate standards to evaluate credit quality of the counterparty who borrows securities, approved markets for lending, approved collateral and margin requirements as well as reporting on securities lending programme are outlined in the Securities Lending Internal Investment Mandate.

8.3 Procedures

- 8.3.1 We may authorise Securities Lending Investment Managers to manage any or all components of the programme's administration, cash collateral reinvestment and risk management.
- 8.3.2 If we lend securities we will retain our rights to withhold or recall shares to exercise our voting rights. We will maintain guidance on when to withhold or recall shares. We will work with our securities lending agents to encourage good practice standards by borrowers including not borrowing for the primary purpose of voting.

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9 Risk Management

Section 61(h) – the management of credit, liquidity, operational, currency, market, and other financial risks

Managing the Fund involves accepting and managing a wide variety of risks. Our approach to risk management involves the Board, Guardians' staff, and external partners.

9.1 Policy

- 9.1.1 Policy statements relating to the management of financial (including credit, liquidity, currency and market) risks can be found in sections 7 (Reference Portfolio), 9 (Proxies), and 10 (Investment Constraints) of the *Investment Risk Allocation Policy*, sections 6 (Portfolio Completion), 7 (Internal Investment Mandates), 8 (Product Approval) and 9 (Counterparty, Portfolio Completion Agent and Non-Master Custodian Selection and Exposure Management) of the *Portfolio Completion and Internally Managed Securities Policy* and sections 4 (Scope) and 6 (Use of Derivatives) of the *Derivatives Policy*.
- 9.1.2 Policy statements relating to the management of operational risks can be found in section 10 (Direct Transaction Management) of the *Portfolio Completion and Internally Managed Securities Policy*, sections 6 (Risk Appetite Statement) and 7 (Risk Management Framework) of the *Risk Management Policy* and sections 9 (New Investment Implementation) and 11 (Monitoring) of the *Externally Managed Investments Policy*.

9.2 Standards

- 9.2.1 Standards relating to the management of financial (including credit, liquidity, currency and market) risks can be found in Schedules 3 (Reference Portfolio), 6A (Proxy System), and 7 (Constraints) of the *Investment Risk Allocation Policy* and Schedules 2 (Portfolio Completion Frameworks), 5A (Approved Products), 6 (Counterparty Selection and Exposure Management and Minimum Requirements for PCAs and Non-Master Custodians) of the *Portfolio Completion and Internally Managed Securities Policy* and Schedule 4 and 4A (Standards and framework for managing derivative investment and Non-investment Risk) of the *Derivatives Policy*.
- 9.2.2 Standards relating to the management of operational risks can be found in Schedule 7 (Authorised Dealers and Dealing Controls) of the *Portfolio Completion and Internally Managed Securities Policy*, the schedules of the *Risk Management Policy* and Schedules 3 (Conviction and Monitoring Framework) and 5 (New Investment Implementation Framework) of the *Externally Managed Investments Policy*.

9.3 Procedures

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9.3.1 Procedures relating to risk management are referenced to the policies specified above.

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10 Valuation of Unlisted Assets

Section 61(j) – the method of, and basis for, valuation of investments that are not regularly traded at a public exchange

Many of the investments of the Fund are regularly traded on recognised exchanges and can be valued accordingly. Where they are not traded on recognised exchanges, the objective is to value those assets at fair value wherever possible.

10.1 Policy

10.1.1 Policy statements relating to the method and frequency of the valuation of all investments of the Fund can be found in sections 6 (Valuation approach), 7 (Valuation methodology categories), 8 (Hierarchy of fair value), 9 (Independent third party valuers), 10 (Frequency of valuations) and 11 (Consistency of valuations) of the *Investment Valuation Policy*.

10.2 Standards

10.2.1 Standards relating to the valuation of Fund investments can be found Schedules 2 (Valuation methodology categories) and 3 (Frequency of valuations) of the *Investment Valuation Policy*.

10.2.2 Standards relating to reporting to the Board on valuation matters are found in Schedule 4 (Reporting framework) of the *Investment Valuation Policy*.

10.3 Procedures

10.3.1 Procedures relating to the valuation of unlisted assets are referenced to the Policy specified above.

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11 Investment Constraints

Section 61(k) – prohibited or restricted investments or any investment constraints or limits

The Act does not proscribe investment in any particular asset or class of assets. Prohibitions and constraints are therefore imposed by the Guardians' policy and can be categorised as follows:

- capital or risk constraints that limit the variance of the Actual Portfolio from the Reference Portfolio
- investments that are prohibited by virtue of the Fund's Responsible Investment policies (see section 5); and
- the constraints within individual investment mandates.

11.1 Policy

- 11.1.1 Policy statements relating to investment constraints used to manage risk within the Fund can be found in section 10 (Investment Constraints) of the *Investment Risk Allocation Policy*.
- 11.1.2 Policy statements relating to investment constraints used to manage risk within individual investment mandates directly managed by the Guardians can be found within section 7 (Internal Investment Mandates) of the *Portfolio Completion and Internally Managed Securities Policy*.
- 11.1.3 We will set investment constraints used to manage risk within individual investment mandates managed externally as appropriate on a case by case basis.
- 11.1.4 Policy statements relating to investment constraints arising from application of the Guardians' Responsible Investment framework can be found in section 5 of this document and section 10 (Investment Constraints) of the *Investment Risk Allocation Policy*.

11.2 Standards

- 11.2.1 Standards relating to investment constraints used to manage risk within the Fund can be found in Schedule 7 (Constraints) of the *Investment Risk Allocation Policy*.
- 11.2.2 Standards relating to investment constraints used to manage risk within individual investment mandates directly managed by the Guardians can be found within Schedule 7 (Constraints) of the *Investment Risk Allocation Policy* and Schedules, 5A (Approved Products), and 6A (Counterparty Exposure

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Limits and Calculation) of the *Portfolio Completion and Internally Managed Securities Policy*.

11.2.3 Standards relating to investment constraints arising from application of the Guardians' Responsible Investment policies are referred to at section 5.2 of this Statement.

11.3 Procedures

11.3.1 Procedures relating to investment constraints are referenced to the policies specified above.

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12 Version Control

This is the twenty seventh version of this Statement of Investment Policies, Standards and Procedures. The history of the evolution of this Statement is as follows:

Version	Approved by Board	Change from Preceding Version
1	13 October 2003	Interim policy
2	10 November 2003	Derivatives section revised
3	29 March 2004	Ethical and voting policies revised
4	28 June 2004	Review of format to ensure consistency across each section
5	2 May 2006	Updated for revised Strategic Asset Allocation and other developments
6	19 June 2006	Minor changes throughout. Revised Investment Beliefs
7	31 July 2006	Revised Derivatives section and minor changes to section 12
8	11 September 2006	Revised section 6 (ethical investment) and section 11 (voting rights)
9	31 May 2007	Revised throughout. Voting & Ethical Investment combined into Responsible Investment. Securities Lending section added
10	31 May 2008	Revised throughout. Updated revised Strategic Asset Allocation and other developments
11	20 October 2008	Two revised benchmarks in section 4.3 and modification to wording of section 3.2.5
12	9 December 2008	Addition of section 3.2.3 on strategic tilting and some minor changes elsewhere to reflect strategic tilting. Section 3.2.4 on currency hedging updated for 10% target. Addition to section 3.2.5 to clarify rebalancing process.
13	9 February 2009	Revised treatment of hybrid securities in the asset class definitions in section 3.4, modification of wording in sections 3.3 and 3.4, and clarification added to section 9.2 on derivative exposures.
14	23 June 2009	Revised throughout for internal investment mandates. Introduction of cash as an asset class and concepts of duration and credit spread. Revised wording for investment beliefs in 2.2 and use of derivatives for liquidity and counterparty management purposes in 9.
15	7 July 2010	Revised throughout for Reference Portfolio concept and 2010 reference portfolio review. Revised wording for investment beliefs in 2.2 and changed approach to currency hedging.
16	1 July 2011	Comprehensive structural review to link to underlying policies.
17	12 June 2012	Minor revisions to sections 5 and 10.
18	18 June 2013	Modest changes to sections 5, 7 and 10.
19	19 June 2014	Changes in light of the Risk Budget to sections 4, 6 and 11 and other modest changes to sections 7, 8 and 10.
20	17 June 2015	Changes in light of the approval of a standalone Derivatives Policy and Valuation Policy in 2015. Changes in light of replacement of the "How we Invest" document with internal procedures.
21	17 June 2015	Changes in light of the requirements relating to the governance of

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		Fund Investment Vehicles.
22	21 June 2016	Minor revisions to sections 2, 5, 7 and 9.
23	6 April 2017	Revisions to sections 5 and 8 for the Securities Lending programme.
24	19 June 2018	Annual Review
25	20 June 2019	Annual Review
26	24 June 2020	Annual Review
27	24 June 2021	Annual Review
28	22 June 2022	Annual Review

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ITEM 2 ANNUAL REVIEW OF RESPECTIVE STATEMENTS OF INVESTMENT POLICIES, STANDARDS AND PROCEDURES AND ALL POLICIES

Prepared by: [REDACTED] *Cristina Billett, Acting GM*
 Corporate Affairs Section 9(2)(a) Privacy

Date: 12 May 2022

This Risk Committee (RC) annual review paper has been written primarily for the Board.

The paper covers the review of the New Zealand Superannuation Fund Statement of Investment Policies, Standards and Procedures, the Venture Capital Fund Statement of Investment Policies, Standards and Procedures and the annual review of all Guardians current Policies.

The RC is asked to:

1. **confirm** that the NZSF SIPSP changes outlined are ready for Board approval;
2. **confirm** that the VCF SIPSP changes outlined are ready for Board approval.

1. Purpose

1.1 The purpose of this paper is for the Board to: **[To be updated post the RC]**

- **note** that the New Zealand Superannuation Fund Statement of Investment Policies, Standards and Procedures (**NZSF SIPSP**) has been reviewed;
- **note** that the Venture Capital Fund New Zealand Superannuation Fund Statement of Investment Policies, Standards and Procedures (**VCF SIPSP**) has been reviewed;
- **note** that the Responsible Investment Framework (**RI Framework**) which forms part of the NZSF SIPSP and the VCF SIPSP, has been reviewed;
- **note** that an annual review of all Guardians current policies has been undertaken and confirmation has been provided by respective Policy Owners;
- **approve** the proposed changes to the NZSF SIPSP, the RI Framework, and the VCF SIPSP;
- **note** that as no part of the NZSF SIPSP or the VCF SIPSP has been materially altered Ministerial consultation will not be required as per the condition to the section 50 consent;
- **note** that there has been no material changes to policies over the last 12 months outside of formal reviews.

2. Background

- 2.1 The NZSF SIPSP and VCF SIPSP are enduring umbrella documents that link to more detailed policies and standards found in other policy documents. The *NZ Superannuation and Retirement Income Act 2001 (Act)* requires that we have a SIPSP and review it at least annually, and likewise the *Venture Capital Fund Act 2019* also requires that we have a VCF SIPSP and review it at least annually. If any part of the SIPSP has been materially altered following the review, then we are required to consult with the Minister of Finance as a condition to the approvals that the Minister has given under the Section 50 of the Act (to enable the NZ Super Fund to enter into derivatives and certain other transactions). This enables the Minister to consider whether the approvals granted are still appropriate in the light of the changes.
- 2.2 As part of the annual NZSF SIPSP and VCF SIPSP review, the policies underlying the SIPSPs (namely our investment related policies) have been reviewed by their owners and they have confirmed that the relevant policies, standards and procedures, have been reviewed and are:
- a) fit for purpose; and
 - b) are consistent with the statutory investment mandate for the relevant Fund. They have also confirmed they are not aware of any material non-compliance issues.
- 2.3 Similar annual confirmations have been given for the Guardians' people and operations policies (Communications Policy, the Travel & Sensitive Expenditure Policy, the Diversity & Inclusiveness Policy and the Human Resources Policy (Operational Policies)).

3. Proposed changes to NZSF SIPSP and RI Framework

- 3.1 The table below reviews the NZSF SIPSP section by section and identifies changes (additions in red, ~~strikethrough~~ for deletions - *corrections of typo's and minor grammatical improvements have not been included and where applicable the change cell in the table has been left blank*). A full marked up version of the NZSF SIPSP is available for *optional reading only* (SD#[3406504](#)).
- 3.2 The majority of the changes in the table relate to the Responsible Investment section. The main changes to the section have been to include references to our move to a sustainable investment strategy, to improve readability and to reflect changes made to the RI Framework. The RI Framework has been updated to a more formal format that sets out procedures in a clearer fashion [[link](#) list of changes for the Board]. A full version of the RI Framework is available here for review: (SD#[3400619](#)).
- 3.3 The proposed changes in the NZSF SIPSP are consistent with our risk appetite and purpose and vision. We do not consider that the proposed changes have a material impact on the NZSF SIPSP from a risk or control perspective. As a result, the proposed changes do not constitute material changes that require consultation with the Minister of Finance. It might nevertheless be appropriate to advise the Minister of the inclusion of the addition of the statements concerning sustainable finance.

Section		Change required and reason
1	Introduction	
2	Asset Classes and Selection Criteria	
3	Benchmarks	<p>Minor change for clarification that the rolling 20 year horizon applies to both benchmarks.</p> <p>Clause 3.2.1 'The performance benchmarks we use for the Fund as a whole are to exceed over rolling 20-year periods:</p> <ul style="list-style-type: none"> • To exceed the compound New Zealand Treasury Bill return over rolling 20-year periods; and • To exceed the benchmark return for the Reference Portfolio, being the weighted average return of the Reference Portfolio's constituent asset class benchmarks.
4	Reporting Standards	
5	Responsible Investment	<p>Changes updating language used and incorporating our commitment to develop and integrate our sustainable finance strategy.</p> <p>New paragraph 1 [why? the NZSF investment mandate has been set out in full in this new paragraph to assist the reader because it is referred to in this section]:</p> <p>Our Act states that we must invest the Fund on a prudent, commercial basis and, in doing so, must manage and administer the Fund in a manner consistent with:</p> <ul style="list-style-type: none"> - Best practice portfolio management; and - Maximising return without undue risk to the Fund as a whole; and - Avoiding prejudice to New Zealand's reputation as a responsible member of the world community. <p>New paragraph 2 [why? makes the statutory context for having responsible investment policies more explicit]:</p> <p>Our policy on responsible investment is consistent with meeting this mandate and also addresses that our Act requires to be covered in our SIPSP.</p> <p>Paragraph 3 [why? clarification "giving effect to" is not a widely understood term]:</p> <p>Responsible investment has become the predominant framework for what was known as "ethical investment" at the time the Act was passed. Responsible investment is understood internationally to involve integrating considering and giving effect to environmental, social and governance (ESG) considerations, including climate change, into investment management. When we refer to the term "Responsible Investment" we see it as encompassing ethical investment. Our own approach to Responsible Investment is also intended to be consistent with s 61(d) to ensure the Fund is managed and administered in a manner consistent with avoiding prejudice to New Zealand's reputation as a responsible member of the world community.</p> <p>New paragraph 6 [why? refers to the shift to a sustainable investment strategy and a policy statement on the development of a sustainable finance strategy has been added as 5.1.3]:</p> <p>We consider sustainable finance to be emerging best practice and consistent with our mandate. We have a goal to incorporate</p>

Section	Change required and reason
	<p>sustainability considerations into investment decision-making and to support the development of a sustainable financial system within the context of our legislative purpose. We are developing a sustainable finance strategy to support these goals which will be integrated into the Statement and Responsible Investment Framework as work progresses.</p> <p>New paragraph 7 [why? this statement was previously made in paragraph 12]:</p> <p>The Responsible Investment Framework also supports the implementation of the Climate Change Investment Strategy.</p> <p>New paragraph 8 [why? we have taken out specific reference to the UN Global Compact as a standard that we use. Instead paragraph 8 has been added to state that we will use internationally recognized responsible investment principles as our standard for addressing environmental, social and governance considerations, including exercising voting rights]</p> <p>We use internationally recognized responsible investment principles as our standard for addressing environmental, social and governance considerations, including exercising voting rights.</p> <p>Paragraph 9: deleted entirely [why? the statement in Paragraph 9 has been moved to 5.1]:</p> <p>We believe that adherence to responsible best practice supports managing and administering the Fund in a manner consistent with avoiding prejudice to New Zealand's reputation as a responsible member of the world community.</p> <p>Paragraph 10 [why? Clarification – RI is not the only concern for investing the Fund]:</p> <p>We have developed our Responsible Investment Framework (RI Framework) to cover procedures, including the integration of RI considerations into our investment process, and factors that we consider in applying the judgement needed to implement our responsible investment policy when investing the Fund including meeting our obligations under sections 58(2), 61(d) and (i) of our Act.</p> <p>Paragraph 11 [why? minor change to improve readability]:</p> <p>Our RI Responsible Investment Framework can be found on our website.</p> <p>Paragraph 12 [why? Widely accepted e.g. PRI, OECD, institutional investors cannot address every ESG issue or concern with regards to companies they hold shares in]:</p> <p>RI Responsible Investment actions include investment integration, engagement, voting and exclusion from the Fund. We invest across a wide range of asset classes and regions. With such a breadth of investments we need to prioritise the issues and companies we focus on. There will be, from time to time, holdings in the Fund that need special consideration under our RI Responsible Investment Framework including with respect to exclusion and engagement. The RI Framework supports the implementation of the climate change investment strategy (CCIS).</p> <p>5.1 Policy [why? Including Sustainable Finance and current stage in our shift from RI to Sustainable Finance.]</p> <p>5.1.1 We are committed to integrating consideration of RI Responsible Investment issues into our investment decision making process.</p> <p>5.1.2 We believe that applying responsible investment best practice supports managing and administering the Fund in a manner</p>

Section		Change required and reason
		<p>consistent with avoiding prejudice to New Zealand's reputation as a responsible member of the world community.</p> <p>5.1.3 We are committed to developing and integrating a sustainable finance strategy in support of our sustainable finance goals within the context of our legislative purpose.</p> <p>5.1.5 We have developed our Responsible Investment Framework to cover procedures and factors that we consider in applying the judgement needed to implement our responsible investment policy when investing the Fund including meeting our obligations under sections 58(2), 61(d) and (i) of our Act.</p> <p>5.1.6 A policy statement relating to the constraint on investing in securities excluded by application of our RI Responsible Investment Framework can be found in section 11 (Investment Constraints) of the <i>Investment Risk Allocation Policy</i>.</p> <p>5.2.2 We use globally recognized standards in two main ways: 1) for guidance on best practice in RI for investors and to benchmark our own performance (eg UNPRI); and 2) guidance on ESG best practice for companies which we use to assist our RI analysis (eg UN Global Compact).</p> <p>5.2.35.2.2 We are committed to the UN-supported Principles for Responsible Investment (PRI). The principles promote integration of ESG issues into investment analysis and asset ownership. We use the PRI, a globally recognized standard, for guidance on best practice in Responsible Investment and to benchmark our own performance.</p> <p>5.2.45.2.3 Our voting decisions take into account national and international standards of good corporate governance, including shareholder voting rights. International standards include the International Corporate Governance Network Guidelines and the G20/OECD Principles of Corporate Governance. For New Zealand listed companies we endorse the New Zealand Corporate Governance Forum Guidelines and the NZX Corporate Governance Code. We have adopted the UN Global Compact principles as a benchmark for expected standards of corporate behavior. The UN Global Compact asks companies to embrace, support, and enact within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption measures.</p> <p>5.2.5 Our voting decisions take into account national and international standards of good corporate governance. International standards include the International Corporate Governance Network Guidelines and the G20/OECD Principles of Corporate Governance. For New Zealand listed companies we endorse the New Zealand Corporate Governance Guidelines published by the New Zealand Corporate Governance Forum.</p> <p>5.3.1 RI is integrated into investment of the Fund through the RI Responsible Investment Framework and the application of it by the investment staff of the Guardians.</p> <p>5.3.2 Procedures relating to RI Responsible Investment are contained or referenced in the RI Responsible Investment Framework.</p>
6	Balance Between Risk and Return	<p>Change to how we summarise the Actual Portfolio in the opening box, second paragraph, by deleting reference to Strategic Tilting as a stand-alone item as it is an Active Return Strategy and is already captured by the second bullet point - see paragraph below</p> <p>In general the investment strategy adopted by the Fund, and in particular the Reference Portfolio, will have a dominant influence on the returns generated. The Reference Portfolio specifies the broad equilibrium mix between growth and income assets for the Fund which</p>

Section		Change required and reason
		<p>the Guardians believe best meets their statutory obligations. The Actual Portfolio of the Fund is the sum of:</p> <ul style="list-style-type: none"> • Reference Portfolio exposures; plus • asset/investment exposures obtained through the Active Return Strategies; plus • adjustments to Reference Portfolio exposures to accommodate the asset/investment market exposures described above.; plus • Strategic Tilt exposures;
7	Fund Management Structure	No changes
7A	Governance framework for Fund investment vehicles	
8	Derivatives, Short Selling and Securities Lending	No changes
9	Risk Management	
10	Valuation of Unlisted Assets	No change
11	Investment Constraints	No change

4. Proposed changes to VCF SIPSP

There has only been one proposed change to the VCF SIPSP, which is minor. The change is:

Clause 6.2.5 (referring to the UN backed Principles for Responsible Investment) is deleted entirely as there are a range of standards so selecting one is no longer as relevant as it was. In addition, corporate standards are simply a monitoring and analysis tool and belongs in the procedures section. Moved to RI Framework.

A full marked up version of the VCF SIPSP is available for *optional reading* only (SD#[#3389254](#)).

5. Advised Future Changes to Policies

As a heads up, there are a number of policy changes on the horizon. Certain anticipated future changes to NZSF SIPSP and VCF SIPSP-related Policies and to our Operational Policies have been advised and are tabled in Appendix 1.

6. Other Recent Policy Changes and the Control Environment

6.1 The Board receives an annual summary of material policy changes approved by the CEO and/or Board during that period as part of the SIPSP review. These are policy changes that have been requested outside of a formal review. There have been no material policy changes during this 12 month period so there is nothing to report to the Board this year.

6.2 **[For RC information]** There have been various non material procedural changes (e.g. amendments to the Delegations policy following staff movements) and changes

resultant from a formal review (e.g. 5 yearly framework or policy reviews). A version of the policy change log annotated to show which policy changes for the RC review is available [here](#) for *Optional reading (SD#3406384)*.

Recommendations:

We recommend that the RC:

- **confirm** that the NZSF SIPSP, VCF SIPSP and RI Framework changes outlined above are ready for Board approval;

We recommend that the Board:

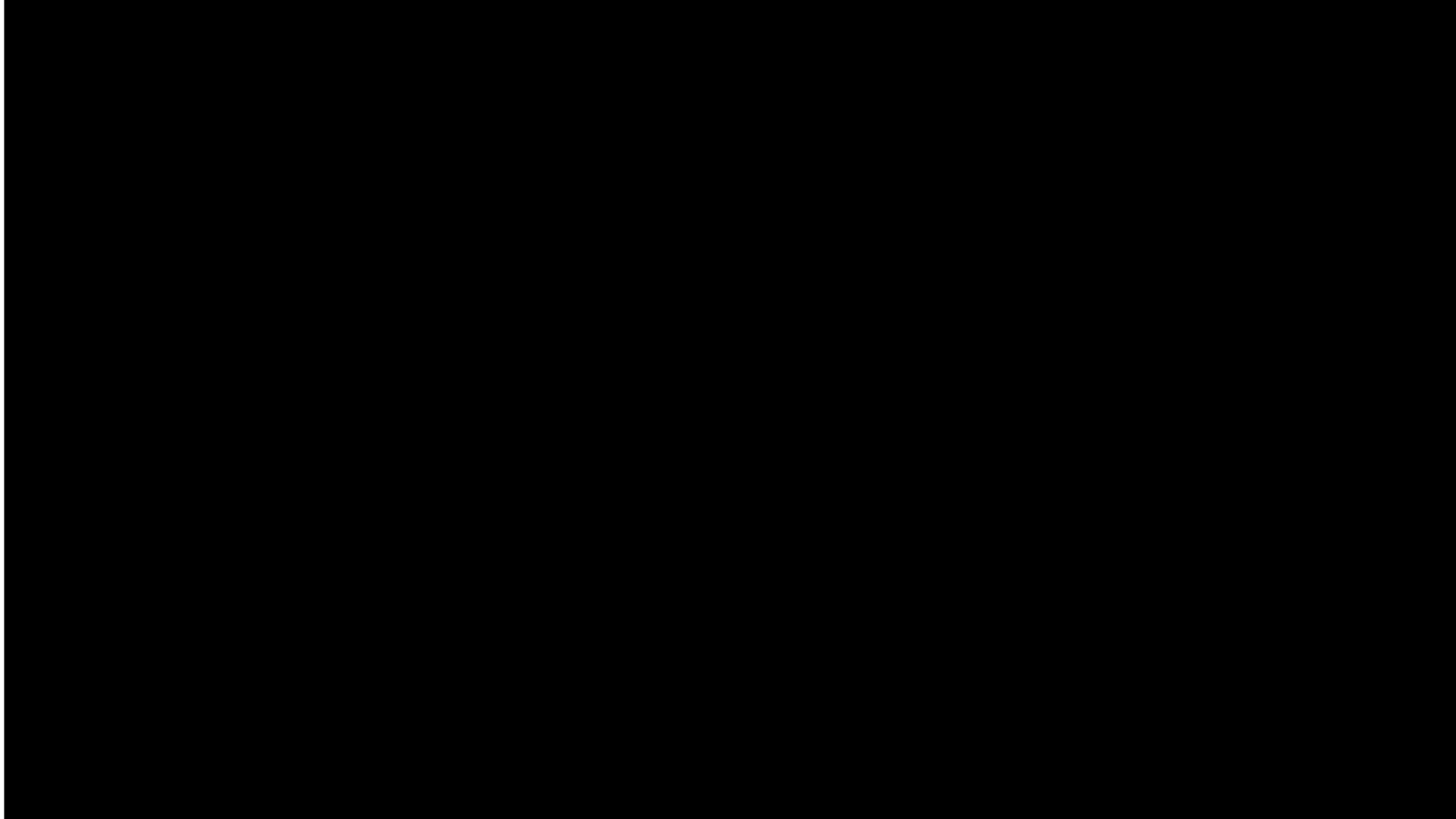
- **note** that the NZSF SIPSP, the RI Framework and the VCF SIPSP have been reviewed;
- **approve** the changes to the NZSF SIPSP, the RI Framework and the VCF SIPSP (or advise changes);
- **note** that the changes to the NZSF SIPSP are not material and do not require consultation with the Minister as per the condition to the section 50 consent;
- **note** that there has been no material changes to policies over the last 12 months outside of formal reviews.

Released under the OIA

Appendix 1: Advised Future Changes to Policies

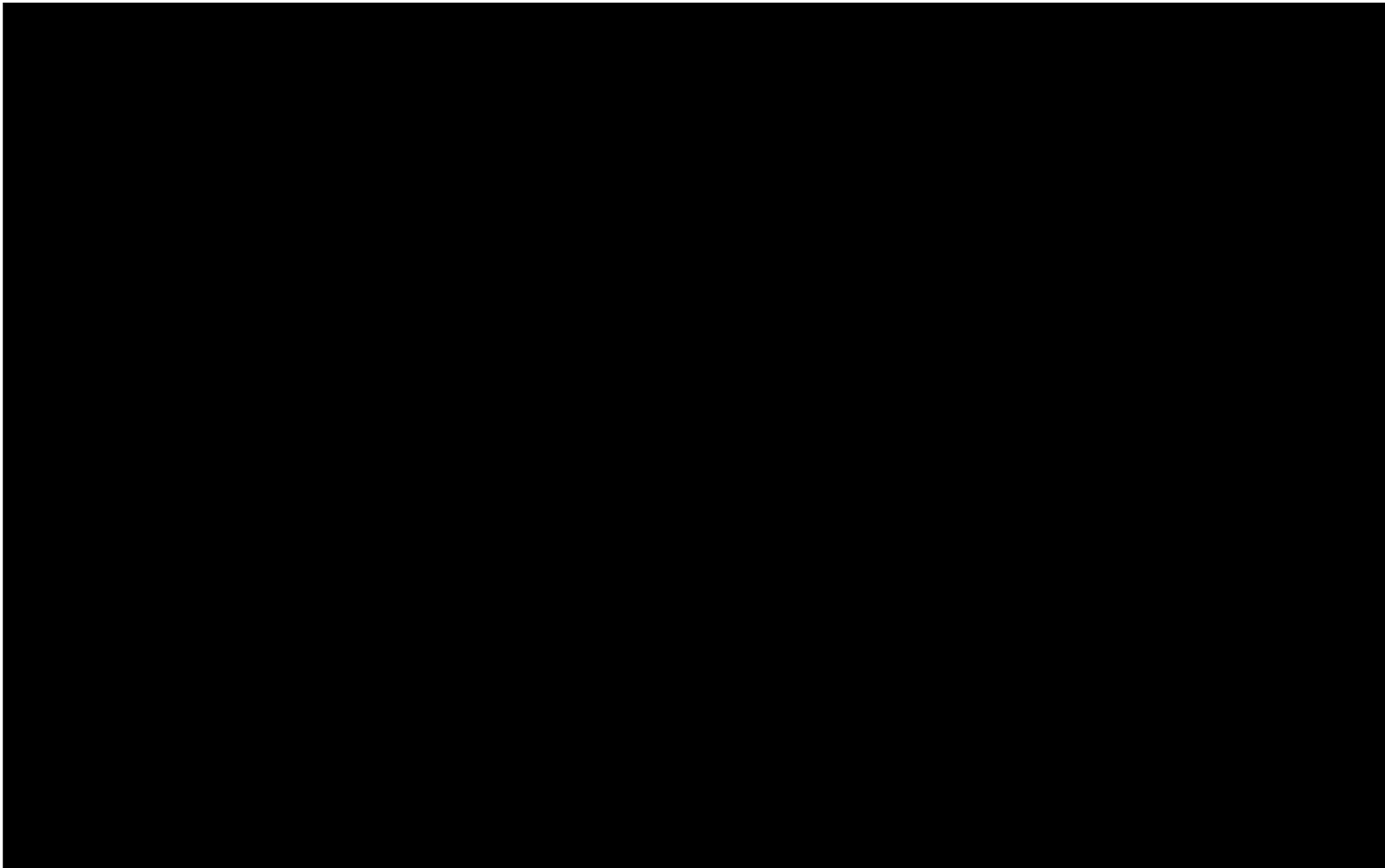
Out of Scope

Anticipated future changes to NZSF SIPSP and VCF SIPSP-related Policies:



Out of Scope

Anticipated future changes to our Operational Policies:



Item 1c – RC Questions

C3 – Restricted Confidential

RISK COMMITTEE – GUARDIANS OF NEW ZEALAND SUPERANNUATION

19 May 2022

9.30am to 11.30am *via Zoom video conference*

Review of Papers – Q&A

RC pre-meeting questions process

Questions are invited from Committee participants to help set the tone of the discussion and prioritise areas of focus. Once submitted, questions will be sent to presenters who will be asked to group question and suggest an order of response and / or recommend questions to be dealt with offline.

Please consider the following when entering your questions into the attached template:

- Do you understand what you're being asked to note / endorse / recommend?
- Are there areas not covered that RC need to hear (discussion) or see (analysis) from the paper presenters that is material to forming a view?
- How confident are you that this recommendation will improve the effectiveness of our management of risk?
- What is your level of confidence about the matter?
- Please signal which questions and observations that are material and require prioritised discussion at the meeting. Likewise, please signal questions that can be managed offline.

For Presenters: Once collated questions are shared, please advise the Secretary and Chair how you would like to group the questions asked and any questions you believe you can manage offline with Committee Members.

A. Questions for Presenters

Agenda Item	Name	Question / Observation	Material issue warranting priority discussion?	For discussion or offline?
2	Mark	I agree with the suggestion on 3.3 to advise the Minister of the inclusion of the addition of the statements concerning sustainable finance.	No	No

RISK COMMITTEE MEETING MINUTES
GUARDIANS OF NEW ZEALAND SUPERANNUATION
19 May 2022
9.30am to 11.30am
VIA ZOOM VIDEO CONFERENCE

Members:

Cristina Billett (Acting GM, Corporate Affairs) - *Chair*

[Redacted]

Mark Fennell (General Manager Risk)

Paula Steed (General Manager Finance & Investment Operations)

[Redacted]

Mika Austin (General Manager Human Resources)

[Redacted]

Section 9(2)(a) Privacy

David Sara (General Manager Technology)

Matt Whineray (CEO)

[Redacted]

Invitees:

If required:

[Redacted]

Section 9(2)(a) Privacy

Apologies: None

Item 1: RC Only Time (Part One)

• RC Only Time (Part One)

○ Apologies – as noted above

Out of Scope

○ Disclosure of interest's reminder – It was noted that the Chair is the co-author of the Annual SIPSP review paper in Item 2

○ [Redacted]

○

Further Actions

Who

When

[Redacted]

Out of Scope

Item 2: Annual – SIPSP Review including Responsible Investment Framework

(SD# 3401536)

The paper covers the review of the NZSF SIPSP, the VCF SIPSP, the Responsible Investment Framework and the annual review of all Guardians current Policies. The Risk Committee is asked to confirm that the changes outlined in the paper are ready for Board approval.

Section 9(2)(a) Privacy

provided the Risk Committee with a key summary of the annual review process for this year, noting the requirement by our Act that we review annually both the NZSF SIPSP, the VCF SIPSP and their underlying Policies. Policies sitting outside of the respective SIPSPs are also reviewed. This annual process is now well understood. The same process as the previous year was adopted, where designated Heads were asked to review relevant sections of each SIPSP and the respective underlying Policies, supporting the confirmations provided from each Policy Owner (GMs) that their policies remain current and are still fit for purpose.

As part of the review, the changes being proposed are considered in the context of whether they are material under the consent from the Minister of Finance under s.50 of the Act. It was noted that no changes being proposed as part of this annual review are material. Also looked at as part of the process, are all the changes made and approved by the CEO and Board respectively over the year, to consider whether overall there has been any change to the risk control framework. It has been concluded that there has been no weakening of the risk control framework.

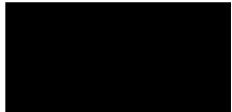
Section 9(2)(a) Privacy

The main changes resultant from the review this year, relate to the Responsible Investment Framework (RIF).

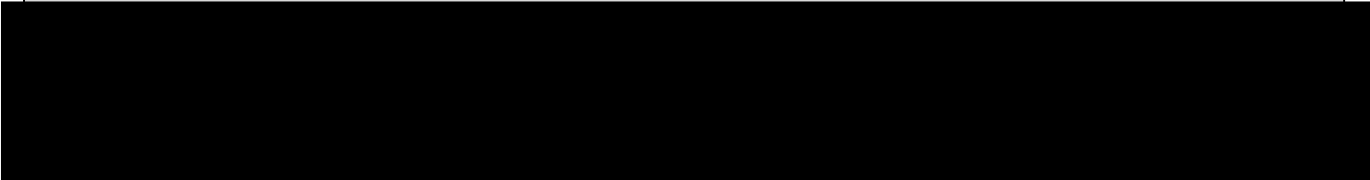
spoke to the Risk Committee on these RIF changes proposed. It was noted that the previous Powerpoint RIF document was also carrying out a communications function and was a combination of policy and communications. The RIF has now been re-framed as a policy document that can stand alone on our external website for ease of reference. In addition, the Guardians' sustainable finance goals and commitment to develop the sustainable finance strategy have now been included. Details of the actual sustainable finance strategy once finalised and approved, will be included in the annual SIPSP review next year. It was noted that the re-framed RIF has lifted out all the main policies, standards and procedures that apply to the Guardians but has excluded some of the detail which can change more frequently, providing better flexibility. It was noted that a separate communications document to talk more fully about the sustainable finance strategy and the sustainable finance work being undertaken will be created and utilised. One of the other changes proposed clarifies what standards apply to the Guardians (in the standards section) and what standards apply to companies (in the procedures section) and are used in our analysis of companies.

Lastly, it was noted that the RIF changes, although not considered material, have already been advised to the Minister of Finance in the recent Statement of Intent and Statement of Performance Expectations and that the Minister has explicitly acknowledged this in the acknowledgement sent back to the Guardians.

The Risk Committee confirmed that the annual review paper is ready for Board approval, subject to some minor updates as noted in Further Actions below.

Further Actions	Who	When
To think about how the RIF changes are expressed in the Board paper. It was suggested to separate the reasoning from the changes and to provide further commentary explaining the changes. Re-sequence the sentencing in the section relating to the proposed IRA Policy changes	 Section 9(2)(a) Privacy	Prior to Board Papers being finalised

Item 3: Quarterly – Cyber Security Dashboard (Andrew Meyer, Greg McHugh)



Out of Scope

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From: Cristina Billett <CBillett@nzsuperfund.co.nz>
Sent: Monday, April 4, 2022 9:47 PM
To: [REDACTED]
Subject: RE: RI Section 5 SIPSP - Long and short options

Thanks

Keep me posted.

FYI here is an extract from the Board paper being presented on the RIF/SIPSP (it makes reference to further detail but I can't see this in the paper)

When [REDACTED] had her catch up with Matt I clarified that the window had closed for any material changes to the RIF/SIPSP this year – she and agreed and it said it would be very light touch this year

Cristina

Integration of sustainable finance into the Guardians' SIPSP and RI Framework

The SIPSP is reviewed annually. Work to integrate sustainable finance will be combined with the 2022 review. A workshop with the Legal team was held in December 2021; a work plan has been developed; work on the SIPSP review has started (see below for detail). The draft SIPSP is expected to be completed in March, ready to go to the IC in April and then to Board (June 2022). The Communications team will engage on the changes with Treasury (if required) before the June Board meeting. The Sustainable Finance goals will be introduced into the SIPSP this year with reference to key elements. We envisage that the 2023 update will transition the SIPSP more fully from RI to Sustainable Finance

In progress

Section 9(2)(h) Legal Professional Privilege



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From: [REDACTED]
To: [REDACTED]
Cc: [Cristina Billett](#) [REDACTED]
Subject: Compare of RI Powerpoint document and new RI Framework document needed for Board
Date: Wednesday, 25 May 2022 4:17:32 pm
Attachments: [3408498-1-Responsible Investment Framework review and updates May 2022 - List of Changes .DOCX.DRF](#)

Hi [REDACTED]

As mentioned, attached is the compare of the two very different Responsible Investment Framework documents tabling the relevant changes, which [REDACTED] completed for me. I thought we could use this as the document (once updated) as the 'list of changes' which we mention in the paper to link for the Board.

Ideally, it will be helpful to have [REDACTED] to complete the 'reason for change' column alongside the changes, unless [REDACTED] or yourself know the reasons?

Thanks,
[REDACTED]

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Responsible Investment Framework

Differences between current PowerPoint (PPT) version and new Word version

The new version of the framework is significantly shorter than the current PPT version. While certain slides have been reduced to a single paragraph, nothing of significance seems to have been lost in the process. Much of the content has been reordered which makes comparison of the differences hard to spot. However, any key changes between the two versions are described below.

Change	Reason for change
Inclusion of more commentary around sustainable finance considerations in new version	Incorporating our commitment to develop and integrate our sustainable finance strategy
No diagrams used in new version. PPT version has diagrams on slides 5, 6, 7, 11 and 18	The PPT version was both a framework and a communications piece. The new document has been reframed as a standalone framework and a separate document will be produced for use as a communications piece.
On integration, there was a whole slide (slide 12) which broke down the aspects of investments that have positive returns in addition to financial returns. This break down is not contained in the new version	
Active Ownership was covered separately (slide 13) but is now addressed under the umbrellas of voting, engagement and exclusions	
The importance of active ownership (see slide 13) is not explained in the new version	The whole slide has been simplified into Clause 1.3.5. It has detail that can change frequently. The new version makes a simple statement that we need to focus our efforts in this regard.
The current version contains a reference to our customised global voting policy and the guidelines for the proxy voting agency. These are not referenced in the new version	
Corporate disclosure, best practice and collaboration were separately addressed in the PPT version (slides 19, 20 and 21) but aren't separately addressed in the new version. This may be because they've covered throughout the new version, as and where relevant	