



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

**18 JUNE 2025**

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# 1. Introduction

## ***Purpose of this document***

- 1.1 The Guardians of New Zealand Superannuation (**Guardians**) was established by the New Zealand Superannuation and Retirement Income Act 2001 (the **Act**) to manage and administer the New Zealand Superannuation Fund (**Fund**).
- 1.2 Section 60 of the Act requires the Guardians to 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 of the Act.
- 1.3 Under section 61 of the Act, a statement of investment policies, standards and procedures (**SIPSP**) must cover (but is not limited to) the matters outlined in that section. The policies, standards and procedures established for the purposes of sections 60 and 61 of the Act are set out in this SIPSP and the following policies (**SIPSP Policies**):
  - (a) *Investment Risk Allocation Policy* - which covers our approach to allocating and managing investment risk.
  - (b) *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.
  - (c) *Direct & Externally Managed Investment Policy* – which covers how we invest with external investment managers, co-invest alongside managers and invest directly into investments.
  - (d) *Derivatives Policy* - which covers how we and our managers use derivatives in our management of the Fund.
  - (e) *Investment Valuation Policy* - which covers our approach to valuing the Fund investments.
  - (f) *Delegations Policy* - which provides a framework for the delegation of authority from the Board to the Chief Executive and others in the organisation.
  - (g) *Risk Management Policy* - which covers how we manage operational risks for the Guardians.
  - (h) *Procurement and Outsourcing Policy* - which covers how we manage procurement and outsourcing.
  - (i) *Communications & Engagement Policy* – which outlines our approach to communicating Fund performance.
- 1.4 Procedures for implementing the SIPSP Policies are either contained in schedules to the policies or in standalone documents. Both the SIPSP Policies and the standalone procedures are generally published on our website ([www.nzsuperfund.nz](http://www.nzsuperfund.nz)).
- 1.5 The SIPSP and our SIPSP Policies and associated procedures provide a framework for the management and administration of the Fund and are how the Guardians gives effect to its statutory investment mandate.
- 1.6 The table on page 24 sets out where the matters required by section 61 of the Act are covered.

## ***Interpretation***

- 1.7 Definitions included in the SIPSP are bolded when first used. We also have a comprehensive Glossary of Terms, which defines all technical and investment terms used in the SIPSP. The Glossary of Terms is published on our website ([www.nzsuperfund.nz](http://www.nzsuperfund.nz)).

***Review***

- 1.8 This SIPSP is effective 18 June 2025 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 the SIPSP can be found in section 15.
- 1.9 Only the Board of the Guardians can approve material changes to the SIPSP.

## 2. Fund purpose and investment objective

### *The Fund has a long-term purpose*

- 2.1 The Fund was established in response to the fiscal pressure posed by New Zealand's aging population. The Fund partially pre-funds the cost of the national superannuation scheme (known as **NZ super**) to help smooth its cost between today's taxpayers and future generations. Doing so will reduce the taxation burden imposed on future New Zealand taxpayers.
- 2.2 The Fund may only be used for the purpose of helping meet the costs of NZ super.

### *The statutory investment mandate for the Fund*

- 2.3 Under the Act, the Guardians must 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;
  - (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.
- 2.4 The Guardians gives effect to the statutory mandate by establishing and implementing policies, standards and procedures that are consistent with investing on a prudent, commercial basis and which incorporate:
- principles for best-practice portfolio management considered appropriate for the Fund,
  - an investment strategy to maximise Fund returns over the long-term within a risk-appetite considered appropriate for a long-term investment fund, and
  - sustainable investment principles considered appropriate for 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.

### 3. Endowments and Investment Beliefs

3.1 Our endowments and investment beliefs, along with the Fund purpose and statutory investment mandate, form key building blocks of our investment framework.

#### **Endowments**

3.2 There are three endowments that stem from the way that the Fund has been established, which shape and guide our investment decisions and portfolio construction:

- Long-term horizon – The Fund’s intergenerational purpose and transparency of government withdrawals, allows us to confidently invest and allocate risk over the longer term.
- Operational independence – The Guardians’ clear mandate, strong governance and independence from Government supports autonomy, efficiency and commerciality in the execution of our mandate.
- Sovereign status - The Guardians’ sovereign status affords us both credibility and a regulatory advantage that is regarded favourably by business partners.

3.3 The endowments are characteristics that, while not necessarily unique, we consider give us an advantage when investing. These endowments are explained in more detail on the Fund’s website ([www.nzsuperfund.nz](http://www.nzsuperfund.nz)).

#### **Investment beliefs**

3.4 The Board has approved a set of investment beliefs (outlined below) that complement and underpin our endowments. They provide a clear statement about how we believe investment markets work and act as a key driver for investment decisions.

<b>Investment beliefs</b>	
Governance & investment objectives	Clear governance and delegation promotes efficiency and accountability that is critical to the delivery of value add to the Fund.
Asset allocation	Asset allocation is the key investment decision. Investors with a long-term horizon can outperform more short-term focused investors over the long-run.
Total Portfolio Approach (TPA)	TPA enables a flexible and dynamic approach to capital allocation, informed by what is best for the total portfolio and supported by a high degree of collaboration across the Investment Team.
Investment selection	Asset class expected returns are partly predictable; prices tend to revert to fair value over time The ability to consistently generate value add from skill versus an appropriate benchmark (net of fees) is rare; where this ability exists, it is hard to access. Some markets or strategies exhibit persistent behavioural biases and incentive-driven market dynamics which create systemic inefficiencies that can be captured through disciplined investment strategies over the long term
Sustainable investment	Sustainability considerations are fundamental to long-term risk and return.

Operational Alpha	Leveraging data and automation, alongside efficient mandate execution and cost discipline, generates operational alpha and strengthens long-term investment outcomes.
Link to endowments	We achieve the strongest portfolio outcomes in areas where our investment strategy is most closely aligned with our endowments.

## 4. Fund Governance and Structure

### ***Ownership of the Fund***

- 4.1 The Fund is the property of the Crown. It consists of capital contributions made by the Government and Fund investments.

### ***Capital contributions and withdrawals***

- 4.2 Under the Act, the Government is required to make annual capital contributions to the Fund based on a formula set out in the Act. The formula also determines whether or not the Government may make a capital withdrawal from the Fund.
- 4.3 Treasury is responsible for making the necessary calculations under the formula and publishes the required contribution amount in the annual economic and fiscal update prepared under the Public Finance Act 1989. Should the Government choose to contribute less than the required capital contribution, it must explain its actions in the annual fiscal strategy report required under the Public Finance Act 1989.

### ***Payments out of the Fund***

- 4.4 The Fund must be held for the purpose of paying NZ super but may be used to pay investment and custodian fees, Fund operating expenses and taxation liabilities. No payments out of the Fund may be made unless authorised by the Guardians.

### ***Management of the Fund***

- 4.5 The Fund is managed and administered by the Guardians. The Guardians was established by the Act as an autonomous Crown entity, which is a type of statutory body corporate that is legally separate from the Crown and designed to carry out its function independently from the Government.
- 4.6 The Guardians is overseen by an independent Board. Board members are required by legislation to have substantial expertise in investment management and are appointed by the Governor General on the recommendation of the Minister of Finance. The Minister's recommendation follows nominations from an independent nominating committee and consultation with representatives of other political parties in Parliament.

### ***Statutory constraints***

- 4.7 The Act is not prescriptive as to what the Fund can, or cannot, be invested in and there are no restrictions on the Guardians' power to invest the Fund other than:
- (a) The Fund must be invested on a prudent, commercial basis in accordance with the statutory mandate (*section 58*).
  - (b) The Guardians must have regard to Ministerial directions regarding the Government's expectations as to the Fund's performance, including the Government's expectations as to risk and return (*section 49(4)*).
- 4.8 The Guardians may not, except with the approval of the Minister, borrow money in respect of the Fund, grant security interests over Fund property or hold financial instruments that impose a contingent liability on the Fund or the Crown (*section 50*).
- 4.9 The Guardians is responsible for determining an investment strategy and framework that meets the statutory investment mandate.

### ***Ministerial directions***

- 4.10 The Guardians has operational independence regarding investment decisions. The Minister of Finance can 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, to which the Guardians must have regard (*section 64*).

- 4.11 The Minister cannot give a direction that is inconsistent with the Guardians' duty to invest the Fund on a prudent, commercial basis, and cannot direct the Guardians in regard to the Fund on any other matter.
- 4.12 To date, there has only been one direction from the Minister of Finance (in 2009), which expressed "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". A copy of the Ministerial direction and our response are available on our website.

#### ***Roles and responsibilities in relation to the Fund***

- 4.13 The Board is responsible for establishing investment policies for the Fund and has overall responsibility for management of the Fund. It has delegated authority for day-to-day investment decision-making to the Chief Executive and senior managers. The framework for delegations is established by our *Delegations Policy*.
- 4.14 The Board is responsible for approving the investment beliefs, policies and strategy for the Fund. This includes approving the Fund's risk and return profile, benchmarks, sustainable investment and climate change strategies, investment constraints and exclusion categories. The investment-related matters that are specifically reserved to the Board are specified in our *Delegations Policy*.
- 4.15 Management is responsible for investing the Fund in accordance with the Board approved investment policies, and managing investment risk within Board approved risk limits and investment constraints. The Investment Committee is responsible for oversight of investment risk, including monitoring and reviewing all investment activities. It makes recommendations to the holders of delegated authority for key investment decisions.

#### ***Use of internal and external resources***

- 4.16 The Fund is managed and administered using a mixture of internal staff and external resources. We continually monitor the use of external suppliers versus internal provision of services as part of the ongoing review of our business model. The quality, cost and degree of alignment of interests of an outsourced alternative provide benchmarks against which the opportunity to undertake roles internally can be judged.
- 4.17 Policies, standards and procedures relating to the selection, appointment and monitoring of third parties who manage investments for the Fund are outlined in our *Direct & Externally Managed Investment Policy and Direct & Externally Managed Investment Procedures*.
- 4.18 Policies, standards and procedures relating to the selection, appointment and monitoring of direct investment in assets when external managers are not used, and it is not a portfolio completion activity, are outlined in our *Direct & Externally Managed Investment Policy and Direct & Externally Managed Investment Procedures*.
- 4.19 Policies, standards and procedures relating to the selection, appointment and monitoring of third parties who carry out portfolio completion activities (such as portfolio completion agents, financial markets counterparties and non-master custodians) are outlined in our *Portfolio Completion and Internally Managed Securities Policy*.
- 4.20 A custodian (**Master Custodian**) is used to provide safe keeping of Fund assets, trade settlement services and reporting on the Fund's investment activities. The Master Custodian relationship is a key outsourcing relationship. The appointment, monitoring

and management of key outsourcing relationships is governed by our *Procurement and Outsourcing Policy*.

**Auditor**

4.21 The Office of the Auditor General is the auditor for the Fund and the Guardians.

## 5. Controlled entities

5.1 We may:

- (a) control an entity as a Fund investment (a **control investment**), and
- (b) form or control an entity for the purpose of holding, facilitating, or managing the investments of the Fund (a **holding vehicle**).

5.2 Control investments can in turn comprise:

- (a) controlled direct investments made by the Guardians (**controlled direct investments**), or
- (b) controlled externally-managed investments with an external investment manager in place, such as managed funds, co-investment entities, feeder funds and separately managed accounts (**controlled managed investments**).

5.3 This Section of the SIPSP is primarily focused on the policies, standards and procedures in respect of controlled direct investments, given these are internally managed. The policies, standards and procedures relating to controlled managed investments are primarily identified in other Sections of the SIPSP.

5.4 Direct investments are covered by our *Direct & Externally Managed Investment Policy and Direct & Externally Managed Investment Procedures*. To reflect the incremental regulatory, reputational and other risks associated with controlled direct investments, we have a framework for deciding whether to acquire controlled direct investments, and on what terms.

5.5 We exercise independent judgment in undertaking any controlled direct investments in line with our operational independence in relation to investment decisions.

5.6 Factors that we take into account in any decision to acquire a controlled direct investment include:

- the investment thesis for the applicable transaction giving rise to control;
- any demonstrable benefits arising from control, such as superior governance, exit and liquidity rights; and
- any elevated risks (e.g. legal, reputational and operational) arising from control and the extent to which those risks can be mitigated and managed.

5.7 Factors that we take into account when determining whether to use a holding vehicle include:

- structuring and accessing investments more efficiently; and
- minimising potential liability and risk associated with Fund investments (including controlled direct investments).

5.8 Controlled direct investments will operate in such a way that they are separate, stand-alone entities from the Guardians and from other Fund investments.

5.9 Controlled direct investments will typically be held by holding entities in order to: (i) minimise the risk of loss/liability to the Fund or Guardians and/or (ii) optimise structural and other efficiencies in respect of the investment.

5.10 Controlled direct investments will have operational independence. The role of the Guardians (or a holding vehicle, as applicable) with respect to a controlled direct investment is that of an investor. Responsibility and accountability for the operations and performance of a controlled direct investment will rest with its board and

management (or equivalent). The Guardians will not undertake the management of the business of the controlled direct investment.

- 5.11 The Guardians' Board has overall ownership of the Guardians' decision-making framework in respect of controlled investments. This includes setting parameters for which decisions about controlled investments are (i) reserved to the Board, or (ii) delegated to management.
- 5.12 A Fund investment, and any related arrangements, do not result in the Official Information Act applying to any entity. However, that Act will apply to the Guardians and the Guardians will ensure that the Guardians has the information about controlled investments necessary for the Guardians to manage and administer the Fund in accordance with this SIPSP. Policy statements relating to the Official Information Act are found in our *Communications and Engagement Policy*.
- 5.13 Our policies, standards and procedures relating to the governance of controlled investments are outlined in our *Delegations Policy, Direct & Externally Managed Investment Policy and Direct & Externally Managed Investment Procedures*. These policies, standards and procedures are applicable to the Fund and are not intended to apply to controlled investments, recognising that they have operational independence and that the role of the Guardians (or holding vehicle, as applicable) is limited to that of an investor.

## 6. Portfolio construction

### ***Balance Between Risk and Return***

- 6.1 Risk and expected return are the two most important characteristics of any investment portfolio. While realised risk and return for different asset classes fluctuate through time, they are more stable when measured across longer time horizons. From the perspective of long-term investors, it is the long-run portfolio risk and expected return characteristics that are of most relevance.
- 6.2 Asset allocation is the key investment decision for determining the balance of risk and return appropriate for maximising return over the long term, without undue risk. Asset allocation and investment risk allocation are synonymous terms.

### ***Asset allocation approach***

- 6.3 Our asset allocation approach starts with the establishment of a **Reference Portfolio**. The Reference Portfolio is a simple, low-cost portfolio with readily obtainable asset exposures that we believe best meets the objective of maximising returns without undue risk to the Fund as a whole over the long-term. The Reference Portfolio also serves as a risk setting and a performance benchmark for the Fund.
- 6.4 The Reference Portfolio is a notional portfolio. In the Fund's **Actual Portfolio**, we seek to add more value than the Reference Portfolio would do, through accessing returns not available in the Reference Portfolio (our **Active Returns** strategy), and by gaining access to desired risk exposures, rebalancing the Fund, and managing liquidity risk in the most cost-effective manner possible (**Portfolio Completion**).
- 6.5 The Actual Portfolio comprises investments made that reflect the Reference Portfolio and investments arising from implementation of our Active Returns and Portfolio Completion activities (**value-adding investments**).
- 6.6 Policies, standards and procedures relating to the Reference Portfolio and Actual Portfolio are contained in our *Investment Risk Allocation Policy*.

### ***Risk budgeting process***

- 6.7 The deviation between the Actual Portfolio and the risk exposures inherent in the Reference Portfolio is known as **active risk**. The extent to which the Actual Portfolio can deviate from the Reference Portfolio is established by the Board and is known as the **total active risk budget**. The structure of the Reference Portfolio and the size of the total active risk budget are the key strategic decisions that determine the risk and return profile for the Fund.
- 6.8 In building the Actual Portfolio, we group value-adding investment opportunities with similar characteristics into categories that we call **Opportunities**. Opportunities can be broad (effectively equivalent to an asset class) or narrow (similar to a sub-asset class). The total active risk budget is allocated to Opportunities using a risk budgeting process to determine the relative attractiveness of Opportunities and, given that relative attractiveness and the total amount of active risk we wish to take, how much active risk to allocate to each Opportunity.
- 6.9 Policies, standards and procedures relating to Opportunities and the risk budgeting process are contained in our *Investment Risk Allocation Policy*.

### ***Asset classes in which the Fund invests***

- 6.10 The Act does not limit the class of assets in which the Fund may be invested. Currently, the only potential constraints on the classes of assets that the Fund may be invested in are those arising from the application of our Sustainable Investment Framework (see

Section 9, *Sustainable Investment* of this SIPSP) or the application of regulatory requirements such as sanctions. General investment constraints for the Fund are set by the Board (see section 8).

- 6.11 The Fund is invested in a broad range of asset classes (including public market assets, private equity, real estate, infrastructure, and credit investments). Fund exposures can be divided into two broad categories:
- (a) The asset classes that are included in the Reference Portfolio. Exposure to these asset classes is obtained through passive investment i.e. by tracking market indices rather than by making active investment decisions.
  - (b) Value-adding investments.
- 6.12 The selection of assets for inclusion in the Reference Portfolio, and their relative weighting, is a Board decision. The selection of Opportunities and value-adding investments is delegated to management. Opportunities are subject to regular review and may be terminated, redefined or merged, based on changes to the return and/or risk drivers.
- 6.13 Details of the asset classes currently comprised in the Reference Portfolio and Actual Portfolio can be found on our website ([www.nzsuperfund.nz](http://www.nzsuperfund.nz)).

#### ***Proxy system***

- 6.14 When an investment that is not represented in the Reference Portfolio is introduced to the Actual Portfolio it is funded by selling Reference Portfolio assets. To avoid the investment changing the Fund's total risk level, it is funded by a combination of growth and income assets represented in the Reference Portfolio that matches its market risk profile.
- 6.15 We use a system (the proxy system) to determine the mix of assets used to fund an active investment (its proxy). The proxy represents the opportunity cost of an active investment (i.e., the return we would have made if we did not sell the proxy assets) and is the minimum expected rate of return we require in order to make an active investment.
- 6.16 Policies, standards and procedures relating to the proxy system are contained in our *Investment Risk Allocation Policy*.

#### ***Rebalancing***

- 6.17 The Actual Portfolio is periodically adjusted (rebalanced) to a rebalancing target, which is the desired Reference Portfolio exposures for the Actual Portfolio after making adjustments for value-adding investments using our proxy system. Rebalancing is undertaken within ranges set by the Board that enable the Actual Portfolio to be managed in a cost-efficient manner.
- 6.18 Policies, standards and procedures relating to rebalancing are contained in our *Portfolio Completion and Internally Managed Securities Policy*.

#### ***Liquidity risk management***

- 6.19 We have a Fund-wide liquidity risk management framework to ensure that sufficient liquidity is maintained for the Fund to withstand a range of stress events comprised of two functions:
- Portfolio flexibility, which seeks to ensure that the Fund is not over invested in illiquid assets, increasing the risk of being a forced seller to an unacceptable level.
  - Liquidity management, which seeks to ensure we maintain sufficient liquidity to meet the Fund's day-to-day payment obligations while minimising the direct and indirect costs of holding liquidity.

6.20 Policies, standards and procedures relating to the portfolio flexibility process are contained in our *Investment Risk Allocation*. Policies, standards and procedures relating to the liquidity management process are contained in our *Portfolio Completion and Internally Managed Securities Policy*.

## 7. Implementation

- 7.1 There are various ways in which we can access investments, including by investing in physical or synthetic assets, and managing the investment ourselves or having a third party do it.

### ***Physical versus synthetic assets***

- 7.2 The decision on whether to gain exposure to an asset physically or synthetically (via derivative instruments) is based on which option is the most efficient and cost effective.

### ***Investment management***

- 7.3 The decision as to whether to manage an investment Opportunity ourselves or have a third party do it for us will depend on which is the most efficient and effective way to access the relevant Opportunity. Relevant factors include the relative risk-adjusted expected returns; alignment of interest; liquidity; and management and governance capability.
- 7.4 Externally managed investments include investing in a collective investment vehicle managed by an external manager and appointing an external manager to manage a particular investment mandate on our behalf.
- 7.5 Our policies, standards and procedures for externally managed mandates are set out in the *Direct & Externally Managed Investment Policy* and *Direct & Externally Managed Investment Procedures* and, for internally managed mandates, are set out in our *Portfolio Completion and Internally Managed Securities Policy*. These documents include frameworks for:
- Evaluating and implementing investments.
  - Investment monitoring and management.
  - External manager conviction and fee evaluation.
  - Director appointments.
  - Controlling investments.
  - Internal investment mandates.
  - Approval of new products.
- 7.6 A six-monthly summary of our external manager relationships and a list of our internally managed investment mandates is available on the Fund's website ([www.nzsuperfund.nz](http://www.nzsuperfund.nz)).

### ***Derivatives***

- 7.7 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). A wide assortment of instruments are classified as derivatives: they include futures, swaps, repurchase agreements, warrants and options.
- 7.8 Reasons for using derivatives include implementing investment strategies or transitions in a low cost and efficient manner; hedging and controlling risks; altering the Funds' market (systematic) exposure; constructing portfolios with risk and return characteristics that could not be easily created with cash market securities; and creating or managing liquidity.
- 7.9 We may use derivatives, and may permit external managers to use derivatives, where we are satisfied that all aspects of derivative use are effectively managed and in compliance with our investment, governance and legislative requirements.
- 7.10 Our policies, standards and procedures relating to derivatives are set out in our *Derivatives Policy*.

### **Short selling**

- 7.11 Short selling is the sale of a physical security that is not owned by the seller, or that the seller has borrowed.
- 7.12 We may short sell publicly listed securities to enhance the expected 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.
- 7.13 We may permit short selling to be undertaken by external investment managers or under an internal investment mandate where we are satisfied that necessary controls are in place to ensure prudent use of that ability, and such use is consistent with the investment guidelines given to the investment manager or in the relevant internal investment mandate.
- 7.14 Except where we are short selling to hedge a long exposure, we will borrow securities to 'cover' a short sale of physical securities.
- 7.15 Our policies, standards and procedures relating to short selling are set out in our *Portfolio Completion and Internally Managed Securities Policy*.

### **Securities Lending**

- 7.16 We may lend securities under an internal securities lending programme. The objective of the securities lending programme is to generate income primarily from fees by lending the Fund's securities. The programme will take a conservative approach to securities lending with a focus on maintaining principal and liquidity of the Fund's securities.
- 7.17 We may use investment managers to manage any or all components of the security lending programme's administration, cash collateral reinvestment and risk management.
- 7.18 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.
- 7.19 Our policies, standards and procedures relating to securities lending are set out in our *Portfolio Completion and Internally Managed Securities Policy*.

## **8. Investment Constraints**

- 8.1 The Act does not restrict investment in any particular asset or class of assets. It is left to the Board to set investment constraints for the Fund.
- 8.2 Three broad categories of investment constraint are used to manage risk within the Fund:
  - (a) Capital and risk constraints on the extent to which the Actual Portfolio can deviate from the Reference Portfolio (active risk).
  - (b) Limits on exposure to a single manager, asset and/or strategy to avoid undue concentration.
  - (c) Minimum liquidity requirements.
- 8.3 These investment constraints are outlined in our *Investment Risk Allocation Policy*, and are periodically reviewed in accordance with that policy.
- 8.4 Investment constraints may also be set to manage risk within individual investment mandates (whether managed internally or externally). These constraints are set out in the relevant investment mandates.
- 8.5 Restrictions on investing in particular securities may arise as a result of the application of our Sustainable Investment Framework or the application of regulatory requirements such as sanctions. A list of companies whose securities we have decided the Fund will not hold is published on our website ([www.nzsuperfund.nz](http://www.nzsuperfund.nz)).

## 9. Sustainable Investment

### **Background**

- 9.1 The policies, standards and procedures contained in this section of the Investment Statement and our *Sustainable Investment Framework (SI Framework)* set out our approach to:
- (a) sustainable investment (**SI**) (which encompasses ethical investment), and
  - (b) retention, exercise and delegation of voting rights.
- 9.2 Our SI approach reflects our belief that environmental, social and governance (ESG) considerations, including climate change, are fundamental to long-term risk and return. Our SI policies, standards and procedures have been developed to reflect SI best practice in a way that is consistent with our investment mandate. Applying our SI policies, standards and procedures supports how we manage and administer the Fund in a manner consistent with avoiding prejudice to New Zealand's reputation as a responsible member of the world community.
- 9.3 As part of our SI approach, we have adopted a sustainable finance goal of incorporating sustainability considerations into investment decision-making and supporting the development of a sustainable financial system within the context of our legislative purpose and mandate.
- 9.4 SI actions include integrating ESG considerations into investment management, exercising voting rights, engagement with investee companies and exclusion from the Fund. As the Fund is invested across a wide range of asset classes and regions, we need to prioritise the issues and companies our SI actions are focused on. The *SI Framework* sets out the process to be followed and factors we consider in determining the appropriate response to particular issues and sets out when, in Guardians' expert judgement, divestment or exclusion may be appropriate.

### **Sustainable Investment Policy (SI Policy)**

- 9.5 We are committed to integrating SI considerations into our investment decision making process.
- 9.6 We are committed to developing and integrating a strategy in support of our sustainable finance goal within the context of our legislative purpose and mandate (sustainable finance strategy).
- 9.7 We will apply standards and procedures that focus on:
- Meeting relevant obligations under the Act;
  - Our investment belief that ESG considerations, including climate change, are fundamental to long-term risk and return;
  - Supporting our sustainable finance goal including our climate change investment strategy;
  - Integrating ESG considerations into our investment decisions and processes, including investment allocation, selection and post-investment management;
  - 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 deliver positive, social and/or environmental impacts in addition to the required financial return;

- Maintaining a process for prioritising, analysing and responding to investee companies where we consider there is a serious risk of a material breach of standards of good corporate practice by an investee company, or significant concern over controversial products, including decisions to engage with or exclude companies; and
  - Benchmarking our performance against the UN-supported Principles for Responsible Investment (**PRI**).
- 9.8 We will maintain appropriate processes for implementing exclusion decisions arising from application of the *SI Framework*.
- 9.9 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.
- 9.10 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.

#### ***Sustainable Investment Standards and Procedures***

- 9.11 We refer to relevant international standards for guidance on best practice.
- 9.12 We are committed to the PRI, a globally recognised standard. The PRI principles promote sustainable finance, the integration of ESG issues into investment analysis and active ownership of assets. We use the PRI for guidance on best practice in sustainable investment and to benchmark our own performance.
- 9.13 Our voting policies are guided by national and international standards of good corporate governance, including on shareholder voting rights. International standards include the International Corporate Governance Network Guidelines. For New Zealand listed companies we endorse the New Zealand Corporate Governance Forum Guidelines, the NZX Corporate Governance Code and the New Zealand Stewardship Code.
- 9.14 Procedures relating to sustainable investment are contained or referenced in the *SI Framework*.
- 9.15 Sustainable investment is integrated into the investment activities of the Fund through the application of the *SI Framework* by the Guardians' investment professionals.

## 10. Performance expectations and benchmarks

### ***Performance expectations***

- 10.1 Our expectations for the performance of the Fund and measures for assessing performance are set out in the Guardians' *Statement of Intent* (available on our website [www.nzsuperfund.nz](http://www.nzsuperfund.nz)).
- 10.2 The Fund is a long-term investment fund, so performance expectations use rolling 20-year periods as an appropriate basis for performance evaluation.

### ***Performance benchmarks for the Fund as a whole***

- 10.3 Benchmarks for evaluating performance of the Fund are approved by the Board. We measure Fund performance by comparing the Actual Portfolio returns with two benchmarks:
- (a) The New Zealand Treasury Bill return (representing a proxy for the cost of Government borrowing - we expect the Fund to earn more in returns than the Government would save in borrowing costs if it chose to repay debt rather than make contributions to the Fund), and
  - (b) The Reference Portfolio return, after costs and before New Zealand tax (to measure how successful the Fund's active investment strategies have been in adding value over and above the Reference Portfolio return).
- 10.4 We measure Fund performance after the deduction of foreign taxes but before New Zealand tax.
- 10.5 The performance benchmarks for the Fund as a whole are outlined in our current *Statement of Intent*.

### ***Benchmarks used for the Reference Portfolio***

- 10.6 We assign benchmark indices to each of the constituent asset classes of the Reference Portfolio. This facilitates unambiguous performance measurement and also allows the Reference Portfolio to become an investable alternative to the Fund's Actual Portfolio.
- 10.7 The performance benchmark of the Reference Portfolio is the weighted average return of benchmarks for constituent asset classes. These benchmarks are set out in Schedule 2 of our *Investment Risk Allocation Policy* and are periodically reviewed in accordance with that policy. The constituent asset classes of the Reference Portfolio and their related performance benchmarks are approved by the Board.

### ***Benchmarks for value-adding investment activities***

- 10.8 The benchmarks we use to judge the performance of individual classes of investment asset must be broadly representative of that class, or where a representative benchmark is not available, of a suitably risk adjusted alternative.
- 10.9 The performance benchmarks for 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.
- 10.10 We measure the return for an investment Opportunity against the proxy return (i.e. the return from the assets used to fund the Opportunity) and, where available, the Opportunity benchmark (i.e. the return realised from the Opportunity).

10.11 Our approach to setting benchmarks for value adding activities is set out in our *Investment Risk Allocation Policy*.

## 11. Risk Management

- 11.1 Managing and administering the Fund involves accepting and managing a wide variety of risks. Risks that could prevent achievement of the Guardians' purpose come from a range of causes.
- 11.2 The Board is responsible for risk governance and oversight, including setting both enterprise and investment risk appetite, and establishing a risk management framework.
- 11.3 Management is responsible for implementing the risk management framework and ensuring that the Guardians and Fund stay within the Board-approved risk appetite. Separate Risk and Investment Committees have been established by Management to provide support for the management of these risks.
- 11.4 The Board has set its expectations of the level of enterprise risk that is appropriate for the organisation through a Risk Appetite Statement (available on [www.nzsuperfund.co.nz](http://www.nzsuperfund.co.nz)). Our policies, standards and procedures for managing enterprise risk in line with the Risk Appetite Statement are outlined in our *Risk Management Policy and Risk Management Policy Procedures*.
- 11.5 Investment risks faced by the Fund include market risk (such as equity price risk, interest rate risk and foreign currency risk), credit risk and liquidity risk. The Board sets its investment risk appetite through its choice of the Reference Portfolio and investment constraints. Our policies, standards and procedures for managing investment risk are outlined in our *Direct and Externally Managed Investment Policy and Procedures, Derivatives Policy, Investment Risk Allocation Policy, and Portfolio Completion and Internally Managed Securities Policy*.
- 11.6 More information on how enterprise and investment risk is managed can be found in our Annual Report and on [www.nzsuperfund.co.nz](http://www.nzsuperfund.co.nz)).

## 12. Valuation of Assets

- 12.1 The Fund's financial statements are prepared on a fair value basis in accordance with generally accepted accounting practice in New Zealand and comply with New Zealand Equivalents to International Financial Reporting Standards. The Fund's investments are valued at fair value based on a fair value hierarchy established under these reporting standards.
- 12.2 Quoted market prices or other publicly observable inputs are used for valuing assets wherever they are available. For unlisted investments, the Guardians will use the valuation methodology that is most appropriate in the circumstances.
- 12.3 The methodology used for the valuation of investments will be applied consistently across all investments with similar characteristics, wherever practicable. It will also be applied consistently across financial periods unless an alternative methodology becomes more appropriate.
- 12.4 The methodology used to determine fair value, and the frequency of valuations is established by Guardians' *Investment Valuation Policy* and more detailed guidance on the investment valuation process is set out in the Guardians' *Investment Valuation Procedures*.

### 13. Performance Reporting

13.1 Our *Communications and Engagement Policy* sets out our general approach to communications including expectations for transparency and disclosure.

13.2 We use a number of measures for assessing Fund performance, which are set out in our current *Statement of Intent* (available on the Fund's website [www.nzsuperfund.co.nz](http://www.nzsuperfund.co.nz)). We report against these measures in our annual *Statement of Performance* (which is included in our Annual Report). A range of current and historical Fund performance information can also be found on the Fund's website ([www.nzsuperfund.co.nz](http://www.nzsuperfund.co.nz)).

13.3 Standards and procedures for reporting on Fund performance are set out in the *Communications and Engagement Policy and Procedures*. The table below summarises reporting relevant to Fund performance, the manner in which it is reported and how frequently.

What is reported	Manner of reporting	Frequency
Fund performance against performance benchmarks	Website Quarterly Report to Minister Media Statement Annual Report	Monthly Quarterly Annual Annual
Portfolio holdings	Website	Six-monthly
Investment and asset managers	Website Quarterly Report to Minister Annual Report	Six-monthly Quarterly Annual
Internal investment mandates	Annual Report	Annual
Excluded company securities and sovereign securities	Website	Six-monthly

13.4 Additional reporting on Fund performance is provided through:

- (a) A five-yearly review of the investment performance of the Fund carried out by an independent body appointed by the Minister, which is presented to Parliament.
- (b) Parliamentary Select Committee reviews, which are typically conducted annually.

13.5 Standards and procedures for internal reporting on Fund performance are contained in the reporting schedules of our investment policies.

## 14. Additional Information

14.1 For the most part, the matters described in section 61 of the Act are covered in one or more of the SIPSP Policies or their related procedures. In some instances, a particular matter required to be covered by s 61 does not fit with one of the SIPSP Policies so is covered in this SIPSP itself. This SIPSP refers readers to where information on the matters referred to in s61 of the Act can be found, as set out in the following table.

Topic	Section of the SIPSPS
(a) Classes of investments in which the Fund is to be invested and the selection criteria for the investments within those classes	Portfolio construction
(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	Performance expectations and benchmarks
(c) Standards for reporting the investment performance of the Fund	Performance reporting
(d) Ethical investment, including policies, standards or procedures for avoiding prejudice to New Zealand's reputation as a responsible member of the world community	Sustainable investment
(e) The balance between risk and return in the overall Fund's portfolio	Portfolio construction
(f) The fund management structure	Fund governance and structure
(fa) The governance framework for controlled entities	Controlled entities
(g) The use of options, futures and other derivative instruments	Implementation
(h) The management of credit, liquidity, operational, currency, market, and other financial risks	Portfolio construction and Risk management
(i) The retentions, exercise or delegation of voting rights acquired through investments	Sustainable investment
(j) The method of, and basis for, valuation of investments that are not regularly traded at a public exchange	Valuation of assets
(k) Prohibited or restricted investments or any investment constraints or limits	Investment constraints and Sustainable investment

## 15. Version Control

The history of the evolution of the SIPSP 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
29	22 June 2023	Annual Review
30	20 June 2024	Annual Review
31	18 June 2025	Annual Review
32	13 March 2026	Changes in light of Board approval of updated wording for the Fund's Endowments and Investment Beliefs.