# Seeing the big picture

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GUARDIANS OF
NEW ZEALAND
SUPERANNUATION

—

ANNUAL
REPORT
**2021**

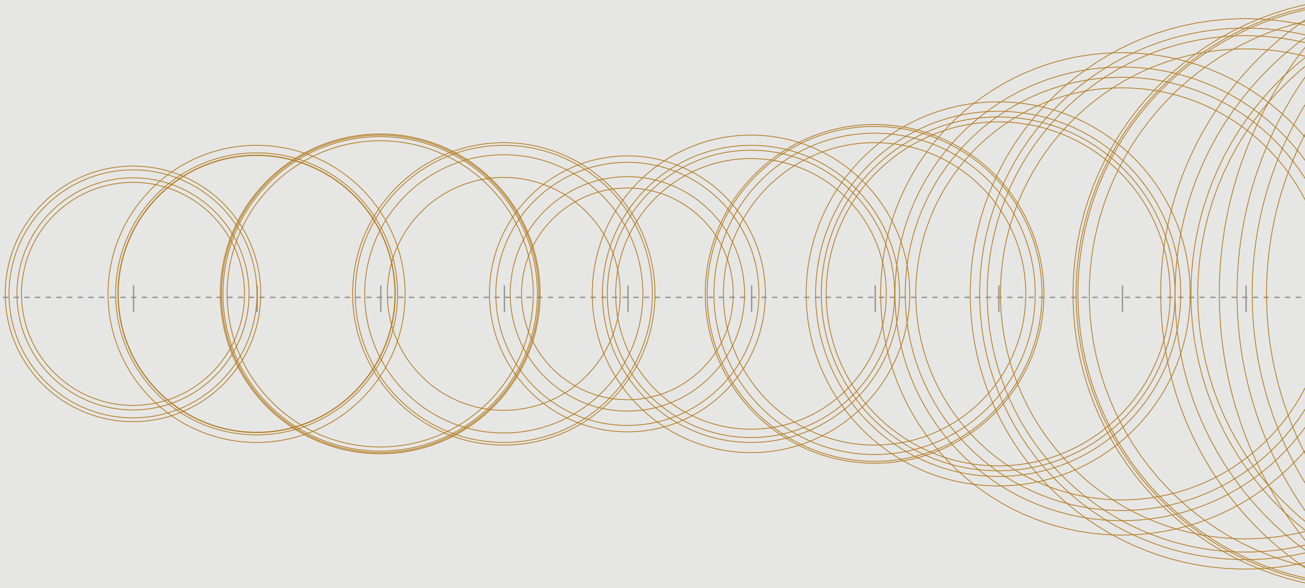
—

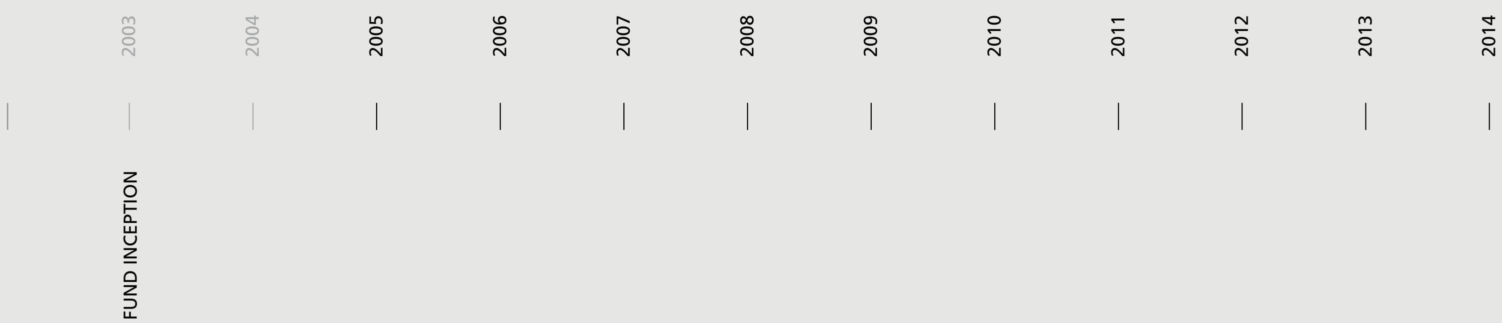
NZ SUPERFUND
*Te Kaitiaki Tahua Penihana Kaumātua o Aotearoa*

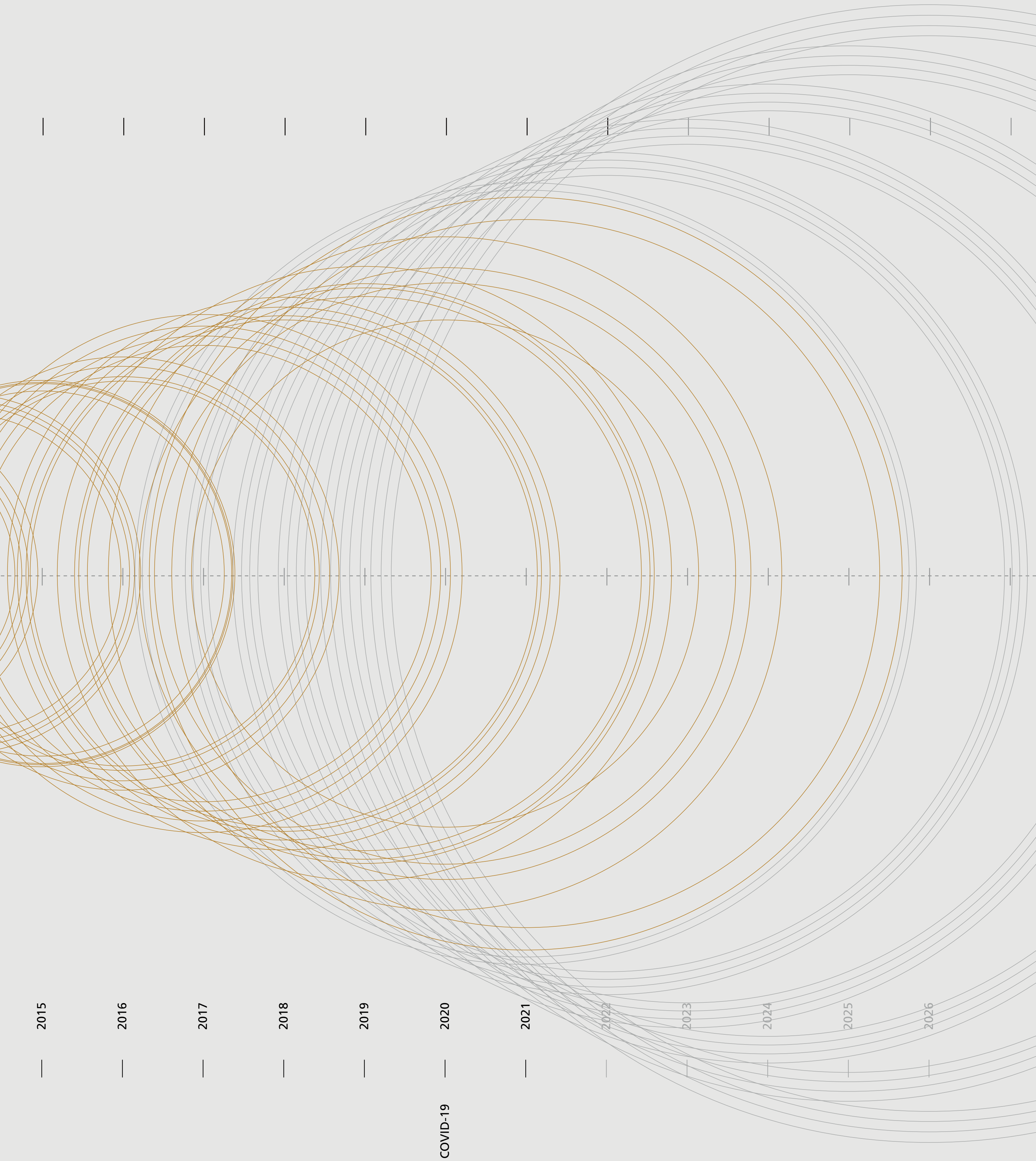
ELEVATE
NZ VENTURE FUND

For some, volatile markets are cause for uncertainty and concern.

For us, volatility brings with it the opportunity to add long term value for New Zealanders.



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OUR MISSION:

**Our mission is to maximise the NZ Super Fund's return over the long term, without undue risk, so as to reduce the tax burden faced by future generations of New Zealanders. We also oversee another fund, the Elevate NZ Venture Fund. This fund exists to support the development of New Zealand's early-stage growth companies and venture capital ecosystem.**

**2020/21 MAJOR ACHIEVEMENTS:**

- We applied our investment strategies through the market volatility brought about by COVID-19, achieving our highest ever annual financial return to date.
- We undertook an extensive review of our responsible investment strategy, readying it for the challenges of the next ten years and beyond.
- We progressed multi-year enterprise-wide projects across IT, data, risk and human resources, designed to build our organisational resilience and scale-up as required.

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**2021/22 PRIORITIES:**

- We will carry out an external assessment of our diversity, equity and inclusion practices to help us to understand the significant work required to make meaningful strides in this area.
- Embracing the shift from responsible investment to sustainable finance, we will begin the multi-year implementation of our new sustainable finance strategy.
- We will begin implementation of our new human resources system, improving the value of the workplace experience for our team and ensuring our people-related systems are scalable and flexible.

## NZ SUPER FUND SIZE

# $59,789,626,985

(AFTER COSTS, BEFORE NZ TAX)

## 2020/21 RETURN

# 29.63%

(AFTER COSTS, BEFORE NZ TAX)

## VALUE ADDED IN 2020/21

# $757m

(VS REFERENCE PORTFOLIO BENCHMARK, AFTER COSTS)

## VALUE ADDED OVER TREASURY BILLS SINCE INCEPTION

# $39.16b

(AFTER COSTS)

## VALUE ADDED OVER REFERENCE PORTFOLIO SINCE INCEPTION

# $10.65b

(AFTER COSTS)

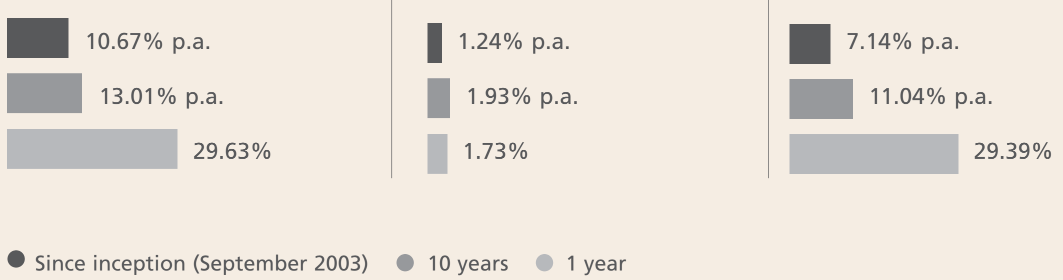
## NZ SUPER FUND RETURNS

As at 30 June 2021

ACTUAL FUND RETURN
(after costs, before NZ tax)

VALUE ADDED BY THE GUARDIANS
(compared to passive Reference Portfolio benchmark)

RETURN OVER TREASURY BILLS
(returns over and above the Treasury Bill return – the Government's marginal cost of debt)

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### HOW TO READ THIS REPORT

This Annual Report has been prepared in accordance with the Global Reporting Initiative (GRI) Standards core option. It describes the performance of the New Zealand Superannuation Fund ('NZ Super Fund'), the Elevate NZ Venture Fund ('Elevate Fund'), and the Guardians of New Zealand Superannuation ('Guardians'), the Crown entity that manages the funds, over the 2020/21 financial year.

The Overview of the Guardians section includes a performance summary, who we are and what we do, key achievements and our future priorities. For more depth, the remainder of the report details five important aspects of the Guardians and its funds: investment performance and activities, governance, an overview of operations, our statement of performance, and the financial statements.

An overview of the report and supplementary information are available on our website. The supplementary information includes a report against the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD), a GRI Index and a list of the NZ Super Fund's global portfolio holdings as at 30 June 2021.

Previous Annual Reports are available on our website.

We welcome feedback to help us improve our reporting. Comments can be directed via email to enquiries@nzsuperfund.co.nz.

## 01 OVERVIEW OF THE GUARDIANS

This section provides high level information on the purpose and mandate of the Guardians and its funds, including a snapshot of our performance and key highlights from the 2020/21 financial year. It also provides detail on our people-related initiatives.



## 02 INVESTMENT REPORTS

Following on from the information provided in the Overview, the Investment Reports provide details on the investment performance of the NZ Super Fund and the Elevate Fund. This section also contains investment case studies, a feature on our climate change investment strategy, and a Responsible Investment Report.



## 03 GOVERNANCE

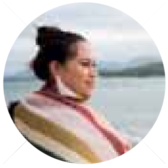
This section provides detailed information on the Guardians' governance structure and principles. We discuss our risk management approach and provide detail on our remuneration and discretionary incentive scheme.

# 04

## OPERATIONAL REPORT

Information on our operational activities, as well as our environmental performance, is covered in the Operational Report.





# 05

## STATEMENT OF PERFORMANCE

This section provides a report on our performance, benchmarked against our Statement of Performance Expectations and information on our external managers and custodians.



# 06

## FINANCIAL STATEMENTS

Financial statements are provided for each of the Guardians, the NZ Super Fund and the Elevate Fund. This section also provides an overview of key elements such as tax and a five-year financial summary.



# 07

## APPENDIX

Where possible, we have tried to avoid the use of industry-specific words and language. In some cases, however, in the interest of brevity and clarity, these words are unavoidable. Industry terms are explained in our Glossary. This section also provides our compliance statements.



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GUARDIANS OF
NEW ZEALAND
SUPERANNUATION

—

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REPORT
**2021**

—

# 01.

Investing directly into infrastructure and urban development projects is an important part of our portfolio of diversified global investments. It is also a means through which we can increase our allocation to New Zealand assets and contribute to the local economy.

## Overview of the Guardians
## He Tiro Whānui ki ngā Kaitiaki me te Tahua

OVERVIEW

# Our Mandates

## The Guardians invests money, on behalf of the Government, to contribute towards the cost of national superannuation payments in the future.

### WHAT IS THE CHALLENGE THE NZ SUPER FUND IS HELPING TO SOLVE?

All New Zealanders aged 65 and over are eligible to receive New Zealand superannuation. The government pays for this through taxes paid by today's taxpayers. In a nation such as New Zealand with an ageing population, the burden of funding a national superannuation scheme falls on a proportionally shrinking group of working-age New Zealanders. These demographic changes mean that in order to keep funding superannuation, future generations face a much higher tax burden than their predecessors. The New Zealand Superannuation Fund was created as a means of partially pre-funding future superannuation to help smooth its cost between today's taxpayers and future generations. The New Zealand Superannuation and Retirement Income Act 2001 (the Act) established:

- the New Zealand Superannuation Fund, a pool of assets on the Crown's balance sheet; and
- the Guardians of New Zealand Superannuation (the Guardians), a Crown entity charged with managing the Fund.

Between the financial years 2001/02 and 2009/10, and then again from 2017/18 onwards, the government made capital contributions to the NZ Super Fund. In total, the government has contributed $20.0 billion to the Fund. As a result of strong returns, the assets have grown and now exceed the value of contributions made by $39.8 billion (before tax). At a future date, dependent on the growth of superannuation costs versus that of the economy and the Fund's performance, the government of that time will be able to receive funds each year from the Fund, rather than provide it with funds. This will help future taxpayers partially cover the costs of superannuation, which will have risen not just in dollar terms, but, more significantly, as a share of the economy too.

The future cost of superannuation is determined by government policy decisions around superannuation eligibility and generosity. As a buffer fund, the Fund is intended to give the government more room in its accounts to maintain current policy settings, in the face of increasing demographic pressure. According to the NZ Super Fund model, which is developed, maintained and run by the New Zealand Treasury, NZ Super Fund withdrawals are expected to provide 3.3% of the cost of national superannuation in 2040, moving up to 13% by 2083. The Fund will also be paying tax to the government in addition to the capital withdrawals. During its peak, capital withdrawals and tax payments combined will total 20.7% of the total annual net cost of superannuation.

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Most importantly, the Fund meets the majority of the incremental cost increase of superannuation, thereby largely reducing the need to raise taxes or reduce other spending to meet the higher costs. In 2084 for instance, when withdrawals from the Fund will peak as a percentage of GDP, the Fund will be meeting 49% of the marginal increase in superannuation costs since 2021. If tax paid by the Fund is included as well, the Fund will be meeting 77% of the marginal increase. For the 50-year period between 2040 and 2090, the Fund will be meeting 76% of the annual cost increase, on average (all figures based on Treasury estimates). While the cost of superannuation will still increase over time, it will be smoothed out by withdrawals from the Fund. In this way, the Fund adds to Crown wealth, improves the ability of future governments to pay for superannuation and, ultimately, reduces the tax burden on future New Zealanders.

**77%**

**% OF THE MARGINAL INCREASE IN NATIONAL SUPERANNUATION COSTS THE FUND IS EXPECTED TO MEET IN 2084, WHEN WITHDRAWALS WILL PEAK AS A % OF GDP, INCLUDING TAX PAID BY THE FUND.**

### WHAT DO WE DO?

The Guardians invests the money the government has contributed in a growth-oriented and diversified global portfolio of investments: the NZ Super Fund. Under the New Zealand Superannuation and Retirement Income Act 2001, we must invest the NZ Super Fund on a prudent, commercial basis, and in doing so, we must manage and administer the Fund in a manner consistent with:

- best-practice portfolio management;
- maximising returns 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.

NZ Super Fund returns have averaged 10.67% per year (after costs, before tax), significantly ahead of both the government's marginal cost of debt and our passive Reference Portfolio benchmark.

The NZ Super Fund's performance is set out in further detail on pages 34 - 67.

### WHAT IS THE CHALLENGE THE ELEVATE FUND IS HELPING TO SOLVE?

Many high-growth early-stage New Zealand entities struggle to access the capital they need to further develop, especially after showing progress in building a business model and the potential to grow and generate revenue (the investment in businesses at this early stage is often known as Series A and B capital).

Many of these entities have successfully raised initial start-up or seed funding domestically. However, in New Zealand there is currently a shortage of available investment in the Series A and B space, which affects firms' ability to raise funds and continue their development in New Zealand.

In 2019, the Government entrusted the Guardians with a second mandate, known as the Elevate NZ Venture Fund (Elevate Fund). In establishing the Elevate Fund, the Government's policy objective was to contribute to a sustainable and productive economy by increasing the amount of capital available to these young, innovative New Zealand entities, developing the country's venture capital markets and early-stage capital ecosystem.

### WHAT DO WE DO?

Importantly, while the Elevate Fund has a broad range of objectives, the Guardians' role is limited to one of governance and oversight in respect of the Fund's manager to ensure that it employs best-practice investment management standards, in the context of institutional investment in New Zealand's venture capital markets.

Under the Venture Capital Fund Act 2019, the Guardians must manage and administer the Elevate Fund in a manner consistent with:

- the policy statement; and
- avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

Under the policy design, the Elevate Fund is managed externally by New Zealand Growth Capital Partners (NZGCP) through a fund-of-funds model.

The Elevate Fund's performance is set out in further detail on pages 68 - 71.

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## **OVERVIEW** (CONTINUED)

**NEW ZEALAND GOVERNMENT**

The Guardians is accountable to the Government, but as an autonomous Crown entity, it is legally separate and operates with 'double arm's-length' independence.

**GUARDIANS OF NEW ZEALAND SUPERANNUATION**

The Guardians is the Auckland-based manager of the Funds.

Funds eventually returned to government via scheduled capital withdrawals.

Funds returned to Crown when Fund is eventually wound down.

NZ GROWTH CAPITAL PARTNERS

NZSUPERFUND
*Te Kaitiaki Tahua Penihana Kaumātua o Aotearoa*

**NEW ZEALAND SUPERANNUATION FUND**

Managed by the Guardians, set up to partially pre-fund the future cost of superannuation.

ELEVATE
NZ VENTURE FUND

**ELEVATE NZ VENTURE FUND**

Managed externally by NZ Growth Capital Partners through a fund-of-funds model, set up to develop NZ's venture capital markets.

Together, the Funds are a pool of assets on the Crown balance sheet.

The Crown may also receive amounts from the Funds by way of tax payments.

STATEMENT FROM THE CHAIR AND CHIEF EXECUTIVE
HE TAUĀKĪ NĀ TE TOIHAU ME TE TUMU WHAKARAE

# Delivering for New Zealanders

# Hei Painga mō ngā Tāngata o Aotearoa

**CATHERINE DRAYTON**
CHAIR

**MATT WHINERAY**
CHIEF EXECUTIVE OFFICER

Kia ora koutou,

I te whakahaere o ngā Kaitiaki, e arahina ana mātou i roto i ā mātou mahi e te whakahau me te whāinga o te whakahaere, e whakamau atu ana i te titiro ki te anamata ā-tahua o tō tātou motu. Nā tēnei mārama ki te kaupapa, tae atu ki tō mātou ahurea, ki ō mātou uara me ō mātou whakapono e pā ana ki te haumitanga, e tika nei tā mātou haere i waenga i ngā pōraruraru i te ao whānui o te tau kua hori.

Kua whakapātaritaritia e te mate urutā ō mātou whakapae, ā mātou rautaki haumi mō te pae tawhiti me tō mātou kiriūka hei whakahaere. Nā te tōpāparu o te Tahua i ngā rawa whakatupu haumi pērā i ngā hea, i runga anō i tā mātou whakatau kia pērā e tutuki ai te whāinga i ngā tau tini, e noho hūkokikoki rawa atu ana te Tahua ki ngā piki me ngā heke ā-tauhokohoko i runga i te huarahi. I kaha pā mai ngā hua kutikuti o tēnei āhuatanga i a Maehe o tērā tau, i te hekenga o te Tahua, $13 piriona te nui, i roto i ngā wiki ruarua nei, nā te whētuki i pā ki ngā papa tauhokohoko ā-tahua i te mate KOWHEORI.

E ngākau whakapuke ana mātou i te āhua o tā mātou urupare atu. I ū tonu mātou ki te aronga ki te pae tawhiti i roto i te noho mōrearea ā-haumitanga i te roanga o te hikimoke ā-tauhokohoko, ā, i whakatupuria te puna tūtanga me ngā pūtea taurewa ā-tauhokohoko i te horonga o ngā papa tauhokohoko. Nā te mārō o tō mātou anga rawa teretere, i hangā rā e kore ai mātou e pāngia e ngā āwhā o te papa tauhokohoko, i taea ai e mātou te ū tonu ki te rautaki hoko moni ki uta, i tino whai hua rā i te kaha o te piki haere o te uara o te tāra o Aotearoa i ana taunga hangahanga o tērā tau. Nā te hononga o ēnei rautaki, tae atu ki te nui whakaharahara o te tupu o ngā uara haumitanga i ngā papa tauhokohoko o te ao, i āwhina te pikinga o te Tahua i ngā hekenga ā-uara o te tau pūtea 2020, ka piki ai ki te taumata teitei katoa o ōna hua ā-tau ā mohoa, ki te 29.6% i tēnei tau (i muri i ngā utu hāngai, i mua i te tāke o Aotearoa).

Ko te uara o te Tahua i te mutunga o te tau pūtea 2021, ko te $59.8 piriona, nā ngā haumitanga a te Kāwanatanga, e $20 piriona te nui, mai i tōna whakatūnga. I roto i ngā tau tekau mā waru e whakawhānuihia nei ngā haumitanga o te Tahua, kua

Kia ora koutou,

At the Guardians, we are guided in our work by our organisational mandate and purpose, which is focused firmly on our nation's financial future. It is this clarity of purpose, together with our culture, values and investment beliefs, that has kept us on track amid the global upheaval of the past year.

The pandemic has tested our assumptions, our long-term investment strategies, and our resilience as an organisation. Because the NZ Super Fund ('Fund') is heavily weighted to growth assets such as shares, a choice we make to meet our purpose over the long term, it is highly sensitive to market movements along the way. This took dramatic effect in March last year, when the COVID-induced shock to financial markets saw the Fund plunge $13 billion in a matter of weeks.

We are proud of the way we responded. We maintained our long-term risk profile throughout the market volatility, and added to our equity and credit market exposures as markets fell. Our robust liquidity framework, designed to enable us to weather the market storms, allowed us to maintain our portfolio currency hedging, which has been very valuable as the New Zealand dollar rallied significantly from its lows last year. A combination of these measures, as well as the extraordinary turnaround in global capital markets, helped the Fund recover its losses and go on to achieve its highest ever annual return of 29.6% this year (after costs, before tax).

The Fund finished the 2020/21 financial year worth $59.8 billion (before tax), off the back of government contributions since inception of $20 billion. In the 18 years the Fund has been investing, we have generated over $39.8 billion (before tax) more than the cost to the government of contributing to the Fund, demonstrating our significant and ongoing contribution to New Zealand's national wealth.

The challenges of the past year have brought our strategic priorities into sharp focus. We are concentrating on building up our technology, systems and processes and progressing multi-year enterprise-wide projects to improve our

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## STATEMENT FROM THE CHAIR AND CHIEF EXECUTIVE
## HE TAUĀKĪ NĀ TE TOIHAU ME TE TUMU WHAKARAE

$39.8 piriona te nui ake o ngā hua i te utu o tā te Kāwanatanga takoha ki te Tahua, e whakaatu nei i te nui whakaharahara me te ukiuki o tā mātou takoha ki te pūtea rawa ā-motu o Aotearoa.

Nā ngā uauatanga o te tau kua hori i tō mai ā mātou take mātāmua e whai rautaki ana ki mua tonu i te aroaro. E arotahi ana mātou ki te whakawhānui i ā mātou hangarau, i ā mātou pūnaha me ā mātou tukanga me te kōkiri i ngā kaupapa tau tini o te whakahaere whānui hei whakapai ake i tō mātou kiriūka ā-whakahaere, e taea ai e mātou te tupu i te wā e tupu tonu ana te Tahua.

I whai wāhi ki ngā take mātāmua i tēnei tau, ko te whakawhanake i tā te whakahaere noho mōrearea ā-haumitanga mā te arotake i tō mātou taiao here, mā te whai tonu i tā mātou rautaki e pā ana ki ngā raraunga ā-haumitanga, tae atu ki te whakawhanake i tētehi pūnaha hou mō te puna tāngata. E mōhio nei mātou ko te ahurea tētehi wāhanga nui o te whai kia kiriūka, ka mutu, ko te ahurea o te noho mōrearea tētehi anō wāhanga, ā, e ū tonu nei mātou ki te whakahaere rautaki e hauora ai, e whai hua ai anō hoki tō mātou wāhi mahi.

Ko tētehi wāhanga o te whakarite i a mātou anō mō te anamata, ko te noho mataara ki ngā huringa o te wā nei me te tū māia atu ki te kauawhi i ērā tūāhuatanga. I ngā marama tōmua o te tau nei, i ngā hui maha, i whakaaro, i whakaae hoki te Poari ki tā te kāhui whakahaere rautaki haumitanga haepapa kua whakahouhia. He huritaonga whānui tēnei mahi i āta whakaaro rā ki te ahunga me whai e mau tonu ai tō mātou tūnga hei kaiārahi i tēnei kaupapa, e mau tonu ai hoki ki te whakapono o ngā hunga whai pānga, i te wā e tutuki haere ana i a mātou tā mātou whakahau ā-arumoni.

Ki a mātou, ko te tikanga o tēnei, ko te whai kia ukauka te pūtea. Ka kaha ake tā mātou whakaaro ake ki ngā pānga o ā mātou haumitanga ki te hapori me te taiao, ki tētehi ara hoki e taea ai e mātou te whai wāhi atu ki te whakawhanaketanga o tētehi pūnaha pūtea e ukauka ana, me te āwhina ki te whai wāhi atu ki te whakawhitinga ā-ao ki te ōhanga kore haurehu-kati-mahana. E mōhio ana mātou, e tino ū mārika ai te nekehanga ki te pūtea ukauka, e paneke tonu ai anō hoki, me nui ake te awhero, e whakaatahia ana i ngā tukanga whakaputa whakatau mō ngā haumitanga kua whakahouhia me ngā whāinga ā-mahi ka rere i te kāhui kaiārahi ki te ohu haumitanga puta ki te whakahaere whānui.

Nā tō mātou haepapa ki ngā reanga o anamata me ngā toronga ki te ao whānui, e ahurei ana mātou i Aotearoa, hei whakahaere, hei kaituku mahi anō hoki. Heoi anō, e tawhiti ana mātou i ngā pokapū ā-pūtea o te ao e noho rā hei whakatairitenga mā mātou, e āta whāia nei e mātou kia tata. Ko tētehi hua o tērā, ko te pānga mai o ngā uauatanga o te whai kaimahi e mātanga ana ki ngā haumitanga, ki te toitūtanga, ki te hangarau me te noho mōrearea ā-pūtea. I a mātou ka whai ki te whakapai ake i ngā tāpaetanga ā-utu kaimahi hei whakatau i ngā uauatanga o te kimi kaimahi, e huri ana hoki mātou ki ngā painga ā-whakahaere, ā-mahi anō hoki ka hua ake i tētehi hunga kaimahi e kanorau ana me tētehi wāhi mahi ka manaaki i te tangata.

I te mutunga o te tau pūtea, i oti tētehi kaupapa whakatairite nui tonu e mārama ai mātou ki te āhua o tō mātou kanorau, o ā mātou tukanga whai kia tōkeke, kia manaaki hoki i te tangata ina whakatauritea ki te pae tauhokohoko ki uta, ki tāwāhi hoki. I roto anō i a mātou, kua tīmata tā mātou whakawhiti kōrero e pā ana ki te tikanga ki a mātou o te whanaketanga i tēnei tūāhuatanga, me tā mātou e whai nei. E mārama ana, he roa te huarahi hei takahi mā mātou i mua i te whakatutukihanga o ō mātou wawata. E whakaae ana mātou, kāore anō ā mātou mahi ā mohoa kia pērā

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organisational resilience and ensure we can scale up as the Fund continues to grow.

Key priorities this past year included developing our enterprise risk maturity through assessing our control environment, furthering our investment data strategy, and developing a new human resources system. We know that a big part of building resilience is culture, including risk culture, and we remain committed to implementing measures to sustain a healthy and constructive workplace environment.

Part of readying ourselves for the future is being alive to the changes taking place in the present, and stepping in to the challenge of embracing them. Earlier this year, over several meetings, the Board considered and approved management's refreshed responsible investment strategy. This piece of work was an extensive and considered reflection on the direction of travel we need to follow to maintain our leadership position in this area and retain the confidence of our stakeholders, while ensuring we meet our commercial mandate.

For us, this means embracing sustainable finance. We'll be thinking harder about the impact of our investments on society and the environment and how we can contribute towards the development of a sustainable financial system and help play a part in the global transition to a net zero economy. We recognise that to truly embed the shift to sustainable finance and ensure ongoing progress, we will need a greater level of ambition, reflected in renewed investment decision-making process and performance objectives and targets flowing from the Leadership Team through to the investments team and the entire organisation.

As an organisation, our intergenerational mandate and global reach mean we are unique in New Zealand. At the same time, we are located far from the global financial centres we benchmark ourselves against and strive to keep pace with. Partly as a result, we face continual challenges in recruiting specialist staff members across investments, sustainability, technology and risk. As we seek to refine and improve our employment offering to address our recruitment challenges, we are turning to the organisational and performance benefits associated with having a diverse workforce and an inclusive workplace.

At the close of the financial year, we had substantially completed a major benchmarking exercise to understand how our diversity, equity and inclusion practices compared to the local and global markets. Internally, we have opened up a conversation about what progress in this space means for us, and our aspirations. It is clear that we have a long way to go. We acknowledge that our efforts so far have not done enough to shift the dial in our workforce representation and ensure we have a culture that supports this, and we are committed to doing better.

We would like to take the opportunity to recognise, welcome and farewell some of our team members. In March this year our previous Chair, Catherine Savage, and long-serving Board member, Stephen Moir, completed their respective terms on the Guardians' Board. Our General Manager of Finance and Risk Stewart Brooks, our longest-serving staff member, will retire later this year. Catherine, Stephen and Stewart have each made immense contributions to the organisation during their time with us and we thank them for their energy, good humour and sound judgement.

rawa te eke e kanorau ake ai tō mātou kāhui kaimahi, e tū ai anō hoki tētehi ahurea hei tautoko i tērā, ka mutu, e ngākaunui ana mātou ki te whai kia pai ake.

Ki konei whakanuia ai, whakatauria ai, poroporoakitia ai anō hoki ētehi o tō mātou tīma. I a Maehe o tēnei tau, i mutu te wā ki tō mātou Toihau o mua, ki a Catherine Savage, ki tētehi mema hoki o te Poari kua roa i tana tūranga, ki a Stephen Moir hei mema mō te Poari o Ngā Kaitiaki. Ka rītaia tō mātou Tumu o te Pūtea me te Tūraru, a Stewart Brooks, tā mātou kaimahi kua hāpai i te kaupapa mō ngā tau roa ake i a wai rānei, hei ngā marama i te pito o te tau nei. Inā kē te nui o ngā hua o ā Catherine rātou ko Stephen, ko Stewart mahi kua tau ki te whakahaere i te roanga o tā rātou noho mai ki a mātou, waihoki, e mihia ana rātou i tō rātou ngao, i te pukukata me te tōtika o ā rātou whakataunga.

I whakatauria e mātou ngā mema hou e rua mō te Poari i tēnei tau; a Rosemary Vilgan rāua ko Kirsty Mactaggart. E koa ana mātou i ēnei kopounga, ā, e āritarita ana ki ngā painga ka puta i ō rāua pūkenga. I pānui hoki mātou i ētehi panonitanga ki tō mātou Kāhui Kaiārahi, i hua ake ai ētehi kopounga hou. E kurekure ana mātou ki te tīmata i te tau pūtea hou me ēnei tūranga matua katoa e tūria ana e ngā kaimahi kounga

Ahakoa tā mātou whai kia ū tonu te arowhanonga hei kaihaumi, e kore e tawhiti i ō mātou whakaaro te nui o te aituā kua pā mai i te horanga o KOWHEORI-19. Kei te mātārae o ō mātou whakaaro te hunga kua mahue i ō rātou tōrere, me ērā kua whakapōreareahia ō rātou ao me ō rātou oranga e te mate urutā.

Hei whakakapi, e mihi ana ki te tīma o Ngā Kaitiaki me ō rātou whānau i tō rātou pukumahi, i te tautoko me te manaaki – ko ā koutou mahi te tūāpapa o te oranga tautini, ā-pūtea nei, o Aotearoa, ā, ka nui te mānawatia.

Hei konā mai
Nā Catherine Drayton me Matt Whineray

We welcomed two new Board members this year: Rosemary Vilgan and Kirsty Mactaggart. We are delighted with these appointments and look forward to receiving the benefits of their expertise. We also announced changes to our Leadership Team which resulted in a number of new appointments. We are pleased to start the new financial year with all these key roles filled with high-quality personnel.

Even as we strive to maintain our discipline as investors, the enormity of the tragedy that has followed the spread of COVID-19 is never far from our minds. Our thoughts are with those who have lost loved ones, and those who have seen their lives and livelihoods upended by the pandemic.

Finally, thank you to the Guardians' team and their families for their hard work, support and care – your collective mahi is fundamental to the long-term financial well-being of New Zealand and is greatly appreciated.

Hei konā mai,
Catherine Drayton and Matt Whineray

## Moe mai rā e te Rangatira Sir Michael

The NZ Super Fund was created in 2001 after extensive public and Parliamentary debate. Leading the establishment of the New Zealand Superannuation Fund, and sponsoring the legislation that led to its creation, was then-Minister of Finance, Sir Michael Cullen. For a long time afterwards, the NZ Super Fund was known colloquially as the "Cullen Fund".

Sir Michael's legacy is deeply felt at the Guardians, and we mourned his death in August this year. We'd like to acknowledge his lasting contribution to supporting future generations of New Zealanders with dignity in retirement. In managing the NZ Super Fund to meet its purpose of smoothing out the increasing cost of superannuation, we are privileged to continue building on Sir Michael's vision.

## PROGRESS AGAINST OUR STRATEGIC PLAN

# Here, we provide an overview of the progress we made during 2020/21 in achieving our strategic priorities for the year.

**We also set out how each priority contributes to our medium-term and long-term direction, showing how successfully implementing these strategic priorities will help us to achieve our mission: to maximise the Fund's return over the long term, without undue risk, so as to reduce future New Zealanders' tax burden.**

## 1.

### AUCKLAND LIGHT RAIL

—

OBJECTIVE:
**Extend our involvement in infrastructure investment at scale and build capability.**

In June 2020, the Government ended its process to select a delivery partner for Auckland light rail, ending our involvement in this project. We were pleased that our proposal, made in partnership with Canadian Fund CDPQ, was the Ministry of Transport-recommended proposal for the Auckland Light Rail Project. While we did not achieve the outcome we desired, we participated in the Government's process, well aware of the risks involved, and have learnt a lot from the work we have done. We tapped into, and learned from world class expertise, we built quality working relationships with the highest quality local advisors available, gained invaluable insights into stakeholder engagement and developed extremely high value intellectual property. We continue to look for opportunities and value within the infrastructure sector. See page 48 for more information about our 'SuperBuild' infrastructure strategy.

## 2.

### SUSTAIN THE GUARDIANS' CULTURE

—

OBJECTIVE:
**Implement material actions from the risk culture survey, identify organisational culture survey actions and agree on the implementation plan, and continue to embed and support the new values.**

OUTCOME:
A risk statement was developed and 'risk matters' workshops held to facilitate risk-based discussions with Guardians' teams. Overall, 11 of the 13 risk culture work-plan actions have been completed, with the two remaining action items intended to be completed over a longer time frame, including in line with the roll out of the new human resources system. See page 29 for more information about the development of this system. Following the organisational culture survey, each team created their own action plans identifying the cultural styles and outcomes they would focus on over the next year. A survey tool was implemented to provide a near real-time and ongoing measure of employee perceptions, including those relating to the Guardians' values.

The strategic priority related to the risk culture survey is 95% complete. See page 93 for more information about actions we took in response to the risk culture survey outcomes. The strategic priority related to our organisational culture survey and values is 100% complete. See page 28 for more information about actions we took in response to the organisational culture survey outcomes.

MEDIUM-TERM CONTRIBUTION:
Culture and values strongly defined and identified with.

LONG-TERM CONTRIBUTION:
Single team approach with a strong, constructive culture, in line with our values, supporting our total portfolio approach.

## 3.

### CONTROL EFFECTIVENESS ASSESSMENT

—

OBJECTIVE:
**Build on the Risk Assessment Framework established last year, and implement control effectiveness assessments and key risk indicators for the Guardians' strategic risks.**

OUTCOME:
The Board was presented with control effectiveness assessments for two of the Guardians' strategic risks: change in key stakeholder support, and insufficient liquidity. Management workshops were held in advance to confirm and/or refine our definition of these risks, revisit their causes and impacts, and identify controls and their effectiveness.

100% complete. See page 92 for more information about our approach to risk management and control effectiveness assessments.

MEDIUM-TERM CONTRIBUTION:
Best-practice governance, enterprise risk and information management.

LONG-TERM CONTRIBUTION:
Appropriate risk appetite for our purpose. Leadership in best-practice governance and a clear understanding on risk management.

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AUCKLAND LIGHT RAIL
SUSTAIN THE GUARDIANS' CULTURE
CONTROL EFFECTIVENESS ASSESSMENT
DATA STRATEGY
HUMAN RESOURCES SYSTEMS
RESPONSIBLE INVESTMENT STRATEGY REVIEW

# Reducing future New Zealanders' tax burden

## 4.

### DATA STRATEGY

—

OBJECTIVE:
**Establish an overarching data strategy to articulate the Guardians' data aspirations and capability requirements for the year ahead.**

OUTCOME:
A data strategy and implementation plan have been developed. The strategy provides a holistic overview of the three elements of our data strategy – governance, management and access – and outlines the framework and activities identified to implement and manage these streams of work.

A data operating model has been confirmed as part of the changes made to our Leadership Team structure (see page 29).

90% complete. Resourcing is the outstanding piece to complete for this objective. The recruitment process is under way, but we have found it difficult to attract people due to the specialist nature of data-related roles. See page 107 for more information about our data strategy.

MEDIUM-TERM CONTRIBUTION:
Better interfaces to access data in a self-service manner. Current gaps in our information sets addressed.

LONG-TERM CONTRIBUTION:
Best-practice data governance and data architecture. Strong support and use by the wider team.

## 5.

### HUMAN RESOURCES SYSTEM

—

OBJECTIVE:
**Complete research into potential solutions and implementation partners and progress development of a new human resources system.**

OUTCOME:
The business case for the development and implementation of a new human resources system was approved by the Board and an end-to-end technology solution selected. The solution is expected to deliver compliant, secure and fit-for-purpose capability to enable the Guardians to continue to attract, develop and retain talented people for the future. Implementation of the new system started in March with the first three modules (Core HR, recruitment and onboarding and offboarding activities).

90% complete (for the first phase of implementation). The outstanding activity for this phase of the project is the completion of user acceptance testing for the first three modules of this phase. Implementation of a system of this scale is a complex process, and we expect full implementation of all four phases to span multiple financial years. See page 29 for more information about our progress in implementing the new human resources system.

MEDIUM-TERM CONTRIBUTION:
Frameworks and processes are scalable and flexible.

LONG-TERM CONTRIBUTION:
Embed ongoing innovation and leverage technology. Motivated staff with organisational buy-in achieved through development and talent programmes.

## 6.

### RESPONSIBLE INVESTMENT STRATEGY REVIEW

—

OBJECTIVE:
**Review responsible investment strategy to continue evolving our approach and thinking, and identify next steps.**

OUTCOME:
In June this year a review of our responsible investment strategy was presented to the Board. The review was set within the context of the statutory obligations under our governing legislation, and considered each of the three requirements set down in our mandate. Research and findings were presented across three separate work streams that centred on stakeholder expectations and emerging trends, improving environmental, social and governance (ESG) performance, and positive investment. The review proposed a shift from responsible investment to sustainable finance, recognising this as part of emerging best practice portfolio management.

100% complete. See page 56 for more information about the Responsible Investment Strategy review.

MEDIUM-TERM CONTRIBUTION:
Integration of ESG into investment decisions. Active membership, influence and leadership of influential global forums.

LONG-TERM CONTRIBUTION:
Best-practice responsible investment and ESG strategies integrated into investment processes. Through our active involvement globally, leveraging the insights and experience of others.

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MATERIALITY

# In this section, we identify, explain and rank the topics that are material to the Guardians.

## THE MATERIALITY PROCESS

Materiality is a key feature of best-practice reporting and looks at what we, as well as our stakeholders, consider important when evaluating performance.

In 2019, we underwent a formal process surveying our internal and external stakeholders to better understand the topics that are material to our organisation. Consistent with the Global Reporting Initiative (GRI) Standards, we sought to assess the significant economic, environmental and social impacts of the Guardians, as well as the issues and risks that stakeholders consider important in their assessment of us.

The topics are displayed on page 19 to illustrate their relative performance and impact.

This year we undertook an abbreviated materiality analysis to reflect the aspects of our organisation that may have increased or decreased in importance over the past financial year.

This process has included:

- Identifying issues of significant media and stakeholder interest during the year. These included the continuing impact of the COVID-19 pandemic on our portfolio, our approach to engagement and exclusion, investing in New Zealand and managing climate change investment risk;
- Considering the 2021/22 Letter of Expectations received from the Minister of Finance;
- Reviewing feedback from a judging panel of reporting experts from the Australasian Reporting Awards;
- Considering the outcomes from a social licence to operate workshop run with members of the Guardians' teams; and
- Assessing the results of qualitative stakeholder research carried out on our behalf by public affairs consulting firm GRC Partners into current and likely future expectations of the Guardians, with a particular emphasis on our responsible investment strategy and implementation.

## CURRENT AND FUTURE STAKEHOLDER EXPECTATIONS

Earlier this year we engaged GRC Partners to survey stakeholders from a broad range of organisations to identify key stakeholder expectations relevant to our social licence to operate, particularly in relation to ESG matters. These views, including their implications and our potential response, were considered in the context of a wider review of our responsible investment strategy which we undertook over the financial year.

The key findings of the research were as follows:

- Survey respondents considered the Guardians as being professional and adept managers, with much of the praise linked to the NZ Super Fund's consistently strong performance.
- Survey respondents were universally supportive of the investment strategy as outlined, with general agreement that it fits with both the NZ Super Fund's long-term time horizon and its mandate.
- Almost all respondents saw a clear and very definite link between the Guardians' maintenance of its social licence to operate and its responsible investment policies and practices.
- There was some tension between survey respondents who felt the Guardians should lead public opinion, and those who felt it should restrict its focus to financial matters.
- Some respondents criticised the Guardians' performance as a responsible investor, suggesting that while we had done a reasonable job of avoiding unethical investments, we had failed to take a leadership role in investing for positive outcomes.
- While praising our industry communications, some respondents felt we should increase our efforts to explain the NZ Super Fund's purpose and performance to the broader public.

The findings of the research will be used to inform the implementation of our revised responsible investment strategy and current and future reporting priorities.

## ENHANCEMENTS TO OUR REPORTING

This year we made the following enhancements to our reporting:

- Revised our investment performance report to help our stakeholders better understand the structural drivers behind our strong investment performance. We also include asset class exposure metrics for the first time.
- Provided an assessment on the state of the economy and the impact of COVID-19 on our portfolio, and the impact this has had on the NZ Super Fund.
- Reflected stakeholder interest in key appointments made over the year by including more biographical information on our staff and Board members.
- Provided an in-depth explanation of our local investment activity to help stakeholders understand the various ways the NZ Super Fund contributes to the New Zealand economy.
- Set out the process undertaken this year to review our responsible investment strategy, including sign posting the changes we intend to make over the short-to-medium term to maintain our position as a leader in this area.
- Expanded the qualitative and quantitative information provided on our organisational carbon emissions and the efforts under way to reduce the environmental impact of the corporate operations of the Guardians.
- Produced a report against the recommended disclosures of the TCFD, released alongside this Annual Report.

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102 - 44
102 - 45
102 - 46
102 - 49
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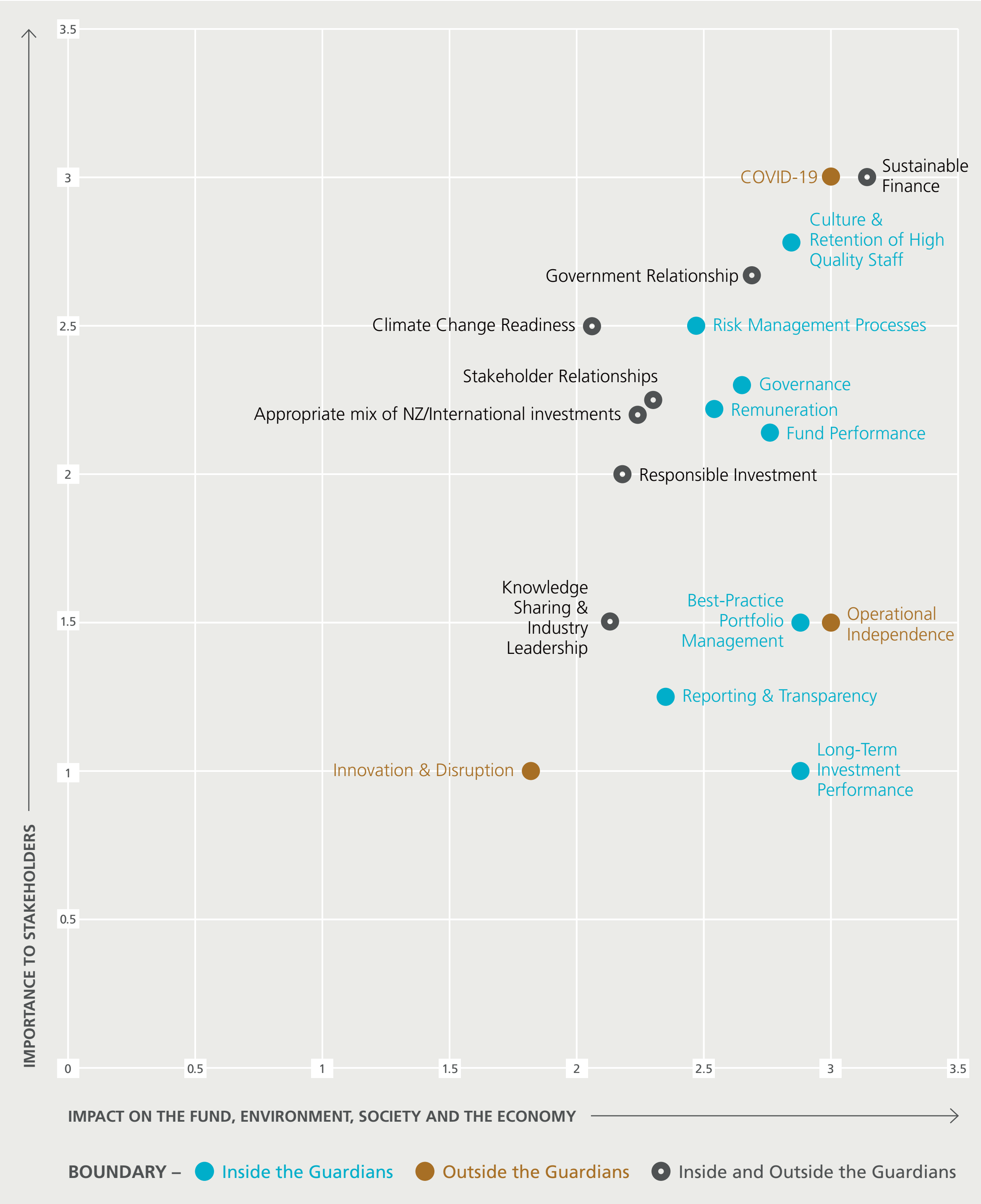
## MATERIAL TOPICS IDENTIFIED AND THEIR BOUNDARIES*

The GRI is an international, independent reporting standard for best-practice disclosure and reporting. The GRI defines Material Topics as those which reflect an organisation's significant economic, environmental and social impacts or issues and risks that stakeholders consider important in their assessment of that organisation.

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102 - 43
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* The GRI Standards define the topic boundary as the description of where the impacts for a material topic occur, and the organisation's involvement with these impacts.

## BOARD MEMBERS

**CATHERINE DRAYTON**
*LLB, BCom, FCA*
**CHAIR**

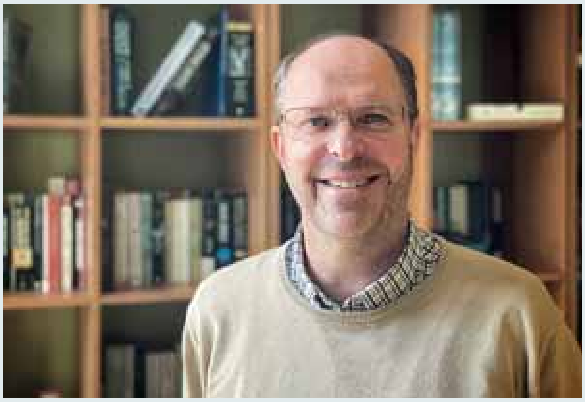
APPOINTED TO THE GUARDIANS' BOARD IN 2018

*Committees:* Audit (until 1 April 2021), Employee Policy and Remuneration (from 1 April 2021)

**JOHN WILLIAMSON**
*BA, LLB, LLM*

APPOINTED TO THE GUARDIANS' BOARD IN 2016

*Committees:* Audit and Employee Policy and Remuneration (Chair)



**HENK BERKMAN**
*PhD, MCom*

APPOINTED TO THE GUARDIANS' BOARD IN 2018

*Committees:* Audit

**SIMON BOTHERWAY**
*BCom, CFA*

APPOINTED TO THE GUARDIANS' BOARD IN 2018

*Committees:* Audit

**DOUG PEARCE**
*BCom, ICD.D*

APPOINTED TO THE GUARDIANS' BOARD IN 2016

*Committees:* Audit (Chair) and Employee Policy and Remuneration

For full bios of our Board members see pages 83-84 or visit:
www.nzsuperfund.nz/nz-super-fund-explained-governance/board

### New Board Members

The past year saw some changes to the Guardians' Board. With the respective terms of Catherine Savage and Stephen Moir coming to an end, we welcomed Rosemary Vilgan and Kirsty Mactaggart. Both Rosemary and Kirsty bring a wealth of international fund management experience.

**ROSEMARY VILGAN**
*B.Bus, Dip Sup Mgt, FAICD, FASFA*

APPOINTED TO THE GUARDIANS' BOARD IN 2020

*Committees:* Employee Policy and Remuneration

Rosemary joined our Board in October 2020 and will serve a five-year term. She is currently the Chairperson of the Commonwealth Bank Group Staff Superannuation Fund, a Member of the Cambooya Investment Committee and the Advisory Board for the Committee for Brisbane, as well as various Queensland University of Technology (QUT) committees.

She was the CEO of Australian superannuation fund QSuper from 1998 until late 2015, and has held a variety of other business and not-for-profit positions over her business life. In recognition of her career, Rosemary was named the 2013 Telstra Australian Businesswoman of the Year. She holds qualifications in business and superannuation, is a Fellow of both the Australian Institute of Company Directors and ASFA, and is a Member of Chief Executive Women.

**KIRSTY MACTAGGART**
*B.Acc, CA*

APPOINTED TO THE GUARDIANS' BOARD IN 2021

*Committees:* Audit

Kirsty joined our Board in April 2021 and will serve a five-year term. She was Head of Equity Capital Markets for Asia Pacific with fund manager Fidelity from 2005 until 2018, and before that spent 11 years as Managing Director at investment bank Citigroup in both Europe and Asia. Along with her experience working and living in London, Hong Kong and Singapore, Kirsty has spent extended periods of time on transactions in Korea, Thailand and Australia.

She currently works as an independent director and advisor on the boards of listed infrastructure investment company Infratil and private investment company BBRC Worldwide. In addition to her board roles, Kirsty acts as an advisor to companies on initial public offerings and capital raisings.

## LEADERSHIP TEAM

**MATT WHINERAY**
*BCom, LLB (Hons)*
**CHIEF EXECUTIVE OFFICER**

*Areas of responsibility:*
General management of the Guardians under delegation from the Board.

**MIKA AUSTIN**
*BA, LLB*
**GM HUMAN RESOURCES**

*Areas of responsibility:*
People and performance, culture, administration.

**GEORGE CROSBY**
*BCom, LLB*
**GM PORTFOLIO COMPLETION**

*Areas of responsibility:*
Treasury operations, including passive exposure, currency overlay, liquidity management and portfolio rebalancing; portfolio investments.

**DAVID SARA**
*BMS (Hons), MBS (Dist)*
**GM TECHNOLOGY**

*Areas of responsibility:*
Business solutions, cloud operations, service desk, data technology, cyber security.

**STEPHEN GILMORE**
*BCom, MCom, CA*
**CHIEF INVESTMENT OFFICER**

*Areas of responsibility:*
Asset allocation, strategic tilting, responsible investment, external investments & partnerships, direct investment.

**MARK FENNELL**
*MSocSci (Hons), DipAcc, CA, CTP*
**GM RISK**

*Areas of responsibility:*
Enterprise risk, records management, portfolio risk, data services, compliance.

**SARAH OWEN**
*BA, LLB, DipAcc*
**GM CORPORATE STRATEGY AND GENERAL COUNSEL**

*Areas of responsibility:*
Board secretariat, communications, legal, strategic development.

**PAULA STEED**
*BCA, CA*
**GM FINANCE AND INVESTMENT OPERATIONS**

*Areas of responsibility:*
Investment operations, financial control, financial reporting, tax, external audit process.

## LEADERSHIP TEAM (CONTINUED)

### New Leadership Team roles

This year we made some changes to the Leadership Team structure. Our General Manager, Finance and Risk, Stewart Brooks, stepped down from his role in April, and following this, we made some changes to the team, with the intention of bolstering the voice of risk and increasing our focus on technology and data.

### PAULA STEED

Paula joined the Guardians in July in the newly created role of General Manager, Finance and Investment Operations. Paula joins us from ASB Bank, where she was the Chief Internal Auditor. She has 25 years' experience in financial services and banking, starting her career as an auditor with professional services firm Deloitte and holding various executive finance and general management roles with AMP, ANZ and ASB. Paula is a Chartered Accountant, and has a BCA majoring in Accounting and Commercial Law from Victoria University of Wellington.

### MARK FENNELL

Mark was appointed to the newly created role of General Manager, Risk. He takes up his new role after serving as General Manager, Portfolio Completion with the Guardians since 2012. Prior to joining the Guardians, Mark held senior treasury and risk management roles at The Warehouse Group, Forestry Corporation, Ministry of Foreign Affairs and Trade, and NZ Railways Corporation. He has a Master of Soc. Sci (Hons) from the University of Waikato, is a member of Chartered Accountants Australia and New Zealand, a certified member of the Institute of Finance Professionals (INFINZ) and is a member of the Institute of Directors.

### GEORGE CROSBY

George, previously Head of Portfolio Investments, was promoted to the role of General Manager, Portfolio Completion, replacing Mark Fennell. George has been with the Guardians since 2008 and was instrumental in establishing and running a number of active investment mandates that served as a major source of active returns for the Fund. Before joining the Guardians, he traded various derivatives books at Westpac, BNP Paribas and Toronto Dominion Bank in Wellington and London. George has a BCom/LLB from the University of Canterbury.

### DAVID SARA

David was appointed to the newly created role of General Manager, Technology. He joined the Guardians in 2009, serving as Head of Strategic Development and General Manager, Operations, before being appointed to his current role. He has substantial experience in financial services, including as Head of Strategy with UK-based Platform Home Loans, Head of Venture Development for Lloyds Banking Group and Manager of Strategic Planning for the National Bank of New Zealand. He has a BMS(Hons) from the University of Waikato and an MBS (Distinction) from Massey University.

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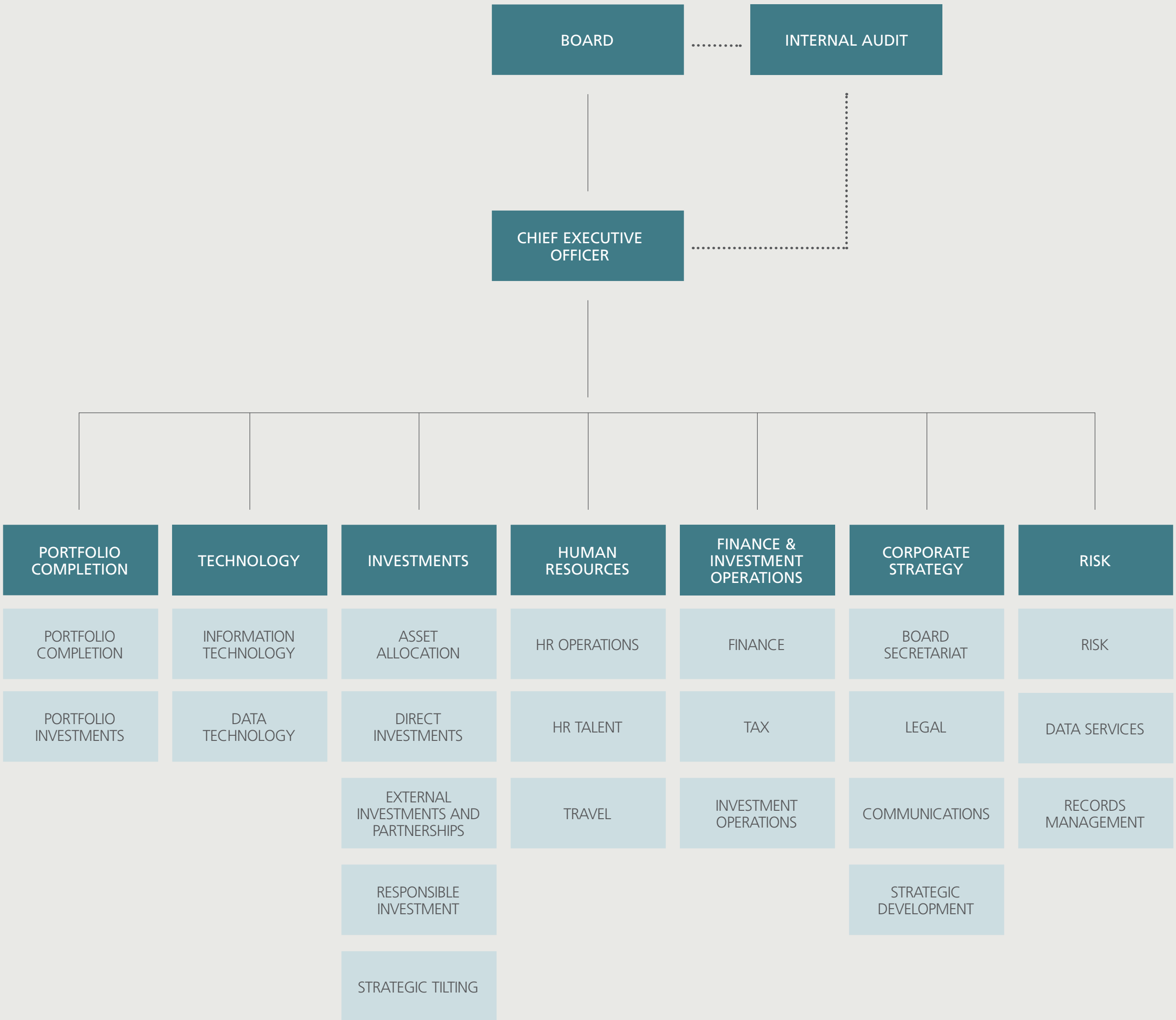
For bios of our Leadership team, visit:
www.nzsuperfund.nz/nz-super-fund-explained-management/leadership-team

## ORGANISATIONAL CHART

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## WORKFORCE PROFILE

| COMPONENTS | 2021 | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|---|
| **Our Workforce** | | | | | |
| Full-Time Equivalent (FTE) employees | 160.8 | 154.8 | 139.1 | 127.8 | 124.4 |
| People | 163 | 157 | 141 | 130 | 127 |
| Full-Time (FTE) | 96% | 96% | 96% | 95% | 93% |
| Part-Time (FTE) | 4% | 4% | 4% | 5% | 7% |
| Staff members with disabilities | 0% | 0% | 0% | 0% | 1% |
| **Female Representation** | | | | | |
| Female staff members | 74 (45%) | 68 (43%) | 55 (39%) | 48 (37%) | 47 (37%) |
| Female Board members | 3 (43%) | 2 (29%) | 2 (29%) | 2 (29%) | 3 (43%) |
| Female Leadership Team members and direct reports to CEO | 2 (29%) | 2 (29%) | 2 (29%) | 2 (33%) | 2 (29%) |
| Female Heads of Teams | 6 (33%) | 6 (33%) | 6 (35%) | 5 (31%) | 6 (33%) |
| Female Investment Professionals | 18 (31%) | 16 (29%) | 12 (22%) | 12 (22%) | 12 (25%) |
| **Gender Pay Gap*** | | | | | |
| Gender pay gap – mean | 26% | 25% | 23% | 20% | 25% |
| Gender pay gap – median | 36% | 37% | 32% | 29% | 37% |
| **Turnover**** | | | | | |
| Turnover – all staff | 6.1% | 3.9% | 6.3% | 6.9% | 13.8% |
| Turnover – male (of male FTE) | 10.2% | 5.7% | 5.9% | 6.2% | 7.6% |
| Turnover – female (of female FTE) | 1.1% | 1.5% | 6.9% | 8.6% | 17.3% |
| **Educational Qualifications** | | | | | |
| % of staff with a postgraduate tertiary qualification | 50% | 50% | 52% | 53% | 51% |
| % of staff with an undergraduate tertiary qualification | 90% | 90% | 90% | 90% | 88% |
| Investment in staff training as a % of total Guardians' operating expenditure | 0.9% | 0.9% | 1.2% | 1.2% | 1.3% |
| **Return to Work and Retention after Parental Leave (as primary carer)** | | | | | |
| Return to work – male | 100% | 100% | 100% | None taken | None taken |
| Return to work – female | 100% | 75% | 100% | 100% | 100% |
| Retention as at 30 June after returning during the year – male | 100% | 67% | None taken | None taken | None taken |
| Retention as at 30 June after returning during the year – female | 83% | 100% | 100% | 100% | 100% |
| **Health and Safety** | | | | | |
| Lost-time work injuries | 0 | 0 | 0 | 0 | 0 |
| Absenteeism as measured by days of sick leave per FTE | 3.3 | 2.9 | 3.9 | 4.7 | 4.1 |

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103 - 1
103 - 2
103 - 3
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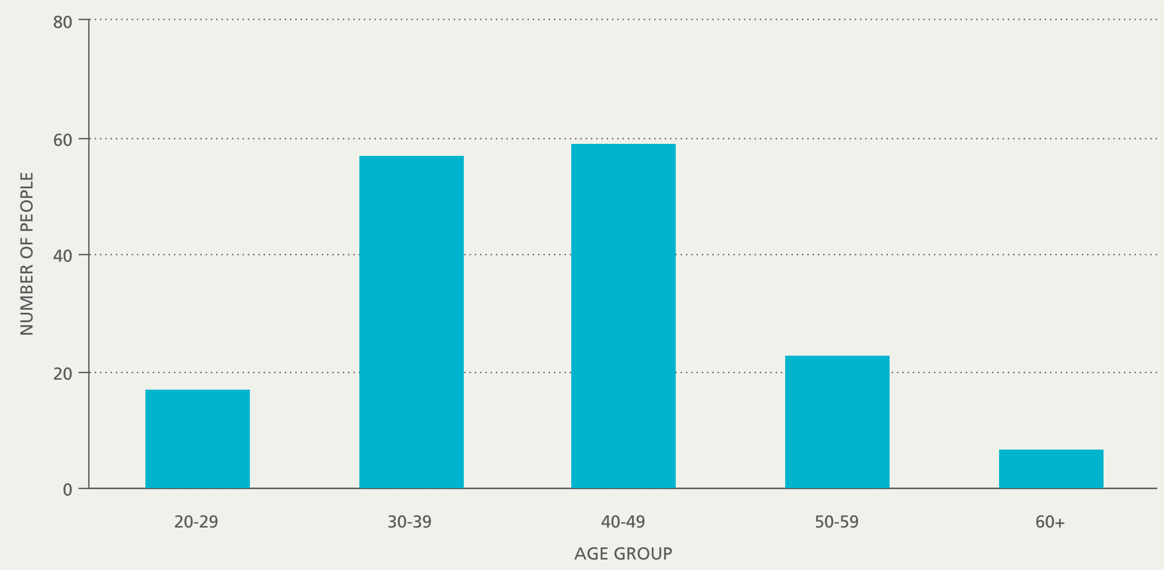
403 - 2
404 - 1
405 - 1

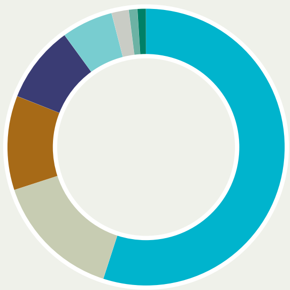
* We report contractual base hourly rate of pay for the entire permanent workforce (including CEO, and for full-and part-time work). The numbers reported are the difference of male pay less female pay, divided by male pay. If there was no gap, the result would be 0%. The mean gender pay gap is the difference between the mean hourly base pay of males and females. The median gender pay gap is the difference between the midpoints in the range of hourly base pay of males and females. The midpoint is calculated by taking all hourly base pays in the sample, lining them up in order from lowest to highest, and picking the middle-most hourly base pay. A report we commissioned from Ernst & Young (EY) in 2016 shows that we pay equally for work of equal value, and that we are treating men and women equitably during performance reviews, pay reviews and in the awarding of incentives.

**We define turnover as voluntary turnover.

Workforce Age as at 30 June 2021




Ethnic Profile* as at 30 June 2021



- New Zealand European (94): **55%**
- Chinese (25): **15%**
- Other European (19): **11%**
- Other ethnicity (15): **9%**
- Indian (10): **6%**
- Pacific Peoples (3): **2%**
- Māori (2): **1%**
- Not stated (1): **1%**

* Five employees identify with more than one ethnic group.

Gender Balance as at 30 June 2021

- Male (89): **55%**
- Female (74): **45%**
- Non-binary (0): **0%**

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103 - 1
103 - 2
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## OUR PEOPLE

# At the Guardians, we see our people as our biggest asset. Attracting, retaining, developing and caring for our people is critical to our success.

### OUR VALUES

Our values underpin everything we do. They are critical in guiding how we operate as a team and as an investor. Our values are:

- **Team not hero (He toa takitini)** – Success is determined by the strength of our team. We succeed and fail together. None of us is perfect, and our ability to pick each other up and learn from our mistakes makes us stronger. Teamwork is a force multiplier. Trust and communication are the cornerstones of our work.
- **We stand strong (E pakari nei tā mātou tū)** – We are transparent and clear in our purpose and approach. We lean into the hard times and keep a clear head during the good times. In a world of sudden change there is often pressure to change our minds or yield to the immediacy of the situation. Our foundations are deep but not fixed.
- **We support each other (E tautoko ana tētahi i tētahi)** We look out for each other and make sure we succeed together. Our job is often difficult, and we must respond quickly to disruption. We understand our work lives are busy; we celebrate the good times and support each other in the hard times.
- **Future focused (E arotahi ana ki anamata)** – We take a long-term view. Every decision we make today will have an impact in years to come. In a world that is often constrained by short-term thinking, we rise above the noise of the present and consider the future. What would the future me think of this decision?

### OUR VISION

A great team building the best portfolio.

### OUR CULTURE

Nurturing an inclusive, high-performing and constructive
culture is a key priority for us. Culture is underpinned by our
values, with our people at the heart of everything we do. The
importance of culture and the need for ongoing focus was
102 - 16 highlighted by Willis Towers Watson in their five-yearly
103 - 1 independent review into the Guardians, which was completed
103 - 2 in 2019. "Good culture declines over time without strong
103 - 3 actions to maintain it. The larger the asset owner, the

proportionately larger the energy needed to maintain or shift the culture."

In 2020, we worked with an external provider to measure our culture with a team-wide survey, using the Organisational Culture Inventory (OCI) and Organisational Effectiveness Inventory (OEI) tools. This was the fifth time we had deployed this survey, providing us with rich data against which to measure our long-term effectiveness as an organisation.

Following the 2020 survey, the Leadership Team and Heads completed a two-day Leading Culture Programme to prepare them to lead the culture journey for their respective teams. Individual teams were debriefed and staff had the chance to review, discuss and understand their team's results and create team action plans. Our Human Resources team is now preparing for the 2022 Culture Survey to ensure we maintain and improve our constructive culture.

### COVID-19 AND EMPLOYEE WELL-BEING

The health and well-being of our team remained a top priority for us in 2020/21. We implemented a range of initiatives to allow us to continue to operate effectively through the COVID-19 pandemic.

In 2020, we introduced a working-from-home allowance for all permanent employees to set up their homes with the right technology to work flexibly. To support the well-being of our team, we increased access to flexible working and launched a number of well-being initiatives. This included a corporate subscription to a meditation and mindfulness app. We also expanded our Employee Assistance Programme to provide additional confidential psychological support resources, available to all employees if requested.

Shortly after the outbreak of COVID-19, we introduced a short, weekly, pulse-style survey using an online platform. Initially this was for the Leadership Team and Board to understand the effectiveness of the Guardians' COVID-19 response. However, the survey has since expanded in scope and continues to provide timely and regular feedback on staff engagement.

## DIVERSITY, EQUITY AND INCLUSION

We have a long-standing organisational commitment to diversity, equity and inclusion (DE&I). We are dedicated to cultivating a diverse and inclusive environment where all our people are treated equitably, and feel fully engaged and included. We identified DE&I as a key strategic priority for 2021/22 to ensure we continue developing our practices. As part of this, in March 2021 we engaged an external provider to conduct an independent review of our DE&I practices.

The objective of the review was to benchmark our current state, and to gain actionable insights into areas for improvement at a strategic and tactical level. We expect this work will help us become more diverse and to role-model inclusivity. Interviews and workshops were held with staff in April and May to better understand staff experiences of DE&I at the Guardians. Following consideration of the review outputs, a DE&I strategy and associated road map will be established with success metrics for 2021/22.

## IMPROVED HUMAN RESOURCES SYSTEM

In late 2019 we recognised a need for a digital solution to streamline our human resources processes and data. Researching and selecting a solution was one of our 2020/21 strategic priorities, with the aim to:

1. Provide integrated, trusted and secure data that provides user-relevant information and reporting easily and quickly.
2. Reduce operational risk and inefficiencies and use productivity gains for more value-added activities.
3. Improve the user experience (both internally and externally) by streamlining processes and providing accessibility.
4. Ensure a good technical fit that leverages the cloud IT investment and security provisions for the longer term.

We selected a unified platform natively built for the cloud. This new platform will deliver end-to-end management of the whole employee life cycle, including core HR, recruitment, talent and succession, learning, performance and goal management, compensation, benefits, and health and safety. We expect that this will increase the value of the workplace experience provided to our team members, managers and leaders. Implementation will span multiple financial years. Phase One is currently under way and is set to deliver three key modules (CoreHR, Recruitment and Journeys), alongside several integrations to support process efficiency.

## APPOINTMENTS

We made 35 appointments during the 2020/21 year:

- 21 external hires; and
- 14 internal placements (promotions and job transfers).

## LEADERSHIP TEAM CHANGES

In 2020, the General Manager, Finance and Risk, Stewart Brooks, announced he will retire in 2021. Stewart is our longest-serving employee, having been with the Guardians since 2003. His service to the Guardians has been exemplary and he will be greatly missed. Stewart's departure was an opportunity to revise our leadership structure and increase focus on risk, technology and data. In late 2020 we disestablished the General Manager, Operations and the General Manager, Finance and Risk roles, creating three new roles. Since completing the restructure, we have appointed the following people to our Leadership Team:

- General Manager, Finance and Investment Operations (new role) – Paula Steed
- General Manager, Risk (new role) – Mark Fennell
- General Manager, Technology (new role) – David Sara
- General Manager, Portfolio Completion – George Crosby.

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## OUR PEOPLE (CONTINUED)

### HEALTH AND SAFETY

Our Human Resources Policy sets out our commitment to provide a safe and healthy working environment for all employees and visitors. We strive to:

- reduce and, where possible, eliminate hazards;
- educate employees on health and safety issues;
- prevent injury to people at work; and
- comply with the requirements of the Health and Safety at Work Act 2015.

Being mainly office and home-based, the Guardians has a relatively low-risk physical environment, although potential hazards include overseas travel, gradual process injury and stress. We manage our key risk areas constantly and provide a comprehensive programme of support services to staff.

The Health, Safety, Security and Environment (HSSE) Committee comprises staff from various business units and advises the Leadership Team on the response to, and prevention of, HSSE-related risks across the organisation. The Committee aims to promote a culture that identifies and mitigates unsafe situations and behaviours before they can impact people, the environment and the Guardians' reputation. The Committee meets every two months, and reports to the Board annually. In 2020/21, the Committee's core focus was monitoring and advising the Guardians' Leadership Team of any health and safety concerns arising out of the adoption of our wider working-from-home operating model following COVID-19. This included guidance in relation to COVID-19 vaccinations and the Australian travel bubble.

Other Guardians' health, safety and wellness activities include:

| Activity | Permanent employee | Fixed term employee | Casual employee | Contractor |
|---|---|---|---|---|
| Annual health and safety training | ● | ● | ● | ● |
| Fully funded health, trauma, and income continuance insurance | ● | | | |
| Workstation assessments for employees | ● | ● | ● | |
| Height-adjustable desks available for staff | ● | ● | ● | ● |
| Free healthy heart checks and influenza injections | ● | ● | | |
| Access to a corporate subscription for a mindfulness programme | ● | ● | ● | |
| Wellness webinars available to all employees and their families | ● | ● | ● | ● |
| Provision of emergency kits to comply with Civil Defence and Emergency Management recommendations | ● | ● | ● | ● |
| Access to counselling via independent Employee Assistance Programme providers | ● | ● | ● | |
| Regular Occupational Health Nurse visits | ● | ● | ● | |

As a result of the uptake in working-from-home arrangements during the COVID-19 pandemic we introduced additional Fire Wardens and First-Aiders to ensure coverage if our usual representatives are not on site.

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## GOOD EMPLOYER

The Guardians is committed to being a good employer. This includes offering equal employment opportunities (EEO) to existing and prospective staff. All staff are employed on individual contracts and are involved in the development of our good employer and EEO programmes. They also have the opportunity to provide input into our Human Resources Policy and approach.

We believe being a good employer will help us achieve our long-term business goals. To us, being a good employer means our people enjoy their jobs and feel safe in their workplace; trust the processes and procedures around their development, recognition, promotion and exit; and are enthused by and professionally satisfied in their roles.

The Human Rights Commission gave the Guardians a compliance rating of 100% for our good employer reporting in its review of the annual reports of all Crown entities.

Our activities against seven key elements of being a good employer are summarised below:

| ELEMENT | GUARDIANS' ACTIVITY |
|---|---|
| Leadership, accountability and culture | Alignment between Strategic Plan objectives, individual objectives and performance measures |
| | Following up on the results of our most recent Organisational Culture Inventory (OCI) and Organisational Effectiveness Inventory (OEI) surveys |
| Employee development, promotion and exit | Programme in place to identify and develop talent |
| | Vacancies advertised internally |
| | Internal secondment opportunities |
| | Exit interview process |
| Recruitment, selection and induction | Robust recruitment and selection processes |
| | Onboarding and induction for all staff |
| | Summer internship programme |
| Remuneration, recognition and conditions | Transparent, equitable and gender-neutral job evaluation practices |
| | Remuneration benchmarked against third-party New Zealand data |
| | Current incentive programme into its ninth year |
| Flexibility and work design | IT systems facilitate remote working from home |
| | Flexible working arrangements supported |
| | 7/7 parental leavers returned from parental leave |
| Harassment and bullying prevention | Employee Code of Conduct and relevant policies available and endorsed at all times |
| | Performance management process rewards positive and constructive behaviour |
| Safe and healthy environment | Strong focus on employee health, safety and well-being through the provision of support services (see page 30) |

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# 02.

We look for opportunities where we can use our investment expertise to drive innovation and add long-term value to the business. Our investment in pathology provider APHG will see us working together to support the health needs of our community.

# Investment Reports
# Ngā Pūrongo Haumi Pūtea

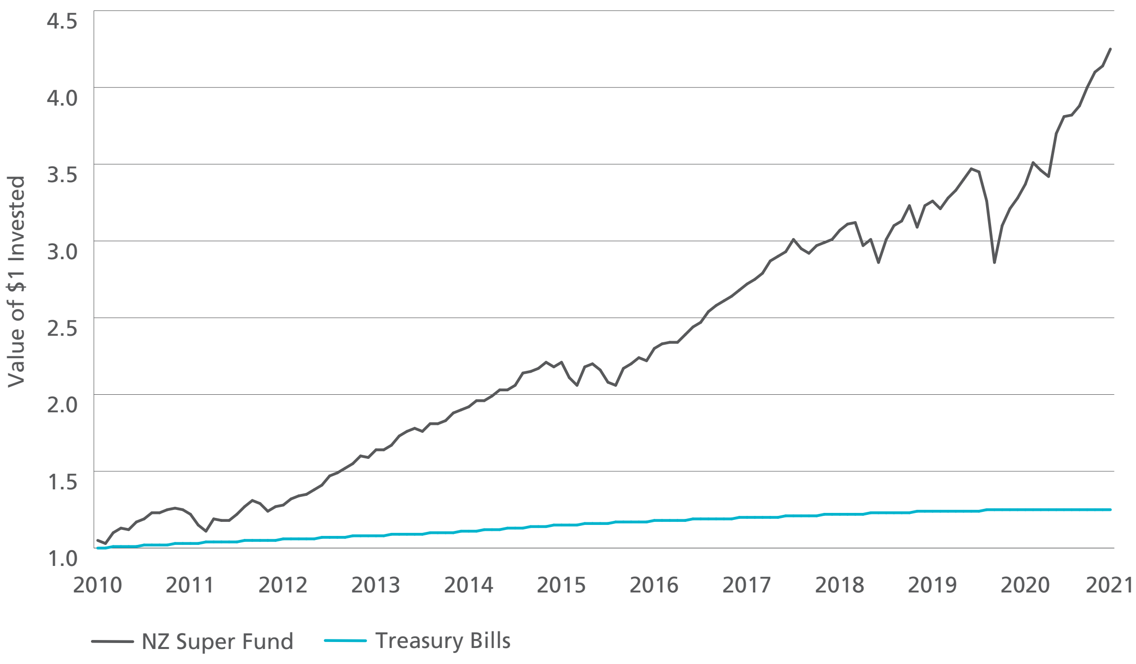
# Investing for the Long Term

## For the NZ Super Fund to meet a significant portion of the future cost of superannuation, the ability to take market risk to earn investment returns over long periods of time is crucial.

The graph below shows the cumulative Fund return since 2010, relative to one of its benchmarks: the Treasury Bill return. Treasury Bills, which are wholesale debt securities issued by the Crown, are an appropriate measure of the Fund's performance. This is because they represent the cost to the government of contributing capital to the Fund instead of using money to retire debt.

Over time, the Fund is expected to earn more for the government in investment returns than it would save in debt servicing i.e. the Fund is expected to add to Crown wealth, thereby enhancing the ability of future governments to meet superannuation costs. Since we began investing the Fund in 2003, it has generated a total of $39.8 billion (after paying tax) more in returns than the alternative use of those funds, namely repaying Crown debt.

PERFORMANCE OF THE NZ SUPER FUND AND TREASURY BILLS




We have been able to achieve this result partly because of our endowments as an investor. Our endowments are the advantages the Guardians has as an investor with respect to the Fund, because of how we were set up. These have allowed us to take market risk, which has led to higher returns.

We feel comfortable taking this risk for the following reasons:

- The Fund has a long investing horizon, which means that it has a great capacity to absorb losses in the short term, knowing it can wait for markets to recover. When withdrawals from the Fund eventually begin (substantive withdrawals are currently expected to begin in the 2050s), they will amount to only a small proportion of the Fund's overall capital, further insulating the Fund from volatile market movements at a single point in time.

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- Because the timing of withdrawals from the Fund is transparent, we have relative certainty around our ability to invest and sustain those investments with fewer liquidity constraints than that of some other investors.
- We are operationally independent. The government may only direct the Guardians about its expectations of the Fund's overall risk and return. Operational independence enables us to have a stable level of risk aversion compared with some other investors.
- We have established a strong governance model, including clear delegation structures and board oversight, to support achievement of our long-term mission and maintain stakeholder and public confidence.
- As investors, we believe in mean reversion. This means that we believe that asset prices trend towards their values over time. By value, we mean the level where the ex-ante (i.e. based on forecast) expected return is fair compensation given the riskiness of the asset. This means that investment risk is lower over our long investment horizon.

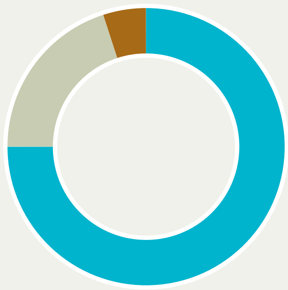
## MEETING OUR MANDATE - THE REFERENCE PORTFOLIO

Our high investment risk tolerance is reflected in the composition of assets in the Reference Portfolio.

The Reference Portfolio is a shadow or notional portfolio of passive, low-cost, liquid investments suited to the Fund's long-term investment horizon. The composition of the Reference Portfolio is the single biggest influence on Fund returns, because the choice of Reference Portfolio dictates the overall level of market risk we seek exposure to hold. In practice, the Reference Portfolio assets comprise just over half of our Actual Portfolio, with active investment strategies making up the balance.

We have chosen a Reference Portfolio made up of 80% equities (or shares) and 20% bonds, with foreign currency exposures 100% hedged to the New Zealand dollar. We believe that this 80:20 asset allocation represents an appropriate balance between maximising return and avoiding undue risk.

**Reference Portfolio**




The table below shows how the components of the Reference Portfolio performed during the year, and since the inception of the Reference Portfolio in 2010. The returns are shown on a hedged to NZ$ basis to the year ended 30 June 2021. Total return includes estimated costs to operate the Reference Portfolio.

| Reference Portfolio Benchmark | Weight | 2020/21 Return | Return p.a. since 2010 |
|---|---|---|---|
| Global Equities | 75% | 37.96% | 13.65% |
| New Zealand Equities | 5% | 10.41% | 14.06% |
| Global Fixed Income | 20% | 0.02% | 5.46% |
| Property* | 0% | N/A | 14.73% |
| Total | 100% | 27.90% | 11.81% |

* Property had a 5% weight between July 2010 and June 2015.

In the short term, because of the high proportion of equities in the Reference Portfolio, we may experience considerable volatility in our investment returns. As mentioned above, due to the Fund's long-term investing horizon, the Fund has the ability to ride out and potentially benefit from these short-term market movements. Over the long term, the exposure to market risk is expected to pay off in the form of higher returns.

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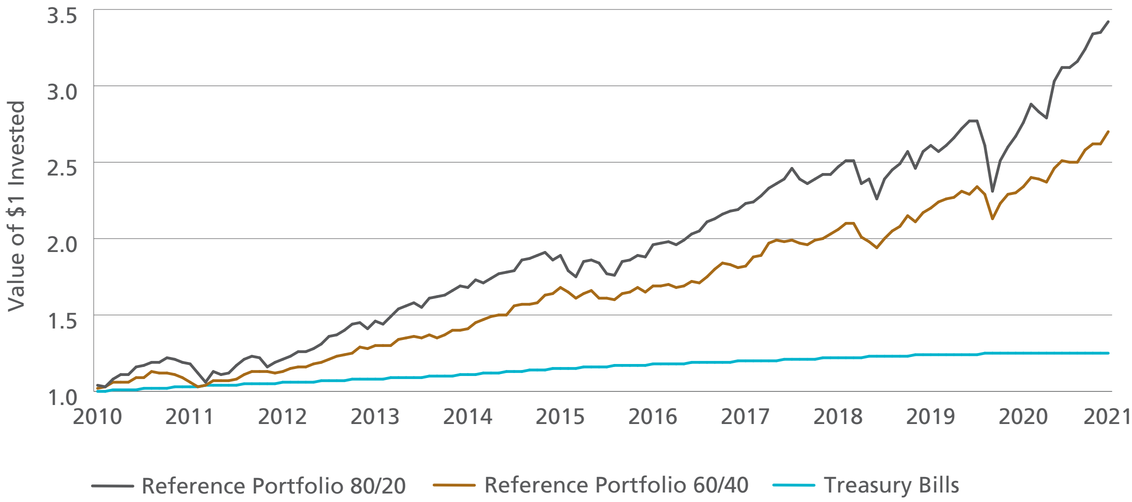
A standard asset allocation approach might be to allocate 60% of a portfolio to equities and 40% bonds, with 50% of foreign currency exposures hedged to the New Zealand dollar. Had we adopted this strategy, we estimate that we would have made $18 billion more than the Treasury Bill return since the start of the Reference Portfolio (July 2010). Choosing to run an 80:20, 100% hedged portfolio has added $28 billion since the start of the Reference Portfolio, an extra $10 billion more than this alternative.

The graph below shows the value-add performance of our Reference Portfolio (with an 80:20 split between equities and bonds) relative to an alternative, 60:40 split, over and above that of our benchmark, the Treasury Bill return. This helps show how taking market risk over an extended period of time has delivered strong returns and set us on the path towards meeting our mandate. Our endowments facilitate our risk taking and contribute to our ability to add value.

PERFORMANCE OF THE REFERENCE PORTFOLIO, ALTERNATIVE 60/40 REFERENCE PORTFOLIO AND TREASURY BILLS




## MEETING OUR MANDATE - ACTIVE INVESTMENT STRATEGIES

While the Reference Portfolio in itself is capable of meeting our mandate over time, we have used our robust governance and decision-making processes to try and do better: to pursue active investment strategies that aim to make an additional return over and above the Reference Portfolio 'market' return.

While these activities diversify our risk exposures away from equities and lead to higher-than-expected returns, undertaking them entails complexity and cost, and brings other risk concerns, such as liquidity, into play. This is why we will only invest actively where we have a strong conviction that there are additional meaningful risk-adjusted returns to be made, net of all costs, above that which could be achieved by the Reference Portfolio. However, taking active risk doesn't guarantee that we will add value over the Reference Portfolio.

Executing or overseeing these active investment strategies is the job of our in-house team of investment professionals. When we deviate from the Reference Portfolio in our active investment, the Reference Portfolio return still serves as a benchmark to provide a clear way of measuring our performance as investors.

We deviate from the Reference Portfolio through our active investment strategies by investing in ways that allow us to benefit from our endowments, whether by investing in illiquid assets, buying assets cheaply in periods of market crisis, or leveraging our horizon in the New Zealand market to make investments that would be challenging for other market participants. We also invest in ways that further diversify the Fund away from equity markets. This covers assets such as timber and rural land, and some insurance-related investments.

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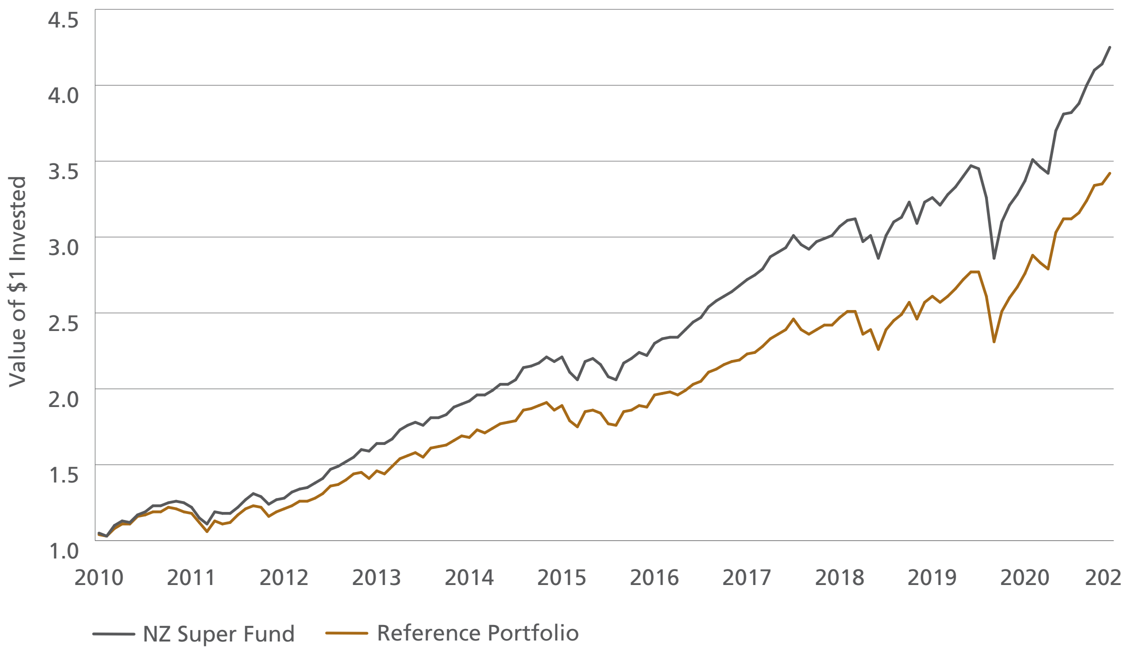
Many of these strategies rely on the belief that withdrawals from the Fund will not be made for a long time, which enables us to embrace active, contrarian strategies that may pay off over the long-term. An example is our Strategic Tilting strategy, which uses derivatives to take positions across a number of investment markets (including equities, bonds, currencies and commodities). This programme relies on a belief in mean reversion in asset prices and is a buyer of 'risky' assets during financial market shocks, like the recent COVID-19 crisis.

There is a high chance that contrarian strategies like Strategic Tilting will result in an extended period of losses. Part of running this strategy means having the discipline to resist short-term impulses that might cause us to lose sight of our overarching investment strategy and core purpose. This is why we have developed a strong governance model and an organisational culture that supports our desired approach, and that is designed to survive changes in management and Board, and changing market environments. It includes clear delegation structures and Board oversight to support our high-risk investment model while maintaining stakeholder and public confidence.

Our expectation, given our current active risk settings, is that over rolling 20-year periods the Fund will be able to add an extra 1.0% p.a. above the returns associated with the passive Reference Portfolio because of our active investment strategies. Since 2010, when we adopted the Reference Portfolio concept, the Fund has delivered a return 2.2% p.a. above that of the Reference Portfolio return.

The graph below shows the performance of the Fund relative to the Reference Portfolio, its other key benchmark. This helps show that choosing to use our endowments to make active investments has delivered more value for New Zealanders than a purely passive alternative.

PERFORMANCE OF THE NZ SUPER FUND AND THE REFERENCE PORTFOLIO

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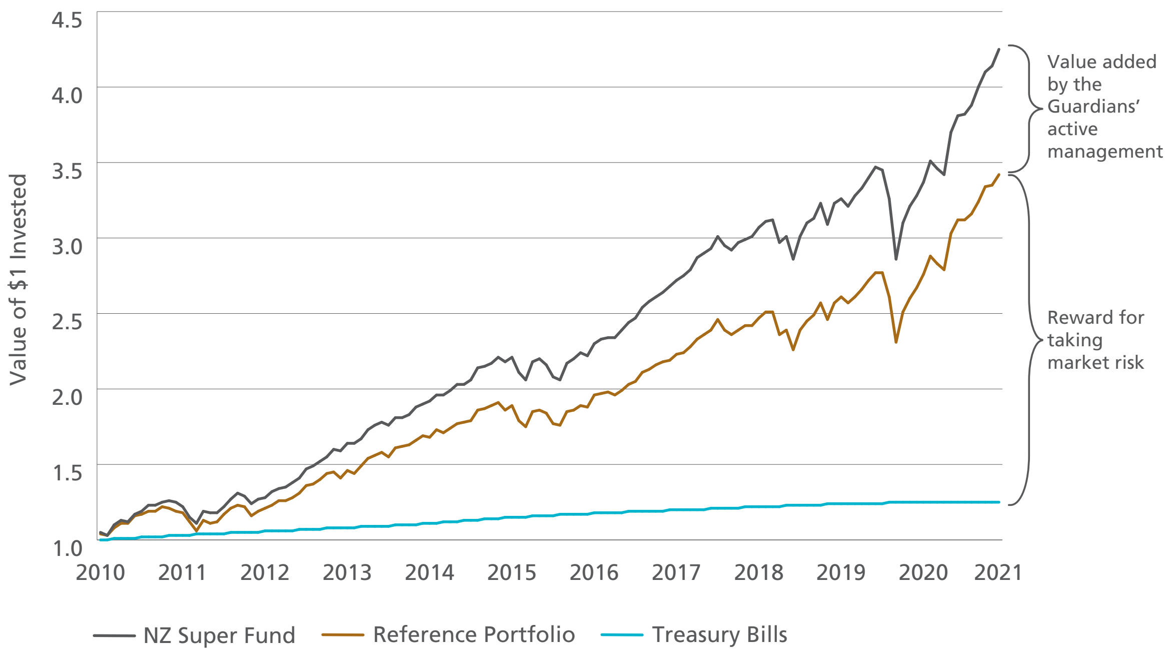
## PERFORMANCE REPORT (CONTINUED)

This year, the Fund returned 29.63% (after costs, before New Zealand tax). As detailed above, this compares to a Reference Portfolio return of 27.90%. This means that our active investment strategies outperformed their benchmark by 1.73%. See pages 40 - 41 for an assessment of the investment environment influencing the Reference Portfolio return, and pages 42 - 43 for a breakdown of the active investments driving our value-add performance.

The graph below helps to illustrate how each of the components of our investment decision-making has contributed to our out-performance of the Treasury Bill return.

Taken together, the returns generated by our 80:20 Reference Portfolio approach ($28 billion) and our active investment strategies ($11 billion) comprise the $39 billion we have generated over and above the Treasury Bill return since we adopted the Reference Portfolio concept.

PERFORMANCE OF THE NZ SUPER FUND, REFERENCE PORTFOLIO AND TREASURY BILLS




Over the next 50 years, the Fund is expected to become an increasingly important asset for the government in New Zealand. Based on Treasury modelling, the Fund will increase in size from 16.0% to 38.4% of GDP. Fund tax paid to the Crown will double from 0.3% to 0.6% of GDP. Capital withdrawals to meet superannuation costs will peak at almost 1.0% of GDP. All these projections are based on the return expectation driven by high market risk exposure, supported by our governance framework.

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## RISK-ADJUSTED RETURN PERFORMANCE

### THE SHARPE RATIO

Focusing solely on returns ignores how smooth or rough the ride was in generating those returns and the risk taken to achieve them. A commonly used risk-adjusted performance metric, the Sharpe ratio, compares the portfolio returns above cash returns as a ratio of the volatility of returns. The higher the ratio, the greater the return for the risk taken, and vice versa.

The Sharpe ratio enables us to compare the risk-adjusted performance of our benchmark, the Reference Portfolio, with that of our Actual Portfolio, and also against our expectations. This is shown below.

| | Reference Portfolio | Actual Portfolio |
|---|---|---|
| **Expected Sharpe Ratios** | 0.20 | 0.26 |
| **Realised Sharpe Ratios** | | |
| Since introduction of Reference Portfolio (July 2010) to 30 June 2021 | 1.16 | 1.24 |
| Since inception (December 2003) to 30 June 2021 | 0.56 | 0.59 |

Our long-run expectation is that the 80% growth, 20% fixed income Reference Portfolio will achieve a Sharpe ratio of 0.20. For the Actual Portfolio, we expect a slightly higher Sharpe ratio of 0.26, representing an increase in return for the value we expect to add through active investment, adjusted for the risk taken to generate this.

### REFERENCE PORTFOLIO

The Reference Portfolio has generated a higher Sharpe ratio than the 0.20 we expected. On a since inception basis, the Sharpe ratio of the Fund's benchmark is 0.56. Since its introduction in 2010, the Reference Portfolio has had a Sharpe ratio of 1.16. This is because the Reference Portfolio has experienced higher-than-expected returns, and lower-than-expected risk, over both periods.

### ACTUAL PORTFOLIO

The Actual Portfolio has also generated a better Sharpe ratio than we expected, over both periods. Since July 2010, the Actual Portfolio's realised Sharpe ratio has been 1.24, greatly exceeding the expected ratio of 0.26. Again, this has been driven largely by returns exceeding expectations and, to a lesser extent, lower-than-expected volatility. On a since inception basis, the Actual Portfolio has realised a Sharpe ratio of 0.59. Over both periods, the Sharpe ratio of the Actual Portfolio compares favourably with that generated by the Reference Portfolio.

**Dr Charles Hyde, *Head of Asset Allocation***

In July, we announced the appointment of Dr Charles Hyde as Head of Asset Allocation. The Asset Allocation team at the Guardians is the unifying force behind our investment decision-making, providing robust investment risk measurement and management. In this role, Charles will oversee the construction of the Fund's Reference Portfolio, the allocation of risk capital across the Fund and the Guardians' economics function.

He joined the Guardians in 2015 as a Senior Investment Strategist. In this role Charles chaired one of the Guardians' risk budgeting teams and has been closely involved in a number of key projects including the 2020 review of the Reference Portfolio, reviews of the Guardians' investment hurdles and proxies, and our climate change investment strategy. He has also been heavily involved in developing the Guardians' equity factors investment strategy.

Charles' previous roles include Head of Quantitative Research at MIR Investment Management, Head of Equities Research at CBA, and Principal Economist - Transfer Pricing at Deloitte. He has also held a number of academic roles in finance and economics at the University of Sydney and the University of Melbourne. He has a PhD from the University of California, Berkeley.

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## INVESTMENT ENVIRONMENT REPORT

**TOTAL RETURN 2020/21**
(AFTER COSTS BEFORE NZ TAX)

# 29.6%

**NZ SUPER FUND SIZE UP BY**

# $15b

**Here, we discuss the major drivers of the economic and investment environment over 2020/21.**

The Fund finished the 2020/21 financial year at $59.79 billion (pre-New Zealand tax). In the 12 months to 30 June 2021 the Fund returned 29.63%, outperforming the Treasury Bill return by 29.39% and outperforming the Reference Portfolio by 1.73%. This represents the Fund's highest-ever return for a financial year since its inception in 2003.

The investment environment during the past year has been defined by the global response to COVID-19. Despite ongoing social-distancing restrictions and significant uncertainty over the path of the pandemic, equity markets delivered strong returns.

The Fund's asset allocation is anchored around its Reference Portfolio, which is made up of 80% global equities and 20% global bonds. The Reference Portfolio is structured in this way to maximise returns over the long term,without taking undue risk. It also provides the benchmark for the performance of our Actual Portfolio, which includes the active investments we make to improve the risk-adjusted returns to the Fund.

With such a strong weighting towards growth assets, when equity markets sell off as they did in March last year, Fund returns drop. Equally, when equity markets recover, as we have seen this year, the Fund's returns followed suit.

Our Strategic Tilting strategy, in particular, was well placed to benefit from the rapid rebound in equities after leaning into the COVID-19 sell-down. Our Tactical Credit Mandate was also able to deploy capital as markets became more volatile and less liquid. An associated recovery in commodity prices has benefitted our rural and forestry investments.

For a period there was scepticism as to whether the rapid recovery in equity markets could be maintained against a fragile economic environment. In part, the discrepancy was explained by the strong performance of technology and other growth stocks, both key beneficiaries of sharply lower discount rates and the COVID-induced shift to digital delivery.

The announcement by Pfizer (and closely followed by others) that it had developed an effective vaccine for COVID-19 gave further cause for equity markets' optimism and markets responded accordingly.

With interest rates effectively as low as they could go, central banks' willingness to finance debt-fuelled government spending programmes via Quantitative Easing (QE) was another feature of 2020/21. While it was not the first time we've seen QE in action, QE programmes have become common among developed markets' central banks over the past year.

The breadth and scale of these programmes has meant that monetary and fiscal policy have become more closely connected than they have been in a long time.

**NZ Super Fund Performance as at 30 June 2021**

| | SINCE INCEPTION p.a. | TEN YEARS p.a. | FIVE YEARS p.a. | ONE YEAR |
|---|---|---|---|---|
| Actual Fund Returns (after costs, before tax) | 10.67% | 13.01% | 13.87% | 29.63% |
| Reference Portfolio Return (after costs, before tax) | 9.43% | 11.08% | 12.64% | 27.90% |
| Value-Added (Actual Return – Reference Portfolio Return) | 1.24% | 1.93% | 1.23% | 1.73% |
| Estimated $ earned relative to Reference Portfolio* | $10.65b | $9.26b | $2.92b | $757m |
| New Zealand Treasury Bill Return | 3.52% | 1.97% | 1.27% | 0.23% |
| Net Return (Actual Return – Treasury Bill Return) | 7.14% | 11.04% | 12.61% | 29.39% |
| Estimated $ earned relative to Treasury Bills * | $39.16b | $36.17b | $24.73b | $13.02b |
| Crown contributions* | $19.96b | $5.08b | $5.08b | $2.12b |
| New Zealand income tax paid* | ($7.54b) | ($5.63b) | ($2.91b) | ($550m) |
| $ change in Fund size * | $59.79b | $40.76b | $29.69b | $14.99b |

* Figures are cumulative and not per annum.

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This central bank support ensured the rising prices in equity markets extended into the second half of the year, and markets were largely able to look through the economic impacts of the second and third waves of COVID-19 infection.

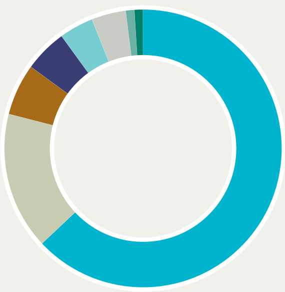
The combination of fiscal and monetary support, strong economic growth and global supply chain issues resulted in higher inflation. In response, central banks have remained staunch, acknowledging the higher inflation, but maintaining a look-through approach to inflation they believe is transitory. Markets have followed this line and interest rates have largely tracked sideways or even declined despite inflation showing no sign of easing.

Consequences of higher inflation for our investments are mixed and will partly depend on both the drivers of higher inflation and when central banks become concerned that higher inflation may be persistent. Higher inflation, particularly in the absence of stronger economic activity, has the potential to be detrimental to growth assets, which make up a large portion of our portfolio.

Higher discount rates directly lower asset valuations, and if the growth outlook remains weak, there may be no positive earnings offset. In a scenario where we have both higher inflation and lower growth, we would expect our portfolio to underperform relative to a period of higher growth and inflation.

The COVID-19 pandemic has changed the way societies and economies operate. Some of these changes will fade over time; others may be more enduring. As an intergenerational investor, we remain focused on maximising returns over the long term without undue risk. But we also need to be alert to both the threats to and opportunities arising from our investments and frameworks posed by more enduring (or structural) changes. For example, the implications of a sustained increase in working from home on our real estate portfolio, or how a new regime of coordinated monetary and fiscal policy may challenge some of our longer-term assumptions of key economic relationships.

**NZ Super Fund Asset Exposures as at 30 June 2021***



- Global Equities: **63%**
- Bonds: **16%**
- Alternatives: **6%**
- Rural and Timber: **5%**
- NZ Equities: **4%**
- Private Equity: **4%**
- Infrastructure: **1%**
- Property: **1%**

* Excludes the impact of any strategic tilts.

**Alice Mew, *Chair, Investment Committee***

This year we were delighted to welcome Alice Mew as the Guardians' new Chair of the Investment Committee, replacing Mike Frith who has ended his term on the Committee after four years as Chair. Alice joined the Guardians in 2017 as a Senior Investment Strategist in the Direct Investment team. Prior to this, she spent eight years at BlackRock in London, where she was a Director in the Fundamental Fixed Income team. Alice started her career at the Reserve Bank of New Zealand before moving to London in 2001. In London she worked across a variety of markets and asset classes for Moody's, Standard & Poor's, Barclays Global Investors and BlackRock.

"Despite significant uncertainty over the path of the pandemic, equity markets delivered strong returns. Anchored by our large passive equity exposure, the Fund's returns followed suit."

$20b

**CROWN CONTRIBUTIONS TO THE FUND**

$7.5b

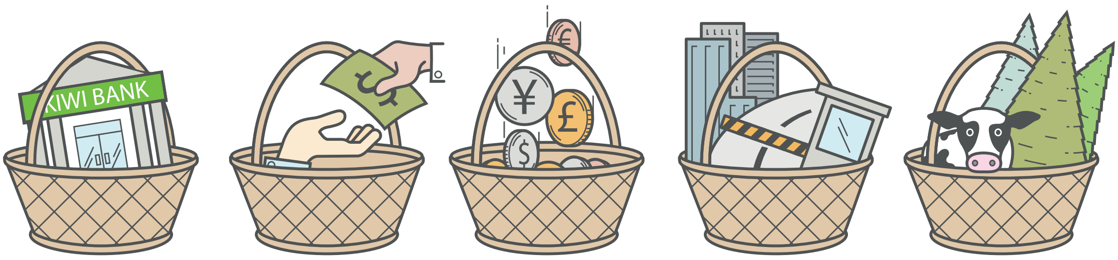
**TAX PAYMENTS BACK TO THE CROWN**

$39.8b

**ADDITIONAL VALUE ADDED TO THE FUND**

103 - 1
103 - 2
103 - 3
201 - 1

# We undertake active investments to add value to the Reference Portfolio.




**ASSET SELECTION**

**MARKET PRICING –** ARBITRAGE, CREDIT & FUNDING

**MARKET PRICING –** BROAD MARKETS

**MARKET PRICING –** REAL ASSETS

**STRUCTURAL**

To do this, we take on active risk (more commonly known as tracking error), or risk that the NZ Super Fund's performance will be different from that of the Reference Portfolio. Under the Reference Portfolio construct, we need a way to sensibly allocate the active risk we take to the opportunities we believe will provide the greatest value-add over the Reference Portfolio. This is what we aim to achieve with the risk budgeting process. We have an aggregate risk budget for the Fund which we seek to allocate across opportunities – both according to their on-average attractiveness and taking account of market cycles – to size the Fund's average use of active risk over time.

We group these opportunities under five broad 'risk baskets'. Each basket is based on our primary investment rationales of structural/diversification, market pricing, and asset selection.

In this section, we report on value-added or detracted by our value-add strategies relative to their proxy benchmark. These are grouped into the five risk baskets plus portfolio completion activity.

We expect to outperform the Reference Portfolio by 1% per year, over the long term, based on the average level of active risk we expect to take.

| Source of Value-add | 2020/21 | 2019/20 | 2018/19 | 2017/18 | 2016/17 |
|---|---|---|---|---|---|
| **ASSET SELECTION** e.g. opportunistic, spectrum, active equities.<br><br>This basket contains opportunities that take advantage of structural market inefficiency, specific manager skills or our endowments where we can access cheap assets ('one-off bargains') because of who we are as an investor.<br><br>This year, the main drivers of returns for this basket came from what we call 'opportunistic' investments (one-off investments we are able to access because of our endowments), with positive contributions from LanzaTech, Kiwibank and our waterfront land holding in East Auckland. After a year of strong performance in 2019/20, our New Zealand active equities programme detracted returns from this basket this year. | 0.06% | -0.07% | 0.25% | -0.18% | -0.05% |
| **MARKET PRICING – ARBITRAGE, CREDIT AND FUNDING** e.g. tactical credit, merger arbitrage.<br><br>Investments in this basket are mainly in the area of credit and funding that draw on the Fund's endowments, including its sovereign status and known liquidity profile. These endowments may allow us to benefit from structural features of the market. This basket holds risk in reserve and uses this 'dry powder' to dial up exposure when basket opportunities become attractive as a result of distress or dislocation in particular parts or the whole of the market.<br><br>The normalisation of credit conditions over the course of the year provided a strong boost to opportunities in this basket. In particular, our Tactical Credit Mandate, which dialled up exposure in the wake of the COVID-19 shock, closed out a number of positions at a profit. Convertible arbitrage and direct arbitrage strategies also added value as liquidity returned to the market and arbitrage spreads narrowed. | 0.63% | -0.27% | 0.10% | 0.46% | 1.20% |

102 - 15
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103 - 3
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| Source of Value-add | 2020/21 | 2019/20 | 2018/19 | 2017/18 | 2016/17 |
|---|---|---|---|---|---|
| **MARKET PRICING – BROAD MARKETS** e.g. global macro, strategic tilting, dividend derivatives.<br><br>Investments in this basket draw on the Fund's long-term horizon and ability to look through short-term market movements. This includes our in-house Strategic Tilting programme. Strategic Tilting systematically takes on risk after markets have fallen and takes risk off again after markets have recovered. The global macro opportunity is a market-neutral strategy that produces return by skilfully exploiting inefficiencies within and across a broad range of liquid markets.<br><br>It was another good year for global macro and our Strategic Tilting programme, which generated strong returns from equities, bonds and currency. These gains were partially offset by the Dividend Derivatives opportunity, which underperformed its benchmark this year due to dislocations associated with COVID-19. This opportunity has since been wound down. | 1.80% | -0.29% | 0.17% | 1.22% | 2.27% |
| **MARKET PRICING – REAL ASSETS** e.g. alternative energy, growth capital, infrastructure, real estate.<br><br>These opportunities are mainly driven by our views on the pricing of real assets in their respective markets, which includes infrastructure, real estate, energy investments and growth capital.<br><br>Our investment in View detracted the most value in this risk basket this year, with alternative energy and infrastructure investments also underperforming their benchmarks. In general, the performance of these investments tends to lag equity markets, which was the case this year with their equity-based benchmark performing well off the back of the strong turnaround in global equity markets following the COVID-19 shock of early 2020. | -0.97% | -0.94% | 0.35% | -0.52% | -0.20% |
| **STRUCTURAL** e.g. equity factors, emerging markets equity up-weight, insurance-related securities, timber.<br><br>This basket includes diversifying assets such as timber, life settlements and catastrophe bonds that are not represented in the Reference Portfolio. The basket also includes opportunities that we intend to maintain an allocation to based on our favourable views on the medium-to-longer-term opportunity drivers.<br><br>Most opportunities in the structural risk basket contributed positively to the Fund's active return. The largest contributor was the multi-factor allocation to developed market equities, one of the Fund's largest strategies by size. Another significant contributor was the rural land opportunity, as land values rose strongly on the back of confidence due to high milk prices. This was exactly offset by our timber investments, which, while they underperformed their benchmark this year, remain one of the Fund's best-performing strategies over the longer term. | 0.00% | -1.00% | -0.70% | 0.62% | 1.05% |
| **PORTFOLIO COMPLETION** e.g. rebalancing, liquidity management, currency management.<br><br>This strategy seeks to access and manage the Fund's passive exposure to equities and bonds. It does this by implementing those exposures in the most cost-effective way, rebalancing the Fund to our desired Reference Portfolio weightings, and managing the currency overlay and liquidity risk in the most efficient manner possible. | 0.36% | 0.65% | 0.66% | 0.58% | 0.27% |
| **GUARDIANS' COSTS** | -0.16% | -0.15% | -0.16% | -0.16% | -0.17% |
| **TOTAL OUTPERFORMANCE RELATIVE TO REFERENCE PORTFOLIO*** | **1.73%** | **-2.08%** | **0.67%** | **2.02%** | **4.37%** |

* Totals may not equal the sum of underlying components due to rounding.

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# Where We Invest

The NZ Super Fund is invested in a range of markets and sectors all around the world. More than 85% of the Fund is invested offshore, in both developed and emerging markets. This diversification is in keeping with the Guardians' mandate to invest the Fund on a prudent, commercial basis, and in a manner consistent with best-practice portfolio management.

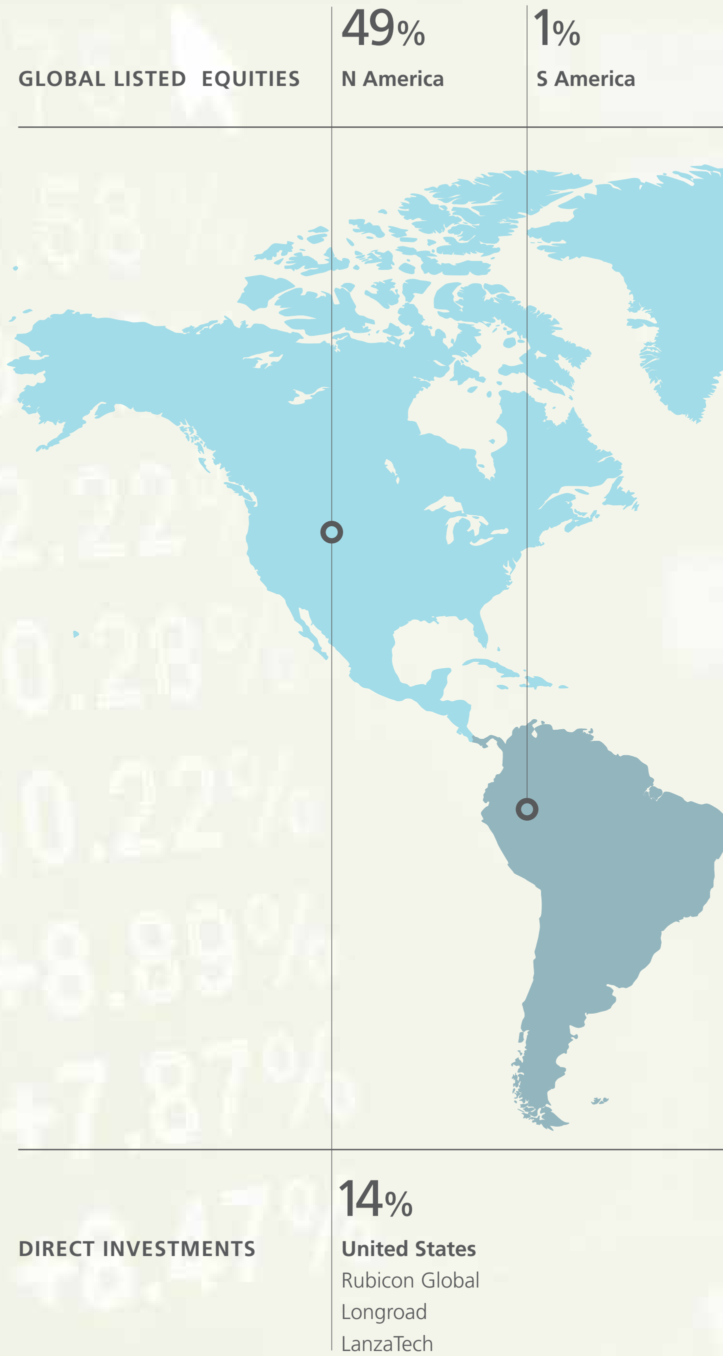
The majority of the Fund's international investments are global equities which are held passively. These holdings give us cost-effective, diversified exposure to global sharemarkets. The map to the right shows our global equity exposure.

We also highlight on the map the location of our direct investments in both our home market and in high confidence markets offshore.

| Global Listed Equities | $ Value Exposure | % |
|---|---|---|
| North America | $21.1 billion | 49% |
| Europe | $9.4 billion | 22% |
| Asia (excl. Japan) | $4.9 billion | 11% |
| Japan | $3.1 billion | 7% |
| New Zealand | $2.6 billion | 6% |
| Australia | $822 million | 2% |
| South America | $439 million | 1% |
| Middle East | $368 million | 0.9% |
| Africa | $190 million | 0.4% |

The main driver of changes to the Fund's geographic equity exposure is the relative performance of the different markets over time and, as a consequence, their weightings in international equity indices.

| Direct Investment | $ Value Exposure | % |
|---|---|---|
| New Zealand | $4.0 billion | 69% |
| Australia | $1.0 billion | 17% |
| United States | $818 million | 14% |




102 - 4
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**0.4%** Africa

**22%** Europe

**0.9%** Middle East

**11%** Asia (excl. Japan

**2%** Australia

**7%** Japan

**6%** New Zealand

**17%**

**Australia**
Horizon Roads
RetireAustralia
Palgrove
Altogether

**69%**

**New Zealand**
Hobsonville
Hotel Holdings Ltd
Asia Pacific Healthcare Group
NZ Gourmet
Fidelity Life
Kiwibank
Kaingaroa Timberlands
Rural Land
Datacom
Beachlands

# Invested in New Zealand

# Kaingākau ana ki Aotearoa

## Over time, we have grown to become one of New Zealand's largest institutional investors, and we play a significant role in its capital markets.

The Guardians' core contribution to the well-being of New Zealanders comes from fulfilling our legislative requirement to successfully invest the NZ Super Fund. At the same time, we are conscious of our responsibility as a Crown Financial Institution (CFI), and aim to play an active role in strengthening New Zealand's capital markets and institutional investment capability.

As we work to expand our presence in New Zealand, we are considering how our investment mandate can best be applied to areas of social, sustainable and infrastructure investments that may build up the New Zealand economy while furthering our long-term investment strategies. We agree that this 'confluence of interests' can see us fulfil our ultimate goal and purpose while contributing to a more productive, sustainable and inclusive economy for all New Zealanders.

### REPORT AGAINST THE DIRECTION

In 2009, we received a letter from then-Minister of Finance directing the Guardians to note that it was the Government's expectation, in relation to the Fund's performance, that opportunities which would enable the Guardians to increase the allocation of New Zealand assets in the Fund should be appropriately identified and considered by the Guardians. Importantly, the direction was not intended to be inconsistent with our duty to invest the Fund on a prudent, commercial basis.

Following this direction, we undertook a review of the domestic opportunity and saw the potential to invest further into New Zealand outside traditional listed markets. Over the past few years, we have successfully used the Fund's endowments, such as sovereign status and long-term horizon, to build up a considerable portfolio of New Zealand investments.

Although the dollar value of the Fund's investments in New Zealand has increased from $2.4 billion to $8.7 billion in the years since we received the Minister's letter, the proportion of the overall Fund that is invested in New Zealand (in value terms) has reduced from 21.3% to 16.2%. The proportional drop is primarily a result of the significant growth of our global equities portfolio. Passive global equities make up 75% of our Reference Portfolio. As our overall global equity holdings grow, it has the effect of diluting the proportion of our holdings in New Zealand. See pages 44 - 45 for a breakdown of our assets by geography.

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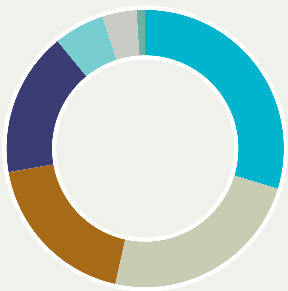
It is worth noting that when the $9.5 billion the Fund has paid in tax since inception is factored in, the Fund's significant presence in New Zealand's capital markets and economy becomes clearer still. This year, the Fund's $2.2 billion tax bill represented 15% of the total New Zealand corporate tax take.

In this section, we report against the direction and outline in detail the different ways we are invested in New Zealand.

**NZ Investments as at 30 June 2021**



## LISTED EQUITIES

Around 5% (more than $2.5 billion) of the Fund is invested in New Zealand shares. As at the end of June 2021, we had more than $100 million invested in New Zealand companies like Fisher & Paykel Healthcare, Auckland International Airport, Contact Energy, Meridian Energy, Mercury NZ, a2 Milk and Spark.

We have an in-house New Zealand listed equities team charged with actively managing a portfolio of New Zealand listed equities (shares), alongside two externally appointed local investment managers: Devon Funds Management and Mint Asset Management, and an internal passive mandate. We invest through multiple mandates given the large size of the opportunity relative to our views about single manager capacity.

In general, stock selection in efficient markets is a zero-sum game (what one investor gains, another loses, and everyone pays fees). We believe, however, that the New Zealand sharemarket has some characteristics that make it conducive to generating returns from active investment management. These characteristics give us confidence that we are well positioned to achieve active investment returns compared to other market participants with shorter time frames, greater cash flow requirements and less tolerance for volatility. Indeed, while our New Zealand active equities mandate underperformed its benchmark this year, our internal team and externally appointed managers have added significant value since inception. Our position as a local investor, large relative to the average fund, also permits us to be influential active owners and leverage our ESG beliefs. We actively engage with management and boards of the New Zealand listed companies, and are active members of the New Zealand Corporate Governance Forum.

## GROWTH CAPITAL

There is a significant pool of smaller high-growth businesses in New Zealand that we believe are constrained by a shortage of long-term funding and a lack of access to skilled investment management. In addition, as stakes in private companies can be illiquid (difficult to sell quickly) they are not suitable for all investors, but are expected to deliver a premium return over time. These dynamics create local opportunities for long-term investors like us.

Through New Zealand investment managers Direct Capital, Pioneer Capital, Movac, Pencarrow Private Equity and Waterman Capital, we have approximately $600 million invested or committed to small, high-growth New Zealand businesses. See page 49 for more information about our New Zealand growth capital mandates, including two new manager mandates appointed over the past financial year.

Our presence in the growth capital space was further cemented by the passing of the Venture Capital Fund Act in 2019, which established the Elevate NZ Venture Fund (Elevate Fund). The Elevate Fund is administered by the Guardians under a mandate that is separate from the NZ Super Fund, and managed on our behalf by New Zealand Growth Capital Partners (NZGCP). The Elevate Fund was set up to support investment in New Zealand companies that have moved beyond the start-up, or 'angel', investment phase, and need capital for the next stage of their development. On pages 68 - 71 we provide further detail on the background and progress of the Elevate Fund.

**Joe Halapua, *Manager, NZ Equities***

Joe Halapua was appointed as Manager, NZ Equities in April this year, and leads the team managing the Fund's active internal New Zealand equities portfolio.

Joining the Guardians in 2011, Joe chaired the Risk Committee between 2019 and 2021, and has worked across both the Direct Investment and External Investments & Partnerships teams, managing a portfolio of mandates and investments across public and private markets. This included serving on the board of Australian retirement village operator RetireAustralia from 2016 to 2021. Prior to joining the Guardians, Joe worked in Auckland as an Investment Banker at Goldman Sachs JBWere, where he was involved in mergers and acquisitions and capital market activity across New Zealand and Australia.

## DIRECT INVESTMENTS

Direct investment is when we purchase an equity interest in an organisation by providing our capital into the enterprise directly, i.e. there is no intermediate manager between ourselves (as owners) and the asset. In our direct investment activity, our in-house team of investment professionals focuses primarily on private market (non-listed) transactions. Because direct investment can be a complex and resource-intensive process for us, we target transactions that are large enough to represent a meaningful addition to a Fund of almost $60 billion; typically transactions of over $100 million to $200 million, where we acquire a 20% to 50% stake. Under our founding legislation we are prohibited from acquiring a controlling interest in an operating company. Therefore, we also look for high-quality, compatible co-investors to invest alongside.

Our direct investment activity in New Zealand started in 2006 when we acquired a stake in Kaingaroa Timberlands, which owns and operates the largest single plantation forest in the Southern Hemisphere. Other investments include substantial stakes in Kiwibank, Datacom, Fidelity Life and NZ Gourmet. We also own a rural portfolio of 34 farms located throughout the country. Our Direct Investments team devotes significant time and resource to developing best-in-class governance and responsible investment frameworks across all our investments. Strong and comprehensive shareholders' agreements are formulated to govern and formalise interactions and expectations between shareholders. Building and leveraging relationships is another key focus – becoming more involved and visible in the New Zealand market to increase the understanding of the Fund and to help originate transactions and build team profile.

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## CREDIT AND FUNDING

We also invest in the New Zealand market through our Tactical Credit Mandate. This is an internal investment mandate that seeks to add value to the Fund by identifying opportunities in credit and funding markets. In New Zealand, the Tactical Credit Mandate invests in public bonds and provides financing to private financing facilities secured on a range of assets.

## INFRASTRUCTURE

More recently, we have increased our direct investment focus to infrastructure and urban development projects. We see infrastructure as an attractive asset class because it tends to generate consistent returns and yields, and can also act as a diversifier in a broader portfolio. Large infrastructure projects provide an opportunity for us to invest at scale, and deliver on our directive to increase our allocation to New Zealand assets, while, at the same time, developing our country's economy and capabilities.

In New Zealand, we face a large and growing infrastructure deficit. We believe more consideration needs to be paid to alternative financing options as a way to plug the gap. For this reason, this year we spent time developing a financing model we call 'SuperBuild'.

SuperBuild is an end-to-end investment and delivery solution. Our partnership approach covers the design, financing, build and operation for transformational infrastructure and urban development projects in New Zealand, best applied to projects that need long-term vision, scale and innovation. Under this model, once an infrastructure need is identified the Guardians and our partners then jointly agree the outcomes with key stakeholders. We then manage the project from start to finish, with collaboration from relevant government agencies, leading to faster delivery.

**Josie McVitty, *Senior Advisor, Infrastructure***

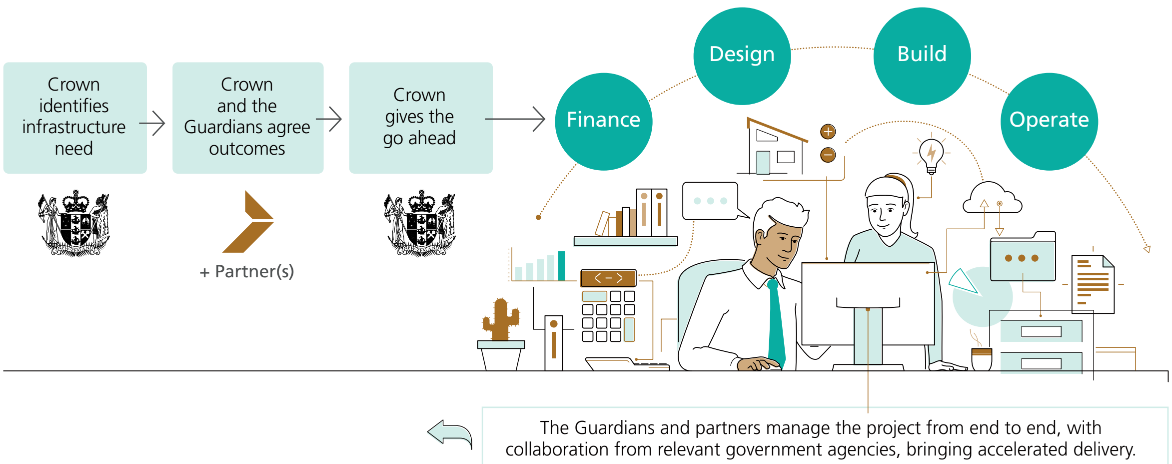
Josie McVitty has been appointed to the Direct Investments team as a Senior Advisor, Infrastructure. Since joining in March this year, Josie has led the strategic review of our infrastructure strategy, and will provide expert capability with respect to the sourcing and management of infrastructure opportunities as we seek to scale up our exposure to this asset class.

Originally from the Manawatū, Josie previously worked as Strategy Manager with Actis, an emerging market real asset investor. Prior to that, she worked with IHS Investments in South Africa and the World Bank in Indonesia, where she focused on urban infrastructure policy and investments.

A Fulbright scholar, Josie is a graduate of Harvard, Darmstadt and Auckland universities.

## CONCLUSION

The Fund will continue to grow in size in future decades, and as it does we expect that our local presence will extend even further. We will continue to work to find world-class investment opportunities in New Zealand across the board that will help us to deliver on our long-term mandate and satisfy our ministerial direction.

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# Here we provide an overview of our investment transactions over the past financial year.

## ASIA PACIFIC HEALTHCARE GROUP INVESTMENT

Asia Pacific Healthcare Group (APHG) is New Zealand's largest provider of laboratory testing services. In November 2020, the Fund, together with Canadian investor Ontario Teachers' Pension Plan (Ontario Teachers'), purchased APHG from the Australian healthcare provider Healthscope. Later, Māori direct investment fund Te Pūia Tāpapa took a 4% stake in the company, leaving the Fund and Ontario Teachers with a 48% share each. APHG services 13 District Health Boards in New Zealand, reaching 75% of New Zealand's population, and has more than 2,000 staff operating across its network of 25 laboratories and 150 collection centres.

Better known in the Auckland region as 'Labtests', APHG operates under nine brands, recognised locally in each of the regions it services. The company has been conducting around 40% of all COVID-19 testing in New Zealand, the largest of any single service provider. It is also a leading provider of veterinary pathology services in New Zealand, with a growing presence in the analytical testing sector. Our investment in APHG provides the Fund with further exposure to the healthcare sector alongside trusted partners with similar investment philosophies. Together with our partners, we intend to apply our investment and governance expertise to help support APHG's next stage of growth.

## HOTEL PORTFOLIO GROWS

Over the past year, the Fund and its partners Russell Property Group and Lockwood Property have added to our portfolio of hotels, purchasing the Sofitel Queenstown Hotel & Spa. The acquisition reflects our confidence in the long-term future of New Zealand's tourism industry despite the short-term difficulties arising from the COVID-19 pandemic.

In the short-to-medium term, mitigants such as increased domestic tourism and demand for managed isolation facilities have seen occupancy rates supported in the sector, though they remain below historical levels. One hotel is currently contracted for use as a managed isolation facility. Existing hotels under ownership include the Four Points by Sheraton Auckland, Adina Auckland Britomart, Holiday Inn Rotorua and the BreakFree Hotel in Christchurch. We continue to look at further opportunities in this sector.

We have added to our hotel portfolio with the purchase of the 5-star Sofitel Queenstown.

## RURAL LAND STRATEGY REVIEW

This year we completed an internal review of the Fund's rural land strategy. Rural land holdings provide prospects for an attractive source of active returns and represent a good source of diversification; this means its performance drivers have low correlation with the rest of our portfolio. Since the purchase of the first farm in 2011, the Fund's now $700 million rural portfolio has grown to include 41 properties across 33.1k hectares of land in New Zealand and Australia. Domestically, the Fund's rural investments are managed on our behalf by farm managers FarmRight.

Over the past few years, we have sought to diversify our rural holdings away from an initial focus on New Zealand dairy and into international and permanent horticulture investments. Sustainability will play a crucial role in shaping the future of our rural land strategy, and we are committed to investing in the technologies and capabilities needed to maintain and evolve our sustainable farming practices. During the year, we purchased six properties in New Zealand including vineyards, a hop garden, a beef farm and dairy farms.

Over the past year we purchased four vineyard properties from Yealands Wine Group in Marlborough, New Zealand.

## GROWTH CAPITAL FUNDS

The NZ Super Fund has approximately $600 million invested in or committed to New Zealand growth capital companies via third-party fund managers. Growth capital companies are small, fast-growing private companies with proven products and established business models that would benefit from additional capital or a refreshed strategy to accelerate their growth. Domestically, we have been investing in this sector since 2005, with previous investments delivering strong returns above our passive benchmark, averaging at over 10% per annum.

We choose to invest in this opportunity via third-party investment managers for efficiency reasons, because the size of the individual investments is significantly below where we target our in-house direct investment activity. This year, we invested in two local growth capital funds:

- We committed $70 million to Movac's Fund 5. This fund will invest primarily in venture and growth companies, with

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## INVESTMENT ACTIVITY REPORT

a focus on technology start-ups. Its design allows it to support early-stage companies as they grow, with available capital for later funding rounds, as well as investing in later-stage companies. Fund 5 is our second investment with Movac, following an investment in Movac's fourth fund in 2016. Movac Fund 5 investments to date include Dawn Aerospace, Tradify, Myia Health, Mint Innovation, Portainer, Solve, Yabble and Open.

- We committed $100 million to Pioneer Capital's fourth fund, Pioneer Capital Partners IV. This fund will invest in eight individual companies that are seeking international growth in high-margin sectors. We also invested in Pioneer's second and third funds in 2013 and 2017 respectively.

### TR GROUP CO-INVESTMENT

TR Group is New Zealand's largest heavy vehicle rental and lease company, serving over 1,300 customers with a fleet of more than 6,500 vehicles. In July 2020 the Fund, Direct Capital and Te Pūia Tāpapa acquired a 31% share in the business, joining the founders, Managing Director Andrew Carpenter and the Carpenter family, as shareholders. The investment is intended to support TR Group's continued growth in New Zealand and Australia. The Fund's investment in TR Group will be managed by Direct Capital.

### FIDELITY LIFE ACQUISITION

The Fund owns a 41% stake in Fidelity Life, New Zealand's largest locally owned and operated life insurer. This year, the Fund supported Fidelity Life in its proposed $400 million acquisition of Westpac's New Zealand life insurance business, Westpac Life NZ. As part of the transaction the Fund will also welcome Ngāi Tahu Holdings as a fellow major shareholder in Fidelity Life.

The acquisition and associated strategic alliance with Westpac NZ is aligned to Fidelity Life's long-term strategy. It is also consistent with our original intention as investors to help Fidelity Life develop a multi-channel distribution model and seek additional scale through industry consolidation. We expect the transaction to further leverage the significant investment that Fidelity Life is making into its new technology platform. This transaction is subject to approval from the Reserve Bank of New Zealand and other Fidelity Life shareholders and, once completed, will lift the Fund's stake in Fidelity Life to 46%.

View's dynamic glass installed in the CenturyLink Technology Center, Monroe, Los Angeles.

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### REAL ESTATE STRATEGY REVIEW

Over the past year we completed a review of our approach to real estate and established a global investment strategy for this asset class. The strategy is focused on living, logistics and technology-oriented real estate in sustainable cities with attractive market fundamentals.

The Investments team has started to execute this strategy, with two new real estate investments closing before year-end. We committed EUR150 million to a European real estate fund with Deutsche Finance International (DFI). DFI is a pan-European private equity real estate firm headquartered in London. The fund will invest in value-add real estate in Western European cities. The portfolio is expected to comprise a mix of living (including residential build-to-rent, student housing), future workspace (including life sciences, mixed use, office) and lifestyle (including hospitality) assets.

We committed US$150 million to the latest fund in CBRE Global Investors' Asia Value Partners fund series. CBRE is a large real asset investment manager with offices around the world, including a large APAC presence. Asia Value Partners Fund VI will invest with a focus on logistics property developments positioned to benefit from long-term structural trends across Japan, South Korea and China.

**Toby Selman, *Senior Advisor, Real Estate***

Toby Selman was appointed to the role of Senior Advisor, Real Estate with the External Investments and Partnerships team in November last year. He has worked across the Guardians to establish a global real estate investment strategy, create deeper market relationships globally and lead in the identification, acquisition, management and exit of our real estate investments.

Toby started his career as a Royal Marines officer before moving into real estate investment banking with Barclays in Paris and National Australia Bank in London. He was a member of the founding management team of Raven Russia, a UK logistics property company that developed modern logistics properties across Russia, listing on the London Stock Exchange in 2010. His last role was Chief Operating Officer of Delin Property, one of the largest developers and investors in logistics real estate in Europe. In 2017 he founded Africa Logistics Properties (ALP), developing the first modern logistics and distribution facilities across East Africa with western institutional investors.

Toby has a BSc (Hons) in Geography from Loughborough University and is a member of the Royal Institute of Chartered Surveyors.

## VIEW, INC. PUBLIC LISTING

View, Inc is a California-based dynamic glass manufacturing company which makes smart windows that automatically adjust in response to the sun to increase natural light and access views, to improve people's health and wellness by reducing headaches, eyestrain and drowsiness, while saving energy. View serves diverse real estate segments and has been designed into seven million square metres of buildings across the world, including corporate offices, hospitals, airports, educational institutions, multi-unit dwellings and hotels. Its products reduce the requirement for artificial lighting, heating, ventilation and air conditioning consumption by up to 20%, helping to reduce greenhouse gas emissions and improve indoor environments. In March 2021 View became a publicly-listed company, listing on the Nasdaq Stock Exchange. The listing followed finalisation of a merger agreement with CF Finance Acquisition Corp. II, a special purpose acquisition company (SPAC). The Fund first invested US$75 million in View in 2015. We now own approximately 13% of the listed stock on the public shareholder register, alongside Madrone Capital, SoftBank and GIC. View's listing is an important achievement in the company's history. Following the listing, View has been focused on rolling out its new smart building products, expanding its sales and marketing team and customer support capabilities, and strengthening its manufacturing capacity.

The Fund's other directly-managed growth capital investments include carbon recycling company LanzaTech (see below) and waste management technology company Rubicon Global. The Fund is also a significant investor in Longroad, an alternative energy platform in the United States. This investment is managed by Morrison & Co. As a long-term, diversified investment fund with certain liquidity, we are able to manage investment risk at a portfolio level and are in a good position to take on a small number of higher-risk investments such as these.

## NEW TACTICAL CREDIT OPPORTUNITY

We have implemented a new internally-managed credit mandate. The Tactical Credit Mandate replaces an internally managed mandate that had been in operation for over 10 years, earning a value-add return of around $1 billion during that time. The new mandate rests on the same endowments (sovereign status and certainty of liquidity) and has been expanded to be more scalable given the expected growth in the Fund over time.

## UBS PASSIVE MANAGER APPOINTMENT

UBS Asset Management was appointed to manage two of our passive equity mandates; the customised MSCI large cap equity index and the Robeco-derived multifactor equity index. UBS Asset Management's objective is to manage the portfolio to closely replicate the MSCI and Robeco indices provided in terms of underlying portfolio and performance return. The combined size of these two equity mandates is approximately $4.9 billion and is expected to grow over time.

## SPECTRUM OPPORTUNITY

Spectrum refers to the radio waves that wireless signals travel over. In the United States, radio waves are regulated, with regulators selling licences for distinct parts (bandwidths) of the spectrum to bidders via an auction. Different frequencies have different uses, and different economic value as a result. An important use is communication and digital content services, with mobile communications operators requiring access to spectrum to deploy their technologies, with a particular near-term focus on rolling out 5G capability. Given the specialist nature of this field and the associated complexities of the auction processes, we have appointed two specialist investment managers, Grain Management and Columbia Capital, to participate in auctions to acquire spectrum via pooled investment vehicles on our behalf at competitive rates. Managers target acquiring spectrum licences in the regional markets where the telecommunication operators lack network capacity and then hold the licences until such time as the operators need to buy them to meet customer demand. In the meantime, the managers may lease network capacity to the mobile communications operators to enhance investment returns.

The Fund is a cornerstone investor in New Zealand-founded carbon recycling company LanzaTech.

## LANZATECH UPDATE

The Fund first invested in LanzaTech, a New Zealand-founded carbon recycling company, in 2014. LanzaTech, now headquartered in the United States, uses anaerobic bacteria to convert carbon-rich waste gases into high-value fuels and chemicals through a process of gas fermentation. These gases include emissions from heavy industry, gasified agricultural residues and gasified unsorted, unrecyclable municipal solid waste that would otherwise be landfilled or incinerated. These recycled carbon products can be used in a number of applications to create sustainable and commercially viable fuels, including aviation fuel, or a variety of chemicals that can be converted to everyday products (rubber, synthetic fibres, packaging) that would otherwise be made from fresh fossil resources. Importantly, by using waste products as an input, the process does not compete with land, food or water, providing a wholly sustainable alternative energy solution. Over the past financial year, LanzaTech has made significant progress:

- LanzaTech-founded LanzaJet, a leading sustainable fuels technology company and sustainable fuels producer, received backing from British Airways and Shell.
- Mibelle Group launched a new range of cleaning products containing LanzaTech ethanol made from recycled carbon emissions at Migros, Switzerland's largest retail company.
- LanzaTech, Total, and L'Oréal premiered the world's first sustainable packaging made from recycled carbon emissions, using polyethylene produced from LanzaTech's ethanol.
- LanzaTech partnered with athletic apparel company lululemon to create the world's first yarn and fabric made from recycled carbon emissions.

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# Q&A: External Investments and Partnerships

## A significant proportion of the Fund, approximately $15 billion, is invested actively by external fund managers. These managers have discretion to make investment decisions on our behalf.

**DEL HART**
HEAD OF EXTERNAL INVESTMENTS AND PARTNERSHIPS

**Selecting managers and monitoring their performance is a very important part of our work. This is the role of the External Investments and Partnerships (EIP) team of 12 investment professionals, led by Del Hart.**

Del, a graduate of the University of Waikato, joined the Guardians in 2010 in the then Unlisted Mandates team. Her previous experience was in a risk management role with Pictet Asset Management in London and Russell Investments in Auckland. She moved to EIP in a Portfolio Manager role in 2016 before taking over the Head role in late 2017.

In this Q&A, Del talks about what her role entails and what we look for in our relationships with external managers.

***Why does it make sense for the Guardians to use external managers?***

We're based in one office here in Auckland, New Zealand, but to fulfil our mandate we invest globally. Over the years, we've built up a great deal of internal capability, but accessing the opportunities we want means looking beyond our team. This is where external managers come in. They give us cost-effective access to specialised skills, markets and opportunities. A specific example – we've recently invested in a European renewable development platform that requires specialist knowledge and relationships on the ground, it's not realistic for us to do this from New Zealand.

***What do we value in our manager relationships?***

Before we appoint a manager we'll carry out an in-depth assessment of their capability. We use a 'conviction' framework to help us assess managers – both through the selection process and over the lifetime of our relationship with them.

The framework sets out eight factors covering everything from a manager's viability, their structure and focus, through to team capability and risk management processes. Alignment is extremely important, as is trust and transparency. We think about the breadth of their capability as well as their willingness to engage and share their knowledge with us. Performance is just one of those eight factors, so a manager's track record is not the only thing we look at – it's a much more holistic approach.

Ultimately, we're looking for managers that we can form a partnership with. We are very targeted in the way we select our managers, and once we appoint them we want to take the time to develop strong relationships with them so that there's value there on both sides of the exchange.

***How do you assess your managers on their ESG practices?***

ESG capability is central to our conviction framework. We look at things like whether ESG factors come into their investment decision-making process, if they have an ESG policy, whether they have a designated person responsible for ESG, if they're a signatory to the UNPRI. We also ask the manager to give us specific examples of how they've integrated ESG both pre-investment and post investment.

***Do you consider diversity when appointing new managers?***

Yes – it's part of our due diligence process. We believe diverse teams are beneficial to investment decision-making and outcomes. When managers tell us they have diversity in their non-investment side and they feel that's sufficient – I don't agree with that. In certain sectors, like real estate for example, managers tell us it's hard but they're working on it. After appointment, we will engage with our managers to find out what their plan is in terms of trying to build up a more diverse team. We are seeing progress: when I first started with the Guardians I was often the only woman in the room, and that's different now. So I think we're seeing some great examples of progress, particularly with our managers here in New Zealand.

***What lessons did you take from running your manager selection and due diligence processes remotely during the pandemic?***

We've certainly learnt a lot over the past 15 months. Overall, we've found the evaluation process easier when appointing larger, more established managers. It's easier to get reference calls and talk to our peers where they've worked with the same manager, and it's easier to get advisors to help us with the assessment.

Where it's more challenging is for newer, smaller managers, though this hasn't stopped us from pursuing such appointments. We've had to take a different approach and innovate in our due diligence processes – we've had more extensive conversations with more members of a manager's team than undertaken previously. We've tapped into different kinds of information sources, like service providers, or past employees. We have also conducted deeper third-party background checks.

For us, part of the assessment is how the manager responds to the back and forth as well, because in reality our partnership is going to be run remotely for the foreseeable future; so we need to know that they're going to be able to accommodate our needs.

***What do we bring to our manager relationships?***

We appointed a US-based manager a number of years ago, and we had certain ESG reporting requirements that I think it's fair to say they found quite frustrating at the time. This manager came back to us a year or so later and thanked us, because they had since carried out the same approach with a number of other funds and received a lot of great investor feedback. So we know sometimes we may be demanding in terms of what we require, but most of the time our managers appreciate it and understand that it's a process we go through and which they can learn from.

Some managers have told us they value the broader engagement and dialogue they have with our wider team. Outside of the Portfolio Manager from the EIP team, they're also talking to the asset allocation and economics teams, or our Chief Investment Officer, and they value those interactions. As a New Zealand sovereign wealth fund, we're of interest to some asset managers as well because we're a diversifier for their investor base and a source of long-term capital.

***How do you keep abreast of investment trends from the other side of the world?***

Because we are located so far away and we're not meeting with our managers in person as frequently, it's a matter of being disciplined in our contact and making sure we're extracting as much value as we can from those interactions.

In terms of staying up to date with what's going on, I believe it's about focus. There is so much information out there and it's impossible to keep up with everything. You have to try to discern what's relevant in order to be targeted in terms of taking on commitments and talking to people to help inform your ideas. We're lucky at the Guardians in that, over time, we've built up very strong relationships with peer funds that are aligned with our investment approach and willing to share ideas – and that's been really valuable.

***What has changed in your job over the past five years, and how do you see things changing over the next five?***

What really stands out for me is the pace of change in responsible investment and sustainable finance. Going back as recently as a few years ago, it was sometimes quite hard to get a conversation going with a manager on the subject of ESG because many of them didn't have a policy in place or a focus on it. Now, very few managers aren't paying attention to it. They know there's a lot of investor demand. I believe in the next five years that's going to accelerate further – there's much more focus on the sustainable development goals and positive investment, as well as broader environmental and social influences.

***What will you be focusing on next?***

Historically we've been under-invested in infrastructure and real estate, relative to where we would like to be. We're looking to increase our exposures to these asset classes over the next few years and have brought world-class experts into the team to help achieve this.

We're also focused on improving the ESG characteristics of the investments we hold already, and increasing the number of positive investments in the Fund. This is where we seek additional, desirable, intentional social or environmental outcomes from our investments besides the required financial returns. These priorities have come out of the responsible investment strategy refresh we completed this year.

Under our climate change investment strategy, we're also continuing to search for investments that will benefit from, and help us play a part in, the global transition to a net zero economy. This has involved assigning dedicated resource to make sure we've got sufficient focus on making it happen.

***Do you have any advice for young people entering the investment management industry?***

My first piece of advice is to take the time to understand what drives you. For me it's positive investment: looking for those environmental and social outcomes as well as attractive financial returns. I would advise young people to take risks and jump at opportunities that come their way, even if that means a lateral move in their career, because of the benefit of broadening their experience. There's much to be said for different kinds of experiences and backgrounds and what that can offer in the investment world. There's a lot of research out there suggesting that there are better investment outcomes with diversity of cognitive thinking. Lastly, above all else, be authentic.

# Given the NZ Super Fund's long-term investment horizon and purpose, we have a strategy that aims to improve the resilience of our portfolio to climate risk over the long term.

**Since we developed our climate change investment strategy in 2016, the Taskforce for Climate-related Financial Disclosures (TCFD) has released a set of recommendations on financial disclosures. We have mapped our strategy against the TCFD recommendations in a separate report. This section provides a summary of the disclosures contained in our 2021 TCFD report.**

The TCFD was created by the Financial Stability Board to help identify the information needed by investors, lenders and insurance underwriters to appropriately assess and price climate-related risks and opportunities. In its final report released in 2017, the TCFD defined four core elements of recommended financial disclosures: governance; strategy; risk management; and metrics and targets.

## GOVERNANCE

The Guardians' Board is responsible for setting the Fund's investment risk appetite through their decision on the composition of the Reference Portfolio. In 2017, the Board agreed to change the composition of the Reference Portfolio to significantly reduce the Fund's carbon footprint and address climate change investment risk. The Board delegates responsibility for managing climate change risk to the Leadership Team by including climate change priorities in our investment and organisational strategies.

Matt Whineray, our Chief Executive Officer, is responsible for executing our overall strategy. Stephen Gilmore, our Chief Investment Officer, is responsible for the Fund's climate change investment strategy, with both Stephen and our Head of Responsible Investment, Anne-Maree O'Connor, charged with overseeing its implementation and acting as project sponsors.

Different elements of the strategy are integrated into the objectives of relevant members of the Investments team, with the Heads of each team responsible for ensuring delivery. We ensure that everyone has the tools they need to deliver on our climate change objectives by running regular education sessions and induction processes.

## STRATEGY

Given the significant impact of climate change, we have long considered how to take this issue into account in our investment approach. Our climate change investment strategy seeks to express these views through the various ways we implement our investment strategies.

See the table below for an overview of our key achievements against each of our strategy's four work streams over the past financial year.

| Our strategy has four elements: | Key Achievements 2020/21: |
|---|---|
| **REDUCE**<br>**Reduce** decreases the transition risk of the portfolio. We do this by:<br>• measuring our carbon footprint;<br>• setting a target to reduce our portfolio's emissions intensity and our holdings of potential emissions from reserves; and<br>• applying a bespoke carbon methodology to our equity portfolio and our benchmark. | • Continued to reduce the carbon intensity and carbon reserves of our portfolio.<br>• Connected our investee companies with a carbon footprint consultant and saw a significant increase in the number of investee companies reporting their carbon footprints. The remaining assets are working towards reporting their footprints by next year.<br>• Working with our assets to develop emissions reduction strategies. |
| **ANALYSE**<br>**Analyse** integrates climate change considerations into our assessment of potential new investments and the review of our existing holdings. We do this by building climate change scenarios into our valuation framework. | • Research paper completed reviewing the current evidence for carbon mispricing and the implications.<br>• Updated the Fund's climate change scenarios first developed in 2018.<br>• Assessment undertaken of the global carbon market, covering: market mechanics, areas of possible market inefficiencies, views on carbon trajectory and potential for specific investment opportunities and/or strategies.<br>• Continued to improve integration of climate change considerations in our valuation analysis. |

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| Our strategy has four elements: | Key Achievements 2020/21: |
|---|---|
| **ENGAGE**<br>**Engage** influences the companies we own to continuously mitigate and improve resilience to climate-related risks. We do this by being an active owner, including prioritising engagement and voting in accordance with our climate change views. | • Participated in the net-zero asset allocation for asset owners work stream as part of the Sustainable Markets Initiative. This involved devising a road map for asset owners to finance the transition to net-zero in line with the Conference of the Parties (COP) process.<br>• Continued support of the Climate Action 100+, The Transition Pathway Initiative, One Planet Sovereign Wealth Funds working group and the New Zealand Sustainable Finance Forum.<br>• Organised a workshop looking at how sustainability will shape the future of farming, with our rural manager, FarmRight. Actively working to maximise the sustainability outcomes delivered by our rural portfolio. |
| **SEARCH**<br>**Search** focuses on finding companies that will thrive during the low-carbon transition. We do this by actively searching for new opportunities in areas such as alternative energy, energy efficiency and transformational infrastructure. | • Initiated a refresh of the Search strategy to identify new opportunities and revisit opportunities which were previously declined because there was insufficient evidence to establish the attractiveness of the opportunity.<br>• Started a review of the scope of our alternative energy opportunity and considered broadening it.<br>• Ongoing engagement with advisors to identify the barriers to making climate-related investments within existing opportunities. We are in the process of developing possible strategies for improving access to climate change-related transactions. |

## RISK MANAGEMENT

As investors, risk management is a fundamental part of each of the work streams that make up our climate change investment strategy. We seek to address this risk through the analyse work stream of our strategy and by factoring in ESG considerations when making allocation decisions. We also carry out responsible investment due diligence as part of the operational risk assessment process that we undertake before we make an investment or appoint an external investment manager. As part of the review of our responsible investment strategy we carried out this year, we considered how we might further build ESG-related considerations, including climate change, into our asset allocation decisions at the opportunity and access point levels to support our sustainable finance goals. This will be factored into the forthcoming review of our risk budgeting process, scheduled for completion in the next financial year.

**47.1%**

**REDUCTION IN THE FUND'S CARBON EMISSIONS INTENSITY, COMPARED TO BASELINE LEVEL**

**93.6%**

**REDUCTION IN OWNERSHIP OF FOSSIL FUEL RESERVES, COMPARED TO BASELINE LEVEL**

## METRICS & TARGETS

We aim to lower the entire Fund's exposure to investments that are most at risk from climate change policy to mitigate the risks associated with the transition to a low-carbon world. We do this by removing from our portfolio those investments with the highest emissions intensity and potential emissions from reserves.

Our Board controls the degree of risk mitigated by setting a Fund-wide emissions intensity target and a target for potential emissions from reserves, which are:

- to reduce the emissions intensity of the Fund by at least 40%; and
- to reduce the carbon reserves of the Fund by at least 80%.

Both targets are relative to our Reference Portfolio, and are to be achieved by 2025.

We use carbon footprinting to measure the carbon exposure of the Fund and track progress towards these carbon reduction targets. Our 2021 carbon footprint assessment reported that the total Fund's carbon emissions intensity is 47.1% lower than our baseline level, and its exposure to potential emissions from reserves is 93.6% lower. KPMG provided a limited assurance of these measurements.

Our aim is for this carbon footprint to cover the whole Fund. In calculating the carbon footprint, however, we do not currently consider bonds, positions which are market neutral over the long-term, or investments which have no clear carbon footprint such as life settlements, natural catastrophe insurance, and spectrum. We recognise that best practice continues to evolve. We have started to review our approach to carbon foot-printing and are considering extending our footprint to include some of our other investments as carbon accounting methodologies improve.

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**RESPONSIBLE INVESTMENT REPORT**

# We see responsible investing as fundamental to long-term returns, key to managing risk in the portfolio and integral to delivering on our mandate.

**A key project for the Guardians over the past year has been the review of our responsible investment strategy. This report summarises the key findings from the review and provides an overview of our responsible investment activities during the year.**

## RESPONSIBLE INVESTMENT STRATEGY REVIEW

A cross-team effort: Guardians' team members involved in the review of our responsible investment strategy.
Standing (L - R): Catherine Etheredge, Alice Mew, Tim Koller, Jo Pearce, Anne-Maree O'Connor, Stephen Gilmore, Adrien Hunter, Anne Boniface, Lucas Kengmana, Karren Beanland.
Seated (L - R): Conor Roberts, Rishab Sethi, Arti Prasad, Christopher Worthington, Katie Beith, Pablo Sosa.
Absent: Greg Munford.

Over the past year we completed the first phase of the review of our responsible investment strategy: 'Resetting the Responsible Investment Compass'. This first phase was about establishing the direction of travel and overall goal.

Our current responsible investment approach is based on the integration of ESG considerations into investment decision-making. It is principle based and grounded in industry best practice. The approach has been thoroughly tested, and has worked well. In some areas, as with our climate change investment strategy and social media collaborative engagement initiative, we are regarded as a global leader.

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We undertook the review because the responsible investment industry and best practice are evolving at a rapid pace. The expectations of our stakeholders are changing, with increased media and public attention on ESG issues. In 2019, an independent review of the Guardians and NZ Super Fund carried out by advisory firm Willis Towers Watson (WTW) rated our responsible investment performance highly. However, WTW observed that our Board and management needed to undertake deeper thinking and analysis on developments in responsible investment, and in particular sustainability and long-term portfolio themes, to prepare for the future.

The goal of the review was to develop a responsible investment strategy that was fit for the future, feasible to implement, and oriented to maintaining our social licence to operate over the medium to long term. The proposed strategy was reviewed and approved by the Board in June 2021.

The review was set within the context of our statutory obligations under our governing legislation. The legislated purpose of the Fund is to help provide for the future cost of superannuation. The Guardians is tasked with investing the Fund on a prudent, commercial basis and, in doing so, managing and administering the Fund 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. The review sought to take a holistic approach to the mandate and to ensure that all requirements set out in our mandate were considered. It had three work streams, centred on: 1) emerging best practice trends and stakeholder expectations; 2) improving ESG performance; and 3) positive investment.

**Stakeholder Expectations and Emerging Best Practice Trends**

The objective of this work stream was to identify what we expected to be the most significant trends in ESG looking ahead to 2030, as these trends drive changes in responsible investment practice. The work stream also considered how both external domestic stakeholders and international peer investors and experts see our future social licence to operate changing over time.

The main theme that emerged concerned the evolution and global uptake of sustainable finance. Sustainable finance is the role the finance sector plays in achieving sustainable development. Sustainable development aims to manage environmental and social resources to meet the needs of the present generation without compromising the ability of future generations to meet their needs. It is clear that best practice is moving from a responsible investment-based approach to one centred on sustainable finance. Where the focus of responsible investment is the management of ESG risks *on* our investments, sustainable finance involves consideration of the *impact of* our investments on the environment and society. Through sustainable finance, the finance sector is becoming an important part of the global effort to transition towards a low-carbon and sustainable economy. As part of this trend, it is clear that investors will be expected to report on how they are addressing sustainability in their investment strategy.

> "Sustainable finance is the role the finance sector plays in achieving sustainable development. Sustainable development aims to manage environmental and social resources to meet the needs of the present generation without compromising the ability of future generations to meet their needs."

**Improving ESG Performance**

To gain broad, diversified exposure to financial markets, the Fund's passive global equities portfolio (the Reference Portfolio) is implemented via benchmark indices assigned to each of its constituent asset classes (global equities, New Zealand equities, fixed income). These indices include thousands of companies, making it challenging to monitor the ESG issues of all the companies in our portfolio.

ESG performance ratings of the companies included in passive equity indices are tracked and measured by providers of those indices. As sustainable investing has gathered pace, the types of ESG data and its availability have grown very rapidly. These ratings cover a company's policies and targets, as well as quantitative metrics about a company's performance, such as on water use efficiency or board diversity among many others. Many of these data points are provided directly by companies, but some are calculated or inferred independently by data providers.

The objective of this work stream was to form an enterprise-wide view of the portfolio implications of improving the ESG performance ratings of the companies in our portfolio without sacrificing diversification and therefore harming returns, and the various methods we could employ to measure and achieve this. As we move to the next phase and begin to implement our revised strategy, we will drill into the technical detail of the different options to assess their effectiveness and deepen our knowledge of emerging ESG tools, data and metrics. Providing the thesis holds, we plan to build a sound investment-based methodology to lift ESG performance across our passive global equities portfolio.

**Positive Investment**

Despite a long-term directional lead towards positive investment in our existing Responsible Investment Framework, the number and value of positive investments in our portfolio remain low. Key considerations in this work stream concerned the definition of positive investment, consistency with our mandate, the scalability of these investments, and the measurement of impact. The conclusion of the work stream was that best practice for institutional investors now incorporates an allocation towards investments that deliver positive social and environmental outcomes, including climate solutions.

As an intergenerational investor, we are able to be patient with our capital; this means we can wait for returns, but we cannot trade off returns for a social or environmental impact. Therefore, our definition of positive investments is those investments made with the intention of attaining both measurable positive benefits to society and/or the environment while meeting our required financial returns. This definition means there must be an intention to make a positive impact when the investment is made, there must be metrics agreed in the investment decision-making process, and the impact must continue to be measured. In the year ahead, we aim to develop a plan to increase our positive investment activity through developing our expertise and resources, addressing barriers to investment, signalling our intentions to market participants and, ultimately, scaling up the positive investments in our portfolio.

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**Towards Sustainable Finance**

In considering the review's findings, the Guardians' Board supported a shift from responsible investment to sustainable finance, recognising this as the global direction of travel and emerging best practice in portfolio management. The Guardians' long-term, intergenerational purpose will be affected by the success or failure of the world meeting its sustainable development goals.

Although there is much more detailed work to be done, in broad terms we intend to incorporate sustainable finance into our investment practices over time by:

1. Supporting the development of a sustainable financial system;
2. Integrating ESG considerations into investment decisions, with the intention of advancing sustainability outcomes while fulfilling our financial purpose; and
3. Considering the impact of ESG on our investments *and* the impact of our investments on society and the environment.

The next phase of the project will be to finalise our sustainable finance strategy, and integrate sustainable finance into the Statement of Investment Policies, Standards and Procedures (SIPSP) for both the NZ Super Fund and the Elevate Fund.

The Sustainable Finance Forum (New Zealand's multi-stakeholder initiative) delivered its final road map for action in November 2020. We have adopted the overall framing of action required as the foundation of our own sustainable finance strategy. We were a founding member of Toitū Tahua, the Centre for Sustainable Finance, launched in July 2021 to implement the work of the Sustainable Finance Forum.

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# Report against the United Nations-backed Principles for Responsible Investment (PRI)

The PRI is a global network of international investors that seeks to implement six principles that drive responsible investment practices. The PRI is the globally accepted benchmark for how institutional investors should manage ESG issues.

In 2016, the PRI launched a Blueprint for Responsible Investment, a vision for how the network and the wider responsible investment community should progress over the ensuing 10 years. The Blueprint aims to create a more sustainable global financial system with more prosperous and inclusive societies for current and future generations. This Blueprint, together with the PRI's new three-year strategy (2021-2024), was a key consideration in the review of our responsible investment strategy.

## PRI BENCHMARKING REPORT

The PRI's main accountability mechanism is an annual reporting and assessment process. Reporting is mandatory for all asset owners such as the Guardians. This year, the PRI shifted its focus to supporting investors to evolve from adopting a purely risk and return-based strategy to one that encompasses their role in driving real-world sustainability outcomes. The annual PRI assessment was restructured to reflect this, with signatories required to report on the sustainability outcomes of their investment strategies over time. We intend to improve our capability in this area as we begin implementation of our new sustainable finance strategy.

The restructure of the PRI annual assessment was a significant undertaking and the new system piloted this year remains a work in progress. Therefore, the PRI has indicated that the final assessment scores for 2021 will not be released until midway through 2022. We will report publicly on our performance on our website when the results become available. Below we show the four-year history of how we have performed in the PRI's annual benchmarking process against a 2020 global median.

## HISTORIC PERFORMANCE

| Module | 2020 | 2019 | 2018 | 2017 | Global Median |
|---|---|---|---|---|---|
| **Strategy & Governance** | A+ | A+ | A+ | A+ | A |
| **Manager Selection, Appointment & Monitoring (SAM)** | | | | | |
| – Listed Equity | A+ | A+ | A | A+ | A |
| – Fixed Income (SSA) | A | A | A | A | B |
| – Fixed Income (Corporate Financial) | A | A | A | N/R | A |
| – Fixed Income (Corporate Non-Financial) | A | A | A | A | A |
| – Fixed Income (Securitised) | A | A | A | A | A |
| – Private Equity | A+ | A+ | N/R | N/R | A |
| – Property | A+ | A+ | N/R | N/R | A |
| – Infrastructure | A+ | A+ | N/R | N/R | A |
| **Direct Listed Equity – Incorporation** | A | A | A | A+ | A |
| **Listed Equity – Active Ownership** | A | A | A | A | B |

N/R = not reported

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## RESPONSIBLE INVESTMENT REPORT (CONTINUED)

### THE SIX PRINCIPLES OF RESPONSIBLE INVESTMENT

# 01.

### INTEGRATION

**We will incorporate ESG issues into investment analysis and decision-making processes.**

Consideration of ESG issues is integrated into our investment approach. We incorporate ESG into our analysis of investment opportunities, before we consider how we might gain exposure to different markets and asset classes. We update specific ESG guidelines for different investment opportunities as standards and practice evolve.

For our direct investments, ESG due diligence is a major component of our pre-investment analysis. ESG risks and opportunities are assessed, sometimes with the support of independent experts, with a view to understanding material ESG risks and whether the prospective investment entity is addressing or managing them adequately. Management monitoring and reporting on ESG risks is ongoing post investment. We have also developed a rating system for the ESG performance of our direct investments. In addition, we may undertake site visits to investee companies and meet with their management teams to assess ESG risks and activities directly.

For our external managers, responsible investment capabilities are part of our manager selection, due diligence and monitoring processes. Once a manager is selected, responsible investment requirements – such as ESG integration, voting, engagement, implementation of our climate change investment strategy and adherence to our exclusions and reporting requirements – are incorporated into our contractual arrangements, where relevant.

After we have selected a manager we carry out regular responsible investment reviews of that manager's responsible investment capabilities. Managers are rated on ESG practices and the results are integrated into the overall application of our manager conviction framework. This can influence whether we maintain, dial up or dial down any manager mandates.

#### KEY ACHIEVEMENTS FOR 2020/21:

- Undertook review of responsible investment strategy.
- Completed ESG reviews of nine external investment managers.
- Revised the responsible investment rating template for our direct investments and began the process of refreshing the assessment of each asset.
- Incorporated ESG input into strategic reviews of rural, real estate and infrastructure investment strategies.
- Integrated a new process for identifying ESG benefits that might arise from a potential new investment. This helps to identify positive 'impact' pre-investment.
- Provided input into the Sustainable Finance Forum's Roadmap for Building a Sustainable Financial System by 2030.

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# 02.

### ACTIVE OWNERSHIP

**We will be active owners and incorporate ESG issues into our ownership policies and practices.**

We are committed to being an active owner of our investments, and we use our influence as a shareholder to encourage companies to manage their ESG risks. We do this by encouraging high governance standards across markets and asset classes, particularly in the New Zealand market, where our influence as an investor is strongest. We take a substantial interest in the management of ESG issues with companies in which we hold a significant stake. We exercise our voting rights globally, and monitor and engage with portfolio companies that have breached – or might breach – recognised ESG standards. More information about our approach to engagement is available on page 62.

If engagement is ineffective, we might make a decision to exclude a company from our portfolio. In most cases, however, we believe that engagement is the best tool for encouraging companies to improve their behaviour.

We take a substantial interest in the management of ESG issues with companies in which we have a significant stake.

Given that engagement is so resource intensive, and our portfolio of listed stocks is so large, since 2015 we have employed an engagement service provider, Bank of Montreal (BMO), to engage on behalf of the Guardians, alongside the other New Zealand Crown Financial Institutions (CFIs), Accident Compensation Corporation (ACC) and the Government Superannuation Fund.

#### KEY ACHIEVEMENTS FOR 2020/21:

- Internal engagement efforts continued to focus on the social media collaborative engagement global initiative that the Guardians has been leading in response to the live streaming of the Christchurch terrorist attacks.
- Hosted a day-long sustainability workshop with our rural manager, FarmRight.
- Joined the HRH The Princes of Wales' Sustainable Markets Initiative to drive action on accelerating, at a global scale, sustainable industry transition and rapid decarbonisation ahead of 2050.
- Co-signed the 2021 global investor statement to all world governments on the climate crisis, asking for governments to undertake key actions before the UN Climate Change Conference of the Parties (COP26) in November 2021.
- Co-signed an investor statement calling on companies with business activities in conflict-affected Myanmar to identify and address human rights risks.
- Joined a collective investor engagement on facial recognition, aiming to prioritise human rights in relation to use of facial recognition technology and seeking constructive dialogue with global companies developing or using the technology.

- Joined a global collaborative engagement to liaise with 71 mining companies regarding their approach to relationships with First Nations and Indigenous stakeholders including international standards they follow, and the policies and practices they have in place. This collaboration was formed in response to the destruction of the Aboriginal heritage site at Juukan Gorge, Australia, that occurred last year.
- Divested from five banks with operations in the Occupied Palestinian Territories (OPT). The decision was made due to credible evidence that the banks provide project finance integral to the construction of unlawful settlements in the OPT. Further information is available via the Investment Committee's decision paper on our website.

# 03.

## DISCLOSURE

**We will seek appropriate disclosure on ESG issues by the entities in which we invest.**

Our integration and ownership activities are dependent on access to relevant ESG information. Therefore, we engage with investee companies and other relevant organisations to encourage disclosure on ESG and performance. We then urge our investment professionals and managers to use this information to make more informed investment decisions across the Guardians.

### KEY ACHIEVEMENTS FOR 2020/21:

- Hosted a Responsible Investment Symposium virtual event convened to update investors on initiatives under way on reporting and stewardship.
- Submitted on the *Consultation Paper for Sustainability Reporting* published by the Trustees of the IFRS Foundation.
- Delivered presentations explaining our approach to reporting against the Taskforce on Climate-related Financial Disclosures (TCFD), including carbon footprinting.

# 04. 05.

## BEST PRACTICE / COLLABORATION

**We will promote acceptance and implementation of the Principles within the investment industry.**

**We will work together to enhance our effectiveness in implementing the Principles.**

We participate in relevant local and international investor groups where we believe working collaboratively will help deliver better ESG outcomes.

Some of these groups include:

- United Nations Principles for Responsible Investment (UNPRI);
- New Zealand Corporate Governance Forum;
- One Planet Sovereign Wealth Fund working group (OPSWF);
- Investor Group on Climate Change Australia/New Zealand;
- International Corporate Governance Network;
- Responsible Investment Association of Australasia (RIAA);
- Australian Council of Superannuation Investors; and
- Centre for Sustainable Finance (NZ).

### KEY ACHIEVEMENTS FOR 2020/21:

- Matt Whineray completed his role as co-Chair of New Zealand's Sustainable Finance Forum. The two-year project culminated in the delivery of a final report and road map for Aotearoa New Zealand. A Centre for Sustainable Finance has now been set up with the task of coordinating efforts across the industry to deliver the recommendations of the road map.
- Carried out interviews with global responsible investment experts to assess ongoing changes in global responsible investment practices, and commissioned third-party research into the expectations of external stakeholders within New Zealand, as part of our responsible investment strategy review.
- Co-hosted the 2020 Assembly of Investment Chairs event for members of investment committees to learn and share knowledge about current issues facing the New Zealand investment community. This event focused on the challenges and opportunities arising from ESG investing in the context of the recovery from the COVID-19 crisis.
- Contributed to a report by The Economist Intelligence Unit titled "Resetting the Agenda: How ESG is shaping our future".
- Contributed to the OPSWF and International Forum of Sovereign Wealth Funds (IFSWF) co-produced research paper on how sovereign wealth funds are taking action on climate change. We co-led a peer exchange programme to build knowledge on topics including carbon footprinting, the TCFD, and integrating climate change into credit ratings.
- Submitted to the New Zealand Climate Change Commission on Climate Action for Aotearoa.

# 06.

## COMMUNICATION

**We will each report on our activities and progress towards implementing the Principles.**

We seek to be as transparent as we can, subject to commercial considerations.

### KEY ACHIEVEMENTS FOR 2020/21:

- Won Report of the Year at the 2021 Australasian Reporting Awards, along with a gold award for global best practice reporting and a Best in Sector Award for Financial Services.
- Produced 10th Annual Report against GRI criteria.
- Produced our first report against the recommendations of the TCFD.
- Won the 2020 Global Stewardship Disclosure Award – Asset Owner (<£60 billion assets under management) at the ICGN Governance Awards.

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# Engaging with companies helps us to understand how they are managing ESG issues that may affect their business. It is a tool that we can employ to influence a company's management if we believe that it is not adequately mitigating risks or adapting to opportunities.

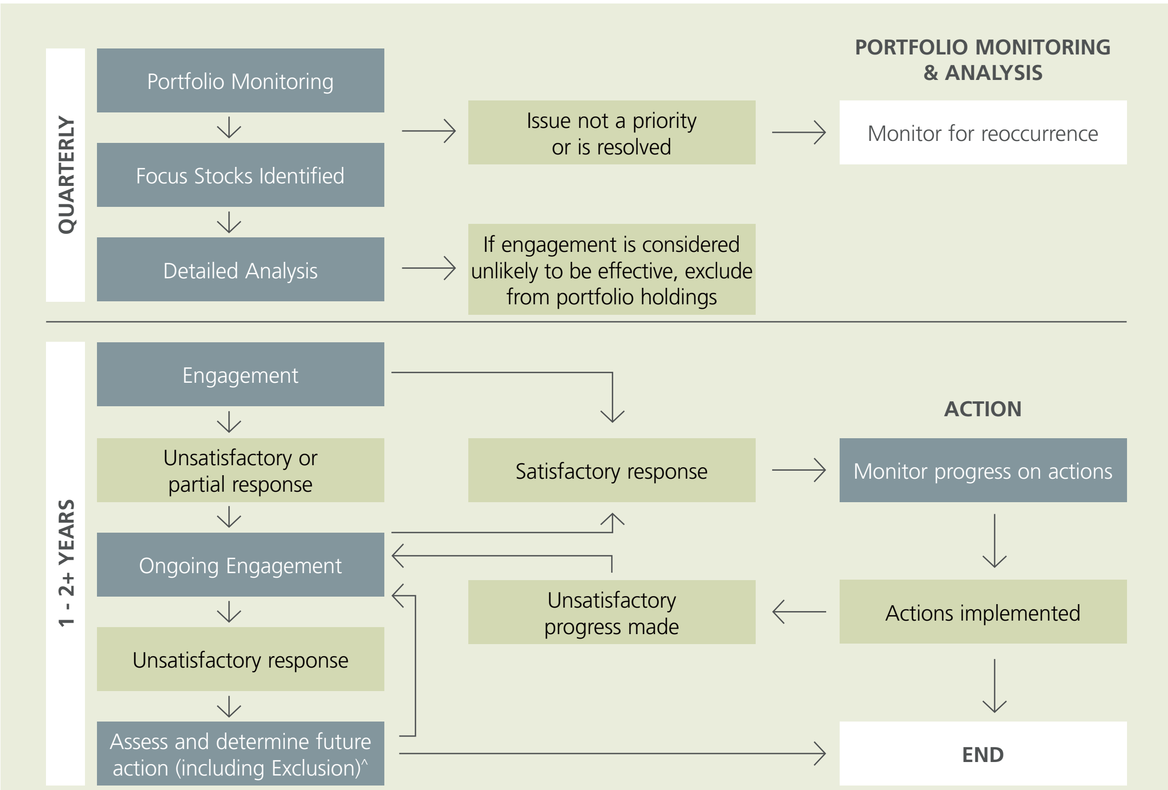
## OUR ENGAGEMENT APPROACH

Our engagement process, primarily implemented by our engagement service provider BMO, is guided by international standards for investors, in particular the UN-backed Principles for Responsible Investment, as well as other best practice guidance. These standards advocate that investors should engage with companies where there are concerns raised.

Engagement is a word used to describe ongoing communication between investors and the companies they are invested in on matters relating to environmental, social and governance issues. Through their engagement, investors will look to set their expectations of corporate behaviour with the company, and discuss risks and opportunities relating to their practice. Over the course of the engagement, investors will seek to establish regular contact with company representatives and track progress made by the company against engagement milestones. Most institutional investors have global equity portfolios with holdings in a large number of stocks, and therefore need to prioritise which companies they engage with.*

We prioritise by issue and the severity of the company's breach of standards. The UNPRI has well established guidance on how investors should engage with companies, including increasing leverage through collaboration. For us, this means combining our efforts in collaborative engagement initiatives with other institutional investors. This collective approach, a single message from many voices, is far more powerful than acting alone.

Our internal engagement objectives are to monitor, identify and engage with companies that breach international standards of good practice, in particular the UN Global Compact. Our engagement generally seeks to encourage companies to address poor ESG practices and improve ESG disclosure. It can be undertaken proactively, when we identify issues we believe companies should be aware of, or reactively, when we believe a company already has a problem. Where companies have not responded to engagement or we consider engagement is unlikely to be effective, we may choose to exclude that company from our portfolio. The diagram below is an illustrative overview of our engagement approach.




^ See page 65 for more information about our approach to exclusion.

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* As recommended in the OECD Guidance for Responsible Business Conduct for Institutional Investors.

### BMO's Engagement Programme

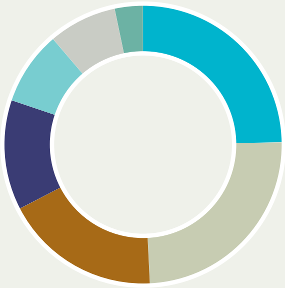
Appointing BMO as a service provider has expanded our engagement reach. We have a contractual arrangement with BMO whereby they conduct ESG engagement on our behalf across a subset of the global universe of listed companies we invest in.

On behalf of the Guardians, BMO conducted in-depth engagement with 629 companies, in 44 countries, on a range of issues over the year ending 30 June 2021. BMO recorded 297 milestones achieved over that period. **

BMO is also involved in thematic engagement projects, involving multiple companies, on a variety of topics spanning labour standards, human rights, climate change, operations in sensitive habitats, natural resources and corporate governance.

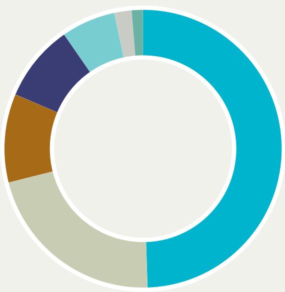
### BMO'S ENGAGEMENT STATISTICS DURING 2020/21

**BMO: Companies Engaged by Issue**



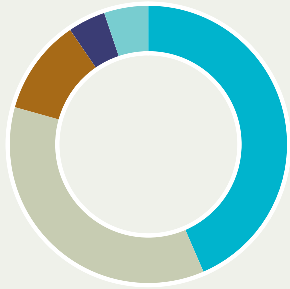
Labour Standards: **25%**
Corporate Governance: **24%**
Climate Change: **18%**
Public Health: **13%**
Environmental Standards: **9%**
Human Rights: **8%**
Business Conduct: **3%**

**BMO: Milestones Achieved by Issue**



Corporate Governance: **50%**
Climate Change: **22%**
Labour Standards: **10%**
Public Health: **9%**
Environmental Standards: **6%**
Business Conduct: **2%**
Human Rights: **1%**

**BMO: Companies Engaged by Country**



North America: **44%**
Europe: **36%**
Asia (excl Japan): **11%**
Japan: **4%**
Other: **5%**

### BMO'S ENGAGEMENT ON CLIMATE CHANGE DURING 2020/21

| | Total |
|---|---|
| Number of unique companies engaged on climate change matters | 225 |
| Total engagements | 409 |
| Total milestones | 64 |

| Sector Breakdown | Total | % |
|---|---|---|
| Financials | 153 | 37% |
| Materials | 58 | 14% |
| Energy | 40 | 10% |
| Consumer Discretionary | 33 | 8% |
| Consumer Staples | 30 | 7% |
| Industrials | 24 | 6% |
| Utilities | 24 | 6% |
| Real Estate | 20 | 5% |
| Health Care | 13 | 3% |
| Information Technology | 11 | 3% |
| Communication Services | 3 | 1% |
| Total | 409 | 100% |

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** A milestone can be described as evidential progress towards a predefined engagement objective.

## ENGAGEMENT REPORT (CONTINUED)

| BMO's Engagement by Sustainable Development Goals (SDGs) | Total | Percentage |
|---|---|---|
| **Goal 1:** End poverty in all its forms everywhere | 66 | 4% |
| **Goal 2:** End hunger, achieve food security and improved nutrition, and promote sustainable agriculture | 43 | 2% |
| **Goal 3:** Ensure healthy lives and promote well-being for all at all ages | 71 | 4% |
| **Goal 4:** Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all | 1 | 0% |
| **Goal 5:** Achieve gender equality and empower all women and girls | 153 | 8% |
| **Goal 6:** Ensure availability and sustainable management of water and sanitation for all | 13 | 1% |
| **Goal 7:** Ensure access to affordable, reliable, sustainable and modern energy for all | 61 | 3% |
| **Goal 8:** Promote sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all | 325 | 18% |
| **Goal 9:** Build resilient infrastructure, promote inclusive and sustainable industrialisation, and foster innovation | 19 | 1% |
| **Goal 10:** Reduce inequality within and among countries | 71 | 4% |
| **Goal 11:** Make cities and human settlements inclusive, safe, resilient and sustainable | 14 | 1% |
| **Goal 12:** Ensure sustainable consumption and production patterns | 226 | 13% |
| **Goal 13:** Take urgent action to combat climate change and its impacts | 265 | 15% |
| **Goal 14:** Conserve and sustainably use the oceans, seas and marine resources for sustainable development | 4 | 0% |
| **Goal 15:** Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, halt and reverse land degradation, and halt biodiversity loss | 33 | 2% |
| **Goal 16:** Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels | 25 | 1% |
| **Goal 17:** Strengthen the means of implementation and revitalise the global partnership for sustainable development | 0 | 0% |
| No Sustainable Development Goal | 415 | 23% |

### VOTING AND CORPORATE GOVERNANCE

We own shares in thousands of listed companies globally, giving us broad, diversified exposure to global equity markets. Most of our global equity investments are passively held, which means they are included in broad market equity indices rather than active manager selection.

As shareholders, we are entitled to vote at company meetings. Voting is a core part of our responsible investment approach, and represents an important lever through which we are able to exercise our influence as asset owners to promote good corporate governance in the markets we invest in. Therefore, our aim is for our votes to reflect the essential elements of good governance: board alignment with shareholder interests, long-term strategy, appropriate remuneration, business ethics and shareholder rights.

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Given the breadth of companies held on the portfolio and large number of shareholder meetings, our voting is guided by our voting policy based on international standards such as the ICGN Global Governance Principles, the G20/OECD Principles of Corporate Governance, and, for New Zealand companies, the New Zealand Corporate Governance Forum Guidelines and the NZX Code. We are also advised by our proxy voting service ISS which helps us to implement our voting and recall activities.

| Voting Statistics 2020/21 | *Global* | *NZ* |
|---|---|---|
| Number of distinct company meetings voted at | 8,403 | 43 |
| Number of management-sponsored proposals | 86,408 | 136 |
| Number of shareholder-sponsored proposals | 2,111 | 0 |
| Category with the most proposals | Directors Related | Directors Related |
| Percentage of votes cast in line with management's recommendations | 82% | 93% |

## EXCLUSIONS

In some circumstances, we may make a decision to exclude a company from our portfolio. Exclusion decisions are based on the clear processes and principles set out in our Responsible Investment Framework.

Exclusions can occur in three different ways: by country, product or corporate practice.

*Countries*

We exclude sovereign bonds of specific countries if they are included on New Zealand's sanctions list. Under this category of exclusion we do not engage prior to exclusion.

*Products*

We exclude companies that are involved in the production of certain products. Decisions on product-based exclusions are guided by New Zealand or national law, international conventions that New Zealand has signed, and significant policy positions of the New Zealand Government. Under this category of exclusion we do not engage prior to exclusion.

We exclude companies that are directly involved in the following activities:

- the manufacture of cluster munitions;
- the manufacture or testing of nuclear explosive devices;
- the manufacture of anti-personnel mines;
- the manufacture of tobacco;
- the processing of whale meat;
- recreational cannabis; and
- the manufacture of civilian automatic and semi-automatic firearms, magazines or parts prohibited under New Zealand law.

*Corporate Practices*

We may exclude companies on the basis of poor corporate practice. When issues with companies arise, we take a structured approach to identifying where there has been a material breach of our responsible investment standards, in particular in one of our focus areas: human rights, business ethics, severe environmental damage, and climate change.

We then assess the best way forward in responding to the situation under our Responsible Investment Framework. Our decision will be informed by a number of factors including our mandate, international conventions, international standards of corporate best practice and the company's own involvement and activities.

Under this category of exclusion, we may engage with a company first in an effort to use our influence as a shareholder to help the company change its practices. If we believe that a company has exhibited poor corporate practice in breach of our responsible investment standards, we will generally conduct further research and add the company to our engagement programme.

Where companies have not responded to engagement or we consider engagement is unlikely to be effective, we may choose to exclude that company from our portfolio. Decisions to exclude an individual company based on poor corporate practices are made by our Chief Investment Officer on the recommendation of our Investment Committee.

Excluding companies for poor ESG practices is a relatively rare undertaking, and we do not exclude companies at the first sign of controversy. Our approach is considered and deliberate, and while it might leave us open to criticism for owning certain stocks, it recognises that only with shareholders actively engaging with companies will we see more sustainable and ethical business practices.

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CASE STUDY

# Social Media Collaborative Engagement

## The Christchurch terrorist attack on 15 March 2019 was a defining point in New Zealand's history.

**It has been over two years since the atrocities occurred in Christchurch. We will never forget those who lost their lives, and the pain and suffering caused to their family and friends.**

The premeditated attack on two Christchurch mosques took the lives of 51 New Zealanders and severely impacted many more. It was a direct assault on the country's revered ideals of multiculturalism.

By capturing an act of terror live on social media and using the internet as a tool to boost exposure to the killings, the gunman maximised the amplification of his agenda. The live-streamed video was online for nearly an hour before New Zealand Police flagged it with Facebook. The company's methodologies for detecting and removing objectionable content had failed.

Copies of the live-stream went viral despite attempts to stifle its spread. The video, in its various forms, reached millions of viewers and can still be found online today. The safeguards in place were wholly inadequate in preventing global distribution of the attack.

The terrorist attack came at a time of escalating levels of investor discomfort relating to the social media platforms (the platforms). Investors had long-term concerns around poor corporate governance practices, unethical business practices exposed by issues such as the Cambridge Analytica scandal, and allegations of contributing to electoral manipulation and the spread of misinformation.

The attack also served to highlight the many associated business risks for the broader technology sector, including the decline of consumer trust, litigation risk including anti-trust, General Data Protection Regulation compliance, regulatory risk, reputation risk and cyber-attack risks.

In the days following the attacks, the New Zealand Government-owned investors announced they were coming together to lead a global collaborative engagement, calling for Facebook, Alphabet and Twitter to strengthen controls to prevent the live-streaming and distribution of objectionable content, such as that of the Christchurch terrorist attack. As at 30 June 2021, the engagement had 103 participating global investors representing $13.5 trillion in assets under management (AUM).*

As the global collaboration grew, we announced formal support of the Christchurch Call, a joint initiative by the governments of New Zealand and France which outlines collective, voluntary commitments from governments and online service providers intended to address the issue of terrorist and violent extremist content online.

Engagement letters were sent to the chairs of the boards of each of the three companies on behalf of the collaboration, and we secured engagement meetings to discuss each of the platform's responses to the Christchurch attack.

The platforms assured us they were making changes to strengthen controls. However, none of the companies agreed to our request for a board member to meet with a representative from the collaboration. With such a large group of influential investors behind this agenda, we felt there was insufficient commitment from the companies to hearing and addressing our concerns.

On the first anniversary of the attack, we published an open letter, distributed via global press, calling for:

- Clear lines of governance and accountability to ensure social media platforms could not be used to promote objectionable content like the live-streaming and dissemination of the Christchurch terrorist attack; and
- Sufficient resources dedicated to combatting the live-streaming and spread of objectionable material across the platforms.

We also signalled our voting intent to the collaboration members and the platforms in advance of their annual general meetings and exercised our voting rights as follows:

- By withholding votes or voting against directors who were up for re-election and who had not carried out their responsibilities as they relate to the live-streaming and dissemination of content; and
- Supporting shareholder resolutions, which in some way drove progress towards meeting the objective of this engagement.

In December last year, and directly attributable to the work of the collaboration, Facebook announced that they had strengthened the Audit and Risk Oversight Committee charter to explicitly include a focus on the sharing of content that violates its policies. This move also included a commitment not just to monitor and mitigate such content sharing, but also to prevent it. We believe this represents legitimate strengthening of the governance and accountability mechanisms in place on this issue. It reorients the organisation towards prevention rather than fire-fighting problems as they arise. This is one of the most important outcomes the engagement has achieved.

Since the Christchurch terrorist attack the platforms have all moved to strengthen controls to prevent the live-streaming and distribution of objectional content. It is a difficult job, however, for investors to assess whether or not these changes are appropriate for the scale of the problem. We therefore commissioned an independent consultant to help us with this

* Approximate total AUM as at 31 December 2019

assessment. We also asked them to look into the broad direction of travel for regulation, to weigh the pros and cons, and provide insight on what good content regulation looks like.

This research was undertaken by a New Zealand-based independent consultancy and think tank called Brainbox Institute. Brainbox specialises in issues at the intersection of technology, politics, law and policy. Their review of the changes made by the platforms showed material progress, although the report was also sobering in its conclusion that the challenge of preventing upload has not been, nor cannot currently be, overcome without significant impacts on human rights. Brainbox concluded that:

- The measures the platforms introduced are highly likely to significantly mitigate the scale of dissemination of future objectionable content.
- The platforms continue to make reasonable efforts to reduce the spread of objectionable content.
- The platforms are, however, very unlikely to absolutely prevent the spread of objectionable content because once new content has been uploaded, there is an unavoidable time delay before it can be accurately classified as objectionable. The platforms cannot eliminate this time-gap entirely.
- Until content has been classified as objectionable, there is effectively no measure the platforms can introduce that could prevent user exposure to objectionable content. It is sensible to assume that more funding and resources directed at continued efforts to reduce the classification time delay will be needed.
- Automation and the use of algorithmic systems are inevitable and necessary for the platforms to moderate content successfully given the volume of information. Human moderators will always be needed because of the risk of inaccuracies in classification by automation. Human moderators also face stress-related risks which is a well-being challenge for the industry.
- The most effective means of dealing with a live crisis and the sharing of related objectionable content attacks comes from cross-platform collaboration efforts. Use of a shared hash database and the development of a 'Crisis Response Protocol' as part of the Christchurch Call are key mechanisms to enable the suppression of objectionable content that stems from a live crisis. Nevertheless, these are not failproof and do have some limitations.
- More funding and resources will need to be directed at continued efforts to reduce the classification time-delay.
- Investors should advocate for continued improvement and transparency on measures to prevent proliferation of objectionable content.
- The platforms are well placed to rapidly triage potential objectionable content and they have implemented mechanisms to quickly intervene in such cases; in fact, they can intervene much faster than any government body could. This means they will always have a significant role to play.
- Emerging regulation must be anchored in the language and law of human rights to ensure acceptable and proportionate balancing between rights and freedoms is achieved. All measures to find and prevent the spread of objectionable content have trade-offs with human rights implications for both users and viewers. We need protection from abuse by those with intent to use the platforms maliciously, including those with decision making powers, but, fundamentally, we also need the ability to freely express our views. The grey area - where legal content is harmful - is a very complex area to navigate and any restrictions put in place must be constantly assessed for balance and refinement. This would be best enhanced through inviting independent scrutiny and assessment.

As a collective, we take great comfort in the fact that the measures introduced by the platforms have a high likelihood of significantly mitigating the scale of the spread of future objectionable content. We also note and understand the reality that the platforms are highly unlikely to install measures to absolutely prevent the spread of content documenting events similar to that of the Christchurch attack. Continued improvement is fundamental to the basic viability of the platforms as businesses.

Therefore, as we move to wind up this collaborative engagement, we do so with the message to Facebook, Twitter and Alphabet that we expect them to avidly continue to make efforts to reduce the classification time-delay, evolve crucial safeguards and remain focused on this issue. Each shareholder will continue to monitor this as a serious business risk.

Content moderation is becoming one of the most important legal and political issues of our time. It deserves its own body of specialist expertise stretching across academia, law and policy. Social media companies must open themselves up to independent scrutiny and assessment to determine how the measures they have developed are being implemented.



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ELEVATE
NZ VENTURE FUND

## The Elevate NZ Venture Fund exists to support the development of New Zealand's early-stage growth companies and venture capital ecosystem.

The Fund is administered by the Guardians under a mandate separate from the NZ Super Fund.

## INVESTMENT REPORT - ELEVATE NZ VENTURE FUND



### BACKGROUND

In 2019 the Government entrusted the Guardians with an additional mandate. The mandate, known as Elevate NZ Venture Fund (Elevate Fund), was launched in March 2020. The Elevate Fund was established to increase the amount of venture capital available to young, innovative companies to develop New Zealand's early-stage capital ecosystem and lift productivity.

The Elevate Fund is designed to support investment into New Zealand companies that have moved beyond the start-up, or 'angel' investor stage, and need capital for their next stage of development. It is aimed predominantly at Series A and B venture capital funding rounds, with investments ranging between \$2 million and \$20 million.

The Elevate Fund initially consists of \$259.5 million of Crown capital commitments. The Government expects this to reach \$300 million over time as further commitments are provided. Under its governing legislation, the Elevate Fund does not have a fixed lifetime, but can be wound down once New Zealand venture capital markets are developed and no longer require government support. When it ultimately winds down, the funds will be returned to the Crown.

The Elevate Fund is managed on behalf of the Guardians by NZ Growth Capital Partners (NZGCP) under a fund-of-funds model. NZGCP is a New Zealand Crown entity overseen by the Minister for Economic and Regional Development. NZGCP allocates capital from the Elevate Fund to underlying fund managers progressively, targeting an initial investment period of five years. These underlying fund managers will in turn invest in New Zealand growth companies.

The Guardians' role is to administer and provide governance oversight of the Elevate Fund and NZGCP as manager to ensure that it is managed in line with best-practice investment management appropriate for New Zealand's venture capital markets, and in a manner that is consistent with: (a) the Ministerial policy statement issued under the Venture Capital Fund Act 2019; and (b) avoiding prejudice to New Zealand's reputation as a responsible member of the world community. Importantly, the commercial aspects of the NZ Super Fund's mandate do not apply (for instance, investing on a prudent, commercial basis or managing and administering the Fund in a manner consistent with maximising returns without undue risk).

### ROLES AND RESPONSIBILITIES

In accordance with the legislative framework and the fund-of-funds model, there are different roles and responsibilities for the Guardians, NZGCP (as external manager) and the Minister of Finance.

| Guardians | External Manager (NZGCP) | Minister of Finance |
|---|---|---|
| • Enter into contract appointing NZGCP to operate the fund-of-funds with terms and conditions that meet the requirements of the legislation.<br>• Monitor the performance of the Elevate Fund and NZGCP, including through a Limited Partner Advisory Committee that reviews significant matters.<br>• Manage and administer the Elevate Fund in a manner consistent with the ministerial policy statement and avoiding prejudice to New Zealand's international reputation.<br>• Through the above functions, ensure that the Fund is invested using best-practice investment management appropriate for institutional investment in New Zealand's venture capital markets, subject to the requirements in the ministerial policy statement.<br>• Annual financial reporting for the Elevate Fund, including preparation of Statements of Intent and Performance Expectations.<br>• Preparation of Statement of Investment Policies, Standards and Procedures for the Elevate Fund.<br>• Report on how the Guardians has given effect to directions in the policy statement associated with the legislation. | • Act as sole manager for the Elevate fund-of-funds. A wholly-owned subsidiary of NZGCP is the general partner of the limited partnership, Elevate NZ Venture Fund Limited Partnership (the 'fund-of-funds' vehicle).<br>• Manage the Elevate NZ Venture Fund Limited Partnership and to make and oversee investments based on best-practice fund selection and investment management practices.<br>• Establish an investment committee to make decisions on investment of capital in underlying funds.<br>• Monitor investments and report in line with the requirements set out in the management agreement for the fund-of-funds.<br>• Ensure that underlying funds continue to meet the eligibility and other requirements agreed with NZGCP at investment.<br>• In addition to its role as the manager of the Fund, NZGCP has its own separate mandate from the Government to support the development of New Zealand's broader early-stage capital markets. This is a critical role, as the effectiveness of early stage markets influences the health of the venture capital markets into which the Elevate Fund invests. | • Issue a policy statement outlining the high-level requirements for the Fund, including directions on what the Guardians must give effect to (how the Fund is invested) and have regard to.<br>• Revise the policy statement if required, following consultation with the Guardians, NZGCP and the wider venture capital ecosystem.<br>• Issue directions for the winding up of the Fund when broader market development objectives have been achieved. |

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## INVESTMENT REPORT - ELEVATE NZ VENTURE FUND (CONTINUED)

### PROGRESS REPORT

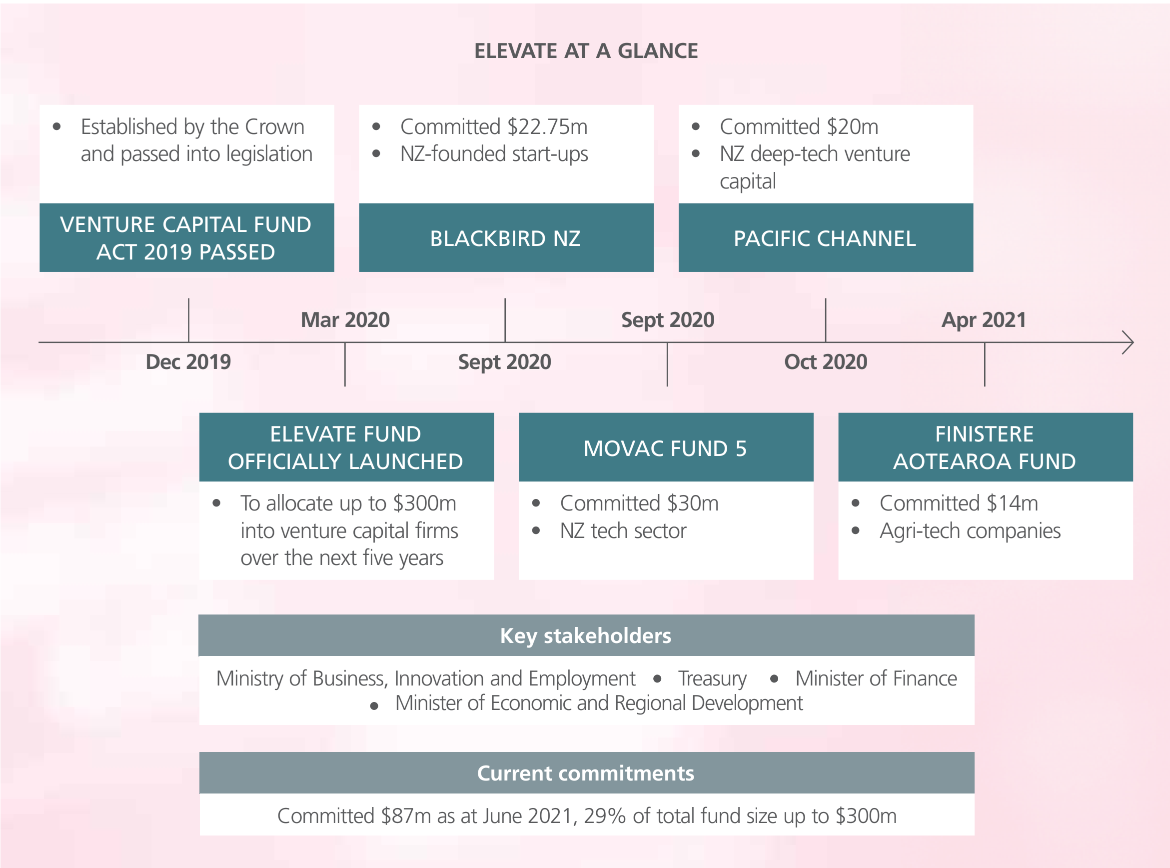
The Guardians' obligation is to oversee the Elevate Fund and to assist NZGCP to follow best-practice investment management in the context of New Zealand's venture capital markets. We deliver on our responsibilities by:

- agreeing the terms of appointment with NZGCP as the external fund manager for the Elevate Fund;
- ensuring the terms of appointment reflect best practice in the context of institutional investment in New Zealand venture capital markets;
- monitoring and managing the performance of NZGCP using the Guardians' frameworks for external managers; and
- ensuring compliance with the Statement of Investment Policies, Standards and Procedures in respect of the Elevate Fund.

The Guardians is required to report on the Elevate Fund's financial and operating performance. In this section, we also report on NZGCP's progress in allocating capital and the deployment of capital to investee companies by underlying funds.

The Elevate Fund has been operating since March 2020. In spite of the disruptions caused by the COVID-19 pandemic, NZGCP has made good progress in deploying capital. As at the end of the 2021 financial year, the Elevate Fund had invested into four underlying funds. It committed:

- $22.75 million into the Blackbird Ventures' (Blackbird) first New Zealand fund. Blackbird is Australia's largest venture capital fund, with more than a billion dollars under management and a portfolio of over 70 start-ups across Australia and New Zealand. The fund targets New Zealand-founded start-ups seeking Series A and B capital to fund further growth.
- $30 million to New Zealand venture capital firm Movac's Fund 5 technology fund. The fund's design allows it to support early-stage companies as they grow, with capital available for later funding rounds, as well as investing in later-stage companies. Co-investors in the fund included the NZ Super Fund (committed $70 million) and the Kiwi Wealth KiwiSaver scheme (committed $54 million).
- $20 million to New Zealand deep-tech venture capital firm Pacific Channel's venture capital fund. The fund aims to invest into around 25 New Zealand deep-tech companies which are focused on commercialising ground-breaking science or advanced engineering innovation.
- $14 million (plus a further, conditional $7 million) into the Finistere Aotearoa Fund, which targets New Zealand agri-tech companies needing Series A and B capital investment. The Finistere Aotearoa Fund is a subsidiary of Silicon Valley venture capital fund managers Finistere Ventures, and has global offices in the United States, Ireland and Israel, as well as New Zealand.

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This table sets out a summary of the progress achieved to date.

| | |
|---|---|
| **Financial Statements** | Elevate Fund financial statements for the period ended June 2021 are included in the financial section of this Annual Report. |
| **Statement of Intent (SOI)** | The Guardians' SOI for the period 1 July 2021 to 30 June 2026 includes a section on the Elevate Fund. It was sent to the Minister of Finance in June 2021 and published on the Guardians' website. |
| **Statement of Performance Expectations (SPE)** | The Guardians' SPE for the period 1 July 2021 to 30 June 2022 includes a section on the Elevate Fund. It was sent to the Minister of Finance in June 2021 and published on the Guardians' website. |
| **Statement of Investment Policies, Standards and Procedures (SIPSP)** | The Elevate Fund SIPSP is required to be reviewed at least annually. The most recent annual review of the SIPSP was approved by the Board in June 2021. The Chair and Chief Executive report on compliance with the SIPSP in the compliance section of this Annual Report. |
| **Conviction Review** | The Guardians assesses the Elevate Fund's externally-appointed investment manager, NZGCP, in accordance with the usual conviction process that we apply to all our external manager relationships.<br><br>In the past year, NZGCP have satisfactorily addressed a number of issues previously identified regarding governance, personnel and culture. A completely new Board has been appointed comprising five new members which we believe possess the relevant skills, experience and diversity to successfully direct an early stage investment organisation. Enhanced internal policies and processes have been adopted, and following an independent culture review, a range of improvements have been implemented within the day-to-day operations of NZGCP.<br><br>We note that a recruitment process is underway for a permanent CEO. In terms of mandate deployment, we are pleased with the progress NZGCP's Elevate team have made, having successfully completed four manager appointments by 30 June 2021 following a robust and best practice selection process.<br><br>The Guardians will continue to monitor the impact of the personnel changes and process improvements over the coming months with an expectation that NZGCP will continue working towards best practice investment management. |
| **Number of funds in which the Elevate Fund has invested, comprising:**<br>• **funds with a New Zealand connection including foreign-originated funds establishing a fund with a New Zealand connection; and**<br>• **foreign fund investments** | Four in 2020/21<br><br>Two domestic funds with a New Zealand connection and two foreign-originated managers establishing a fund with a New Zealand connection.<br><br>No foreign fund investments |
| **Capital invested into funds with a New Zealand connection** | As at 30 June 2021, the Elevate Fund had made unconditional commitments of $87 million, plus a conditional commitment of a further $7 million. An additional commitment of $45 million was completed in August 2021. |
| **Ratio of matching private capital raised by underlying funds** | As at 30 June 2021, 3.5:1 (i.e. $3.50 of matching private capital per $1 committed by the Elevate Fund); note this excludes any commitments made by Elevate which were still conditional as at 30 June 2021. |
| **Capital invested by underlying funds** | As at 30 June 2021, the Elevate Fund had received calls for approximately $17 million for investments and management fees of underlying funds. The underlying funds have made investments into 14 companies (noting that some of these companies have been invested in by more than one underlying fund). |

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# 03.

## Governance



As a long-term investor, we strive to ensure high standards of operation and governance are employed. We are committed to investing in the technologies and capabilities needed to maintain and evolve the sustainable farming practices used across our portfolio of rural land holdings.

# Effective governance supports the achievement of our long-term mission.

Our Board is committed to the highest standards of corporate governance, which it regards as critical to achieving our long-term mission and maintaining our stakeholders' confidence. As well as reflecting our statutory framework (described on the following page), our governance framework takes into account public sector guidance (such as from the Public Services Commission and Office of the Auditor-General), and the New Zealand Financial Market Authority's corporate governance principles and NZX's Corporate Governance Code (to the extent applicable).

Our governance framework is underpinned by four values which reflect who we are and how we work:

**We Stand Strong** | **We Support Each Other** | **Future Focused** | **Team Not Hero**

**KEY ELEMENTS OF OUR GOVERNANCE FRAMEWORK ARE:**

- clarity on our long-term mission and vision
- maintaining operational independence to ensure that investment decisions are made on a prudent commercial basis
- establishing relationships with stakeholders built on trust and respect
- benchmarking best practice for governance of a sovereign wealth fund
- a strong focus on transparency, legislative compliance, risk management and ethical behaviour
- clarity on accountability, roles and responsibilities

An important part of our governance framework is a five-yearly review of how effectively and efficiently the Guardians is performing its functions. The review is conducted by an independent reviewer appointed by the Minister of Finance. This is an opportunity for our governance framework to be measured against international best practice. The last review, completed by Willis Towers Watson in June 2019, assessed our governance model as AAA (exceptional) and notes that, "The Board and management operate at global best practice levels, by reference to the key principles: board and team composition; role process; and culture."

There were significant changes to our Board during the financial year with the terms of two long-serving Board members (former Chair Catherine Savage and Stephen Moir) coming to an end. Catherine and Stephen have been replaced by Rosemary Vilgan and Kirsty Mactaggart.

The changes to the Board have also meant changes of Chair for the Board and its two standing committees. Catherine Savage has been replaced as Chair of the Board by Catherine Drayton and as Chair of the Employee Policy and Remuneration Committee by John Williamson. Doug Pearce has replaced Catherine Drayton as Chair of the Audit Committee.

Simon Botherway's term will end with the Guardians in October 2021. Following Simon's departure we will welcome another Board member, David McClatchy. David has recently returned to New Zealand after a lengthy career leading multinational investment companies in Sydney, Australia. David will commence his term on the Guardians' Board on 1 October 2021.

Despite the number of changes and the challenges of the COVID-19 pandemic, the succession and induction process has been smooth. Further details on the composition of the Board are provided on page 78.

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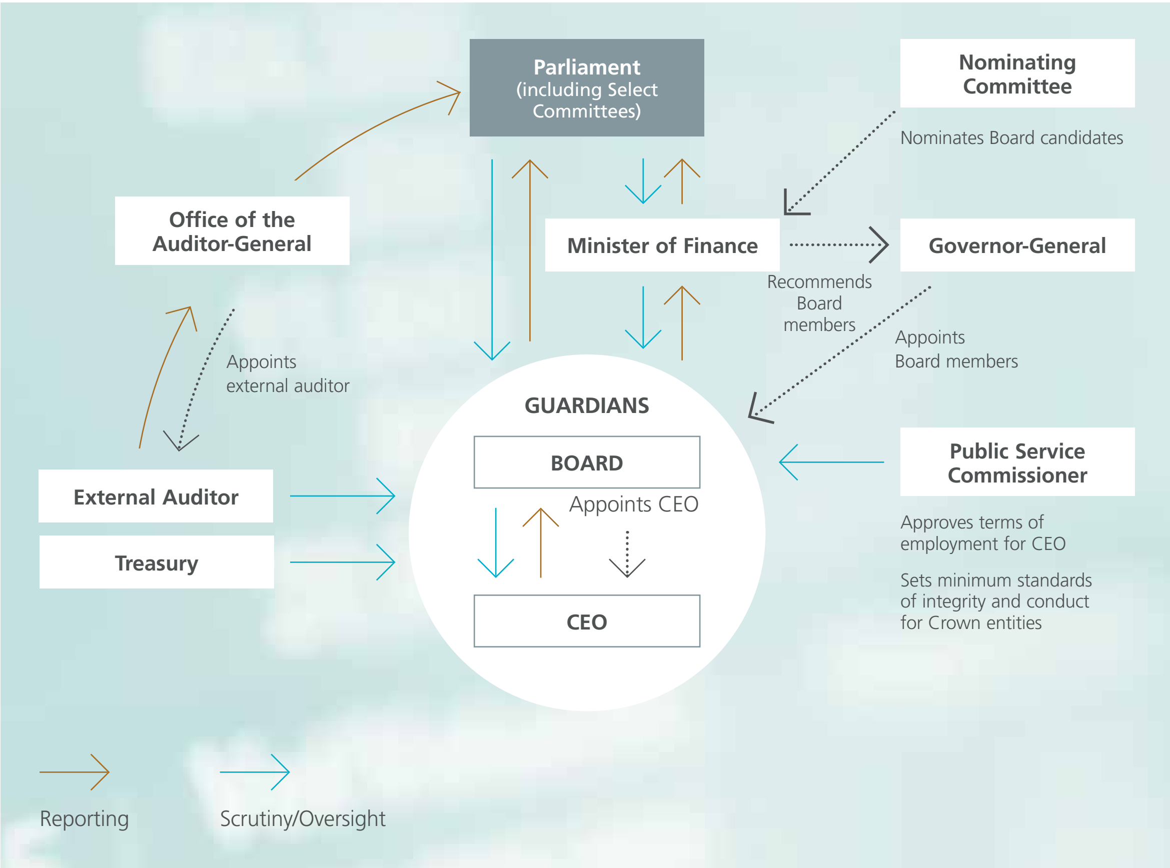
## STATUTORY CONTEXT

The statutory governance arrangements for the Guardians are set out in the New Zealand Superannuation and Retirement Income Act 2001 (NZ Super Act), the Venture Capital Fund Act 2019 (VCF Act) and the Crown Entities Act 2004.

The Guardians is an autonomous Crown entity. It is part of the public sector but legally separate from the Crown and designed to operate at 'double arm's-length' from the government. This means that, although the Guardians is still accountable to the Government, it is governed by an independent board and has operational independence regarding investment decisions. The statutory governance design for the Guardians is considered to be one of the four 'endowments' that give us an innate advantage as an investor.

The Guardians is responsible for managing and administering the NZ Super Fund and the Elevate Fund. Each Fund is a pool of Crown assets but is not an entity in its own right.

The statutory governance framework arrangements for the Guardians is illustrated below.




## BOARD CHARTER

The Board Charter is the principal description of governance at the Guardians. It establishes a clear framework for oversight and management of the Guardians' operations and for defining the respective roles and responsibilities of the Board and management. It includes the terms of reference for the Board's two standing committees and a Code of Conduct for Board members. A copy of the Board Charter is available on our website.

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# This section reports on the Guardians' governance framework in relation to each of the Financial Markets Authority's corporate governance principles in the year to 30 June 2021.

## 1. ETHICAL STANDARDS

**Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for delivering these standards throughout the organisation.**

The Board is responsible for shaping culture and setting the tone at the top. Ethical standards and expectations for integrity and professional conduct are articulated in the Board Code of Conduct and the Code of Conduct for Employees and Contractors. Board members, employees and contractors must at all times act honestly and in good faith and in the best interests of the Guardians.

### Codes of Conduct

The Codes of Conduct for Board members and for employees and contractors set out the required standards for appropriate ethical and professional conduct.

The Board Code of Conduct incorporates the code of conduct for members of Crown entity boards issued by the Public Service Commissioner in March 2021. The Board Code of Conduct is included in the Board Charter and can be found on our website.

The Code of Conduct for Employees and Contractors incorporates the Standards of Integrity and Conduct (the code of conduct for the Public Services) issued by the Public Services Commissioner in 2007. These Standards require employees and contractors to be fair, impartial, responsible and trustworthy. The Code of Conduct for Employees and Contractors is comprised in the Human Resources Policy and can be found on our website.

The Codes include requirements regarding acting with honesty, integrity, fairness, impartiality, identifying and disclosing conflicts of interest, using corporate information, assets, gifts and hospitality, and reporting breaches of ethics. The induction programme for new Board members, employees and contractors covers the relevant Code of Conduct and each person receives a copy of the Code.

To instil a culture of ethical behaviour and transparency, refresher training on core topics is provided to employees and contractors and there is a six-monthly attestation process covering compliance with policies and authorities, conflicts of interest, disclosure of gifts and hospitality, health and safety, and securities trading.

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### Whistleblowing

The Guardians is committed to conducting business in a manner which is safe, ethical, professional and compliant with the law. Provision of an accessible, transparent and robust whistleblowing process which is used by employees and contractors in all appropriate circumstances is critical to this objective.

A confidential Speak-Up line is available for employees, contractors and external parties to report any serious wrongdoing or potential issues they may have experienced or encountered, without any risk of retribution. The Head of Internal Audit is responsible for ensuring whistleblowing complaints are reported to the Chair and/or Chair of the Audit Committee as soon as practicable and are appropriately documented, investigated and responded to.

Information on reporting concerns and whistleblowing is set out in the Code of Conduct for Employees and Contractors and is also available on our intranet and website.

### Securities Trading Procedure

The Guardians' Securities Trading Procedure aims to reduce the risk of the Guardians, employees or contractors breaching the Financial Markets Conduct Act, or similar legislation. It does this by providing guidance on the law and the consequences of breaching it and by setting rules about information flows and trading. All employees and contractors must seek permission in advance before trading single-name listed securities (or derivatives of them) and are required to disclose any personal trading they have undertaken by completing six-monthly attestations.

To reinforce awareness and understanding of our Securities Trading Procedure, these guidelines are covered in our induction programme for new employees, contractors and Board members. There is also periodic refresher training for all investments staff. A copy of the Securities Trading Procedure is set out in our Human Resources Policy, which can be found on our website.

### Culture

Culture plays a significant role in keeping staff engaged, with implications for financial performance, recruitment, risk management, retention and ethical behaviour. Culture is a core strength at the Guardians but we are aware that good culture declines over time without strong actions to maintain it. To this end, our remuneration and discretionary incentive scheme (see page 98) is designed to promote a positive, constructive workplace culture. In addition, the Guardians' organisational culture is regularly tested using culture surveys conducted by an external provider. Survey results provide data against which to measure our long-term effectiveness as an organisation.

The Board is committed to continuing to strengthen culture, and this is a multi-year strategy in the Guardians' Strategic Plan. The impact on culture of more broadly adopting flexible working arrangements in response to the COVID-19 pandemic will be an area of ongoing focus.

To ensure we continue to build on our culture and develop and mature our practices, we have identified diversity, equity and inclusion (DE&I) as a key strategic priority for 2021/22. As part of this work, an external provider has been engaged to conduct an independent review of our DE&I practices. The objective of the review is to gain actionable insights, at both a strategic and tactical level, into areas for improvement. More information on the DE&I work can be found on page 29.

### Conflicts of Interest

Our procedures for identifying, disclosing and managing conflicts of interest are set out in the Codes of Conduct. Actual and potential conflicts of interest must be disclosed and are recorded in interest registers. To ensure that Board members, employees and contractors are familiar with and follow the conflict of interest procedures, they are specifically covered in our induction programme and in periodic refresher training. In addition, six-monthly confirmation through attestations is obtained from Board members, employees and contractors to ensure their interest registers are up to date.

For Board members, conflicts of interest are managed in accordance with statutory requirements. Board members must disclose financial and non-financial interests in matters involving the Guardians and may not vote, take part in discussions or otherwise participate in any activity of the Guardians relating to a matter in which they have an interest.

### Sensitive Expenditure

Being a public sector entity, we are very focused on ensuring that expenditure, particularly travel and sensitive expenditure (including hospitality, gifts, koha and donations), is managed prudently and effectively. Our expectations concerning travel and sensitive expenditure are set out in our Travel and Sensitive Expenditure Policy (which can be found on our website).



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**PRINCIPLES** (CONTINUED)

## 2. BOARD COMPOSITION AND PERFORMANCE

**To ensure an effective Board, there should be a balance of skills, knowledge, experience, independence and perspectives.**

### Appointment Process

The process for appointing members of the Guardians' Board (summarised below) has unique features that are designed to promote the independence of Board members.

| | |
|---|---|
| **NEW ZEALAND GOVERNMENT**<br>The Minister of Finance appoints members to an independent Nominating Committee → | Committee must have no fewer than 4 persons with proven skills or relevant work experience that will enable them to identify candidates for appointment. |
| **INDEPENDENT NOMINATING COMMITTEE**<br>Identifies candidates for the Board → | Board candidates must have substantial experience and expertise in the management of financial investments. |
| **MINISTER OF FINANCE**<br>Recommends candidates from the pool chosen by the Nominating Committee → | The Minister must consult with representatives of other political parties in Parliament before recommending candidates. |
| **GOVERNOR-GENERAL**<br>Appoints members to the Board → | The Board must have 5-7 members. Appointments are for a term of up to 5 years. There are no restrictions on the number of reappointments. |

By statute, the Guardians' Board is required to consist of at least five, but no more than seven, Board members. Board members are generally appointed for terms of between three and five years and may be reappointed at the expiry of their term.

### Board Composition

The Board's composition changed during the year due to the terms of Stephen Moir (2 November 2009 to 30 September 2020) and Catherine Savage (2 November 2009 to 30 March 2021) expiring. The retiring Board members were replaced by Rosemary Vilgan and Kirsty Mactaggart. Also, two Board members were reappointed for second terms (John Williamson, 30 September 2020 until 30 September 2025, and Doug Pearce, 30 September 2020 until 30 September 2023). The changes to Board members has meant changes of Chair for the Board and its two standing committees. Details of our Board members as at 30 June 2021 are set out on pages 83 - 84.

### Board Skills

The Board periodically reviews (including as part of performance evaluations) whether it collectively has the right mix of personalities, knowledge, skills and expertise and the appropriate degree of diversity of thinking to meet the strategy, future challenges and regulatory demands of the organisation. Feedback on the Board's views is provided by the Chair to the Nominating Committee.

A key feature of the appointment process for Guardians' Board members is that it is a statutory requirement for Board members to have substantial experience, training and expertise in the management of financial investments. This requirement supports the operational independence of the Guardians.

A general description of the skills identified as being necessary for the Guardians' Board is set out in the table on the following page. These skills reflect the purpose and mandate of the Guardians and the Funds. Not all Board members will or should possess skills in all areas – it is the strength of the entire Board that matters. Effective teamwork within the Board and between the Board and management is also important. There may also be some areas of expertise that the Board feels comfortable taking external advice on as and when required. More information about the skills of our Board members can be found on pages 83 - 84.

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| | |
|---|---|
| **Corporate Governance** | To support strong Board and management accountability, values transparency and execution of the Fund mandates |
| **High Level of Financial Literacy** | To understand complex financial, economic and investment concepts and oversee financial reporting and internal controls |
| **Investments and Commercial Acumen: Financial Markets/ Commercial Expertise/ Academic** | To evaluate the investment strategies and to set the NZ Super Fund's risk appetite and Reference Portfolio |
| **Leadership Experience – especially Chief Executive/ General Manager** | To advise the Chief Executive and provide insight and guidance on key areas such as change management, strategy and culture |
| **Risk Oversight/Management Expertise** | To oversee the risk management of the Funds and the Guardians |
| **Talent Management Expertise** | To attract, motivate and retain skilled personnel in the context of long-term investment objectives |
| **Global Investment Experience** | To review and understand investment strategies and benchmarking our performance against global best practice |



### Induction and Development

There is a formal induction programme for each new Board member on appointment, consisting of a series of education sessions, one-on-one sessions with the Leadership Team and comprehensive induction papers. Recognising that training and development are continuing processes, an ongoing education programme for Board members ensures they continue to have the skills and expertise needed to discharge their responsibilities. The topics and calendar for the Board education programme are approved by the Board. The education and development programme includes arranging for Board members to meet with international peer funds and investment managers and to participate in international peer forums. Engagement with international peer funds and managers and participation at international forums helps ensure that the Board is able to govern in line with best practice. Continuing travel restrictions resulted in a modified programme for the 2020/21 financial year based on virtual rather than in-person appearances.

### Board Evaluation

The performance of the Board, its committees, and individual members is evaluated at regular intervals, generally annually for the Board and at least once every two years for its committees. The performance evaluation is conducted either on the basis of a self-evaluation questionnaire or using an external specialist. Evaluations seek to assess both performance to date and fitness for future challenges. The Chair keeps Treasury informed on Board evaluations, including progress on action items.

The 2019/20 performance evaluation was conducted by an external specialist so the 2020/21 evaluation was based on a self-evaluation questionnaire. The questionnaire covered a broad range of topics, including objectives and strategy, Board effectiveness, Board processes, stakeholder relationships, committee and internal audit performance, strengths, key challenges and the response to the COVID-19 pandemic. The questionnaire was completed by Board members as well as senior management and the results were discussed at the April 2021 Board meeting. The evaluation results affirm that the Board and it's committees are operating effectively within a constructive and transparent environment. There was very positive feedback from Board members and senior management on the response to the COVID-19 pandemic, which demonstrated a high level of trust between the Board and management and consistency with the Guardians' values.

### Responsibilities

The Guardians' governing legislation and the Board Charter define collective and individual responsibilities, matters reserved for the Board and matters delegated to management. The Board Charter is available on our website. The principal responsibility of the Board is to supervise the management of the Guardians and the investment of the Funds. Specific responsibilities include:

- establishing the Guardians' objectives, corporate strategy for achieving those objectives, the overall policy framework within which the business of the Guardians is conducted and monitoring management's performance with respect to these matters;
- ensuring the assets of each Fund and the assets of the Guardians' are maintained under effective stewardship;
- appointing, remunerating and monitoring the performance of the Chief Executive Officer;
- promoting ethical and responsible decision-making and transparency;
- ensuring the integrity of the financial statements and reporting for the Guardians and the Funds;
- ensuring that decision-making authorities within the Guardians are clearly defined, that all applicable laws are complied with and that the Guardians is well managed; and
- establishing the level of risk undertaken by the Guardians and the NZ Super Fund.

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### Delegation of Authority

While the Board has responsibility for the affairs and activities of the Guardians, in practice the Board operates through delegation to the Chief Executive Officer and other executives who are charged with the day-to-day leadership and management of the Guardians.

The Board maintains a formal set of delegated authorities, which clearly define the responsibilities that are delegated to management and those that are retained by the Board. The delegations framework includes reporting requirements to ensure that the Board is informed on the exercise of certain delegated powers. There are some matters which, either because it is required by law or because the Board has decided it is in the interests of the Guardians to do so, are decided only by the Board as a whole. The Board regularly reviews its delegations and governance priorities. A copy of the Guardians' Delegations Policy and a table summarising the Guardians' investment decision-making framework is available on our website.

### Board Secretariat

The Board Secretariat is accountable to the Board for governance matters. The Chair and all Board members have access to the Board Secretariat on matters relating to the conduct of the Guardians' affairs and the corporate governance of the Guardians, and on any matter pertaining to the Board Charter. The Board Secretariat facilitates the induction and ongoing education programme for Board members. The Board is kept up to date on legal, regulatory, compliance and governance matters through advice and regular papers from the General Counsel, the Board Secretary and other advisors.

### Diversity

Our Board members come from a range of backgrounds and bring diverse perspectives to the Board.

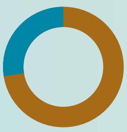
**PROFESSIONAL EXPERIENCE**

Academia, Consulting, Banking, Funds Management, Insurance, Sales and Marketing, Manufacturing, Industrial Services, Business Management, Investment Regulation & Supervision, Operational, Mergers & Acquisitions, Global Capital Markets

**NATIONALITIES**

Australia, Britain, Canada, New Zealand, and The Netherlands

**TENURE**



- 0 - 3 years
- 3 - 6 years

**GENDER**

Male 4, Female 3

**COUNTRY EXPERIENCE**

Australia, Canada, New Zealand, Singapore, Hong Kong, Korea, Thailand, Europe, United Kingdom

**AGE RANGE**

50 - 70s

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103 - 1
103 - 2
103 - 3
405 - 1

**Board Succession**

The tenure of the current Board as at 30 June 2021 is set out below.

| 0 - 3 YEARS | 3 - 6 YEARS | 6+ YEARS |
|---|---|---|
| 71% | 29% | 0% |

AVERAGE TENURE

2.8 YEARS



## BOARD ACTIVITY

### Meetings

During 2020/21, the Board held six scheduled meetings and one special meeting. Meeting agendas are a mix of forward-looking and priority items and regular standing items (such as the dashboard and investment environment reports). The Board also meets with Treasury annually and has an annual strategy day.

An education session or strategy discussion is generally held before each Board meeting. Education topics and strategy discussions are based on feedback received from the Board. Topics for the strategy discussions have included lessons learnt from the COVID-19 pandemic and direct investment strategy.

There was a mix of in-person and virtual Board meetings due to the continuing travel restrictions in place as a result of the COVID-19 pandemic.

### Summary of Matters Considered

An important area of focus for the Board during the year was the refresh of our responsible investment strategy which has been in place for over 10 years. This work was prioritised by the Board for 2020/21 (see page 56 for further information about this work). The Board approved the RI strategy being replaced by a sustainable finance strategy.

Another important focus for the Board has been a project to deliver an integrated set of human resources modules, to allow processes and data to be streamlined, and increase the value of the workplace experience provided to employees, managers and leaders. The Board has approved the business case for the project and approved implementation being a multi-year strategic priority for the organisation.

The well-being of employees and the impact of a more extensive flexible working model in response to the COVID-19 pandemic continues to be a focus for senior management and the Board.

Other significant matters considered or resolved during the financial year were:

*Compliance and risk*

- Reviewing control effectiveness assessments for strategic risks
- Annual review of the Statement of Investment Policies, Standards & Procedures (including the Responsible Investment Framework) for each Fund
- Reviewing six-monthly Enterprise Risk reports
- Review of Derivatives, Human Resources and Investment Risk Allocation Policies
- Review of new counterparty creditworthiness monitoring framework
- Review of Annual Guardians' Health & Safety Report
- Annual IT Security Strategy Review
- Review of six-monthly policy compliance attestation
- Considering six-monthly reports on direct asset health & safety
- Reviewing the policy review framework
- Approving the 2020 Climate Change Report
- Review of working-from-home risks and lessons learnt
- Review of definition of the threat to Guardians' independence and key stakeholder support risks
- Review of final update on the five-yearly Independent Review

*Investment strategy and performance*

- Reviews of the Rural Land, Real Estate and Infrastructure strategies
- Annual Responsible Investment Review
- Review of investment constraints
- Review of the impacts of revaluing illiquid assets
- Annual Investment teams' strategies report

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**PRINCIPLES** (CONTINUED)

- Considering Portfolio Overview and Investment Environment reports
- Updates on specific direct investments
- Annual review of investment Risk Baskets and opportunities
- Review of derivative usage risk and mitigants

*Organisation strategy*

- Biennial review of Board Charter
- Reviewing the draft and final Strategic Plan and updates on strategic activities
- Reviewing the annual Remuneration Summary
- Considering the Annual CEO Performance Review and Remuneration Review
- Approving the 2021-2026 Statement of Intent and 2021/22 Statement of Performance Expectations
- Reviewing the Annual Report, financial statements and statement of performance
- Approving auditor engagement
- Approving the submission of financial data to Treasury for inclusion in half-year and full-year Economic Fiscal Updates
- Approving the Board Agenda Calendar for 2021/22
- Annual Cost-Effectiveness Measurement Review
- Considering the Board self-evaluation results

*Regular Board agenda items*

Regular items considered at each scheduled Board meeting are:

- Disclosures of interest
- Minutes of the previous meeting
- A report on matters arising from previous meetings
- A report from the Chief Executive Officer
- A Dashboard Report
- A Secretariat Report
- A report from the General Counsel

As well as receiving papers on specific topics, the Board receives a Dashboard Report with key information on the Fund's performance and the Guardians' operations covering such matters as:

- Reporting against the Board's risk appetite
- Portfolio performance
- Use of active risk
- Performance of the Strategic Tilting programme
- Leadership Team, Investment Committee and Risk Committee activity
- Risk Basket investment activity
- NZ Super Fund and Guardians' financials
- The Elevate NZ Venture Fund
- Reporting on derivatives activity and counterparty exposure
- Liquidity
- Collateral management
- Human resources
- Stakeholder and external relationships
- Cyber security

**Board Biographical Information and Meeting Attendance**

The following table shows the attendance of Board members at scheduled Board and Committee meetings during the 2020/21 financial year.

| | Board | | Audit Committee | | EPRC* | |
|---|---|---|---|---|---|---|
| Board member | Meetings held and eligible to attend as a member | Meetings Attended | Meetings held and eligible to attend as a member | Attended | Meetings held and eligible to attend as a member | Meetings Attended |
| **Catherine Savage** | 4 | 4 | 3 | 3 | 2 | 2 |
| **Catherine Drayton** | 6 | 6 | 3 | 3 | 3 | 3 |
| **Stephen Moir** | 2 | 2 | 1** | 1 | 1 | 1 |
| **Henk Berkman** | 6 | 6 | 4 | 4 | 0 | 0 |
| **Simon Botherway** | 6 | 6 | 4 | 4 | 0 | 0 |
| **Doug Pearce** | 6 | 6 | 1 | 1 | 4 | 4 |
| **John Williamson** | 6 | 6 | 4 | 4 | 4 | 4 |
| **Rosemary Vilgan** | 3 | 4 | 0 | 0 | 3 | 2 |
| **Kirsty Mactaggart** | 2 | 2 | 1 | 1 | 0 | 0 |

* Employee, Policy and Remuneration Committee.
** All Board members attend the Audit Committee meeting that reviews the financial statements.

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**CATHERINE DRAYTON**
*LLB, BCom, FCA*
Chair of the Guardians Board
(as from 1 April 2021)

**Appointment:** 1 Nov 2018

**Term:** expires on 31 Oct 2022

**Skills and experience:**

Catherine is a professional company director with extensive governance and financial market experience. In her earlier executive life she was partner in charge of audit and advisory services for PricewaterhouseCoopers in Central/Eastern Europe, with her specialty being mergers & acquisitions.

**Other roles:**

Chair of Christchurch International Airport and Mint Innovation. Directorships of Southern Cross Medical Care Society, Southern Cross Hospitals and Genesis Energy Limited. Former Directorships include Beca Group, Ngai Tahu Holdings, technology company PowerbyProxi (which was acquired by Apple) and Meridian Energy.

**Committee membership:**

Audit (until 1 April 2021), Employee Policy and Remuneration (from 1 April 2021)

**JOHN WILLIAMSON**
*BA, LLB, LLM*
Chair of the Employee Policy and Remuneration Committee
(as from 1 April 2021)

**Appointment:** 30 May 2016, and reappointed 1 Oct 2020

**Term:** expires on 30 Sep 2025

**Skills and experience:**

John is a private company investor. He has deep operational and financial expertise gained from leadership roles in listed and private equity-owned companies across multiple sectors, including Group Chief Executive of ACG Education, Group Managing Director of Hellaby Holdings and senior leadership positions with Fletcher Building and Bendon. His experience spans distribution, manufacturing, industrial services, retail and education businesses in New Zealand and Australia.

John is a former Chair of Hockey New Zealand.

**Committee membership:**

Audit and Employee Policy and Remuneration

**DOUG PEARCE**
*BCom, ICD.D*
Chair of the Audit Committee
(as from 1 April 2021)

**Appointment:** 30 May 2016, and reappointed 1 Oct 2020

**Term:** expires on 30 Sep 2023

**Skills and experience:**

Doug has extensive experience in funds management and the capital markets. He was the founding Chief Executive Officer and Chief Investment Officer of the British Columbia Investment Management Corporation (bcIMC), one of Canada's largest institutional investors, with over $100 billion in assets under management. He held these positions from 1988 until he retired in 2014 and has over 35 years of experience in the capital markets.

Doug lives in Canada.

**Other roles:**

Doug sits on the boards of Fortis BC and the Alzheimer Society of British Columbia. He has also served as director and Chair of the Canadian Coalition for Good Governance (CCGG), the Pacific Pension Institute (PPI), and the Pension Investment Association of Canada (PIAC). He has a keen interest in business strategy and good governance and has been a member of the advisory board at the Forum for Women Entrepreneurs and the Faculty Advisory Board at UBC Sauder School of Business.

**Committee membership:**

Audit and Employee Policy and Remuneration

**HENK BERKMAN**
*PhD, MCom*

**Appointment:** 1 Oct 2018

**Term:** expires on 30 Sep 2022

**Skills and experience:**

Henk has extensive expertise in the areas of investment and corporate finance corporate governance. He is a Professor of Finance at the University of Auckland and has a fractional appointment as research Professor at the University of Sydney. He completed his PhD at Erasmus University Rotterdam and has published extensively in leading finance journals. He was adjunct director at Arthur Andersen Global Corporate Finance, and has acted as consultant for a number of multi-nationals and market regulators around the world.

**Other roles:**

Former directorships include SIRCA, ltd. a not-for profit organisation with the mission to promote financial research, and Rozetta Technology Ltd, a big-data analytics organisation based in Sydney. Henk also serves as President of the Dutch language school in Auckland.

**Committee membership:**

Audit

## PRINCIPLES (CONTINUED)

**SIMON BOTHERWAY**
*BCom*

**Appointment:** 1 Aug 2018

**Term:** expires on 30 Sep 2021

**Skills and experience:**

Simon is a professional director with a long history in investment management, investment regulation and supervision. He co-founded Brook Asset Management and was Chairman from 2004 to 2008. He is also a past President of the CFA Society of New Zealand and was a member of the CFA Asia-Pacific Advocacy Committee. Simon was appointed as a member of the Securities Commission in 2009 and chaired the Financial Markets Authority Establishment Board in 2010.

**Other roles:**

Simon is currently a director of Fidelity Life and previous board roles have included Serko Ltd and Callaghan Innovation.

**Committee membership:**

Audit

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**ROSEMARY VILGAN**
*B.Bus, Dip Sup Mgt, FAICD, FASFA*

**Appointment:** 1 Oct 2020

**Term:** expires on 30 Sep 2025

**Skills and experience:**

Rosemary was the Chief Executive Officer of QSuper from 1998 until late 2015. She was awarded an Honorary Doctorate by Queensland University of Technology (QUT) for her services to the University which included 12 years as a Councillor and was also granted Life Membership of the Association of Superannuation Funds of Australia (ASFA) for her services. Rosemary has held a variety of other business and not for profit positions over her business life and in recognition of her career, was named the 2013 Telstra Australian Businesswoman of the Year.

Rosemary has qualifications in business and superannuation and is a Fellow of both the Australian Institute of Company Directors and ASFA and a Member of Chief Executive Women.

Rosemary lives in Australia.

**Other roles:**

Rosemary is the Chair of the Commonwealth Bank Group Staff Superannuation Fund and the Chair of the Federal Government's Safety, Rehabilitation and Compensation Commission, a Member of the Cambooya Investment Committee, the Advisory Board for the Committee for Brisbane and a member of various QUT Committees.

**Committee membership:**

Employee Policy and Remuneration

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**KIRSTY MACTAGGART**
*B.Acc, CA*

**Appointment:** 1 Apr 2021

**Term:** expires on 30 Mar 2026

**Skills and experience:**

Kirsty currently works as an independent director and advisor. She has considerable international experience in the capital markets and was previously Head of Equity Capital Markets for Asia Pacific with fund manager Fidelity from 2005 until 2018. Before that Kirsty spent 11 years as Managing Director at investment bank Citigroup in both Europe and Asia.

Along with her experience working and living in London, Hong Kong and Singapore, Kirsty has spent extended periods of time on transactions in Korea, Thailand and Australia. Originally from Scotland, she now lives permanently in New Zealand.

**Other roles:**

Kirsty is on the boards of listed infrastructure investment company Infratil and private investment company BBRC Worldwide.

**Committee membership:**

Audit

## 3. BOARD COMMITTEES

**The Board should use committees where it will enhance its effectiveness in key areas, while still retaining Board responsibility.**

The Board and Committee structure for the Guardians is set out in the following diagram.

**BOARD**
Responsible for the overall management of the Guardians and investment of the Fund, including setting strategic direction, standards and risk appetite, and overseeing performance

**DELEGATION** ↓ **REPORTING** ↑

| AUDIT COMMITTEE | EMPLOYEE, POLICY AND REMUNERATION COMMITTEE (EPRC) | AD-HOC COMMITTEES |
|---|---|---|
| **Standing Committees** | | **Ad-hoc Committees** |
| Assists the Board with oversight of enterprise risk management (other than investment risk) and with ensuring the integrity of financial reporting, including oversight of:<br>• the financial statements and internal control environment<br>• the external audit process and relationship with the external auditor<br>• the internal audit function | Assists the Board with matters relating to human resource management policies and practices, including:<br>• managing the Board's employment relationship with the Chief Executive<br>• ensuring recruitment policies are designed to attract and retain quality staff while providing appropriate accountability for performance<br>• succession planning | Established as necessary to assist the Board on particular matters (such as to enable actual or potential conflicts of interest to be managed) |

The roles and responsibilities, reporting requirements, composition, structure and membership requirements of each standing Board Committee are set out in the respective committee's terms of reference. Copies of the terms of reference contained within the Board Charter are available on our website.

Each standing committee's terms of reference and performance are periodically reviewed by the Board. Minutes of committee meetings are provided to the Board for information and the Committee Chairs provide a verbal update on Committee meetings at each Board meeting. In addition, all Board members are able to attend any committee meeting.

The Board appoints the Chair of each standing committee. The Chair of the Board cannot be Chair of the Audit Committee or the Employee, Policy and Remuneration Committee. The Guardians' Head of Internal Audit has a direct reporting line to the Chair of the Audit Committee.

From time to time, the Board may establish a specific subcommittee to address a particular matter or for a particular purpose. This allows the Board to function effectively and to manage conflicts of interest.

The standing Board Committees meet quarterly, with additional meetings convened as necessary. Each committee is entitled to the resources and information it requires to operate effectively. The Chief Executive Officer and other members of the management team are invited to attend committee meetings as necessary.

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## BOARD COMMITTEE ACTIVITY

### AUDIT COMMITTEE

**Members**

Five members as at 30 June 2021:

- Doug Pearce (Chair)
- John Williamson
- Simon Botherway
- Henk Berkman
- Kirsty Mactaggart

**Meetings**

Met four times in the 2021 financial year (once with full Board attendance).

**Attendance**

See page 82 for details of meeting attendance by Committee members.

The external auditors are invited to each meeting and meet with the Committee independently of management at least twice a year.

The Head of Internal Audit attends each meeting and meets with the Committee independently of management at every meeting.

The Committee Chair had regular one-on-one meetings or calls with the Head of Internal Audit.

**Summary of matters considered during the year**

- Presentation from the Office of the Auditor General
- Annual work plan for the Valuation Working Group
- Valuation Working Group's report on annual activities and year-end valuations
- Annual financial statements for the Guardians, NZ Super Fund and Elevate Fund and year-end sign-offs and processes
- Annual report from the external auditor
- Annual statement of performance
- Annual appointment of the external auditor
- Six-monthly reports on high risk systems
- Report on identity and access management
- Annual external and internal audit plans
- Internal audit annual review of outcomes
- Internal audit reports (including reviews for: Standard Settlement Instructions; Database Management Processes; Conflicts of Interest Processes; Data Analytics – Payroll and Accounts Payable processes; Counterparty Credit Risk; Investment Manager Mandate Compliance; Proper Instruction Tool review; NetSuite implementation; System Access Management)
- Overview from the Finance Team (including tax)
- Insomnia Cyber Penetration Test
- Control effectivness for strategic risks
- Six-monthly enterprise risk reports
- Six-monthly policy attestation
- Audit Committee Calendar 2022
- Annual Tax Compliance Strategy update and IRD Cooperative Certificate
- Assurance reports for key suppliers
- Updates on IFRS changes

### EMPLOYEE POLICY AND REMUNERATION POLICY COMMITTEE (EPRC)

**Members**

Four members as at 30 June 2021:

- John Williamson (Chair)
- Doug Pearce
- Catherine Drayton
- Rosemary Vilgan

**Meetings**

Met for four scheduled meetings in the 2020/21 financial year.

**Attendance**

See page 82 for details of scheduled meeting attendance by Board members.

**Summary of matters considered during the year**

- Chief Executive Officer succession planning
- Chief Executive Officer remuneration
- Chief Executive Officer performance review
- Strategic activities achievement
- Bonus programme and remuneration summary
- Leadership development and talent management activities
- Talent management (including leadership development)
- Leadership Team succession planning
- People dashboard
- Standard employment contract review
- Organisational culture survey
- Review of terms of reference

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## 4. REPORTING AND DISCLOSURE

**The Board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures.**

Transparency and quality public reporting are critical to maintaining stakeholder confidence in the Guardians and Funds. The Guardians has adopted an approach of being as transparent as commercial sensitivities allow about its investment approach, Fund performance and the organisation in general. Our aim is to keep our stakeholders well informed about what we do and why we do it, as well as compliance. The quality of our reporting has been recognised with regular awards.

The Guardians is required to prepare and present a range of reports to its responsible Minister and Parliament to facilitate its oversight and accountability. The reporting framework for the Guardians' key reporting documents is included in its Communications Policy. The table below summarises the Guardians' reporting requirements.

| | |
|---|---|
| **Annual** | • Statement of Performance Expectations including, for the NZ Super Fund, forecasting fund performance and setting out priority activities for the year<br>• Annual Report summarising the year's performance and Statement of Performance reporting against the Statement of Performance Expectations<br>• Annual audited financial statements for the Guardians and Funds<br>• Annual review by Parliamentary Select Committee with participation from the Office of the Auditor-General |
| **Three-yearly** | • Statement of Intent setting out key strategic objectives and performance measures |
| **Six-monthly** | • Portfolio holdings |
| **Quarterly** | • Report to Minister of Finance covering important developments relating to the Funds and the Guardians |
| **Monthly** | • Portfolio performance<br>• Financial data provided to Treasury |
| **As it happens** | • Anything necessary to comply with the expectation that we will operate on a 'No Surprises' basis with the Minister of Finance<br>• Responses to questions from Parliament, media and via the Official Information Act 1982 |

The latest Statement of Intent, setting out the strategic outcome and performance measures for the five years from 2021–2026, was published in June 2021. The Annual Statement of Performance Expectations sets out strategic objectives and financial forecasts for the NZ Super Fund for the coming financial year, and was also published in June 2021.

The Guardians' objectives for the 2020/21 financial year are reported against in the Statement of Performance section of this Annual Report.

The Annual Report, which is tabled in the House of Representatives, is available to the public in hard copy and on our website.

The report contains both audited financial statements for each Fund, which are signed by the Chair of the Board and the Chief Executive Officer, and audited financial statements for the Guardians, which are signed by the Chair and one other Board member.

The Audit Committee and Board review the Guardians' and each Fund's financial statements. The Chief Executive Officer and the General Manager Finance and Investment Operations state in writing to the Board that the Guardians' and each Fund's financial statements present fairly, in all material respects, on the Guardians' and the relevant Fund's financial conditions and operational results, in accordance with relevant accounting standards. They are also required to sign off on the adequacy of the systems of internal control. The Guardians appeared before the Finance and Expenditure Select Committee in March 2021.

The Guardians received 17 requests under the Official Information Act 1982 during 2020/21 (three in 2019/20). Copies of our responses, where we consider these to be of material public interest, are available on our website.


The Guardians was the recipient of the 2021 Australasian Reporting Awards 'Report of the Year' prize for our 2019/20 Annual Report.

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**PRINCIPLES** (CONTINUED)

### 5. REMUNERATION

**The remuneration of directors and executives should be transparent, fair and reasonable.**

The remuneration of Board members is set by the Minister of Finance operating in accordance with the Fees Framework for Members of Statutory and Other Bodies Appointed by the Crown, and as such is not controlled by the Guardians. The remuneration set for Board members in the 2020/21 financial year was:

| | |
|---|---|
| Chair | $98,000 p.a. |
| Audit Chair | $53,900 p.a. |
| Board Members | $49,000 p.a. |

The Guardians' Human Resources Policy includes its remuneration policy. The Employee Policy and Remuneration Committee assists the Board in reviewing the remuneration policy and in setting the Chief Executive Officer's remuneration.

### 6. RISK MANAGEMENT

**Directors should have a sound understanding of the key risks faced by the business and should regularly verify that there are appropriate processes that identify and manage these.**

The Board sets the Guardians' overall appetite for risk and its approach to risk management. The Board has a number of strategies to safeguard the NZ Super Fund's and the Guardians' assets and interests and to ensure the integrity of reporting, including the Board's development of a risk-appetite statement outlining its expectations of the level of risk that is appropriate for the organisation and the NZ Super Fund to take on.

Our risk management approach for the Elevate Fund is different to the approach for the NZ Super Fund due to the requirements of the VCF Act and accompanying ministerial policy statement, including that:

- a single manager (NZGCP) be appointed to manage the Fund as a fund-of-funds; and
- the Fund be 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 Elevate Fund, 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 the Elevate Fund manager 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).

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NZGCP will monitor the investment risk of the venture capital funds that it invests in within a monitoring framework agreed with the Guardians. We manage the risk associated with the manager of the Elevate Fund through ongoing monitoring using our conviction process and through representation on a limited partner advisory committee (LPAC) in respect of the fund-of-funds.

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

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

To give the Board greater comfort on the effectiveness of the controls in place for identified risks, a control effectiveness assessment framework has been put in place. The framework is designed to support best-practice governance, enterprise risk and information management. Based on this framework, control effectiveness assessments have been undertaken and key risk indicators (KRIs) established for four of the Guardians' strategic risks. Control effectiveness assessments and KRIs will also be established for the Guardians' remaining strategic risks. The control effectiveness assessments and KRIs are reviewed by the Board.

Further information on the Guardians' approach to risk management (including the control effectiveness assessment framework) is contained on pages 92 - 97.

### 7. AUDITORS

**Boards should ensure the quality and independence of the external audit process.**

The Guardians does not appoint the external auditor; this is undertaken by New Zealand's Auditor-General. Graeme Bennett of EY has been appointed to carry out the external audit of the Guardians and the Funds on the Auditor-General's behalf. Typically the audit partner is rotated every six years. This is the sixth and final year of the rotation.

The Audit Committee is responsible for overseeing the external audit of the Guardians and the Funds. Accordingly, it monitors developments in the areas of audit and threats to audit independence to ensure the Guardians' policies and practices are consistent with emerging best practice in these areas. The external auditors are not permitted to perform non-audit work assignments without the approval of the Audit Committee. Any non-audit work conducted by the audit firm is disclosed in the financial statements.

Both the external auditor and Head of Internal Audit attend Audit Committee meetings. The Audit Committee meets with the external auditor and Head of Internal Audit independently of management as often as is appropriate, but not less than once per annum for the external auditor and twice for the Head of Internal Audit. The Guardians' Head of Internal Audit has a direct reporting line to the Chair of the Audit Committee.

## 8. SHAREHOLDER RELATIONS AND STAKEHOLDER INTERESTS

**The Board should respect the rights of shareholders and foster constructive relationships with stakeholders that encourage them to engage with the entity.**

### Accountability

The Guardians is an autonomous Crown entity and its assets, and the assets of the Funds, form part of the Crown's assets. The Guardians is accountable to Parliament, through the Minister of Finance, for those assets. A summary of the Guardians' reporting requirements is outlined on page 87. As noted on page 75, the Guardians is an autonomous Crown entity that operates at 'double arm's-length' from political stakeholders. This ensures that investment decision-making is on a prudent commercial basis.

The Minister of Finance may give directions regarding the Crown's expectations as to the Fund's performance, including its expectations regarding risk and return. The Minister may not, however, give any direction that is inconsistent with the duty to invest the Fund on a prudent, commercial basis. No directions were received in the 2020/21 financial year. We report on our progress in implementing the single direction received to date (May 2009, about our New Zealand investment activities) on page 46 of this Annual Report.

Along with the other New Zealand Crown Financial Institutions, the Guardians received an annual Letter of Expectations for 2020/21 from the Minister of Finance in December 2020. This letter and the Guardians' response are available on our website.

As well as reporting under the requirements of its legislation, the Guardians also reports under the 'no surprises' protocol with the Minister of Finance. This protocol requires the Guardians to inform the Minister in advance of any material or significant events, transactions and other issues that could be considered contentious or attract wide public interest.

### Stakeholder Engagement

We continue to refine our communications strategy to improve stakeholder and public awareness and understanding of the Guardians and the Funds. All key topics raised by stakeholders are presented in the materiality matrix on page 19 and our responses to these topics are included in this report.

*Stakeholder engagement initiatives undertaken during 2020/21 included:*

| Stakeholder | Why We Engage | Engagement Activity | Strategic Pillar |
|---|---|---|---|
| **Crown** | Our management of the NZ Super Fund is influenced by the performance expectations of the Minister, and the Elevate Fund must be managed in a way consistent with expectations expressed in a ministerial policy statement. | Engaging with the Minister on his Annual Letter of Expectations and our annual Statement of Performance Expectations<br>Annual appearances before the Finance and Expenditure Select Committee<br>Meetings between the Board and Treasury (at least once a year)<br>Joining the NZ Business and Parliamentary Trust<br>Hosting and meeting Members of Parliament to discuss operation of NZ Super Fund and wider investment issues | Best Portfolio<br>Trusted and Respected<br>Enterprise Excellence |
| **Our people** | Having a 'Great Team' is one of our strategic pillars. Our people are key to being able to meet our mission, vision and strategic goals. | Holding briefing meetings for all staff after each Board meeting<br>Holding Town Hall meetings for all staff<br>Getting feedback via a weekly survey using an online tool, as well as biannual culture and engagement surveys | Great Team |
| **Peer funds** | To build strategic investment relationships and inform best-practice portfolio management. | Participating in peer fund networks and initiatives e.g. participating in annual meetings of the International Forum of Sovereign Wealth Funds, One Planet Sovereign Wealth Fund Initiative and various team-level meetings<br>Participating in the annual cost survey of peer funds by CEM Benchmarking Inc<br>Hosting a forum for legal teams from peer funds (pre-COVID-19), with various other teams attending virtual workshops and events<br>Collaborating with, and providing support to, the other New Zealand Crown Financial Institutions | Best Portfolio<br>Trusted and Respected<br>Exterprise Excellence |
| **Investee companies** | To add value, protect our interests, better understand the impacts of investee companies on our portfolio and on society and the | Holding an Annual Director Day for internal and external appointees to investee company boards<br>Exercising voting rights in publicly listed securities | Best Portfolio |

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**PRINCIPLES** (CONTINUED)

| Stakeholder | Why We Engage | Engagement Activity | Strategic Pillar |
|---|---|---|---|
| | environment, and use our leverage, as appropriate, to encourage responsible business conduct. | Engaging with companies on responsible investment issues either directly or through BMO Global Asset Management (see pages 62 - 64 of the Responsible Investment Report for key engagement activities) | |
| **Others** | Building trust with stakeholders informs how we go about managing the Funds in a manner consistent with best-practice portfolio management and avoiding prejudice to New Zealand's reputation as a responsible member of the world community.<br><br>To better understand the impact of our portfolio on society and the environment. | Identifying key stakeholder expectations pertaining to Guardians' responsible investing activities and ESG matters, and the implications this has for the organisation (see page 57 of the Responsible Investment Report for further details about this stakeholder engagement activity)<br><br>Participating in responsible investment and climate change initiatives and groups such as the Carbon Disclosure Project, Investor Group on Climate Change and UN Principles for Responsible Investment<br><br>Participating in collaborative engagement activities including co-leading an engagement with social media companies on strengthening controls to prevent live-streaming and distribution of objectionable content following the Christchurch mosque terrorist attack<br><br>Hosting an education information session on the NZ Super Fund's purpose and investment activities with media and departmental stakeholders at Parliament<br><br>Supporting the work of the Sustainable Finance Forum in production of its Financing the Future Report | Best Portfolio<br><br>Trusted and Respected |

***Priorities for 2021/22 include:***

- Communicating our updated approach to sustainable finance and responsible investing
- Strengthening engagement with iwi across the motu
- Working with the Government and Parliament to ensure the Guardians remains successful
- Supporting development and leadership in the wider investment community

**Our Stakeholders**

In addition to the Crown, Parliament and the Minister of Finance, the Guardians' stakeholder groups include:

- employees and contractors;
- public of New Zealand;
- suppliers;
- asset and investment managers (for a full list of Managers and Custodians see page 118);
- co-investors;
- other Crown Financial Institutions;
- investee companies (and their stakeholders);
- investor groups;
- iwi;
- Māori;
- media;
- non-government organisations (NGOs);
- peer funds;
- prospective employees/recruitment pool;
- regulatory bodies in New Zealand and globally; and
- relevant New Zealand public sector agencies (e.g. Treasury; Ministry of Business, Innovation and Employment; Ministry for the Environment; Reserve Bank of New Zealand; Public Service Commission; Financial Markets Authority; Ministry of Foreign Affairs and Trade; Serious Fraud Office; Inland Revenue; Office of the Auditor-General).

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**Transparency**

We strive to be as transparent as possible about our management of the Funds and the way each Fund performs. Our stakeholders can access a wealth of current and detailed information easily on our website. This includes:

- information on our purpose and investment mandates;
- our governance framework and policies;
- how we invest and our approach to responsible investment;
- risk management;
- responses to Official Information Act requests;
- detailed historical performance figures for the NZ Super Fund since inception; and
- copies of media statements, speeches, publications and research papers.

Communications with stakeholders, and the external website, are managed in line with the Guardians' Communications Policy. This policy sets out controls and frameworks to ensure that all our communications are clear and accurate and assist in preserving and enhancing the reputation of the Guardians and of the Funds. A copy of this policy is available on our website.

**Industry Networks and Investment Groups**

We are an active participant in a wide range of industry networks and investor groups and have close working relationships with a number of government agencies, in particular the New Zealand Treasury. We also put significant effort into managing our relationships with peer funds, investment managers and potential co-investors.

We continue to be involved in a broad variety of global investment and responsible investment initiatives. Groups on which we are represented at Board/governance level include the International Centre for Pension Management; One Planet Sovereign Wealth Fund Working Group; New Zealand Corporate Governance Forum; New Zealand Corporate Taxpayer Group; and the Responsible Investment Association Australasia (RIAA).

We also participate at all levels in the International Forum of Sovereign Wealth Funds; Association of Superannuation Investors; Standards Board for Alternative Investments; International Corporate Governance Network; Institute of Finance Professionals; Pacific Islands Investment Forum; United Nations Principles for Responsible Investment and the Carbon Disclosure Project; and HRH The Prince of Wales' Sustainable Markets Initiative.

**Sponsorships**

We undertake a limited number of sponsorships in New Zealand to support activities or events that are consistent with our role and responsibilities. In 2020/21, we sponsored:

- RIAA's Responsible Investment Benchmark Report
- RIAA's Responsible Investment New Zealand Conference
- University of Auckland Nicola Crowley Memorial Scholarship for Women in Computer Science
- Auckland University of Technology Best Paper Award, New Zealand Finance Meeting
- New Zealand Assembly of Investment Chairs Event: Environmental, Social and Governance (ESG) Investing for COVID Recovery
- CFA Society Climate Change Analysis Event
- New Zealand CFO Summit's 'Finance Team contribution to ESG Initiatives' Award

Total sponsorship spend in 2020/21 was $28,350 (2019/20: $20,500).



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## RISK MANAGEMENT

# Risk is an integral part of our organisation. We take investment risk in order to achieve our mission. We also manage other complex non-investment risks. Understanding and managing these risks helps us ensure that the risks taken are appropriate for the returns anticipated.

The Board is responsible for reviewing and approving the Guardians' risk management framework. It does this on a regular schedule that is set out in the Board calendar. The Board also reviews the strategic risks identified by the Guardians' Leadership Team and executive Risk Committee every six months, and it reviews the Guardians' Risk Appetite Statement and Risk Assessment Framework on at least a five-yearly basis.

We have extensive risk management policies, procedures and internal controls for staff, external investment managers and other expert service providers. Our approach to managing investment risks is set out in our Statement of Investment Policies, Standards and Procedures and our Investment Risk Allocation Policy, all of which are available on our website.

The Board has a Risk Appetite Statement that outlines the amount of risk that management may take in order to achieve the business goals of the Guardians and the NZ Super Fund. These are the risks the Board can tolerate. The Board expects management to take steps to manage risks within the Board's risk appetite. The full statement can be found at Schedule 2 of the Risk Management Policy.

Our performance against this statement is measured and reported to the Board regularly, with any major breaches being notified on an exception basis.

The Board's Audit Committee reviews reports from management, and from internal and external auditors, on the effectiveness of systems for internal control and financial reporting. The Board delegates day-to-day management of risk to the Chief Executive Officer. Inherent in this delegation is a desire to ensure that day-to-day responsibility for risk management is at the business unit level, where managing risk is seen as part of the overall business process, and a robust framework of risk identification, evaluation, control and monitoring exists.

The Chief Executive Officer and the General Manager Finance and Investment Operations are required to confirm to the Board that the integrity of the financial statements is founded on a sound system of risk management, internal compliance and that control systems are operating efficiently and effectively in all material respects.

### CONTROL EFFECTIVENESS ASSESSMENT

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The control effectiveness assessment framework introduced in 2019/20 supports the identification of reliable evidence that our key controls are operating effectively, and that, either individually or in conjunction with other measures, the controls in place adequately manage the causes and impacts identified for each of our strategic risks. The framework is designed to provide the Board with a meaningful view of the controls in place for each of our strategic risks.

In 2019/20 we completed control effectiveness assessments for two of our strategic risks. Over the 2020/21 financial year, we tested the control effectiveness assessment framework by applying it to two more of our strategic risks:

1. *Change in key stakeholder support resulting in the failure to successfully execute the Guardians' mandate and achieve our overall purpose*

The Guardians is an autonomous Crown entity, legally separate from the Crown and operating at 'double arm's-length'. This means that, although the Guardians is still accountable to the government, it is governed by an independent Board and has operational independence regarding investment decisions.

In assessing and mitigating this risk, our focus is on ensuring we maintain healthy stakeholder relationships and that decision-makers understand the basis on which the Board and/or management is investing the Guardians' mandates. It is important that we make decision-makers aware of the implications of new or changing policies or decisions that could potentially undermine our ability to successfully invest the NZ Super Fund and the Elevate Fund.

Eight key controls were identified during the assessment. We found that the collective suite of controls in place were predominantly working effectively in mitigating the risk of a change in key stakeholder support leading to a failure to deliver on our mandate. This is evidenced by the excellent findings from the five-yearly independent review that was most recently completed by Willis Towers Watson in 2019 and the stakeholder engagement research performed by Colmar Brunton in 2019.

2. *Insufficient liquidity to meet our obligations and maintain our strategies*

Every single investment activity undertaken affects the liquidity position of the Fund. Ensuring we hold sufficient liquid assets to meet the Fund's liabilities in a timely manner is critical to our operations. It means that, at any given time, we have quick access to funds to manage the Fund's obligations and expenses, and allow for further investment.

Ten controls were identified and analysed as part of this assessment. The analysis concluded that the controls identified are predominantly designed and operating to manage and mitigate this risk effectively.

We expect to review three more strategic risks in 2021/22 for control effectivness, with the remainder completed in following years.

## RISK CULTURE

Our organisational culture shapes the behaviours and values we hold as we identify and respond to risk. This culture reflects how much risk matters to us, and this enables us to deliver on our purpose and maintain our reputation as a trusted world-class organisation.

At the end of 2018 we carried out a survey, run on our behalf by PwC, to help us understand our risk culture. Following the results of the survey, we developed an action plan to address the areas of recommended improvement, with a risk culture working group coordinating its implementation. In total we identified 13 actions that would improve our risk culture, with all but two of the actions implemented. The remaining action items include:

- simplifying policies to improve usability and embed into the business;
- reviewing how risk behaviour can be better reflected within the staff performance appraisal process.

Over the year, members of the Risk Committee ran a series of workshops with the wider team on why risk matters to us as an organisation. The objective of the workshops was to articulate to Guardians' staff the role of and inter-relationships between strategy, risk appetite, values, organisational culture, enterprise risk and investment risk, including how this translates to each individual role at the Guardians and the decisions our team members make on a daily basis.


In the second half of this coming year, we are scheduled to complete our second risk culture survey as part of our wider culture survey.

## RISK REPORTING FRAMEWORK

The Board receives an Enterprise Risk report every six months. This report is derived from the strategic risks and the emerging ones identified by the Guardians' business units and is facilitated by the Enterprise Risk team and the Risk Committee (a management committee). Each business unit maintains a risk register that identifies the risks that could impact on its specific objectives and activities, with related controls and action plans.

The table below summarises our risk identification and assessment process.

| Activity | Purpose | Outputs | Participants |
|---|---|---|---|
| 1. Environmental assessment | Identify emerging internal and external sources of risk that could impact the business<br>Audit Committee and Board asked what they are seeing externally that would be useful for us to consider<br>Forms an input into business unit risk register refresh | Summary of main changes affecting the business | Board<br>Audit Committee<br>Leadership Team<br>Business unit staff<br>Business unit Heads<br>Enterprise Risk team |
| 2. Business unit risk register annual review | Assess existing and potential emerging risks and the effectiveness of the controls in place | Updated business unit risk registers | Business units Heads<br>Business unit staff<br>Presented to the Risk Committee |
| 3. Consolidated outputs of business unit risk register reviews | Confirm or identify any new risks or any changes to existing strategic risks<br>Assess emerging risks and identify those which should be escalated in reporting | Draft summary of strategic risks and emerging risks | Enterprise Risk team<br>Risk Committee |
| 4. Review of strategic risks by Leadership Team | Evaluate identified strategic risks and emerging risks<br>Evaluate effectiveness of risk management plans and consider whether further actions are required | Refined draft summary of strategic risks and emerging risks | Leadership Team<br>Enterprise Risk team<br>Risk Committee |
| 5. Review of strategic risks by Board | Evaluate strategic risks and identify emerging risks<br>Evaluate effectiveness of risk management plans in place and consider whether further actions are required | Finalised summary of strategic risks and emerging risks | Board<br>Audit Committee<br>Leadership Team<br>Enterprise Risk team |



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## RISK MANAGEMENT (CONTINUED)

### STRATEGIC RISKS

While the Board is ultimately responsible for risk at the Guardians, our first line of defence against risk is everyone in the organisation. We take a holistic view and consider both investment and non-investment risks. The Enterprise Risk team identifies our strategic risks through consultation with business units as part of the environmental assessment and risk register reviews outlined earlier. The strategic risks are updated every six months and reported to the Leadership Team and Board, together with an outline of how they are managed.

The risks identified in the latest report to the Board, for June 2021, are set out below.

| Definitions of Risk Rating | | |
|---|---|---|
| Within tolerance | Risk is elevated | Action needs to be taken |

| Trend | Strategic Risk | Controls |
|---|---|---|
| **BEST PORTFOLIO** | | |
| | **Failure of value-adding strategies or opportunities** | • Robust process (Investment Committee oversight, application of Risk Allocation Process), Risk Budgets, portfolio reviews for new and existing opportunities<br>• Ongoing assessment of opportunities with wide and deep peer relationships and strategic partners<br>• Ongoing induction of staff in investment processes |
| | **Insufficient liquidity to meet our obligations and maintain our strategies** | • Liquidity Management Framework review<br>• Quantifi model responsible for producing liquidity-related calculations and output<br>• Daily data validation for liquidity and counterparty risk reporting<br>• New product approval process<br>• Portfolio regime-switching simulation model provides output on portfolio flexibility<br>• Portfolio flexibility (PRiSM) dashboard<br>• Liquidity and counterparty creditworthiness<br>• Exposure limit monitoring<br>• Funding and Treasury Group provides oversight of liquidity management<br>• Liquidity stress test<br>• Escalation channel from Investment Committee to Board |
| | **Key investment beliefs are inappropriate** | • Investment framework and associated processes<br>• New and Existing Opportunities Group<br>• Diversification considered during Risk Allocation Process<br>• Continued re-examination and stress testing of investment opportunities via the Risk Budget teams<br>• Hurdle/proxy for new investments is assessed by the Asset Allocation team; this team sits outside the access point teams<br>• Systematic scenario analysis<br>• Review of Investment Beliefs |
| | **Climate change related physical and transition risks** | • Climate change investment strategy sign off by Board, including carbon emission reduction targets and method<br>• Application and adherence to the SIPSP<br>• Integration of responsible investment into Investment Framework<br>• Pre-investment due diligence and post-investment integration<br>• Maintain and demonstrate responsible investment leadership and employ strong communications |

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| Trend | Strategic Risk | Controls |
|---|---|---|
| | | • Stakeholder engagement and education: correspondence, meetings, voting<br>• Benchmarking performance against United Nations Principles of Responsible Investment<br>• Monitoring of portfolio holdings by specialist research providers against ESG best practice standards<br>• Assess future shareholder action including further emissions reductions<br>• TCFD reporting sign-off: strategy, targets, metrics<br>• Annual portfolio carbon footprinting<br>• Adherence to statutory requirements |
| **GREAT TEAM** | | |
| | **Staff capability and capacity shortfall** | • Diversity and Inclusiveness Policy<br>• Individual development plans<br>• Succession planning, including talent plans and talent agenda<br>• Well-researched and documented procedures and processes<br>• Maintain appropriate total remuneration<br>• Culture shaping and measurement<br>• Training for back-up<br>• Stop activity or outsource if necessary |
| | **Incidents of fraudulent activity (including rogue traders, bribery and corruption)** | • Segregation of duties<br>• Standard Settlement Instruction (SSI) and proper instruction processes<br>• Staff recruitment screening processes<br>• Investment and operational due diligence<br>• Whistleblower hotline<br>• Annual fraud risk assessment<br>• Fraud awareness education monitoring<br>• Due diligence and ongoing monitoring of third parties |
| | **Wellness/Culture** | • Health, Safety, Security and Environment (HSSE) Committee comprising a number of staff is in place to review the adequacy of health and safety requirements across the organisation<br>• Adherence to government guidelines<br>• Key operational roles cover available |
| **TRUSTED AND RESPECTED** | | |
| | **Change in key stakeholder support resulting in the failure to successfully execute the Guardians' mandates and achieve our overall purpose** | • Stakeholder Engagement Plan<br>• Ongoing education of stakeholders on the Fund's purpose and activities<br>• Strong and ongoing relationship with Treasury/MoF office<br>• Effective 'no surprises' protocol in place<br>• Effective management and response to Five-Year Review<br>• Double arm's-length independence governance structure<br>• Trust and confidence<br>• Early relationships and clearly articulating our investment beliefs and independence to stakeholders<br>• SIPSP and Internal Frameworks and processes in place<br>• Ongoing public awareness/understanding and stakeholder perception/ relationship research |

## RISK MANAGEMENT (CONTINUED)

| Trend | Strategic Risk | Controls |
|---|---|---|
| | | • Anticipating potential governmental intervention and presenting well thought out papers on the implications and options available |
| **ENTERPRISE EXCELLENCE** | | |
| | **Cyber security event occurs** | • Application whitelisting<br>• Security event monitoring and incident management<br>• Application and operating system patching<br>• Network security controls<br>• Vulnerability management and penetration testing<br>• Malware prevention<br>• Data loss<br>• Restricted admin access and strong authentication<br>• Security awareness and education<br>• IT security governance and assurance |
| | **IT infrastructure or business systems connecting to our network ceases to be fit for purpose** | • Due diligence and monitoring of IT and business system providers<br>• Business continuity framework<br>• Regular maintenance and upgrade of IT infrastructure<br>• Regular monitoring of strength of network<br>• Secondary data centre<br>• Service Desk focus on delivery<br>• Focus on reducing IT fragility |
| | **Process failures leading to poor execution** | • Embedded systems for cross-team input on investment and non-investment deals<br>• Policies and procedures<br>• Access to external resources e.g. IT, Risk, Operations Due Diligence, Tax, Legal and Finance<br>• New opportunities approval process |
| | **Significant breach of legislation or regulation** | • Six-monthly policy and trading attestations by staff and contractors<br>• Ongoing Board and staff education<br>• Ongoing monitoring of new or changing regulations<br>• Relationships with external experts, providing access to timely and relevant information<br>• Six-monthly legislative change reporting to the Risk Committee and Audit Committee<br>• Six-monthly tax update to the Risk Committee and Audit Committee<br>• External whistleblowing 'Speak Up' service |

## MONITORING

Staff compliance with the relevant policies and procedures is monitored actively, as is compliance by external managers with the investment mandates we award them.

The following table sets out performance against key NZ Super Fund risk measures relating to rebalancing (designed to keep the Fund's overall volatility in line with the Reference Portfolio), Strategic Tilting active risk, active manager risk limits and target levels of liquidity.

| Performance Against Key Fund Risk Measures | | | | | | |
|---|---|---|---|---|---|---|
| | Target | 2020/21 | 2019/20 | 2018/19 | 2017/18 | 2016/17 |
| **INVESTMENT RISK MEASURES** | | | | | | |
| **REBALANCING** | | | | | | |
| Breaches of Fund rebalancing absolute risk limit | 0 | 1* | 0 | 0 | 0 | 0 |
| Breaches of Fund rebalancing relative risk limit | 0 | 0 | 0 | 0 | 0 | 0 |
| Breaches of manager limits | 0 | 0 | 0 | 0 | 0 | 0 |
| **TILTING** | | | | | | |
| Breaches of Strategic Tilting active risk limit | 0 | 0 | 0 | 0 | 0 | 0 |
| Breaches of replenishment liquidity level | 0 | 0 | 0 | 0 | 0 | 0 |
| **BUSINESS RISK MEASURES** | | | | | | |
| Active breaches of compliance with investment mandates** | 0 | 0 | 4 | 1 | 2 | 1 |
| Loss of data/IT services of more than 30 minutes | 0 | 0 | 0 | 0 | 1 | 0 |
| Regulatory non-compliance *** | 0 | 0 | 0 | 0 | 0 | 0 |
| Processes and profit & loss impacts of more than NZ$10m | 0 | 0 | 0 | 0 | 0 | 0 |
| Loss of key personnel**** | 0 | 0 | 0 | 0 | 0 | 0 |
| Operational incidents or errors rated as potentially high risk***** | N/A | 2 | 2 | 0 | 2 | 1 |

* No corrective action was taken as risk was within limits on days either side of the breach. We suspect a data issue is responsible for the breach.

** Our custodian reports any breaches of compliance with the Fund's segregated listed investment mandates to us for investigation and discussion with the manager involved (e.g., failing to sell a stock that had dropped out of an index within an agreed time period). All breaches, passive and active, are factored into our monitoring and reviews of our external and internal investment managers. In the case of serious incidents, a claims process may be available to the Fund.

*** This measure records incidents of misconduct or breach of law, contract or regulation resulting in a fundamental failure to achieve our purpose.

**** 'Loss of key personnel' is defined as: loss of personnel that would result in an investment strategy or activity having to stop.

***** The Guardians has a structured process for reporting, investigating and rectifying operational incidents and errors (e.g. a data entry error or a failure to correctly follow a process/instruction). Incidents or errors with potentially high or extreme impacts are reported to the Board's Audit Committee as soon as practicable. As our objective is to capture as much information as possible with a view to improving our processes and controls, we do not set a target for reducing the number of errors reported.

SECTION THREE GOVERNANCE 03

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# We are required to manage our Funds in line with best practice. To achieve this, we provide remuneration packages that will attract, motivate and retain a world-class team.

The employment market for professionals with the skill sets we require is highly competitive. We aim to build and maintain a team of talented people who can deliver value in terms of fund performance. The Guardians is made up of people with significant expertise and experience in investment management and research, portfolio design, risk management, investment operations, finance, human resources, law, IT and communications.

Fixed remuneration consists of salary, KiwiSaver and insurance benefits. Staff are also eligible to participate in a discretionary benefits scheme.

Unlike other public sector organisations in New Zealand, staff salaries at the Guardians are not funded through parliamentary appropriation. Instead, they are paid for by the NZ Super Fund.

## KEY FACTORS

In structuring remuneration at the Guardians appropriately, we are conscious of the need to:

- reinforce the long-term objectives of the NZ Super Fund;
- reinforce our investment strategy, which is based on a whole-of-Fund approach, rather than individual asset classes or investment portfolios;
- ensure remuneration encourages appropriate, but not excessive, risk taking; and
- be realistic about the periods for which staff are likely to remain with the Guardians and can reasonably expect to be rewarded for performance.

We aim to be clear about what people are paid for and why, and to be consistent, systematic and transparent in applying our remuneration policies. Our intent is to remunerate and reward people for their knowledge, skills, alignment to behavioural expectations and contribution in the roles they perform.

### Equal Pay

Our Human Resources Policy makes a specific commitment to achieving the principle of equal pay for equal work. We are confident that we are paying equally for work of equal value. In addition, we also measure our overall pay gap between male and female staff members (see page 26 for details). The overall pay gap at the Guardians reflects the predominance of males in more senior, higher-paying roles, and the predominance of females in more junior, lower-paying roles. We are addressing this through a focus on diversity, equity and inclusion, a flexible work policy, and our leave and benefits offering. While we acknowledge that our initiatives will take time before they make a meaningful difference, reducing the gender pay gap will continue to be an ongoing focus for us.

## BASE SALARIES

Employees receive a base salary, which is fixed and reflects their role, contribution and level of experience. Base salaries are based on:

- independently determined job sizes;
- employees' competence in roles; and
- current, independent remuneration market data, based on upper quartile, New Zealand financial services sector rates.

Salaries are reviewed annually with any increases subject to meeting minimum performance expectations.

## KIWISAVER

The Guardians matches employee contributions to KiwiSaver up to 8%.

## DISCRETIONARY BENEFITS SCHEME

A range of other benefits is also offered to permanent staff on a discretionary, non-contractual basis. These benefits include income protection, life, trauma and health insurance. The total cost to the Guardians of providing these benefits was $529,684 in 2020/21 ($451,487 in 2019/20).

## DISCRETIONARY INCENTIVE SCHEME

As is standard within the financial services sector, a portion of staff remuneration is at risk, based on performance.

The Guardians' discretionary bonus scheme is designed to incentivise employees and create a culture of good performance. All bonuses are at the discretion of the Board.

There are two components to the bonus scheme:

1. An individual performance component for which all permanent employees are eligible; and
2. A two-part NZ Super Fund performance component, which applies to permanent members of the Leadership, Investments and Portfolio Completion teams.

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Bonuses are calculated as a percentage of average base remuneration and vary up to a 100% achievement level. This 100% achievement level is summarised below.

| | Total | Individual Component | Fund Performance Component |
|---|---|---|---|
| **Leadership, Investments and Portfolio Completion teams** | 60% | 20% | 40%, composed of:<br>• Excess Return – 13.33%<br>• Value Added – 26.67% |
| **Other employees** | 20% | 20% | N/A |

On rare occasions the 100% achievement levels can be exceeded, where poor Fund performance in earlier years has been more than made up by subsequent strong Fund performance.

## REMUNERATION SUMMARY

| Benefit | Purpose and link to strategy | Operation |
|---|---|---|
| **Base salary** | Building and maintaining a great team<br><br>To reflect the responsibilities of the individual role and the individual's level of experience and competence in the role<br><br>Set at appropriate level to mitigate risks of over reliance on discretionary income | Reviewed annually.<br><br>Each individual has a base salary associated with their position. Positions are re-evaluated periodically.<br><br>Base salaries are determined by positions being evaluated by remuneration specialists using market evaluation systems.<br><br>The general approach is to benchmark against upper quartile, New Zealand financial services sector rates as a proxy for median funds management sector rates.<br><br>Individual performance is reviewed twice per year, and salary is reviewed annually. Eligibility for a salary review is subject to meeting minimum performance expectations. Employees with a performance rating outcome equivalent to Below Target are not eligible for a salary review. |
| **Individual objectives and performance bonus** | Promotes commitment to a positive, constructive workplace culture<br><br>Linked to employee behaviour consistent with the Guardians' desired workplace culture | Bonus payments are at the Board's discretion.<br><br>Employees with a performance rating outcome equivalent to Below Target are not eligible for a bonus. |
| **Fund component** | Based on NZ Super Fund financial performance outperforming Treasury Bill and Reference Portfolio returns<br><br>Incentivises whole-of-Fund approach and aligns with statutory mandate of maximising returns without undue risk<br><br>Based on NZ Super Fund performance over rolling four-year periods to encourage sustainable performance<br><br>Interim payments for each four-year period are made annually<br><br>Negative performance needs to be made up in subsequent years before further interim payments are made in respect of each four-year period | Bonus payments are at the Board's discretion.<br><br>Based on audited NZ Super Fund performance results.<br><br>Employees with a performance rating outcome equivalent to Below Target are not eligible for a bonus.<br><br>Available to the Leadership, Investment and Portfolio Completion teams permanent employees. |
| **Other benefits** | Building and maintaining a great team<br><br>Good employer | Discretionary life, income protection, trauma and health insurance. |



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## REMUNERATION AND DISCRETIONARY INCENTIVE SCHEME (CONTINUED)

### INDIVIDUAL PERFORMANCE COMPONENT (ALL STAFF)

All permanent staff are eligible for a discretionary bonus payment in respect of achievement relating to their individual performance (a maximum of 20% of base remuneration). All discretionary bonus payments are contingent on staff having both achieved their individual objectives, and having met minimum threshold performance requirements. This is captured in an assessment of performance against a set of expectations agreed in writing between the employee and their manager.

Individual performance is measured by reference to the individual's performance against behavioural criteria consistent with the Guardians' desired workplace culture. Performance is determined by the individual's manager and takes account of feedback from the individual as well as 360 degree input, and is calibrated with the Leadership Team.

The individual component of the bonus is payable annually.

### FUND PERFORMANCE COMPONENT (LEADERSHIP, INVESTMENTS AND PORTFOLIO COMPLETION TEAMS)

Staff who are members of the Leadership, Investments and Portfolio Completion teams are eligible for a further bonus (a maximum of 40% of base remuneration), based on two Fund performance measures:

1. Excess Return (1/3 of the 40%); and
2. Value Added (2/3 of the 40%).

These measures are based on whole-of-Fund performance, consistent with our Reference Portfolio approach to investing the NZ Super Fund. Under the Reference Portfolio approach, we work together to ensure our investment decisions improve the Fund's portfolio as a whole, rather than optimising performance within individual asset classes or sub-portfolios.

Payments against these measures are made over four years on a rolling average basis. This is intended to incentivise appropriate risk-taking and reflect the Fund's focus on long-term performance.

Payments made in any one year therefore reflect a four-year moving history. A new four-year 'Vintage' is initiated each financial year.

The Excess Return measure is calculated based on the Fund's actual return, less the 90-day Treasury Bill return (a proxy of the opportunity cost to the Government of investing in the Fund instead of paying down debt). The 100% achievement level bonus payable under this portion is 13.33% of average base remuneration over four years if the Fund exceeds the Treasury Bill return by 4% (i.e. outperformance of the Treasury Bill return is capped at 4%).

The Value Add measure is calculated based on the Fund's actual return, less the Reference Portfolio return. The 100% achievement level bonus payable under this portion is 26.67% of average base remuneration over four years if the Fund exceeds the Reference Portfolio return by 0.75% (i.e. outperformance of the Reference Portfolio is capped at 0.75%).

Interim payments for the Fund performance component are calculated based on actual average remuneration (excluding bonus payments) across the relevant period. The maximum
102 - 35 percentage paid out is a quarter of the Vintage in Year 1 and
102 - 36 increases by a quarter of the Vintage each year thereafter, in
102 - 37 line with the percentage of services rendered by the employee.

Therefore, staff members will have four separate Vintages running, paying out a maximum of 25% each, as summarised in the table below. Future Vintage payments do not vest – once an employee leaves the Guardians, no trailing bonuses are payable.

| Max out scenario | Vesting Level (% of services performed) | Less Previously Paid | Payable Current Year |
|---|---|---|---|
| 1st Vintage | 100% | 75% | 25% |
| 2nd Vintage | 75% | 50% | 25% |
| 3rd Vintage | 50% | 25% | 25% |
| 4th Vintage | 25% | 0% | 25% |
| **Total** | | | **100%** |

### INCENTIVE ACHIEVEMENT IN 2020/21

For eligible staff members:

- Payments made in respect of the Excess Return were 17.46% of average base remuneration for the equivalent period, compared with the 100% achievement level of 13.33%.*
- Payments made in respect of the Reference Portfolio return were 14.18% of average base remuneration for the equivalent period, compared with the 100% achievement level of 26.67%.
- The Fund exceeded the Excess (Treasury Bill) Return by an average of 11.58% p.a. over the past four years (29.39% in 2020/21). The average annual excess return in dollar terms over the period was $4.8 billion.
- The Fund exceeded the Reference Portfolio return by an average of 0.59% p.a. over the past four years (1.73% in 2020/21). The average annual value add in dollar terms over the period was $199.6 million.

The 100% achievement level refers to the target amount payable per Vintage. At any given time, we have four Vintages running, and each of these will have cumulative achievement levels between 0% and 100% throughout their four-year period. The associated interim payments also vary year to year.

*Strong Fund performance will improve the status of previously underperforming Vintages, and can result in catch-up interim payments. Over the past two years, we have experienced significant volatility in our performance, with lower returns last year and a very strong recovery this year. As a result, we have two Vintages that have made-up performance for previous underachievement. This has the effect of the Excess Return payments for the current year being over the normal maximum by 4.3%. This occurs occasionally.

Further information about remuneration can be found in our Human Resources Policy, available at: www.nzsuperfund.nz/publications/policies. See also Notes 3(a) and 3(b) of the Guardians' financial statements.

## CHIEF EXECUTIVE OFFICER REMUNERATION

One of the Board's most important decisions is deciding on the appointment and remuneration of the CEO.

### Process

The Employee Policy and Remuneration Committee (EPRC) (see page 85), based on independent advice from external remuneration specialists, reviews the CEO's remuneration annually and makes recommendations to the Board.

As is normal good practice, the Board aims to ensure alignment between the CEO's remuneration and the strategy and performance of the Guardians and its Funds.

Earlier this year, Te Kawa Mataaho Public Service Commission issued guidance on the application of pay restraint for highly paid public sector staff as the most appropriate response to the impact of COVID-19. The Guardians is not required to give effect to the guidelines, however the Board nevertheless had careful regard to the guidelines as relevant to the public sector environment in which we operate. From mid-April 2020, the CEO took a voluntary pay cut of 20% of base salary for six months, in line with the response to the COVID-19 pandemic from some public sector leaders. The outcome of the EPRC review saw no change to the CEO's base salary for the 2020/21 financial year.

Under the Crown Entities Act 2004, the consent of the Public Services Commissioner is required before the terms and conditions of employment of the CEO are finalised or varied.

### Incentive Achievement

The CEO (along with other members of the Leadership, Investment and Portfolio Completion teams) is eligible for bonus payments up to a maximum of 60% of base remuneration under the Guardians' discretionary bonus scheme.

The discretionary bonus scheme is designed to create strong alignment between the CEO's remuneration and the performance of the Guardians and the Fund. Consistent with the Guardians' long-term goals, bonus payments for Fund performance in any one year reflect a four-year rolling average.

| CEO Incentive Achievement Summary 2020/21 | |
|---|---|
| *Individual objectives and performance component* | |
| Based on the Board's assessment of individual performance, the payment made is 18% out of a maximum possible 20%. | |
| Total individual component: | $114,021 |
| *Fund performance - Excess Return component (% achieved; Excess Return payment)* | |
| The payment made in respect of the Treasury Bill return was 17.46% compared with the 100% achievement level of 13.33%. | |
| The Fund exceeded the Treasury Bill return by an average of 11.58% p.a. over the past four years (29.39% in 2020/21). The average annual excess return in dollar terms over the period was $4.8 billion. | |
| Total Excess Return payment: | $111,718 |
| *Fund performance - Value Add component (% achieved; Value Added payment)* | |
| The payment made in respect of the Reference Portfolio return was 14.18% compared with the 100% achievement level of 26.67%. | |
| The Fund exceeded the Reference Portfolio return by an average of 0.59% p.a. over the past four years (1.73% in 2020/21). The average annual value add in dollar terms over the period was $199.6 million. | |
| Total Value Add payment: | $92,179 |
| Total Fund Performance component: | $203,897 |
| **Total Incentive Achievement 2020/21:** | **$317,918** |

There are no trailing payments available once the CEO ceases service with the Guardians.



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## REMUNERATION AND DISCRETIONARY INCENTIVE SCHEME (CONTINUED)

### CHIEF EXECUTIVE OFFICER REMUNERATION

| Financial Year | 2020/21 | | 2019/20 | |
|---|---|---|---|---|
| | $ | % achieved | $ | % achieved |
| **Contractual Base Remuneration** | $611,000 | – | $611,000 | – |
| **Actual Base Remuneration Payment**<br>(A number of factors can mean there is a difference between the contractual and actual base. See footnote 1 for more detail) | $598,886 | – | $638,481 | – |
| **At Risk – Individual Component** | $114,021 | 18.0% | $119,170 | 18.0% |
| **At Risk – Fund Financial Performance 'Excess Return' on a 4 year moving average** | $111,718 | 17.5% (100% achievement level 13.3%) | $57,209 | 9.2% (100% achievement level 13.3%) |
| Cumulative Fund Performance can impact interim payments, resulting in catch up payments in a subsequent year. See page 100 for more detail. | | 4.2% | | (4.1%) |
| **At Risk – Fund Financial Performance 'Value Add' on a 4 year moving average** | $92,179 | 14.2% (100% achievement level 26.7%) | $39,993 | 6.7% (100% achievement level 26.7%) |
| Cumulative Fund Performance can impact interim payments, resulting in catch up payments in a subsequent year. See page 100 for more detail. | | (12.5%) | | (20.0%) |
| **KiwiSaver** | $73,050 | – | $68,087 | – |
| **Benefits (Life Income Protection, Trauma, and Health Insurance)[2]** | $6,691 | – | $5,593 | – |
| **Total Remuneration** | **$996,545** | **–** | **$928,533** | **–** |

1. Actual base salary payments can be lower or higher than contractual base salary depending on a number of factors, including the amount and value of leave taken, or from ceasing employment part way through the financial year. From April 2020, the CEO took a voluntary pay cut of 20% of base salary for six months.
2. Benefits include FBT where applicable, but exclude GST.

| 2018/19 | | 2017/18[3] | | 2016/17[4] | |
|---|---|---|---|---|---|
| $ | % achieved | $ | % achieved | $ | % achieved |
| $600,000 | – | $700,400 | – | $700,400 | – |
| $623,525 | – | $522,263 | – | $740,476 | – |
| $124,705 | 20.0% | N/A | N/A | $116,995 | 15.8% |
| $78,917 | 13.3% (100% achievement level 13.3%) | N/A | N/A (100% achievement level 13.3%) | $116,647 | 13.3% (100% achievement level 13.3%) |
| | – | | – | | – |
| $153,220 | 25.9% (100% achievement level 26.7%) | N/A | N/A (100% achievement level 26.7%) | $200,330 | 26.7% (100% achievement level 26.7%) |
| | (0.8%) | | N/A | | – |
| $78,429 | – | $15,668 | – | $35,233 | – |
| $5,114 | – | $5,398 | – | $7,431 | – |
| **$1,063,910** | **–** | **$543,329** | **–** | **$1,217,112** | **–** |

3. Figures for 2017/18 are to March 2018, when the previous Guardians' CEO ceased to be an employee (9 months).
4. Figures for 2016/17 and 2017/18 are for previous CEO.



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# 04.

We invest locally and globally to deliver greater certainty for New Zealanders in their retirement. We use external investment managers to gain access to specialised skills, markets and opportunities, as with our global real estate strategy.

## Operational Report
## Ngā Tīpakonga ā-Whakahaere

# Our investment activity is underpinned by a robust, high-quality operations platform.

In this section, we highlight achievements of our Operations Group for the Guardians' 2020/21 financial year.

## OPERATIONS GROUP

Our Operations Group is comprised of three teams:

- Investment Operations*
- Data Technology
- IT

### Investment Operations

The Investment Operations team is responsible for the day-to-day running of the NZ Super Fund's internally managed investment strategies and work alongside our custodian (Northern Trust) to support the implementation of new investment activity.

The team is involved in the full life cycle of a trade, ensuring trade bookings are accurate and that all collateral and settlement obligations are met. Controls and procedures are key to ensuring we minimise any potential risk to the Fund both operationally and reputationally.

### Data Technology

The Data Technology team is responsible for the technology components that contribute towards production of our investment data. They collaborate with the Data Services team and data stewards across the organisation to produce data for investment analysis, reporting and compliance.

### IT

Our IT function is responsible for all the data, enterprise systems, infrastructure and cyber security that enable us to manage our portfolio efficiently and effectively. IT is split into four teams: Business Solutions Group, Service Desk, Cloud Operations and Cyber Security.

*Business Solutions Group*

- This team delivers solutions through projects and advice to enable the Guardians to meet its strategic outcomes. To achieve this, the team aims to understand the business in order to provide IT and business solutions that are fit for purpose. This includes linking IT outcomes to the Guardians' strategy, and supporting and embedding change across the organisation. The Business Solutions Group has played a key role in working with the business units to prioritise the solutions and systems that the Guardians has identified are a priority.

*Service Desk*

- Our Service Desk supports the Guardians by resolving day-to-day IT issues and requests. This team manages a number of third-party suppliers that support the Guardians. The Service Desk ensures that our desktop systems are up to date and works closely with the Cloud Operations team to ensure that our systems are available every day. All projects delivered by the Business Solutions Group require a handover to the Service Desk to enable ongoing support.

*Cloud Operations*

- This team manages our Cloud infrastructure. The Guardians uses three primary Cloud platforms. In the last year the Cloud Operations team has been working with the Business Solutions Group on the Cloud Foundation project and a new Human Resources system.

*Cyber Security*

- Cyber security continues to be an ongoing operational priority. We use specialist advisors and suppliers to augment our in-house cyber security capabilities to ensure that our systems and data are secure. We have an ongoing programme of work that continues to uplift our capabilities in this area and that monitors threats to the Guardians.

* In 2020/21, the Investment Operations team moved to the Finance Group. Data Technology and IT now form the Technology Group.

## OPERATIONS GROUP HIGHLIGHTS

### Data Strategy

The Data Technology team has taken the lead in developing a data strategy. Developing a clearly coordinated, articulated and agreed data strategy is one of the Guardians' multi-year strategic priorities. This is driven by business goals articulated by a cross-organisation group of stakeholders.

The investment data strategy was approved in July 2020, articulating our data aspirations and capability requirements for the years ahead. The strategy spans three elements: governance, management and access. It includes an architectural vision and sets out the organisational change required to achieve the desired outcomes. Risks and prerequisites to enable progress have also been articulated.

An Investment Data Working Group has been established to drive the programme forward, with representatives from Investment Operations, Data Technology, Data Services and IT. A data operating model has been confirmed as part of the changes made to our Leadership Team structure. We now have three teams to directly support our data strategy. These are:

- Data Technology (previously Applications Development) – supports data flows and internal systems that underpin these data flows.
- Data Services – a new team was established in February 2021, to focus on overall data governance activities. This team is located in the Risk business unit.
- Data Analytics – an enabling team for data consumers has been approved, tasked with assisting them with selection and proper use of data, as well as data modelling and reporting tools. This team is located in the Investments business unit.

Part of the data strategy includes modernisation of technology such as the SuperMART system, which has been with the Guardians for 12 years. The Data Technology team delivered a new data hub in 2017, originally to provide data for liquidity and counterparty risk. This has since been expanded to include a rules-based calculation engine producing currency exposures. It is now being enhanced to provide a broader range of exposures data, through to constituent level. A new static data management platform was released in December 2020, with feature enhancements continuing as data is migrated.

### Cloud Foundations Project

Implementation has begun on a transformational piece of work to ensure we are taking advantage of our Cloud technology, while ensuring we keep our environment safe and up to date in the years to come. Through the Cloud Foundations Project, we have established a robust IT foundation and embedded the Microsoft Power Platform to gain insights and assist with decision-making across the organisation. The final stage of the project is now under way which includes the delivery of a suite of productivity apps and tools to provide new collaboration technology and access to a host of other cloud-based applications.

### Automation Project

Pioneering the use of the Guardians' new Microsoft Power Apps solution, our Investment Operations and IT Business Solutions teams worked together to implement a new automation process centred around new trade instructions.

Using a feature of Microsoft Power Apps, the project team identified and implemented an automation solution to improve the process for instructing new equity index swap transactions. Previously, this manual and time-consuming process had several pain points and was resource intensive. By re-engineering the process and applying automation, the project team's solution now saves up to 220 minutes per transaction. The automation has also significantly reduced the risk of human error in the future.

The Microsoft Power Platform capability has now been introduced across the organisation as part of the Cloud Foundations Project. In time, we hope to be able to adapt this workflow, make use of these new automation tools and apply them for further benefit across other processes undertaken by our Investment Operations team.

# As a global investor, a wide range of legal and regulatory requirements are relevant to our investment activities.

## MONITORING FRAMEWORK

Our Legal team identifies and monitors proposed changes to core legal obligations that affect our business and operations. We ensure the changes are appropriately considered when making investment decisions and/or incorporated in business-as-usual processes to ensure compliance. Legislative and regulatory changes of relevance to the Guardians are reported six-monthly via a regulatory radar and discussed at the Risk Committee and the Audit Committee.

## SUSTAINABLE FINANCE REGULATION

There is a fast-moving regulatory response to sustainability challenges with sustainable finance as an emerging area of focus. There are a number of initiatives concerning greater requirements for sustainability disclosures, expanded fiduciary duties and road maps issued by different sustainable finance bodies in different jurisdictions (including New Zealand). We are considering these themes as part of our update to our responsible investment approach.

## WESTERN SAHARA LEGAL ACTION

In 2020, proceedings were filed against the Guardians relating to our obligations under the New Zealand Superannuation and Retirement Income Act and application of our Responsible Investment Framework in regard to investments in the Western Sahara (defined by the United Nations as a Non-Self-Governing Territory) and the importation and use of phosphate on New Zealand farms the Fund invests in.

In March 2021, we welcomed the High Court judgement. The Court found the Guardians had:

- exercised its 'broad discretion' lawfully in establishing its Statement of Investment Policies, Standards and Procedures and Responsible Investment Framework;
- given proper consideration to whether or not it should maintain bond holdings in OCP (a Moroccan state-owned corporation that extracts phosphate from Western Saharan reserves), companies operating in Western Sahara, and the Fund's farms; and
- not unlawfully abdicated its responsibilities to Ballance and/or Ravensdown, the New Zealand fertiliser companies that use Western Saharan-sourced phosphate to manufacture fertiliser.

## SUBMISSIONS

During the year, we made the following submissions:

- to the Climate Change Commission on their draft advice paper, *Climate Action Aotearoa*
- to the New Zealand Infrastructure Commission on their consultation document, *He Tūāpapa ki te Ora, Infrastructure for a Better Future*
- to the New Zealand Parliament on the Urban Development Bill
- to the OECD Centre for Tax Policy and Administration on *Tax Challenges Arising from Digitalisation – Report on Pillar Two Blueprint* – Public Consultation Document (the submission was on a joint basis)
- to the International Financial Reporting Standards (IFRS) on sustainability reporting.

Copies of these submissions are available on our website.

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# We are committed to understanding and reducing our impact on the environment.

Today, significant activity is under way around the world, with organisations in both the private and public sectors seeking to reduce or eliminate their carbon emissions. Our own government's aspiration is for New Zealand to be carbon neutral by 2050.

As a responsible investor, we strive to integrate environmental considerations into our wider activities as an investment manager and hold ourselves accountable to the same guidelines. The biggest potential impact we can make is in our investment portfolio through the carbon reduction methodology we apply to our passive portfolio of listed equities, and in our engagement with the organisations we invest in. We measure the carbon footprint of our investment portfolio annually. See the Climate Change Report that begins on page 54 for more information.

Our organisational environmental performance falls under the remit of the Health, Safety, Security and Environment (HSSE) Committee, an executive committee made up of Guardians' staff. The Committee aims to improve staff awareness about the environmental impact of our activities and sets achievable targets for minimising this impact. Our goal is to reduce our emissions where possible and purchase offsets for the remaining unavoidable emissions (i.e. carbonzero).

The measures detailed are the greenhouse gas emissions for the corporate operations of the Guardians. They have been calculated in accordance with the guidance provided in ISO 14064-1:2006 and have been verified by Toitū Envirocare. A verification report is available on our website. When evaluating our environmental performance, Toitū Envirocare look at our emissions relative to our staff numbers, net asset value and turnover.

## GHG EMISSIONS DATA SUMMARY BY SCOPE ($TCO_2e$)

| | 2020/21 | 2019/20 | 2018/19 |
|---|---|---|---|
| Scope 1 | 0 | 0 | 0 |
| Scope 2 | 13t | 13t | 14t |
| Scope 3 | 43t | 1,604t | 1,954t |
| **Total gross emissions** | **59t** | **1,617t** | **1,968t** |

**Direct emissions (scope 1)** - Greenhouse gas emissions from sources that are owned or controlled by the Guardians. We produce no scope 1 emissions.

**Indirect emissions (scope 2)** - Greenhouse gas emissions arising from the generation of imported (purchased) electricity or heat consumed by the Guardians.

**Indirect emissions (scope 3)** - Greenhouse gas emissions that occur as a consequence of the activities of the Guardians, but occur from sources not owned or controlled by us. This includes our largest source of emissions: employee business travel.

GHG Emissions Summary 2013 - 2021


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## ENVIRONMENTAL PERFORMANCE (CONTINUED)

### GHG EMISSIONS BY SOURCE

| | | 2020/21 | | 2019/20 | | 2018/19 | |
|---|---|---|---|---|---|---|---|
| **ENERGY SOURCE** | **MEASURE** | **QUANTITY** | **$CO_2e$** | **QUANTITY** | **$CO_2e$** | **QUANTITY** | **$CO_2e$** |
| Electricity | kwh | 126,070 | 12.785 | 130,467 | 12.75t | 144,414 | 14.11t |
| International air travel (long haul) | km | 18,724 | 2.737 | 3,054,217 | 1,405.06t | 3,628,306 | 1,703.35t |
| International air travel (short haul) | km | 18,772 | 2.864 | 795,356 | 151.60t | 887,581 | 161.66t |
| Domestic air travel | km | 139,776 | 33.887 | 160,437 | 38.90t | 264,621 | 79.37t |
| Mileage (medium car) 1.6 – 2.0L | km | 4,533 | 1.08 | 9,027 | 2.24t | 4,673 | 1.16t |
| Taxi – cost | $ | 30,918.34 | 2.171 | 69,883.12 | 5.22t | 100,835.61 | 7.53t |
| Waste to landfill * | kg | 1,054.45 | 0.328 | 4,037.12 | 0.98t | 4,732.92 | 1.15t |
| **TOTAL** | | | **55.85t** | | **1,616.75t** | | **1,968.33t** |

* Non-hazardous waste.

### KEY PERFORMANCE INDICATORS (KPI)

| KPI | 2020/21 | 2019/20 | 2018/19 |
|---|---|---|---|
| FTE - Full Time Equivalent Employee | 163.00 | 154.80 | 139.60 |
| Funds under management ($ billions after costs, before NZ tax) | 59.79 | 44.82 | 43.11 |
| Turnover/revenue ($ millions) | 740.26 | 801.35 | 1,013.49 |

### GHG EMISSIONS PER KPI

| | 2020/21 | 2019/20 | 2018/19 |
|---|---|---|---|
| Total gross GHG emissions per FTE - Full Time Equivalent Employee | 0.34 | 10.44 | 14.10 |
| Total gross GHG emissions per Funds under management ($ billions after costs, before NZ tax) | 0.93 | 36.07 | 45.66 |
| Total gross GHG emissions per turnover/revenue ($millions) | 0.075 | 2.02 | 1.94 |

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Carbon emission figures for long-haul, short-haul and domestic air travel are calculated based on the travel class flown on each flight (e.g. business, economy, premium economy). The carbon emitted differs by travel class in accordance with the space occupied by the passenger; business class seats are larger than the standard berth, meaning fewer people can get on a plane. This results in more fuel being burnt per person to get the aircraft to its destination for business class in comparison to economy class.

Our waste figures are calculated based on quarterly audits by our contracted cleaning company.

Carbon emissions produced during the 2020/21 financial year were impacted significantly by COVID-19-related restrictions, which meant we disposed of less waste, used less electricity in the office, took fewer taxis and travelled less.

The Guardians is Toitū carbonzero certified for its third year in a row. To achieve certification, an organisation must measure its operational greenhouse gas emissions, develop a carbon reduction plan and offset its unavoidable emissions through high-quality carbon credits. These credits support projects meeting specified standards to store, avoid or reduce greenhouse gas emissions. This year we have elected to offset our operational carbon emissions plus 20% of the rolling average of the past five years, effectively becoming carbon negative.

The 2018/19 financial year has been set as our base year to measure emissions against as it was the year we first became carbonzero certified.

For the 2021/22 financial year we have set the goal of reducing our operational carbon emissions by 10% from our base year relative to our staff numbers, net asset value and turnover. Over this year we will work to progress initiatives to lower our operational impact on the environment, including developing a sustainable procurement strategy; reviewing our business travel policies to reduce carbon emissions where possible; raising awareness among staff including sharing resources for optionally measuring and offsetting personal carbon emissions and involving staff in practical initiatives. Measuring and offsetting emissions arising from commuting and working from home is not currently within the scope of our carbonzero measurement. We will look to include this in the future or review in parallel to our programme.

The carbon credits we have purchased through Toitū Envirocare to offset the past financial year's emissions support the Spraypoint Permanent Forest Sink Initiative forest regeneration project in Marlborough, New Zealand. This native forest is under a QEII covenant and consists of a diverse range of vegetation, including a threatened species of broom, as well as providing a breeding area for the kārearea, the New Zealand falcon. This project aligns with the United Nations' Sustainable Development Goals of 'Climate Action – Remove carbon dioxide from the atmosphere' and 'Life on Land – Restore indigenous biodiversity'.

TOITŪ
CARBON ZERO
ISO 14064-1 ORGANISATION



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# 05.

# Statement of Performance
# Te Pūrongo Whakahaere Pūtea



We partner with like-minded co-investors at home and around the world to help us gain access to the best investment opportunities. This year we continued our whanaungatanga relationship with Te Pūia Tāpapa, a Māori direct investment fund with a strongly aligned investment approach.

**This Statement of Performance measures the Guardians' progress against objectives and measurements set out in the Guardians' 2016 - 2021, 2019 - 2024, 2020 - 2025 and 2021 - 2026 Statements of Intent and the 2020/21 Statement of Performance Expectations.**

## STATEMENT OF PERFORMANCE - NZ SUPER FUND

As explained in our Statement of Intent, the first output of the Guardians is managing the NZ Super Fund. That output comprises five work streams covering: investment; risk management; cost control; governance; and organisational capability. For each work stream, we have set performance measures which, collectively, are performance measures for our output.

Note: Crown funding comes from capital contributions to the Fund made by the Government, as well as an appropriation to meet Board costs and audit fees (expenditure during 2020/21 of $446,768 compared with a budget of $728,000). All other costs (e.g. manager fees, staff salaries, research costs) are met by the Funds, and it is these costs which are the subject of our cost control work programme.

## OUTCOME MEASURES

The NZ Super Fund's ultimate outcome is to help reduce the tax burden of future New Zealand taxpayers arising from the cost of New Zealand Superannuation. This long-term outcome will begin to be achieved only when the Government starts to withdraw money from the Fund. Our legislation prescribes the level of annual capital contributions to the Fund required from the Government and only permits capital withdrawals once all the required contributions have been made. Treasury is currently forecasting that withdrawals will begin in 2034/35.

| MEASURE | EXPECTED OUTCOME – 1 YEAR | ACTUAL OUTCOME – 1 YEAR | EXPECTED OUTCOME – 10 YEARS | ACTUAL OUTCOME – 10 YEARS |
|---|---|---|---|---|
| Reference Portfolio returns relative to Treasury Bills (per annum) | +2.8%* | +27.67% | +2.8% p.a.* | +9.10% p.a. |
| Actual Portfolio returns relative to Reference Portfolio (after costs) | +1.0% | +1.73% | +1.0% p.a. | +1.93% p.a. |
| **MEASURE** | **POTENTIAL RP LOSS - 1 YEAR** | **ACTUAL RP RETURN - 1 YEAR** | **POTENTIAL RP LOSS - 10 YEARS** | **ACTUAL RP RETURN - 10 YEARS** |
| In a 1-in-100-year event, potential Reference Portfolio loss is equal to or worse than:** | -30.5% | +27.90% | - 5.9% p.a. | +11.08% p.a. |

* The expected outcome figures are forward-looking. In 2018/19, the Guardians conducted a review of the Fund's Reference Portfolio, resulting in the Reference Portfolio benchmark being increased from +2.7% to +2.8% and the expected Reference Portfolio return being decreased from 7.7% to 6.8%. These changes came into effect in July 2020. Further information on the Reference Portfolio and Treasury Bill measures are available on our website.

** This is a portfolio volatility measure. It shows the amount of value the Reference Portfolio could lose in a 1-in-100-year event. Or, to put it another way, there is a 1% chance of the Reference Portfolio losing this amount of value, as at 30 June 2021 approximately $18.2 billion, or more, within a year. If losses of this magnitude were to happen more often than is expected, then either a rarer-than-expected event has occurred or we have taken more risk than we assumed we had. For a fuller description of this measure, please refer to page 11 of our 2021–2026 Statement of Intent, which is available on our wesbite.

## OUTPUT MEASURES 2020/21

| Work Programme | Measure | Expected Outcome | Actual Result | Further Information |
|---|---|---|---|---|
| **Investment** | Reference Portfolio returns above Treasury Bills (per annum) over any 20-year moving average period | 2.8% p.a. | Achieved. | Outcome Measures table and our website. |
| **Investment** | Actual Fund returns above Reference Portfolio (p.a, net of costs) | 1.0% p.a. | Achieved. | Outcome Measures table and our website. |
| **Cost Control** | Costs relative to peers in CEM survey | Achieve a rating of 'median cost, value adding' or better. | Cost (5 year) – Achieved.<br>Value-Add (5 year) – Achieved. | See pages 127 - 128 for a full discussion and more information on the CEM survey and cost control. An executive summary of the survey results is also available on our website. |

| Work Programme | Measure | Expected Outcome | Actual Result | Further Information |
|---|---|---|---|---|
| **Risk Management** | In a 1-in-100 year event, potential Reference Portfolio loss | ≤-30.5% p.a. | Achieved. | See page 11 of our 2021–2026 Statement of Intent. |
| **Risk Management** | Transparency ratings | 10/10 in the Sovereign Wealth Fund Institute's (SWFI) Transparency Index; top quartile or higher ratings in other surveys. | Achieved 10/10 in the SWFI's Transparency Index.<br><br>No other surveys noted. | Refer to our website and www.swfinstitute.org for more information. |
| **Risk Management** | Annual updating of response to Santiago Principles | A self-assessment of adherence to the Santiago Principles completed and assured by an independent third party. | Completed. Our responses to the Santiago Principles were also assured by EY. | See our website and the website of the International Forum of Sovereign Wealth Funds at www.ifswf.org. |
| **Risk Management** | UNPRI Assessment over time | A or A+ rating for Strategy and Governance. | TBD for 2020/21. The UNPRI has indicated that the final assessment scores for 2021 will not be released until midway through 2022. | See page 59; the UNPRI's update for more information. |
| **Risk Management** | Published records of voting, Responsible Investment in Practice report | Voting reports completed and published on an ongoing basis. | Voting data published online via our voting reporting platform. | See our website and the Responsible Investment Report at pages 56 – 67. |
| **Risk Management** | UNPRI reporting | Report annually on the Guardians' performance and activities against the UNPRI's six principles for responsible investment. | Report completed. | See pages 59 - 61. |
| **Governance** | Outcome of independent reviews | Ongoing good reviews, review and our response published. No material concerns with the efficient and effective performance of the Guardians' functions. | N/A for 2020/21. The last independent review completed by Willis Towers Watson was in 2018/19. The Minister of Finance is required to commission these reviews on a five-yearly basis. Response published on our website. | See page 75 of our 2018/19 Annual Report and on our website. |
| **Organisational Capability** | Result of organisational culture survey | Achieve the constructive benchmark in the Human Synergistics OEI Survey, which translates to averaging above the 60th percentile for the constructive styles, and below the 50th percentile for both sets of defensive styles. | N/A for 2020/21. The last culture survey was completed in February 2020, with the next one due to be completed in 2022. | See pages 25 – 26 of our 2019/20 Annual Report. |

## STATEMENT OF PERFORMANCE - ELEVATE NZ VENTURE FUND

A further output of the Guardians relates to our other mandate, the Elevate Fund. The Guardians' role is to administer, and provide governance oversight of, the Elevate Fund and NZGCP as its manager. Our role is to ensure that the Elevate Fund is managed in line with best-practice investment management appropriate for New Zealand's venture capital markets, and in a manner that is consistent with:

1. The ministerial policy statement issued under the VCF Act; and
2. Avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

We deliver on this output by:

- Ensuring the management agreement with the external manager reflects our responsibilities as manager and administrator of the Fund;
- Ensuring that information reporting requirements relating to the flow of capital are covered in the management agreement;
- Monitoring and managing the performance of NZGCP; and
- Ensuring compliance with the Statement of Investment Policies, Standards and Procedures for the Fund.

The Elevate Fund is a fund-of-funds programme, managed by NZGCP.

We evaluate our managers by means of a conviction review. Our conviction means our confidence in a manager's competence to execute on an investment opportunity and the general quality and fit of the organisation. Key inputs include the manager's performance, governance and overall conduct.

| Measure | Expected Outcome | Actual Result | Further Information |
|---|---|---|---|
| Manager Monitoring - Conviction Review | Successful completion of annual conviction review | Achieved. | Page 71. |

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In this section, we report on the Guardians' progress against the activities that were highlighted in our Statement of Performance Expectations and which were key to our Strategic Plan for the 2020/21 financial year.

### AUCKLAND LIGHT RAIL

**STATUS:** In June 2020, the Government ended its process to select a delivery partner for Auckland light rail, ending our involvement in this project. We were pleased that our proposal, made in partnership with Canadian Fund CDPQ, was the Ministry of Transport-recommended proposal for the Auckland Light Rail Project. We continue to look for opportunities and value within the infrastructure sector.

**WORK PROGRAMME:** Investment

**STRATEGIC PLAN OBJECTIVE:** Best Portfolio

### SUSTAIN THE GUARDIANS' CULTURE

**STATUS:** Strategic activities related to culture and values are 100% complete. Work on the risk culture was 95% complete, with two remaining action items to be completed over a longer time frame. Completion of these activities is being tracked by the Board's Employee Policy and Remuneration Committee.

**WORK PROGRAMME:** Organisational Capability

**STRATEGIC PLAN OBJECTIVE:** Great Team, Best Portfolio

See page 28 for more information about our culture and values, and page 93 for information on the risk culture survey.

### CONTROL EFFECTIVENESS ASSESSMENT

**STATUS:** 100% complete.

**WORK PROGRAMME:** Risk Management, Governance

**STRATEGIC PLAN OBJECTIVE:** Best Portfolio, Efficiency and Innovation

See page 92 for more details.

### DATA STRATEGY

**STATUS:** 90% complete. Resourcing is the outstanding piece to complete for this objective. The recruitment process is under way, but we have found it difficult to attract people due to the market and specialist nature of data-related roles.

**WORK PROGRAMME:** Investment, Cost Control

**STRATEGIC PLAN OBJECTIVE:** Best Portfolio, Efficiency and Innovation

See page 107 for more details.

### HUMAN RESOURCES SYSTEM

**STATUS:** The first phase of implementation is 90% complete. The outstanding activity for this phase is the completion of user acceptance testing for the first three modules.

**WORK PROGRAMME:** Organisational Capability

**STRATEGIC PLAN OBJECTIVE:** Great Team, Efficiency and Innovation

See page 29 for more details.

### RESPONSIBLE INVESTMENT STRATEGY REVIEW

**STATUS:** 100% complete

**WORK PROGRAMME:** Investment

**STRATEGIC PLAN OBJECTIVE:** Best Portfolio

See page 56 for more details.

## MANAGERS AND CUSTODIANS

# In this section we set out a complete list of our investment managers and custodians.

The table below includes both those managers appointed by us and those who manage funds in which the NZ Super Fund and the Elevate Fund are invested. It identifies where new managers or custodians have been appointed or terminated over the past 12 months. It also identifies whether managers invest primarily in listed (or highly traded) or unlisted securities.

We disclose the value of the assets each manager manages on behalf of the NZ Super Fund and the Elevate Fund, as at 30 June 2021. We also disclose the value of each investment as a percentage of the total Fund. Our internal investment mandates are managed by the Guardians' in-house team of investment professionals.

### NZ SUPER FUND

| Managers appointed since 1 July 2020 | Year appointed | Fund name and focus areas | Type | Value of investment NZ$'m | % of Total NZSF (pre-tax) |
|---|---|---|---|---|---|
| **CBRE Global Investors** | 2021 | Asia Value Partners Fund VI – Development Real Estate | Unlisted | 0* | 0.0% |
| **Citadel** | 2020 | Citadel Kensington Global Strategies Fund II – global macro | Listed | 155 | 0.3% |
| **Columbia Capital** | 2020 | Columbia Spectrum IV-A, LP - telecommunication spectrum licences | Unlisted | 0* | 0.0% |
| **Deutsche Finance International** | 2021 | European Value Add Fund II – Secondary Real Estate | Unlisted | 0* | 0.0% |
| **Grain Management** | 2020 | Grain Spectrum Holdings III, LP - telecommunication spectrum licences | Unlisted | 110 | 0.2% |
| **UBS** | 2021 | Segregated mandate – passive global equities | Listed | 2,380 | 4.0% |

* Several mandates appear as zero value – this is either because the mandates were awaiting funding as at 30 June 2021 or the managers have returned such capital that the residual balance of the mandate is less than $1 million.

| Mandates closed since 1 July 2020 | Year appointed | Fund name and focus areas | Type | Value of investment NZ$'m | % of Total NZSF (pre-tax) |
|---|---|---|---|---|---|
| **Direct Capital** | 2005 | Direct Capital Partners Fund III – New Zealand growth capital | Unlisted | | |
| | 2014 | George H Limited co-investment | Unlisted | | |

| Incumbent managers as at 30 June 2021 | Year appointed | Fund name and focus areas | Type | Value of investment NZ$'m | % of Total NZSF (pre-tax) |
|---|---|---|---|---|---|
| **Adams Street Partners** | 2007 | Adams Street Partnership Fund – 2007 Non-US Fund – buyout, funds-of-funds | Unlisted | 6 | 0.0% |
| **Apollo Global Management LLC** | 2014 | Financial Credit Investment II – US life settlements | Unlisted | 178 | 0.3% |
| | 2017 | Financial Credit Investment III – US life settlements | Unlisted | 208 | 0.4% |
| **AQR Capital Management, LLC** | 2009 | CNH Convertible Arbitrage Fund – a diverse convertible arbitrage fund | Listed | 352 | 0.6% |
| | 2018 | Segregated mandate – multi-factor investing | Listed | 3,634 | 6.1% |
| **Ascribe Capital** | 2010 | American Securities Opportunity Fund II – distressed credit | Unlisted | 6 | 0.0% |

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| Incumbent managers as at 30 June 2021 | Year appointed | Fund name and focus areas | Type | Value of investment NZ$'m | % of Total NZSF (pre-tax) |
|---|---|---|---|---|---|
| **Bain Capital** | 2013 | Bain Capital Credit Managed Account (NZSF), L.P. - distressed credit | Unlisted | 163 | 0.3% |
| **BlackRock Investment Management UK** | 2013 | Segregated mandate – passive global equities | Listed | 2 | 0.0% |
| | 2016 | Global Merger Partners LLC – merger arbitrage | Listed | 732 | 1.2% |
| | 2020 | Segregated mandate – fixed interest securities (ex Treasuries) | Listed | 2,885 | 4.9% |
| **Bridgewater Associates** | 2006 | Bridgewater Pure Alpha Fund II, Limited – global macro | Listed | 581 | 1.0% |
| **Canyon Capital Advisors** | 2010 | Canyon Distressed Opportunities Fund (Delaware) – distressed credit | Unlisted | 0* | 0.0% |
| | 2016 | Canyon NZ DOF Investing L.P. – distressed credit | Unlisted | 291 | 0.5% |
| **Carlyle** | 2020 | Carlyle FRL, L.P. Insurance runoff | Unlisted | 437 | 0.7% |
| **CIM** | 2019 | N-Data Center Portfolio Co-Investor, LLC – US & Canadian real estate | Unlisted | 163 | 0.3% |
| **CITP** | 2011 | China Infrastructure Partners V Fund – Chinese infrastructure and related investments | Unlisted | 100 | 0.2% |
| **Coller Investment Management** | 2007 | Coller International Partners V Fund – global private equity secondaries | Unlisted | 0* | 0.0% |
| **Devon Funds Management** | 2011 | Segregated mandate - New Zealand active equities | Listed | 423 | 0.7% |
| **Direct Capital** | 2009 | Direct Capital Partners IV – New Zealand growth capital | Unlisted | 3 | 0.0% |
| | 2016 | Direct Capital Partners Fund V – New Zealand growth capital | Unlisted | 70 | 0.1% |
| | 2020 | TR Group Limited co-investment | Unlisted | 21 | 0.0% |
| | 2020 | Direct Capital Partners Fund VI – New Zealand growth capital | Unlisted | 15 | 0.0% |
| **Elementum Advisors** | 2010 | Segregated mandate - natural catastrophe reinsurance | Unlisted | 444 | 0.7% |
| **FarmRight** | 2010 | Rural land in New Zealand | Unlisted | 509 | 0.9% |
| **Global Forest Partners** | 2007 | Global Timber Investors 8 - timber assets in Australia, New Zealand and South America | Unlisted | 94 | 0.2% |
| | 2009 & 2012 | AIF Properties - Australian Timber | Unlisted | 140 | 0.2% |
| | 2010 | Global Timber Investors 9 - timber assets in New Zealand, Australia, Asia, Africa and South America | Unlisted | 32 | 0.1% |
| **HarbourVest Partners** | 2006 | HarbourVest International Private Equity Partnership V Fund - buyout, funds-of-funds | Unlisted | 6 | 0.0% |
| **Hillwood** | 2019 | US Industrial Club V, LP - Industrial development assets in US | Unlisted | 83 | 0.1% |
| **H.R.L. Morrison & Co** | 2006 | Global infrastructure mandate, which includes our investment in RetireAustralia, Flow Systems, Longroad Energy and Galileo Green Energy | Listed and Unlisted | 906 | 1.5% |

## MANAGERS AND CUSTODIANS (CONTINUED)

| Incumbent managers as at 30 June 2021 | Year appointed | Fund name and focus areas | Type | Value of investment NZ$'m | % of Total NZSF (pre-tax) |
|---|---|---|---|---|---|
| | 2009 | Public Infrastructure Partners Fund - social infrastructure such as educational and healthcare facilities, and student accommodation | Unlisted | 121 | 0.2% |
| **Kohlberg Kravis Roberts (KKR)** | 2007 | KKR Asian Fund - Asian private equity | Unlisted | 0* | 0.0% |
| | 2008 | KKR 2006 Fund - global private equity | Unlisted | 6 | 0.0% |
| | 2014 | KKR Energy Income and Growth Fund (EIGF) and private equity flexible mandate in North American natural gas exploration and production, midstream, downstream and/or energy infrastructure and services | Unlisted | 105 | 0.2% |
| **Leadenhall Capital Partners** | 2013 | Natural catastrophe reinsurance | Unlisted | 332 | 0.6% |
| **Mint Asset Management** | 2015 | Segregated mandate - New Zealand active equities | Listed | 537 | 0.9% |
| **Movac** | 2016 | Movac Fund 4 – New Zealand growth capital | Unlisted | 44 | 0.1% |
| | 2020 | Movac Fund 5 – New Zealand growth capital | Unlisted | 7 | 0.0% |
| **Neuberger Berman** | 2018 | Neuberger Berman Principal Strategies Merger Fund (NZSF), LP - merger arbitrage | Listed | 338 | 0.6% |
| **Northern Trust** | 2013 | Segregated mandate - passive global equities | Listed | 7,380 | 12.4% |
| | 2015 | Segregated mandate – passive emerging markets equities | Listed | 720 | 1.2% |
| | 2018 | Segregated mandate – multi-factor investing | Listed | 3,513 | 5.9% |
| **Pencarrow Private Equity** | 2011 | Pencarrow IV Investment Fund – New Zealand growth capital | Unlisted | 13 | 0.0% |
| **Pioneer Capital Partners** | 2013 | Pioneer Capital Partners Fund II - New Zealand growth capital | Unlisted | 15 | 0.0% |
| | 2016 | Pioneer Capital Partners Fund III – New Zealand growth capital | Unlisted | 105 | 0.2% |
| | 2021 | Pioneer Capital Partners Fund VI – New Zealand growth capital | Unlisted | 0* | 0.0% |
| **State Street Global Advisors** | 2009 | Segregated mandate - passive global listed equities (large cap) | Listed | 8,339 | 14.1% |
| | | Segregated mandate - passive global listed equities (small cap) | Listed | 3 | 0.0% |
| | | Segregated mandate – passive emerging markets equities | Listed | 936 | 1.6% |
| **Two Sigma** | 2020 | Two Sigma Absolute Return Macro Enhanced Fund, LP - global macro | Listed | 156 | 0.3% |
| **Waterman Capital** | 2010 | Waterman Fund II – New Zealand growth capital | Unlisted | 18 | 0.0% |
| **Willis Bond & Co** | 2010 | Willis Bond Institutional Partners - private real estate in New Zealand | Unlisted | 0* | 0.0% |

* Several mandates appear as zero value – this is either because the mandates were awaiting funding as at 30 June 2021 or the managers have returned such capital that the residual balance of the mandate is less than $1 million.

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In addition, the Guardians and certain Fund Investment Vehicles have engaged various asset managers to oversee the day-to-day operations of certain investments, including the NZ Super Fund's interests in Australian rural land and New Zealand hotels.

## ELEVATE FUND

| Managers appointed since 1 July 2020 | Year appointed | Fund name and focus areas | Type | Value of investment NZ$'m |
|---|---|---|---|---|
| New Zealand Growth Capital Partners | 2020 | New Zealand venture capital | Unlisted | 17 |

| Custodian | Role |
|---|---|
| **MASTER CUSTODIANS** | |
| Northern Trust | Global Master Custodian |
| **NON-MASTER CUSTODIANS APPOINTED FOR A SPECIFIC PURPOSE** | |
| Wells Fargo and Bank of New York Mellon | Holding collateral associated with our investment in catastrophe-linked securities (including catastrophe bonds) |
| Deutsche Bank | Holding collateral associated with our investment in catastrophe-linked securities (including catastrophe bonds) |
| Citibank | Holding collateral associated with our investment in catastrophe-linked securities (including catastrophe bonds) |
| HSBC (Hong Kong and Shanghai Banking Corporation) | Holding collateral associated with our investment in catastrophe-linked securities (including catastrophe bonds) |
| Euroclear Bank NA/SV | Holding collateral required under sale and repurchase (repo) transactions |
| The New Zealand Guardian Trust Company of New Zealand, the Public Trust and Foundation Corporate Trust | Trustees for holding money relevant to tax pooling arrangements |
| State Street Bank and Trust Company | Custodian for the Fund's securities lending programme |
| Northern Trust Investments, Inc. | Custodian for the Fund's securities lending programme |

Investment mandates managed by the Guardians' in-house team of investment professionals include:

- Active Direct
- Active NZ Equities
- Beta Implementation and Completion
- Cash and Currency Management
- Direct Arbitrage
- Event-Driven Opportunity
- Infrastructure Transition Assets
- Life Settlements
- Opportunistic Volatility
- Passive NZ Equities
- Securities Lending
- Sovereign Bonds
- Strategic Tilting
- Tactical Credit
- US Transition Assets



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GUARDIANS OF
NEW ZEALAND
SUPERANNUATION

—

ANNUAL
REPORT
**2021**

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# 06.

Our local advantage means that we are strongly weighted to New Zealand-based assets relative to the size of the local market, and over time, we have built up a large local portfolio of investments in New Zealand, including a number of hotels.

## Financial Statements
## Ngā Pūrongo Tahua

# Explaining our Financial Statements

**PAULA STEED**
GENERAL MANAGER FINANCE AND INVESTMENT OPERATIONS

**STEWART BROOKS**
GENERAL MANAGER FINANCE AND RISK

**This Annual Report includes three sets of financial statements: those for the Guardians of New Zealand Superannuation (the Guardians); the New Zealand Superannuation Fund (NZ Super Fund); and the Elevate NZ Venture Fund (Elevate Fund).**

The Guardians is a Crown entity that manages two separate investment mandates: the NZ Super Fund and the Elevate Fund. All Guardians' costs are recovered from the two mandates, except for a small appropriation, funded by Parliament, for Board fees and expenses. As a result it has a 'zero' net surplus for the year. It includes mainly employee and employee-related expenses and is prepared in accordance with Public Benefit Entity (PBE) Accounting Standards.

The financial statements for the NZ Super Fund are among the largest and most complex for a New Zealand reporting entity. Its financial statements have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). Key elements of these financial statements are discussed on the following pages.

The Elevate Fund was formed in December 2019 with the main purpose of investing in venture capital opportunities in New Zealand. Day-to-day management of the Elevate Fund is outsourced to New Zealand Growth Capital Partners (NZGCP), a fellow Crown entity. During the year, the Elevate Fund made a drawdown of $23 million and made their first investments, appointing four managers. The financial statements are prepared in accordance with PBE Accounting Standards.

The financial statements for the Guardians are on pages 130 - 156; the NZ Super Fund are on pages 157 - 220; and the Elevate Fund are on pages 221 - 249.

A five-year financial summary for the NZ Super Fund can be found on page 125.

Of further note, remuneration information can be found on pages 144 - 145 (Note 3(b)). This information should be read alongside the explanation of our remuneration framework on pages 98 - 103.

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## STEWART BROOKS, GENERAL MANAGER FINANCE AND RISK STEPPING DOWN

I would like to take this opportunity to let you know that after more than 17 years at the Guardians, I have decided to retire and step down from my role as General Manager, Finance and Risk. Appointed as the Guardians' fourth staff member, I have watched the team grow over the years, and I can honestly say it has been a privilege and a great pleasure to be part of a world-class team with clear and aligned purposes.

I would also like to congratulate Paula Steed on her appointment to the new role of General Manager, Finance and Investment Operations from July 2021, and I wish her all the best. She is a great addition to the organisation and I have no doubt that the team will continue to deliver exceptional results under her leadership.

# NZ Super Fund Five-Year Financial Summary

| | 2017 | 2018 | 2019 | 2020 | 2021 | |
|---|---|---|---|---|---|---|
| | NZD'000 | NZD'000 | NZD'000 | NZD'000 | NZD'000 | |
| **Balance sheet** | | | | | | |
| Cash and cash equivalents | 2,167,742 | 1,356,550 | 2,709,203 | 5,408,046 | 6,235,598 | Increased cash in 2021 to continue to meet margin calls for our derivative financial instruments and pay the income tax liability of $2b due in July. |
| Investments | 34,403,663 | 37,943,023 | 40,242,349 | 39,486,309 | 53,070,293 | Increased value of investments, primarily due to strong returns in the global equity markets. |
| Other assets | 1,184,490 | 610,120 | 355,835 | 583,564 | 657,925 | Lower levels of rebalancing activity around the 2021 year end has resulted in less net pending sales and purchases of investments. |
| Other liabilities | (2,382,830) | (540,809) | (654,998) | (1,171,762) | (669,076) | |
| **Net assets excluding income tax** | **35,373,065** | **39,368,884** | **42,652,389** | **44,306,157** | **59,294,740** | |
| Income tax payable | (504,696) | 128,151 | (302,009) | (257,725) | (1,887,279) | Strong market returns have resulted in a significant amount of income tax payable for the 2021 year. |
| Deferred tax liability | (364,723) | (475,301) | (34,286) | (51,128) | (42,866) | |
| **Net assets** | **34,503,646** | **39,021,734** | **42,316,094** | **43,997,304** | **57,364,595** | |
| Contributed capital | 14,882,079 | 15,382,079 | 16,382,079 | 17,842,079 | 19,962,079 | Crown contributions to the NZ Super Fund - suspended in 2009 and restarted in 2017. |
| Other reserves | 19,621,567 | 23,639,655 | 25,934,015 | 26,155,225 | 37,402,516 | Predominantly cumulative net profit after income tax expense. The significant increase in 2021 is again due to strong market returns. |
| **Total equity** | **34,503,646** | **39,021,734** | **42,316,094** | **43,997,304** | **57,364,595** | |
| **Income statement** | | | | | | |
| Investment income | 756,432 | 828,623 | 982,887 | 807,059 | 740,262 | Interest and dividend income, both of which vary with the amount invested and market returns. |
| Investment gains | 5,566,624 | 3,659,785 | 1,944,667 | 4,931 | 12,775,611 | Changes in the value of our investments - fluctuates in line with market movements. The significant increase represents the strong returns in global equity markets in the 2021 year. |
| **Net operating income** | **6,323,056** | **4,488,408** | **2,927,554** | **811,990** | **13,515,873** | Our biggest expense is external manager and performance fees. These costs vary from year to year in line with investment returns. The decrease in costs in 2021 is primarily due to: a drop in trade expenses – the 2020 year saw a significant restructure of the portfolio; and lower professional advisor costs incurred through due diligence activity. |
| Operating expenditure | (121,333) | (106,204) | (109,468) | (132,201) | (130,772) | |
| **Profit before income tax expense** | **6,201,723** | **4,382,204** | **2,818,086** | **679,789** | **13,385,101** | The NZ Super Fund makes returns to the Crown in the form of tax payments. See pages 128-129 for further discussion |
| Income tax expense | (1,255,031) | (350,787) | (525,166) | (465,250) | (2,146,656) | |
| Profit after income tax expense | **4,946,692** | **4,031,417** | **2,292,920** | **214,539** | **11,238,445** | |



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# Understanding the NZ Super Fund's Financial Statements

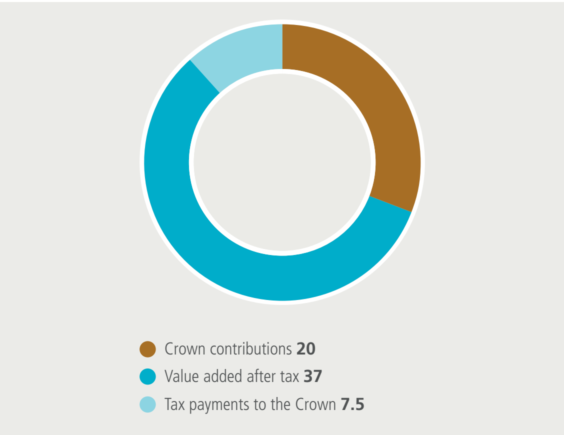
**This section explains the key elements of the NZ Super Fund's financial statements and discusses the main financial features of the 2020/21 year.**

## BALANCE SHEET

The NZ Super Fund's balance sheet (or Statement of Financial Position) is presented in the first section of the NZ Super Fund's financial statements and shows how much the NZ Super Fund is worth at a particular date. The balance sheet is a key measure for the NZ Super Fund – while the year-on-year performance is important, central to our mission is how much we grow the size of the NZ Super Fund over the longer term.

The total value of the NZ Super Fund to the Crown should be considered gross of its tax liabilities (since these are ultimately payable to the Crown). As at 30 June 2021, the NZ Super Fund's balance sheet totalled $57.4 billion, made up of $20.0 billion contributed by the Crown and $37.4 billion added by the Guardians from investing those contributions (after tax). Further to this, the NZ Super Fund has also repaid $7.5 billion to the Crown via tax payments since investing began.

**NZ Super Fund's Balance Sheet and Taxes Paid to the Crown (NZD billion)**




### Cash and Liquidity

Liquidity is key for any business. For the NZ Super Fund it is fundamental when it comes to paying for new investments; meeting derivative collateral calls (margin calls) when they fall due; and paying suppliers (including the Guardians). With markets continuing to be relatively volatile, our cash reserves at the end of June 2021 remained high, enabling us to pay margin calls as they fell due and in preparation for the $1.9 billion income tax liability due in July 2021.

### Investments and Fair Value

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The majority of the assets and liabilities of the NZ Super Fund are measured at 'fair value'. Fair value is defined as the price that one party would be happy to pay, and another party would be happy to accept.

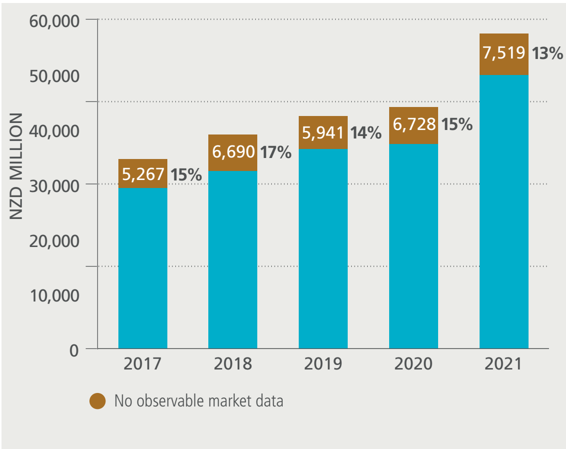
Assets for which observable market data is available (e.g. listed equities, quoted on a stock exchange) are relatively simple to value. For assets where no observable market data is available (e.g. private companies), valuation can be significantly more complex and often subjective, requiring judgement by management.

During 2020/21, the NZ Super Fund proportionally decreased its derivative financial instruments and increased its physical holdings, specifically in listed global equities.

The strong returns seen in financial markets during the year led to a significant increase in the value of the NZ Super Fund's investment portfolio, in particular, for investments for which market data was readily available and values could be updated daily, if not more frequently. For those investments with more complex and subjective valuations, it is simply not practical to update values as frequently. While the most up-to-date valuations available have been obtained for these investments at 30 June 2021, by their nature, there remains a degree of uncertainty regarding their value.

The NZ Super Fund's investment in assets of this type has proportionally decreased from the prior to the current year:

**Value of Fund Investments With No Observable Market Data**




Further information on the techniques for valuing assets and the fair value hierarchy have been outlined on pages 171 -175 (refer Note 2(a)).

### Contributions

During the year a total of $2.1 billion was received from the Crown. Contributions are received on a monthly basis and can be seen on the balance sheet under equity/contributed capital. As always, we thank the Crown for their contributions.

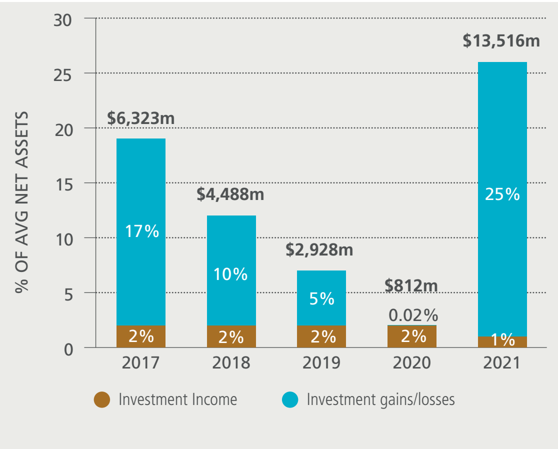
## INCOME STATEMENT

Net operating income is the annual income generated by the NZ Super Fund before expenses have been deducted. There are two key components to net operating income:

1. Investment income – primarily the income from interest and dividends; and
2. Investment gains/(losses) – changes in the value of the NZ Super Fund's investments, along with the impact of changes in the value of the New Zealand dollar on investments held in foreign currencies. This balance has been reasonably volatile in recent years, driven largely by the performance of global equity markets.

In 2020/21 the NZ Super Fund's net operating income was $13.5 billion. Mark-to-market gains on the value of the NZ Super Fund's investments in particular increased significantly from the previous year, due to strong returns in the global equity markets. Refer to the Investment Report on pages 34 - 41 for more information.

**Investment Income and Gains/Losses as a % of Average Net Assets**




## EXPENSES

### MANAGEMENT FEES

$36.7m

**WHAT DO THEY PAY FOR?**

Payments to external managers to pay for operating costs they incur in managing the NZ Super Fund.

**WHY DO WE INCUR THE COST?**

External managers help drive investment performance, net of all costs, by providing specific expertise and economies of scale which we could not otherwise replicate efficiently and effectively in-house.

**CURRENT YEAR COST**

This year, base manager fees remained constant at 0.09% as a percentage of average net assets.

### PERFORMANCE FEES

$7.4m

**WHAT DO THEY PAY FOR?**

High performance and alignment of interests between the NZ Super Fund and external managers.

**WHY DO WE INCUR THE COST?**

This is a form of profit-sharing when returns exceed a predefined percentage hurdle. These fees are only earned by a small number of external managers if they outperform specified benchmarks and can vary considerably year-on-year.

**CURRENT YEAR COST**

Performance fees were 0.01% as a percentage of average net assets.

### OTHER COSTS

$42.1m

**WHAT DO THEY PAY FOR?**

Legal, financial and tax advisors, consultants and trading commissions.

**WHY DO WE INCUR THE COST?**

Pursuing complex, large investment opportunities in public and private markets requires us to incur due diligence costs as well as compliance costs required to comply with international regulatory and tax regimes.

**CURRENT YEAR COST**

Other costs were 0.08% in proportion to average net assets and include (in order of significance): trading fees paid on investment activity; custodian fees; and other professional fees paid to external parties.

### PERSONNEL COST

$44.6m

**WHAT DO THEY PAY FOR?**

Salaries, travel costs, training and professional development.

**WHY DO WE INCUR THE COST?**

To prudently manage the NZ Super Fund, we employ top-tier talent and often have to travel to key markets to access the best investment opportunities.

**CURRENT YEAR COST**

Guardians employee costs remained steady at 0.09% as a proportion of average net assets.



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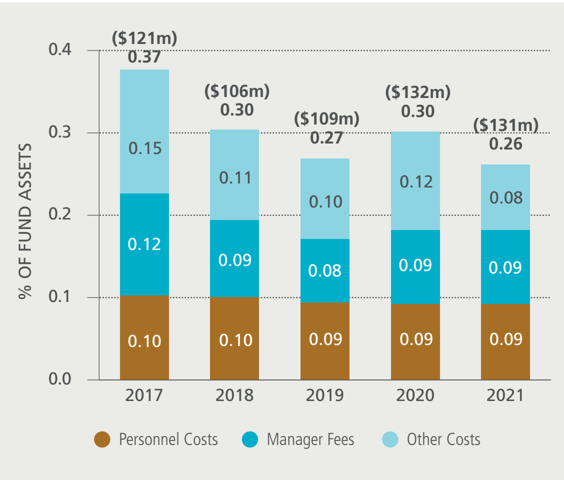
## FINANCIAL REPORT (CONTINUED)

In 2020/21 the cost of managing the NZ Super Fund's investments was $130.8 million. As a percentage of average net assets, total costs were 0.26%.

The decrease of 0.04% in costs from 2019/20 is primarily due to the increase in average net assets, driven largely by the growth in the value of our passive global equities – on a dollar-for-dollar basis, a relatively inexpensive part of our investment portfolio. Overall total expenditure has decreased slightly in dollar terms as a result of:

- lower professional advisor costs incurred through due diligence activity for prospective investments (-$7 million);
- lower trade expenses (the prior year saw a restructure of the investment portfolio) (-$5 million); offset by
- increased performance fees due to a stronger-than-benchmark performance by certain investment managers (+$5 million); and
- increased personnel costs, following an increase in bonus accrual which reflects the significant increase in performance compared with 2019/20 and an increase in staff members (+$5 million ).

**Cost of Managing the Fund as a % of Net Assets**




The net expected return of an investment (gain or loss after taking account of all expenditure) is central to all our investment decisions. We therefore seek to:

- ensure that any fees paid to external managers are in line with market standards and the complexity of the investment;
- include the cost of due diligence in our assessment of whether an investment opportunity is worth pursuing, relative to the potential risk-adjusted value;
- choose cost-effective access points for all investment opportunities; and
- benchmark our costs against those of our peers through the annual CEM Cost-Effectiveness survey (as noted on page 114).

In terms of reporting costs in our financial statements, the legal structure through which we invest and the way in which we incur costs can have a significant impact. Where the NZ Super Fund incurs costs directly, e.g. external manager fees billed directly, these are separately reported as part of the NZ Super Fund's expenditure. However, indirect costs that are incurred by investment vehicles in which the NZ Super Fund holds an interest, e.g. manager fees incurred within managed fund structures, are netted off against returns within investment gains and losses.

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Indirect investment management costs, specifically manager and performance fees, for 2020/21 were $34 million and $9 million respectively.

This additional cost disclosure is based on unaudited information and derived using a variety of methodologies – such as reporting provided by investment managers; additional enquiries of managers; and our calculations as at the end of the year.

In providing this additional information, we seek to give a full and complete indication of investment management and performance fee costs.

It is important to note that the majority of accrued performance fees are only paid on realisation of an investment; therefore, it is possible that not all accrued fees will ultimately be paid.

The impact of costs on the NZ Super Fund's performance remains a key consideration when assessing new and existing mandates and the allocation of funds.

### Income Tax

The NZ Super Fund pays income tax in New Zealand to the New Zealand Government and is also subject to foreign tax depending on the source of its offshore income.

Since inception, the NZ Super Fund has paid $7.5 billion in tax to the New Zealand Government (plus a further $1.9 billion paid in July 2021 relating to the 2020/21 financial year), making it one of the largest taxpayers in New Zealand. Tax paid is considered a return to the Crown in calculating the NZ Super Fund's performance.

Generally only dividends in relation to physical equity investments are subject to tax. Gains on these investments are not subject to any further tax, and any losses are not tax deductible.

Tax is therefore paid on actual dividends received from New Zealand and most listed Australian equity investments.

New Zealand tax on foreign equities (excluding most listed Australian equity investments) is calculated notionally under New Zealand's 'Fair Dividend Rate' regime. A 'deemed dividend' of 5% p.a. of the market value of the foreign equity investment is taxable while actual dividends received are not subject to tax.

Income or losses arising from the NZ Super Fund's other investments (e.g. equity derivatives, bonds and cash deposits) are generally subject to 28% New Zealand tax.

The Elevate Fund is subject to tax in New Zealand on income and expenditure attributions within the fund-of-funds model. Given the investment profile of the Elevate Fund (New Zealand early-stage growth companies) and the tax exemption on gains from New Zealand shares from which the Elevate Fund benefits, taxable income is not anticipated.

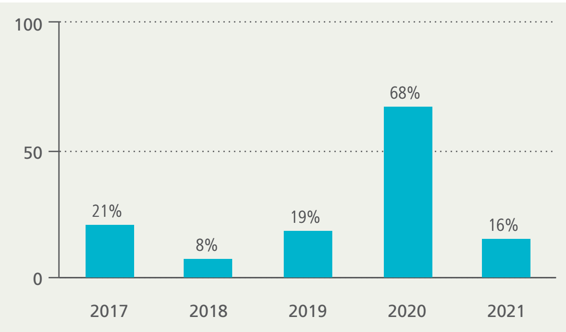
*Tax Rate Volatility in a Nutshell*

The NZ Super Fund's tax rate is very volatile. Our tax affairs are complex, and there are many contributors to this volatility, but the main driver is how our physical global equities are taxed under New Zealand's deemed dividend tax regime. This regime taxes these assets at the rate of 5% of market value, rather than being taxed based on actual market movements.

In simple terms, this means that in any given year if our return on global equities exceeds 5%, then our tax rate will be lower than 28%, and if our returns are less than 5% then our tax rate will be higher than 28%. The 2019/20 and 2020/21 financial years illustrate both of these outcomes.

In 2020/21 the NZ Super Fund had an effective tax rate of 16%, compared with 68% in 2019/20.

**NZ Super Fund Tax Expense as a Percentage of Net Income (Effective Tax Rate)**




*NEW ZEALAND*

**INCOME TAX PAID** $554 million during 2020/21 year (including tax paid by controlled subsidiaries). This included payments of $234 million relating to 2020/21 and payments of $320 million relating to 2019/20.

An additional $1.9 billion owing for 2020/21 was paid in July 2021 (at the third provisional tax due date of 28 July 2021). This is our largest tax payment since inception.

*OFFSHORE*

**WITHHOLDING TAXES PAID** $9.7 million (excludes underlying taxes paid by the NZ Super Fund's investments).

## TAX GOVERNANCE

The Guardians has a co-operative compliance agreement with the New Zealand Inland Revenue Department (IRD) which covers both mandates – the NZ Super Fund and the Elevate Fund.

Under our agreement with the IRD, tax positions taken by the NZ Super Fund and the Elevate Fund on their activities are disclosed to the IRD before the New Zealand tax return is filed. This provides us with real-time engagement with the IRD and enhanced certainty around our tax position before we file our return.



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## STATEMENT OF RESPONSIBILITY

For the year ended 30 June 2021

The Board and management of the Guardians of New Zealand Superannuation accept responsibility for the preparation of the annual financial statements and the Statement of Performance of the Guardians of New Zealand Superannuation and Group and the judgements used in them.

The Board and management of the Guardians of New Zealand Superannuation accept responsibility for establishing and maintaining a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of financial and non-financial reporting of the Guardians of New Zealand Superannuation and Group.

In the opinion of the Board and management of the Guardians of New Zealand Superannuation, the annual financial statements and the Statement of Performance for the year ended 30 June 2021 fairly reflect the financial position, operations and cash flows of the Guardians of New Zealand Superannuation and Group.

**CATHERINE DRAYTON**

CHAIR
24 September 2021

**DOUG PEARCE**

BOARD MEMBER
24 September 2021

## CONSOLIDATED STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

| For the year ended 30 June 2021 | NOTE | ACTUAL | ACTUAL | BUDGET (UNAUDITED) |
|---|---|---|---|---|
| | | 2021 | 2020 | 2021 |
| | | NZD'000 | NZD'000 | NZD'000 |
| Revenue | 2(a) | 57,769 | 52,829 | 75,525 |
| Expenses | 2(b) | 57,769 | 52,829 | 75,525 |
| **Surplus/(Deficit) for the year** | | **-** | **-** | **-** |
| Other comprehensive revenue and expense | | - | - | - |
| **Total comprehensive revenue and expense for the year** | | **-** | **-** | **-** |

The attached notes form part of, and should be read in conjunction with, these financial statements.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| As at 30 June 2021 | NOTE | ACTUAL | ACTUAL | BUDGET (UNAUDITED) |
|---|---|---|---|---|
| | | 2021 | 2020 | 2021 |
| | | NZD'000 | NZD'000 | NZD'000 |
| **ASSETS** | | | | |
| **Current assets** | | | | |
| Cash and cash equivalents | 4(b) | 2,356 | 2,588 | 685 |
| Receivables from exchange transactions | 4(c) | 11,964 | 8,710 | 13,571 |
| Receivables from non-exchange transactions | 4(c) | 57 | 55 | - |
| Prepayments | | 732 | 521 | - |
| **Total current assets** | | **15,109** | **11,874** | **14,256** |
| **Non-current assets** | | | | |
| Receivables from exchange transactions | 4(c) | 2,678 | 1,816 | - |
| **Total non-current assets** | | **2,678** | **1,816** | **-** |
| **Total assets** | | **17,787** | **13,690** | **14,256** |
| **LIABILITIES** | | | | |
| **Current liabilities** | | | | |
| Payables under exchange transactions | 4(d) | 1,073 | 971 | 1,352 |
| Employee entitlements | 4(e) | 13,109 | 9,891 | 11,113 |
| Deferred lease incentive | 4(f) | 86 | 86 | 86 |
| **Total current liabilities** | | **14,268** | **10,948** | **12,551** |
| **Non-current liabilities** | | | | |
| Employee entitlements | 4(e) | 2,678 | 1,816 | 865 |
| Deferred lease incentive | 4(f) | 341 | 426 | 340 |
| **Total non-current liabilities** | | **3,019** | **2,242** | **1,205** |
| **Total liabilities** | | **17,287** | **13,190** | **13,756** |
| **Net assets** | | **500** | **500** | **500** |
| **PUBLIC EQUITY** | | | | |
| Accumulated comprehensive revenue and expense | | - | - | - |
| General equity reserve | | 500 | 500 | 500 |
| **Total public equity** | 4(g) | **500** | **500** | **500** |

The attached notes form part of, and should be read in conjunction with, these financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN PUBLIC EQUITY

| For the year ended 30 June 2021 | ACTUAL | | |
|---|---|---|---|
| | GENERAL EQUITY RESERVE | ACCUMULATED COMPREHENSIVE REVENUE AND EXPENSE | TOTAL |
| | NZD'000 | NZD'000 | NZD'000 |
| **Balance at 1 July 2019** | **500** | **-** | **500** |
| Total comprehensive revenue and expense for the year | - | - | - |
| **Balance at 30 June 2020** | **500** | **-** | **500** |
| Total comprehensive revenue and expense for the year | - | - | - |
| **Balance at 30 June 2021** | **500** | **-** | **500** |

The attached notes form part of, and should be read in conjunction with, these financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

| For the year ended 30 June 2021 | NOTE | ACTUAL | ACTUAL | BUDGET (UNAUDITED) |
|---|---|---|---|---|
| | | 2021 | 2020 | 2021 |
| | | NZD'000 | NZD'000 | NZD'000 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| **Cash was provided from:** | | | | |
| Receipts from the Crown | | 445 | 771 | 728 |
| Receipts from the NZ Super Fund | | 52,452 | 52,945 | 64,768 |
| Receipts from the Elevate Fund | | 774 | - | 460 |
| Interest received | | 2 | 26 | 60 |
| Goods and services tax | | - | - | 25 |
| Other receipts | | 109 | 68 | 67 |
| **Total cash inflow from operating activities** | | **53,782** | **53,810** | **66,108** |
| **Cash was applied to:** | | | | |
| Payments to Board members | | (380) | (379) | (404) |
| Payments to suppliers | | (14,414) | (14,025) | (20,352) |
| Payments to employees | | (39,089) | (39,316) | (48,287) |
| Goods and services tax | | (131) | (62) | - |
| **Total cash outflow from operating activities** | | **(54,014)** | **(53,782)** | **(69,043)** |
| **Net cash flows provided by/(used in) operating activities** | | **(232)** | **28** | **(2,935)** |
| **Net cash flows provided by investing activities** | | **-** | **-** | **-** |
| **Net cash flows provided by financing activities** | | **-** | **-** | **-** |
| **Net increase/(decrease) in cash and cash equivalents** | | **(232)** | **28** | **(2,935)** |
| Cash and cash equivalents at the beginning of the year | | 2,588 | 2,560 | 3,620 |
| **Cash and cash equivalents at the end of the year** | 4(b) | **2,356** | **2,588** | **685** |

The attached notes form part of, and should be read in conjunction with, these financial statements.

| For the year ended 30 June 2021 | ACTUAL | ACTUAL |
|---|---|---|
| | 2021 | 2020 |
| | NZD'000 | NZD'000 |
| **RECONCILIATION OF SURPLUS/(DEFICIT) FOR THE YEAR TO NET CASH FLOWS PROVIDED BY/(USED IN) OPERATING ACTIVITIES** | | |
| **Surplus/(Deficit) for the year** | - | - |
| **Changes in working capital:** | | |
| (Increase)/Decrease in assets: | | |
| Receivables and prepayments | (4,329) | 998 |
| Increase/(Decrease) in liabilities: | | |
| Trade and other payables | 4,182 | (884) |
| Deferred lease incentive | (85) | (86) |
| **Net cash flows provided by/(used in) operating activities** | **(232)** | **28** |

The attached notes form part of, and should be read in conjunction with, these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2021

## SECTION 1: GENERAL INFORMATION, STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES

### (a) General information

These are the consolidated financial statements of the Guardians of New Zealand Superannuation (Guardians) and its subsidiaries (Group). The Guardians is a Crown entity as defined by the Crown Entities Act 2004. The Guardians is also a public authority in terms of the Income Tax Act 2007 and therefore is exempt from income tax.

The Guardians is domiciled in New Zealand and the address of its principal place of business is set out in the Corporate Directory on page 259.

The consolidated financial statements of the Group for the year ended 30 June 2021 were authorised for issue in accordance with a resolution of the Board of the Guardians of New Zealand Superannuation on 24 September 2021.

### (b) Statement of compliance

The financial statements have been prepared in accordance with the Crown Entities Act 2004 and the Public Finance Act 1989.

The Guardians is a public benefit entity, as the primary purpose is to manage and administer the New Zealand Superannuation Fund (NZ Super Fund) and the Elevate NZ Venture Fund (Elevate Fund). The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with Tier 1 Public Benefit Entity (PBE) Accounting Standards.

### (c) Basis of preparation

The financial statements have been prepared on a historical cost basis.

The financial statements are presented in New Zealand dollars. All values are rounded to the nearest thousand dollars (NZD'000) unless stated otherwise.

Accounting policies are selected and applied in a manner that ensures the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring the substance of the underlying transactions or other events is reported. Accounting policies relating to specific financial statement items are set out in the relevant notes to the financial statements. Accounting policies that materially affect the financial statements as a whole are set out below.

### (d) Significant judgements and estimates

The preparation of the Guardians financial statements requires the Board and management to make judgements and use estimates that affect the reported amounts of revenue, expenses, assets, liabilities and the accompanying disclosures. Uncertainty about these judgements and estimates could result in outcomes that require a material adjustment to the carrying amounts of assets and liabilities in future periods. The judgements and estimates used in respect of the Guardians are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Guardians and that are believed to be reasonable under the circumstances. The judgements and estimates that the Board and management have assessed to have the most significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

- Employee entitlements - long service leave (Note 4(e)); and
- Employee entitlements - long-term portion of incentives (Note 4(e)).

### (e) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Guardians and its subsidiaries as at 30 June 2021.

The financial statements of subsidiaries are prepared for the same reporting period as the Guardians using consistent accounting policies. In preparing consolidated financial statements, all inter-entity transactions, balances, unrealised gains and losses are eliminated.

### (f) Subsidiaries

Subsidiaries are those entities that are controlled by the Guardians under the provisions of PBE IPSAS 35 Consolidated Financial Statements. The Guardians controls an entity when it is exposed to, or has rights to, variable benefits from its involvement with the entity and has the ability to affect the nature or amount of those benefits through its power over the entity. The Guardians control of an an entity is reassessed if facts and circumstances indicate that there are changes to one or more of the elements of control.

The Guardians has interests in the following subsidiaries:

| NAME | NOTE | BALANCE DATE | COUNTRY OF INCORPORATION | OWNERSHIP INTEREST 2021 % | OWNERSHIP INTEREST 2020 % |
|---|---|---|---|---|---|
| New Zealand Superannuation Fund Nominees Limited | (i) | 30 June | New Zealand | 100.0 | 100.0 |
| NZSF Aotea Limited | (ii) | 30 June | New Zealand | 0.0 | 100.0 |
| NZSF Private Equity Investments (No 1) Limited | (i) | 30 June | New Zealand | 100.0 | 100.0 |
| NZSF Rural Investments (No 1) Limited | (ii) | 30 June | New Zealand | 0.0 | 100.0 |
| NZSF Timber Investments (No 1) Limited | (ii) | 30 June | New Zealand | 0.0 | 100.0 |

(i) The principal activity of each subsidiary is to act as a nominee company, holding assets and liabilities on behalf of the NZ Super Fund. These assets and liabilities are recognised in the financial statements of the NZ Super Fund and accordingly are not presented in these financial statements. Nominee companies may only act on the direction of the Guardians.

(ii) NZSF Aotea Limited, NZSF Rural Investments (No 1) Limited and NZSF Timber Investments (No 1) Limited were removed from the New Zealand Companies Register during the year on the basis that these companies have ceased to carry on business, they have discharged all their liabilities to all known creditors and they have distributed surplus assets in accordance with their constitutions and the Companies Act 1993.

## SECTION 1: GENERAL INFORMATION, STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (g) Foreign currency translation

#### FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the financial statements of the Guardians are measured using the currency of the primary economic environment in which the Guardians operates (the functional currency). The functional currency of the Guardians is New Zealand dollars. It is also the presentation currency.

#### TRANSACTIONS AND BALANCES

Transactions denominated in foreign currencies are converted to New Zealand dollars using the exchange rates prevailing at the dates of the transactions. Foreign currency monetary assets and liabilities are translated at the exchange rate prevailing at balance date. Where there is a movement in the exchange rate between the date of a foreign currency transaction and balance date, the resulting exchange differences are recognised in the Consolidated Statement of Comprehensive Revenue and Expense.

### (h) Goods and services tax (GST)

Revenue, expenses, assets and liabilities are recognised in the financial statements exclusive of GST, with the exception of receivables and payables which are stated inclusive of GST. Where GST is irrecoverable as an input tax, it is recognised as part of the related asset or expense. The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the Consolidated Statement of Financial Position.

### (i) Statement of Cash Flows

The following are the definitions of the terms used in the Consolidated Statement of Cash Flows:

Operating activities include all activities other than investing or financing activities. Cash inflows include all receipts from the sale of goods and services, interest and other sources of revenue that support the Group’s operating activities. Cash outflows include payments made to employees, suppliers and for taxes and levies, other than income tax.

Investing activities are those activities relating to the acquisition, holding and disposal of current and non-current securities and any other non-current assets.

Financing activities are those activities relating to changes in public equity and debt capital structure of the Group and those activities relating to the cost of servicing the Group's equity capital.

Cash flows are included in the Consolidated Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the IRD, is classified as cash flows from operating activities.

### (j) Changes in accounting policies

There have been no changes in accounting policies during the year. All accounting policies are consistent with those applied in the previous financial year.

### (k) Standards issued but not yet effective

The following standards have been issued but are not yet effective for the year ended 30 June 2021:

#### PBE IPSAS 41 FINANCIAL INSTRUMENTS

PBE IPSAS 41 Financial Instruments introduces requirements for the recognition and measurement of financial instruments by Tier 1 and Tier 2 public benefit entities. It supersedes PBE IFRS 9 Financial Instruments, which was issued as an interim standard to mitigate the effect on mixed groups of differences between NZ IFRS and PBE standards. The standard is effective for reporting periods beginning on or after 1 January 2022. The Board and management do not expect any significant changes as a result of this new standard as the requirements are almost identical to PBE IFRS 9 Financial Instruments.

#### PBE FRS 48 SERVICE PERFORMANCE REPORTING

PBE FRS 48 Service Performance Reporting introduces requirements for public benefit entities to select and present service performance information. It replaces the service performance reporting requirements of PBE IPSAS 1 Presentation of Financial Statements and is effective for reporting periods beginning on or after 1 January 2022. The Board and management have not yet determined how application of PBE FRS 48 Service Performance Reporting will affect its Statement of Performance.

### (l) Budget figures

The budget was approved by the Board of the Guardians of New Zealand Superannuation for the year ended 30 June 2021. The budget figures are unaudited.

## SECTION 2: FINANCIAL PERFORMANCE

### (a) Revenue

| | NOTE | ACTUAL 2021 NZD'000 | ACTUAL 2020 NZD'000 |
|---|---|---|---|
| **Revenue from exchange transactions** | | | |
| Cost reimbursement from the NZ Super Fund | 3(a) | 56,730 | 51,715 |
| Cost reimbursement from the Elevate Fund | 3(a) | 500 | 274 |
| Other revenue | | 90 | 90 |
| Interest income - financial assets at amortised cost | | 2 | 26 |
| | | **57,322** | **52,105** |
| **Revenue from non-exchange transactions** | | | |
| Appropriations from the Crown | 3(a) | 447 | 724 |
| | | **447** | **724** |
| **Total revenue** | | **57,769** | **52,829** |

**Accounting Policy**

The Guardians primarily derives revenue through the provision of services to the Crown, the NZ Super Fund and the Elevate Fund. Revenue is recognised when it is probable that economic benefits will flow to the Guardians and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

**REVENUE FROM EXCHANGE TRANSACTIONS**

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

**Rendering of services**

Cost reimbursement from the NZ Super Fund and the Elevate Fund is recognised by reference to the stage of completion of services provided at balance date when the transaction involving the rendering of services can be reliably estimated. The stage of completion is measured by the proportion of costs incurred to date compared with estimated total costs of the transaction.

**Interest income**

Interest income is recognised as the interest accrues, using the effective interest method. The effective interest method allocates interest at a constant rate of return over the expected life of the financial instrument based on the estimated future cash flows.

**REVENUE FROM NON-EXCHANGE TRANSACTIONS**

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

**Appropriations from the Crown**

Revenue is recognised from the Crown when it is probable that appropriations will be received, the value of those appropriations can be reliably measured and the transfer is free from conditions that require the assets to be refunded or returned to the Crown if the conditions are not fulfilled. To the extent there is a related condition attached to the appropriations that would give rise to a liability to repay the appropriate amount, deferred revenue is recognised instead of revenue. In such situations, revenue is then recognised as the conditions are satisfied.

**NOTES TO THE FINANCIAL STATEMENTS** (CONTINUED)

For the year ended 30 June 2021

## SECTION 2: FINANCIAL PERFORMANCE (CONTINUED)

### (b) Expenses

| | ACTUAL 2021 NZD'000 | ACTUAL 2020 NZD'000 |
|---|---|---|
| **Employee entitlements and other employment-related expenses** | | |
| Employee benefits (including salaries, annual leave and long service leave) and other employment-related expenses | 31,125 | 30,440 |
| Employee incentive scheme | 10,404 | 6,869 |
| Employer contributions to KiwiSaver | 3,036 | 2,694 |
| | **44,565** | **40,003** |

Further disclosures on employee entitlements are contained in Note 4(e).

| | NOTE | ACTUAL 2021 NZD'000 | ACTUAL 2020 NZD'000 |
|---|---|---|---|
| **Other expenses** | | | |
| Travel and accommodation expenses | | 121 | 1,508 |
| IT expenses | | 6,904 | 5,962 |
| Operating lease expenses | | 1,223 | 1,140 |
| Professional fees | | 1,433 | 1,027 |
| Board members' fees | 3(a) | 380 | 379 |
| Auditor's remuneration | 2(c) | 51 | 50 |
| Other expenses | | 3,092 | 2,760 |
| | | **13,204** | **12,826** |
| **Total expenses** | | **57,769** | **52,829** |

**Accounting Policy**

**OPERATING LEASES**

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is (or contains) a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. Leases in which the lessor retains substantially all the risks and benefits of ownership of an asset are classified as operating leases. Operating lease expenses are recognised on a straight-line basis over the period of the lease.

Operating lease expenses relate to office premises in one location with a remaining term of 5 years. The Group does not have an option to purchase the leased asset at the expiry of the lease period. Non-cancellable lease commitments payable in relation to the leased asset have been disclosed in Note 6(a).

**(c) Auditor's remuneration**

| | ACTUAL | ACTUAL |
|---|---|---|
| | 2021 | 2020 |
| | NZD'000 | NZD'000 |
| Audit of the Guardians financial statements | 51 | 50 |
| | **51** | **50** |

The auditor of the Group is Graeme Bennett of Ernst & Young, on behalf of the Auditor-General.

The financial statements of the Group's subsidiaries are not separately audited following the July 2013 amendments to the Crown Entities Act 2004 which include removal of the requirement for subsidiaries to prepare and have financial statements audited.

**NOTES TO THE FINANCIAL STATEMENTS** (CONTINUED)

For the year ended 30 June 2021

## SECTION 3: RELATED PARTY TRANSACTIONS AND EMPLOYEE REMUNERATION

### (a) Related party transactions

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions.

All related party transactions with other government-related entities have been entered into on an arm's length basis. Outstanding amounts with related parties at balance date are unsecured and subordinate to other liabilities. Interest is not charged on outstanding balances. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 30 June 2021, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2020: $nil).

#### PARENT ENTITY

The parent entity in the Group is the Guardians which is a wholly owned entity of the Crown. Crown appropriations for the year ended 30 June 2021 were $447,000 (2020: $724,000). The related party receivable from the Crown as at 30 June 2021 is $57,000 (2020: $55,000).

#### SUBSIDIARIES

Details of the Guardians interests in subsidiaries are disclosed in Note 1(f). There were no related party transactions with these entities during the year.

#### OTHER RELATED PARTIES

The Guardians pays expenses relating to the NZ Super Fund, as it is required to do under the Act. A portion of these expenses is reimbursed by the NZ Super Fund as is entitled under the Act. The amount of reimbursement from the NZ Super Fund for the year ended 30 June 2021 was $56,730,000 (2020: $51,715,000). The related party receivable from the NZ Super Fund as at 30 June 2021 is $14,197,000 (2020: $9,919,000).

The Guardians also pays expenses relating to the Elevate Fund, as it is entitled to do under the Venture Capital Fund Act 2019. These expenses are reimbursed by the Elevate Fund. The amount of reimbursement from the Elevate Fund for the year ended 30 June 2021 was $500,000 (2020: $274,000). The related party receivable from the Elevate Fund as at 30 June 2021 is $nil (2020: $274,000).

In addition to the above, the Group purchases services from Datacom Employer Services Limited and Datacom Systems Limited, which are subsidiaries of a joint venture owned by the NZ Super Fund. These purchases totalled $1,934,000 for the year ended 30 June 2021 (2020: $1,998,000). The related party payable to these entities as at 30 June 2021 is $114,000 (2020: $41,000).

#### OTHER GOVERNMENT-RELATED ENTITIES

In conducting its activities, the Group is required to pay various taxes and levies (such as GST, Fringe Benefit Tax (FBT), Pay As You Earn (PAYE), and ACC levies) to the Crown and entities related to the Crown. The payment of these taxes and levies, other than income tax, is based on the standard terms and conditions that apply to all tax and levy payers. The Group is exempt from paying income tax.

The Group has entered into a number of other transactions with other government-related entities. These transactions have not been separately disclosed as they occur within normal supplier/recipient relationships and are undertaken on terms and conditions equivalent to those that prevail in arm's length transactions.

## KEY MANAGEMENT PERSONNEL

Key management personnel of the Guardians comprise members of the Board and the Leadership Team. The Leadership Team comprises 7 employees (2020: 7 employees).

The compensation of the Board and the Leadership Team is set out below:

| | ACTUAL 2021 NZD'000 | ACTUAL 2020 NZD'000 |
|---|---|---|
| **Leadership team** | | |
| Employee benefits (including salaries, annual leave and long service leave) | 3,281 | 3,334 |
| Employee incentive scheme | 2,055 | 1,182 |
| | **5,336** | **4,516** |
| **Board members' fees** | | |
| Board members earned the following fees during the year: | | |
| C Drayton (appointed Chair 1 April 2021, Audit Committee Chair until 1 April 2021) | 62 | 51 |
| C Savage (Chair) (retired 31 March 2021) | 69 | 93 |
| H Berkman | 47 | 47 |
| S Botherway | 47 | 47 |
| K Mactaggart (appointed 1 April 2021) | 12 | - |
| S Moir (retired 30 September 2020) | 10 | 47 |
| D Pearce (appointed Audit Committee Chair 1 April 2021) | 48 | 47 |
| R Vilgan (appointed 1 October 2020) | 37 | - |
| J Williamson (appointed Employee Policy and Remuneration Committee Chair 1 April 2021) | 48 | 47 |
| | **380** | **379** |

Board remuneration is set by the Minister of Finance in accordance with the Fees Framework for the Members of Statutory and Other Bodies Appointed by the Crown. The Minister of Finance has set the annual base fees for all Board members at $49,000, plus additional annual amounts for the Chair (a further $49,000), Deputy Chair (a further $12,250) and Chairs of the Audit and Employee Policy and Remuneration Committees (a further $4,900). The Board opted for a 20% reduction in Board members' fees for the period 1 April 2020 to 30 September 2020.

### Board members' and employees' indemnity and insurance

The Guardians has indemnified Board members and certain employees (and former employees) who have been appointed as directors, nominated by the Guardians, or as other officers of entities in which the Guardians has invested. These indemnities are given, to the maximum extent permitted by the Crown Entities Act 2004, in respect of any liability connected with acts or omissions carried out as a consequence of the role. Each indemnified person is also indemnified in respect of costs incurred by that person in defending or settling any claim or proceeding.

The Guardians has effected Directors and Officers Liability insurance cover in respect of the liability or costs of Board members, employees and external director appointees.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2021

## SECTION 3: RELATED PARTY TRANSACTIONS AND EMPLOYEE REMUNERATION (CONTINUED)

### (b) Employees' remuneration over $100,000 per annum

For a full discussion of the Guardians remuneration framework, please refer to page 98 of the Annual Report.

The total remuneration figures in the following table consist of both an employee's gross base salary and the proportion of their incentive entitlement that will be paid out after balance date. The remuneration bands and benefits are annual amounts. As some employees commenced part-way through the year, the actual remuneration they received during the year is less than the amount shown. For employees who left during the year, their actual remuneration paid has been reported, rather than their annual remuneration.

The employee incentive has both individual performance and financial performance targets of the NZ Super Fund. The financial performance component is based on rolling four-year periods of returns against thresholds and benchmarks.

### TOTAL REMUNERATION AND BENEFITS

| ACTUAL | | | | | |
|---|---|---|---|---|---|
| BASE REMUNERATION RANGE NZD'000 | NUMBER OF EMPLOYEES 2021 | NUMBER OF EMPLOYEES 2020 | TOTAL REMUNERATION RANGE NZD'000 | NUMBER OF EMPLOYEES 2021 | NUMBER OF EMPLOYEES 2020 |
| 100 - 110 | 13 | 13 | 100 - 110 | 11 | 6 |
| 110 - 120 | 5 | 9 | 110 - 120 | 5 | 7 |
| 120 - 130 | 13 | 5 | 120 - 130 | 10 | 10 |
| 130 - 140 | 12 | 6 | 130 - 140 | 9 | 7 |
| 140 - 150 | 1 | 5 | 140 - 150 | 7 | 5 |
| 150 - 160 | 5 | 6 | 150 - 160 | 5 | 5 |
| 160 - 170 | 4 | 5 | 160 - 170 | 1 | 5 |
| 170 - 180 | 10 | 6 | 170 - 180 | 5 | 4 |
| 180 - 190 | 5 | 6 | 180 - 190 | 5 | 5 |
| 190 - 200 | 6 | 8 | 190 - 200 | 4 | 5 |
| 200 - 210 | 7 | 3 | 200 - 210 | 6 | 4 |
| 210 - 220 | 6 | 4 | 210 - 220 | 6 | 5 |
| 220 - 230 | 8 | 13 | 220 - 230 | 3 | 5 |
| 230 - 240 | 8 | 6 | 230 - 240 | 3 | 3 |
| 240 - 250 | 2 | 1 | 240 - 250 | 8 | 2 |
| 250 - 260 | 3 | 2 | 250 - 260 | 2 | 6 |
| 260 - 270 | 3 | 4 | 260 - 270 | 7 | 2 |
| 270 - 280 | 5 | 4 | 270 - 280 | 3 | 1 |
| 280 - 290 | 2 | 2 | 280 - 290 | 3 | 4 |
| 290 - 300 | - | 1 | 290 - 300 | 1 | 4 |
| 300 - 310 | 3 | 3 | 300 - 310 | - | 4 |
| 310 - 320 | 1 | - | 310 - 320 | 2 | 5 |
| 320 - 330 | - | - | 320 - 330 | 4 | 3 |
| 330 - 340 | 1 | 1 | 330 - 340 | 5 | 2 |
| 340 - 350 | 1 | 1 | 340 - 350 | 2 | 1 |
| 350 - 360 | - | - | 350 - 360 | 5 | 4 |
| 360 - 370 | - | - | 360 - 370 | 3 | 3 |
| 370 - 380 | 2 | 1 | 370 - 380 | 2 | 1 |
| 380 - 390 | - | 1 | 380 - 390 | 1 | - |
| 390 - 400 | 2 | 2 | 390 - 400 | 1 | 2 |
| 400 - 410 | 1 | 1 | 400 - 410 | 2 | - |

| ACTUAL | | | | | |
|---|---|---|---|---|---|
| BASE REMUNERATION RANGE NZD'000 | NUMBER OF EMPLOYEES 2021 | NUMBER OF EMPLOYEES 2020 | TOTAL REMUNERATION RANGE NZD'000 | NUMBER OF EMPLOYEES 2021 | NUMBER OF EMPLOYEES 2020 |
| 410 - 420 | - | - | 410 - 420 | 1 | 1 |
| 420 - 430 | - | 1 | 420 - 430 | 1 | - |
| 430 - 440 | 1 | 1 | 430 - 440 | 1 | - |
| 450 - 460 | - | - | 450 - 460 | 2 | 1 |
| 490 - 500 | - | - | 490 - 500 | - | 1 |
| 500 - 510 | - | 1 | 500 - 510 | 1 | 1 |
| 510 - 520 | 1 | - | 510 - 520 | - | 1 |
| 520 - 530 | - | - | 520 - 530 | - | 1 |
| 530 - 540 | - | - | 530 - 540 | - | 1 |
| 560 - 570 | - | - | 560 - 570 | 2 | 1 |
| 570 - 580 | - | - | 570 - 580 | - | 1 |
| 580 - 590 | - | 1 | 580 - 590 | 2 | - |
| 590 - 600 | 2 | - | 590 - 600 | - | - |
| 600 - 610 | - | - | 600 - 610 | 1 | - |
| 630 - 640 | - | 1 | 630 - 640 | - | - |
| 650 - 660 | - | - | 650 - 660 | 1 | - |
| 660 - 670 | - | - | 660 - 670 | - | 1 |
| 700 - 710 | - | - | 700 - 710 | - | 1 |
| 760 - 770 | - | - | 760 - 770 | 1 | - |
| 850 - 860 | - | - | 850 - 860 | - | 1 |
| 910 - 920 | - | - | 910 - 920 | 2 | - |
| | **133** | **124** | | **146** | **132** |

There were no redundancy and severance payments during the year ended 30 June 2021 (2020: $nil).

## SECTION 4: FINANCIAL POSITION

### (a) Financial instruments

| | | ACTUAL | | |
|---|---|---|---|---|
| 2021 | NOTE | FINANCIAL ASSETS AT AMORTISED COST | FINANCIAL LIABILITIES AT AMORTISED COST | TOTAL |
| | | NZD'000 | NZD'000 | NZD'000 |
| **Financial assets** | | | | |
| Cash and cash equivalents | 4(b) | 2,356 | | 2,356 |
| Receivables from exchange transactions (excluding GST receivable) | 4(c) | 11,535 | | 11,535 |
| Receivables from non-exchange transactions | 4(c) | 57 | | 57 |
| | | **13,948** | **-** | **13,948** |
| **Financial liabilities** | | | | |
| Payables under exchange transactions | 4(d) | | 1,073 | 1,073 |
| | | **-** | **1,073** | **1,073** |
| 2020 | | | | |
| **Financial assets** | | | | |
| Cash and cash equivalents | 4(b) | 2,588 | | 2,588 |
| Receivables from exchange transactions (excluding GST receivable) | 4(c) | 8,412 | | 8,412 |
| Receivables from non-exchange transactions | 4(c) | 55 | | 55 |
| | | **11,055** | **-** | **11,055** |
| **Financial liabilities** | | | | |
| Payables under exchange transactions | 4(d) | | 971 | 971 |
| | | **-** | **971** | **971** |

**Accounting Policy**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The Group is party to financial instruments as part of its normal operations. These financial instruments include cash and cash equivalents, receivables and payables. All financial instruments are recognised in the Consolidated Statement of Financial Position and all revenues and expenses in relation to financial instruments are recognised in the Consolidated Statement of Comprehensive Revenue and Expense.

**INITIAL RECOGNITION**

Financial assets and financial liabilities are recognised in the Consolidated Statement of Financial Position when the Group becomes a party to the contractual provisions of the financial instrument. They are initially recognised at fair value plus transaction costs that are attributable to the acquisition of the financial asset or financial liability.

The classification of financial assets at initial recognition depends on the Group's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. In making an assessment of the business model for managing a financial asset, the Board and management consider all relevant information.

**SUBSEQUENT MEASUREMENT**

The Group's financial assets and financial liabilities are subsequently classified into the following categories:

### Financial assets at amortised cost

The Group's financial assets are classified at amortised cost if both of the following criteria are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows; and
- The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest.

This category includes cash and cash equivalents and receivables.

Subsequent to initial recognition, financial assets at amortised cost are measured at amortised cost using the effective interest method and are subject to impairment. When a financial asset is impaired, impairment losses are recognised in the Consolidated Statement of Comprehensive Revenue and Expense in the period in which they arise.

The Group's financial assets are reclassified when, and only when, the business model for managing those financial assets changes.

### Financial liabilities at amortised cost

Financial liabilities at amortised cost are non-derivative financial liabilities. This category includes trade payables and accrued expenses. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

### DERECOGNITION

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or when the Group has transferred substantially all of the risks and rewards of ownership. A financial liability is derecognised when the Group's obligation under the liability is discharged, cancelled or has expired.

### IMPAIRMENT

The Board and management assess, at each reporting date, whether a financial asset is impaired. The amount of the impairment loss is the difference between the contractual cash flows due in relation to the financial asset and the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate.

Financial assets that are measured at amortised cost and therefore subject to the impairment provisions (the 'expected credit loss model') of PBE IFRS 9 Financial Instruments comprise cash and cash equivalents and receivables.

The risk of impairment loss for cash and cash equivalents is considered immaterial. Disclosures relating to the impairment of receivables are provided in Note 4(c).

### OFFSETTING OF FINANCIAL INSTRUMENTS

The Group offsets financial assets and financial liabilities when it has a current legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis.

## SECTION 4: FINANCIAL POSITION (CONTINUED)

### (b) Cash and cash equivalents

**Accounting Policy**

Cash and cash equivalents includes cash on hand, cash held in bank accounts, demand deposits and other highly liquid investments with an original maturity of three months or less.

### (c) Receivables

| | NOTE | ACTUAL 2021 NZD'000 | ACTUAL 2020 NZD'000 |
|---|---|---|---|
| **Current receivables** | | | |
| **Receivables from exchange transactions** | | | |
| Receivable for reimbursement of the Guardians expenses from the NZ Super Fund | 3(a) | 11,519 | 8,103 |
| Receivable for reimbursement of the Guardians expenses from the Elevate Fund | 3(a) | - | 274 |
| Trade receivables | | 16 | 35 |
| GST receivable | | 429 | 298 |
| | | **11,964** | **8,710** |
| **Receivables from non-exchange transactions** | | | |
| Receivable for Crown appropriations | 3(a) | 57 | 55 |
| | | **57** | **55** |
| **Non-current receivables** | | | |
| **Receivables from exchange transactions** | | | |
| Receivable for reimbursement of the Guardians expenses from the NZ Super Fund | 3(a) | 2,678 | 1,816 |
| | | **2,678** | **1,816** |

**Accounting Policy**

Receivables are initially recognised at fair value which is equal to the amount of consideration that is unconditional. The Group holds receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost less impairment losses using the effective interest method.

The Board and management have applied a simplified approach for calculating expected credit losses (ECLs) on receivables under PBE IFRS 9 Financial Instruments. As a result, the Board and management do not track changes in credit risk, but instead, recognise impairment losses based on lifetime ECLs at each reporting date. The Group's approach to ECLs reflects a probability-weighted outcome using reasonable and supportable information that is available without undue cost or effort at reporting date about past events, current conditions and forecast of future economic conditions.

Trade receivables are non-interest bearing and have standard 30-day credit terms. The Group does not have a history of default on trade receivables and the Board and management consider the probability of default in the future to be very low as the counterparties have a strong capacity to meet their contractual obligations in the short term. Accordingly, no allowance has been made for impairment.

### (d) Payables

| | ACTUAL 2021 NZD'000 | ACTUAL 2020 NZD'000 |
|---|---|---|
| **Payables under exchange transactions** | | |
| Trade payables | 772 | 653 |
| Accrued expenses | 301 | 318 |
| | **1,073** | **971** |

**Accounting Policy**

Short-term trade and other payables are initially recognised at fair value, then subsequently at amortised cost.

Trade and other payables represent amounts due to third parties in the normal course of business. They are non-interest bearing and are normally settled within 30-day credit terms. The Group has risk management policies in place to ensure that all payables are paid within the credit time frame.

### (e) Employee entitlements

| | ACTUAL 2021 NZD'000 | ACTUAL 2020 NZD'000 |
|---|---|---|
| **Current liabilities** | | |
| Accrued salaries (including annual leave and long service leave) - key management personnel | 336 | 363 |
| Accrued salaries (including annual leave and long service leave) - other employees | 2,622 | 2,524 |
| Incentives - key management personnel | 1,792 | 1,105 |
| Incentives - other employees | 8,359 | 5,899 |
| | **13,109** | **9,891** |
| **Non-current liabilities** | | |
| Long service leave - key management personnel | 104 | 120 |
| Long service leave - other employees | 747 | 932 |
| Incentives - key management personnel | 427 | 167 |
| Incentives - other employees | 1,400 | 597 |
| | **2,678** | **1,816** |

**Accounting Policy**

Liabilities for salaries, annual leave, long service leave and incentives are recognised in the Consolidated Statement of Comprehensive Revenue and Expense during the period in which the employee rendered the related service, when it is probable that settlement will be required and such employee entitlements are capable of being measured reliably.

Employee entitlements that are due to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Employee entitlements that are not due to be settled within 12 months are measured at the present value of the estimated future cash outflows. The estimated future cash flows are based on likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement, and contractual entitlement information.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2021

# SECTION 4: FINANCIAL POSITION (CONTINUED)

### LONG SERVICE LEAVE

Employees become eligible for long service leave after five years of service.

### INCENTIVES

The Guardians has an incentive scheme in place for all employees. For some employees, a component of their incentive payment is based on the performance of the NZ Super Fund and is calculated progressively over a rolling four-year period. During the first three years of the four-year calculation period, the value of the accrual is dependent on the outcome of future periods. The liability reflected in the Consolidated Statement of Financial Position reflects the present value of the Guardians obligations in respect of that liability. The liability has been calculated based on a medium-term expectation of the NZ Super Fund's performance.

**Key judgement - long service leave**

The key assumptions used in calculating the long service leave liability include the discount rate, the likelihood that the employee will reach the required level of service and the salary inflation factor. Any changes in these assumptions will affect the carrying amount of the liability. Expected future payments are discounted using forward rates derived from the yield curve of New Zealand government bonds. The discount rates used have maturities that match, as closely as possible, the estimated future cash outflows. The likelihood of employees reaching the required level of service has been determined after considering historical staff retention rates. The salary inflation factor has been determined after considering historical salary inflation patterns.

**Key judgement - long-term portion of incentives**

Calculation of the long-term portion of the incentive liability utilises assumptions regarding the future performance of the NZ Super Fund, the employee's average salary over the vesting period and the percentage of service rendered. The key variable is the performance of the NZ Super Fund. Should the performance of the NZ Super Fund differ from the assumption used in the calculation of the long-term portion of the incentive liability, this will impact the employee entitlements expense in the Consolidated Statement of Comprehensive Revenue and Expense and the carrying amount of the incentive liability in the Consolidated Statement of Financial Position. The Board and management mitigate this risk by using a medium-term expectation of NZ Super Fund performance.

### (f) Deferred lease incentive

The deferred lease incentive relates to the lease of office premises. The lease incentive is recognised as a reduction of rental expense on a straight-line basis over the period of the lease. The remaining term is 5 years.

### (g) Public equity

Equity is the Crown's interest in the Group and is measured as the difference between total assets and total liabilities.

As a public benefit entity that is fully funded by Crown appropriations (for budgeted Board and audit costs) and by NZ Super Fund and Elevate Fund reimbursements (for all other operating costs), the Group has no specific liquidity policies, procedures or targets. Operating budgets are set on an annual basis, with an emphasis upon cost control. The Group is not permitted to borrow and ensures a positive cash position at all times through collection of appropriations and reimbursements.

## SECTION 5: RISK MANAGEMENT

### (a) Risk management

Through its activities, the Group is exposed to various types of risk including market risk, credit risk and liquidity risk. These risks are not considered significant because the Group does not hold significant financial assets or financial liabilities and it is fully funded by Crown appropriations and NZ Super Fund and Elevate Fund reimbursements.

The Board and management of the Guardians are responsible for the management of risk. A separate Risk Committee has been established by management as a risk leadership body to provide leadership on the effectiveness of frameworks and processes at the Guardians.

The Guardians has established risk management policies, procedures and other internal controls to manage the Group's exposure to risk. The framework for managing this risk is set out in its Statement of Investment Policies, Standards and Procedures including its Risk Management Policy.

### (b) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices. The market risk that the Group is primarily exposed to is interest rate risk.

#### INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market interest rates. The Group's exposure to interest rate risk is limited to movements in New Zealand short-term interest rates in relation to its cash and cash equivalents which are held in short-term floating interest rate accounts. The Board and management ensure the Group receives a fair market return on its cash position but it does not actively monitor exposure to interest rates or interest rate returns.

As at 30 June 2021, if there were a movement in interest rates of 100 basis points higher or lower, with all other variables remaining constant, the Group's surplus/(deficit) for the year would have been $nil (2020: $nil) higher/lower. A 100 basis point movement represents the Board's and management's assessment of a reasonably possible change in interest rates.

### (c) Credit risk

Credit risk is the risk that a third party will default on its obligation to the Group, causing the Group to incur a loss. The Group is exposed to credit risk arising from its cash and cash equivalents and receivables. The maximum amount of credit risk for each class of financial asset is the carrying amount included in the Consolidated Statement of Financial Position.

The Board and management mitigate the Group's exposure to credit risk by investing cash and cash equivalents with reputable financial institutions with a high credit rating. There is no collateral held as security against its financial instruments.

#### CONCENTRATIONS OF CREDIT RISK

Cash and cash equivalents is primarily held with Westpac New Zealand Limited which had a credit rating of AA-, obtained from Standard & Poor's as at 30 June 2021 (2020: AA-).

### (d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities as they fall due. The Group's liquidity framework is designed to ensure that the Group has the ability to generate sufficient cash in a timely manner to meet its financial commitments.

The Board and management mitigate the Group's exposure to liquidity risk by monitoring forecast and actual cash flow requirements and by maintaining a positive cash position from the recovery of all of its expenses from the Crown or the NZ Super Fund or the Elevate Fund.

## SECTION 5: RISK MANAGEMENT (CONTINUED)

### MATURITY PROFILE OF FINANCIAL ASSETS

Financial assets available to meet financial obligations comprise cash and cash equivalents with no fixed maturity as follows:

| | ACTUAL | |
|---|---|---|
| 2021 | WEIGHTED AVERAGE EFFECTIVE INTEREST RATE | FINANCIAL ASSETS AT VARIABLE INTEREST RATE |
| | % | NZD'000 |
| **Financial assets** | | |
| Cash and cash equivalents | 0.05 | 2,356 |
| | | **2,356** |
| 2020 | | |
| **Financial assets** | | |
| Cash and cash equivalents | 0.60 | 2,588 |
| | | **2,588** |

## SECTION 6: UNRECOGNISED ITEMS

### (a) Commitments and contingencies

**OPERATING LEASE COMMITMENTS**

The base future minimum amounts payable under non-cancellable operating leases are as follows:

| | ACTUAL | ACTUAL |
|---|---|---|
| | 2021 | 2020 |
| | NZD'000 | NZD'000 |
| Less than 1 year | 1,794 | 1,292 |
| 1 to 2 years | 1,830 | 1,293 |
| 2 to 5 years | 5,609 | 4,009 |
| Later than 5 years | - | 1,353 |
| **Total operating lease commitments** | **9,233** | **7,947** |

**CONTINGENCIES**

The Guardians has no contingent liabilities as at 30 June 2021 (2020: $nil).

### (b) Events after the reporting date

There were no reportable events subsequent to balance date.

### (c) Comparison to budget (unaudited)

| | ACTUAL | BUDGET (UNAUDITED) | FAVOURABLE/ (UNFAVOURABLE) VARIANCE |
|---|---|---|---|
| | 2021 | 2021 | 2021 |
| | NZD'000 | NZD'000 | NZD'000 |
| Consolidated Statement of Comprehensive Revenue and Expense: total expenses incurred* | 57,769 | 75,525 | 17,756 |
| Consolidated Statement of Changes in Public Equity | 500 | 500 | - |
| Consolidated Statement of Financial Position | 500 | 500 | - |

* Expenses were lower than budget predominantly due to lower remuneration and travel costs. This was due to recruitment activity being slower than was envisaged in the budget and the impact of Covid-19 restricting staff travel.

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# Independent Auditor's Report

## TO THE READERS OF GUARDIANS OF NEW ZEALAND SUPERANNUATION'S GROUP FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION

FOR THE YEAR ENDED 30 JUNE 2021

The Auditor-General is the auditor of the Guardians of New Zealand Superannuation and its subsidiaries (the Group). The Auditor-General has appointed me, Graeme Bennett, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements and the performance information, including the performance information for appropriations, of the Group on his behalf.

### OPINION

We have audited:

- the financial statements of the Group on pages 131 to 153, that comprise the Consolidated Statement of Financial Position as at 30 June 2021, the Consolidated Statement of Comprehensive Revenue and Expenses, Consolidated Statement of Changes in Public Equity and Consolidated Statement of Cash Flows for the year ended on that date and the notes to the financial statements including a summary of significant accounting policies and other explanatory information; and
- the performance information of the Group on pages 114 to 117.

In our opinion:

- the financial statements of the Group on pages 131 to 153:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2021; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards; and
- the performance information on pages 114 to 117:
  - presents fairly, in all material respects, the Group's performance for the year ended 30 June 2021, including:
    - for each class of reportable outputs its standards of delivery performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and
    - complies with generally accepted accounting practice in New Zealand

Our audit was completed on 24 September 2021. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

### BASIS FOR OUR OPINION

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### RESPONSIBILITIES OF THE BOARD FOR THE FINANCIAL STATEMENTS AND THE PERFORMANCE INFORMATION

The Board is responsible on behalf of the Group for preparing financial statements and performance information that are fairly presented and comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards. The Board is responsible for such internal control as they determine are necessary to enable them to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board is responsible on behalf of the Group for assessing the Group's ability to continue as a going concern. The Board is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of the Group, or there is no realistic alternative but to do so.

The Board's responsibilities arise from the Crown Entities Act 2004 and the Public Finance Act 1989.

## RESPONSIBILITIES OF THE AUDITOR FOR THE AUDIT OF THE FINANCIAL STATEMENTS AND THE PERFORMANCE INFORMATION

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the performance information.

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to the Group's statement of performance expectations.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board.
- We evaluate the appropriateness of the reported performance information within the Group's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements and the performance information of the entities or business activities within the Group to express an opinion on the consolidated financial statements and the consolidated performance information. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

## OTHER INFORMATION

The Board is responsible for the other information. The other information comprises the information included on pages 1 to 113, 118 to 130, 157, 221, 250 to 259, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**INDEPENDENCE**

We are independent of the Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: *International Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with or interests in the Group.

Graeme Bennett
Ernst & Young
On behalf of the Auditor-General
Auckland, New Zealand

## STATEMENT OF RESPONSIBILITY

For the year ended 30 June 2021

The Board and management of the Guardians of New Zealand Superannuation accept responsibility for the preparation of the annual financial statements of the New Zealand Superannuation Fund and the judgements used in them.

The Board and management of the Guardians of New Zealand Superannuation accept responsibility for establishing and maintaining a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of financial and non-financial reporting of the New Zealand Superannuation Fund.

In the opinion of the Board and management of the Guardians of New Zealand Superannuation, the annual financial statements for the year ended 30 June 2021 fairly reflect the financial position, operations and cash flows of the New Zealand Superannuation Fund.

**CATHERINE DRAYTON**

CHAIR
24 September 2021

**MATTHEW WHINERAY**

CHIEF EXECUTIVE OFFICER
24 September 2021

## STATEMENT OF FINANCIAL POSITION

| As at 30 June 2021 | NOTE | ACTUAL | ACTUAL | BUDGET (UNAUDITED) |
|---|---|---|---|---|
| | | 2021 | 2020 | 2021 |
| | | NZD'000 | NZD'000 | NZD'000 |
| **ASSETS** | | | | |
| Cash and cash equivalents | 2(a), 4(a), 4(b) | 6,579,356 | 5,723,737 | 5,342,527 |
| Cash pledged as collateral | 2(a), 4(a), 4(c) | 708,219 | 1,335,069 | 3,591,194 |
| Trade and other receivables | 2(a), 4(a), 4(d) | 623,318 | 557,378 | 3,079,009 |
| **Investments** | | | | |
| Investments - derivative financial instrument assets | 2(a), 4(a), 4(e) | 856,040 | 2,328,522 | - |
| Investments - other financial assets | 2(a), 4(a), 4(e) | 48,075,493 | 33,422,243 | 28,695,383 |
| Investments in unconsolidated subsidiaries | 2(a), 4(a), 4(e) | 5,118,768 | 4,512,489 | 4,815,422 |
| | | 54,050,301 | 40,263,254 | 33,510,805 |
| Property, plant and equipment | 2(a) | 1,630 | 1,803 | 2,936 |
| Intangible assets | 2(a) | 32,977 | 24,383 | 17,956 |
| **Total assets** | | **61,995,801** | **47,905,624** | **45,544,427** |
| **LIABILITIES** | | | | |
| Cash collateral received | 2(a), 4(a), 4(c) | 1,051,977 | 1,650,760 | 232,867 |
| Trade and other payables | 2(a), 4(a), 4(g) | 669,076 | 1,171,762 | 580,384 |
| Investments - derivative financial instrument liabilities | 2(a), 4(a), 4(e) | 980,008 | 776,945 | - |
| Income tax payable | 2(a) | 1,887,279 | 257,725 | 150,523 |
| Provision for performance-based fees | 2(a), 5(a) | - | - | 12,124 |
| Deferred tax liability | 2(a), 7(e) | 42,866 | 51,128 | 67,504 |
| **Total liabilities** | | **4,631,206** | **3,908,320** | **1,043,402** |
| **Net assets** | | **57,364,595** | **43,997,304** | **44,501,025** |
| **PUBLIC EQUITY** | | | | |
| Retained surplus | | 37,374,815 | 26,136,370 | 24,480,934 |
| Asset revaluation reserve | 6(b) | 27,701 | 18,855 | 18,011 |
| Contributed capital | 6(a) | 19,962,079 | 17,842,079 | 20,002,080 |
| **Total public equity** | | **57,364,595** | **43,997,304** | **44,501,025** |

The attached notes form part of, and should be read in conjunction with, these financial statements.

## STATEMENT OF COMPREHENSIVE INCOME

| For the year ended 30 June 2021 | NOTE | ACTUAL | ACTUAL | BUDGET (UNAUDITED) |
|---|---|---|---|---|
| | | 2021 | 2020 | 2021 |
| | | NZD'000 | NZD'000 | NZD'000 |
| Net operating income | 7(a) | 13,515,873 | 811,990 | 3,315,879 |
| Operating expenditure | 7(c) | 130,772 | 132,201 | 167,517 |
| **Profit for the year before income tax expense** | | **13,385,101** | **679,789** | **3,148,362** |
| Income tax expense | 7(e) | 2,146,656 | 465,250 | 755,636 |
| **Profit for the year after income tax expense** | | **11,238,445** | **214,539** | **2,392,726** |
| **Other comprehensive income - not reclassifiable to profit or loss in subsequent periods** | | | | |
| Gains/(losses) on revaluation of assets | | 8,846 | 6,671 | - |
| Tax expense on items of other comprehensive income | 7(e) | - | - | - |
| **Other comprehensive income for the year, net of tax** | | **8,846** | **6,671** | **-** |
| **Total comprehensive income for the year** | | **11,247,291** | **221,210** | **2,392,726** |

The attached notes form part of, and should be read in conjunction with, these financial statements.

## STATEMENT OF CHANGES IN PUBLIC EQUITY

| For the year ended 30 June 2021 | | ACTUAL | | | |
|---|---|---|---|---|---|
| | NOTE | ASSET REVALUATION RESERVE NZD'000 | CONTRIBUTED CAPITAL NZD'000 | RETAINED SURPLUS NZD'000 | TOTAL NZD'000 |
| **Balance at 1 July 2019** | | **12,184** | **16,382,079** | **25,921,831** | **42,316,094** |
| Profit for the year | | | | 214,539 | 214,539 |
| Other comprehensive income | | 6,671 | | | 6,671 |
| Tax expense on items of other comprehensive income | | - | | | - |
| Total comprehensive income for the year | | 6,671 | - | 214,539 | 221,210 |
| Fund capital contributions from the Crown | 6(a) | | 1,460,000 | | 1,460,000 |
| Capital contributions from the Crown in respect of funding the net cost of New Zealand superannuation entitlements | 6(a) | | 15,521,000 | | 15,521,000 |
| Capital withdrawals by the Crown in respect of funding the net cost of New Zealand superannuation entitlements | 6(a) | | (15,521,000) | | (15,521,000) |
| **Balance at 30 June 2020** | | **18,855** | **17,842,079** | **26,136,370** | **43,997,304** |
| Profit for the year | | | | 11,238,445 | 11,238,445 |
| Other comprehensive income | | 8,846 | | | 8,846 |
| Tax expense on items of other comprehensive income | | - | | | - |
| Total comprehensive income for the year | | 8,846 | - | 11,238,445 | 11,247,291 |
| Fund capital contributions from the Crown | 6(a) | | 2,120,000 | | 2,120,000 |
| Capital contributions from the Crown in respect of funding the net cost of New Zealand superannuation entitlements | 6(a) | | 16,569,000 | | 16,569,000 |
| Capital withdrawals by the Crown in respect of funding the net cost of New Zealand superannuation entitlements | 6(a) | | (16,569,000) | | (16,569,000) |
| **Balance at 30 June 2021** | | **27,701** | **19,962,079** | **37,374,815** | **57,364,595** |

The attached notes form part of, and should be read in conjunction with, these financial statements.

## STATEMENT OF CASH FLOWS

| For the year ended 30 June 2021 | NOTE | ACTUAL | ACTUAL | BUDGET (UNAUDITED) |
|---|---|---|---|---|
| | | 2021 | 2020 | 2021 |
| | | NZD'000 | NZD'000 | NZD'000 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| **Cash was provided from:** | | | | |
| Proceeds from sale of investments | | 53,280,051 | 35,483,248 | 28,239,482 |
| Cash collateral received | | 24,978,772 | 16,165,463 | - |
| Dividends received | | 473,285 | 556,162 | 538,968 |
| Interest received | | 251,622 | 258,089 | 227,573 |
| Income tax received | | - | - | 84,973 |
| Other income | | 6,676 | 5,712 | - |
| **Total cash inflow from operating activities** | | **78,990,406** | **52,468,674** | **29,090,996** |
| **Cash was applied to:** | | | | |
| Purchases of investments | | (54,491,799) | (34,339,772) | (33,890,764) |
| Cash collateral paid | | (24,950,704) | (15,497,846) | - |
| Managers' fees | | (33,933) | (37,529) | (34,577) |
| Payments to suppliers | | (83,067) | (85,519) | (126,877) |
| Income tax paid | | (527,466) | (508,457) | - |
| Goods and services tax | | (2,754) | (3,916) | - |
| **Total cash outflow from operating activities** | | **(80,089,723)** | **(50,473,039)** | **(34,052,218)** |
| **Net cash flows provided by/(used in) operating activities** | 7(f) | **(1,099,317)** | **1,995,635** | **(4,961,222)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| **Cash was provided from:** | | | | |
| Proceeds from sale of property, plant and equipment | | 2 | 31 | - |
| **Total cash inflow from investing activities** | | **2** | **31** | **-** |
| **Cash was applied to:** | | | | |
| Purchases of property, plant and equipment | | (440) | (585) | (1,256) |
| Purchases of intangible assets | | (37) | (60) | - |
| **Total cash outflow from investing activities** | | **(477)** | **(645)** | **(1,256)** |
| **Net cash flows provided by/(used in) investing activities** | | **(475)** | **(614)** | **(1,256)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| **Cash was provided from:** | | | | |
| Fund capital contributions from the Crown | | 2,120,000 | 1,460,000 | 2,120,000 |
| **Net cash flows provided by/(used in) financing activities** | | **2,120,000** | **1,460,000** | **2,120,000** |
| **Net increase/(decrease) in cash and cash equivalents** | | **1,020,208** | **3,455,021** | **(2,842,478)** |
| Cash and cash equivalents at the beginning of the year | | 5,723,737 | 2,357,277 | 8,185,005 |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | | (164,589) | (88,561) | - |
| **Cash and cash equivalents at the end of the year** | 2(a), 4(a), 4(b) | **6,579,356** | **5,723,737** | **5,342,527** |

The attached notes form part of, and should be read in conjunction with, these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2021

## SECTION 1: GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

### (a) General information

These are the financial statements of the New Zealand Superannuation Fund (NZ Super Fund), a fund established under Section 37 of the New Zealand Superannuation and Retirement Income Act 2001 (Act) on 11 October 2001.

The NZ Super Fund is a long-term, growth-oriented, sovereign wealth fund that was established to help reduce the tax burden on future taxpayers of the rising cost of New Zealand superannuation. The NZ Super Fund is managed and administered by the Guardians of New Zealand Superannuation (Guardians). The Guardians was established as a Crown entity by Section 48 of the Act and became operative from 30 August 2002. The Guardians is expected to invest the NZ Super Fund in a commercial, prudent manner consistent with:

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

The NZ Super Fund's global master custodian is the Northern Trust Corporation.

The NZ Super Fund is domiciled in New Zealand and the address of its principal place of business is set out in the Corporate Directory on page 259.

The financial statements of the NZ Super Fund for the year ended 30 June 2021 were authorised for issue in accordance with a resolution of the Board of the Guardians of New Zealand Superannuation on 24 September 2021.

### (b) Basis of preparation

The NZ Super Fund is a profit-oriented entity. The financial statements of the NZ Super Fund have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) and the requirements of the Act. They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other authoritative pronouncements of the External Reporting Board, as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards (IFRS).

The financial statements have been prepared on a fair value basis, except for certain items as detailed in the notes to the financial statements.

The financial statements are presented in New Zealand dollars. All values are rounded to the nearest thousand dollars (NZD'000) unless stated otherwise.

Accounting policies are selected and applied in a manner that ensures the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring the substance of the underlying transactions or other events is reported. Accounting policies relating to specific financial statement items are set out in the relevant notes to the financial statements. Accounting policies that materially affect the financial statements as a whole are set out below.

The NZ Super Fund meets the definition of an investment entity and has applied the exemption from preparing consolidated financial statements available under NZ IFRS 10 Consolidated Financial Statements. As a result, its investments in subsidiaries are not consolidated, but are measured at fair value through profit or loss in the Statement of Financial Position. These separate financial statements are the only financial statements presented by the NZ Super Fund.

The budget was approved by the Board of the Guardians of New Zealand Superannuation for the year ended 30 June 2021. The budget figures are unaudited.

### (c) Significant judgements and estimates

The preparation of the NZ Super Fund's financial statements requires the Board and management to make judgements and use estimates that affect the reported amounts of income, expenditure, assets, liabilities and the accompanying disclosures. Uncertainty about these judgements and estimates could result in outcomes that require a material adjustment to the carrying amounts of assets and liabilities in future periods. The judgements and estimates used in respect of the NZ Super Fund are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the NZ Super Fund and that are believed to be reasonable under the circumstances. The judgements and estimates that the Board and management have assessed to have the most significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

- Assessment as an investment entity (Note 1(d));
- Assessment of control, joint control or significant influence (Notes 1(e) - (g));
- Assessment of investments in structured entities (Note 1(h));
- Determination of fair value (Note 2(b)); and
- Transfers between levels of the fair value hierarchy (Note 2(c)).

#### COVID-19 PANDEMIC

The prior financial year saw significant volatility in global financial markets as a result of the COVID-19 pandemic. Markets have subsequently seen a substantial turnaround, however the longer term direct and indirect impacts of the pandemic on the value of investments remains somewhat uncertain whilst businesses and governments continue to respond to the outbreak.

Refer to Notes 2(a), 2(b) and 2(e) for further disclosures on the impact of the COVID-19 pandemic.

### (d) Investment entity

The NZ Super Fund meets the definition of an investment entity as the following conditions exist:

- The NZ Super Fund obtains and manages funds for the purpose of providing its investor with investment management services;
- The NZ Super Fund has committed to its investor that its business purpose is to invest funds solely for returns from capital appreciation and investment income;
- The NZ Super Fund measures and evaluates the performance of substantially all of its investments on a fair value basis;
- The NZ Super Fund has more than one investment; and
- The NZ Super Fund has documented exit strategies for its investments.

Although the NZ Super Fund does not meet all of the typical characteristics of an investment entity (namely, the NZ Super Fund does not have multiple investors, its investor is a related party and it does not have ownership interests in the form of equity), the Board and management believe the NZ Super Fund is an investment entity because it has been specifically established as an investment vehicle, it has a diversified investment portfolio with best practice investment policies and procedures in place, it invests funds for the purpose of maximising returns and it has elected to fair value the majority of its investments where feasible for the purposes of its financial statements.

**Key judgement - assessment as an investment entity**

The Board and management reassess the NZ Super Fund's investment entity status on an annual basis, if any of the criteria or characteristics change.

### (e) Subsidiaries

Subsidiaries are those entities (including structured entities and other holding vehicles) that are controlled by the NZ Super Fund under the provisions of NZ IFRS 10 Consolidated Financial Statements. The NZ Super Fund controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. The NZ Super Fund's investments are reassessed for the existence of control if facts and circumstances indicate that there are changes to one or more of the elements of control.

Under Section 59 of the Act, the Guardians must use their best endeavours to ensure the NZ Super Fund does not control any other entity, with the exception of Fund Investment Vehicles (FIVs). A FIV is defined as an entity that is formed or controlled by the Guardians for the purpose of holding, facilitating or managing the investments of the NZ Super Fund. A FIV that is controlled by the Guardians is a subsidiary of the NZ Super Fund for accounting purposes. All investment opportunities are diligently evaluated to ensure compliance with all relevant laws.

As outlined in Note 1(b), the NZ Super Fund meets the definition of an investment entity and therefore the Board and management have applied the exemption available under NZ IFRS 10 Consolidated Financial Statements from preparing consolidated financial statements for the NZ Super Fund. As a result, its investments in subsidiaries are not consolidated, but are measured at fair value through profit or loss in accordance with NZ IFRS 9 Financial Instruments and are classified as ‘unconsolidated subsidiaries’ in the Statement of Financial Position.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2021

## SECTION 1: GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The NZ Super Fund has interests in the following unconsolidated subsidiaries:

| NAME | NOTE | BALANCE DATE | COUNTRY OF INCORPORATION | OWNERSHIP INTEREST 2021 % | 2020 % |
|---|---|---|---|---|---|
| Bain Capital Credit Managed Account (NZSF) Limited Partnership | (i) | 31 March | Cayman Islands | 99.9 | 99.9 |
| BCC Managed Account (NZSF) Holdings Limited Partnership | (i) | 31 March | Cayman Islands | 99.9 | 99.9 |
| Canyon NZ-DOF Investing Limited Partnership | (ii) | 30 June | Delaware, US | 100.0 | 100.0 |
| Global Merger Partners LLC | (ii) | 31 December | Delaware, US | 99.0 | 99.3 |
| Global Merger Partners Master Limited | (ii) | 31 December | Cayman Islands | 70.0 | 68.4 |
| KKR NZSF Energy Investor Limited Partnership | (i) | 31 December | Cayman Islands | 100.0 | 100.0 |
| N-Data Center Portfolio Co-Investor, LLC | (ii) | 31 December | Delaware, US | 99.9 | 99.9 |
| N-Novva Co-Investor, LLC | (ii) | 31 December | Delaware, US | 99.9 | 0.0 |
| Neuberger Berman Principal Strategies Merger Fund (NZSF) Limited Partnership | (i) | 31 December | Cayman Islands | 99.9 | 99.9 |
| NZSF Australian Rural Holdings Limited | (ii) | 30 June | New Zealand | 100.0 | 100.0 |
| NZSF Australian Rural Holdings Trust | (iii) | 30 June | Australia | 100.0 | 100.0 |
| Palgrove Holdings Pty Limited | (ii) | 30 June | Australia | 84.7 | 89.8 |
| Palgrove Land Holdings Trust | (iii) | 30 June | Australia | 93.7 | 93.7 |
| Palgrove Pastoral Co. Pty Limited | (ii) | 30 June | Australia | 84.7 | 89.8 |
| NZSF Beachlands Limited | (ii) | 30 June | New Zealand | 100.0 | 100.0 |
| Beachlands South GP Limited | (ii) | 30 June | New Zealand | 77.5 | 77.5 |
| Beachlands South Limited Partnership | (ii) | 30 June | New Zealand | 77.5 | 77.5 |
| NZSF Frontier Investments, Inc. | (ii) | 30 June | Delaware, US | 100.0 | 100.0 |
| NZSF Healthcare Investments Limited | (ii) | 30 June | New Zealand | 100.0 | 0.0 |
| NZSF Horticulture Investments Limited | (ii) | 30 June | New Zealand | 100.0 | 100.0 |
| NZSF Hotel Holdings Limited | (ii) | 30 June | New Zealand | 100.0 | 100.0 |
| NZ Hotel 396 Queen Asset GP Limited | (ii) | 30 June | New Zealand | 80.0 | 80.0 |
| NZ Hotel 396 Queen Asset Limited Partnership | (ii) | 30 June | New Zealand | 80.0 | 80.0 |
| NZ Hotel Cashel Street Asset GP Limited | (ii) | 30 June | New Zealand | 80.0 | 80.0 |
| NZ Hotel Cashel Street Asset Limited Partnership | (ii) | 30 June | New Zealand | 80.0 | 80.0 |
| NZ Hotel Central Lakes Asset GP Limited | (ii) | 30 June | New Zealand | 80.0 | 0.0 |
| NZ Hotel Central Lakes Asset Limited Partnership | (ii) | 30 June | New Zealand | 80.0 | 0.0 |
| NZ Hotel CNI Asset GP Limited | (ii) | 30 June | New Zealand | 80.0 | 80.0 |
| NZ Hotel CNI Asset Limited Partnership | (ii) | 30 June | New Zealand | 80.0 | 80.0 |
| NZ Hotel Holdings Asset GP Limited | (ii) | 30 June | New Zealand | 80.0 | 80.0 |
| NZ Hotel Holdings Asset Limited Partnership | (ii) | 30 June | New Zealand | 80.0 | 80.0 |
| NZ Hotel Quba Asset GP Limited | (ii) | 30 June | New Zealand | 80.0 | 80.0 |
| NZ Hotel Quba Asset Limited Partnership | (ii) | 30 June | New Zealand | 80.0 | 80.0 |
| NZSF Infrastructure Limited | (ii) | 30 June | New Zealand | 100.0 | 100.0 |
| NZSF Land Holdings Limited | (ii) | 30 June | New Zealand | 100.0 | 100.0 |
| NZSF Hobsonville Investments Limited | (ii) | 30 June | New Zealand | 100.0 | 100.0 |

| NAME | NOTE | BALANCE DATE | COUNTRY OF INCORPORATION | OWNERSHIP INTEREST 2021 % | 2020 % |
|---|---|---|---|---|---|
| NZSF Rural Holdings Limited | (ii) | 30 June | New Zealand | 100.0 | 100.0 |
| NZSF Canterbury Farms Limited | (ii) | 30 June | New Zealand | 100.0 | 100.0 |
| NZSF Rural Land Limited | (ii) | 30 June | New Zealand | 100.0 | 100.0 |
| NZSF Southland Farms Limited | (ii) | 30 June | New Zealand | 100.0 | 100.0 |
| NZSF Waikato Farms Limited | (ii) | 30 June | New Zealand | 100.0 | 100.0 |
| NZSF Side Car (Movac) Limited Partnership | (ii) | 31 March | New Zealand | 100.0 | 100.0 |
| NZSF Side Car (Pioneer) Limited Partnership | (ii) | 31 March | New Zealand | 100.0 | 100.0 |
| NZSF Timber Investments (No 4) Limited | (ii) | 30 June | New Zealand | 100.0 | 100.0 |
| NZSF Tui Investments Limited | (ii) | 30 June | New Zealand | 100.0 | 100.0 |
| NZSF US Renewables, Inc. | (ii) | 31 December | Delaware, US | 100.0 | 100.0 |
| NZSF Variable Co-Investment (Direct Capital) Limited Partnership | (ii) | 31 December | New Zealand | 100.0 | 100.0 |

In addition, the NZ Super Fund has 100% ownership interest in 21 Segregated Accounts of Bermudan-domiciled Segregated Account Company Horseshoe Re II Limited (2020: 22 Segregated Accounts) (refer Note 1(e)(iv) for further disclosures on these Segregated Accounts). All Segregated Accounts have a balance date of 31 December.

(i) Cayman Islands limited partnerships are not FIVs but are treated as unconsolidated subsidiaries of the NZ Super Fund for accounting purposes. They are not entities under Section 59 of the Act and accordingly the interests held in these partnerships do not constitute a breach of that section.

(ii) These entities are Fund Investment Vehicles (FIVs) established for the purpose of holding, facilitating and managing investments of the Fund.

During the year the NZ Super Fund established the following FIVs:

N-Novva Co-Investor, LLC was incorporated during the year for the purpose of holding, facilitating and managing the NZ Super Fund's co-investment in Novva Data Centers Holdings Parent, LLC alongside CIM Group, a North American real estate and infrastructure owner and operator. Novva Data Centers Holdings Parent, LLC owns, develops and operates data centres in North America.

NZSF Healthcare Investments Limited was incorporated during the year for the purpose of holding, facilitating and managing the NZ Super Fund's investment in NZ Healthcare Investments Limited, a company formed in partnership with the Ontario Teachers' Pension Plan Board (OTPP) to acquire the shares in Asia Pacific Healthcare Group (APHG) Investments Limited.

NZ Hotel Central Lakes Asset GP Limited and NZ Hotel Central Lakes Asset Limited Partnership were formed during the year for the purpose of acquiring, holding, facilitating and managing the NZ Super Fund's investment in the Sofitel Hotel in Queenstown, New Zealand.

(iii) NZSF Australian Rural Holdings Trust is an Australian Managed Investment Trust established on 28 July 2017 for the purpose of acquiring and holding units in the Palgrove Land Holdings Trust, a unit trust established for the purpose of acquiring and holding the land assets in Queensland and New South Wales that are leased by Palgrove Pastoral Co. Pty Limited in carrying out their business.

(iv) Horseshoe Re II Limited, acting for, and for the benefit of, the Segregated Accounts, enters into agreements relating to the NZ Super Fund's investments in insurance-linked products. These companies are domiciled in Bermuda as Bermuda is a large, well regulated centre for reinsurance business. As a matter of Bermudan law, a Segregated Account is not a 'legal person' and has no existence separate from the Segregated Account company. In addition, the NZ Super Fund does not control the Segregated Account company. Therefore, even though the Segregated Accounts are treated as unconsolidated subsidiaries for accounting purposes, they are not entities under Section 59 of the Act and accordingly the interests held do not constitute a breach of that section.

As at 30 June 2021, there are no significant restrictions on the ability of unconsolidated subsidiaries to transfer funds, including dividends, to the NZ Super Fund.

Further disclosures on transactions with unconsolidated subsidiaries are contained in Note 9(a).

## SECTION 1: GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Key judgement – assessment of control**

The NZ Super Fund's investments in subsidiaries have been assessed in light of the control model established under NZ IFRS 10 Consolidated Financial Statements to ensure the correct classification and disclosure of investments in subsidiaries. The NZ Super Fund holds investments in a number of entities that are not considered subsidiaries even though its ownership interest exceeds 50%. The Board and management have concluded that the NZ Super Fund has no unilateral power to direct the relevant activities of these entities and therefore it does not have control of these entities.

### (f) Associates

Associates are those entities over which the NZ Super Fund has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the entity, but is not control or joint control over those policies.

The NZ Super Fund has interests in the following associates that are measured at fair value through profit or loss in accordance with NZ IFRS 9 Financial Instruments and classified in the Statement of Financial Position as noted below:

| NAME | BALANCE DATE | COUNTRY OF INCORPORATION | OWNERSHIP INTEREST 2021 % | OWNERSHIP INTEREST 2020 % |
|---|---|---|---|---|
| Fidelity Life Assurance Company Limited | 30 June | New Zealand | 41.1 | 41.1 |
| Galileo Green Energy GMBH | 31 March | Switzerland | 20.0 | 20.0 |
| Kaingaroa Timberlands Partnership | 30 June | New Zealand | 42.0 | 42.0 |
| Kiwi Group Holdings Limited | 30 June | New Zealand | 25.0 | 25.0 |
| Sustainable Communities Infrastructure Pty Limited | 30 June | Australia | 30.0 | 30.0 |
| Sustainable Communities Infrastructure Trust | 30 June | Australia | 30.0 | 30.0 |

Fidelity Life Assurance Company Limited is a New Zealand-owned specialist life insurance provider for individuals, businesses and employers. The NZ Super Fund's interest in Fidelity Life Assurance Company Limited is classified as private equity in the Statement of Financial Position.

Galileo Green Energy GMBH is a renewable energy developer, owner and operator based in Europe. The NZ Super Fund's interest in Galileo Green Energy GMBH is classified as private equity in the Statement of Financial Position and a shareholder loan to the same entity is classified as fixed income securities.

NZSF Timber Investments (No 4) Limited, an unconsolidated subsidiary of the NZ Super Fund, holds a 42% interest in Kaingaroa Timberlands Partnership. Kaingaroa Timberlands Partnership is a major North Island forestry business. Additionally, NZSF Timber Investments (No 4) Limited holds interest-bearing loans with associated companies of Kaingaroa Timberlands Partnership. The NZ Super Fund's equity interest in NZSF Timber Investments (No 4) Limited is classified under unconsolidated subsidiaries in the Statement of Financial Position and the shareholder loan is classified as fixed income securities.

NZSF Tui Investments Limited, an unconsolidated subsidiary of the NZ Super Fund, holds a 25% interest in Kiwi Group Holdings Limited. Kiwi Group Holdings Limited is the sole shareholder of Kiwibank, a registered New Zealand bank, whose principal activity is the provision of retail and banking products and services to individuals and small to medium-sized businesses. The NZ Super Fund's equity interest in NZSF Tui Investments Limited is classified under unconsolidated subsidiaries in the Statement of Financial Position and a shareholder loan to the same entity is classified as fixed income securities.

Sustainable Communities Infrastructure Pty Limited (the Trustee) and Sustainable Communities Infrastructure Trust were established to acquire shares in Altogether Group Pty Limited (previously known as Flow Systems Pty Limited) and Altogether Constructors Pty Ltd (previously known as Flow Systems Constructors Pty Limited) which are multi-utility companies with operations in district water and energy schemes in New South Wales and Queensland, Australia. The NZ Super Fund's interest in Sustainable Communities Infrastructure Trust is classified as private equity in the Statement of Financial Position.

On 2 April 2020, the Reserve Bank of New Zealand (RBNZ), under revised Conditions of Registration, banned locally incorporated banks from making distributions to common equity shareholders. On 31 March 2021, the RBNZ eased the distribution restriction by limiting locally incorporated banks ability to pay dividends to a maximum of 50% of the net profit after taxation reported in the bank's most recently completed financial year. As a result of these restrictions, Kiwibank is restricted to the amount of distributions it can make to Kiwi Group Holdings Limited in its capacity as sole shareholder of Kiwibank. This effectively limits Kiwi Group Holdings Limited’s ability to make distributions to shareholders. These restrictions will remain in place until 1 July 2022, at which point the RBNZ signalled intention is to normalise the dividend settings by removing the restrictions entirely (subject to no significant worsening in economic conditions). As at 30 June 2021, there are no other significant restrictions on the ability of associates to transfer funds, including dividends, to the NZ Super Fund.

Further disclosures on transactions with associates are contained in Note 9(a).

**Key judgement - assessment of significant influence**

The NZ Super Fund's investments in associates have been assessed in light of the definition of significant influence included in NZ IAS 28 Investments in Associates and Joint Ventures. The NZ Super Fund holds investments in a number of entities that are not considered associates even though its ownership interest exceeds 20%. The Board and management have concluded that the NZ Super Fund has no power to participate in the financial and operating policy decisions of these entities and therefore it does not have significant influence over these entities.

### (g) Joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The NZ Super Fund has interests in the following joint ventures that are measured at fair value through profit or loss in accordance with NZ IFRS 9 Financial Instruments and classified in the Statement of Financial Position as noted below:

| | | | OWNERSHIP INTEREST | |
|---|---|---|---|---|
| NAME | BALANCE DATE | COUNTRY OF INCORPORATION | 2021 % | 2020 % |
| Datacom Group Limited | 31 March | New Zealand | 39.3 | 39.3 |
| Gourmet International Holdings Limited | 30 June | New Zealand | 27.1 | 27.1 |
| Hobsonville Development GP Limited | 31 March | New Zealand | 49.0 | 49.0 |
| Hobsonville Development Limited Partnership | 31 March | New Zealand | 49.0 | 49.0 |
| Longroad Energy Holdings, LLC | 31 December | Delaware, US | 40.0 | 40.0 |
| New Ground Living (Hobsonville Point) Limited | 31 March | New Zealand | 45.0 | 45.0 |
| NZ Healthcare Investments Limited | 31 December | New Zealand | 48.1 | 0.0 |
| APHG NZ Investments Limited | 31 December | New Zealand | 48.1 | 0.0 |
| NZ Hotel Holdings Management GP Limited | 30 June | New Zealand | 50.0 | 50.0 |
| NZ Hotel 396 Queen Management GP Limited | 30 June | New Zealand | 50.0 | 50.0 |
| NZ Hotel Cashel Street Management GP Limited | 30 June | New Zealand | 50.0 | 50.0 |
| NZ Hotel Central Lakes Management GP Limited | 30 June | New Zealand | 50.0 | 0.0 |
| NZ Hotel CNI Management GP Limited | 30 June | New Zealand | 50.0 | 50.0 |
| NZ Hotel Quba Management GP Limited | 30 June | New Zealand | 50.0 | 50.0 |
| NZ Hotel Holdings Management Limited Partnership | 30 June | New Zealand | 50.0 | 50.0 |
| NZ Hotel 396 Queen Management Limited Partnership | 30 June | New Zealand | 50.0 | 50.0 |
| NZ Hotel Cashel Street Management Limited Partnership | 30 June | New Zealand | 50.0 | 50.0 |
| NZ Hotel Central Lakes Management Limited Partnership | 30 June | New Zealand | 50.0 | 0.0 |
| NZ Hotel CNI Management Limited Partnership | 30 June | New Zealand | 50.0 | 50.0 |
| NZ Hotel Quba Management Limited Partnership | 30 June | New Zealand | 50.0 | 50.0 |
| NZ Infra Limited | 31 December | New Zealand | 50.0 | 50.0 |
| Palgrove Management Pty Limited | 30 June | Australia | 50.0 | 50.0 |
| RA (Holdings) 2014 Pty Limited | 31 March | Australia | 50.0 | 50.0 |

Datacom Group Limited is an information technology services company with operations in New Zealand, Australia and the Asia Pacific. The NZ Super Fund's interest in Datacom Group Limited is classified as private equity in the Statement of Financial Position.

## SECTION 1: GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NZSF Horticulture Investments Limited, an unconsolidated subsidiary of the NZ Super Fund, has a 27.1% interest in Gourmet International Holdings Limited, a company which produces and markets fruit and vegetables, with operations in New Zealand, Australia and North and South America. The NZ Super Fund's interest in NZSF Horticulture Investments Limited is classified under unconsolidated subsidiaries in the Statement of Financial Position.

NZSF Hobsonville Investments Limited, an unconsolidated subsidiary of the NZ Super Fund, holds a 49% interest in Hobsonville Development Limited Partnership, a partnership established for the purpose of developing, then selling property at Hobsonville Point in Auckland, and 49% in its management company, Hobsonville Development GP Limited. The NZ Super Fund's interest in NZSF Hobsonville Investments Limited is classified under unconsolidated subsidiaries in the Statement of Financial Position.

NZSF Land Holdings Limited, an unconsolidated subsidiary of the NZ Super Fund, holds a 45% interest in New Ground Living (Hobsonville Point) Limited, a company established for the purpose of developing, then renting property at Hobsonville Point in Auckland. The NZ Super Fund's interest in NZSF Land Holdings Limited is classified under unconsolidated subsidiaries in the Statement of Financial Position.

NZSF US Renewables Inc., an unconsolidated subsidiary of the NZ Super Fund, holds a 40% interest in Longroad Energy Holdings, LLC, a Delaware limited liability company formed for the purpose of developing utility-scale renewable energy facilities throughout North America. The NZ Super Fund's interest in NZSF US Renewables Inc. is classified under unconsolidated subsidiaries in the Statement of Financial Position.

NZSF Healthcare Investments Limited, an unconsolidated subsidiary of the NZ Super Fund, holds a 48.1% interest in NZ Healthcare Investments Limited, a company formed in partnership with OTPP for the purpose of acquiring the shares in APHG NZ Investments Limited. APHG NZ Investments Limited is New Zealand's largest human and veterinary pathology business. The NZ Super Fund's interest in NZSF Healthcare Investments Limited is classified under unconsolidated subsidiaries in the Statement of Financial Position.

NZSF Hotel Holdings Limited, an unconsolidated subsidiary of the NZ Super Fund, holds a 50% interest in NZ Hotel Holdings Management GP Limited and NZ Hotel Holdings Management Limited Partnership. These entities were formed to manage the portfolio of hotel assets acquired by the NZ Super Fund. The NZ Super Fund's interest in NZSF Hotel Holdings Limited is classified under unconsolidated subsidiaries in the Statement of Financial Position.

NZSF Infrastructure Limited, an unconsolidated subsidiary of the NZ Super Fund, holds a 50% interest in NZ Infra Limited, a company established with CDPQ Infra Investissements Inc. for the purpose of designing, building and operating a light rail network in Auckland, New Zealand. As at 30 June 2021, the investment in NZ Infra Limited amounted to $nil value (2020: $nil). The NZ Super Fund's interest in NZSF Infrastructure Limited is classified under unconsolidated subsidiaries in the Statement of Financial Position.

NZSF Australian Rural Holdings Limited, an unconsolidated subsidiary of the NZ Super Fund, has a 50% interest in Palgrove Management Pty Limited, a company established for the purpose of acting as the employing entity and providing management services to Palgrove Pastoral Co. Pty Limited. The NZ Super Fund's interest in NZSF Australian Rural Holdings Limited is classified under unconsolidated subsidiaries in the Statement of Financial Position.

RA (Holdings) 2014 Pty Limited is the holding company for the NZ Super Fund's investment in RetireAustralia, a leading Australian retirement village operator. The NZ Super Fund's interest in RA (Holdings) 2014 Pty Limited is classified as private equity in the Statement of Financial Position.

As at 30 June 2021, there are no restrictions on the ability of any joint venture to transfer funds, including dividends, to the NZ Super Fund.

Further disclosures on transactions with joint ventures are contained in Note 9(a).

**Key judgement - assessment of joint control**

The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries. The NZ Super Fund's joint arrangements are classified as joint ventures because certain key operating and financial activities require the approval of the NZ Super Fund as well as at least one other investor and the contractual arrangements provide the parties with rights to the net assets of the joint arrangements.

### (h) Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes:

- Restricted activities;
- A narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors;
- Insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and
- Financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks.

The NZ Super Fund is principally involved with structured entities through its investments in private equity investment funds, unconsolidated subsidiaries, collective investment funds, insurance-linked investments, shareholder loans, agency mortgage-backed securities and asset-backed securities that are issued by structured entities. The NZ Super Fund invests in structured entities to assist with the implementation of its overall investment strategy. The NZ Super Fund does not sponsor any structured entities.

Structured entities have the following business activities:

#### PRIVATE EQUITY INVESTMENT FUNDS AND UNCONSOLIDATED SUBSIDIARIES

Private equity investment funds and unconsolidated subsidiaries provide a mechanism to share exposure with other investors and may take various legal forms (e.g. limited liability companies, limited partnerships, trusts). The NZ Super Fund makes commitments to, and investments in, these legal structures and in return is issued with rights to a proportional stake in their net assets. They have a broad range of investment objectives and are managed by unrelated asset managers who apply various investment strategies to accomplish their respective investment objectives.

#### COLLECTIVE INVESTMENT FUNDS

Collective investment funds finance their operations by way of subscription, in which case, the NZ Super Fund subscribes and is issued with redeemable shares that entitle it to a proportional stake in the net assets of the investment.

#### INSURANCE-LINKED INVESTMENTS

The NZ Super Fund invests in catastrophe bonds which are issued by structured entities. Each bond is linked to an insurance event such as a natural disaster. The bonds transfer particular risks from the insurer to the bond holder.

#### SHAREHOLDER LOANS

The NZ Super Fund may make investments in private equity investment funds or other private equity investments via shareholder loans. The borrower in the arrangement may be a structured entity. Shareholder loans are classified as fixed income securities in the Statement of Financial Position.

#### AGENCY MORTGAGE-BACKED SECURITIES

Agency mortgage-backed securities are pass-through securities issued by the Federal Home Loan Mortgage Corporation (Freddie Mac), the Federal National Mortgage Association (Fannie Mae), both US-government sponsored enterprises, and the Government National Mortgage Association (Ginnie Mae), a US-government corporation. These securities are traded in the TBA (To Be Announced) market and are mortgage-backed forward, or 'delayed delivery' securities. The securities have standardised 15-year or 30-year maturity dates, however, whilst the terms of the security are agreed up front, the specific mortgages to be delivered to fulfil the security obligation are only allocated just prior to settlement. Agency mortgage-backed securities are classified as fixed income securities in the Statement of Financial Position.

#### ASSET-BACKED SECURITIES

The NZ Super Fund invests in a variety of asset-backed securities, the majority of which have been senior tranches of debt issued by a structured entity. The debt is usually collateralised by an underlying pool of assets. The asset-backed securities take the form of mortgage-backed securities (collateralised by both commercial and residential mortgages), asset-backed securities (collateralised by consumer loans, small business loans and auto loans), collateralised debt obligations (CDO) and collateralised loan obligations (CLO). Asset-backed securities are classified as fixed income securities in the Statement of Financial Position.

#### EXCHANGE TRADED FUNDS

The NZ Super Fund subscribes to shares in exchange traded funds. The shares entitle the holder to a proportional stake in the net assets of the exchange traded funds' investments. Exchange traded funds are included in listed global equities and fixed income securities as appropriate.

**Key judgement - assessment of investments in structured entities**

The Board and management have assessed which of the NZ Super Fund's investments are investments in structured entities. In doing so, the Board and management have considered voting rights and other similar rights afforded to investors as well as any contractual arrangements in place with these investments.

The Board and management have concluded that certain of the NZ Super Fund's investments meet the definition of a structured entity because:

- The voting rights in the investments are not the dominant factor in deciding who controls the investment; and
- The investments have narrow and well-defined objectives to provide investment opportunities to investors.

## SECTION 1: GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Further disclosures on structured entities are contained in Notes 3(e) and 7(b).

### (i) Property, plant and equipment

#### RECOGNITION AND MEASUREMENT

All items of property, plant and equipment are initially recognised at cost. Cost includes the value of consideration exchanged and those expenses directly attributable to bring the item to working condition for its intended use.

Subsequent to initial recognition, all items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

#### DERECOGNITION

An item of property, plant and equipment is derecognised when it is sold or otherwise disposed of or when no future economic benefits are expected to arise from its continued use. Any gain or loss arising on disposal (being the difference between the net disposal proceeds and the carrying amount of the item) is included in the Statement of Comprehensive Income in the year in which the item is disposed of.

#### IMPAIRMENT

All items of property, plant and equipment are assessed for impairment at each balance date. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated, being the greater of fair value less costs to sell and value in use. Where the carrying amount of an asset is greater than its recoverable amount, the asset is written down to its recoverable amount. The write-down is recognised in the Statement of Comprehensive Income. Where an impairment loss subsequently reverses, the carrying amount of the item is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount which would have been determined had no impairment loss been recognised for the item in prior years. A reversal of an impairment loss is recognised in the Statement of Comprehensive Income immediately.

### (j) Foreign currency translation

#### FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the financial statements of the NZ Super Fund are measured using the currency of the primary economic environment in which the NZ Super Fund operates (the functional currency). The functional currency of the NZ Super Fund is New Zealand dollars. It is also the presentation currency.

#### TRANSACTIONS AND BALANCES

Transactions denominated in foreign currencies are converted to New Zealand dollars using the exchange rates prevailing at the dates of the transactions. Foreign currency monetary assets and liabilities are translated at the exchange rate prevailing at balance date. Where there is a movement in the exchange rate between the date of a foreign currency transaction and balance date, the resulting exchange differences are recognised in the Statement of Comprehensive Income.

### (k) Goods and services tax (GST)

Income, expenditure, assets and liabilities are recognised in the financial statements exclusive of GST, with the exception of receivables and payables which are stated inclusive of GST. Where GST is irrecoverable as an input tax, it is recognised as part of the related asset or expenditure. The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the Statement of Financial Position.

### (l) Statement of Cash Flows

The following are the definitions of the terms used in the Statement of Cash Flows:

Operating activities include all activities other than investing or financing activities.

Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and intangible assets.

Financing activities are those activities relating to capital contributions and to payments of superannuation entitlements. As the current funding by the Crown of superannuation entitlements flows directly from the Treasury to the Ministry of Social Development, it is not considered cash flow of the NZ Super Fund and accordingly, is not recorded in the Statement of Cash Flows.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, is classified as cash flows from operating activities.

### (m) Changes in accounting policies

There have been no changes in accounting policies during the year. All accounting policies have been applied consistently throughout these financial statements.

Certain prior year comparatives have been restated to conform with current year presentation. These classifications have no impact on the overall financial performance or financial position or cash flows of the NZ Super Fund for the comparable year.

### (n) Standards issued but not yet effective

There are no standards issued but not yet effective that materially impact the NZ Super Fund as at 30 June 2021.

## SECTION 2: FAIR VALUE

### (a) Fair value measurement

**Accounting Policy**

The majority of the net assets of the NZ Super Fund are measured at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Management uses valuation techniques for the NZ Super Fund that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within a fair value hierarchy as follows:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets and liabilities. An active market is one where prices are readily available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The fair value of Level 1 assets and liabilities requires little or no judgement.

Level 2 - Valuation techniques that use observable market data. Such techniques include the use of market standard discounting methodologies, option pricing models and other valuation techniques widely used and accepted by market participants.

Level 3 - Valuation techniques that use inputs not based on observable market data. Unobservable inputs are those not readily available in an active market due to illiquidity or complexity of the product. These inputs are generally derived and extrapolated from other relevant market data and calibrated against current market trends and historic transactions. These valuations are calculated using a high degree of management judgement.

Whilst the determination of fair value of investments categorised under Level 3 is subject to careful consideration and consultation with a range of reliable and independent sources, there remains uncertainty about certain judgements and estimates used as a result of both the direct and indirect impacts of the ongoing COVID-19 pandemic.

The level within which an asset or liability is categorised in the fair value hierarchy is determined based on the lowest level input that is significant to the fair value measurement as a whole.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2021

## SECTION 2: FAIR VALUE (CONTINUED)

The fair value of the NZ Super Fund's assets and liabilities are categorised as follows:

| | | ACTUAL | | | | | |
|---|---|---|---|---|---|---|---|
| 2021 | NOTE | QUOTED MARKET PRICE (LEVEL 1) | VALUATION TECHNIQUE: MARKET-OBSERVABLE INPUTS (LEVEL 2) | VALUATION TECHNIQUE: NON-MARKET OBSERVABLE INPUTS (LEVEL 3) | TOTAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE | ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE* | TOTAL |
| | | NZD'000 | NZD'000 | NZD'000 | NZD'000 | NZD'000 | NZD'000 |
| **ASSETS** | | | | | | | |
| Cash and cash equivalents | 4(a), 4(b) | | | | - | 6,579,356 | 6,579,356 |
| Cash pledged as collateral | 4(a), 4(c) | | | | - | 708,219 | 708,219 |
| Trade and other receivables | 4(a), 4(d) | | | | - | 623,318 | 623,318 |
| **Investments** | | | | | | | |
| Derivative financial instrument assets: | | | | | | | |
| Forward foreign exchange contracts | 4(e) | | 424,726 | | 424,726 | | 424,726 |
| Cross currency swaps | 4(e) | | 7,787 | | 7,787 | | 7,787 |
| Longevity contingent swaps | 4(e) | | | 25,320 | 25,320 | | 25,320 |
| Futures contracts | 4(e) | | | | - | | - |
| Total return swaps - equity | 4(e) | | 293,699 | | 293,699 | | 293,699 |
| Total return swaps - commodities | 4(e) | | 2,328 | | 2,328 | | 2,328 |
| Credit default swaps | 4(e) | | 42,143 | | 42,143 | | 42,143 |
| Interest rate swaps | 4(e) | | 60,037 | | 60,037 | | 60,037 |
| Warrants | 4(e) | | | | - | | - |
| Other over-the-counter swaps | 4(e) | | - | | - | | - |
| Total derivative financial instrument assets | | - | 830,720 | 25,320 | 856,040 | - | 856,040 |
| Other financial assets: | | | | | | | |
| Listed New Zealand equities | 4(a), 4(e) | 2,568,642 | | | 2,568,642 | | 2,568,642 |
| Listed global equities | 4(a), 4(e) | 23,934,755 | - | 9,052 | 23,943,807 | | 23,943,807 |
| Fixed income securities | 4(a), 4(e) | | 10,431,793 | 36,760 | 10,468,553 | 1,094,276 | 11,562,829 |
| Collective investment funds | 4(a), 4(e) | | 1,503,268 | 429 | 1,503,697 | | 1,503,697 |
| Reverse repurchase agreements | 4(a), 4(e) | | | | - | 284,079 | 284,079 |
| Securities on loan under securities lending and similar agreements | 4(a), 4(e) | 3,351,129 | 1,023,460 | 86 | 4,374,675 | | 4,374,675 |
| Insurance-linked investments | 4(a), 4(e) | | 437,913 | | 437,913 | | 437,913 |
| Private equity | 4(a), 4(e) | | | 3,399,851 | 3,399,851 | | 3,399,851 |
| Total other financial assets | | 29,854,526 | 13,396,434 | 3,446,178 | 46,697,138 | 1,378,355 | 48,075,493 |
| Investments in unconsolidated subsidiaries | 4(a), 4(e) | | 1,070,906 | 4,047,862 | 5,118,768 | | 5,118,768 |
| | | 29,854,526 | 15,298,060 | 7,519,360 | 52,671,946 | 1,378,355 | 54,050,301 |
| Property, plant and equipment | | | | | - | 1,630 | 1,630 |
| Intangible assets | | 32,950 | | | 32,950 | 27 | 32,977 |
| **Total assets** | | **29,887,476** | **15,298,060** | **7,519,360** | **52,704,896** | **9,290,905** | **61,995,801** |

* Assets and liabilities not measured at fair value are carried at amortised cost but their carrying values are a reasonable approximation of fair value.

| 2021 | NOTE | ACTUAL<br>QUOTED MARKET PRICE (LEVEL 1) | VALUATION TECHNIQUE: MARKET-OBSERVABLE INPUTS (LEVEL 2) | VALUATION TECHNIQUE: NON-MARKET OBSERVABLE INPUTS (LEVEL 3) | TOTAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE | ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE* | TOTAL |
|---|---|---|---|---|---|---|---|
| | | NZD'000 | NZD'000 | NZD'000 | NZD'000 | NZD'000 | NZD'000 |
| **LIABILITIES** | | | | | | | |
| Cash collateral received | 4(a), 4(c) | | | | - | 1,051,977 | 1,051,977 |
| Trade and other payables | 4(a), 4(g) | | | | - | 669,076 | 669,076 |
| Derivative financial instrument liabilities: | | | | | | | |
| Forward foreign exchange contracts | 4(e) | | 767,537 | | 767,537 | | 767,537 |
| Cross currency swaps | 4(e) | | 1,394 | | 1,394 | | 1,394 |
| Variance swaps | 4(e) | | - | | - | | - |
| Futures contracts | 4(e) | | | | - | | - |
| Total return swaps - equity | 4(e) | | 75,615 | | 75,615 | | 75,615 |
| Total return swaps - bonds | 4(e) | | 8,974 | | 8,974 | | 8,974 |
| Credit default swaps | 4(e) | | 62,850 | | 62,850 | | 62,850 |
| Interest rate swaps | 4(e) | | 63,310 | | 63,310 | | 63,310 |
| Other over-the-counter swaps | 4(e) | | 328 | | 328 | | 328 |
| Total derivative financial instrument liabilities | | - | 980,008 | - | 980,008 | - | 980,008 |
| Income tax payable | | | | | - | 1,887,279 | 1,887,279 |
| Provision for performance-based fees | 5(a) | | | | - | | - |
| Deferred tax liability | 7(e) | | | | - | 42,866 | 42,866 |
| **Total liabilities** | | **-** | **980,008** | **-** | **980,008** | **3,651,198** | **4,631,206** |

* Assets and liabilities not measured at fair value are carried at amortised cost but their carrying values are a reasonable approximation of fair value.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2021

### SECTION 2: FAIR VALUE (CONTINUED)

| 2020 | NOTE | QUOTED MARKET PRICE (LEVEL 1) | VALUATION TECHNIQUE: MARKET-OBSERVABLE INPUTS (LEVEL 2) | VALUATION TECHNIQUE: NON-MARKET OBSERVABLE INPUTS (LEVEL 3) | TOTAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE | ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE* | TOTAL |
|---|---|---|---|---|---|---|---|
| | | ACTUAL | | | | | |
| | | NZD'000 | NZD'000 | NZD'000 | NZD'000 | NZD'000 | NZD'000 |
| **ASSETS** | | | | | | | |
| Cash and cash equivalents | 4(a), 4(b) | | | | - | 5,723,737 | 5,723,737 |
| Cash pledged as collateral | 4(a), 4(c) | | | | - | 1,335,069 | 1,335,069 |
| Trade and other receivables | 4(a), 4(d) | | | | - | 557,378 | 557,378 |
| **Investments** | | | | | | | |
| Derivative financial instrument assets: | | | | | | | |
| Forward foreign exchange contracts | 4(e) | | 945,248 | | 945,248 | | 945,248 |
| Cross currency swaps | 4(e) | | 17,675 | | 17,675 | | 17,675 |
| Longevity contingent swaps | 4(e) | | | 34,871 | 34,871 | | 34,871 |
| Futures contracts | 4(e) | | | | - | | - |
| Total return swaps - equity | 4(e) | | 1,247,483 | | 1,247,483 | | 1,247,483 |
| Total return swaps - commodities | 4(e) | | 11,051 | | 11,051 | | 11,051 |
| Credit default swaps | 4(e) | | 28,056 | | 28,056 | | 28,056 |
| Interest rate swaps | 4(e) | | 44,030 | | 44,030 | | 44,030 |
| Warrants | 4(e) | | | | - | | - |
| Other over-the-counter swaps | 4(e) | | 108 | | 108 | | 108 |
| Total derivative financial instrument assets | | - | 2,293,651 | 34,871 | 2,328,522 | - | 2,328,522 |
| Other financial assets: | | | | | | | |
| Listed New Zealand equities | 4(a), 4(e) | 2,076,813 | | | 2,076,813 | | 2,076,813 |
| Listed global equities | 4(a), 4(e) | 13,733,032 | - | 34,901 | 13,767,933 | | 13,767,933 |
| Fixed income securities | 4(a), 4(e) | | 9,272,677 | 59,831 | 9,332,508 | 1,271,454 | 10,603,962 |
| Collective investment funds | 4(a), 4(e) | - | 957,407 | 1,506 | 958,913 | | 958,913 |
| Reverse repurchase agreements | 4(a), 4(e) | | | | - | 201,942 | 201,942 |
| Securities on loan under securities lending and similar agreements | 4(a), 4(e) | 2,088,891 | 301,912 | 1,126 | 2,391,929 | | 2,391,929 |
| Insurance-linked investments | 4(a), 4(e) | | 221,796 | | 221,796 | | 221,796 |
| Private equity | 4(a), 4(e) | | | 3,198,955 | 3,198,955 | | 3,198,955 |
| Total other financial assets | | 17,898,736 | 10,753,792 | 3,296,319 | 31,948,847 | 1,473,396 | 33,422,243 |
| Investments in unconsolidated subsidiaries | 4(a), 4(e) | | 1,115,422 | 3,397,067 | 4,512,489 | | 4,512,489 |
| | | 17,898,736 | 14,162,865 | 6,728,257 | 38,789,858 | 1,473,396 | 40,263,254 |
| Property, plant and equipment | | | | | - | 1,803 | 1,803 |
| Intangible assets | | 24,104 | | | 24,104 | 279 | 24,383 |
| **Total assets** | | **17,922,840** | **14,162,865** | **6,728,257** | **38,813,962** | **9,091,662** | **47,905,624** |

* Assets and liabilities not measured at fair value are carried at amortised cost but their carrying values are a reasonable approximation of fair value.

| | | ACTUAL | | | | | |
|---|---|---|---|---|---|---|---|
| 2020 | NOTE | QUOTED MARKET PRICE (LEVEL 1) | VALUATION TECHNIQUE: MARKET-OBSERVABLE INPUTS (LEVEL 2) | VALUATION TECHNIQUE: NON-MARKET OBSERVABLE INPUTS (LEVEL 3) | TOTAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE | ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE* | TOTAL |
| | | NZD'000 | NZD'000 | NZD'000 | NZD'000 | NZD'000 | NZD'000 |
| **LIABILITIES** | | | | | | | |
| Cash collateral received | 4(a), 4(c) | | | | - | 1,650,760 | 1,650,760 |
| Trade and other payables | 4(a), 4(g) | | | | - | 1,171,762 | 1,171,762 |
| Derivative financial instrument liabilities: | | | | | | | |
| Forward foreign exchange contracts | 4(e) | | 256,133 | | 256,133 | | 256,133 |
| Cross currency swaps | 4(e) | | 26,028 | | 26,028 | | 26,028 |
| Variance swaps | 4(e) | | 35,310 | | 35,310 | | 35,310 |
| Futures contracts | 4(e) | | | | - | | - |
| Total return swaps - equity | 4(e) | | 193,789 | | 193,789 | | 193,789 |
| Total return swaps - bonds | 4(e) | | - | | - | | - |
| Credit default swaps | 4(e) | | 49,247 | | 49,247 | | 49,247 |
| Interest rate swaps | 4(e) | | 216,438 | | 216,438 | | 216,438 |
| Other over-the-counter swaps | 4(e) | | - | | - | | - |
| Total derivative financial instrument liabilities | | - | 776,945 | - | 776,945 | - | 776,945 |
| Income tax payable | | | | | - | 257,725 | 257,725 |
| Provision for performance-based fees | 5(a) | | | | - | | - |
| Deferred tax liability | 7(e) | | | | - | 51,128 | 51,128 |
| **Total liabilities** | | **-** | **776,945** | **-** | **776,945** | **3,131,375** | **3,908,320** |

* Assets and liabilities not measured at fair value are carried at amortised cost but their carrying values are a reasonable approximation of fair value.

## SECTION 2: FAIR VALUE (CONTINUED)

**(b) Determination of fair value**

The specific valuation techniques and the observability of the inputs used in valuation models for significant product categories are outlined below:

### DERIVATIVE FINANCIAL INSTRUMENTS AND FORWARD FOREIGN EXCHANGE CONTRACTS

The fair values of derivative financial instruments and forward foreign exchange contracts are principally determined using valuation techniques with market observable inputs and are classified within Level 2 of the fair value hierarchy. The most frequently applied valuation techniques include forward pricing and swap models using present value calculations. The models incorporate various inputs including foreign exchange spot and forward rates, interest rates, futures prices, default rates, credit spreads, volatility curves and discount rates.

In some instances, the fair values of derivative financial instruments are determined using valuation techniques with non-market observable inputs. These financial instruments include longevity contingent swaps and warrants and are classified within Level 3 of the fair value hierarchy. The fair value of longevity contingent swaps is provided by the counterparty at balance date and is based on the fair value of the underlying basket of contracts. The fair value of warrants is determined using a Black Scholes Option Pricing Model.

### LISTED EQUITIES

The fair value of listed equities, including equity exchange traded funds and those on loan under securities lending and similar agreements, is determined based on the last quoted price on the relevant exchange at balance date and are classified within Level 1 of the fair value hierarchy. In some instances, where the market on which the security is traded is not highly liquid (e.g. the security may be listed on an emerging market stock exchange or trading of the security may be temporarily suspended), the price can also be determined using non-binding broker quotes. These securities are classified within Level 3 of the fair value hierarchy.

### FIXED INCOME SECURITIES

The fair value of liquid fixed income securities, including fixed income exchange traded funds and those on loan under securities lending and similar agreements, is determined based on either the last quoted bid price or the mid price (depending on the market and region of the securities) provided by a reputable pricing vendor (being a financial data provider such as ICE or Bloomberg) or broker at balance date and are classified within Level 2 of the fair value hierarchy. Where the market for fixed income securities is illiquid, fair value is determined by a reputable pricing vendor who uses models to value the securities. The models incorporate various inputs including loan level data, repayment and default assumptions and benchmark prices for similar securities. These securities are also classified within Level 2 of the fair value hierarchy.

The fair value of unlisted debt instruments, including fixed and floating rate instruments, that form part of an investment into a private equity investment, are valued by a suitably qualified independent valuer who ascribes an enterprise value to the entire private equity investment then apportions that value across the instruments held, including the debt instruments. These securities are classified within Level 3 of the fair value hierarchy.

### COLLECTIVE INVESTMENT FUNDS

The fair value of collective investment funds is provided by the investment managers or administrators at balance date. The price is based on the fair value of the underlying net assets or securities of the collective investment fund. Their classification within the fair value hierarchy is determined by the lowest level classification of the underlying financial instruments.

### INSURANCE-LINKED INVESTMENTS

Insurance-linked investments which are catastrophe bonds are valued using prices provided by reputable pricing vendors or brokers at balance date and are classified within Level 2 of the fair value hierarchy.

### PRIVATE EQUITY

The fair value of private equity investment funds is provided by the investment managers or administrators at balance date. The price is based on the fair value of the underlying net assets of the private equity investment fund which is determined using a variety of methods, including independent valuations, valuation models based on the price of recent transactions, earnings multiples or discounted cash flows and are classified within Level 3 of the fair value hierarchy. Private equity investments (not invested via a managed fund structure) are valued by reference to either an independent valuation,the price of recent transactions or such alternative valuation as deemed appropriate by the Board and are also classified within Level 3 of the fair value hierarchy.

### UNCONSOLIDATED SUBSIDIARIES

The fair value of unconsolidated subsidiaries is based on the fair value of the underlying net assets of the specific investment which can be determined using a variety of methods, including being based on the last quoted bid price provided by a reputable pricing vendor or broker, independent valuations, valuation models based on the price of recent transactions, earnings multiples or discounted cash flows. Unconsolidated subsidiaries are classified accordingly within Levels 2 and 3 of the fair value hierarchy.

### INTANGIBLE ASSETS

Allocations of New Zealand Units (NZU's) and/or other carbon credits that the NZ Super Fund owns are recognised at fair value where they have been received, or where the Board and management are reasonably certain they will be received, and a price can be reliably ascertained either through the existence of an observable active market or through pricing obtained from reputable brokers.

**Key judgement - determination of fair value**

Where the fair value of assets and liabilities cannot be measured based on quoted prices in active markets, fair value is determined using valuation techniques with market observable inputs from third parties such as brokers or pricing vendors. For assets that have no quoted price (which principally consist of investments in private equity investment funds, collective investment funds, fixed income securities and certain derivative financial instruments) the determination of fair value requires significant judgement. Fair value for these assets is determined as follows:

**PRIVATE EQUITY INVESTMENT FUNDS AND COLLECTIVE INVESTMENT FUNDS WHERE FAIR VALUE IS PROVIDED BY INVESTMENT MANAGERS OR ADMINISTRATORS**

The fair value of private equity investment funds and collective investment funds is provided by the investment managers or administrators at balance date. Depending on the nature of the underlying instruments, investment managers and administrators may use observable market prices, their own models or they may engage independent valuers who use models to obtain the fair value of investments. The Board and management may also directly appoint independent valuers to obtain the fair value of certain investments where this information is unable to be provided by an investment manager or administrator or where an investment is directly managed by the NZ Super Fund.

**FIXED INCOME SECURITIES WHERE FAIR VALUE IS DETERMINED BY A PRICING VENDOR**

Where the market for fixed income securities is illiquid, fair value is determined by a pricing vendor who uses models to value the securities. The Board and management mitigate the risk of pricing errors by only selecting reputable pricing vendors and by periodically calibrating prices against observable market data.

**DERIVATIVE FINANCIAL INSTRUMENTS WHERE FAIR VALUE IS DETERMINED BY A PRICING VENDOR, BROKER OR COUNTERPARTY**

Pricing vendors, brokers or counterparties may use valuation models to price certain derivative financial instruments for which the inputs may include current and forward exchange rates, estimates of cash flows, interest rates, futures prices, default rates, credit spreads, volatility curves, indicative prices for similar assets and discount rates. The Board and management mitigate the risk of pricing errors by only selecting reputable pricing vendors, brokers or counterparties and by periodically calibrating prices against observable market data.

**VALUATION UNCERTAINTY DUE TO THE COVID-19 PANDEMIC**

Since the fair value of investments categorised within Level 1 or Level 2 of the fair value hierarchy reflect market observable prices or inputs, they are inherently less subjective and their valuation less uncertain than those investments categorised within Level 3 of the fair value hierarchy.

The NZ Super Fund's investments categorised within Level 3 of the fair value hierarchy predominantly consist of private equity investments held directly or via investment funds; unconsolidated subsidiaries and other externally managed investment vehicles. Whilst the determination of fair value in relation to these investments is subject to careful consideration and consultation with a range of reliable and independent sources, the longer term direct and indirect impacts of the COVID-19 pandemic on the valuation of these investments remain uncertain. The Board and management continue to monitor and evaluate the appropriateness of specific valuation techniques and the judgements and estimates used when determining the fair value of these assets to assess whether material adjustments might be required to their carrying value.

### (c) Transfers between levels in the fair value hierarchy

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Board and management determine whether transfers have occurred between levels in the hierarchy by reassessing categorisation throughout each reporting period.

The following table presents the transfers between fair value hierarchy levels for the year:

| | ACTUAL | | |
|---|---|---|---|
| | LEVEL 1 | LEVEL 2 | LEVEL 3 |
| 2021 | NZD'000 | NZD'000 | NZD'000 |
| Transfers between Levels 1 and 3: | | | |
| Listed global equities | 357,422 | - | - |
| Private equity | - | - | (357,422) |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2021

## SECTION 2: FAIR VALUE (CONTINUED)

Private equity transferred to Level 1 listed global equities relates to a company that was privately held as at 30 June 2020 but was subsequently listed in the year ended 30 June 2021.

| | ACTUAL | | |
|---|---|---|---|
| | LEVEL 1 | LEVEL 2 | LEVEL 3 |
| 2020 | NZD'000 | NZD'000 | NZD'000 |
| Transfers between Levels 1 and 3: | | | |
| Listed global equities | (6,765) | - | 6,765 |

Listed global equities transferred to Level 3 relate to positions that were either de-listed or whose trading was suspended as at 30 June 2020 but were actively traded in the year ended 30 June 2019.

**Key judgement - transfers between levels of the fair value hierarchy**

The classification of investments within the fair value hierarchy is reviewed annually. Transfers between the different levels of the hierarchy generally occur when there is a change in the trading status of a financial instrument (such as listing on a recognised exchange, suspension of trading or de-listing).

### (d) Reconciliation of fair value measurement under Level 3 hierarchy

The following table provides a reconciliation of movements in the fair value of financial assets categorised within Level 3 of the fair value hierarchy:

| | ACTUAL | ACTUAL |
|---|---|---|
| | 2021 | 2020 |
| | NZD'000 | NZD'000 |
| **Opening balance** | 6,728,257 | 5,940,757 |
| Unrealised gains and losses recognised in net fair value gains on financial instruments held at fair value through profit or loss | 851,634 | (109,352) |
| Realised gains and losses recognised in net fair value gains on financial instruments held at fair value through profit or loss | 108,369 | 31,173 |
| Purchases | 797,204 | 1,217,845 |
| Sales | (10,498) | (2,169) |
| Settlements | (598,184) | (356,762) |
| Transfers to/(from) other categories | (357,422) | 6,765 |
| **Closing balance** | **7,519,360** | **6,728,257** |

**(e) Fair value sensitivity**

The following table shows the NZ Super Fund's sensitivity of fair value measurement to likely changes in non-market observable inputs (where appropriate, equivalent to one standard deviation) for financial assets categorised within Level 3 of the fair value hierarchy:

| | ACTUAL | | | |
|---|---|---|---|---|
| 2021 | NON-MARKET OBSERVABLE INPUT | MOVEMENT | IMPACT ON FAIR VALUE MEASUREMENT | |
| | | | INCREASE | DECREASE |
| | | % | NZD'000 | NZD'000 |
| Longevity contingent swaps | Discount rate | 2 | 787 | (712) |
| Listed global equities | Share price | 20 | 1,729 | (1,729) |
| Fixed income securities | Yield | 12 | 3,176 | (3,176) |
| Collective investment funds | Unit price | 13 | 54 | (54) |
| Private equity | (i) | (i) | 541,958 | (541,958) |
| Unconsolidated subsidiaries | (i) | (i) | 624,580 | (624,580) |
| 2020 | | | | |
| Longevity contingent swaps | Discount rate | 2 | 807 | (770) |
| Listed global equities | Share price | 14 | 4,774 | (4,774) |
| Fixed income securities | Yield | 12 | 5,169 | (5,169) |
| Collective investment funds | Unit price | 13 | 193 | (193) |
| Private equity | (i) | (i) | 486,543 | (486,543) |
| Unconsolidated subsidiaries | (i) | (i) | 483,643 | (483,643) |

(i) Level 3 financial assets categorised as private equity and unconsolidated subsidiaries provide the NZ Super Fund with exposure to a wide variety of assets across numerous industries, and are held either directly; or via internally or externally managed investment vehicles. Valuations for these investments are provided directly by independent valuers, or by investment managers or administrators if held via a managed structure. The NZ Super Fund does not always have access to the underlying valuation models to fully disclose sensitivities to specific assumptions.

By their nature, investments in these categories are inherently subjective and exposed to valuation uncertainty, which has increased further both directly and indirectly as a result of the COVID-19 pandemic. The determination of fair value for these investments is subject to careful consideration and consultation with a range of reliable and independent sources. The Guardians has an internal Valuation Working Group (VWG) that is responsible for reviewing the valuations of these investments at balance date. The VWG reviews the valuation methodologies, practices and policies used in determining fair value and/or reviews the valuations themselves with a view to ensuring that the fair values of these investments at balance date are as accurate as possible.

The Board and management have assessed that the reasonably likely movement in fair value for these financial assets in a one-year period is: 20%-25% (2020: 20%) for private equity investment funds and other private equity investments; 16% for timber investments; 12% for private infrastructure investments; 10% for life settlements; 14% for property; 13% for rural property; and 20% for insurance run-off investments, based on internal risk modelling.

## SECTION 3: RISK MANAGEMENT

### (a) Risk management

Understanding and managing risk is considered a fundamental activity that is central to the management of the NZ Super Fund. While risk is a necessary part of the NZ Super Fund's activities, it must be understood to ensure the risk profile adopted is commensurate with the return objective and time horizon of the NZ Super Fund. Effective risk management is critical to maintaining public and stakeholder confidence in the Guardians as manager of the NZ Super Fund.

The NZ Super Fund's investment activities expose it to various types of risk including investment, strategic, legal, operational and reputational risk. The Board and management of the Guardians are responsible for the management of these risks. Separate Risk and Investment Committees have been established by management as risk leadership bodies to provide support for the management of these risks.

The Guardians has risk management policies, procedures and other internal controls for application by staff, external investment managers and other service providers to manage the NZ Super Fund's exposure to risk. The framework for managing this risk is set out in its Statement of Investment Policies, Standards and Procedures including its Risk Management Policy.

The Board has developed a risk-appetite statement outlining its expectations of the level of risk that is appropriate for the NZ Super Fund to take on. This statement can be found at Schedule 2 of the Risk Management Policy which is available on www.nzsuperfund.nz. Performance against this statement is measured and reported to the Board on a regular basis, with any major breaches being notified on an exception basis.

### CONCENTRATIONS OF INVESTMENTS BY GEOGRAPHY AND INDUSTRY

The following tables analyse the NZ Super Fund's concentration of investments by geographical and industrial distribution. The analyses are based on the NZ Super Fund's net financial assets at balance date, at the aggregate level of each individual investment, and covers both internally and externally managed investments.

| | ACTUAL 2021 % | ACTUAL 2020 % |
|---|---|---|
| **By geography** | | |
| New Zealand | 17 | 17 |
| Australia | 5 | 7 |
| North America | 49 | 46 |
| Europe | 14 | 12 |
| Asia | 13 | 16 |
| Other | 2 | 2 |
| | **100** | **100** |
| **By industry** | | |
| Basic materials | 5 | 6 |
| Communications | 5 | 4 |
| Consumer - cyclical | 7 | 5 |
| Consumer - non-cyclical | 6 | 6 |
| Energy | 1 | 1 |
| Financial | 23 | 25 |
| Funds | 8 | 8 |
| Government | 11 | 19 |
| Healthcare | 8 | 7 |
| Industrial | 8 | 6 |
| Real estate | 2 | 2 |
| Technology | 12 | 9 |
| Utilities | 2 | 2 |
| Other | 2 | - |
| | **100** | **100** |

Market risk and credit risk exist if a single counterparty, or group of counterparties, is engaged in similar activities, operate within similar industries, geographies, or have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. The market risk and credit risk are further explained below.

**(b) Market risk**

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as equity prices, interest rates, foreign exchange rates and credit default swap spreads.

The market risks that the NZ Super Fund is primarily exposed to are:

- Equity price risk, both globally and in New Zealand;
- Foreign currency risk, primarily due to changes in the New Zealand dollar versus the United States dollar; and
- Interest rate risk, primarily due to changes in New Zealand and United States interest rates.

The NZ Super Fund is also exposed to commodity price risk in relation to its forestry and farming investments as well as certain derivative financial instruments which reference global corn, crude oil and copper prices.

## SECTION 3: RISK MANAGEMENT (CONTINUED)

### EQUITY PRICE RISK

Equity price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in equity prices. The NZ Super Fund is exposed to changes in the price of equities listed on both New Zealand and international stock exchanges, as well as derivative financial instruments or unlisted equities where fair value is determined with reference to an equity market index or to comparable transactions in a listed equity market.

Equity price risk is managed by imposing investment constraints at a total fund level and within individual investment mandates. Limits imposed on external investment managers are detailed within individual investment management agreements. Compliance with investment constraints is reported to the Board and management on a regular basis.

The following table shows the NZ Super Fund's sensitivity to a change in equity prices with all other variables held constant. The percentages used represent the Board's and management's assessment of a reasonably possible change in equity prices, equivalent to one standard deviation, based on internal risk modelling. The increase/(decrease) in profit is calculated after taking into account income tax.

| | | ACTUAL | |
|---|---|---|---|
| 2021 | ONE STANDARD DEVIATION | IMPACT ON PROFIT AFTER INCOME TAX EXPENSE AND EQUITY | |
| | | INCREASE | DECREASE |
| | % | NZD'000 | NZD'000 |
| New Zealand equities | 18 | 472,358 | (472,358) |
| Global equities* | 16 | 6,731,184 | (6,731,184) |
| Emerging markets equities | 26 | 1,273,312 | (1,273,312) |
| Private equity | 20 | 818,518 | (818,518) |
| 2020 | | | |
| New Zealand equities | 18 | 342,176 | (342,176) |
| Global equities* | 16 | 4,949,801 | (4,949,801) |
| Emerging markets equities | 26 | 1,147,657 | (1,147,657) |
| Private equity | 20 | 602,668 | (602,668) |

* The fair value of global equities is obtained from quoted market prices. However, the likelihood of a change in those prices and the size of any change can vary, depending on the type of equity. Therefore, these figures represent a weighted average of the reasonably likely movement in fair value in a one-year period for this category. The Board and management's assessment of the reasonably likely movements within this category are: 16% for global large cap equities; 20% for global small cap equities; 15% for developed markets multi factor equities; and 12% for global infrastructure equities, based on internal risk modelling.

### FOREIGN CURRENCY RISK

Foreign currency risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in foreign exchange rates. The NZ Super Fund is exposed to foreign currency risk through its investments in offshore assets.

Foreign currency risk is managed by establishing a target hedge ratio for all foreign currency exposures at a total fund level and by specifying bounds within which external investment managers may take on foreign currency exposures within individual investment management agreements. The financial instruments that external investment managers may use, and the creditworthiness of the counterparties, are detailed within those investment management agreements.

Foreign currency exposures are hedged with forward foreign exchange contracts and cross currency swaps with counterparties that have an appropriate minimum credit rating as determined by an international credit rating agency, and appropriate contractual arrangements must be in place between the NZ Super Fund and the counterparty.

The table below shows effective foreign currency exposure after forward foreign exchange contracts and cross currency swaps have been taken into account.

| | ACTUAL 2021 NZD'000 | ACTUAL 2020 NZD'000 |
|---|---|---|
| Australian Dollars | (5,871) | 391,981 |
| Brazilian Real | 8,199 | 52,764 |
| British Pounds | 663,952 | 1,605,136 |
| Canadian Dollars | (394,472) | 1,012,735 |
| Chilean Pesos | 20,586 | 23,039 |
| Chinese Yuan | 271,626 | 285,570 |
| Colombian Peso | 6,338 | 6,986 |
| Czech Koruna | 3,915 | 3,627 |
| Danish Kroner | 8,013 | 18,822 |
| Egyptian Pounds | 3,063 | 4,577 |
| European Union Euros | 582,826 | 685,244 |
| Hong Kong Dollars | (15,846) | 196,875 |
| Hungarian Forints | 10,385 | 10,134 |
| Indian Rupees | 5,462 | 43,964 |
| Indonesian Rupiahs | (1,419) | 1,504 |
| Israeli New Shekels | 61,279 | 57,065 |
| Japanese Yen | 1,312,227 | 409,047 |
| Kuwaiti Dinar | 24,953 | - |
| Malaysian Ringgits | 90,009 | 100,383 |
| Mexican Pesos | 3,616 | 4,059 |
| Norwegian Krone | 33,890 | (2,047) |
| Pakistan Rupee | 919 | 906 |
| Philippines Pesos | 30,747 | 33,986 |
| Polish Zloty | 33,963 | 29,054 |
| Qatari Rial | 31,163 | 33,641 |
| Russian Rubles | 116,530 | 98,312 |
| Saudi Riyal | 137,118 | 109,215 |
| Singaporean Dollars | (5,232) | 2,934 |
| South African Rand | (13,906) | 14,624 |
| South Korean Won | 745 | 28,178 |
| Swedish Kronor | (6,580) | 55,132 |
| Swiss Francs | (1,038,864) | (1,142,970) |
| Taiwanese New Dollars | (22,715) | 43,642 |
| Thai Baht | 17,664 | 6,642 |
| Turkish New Lira | 11,688 | 17,817 |
| United Arab Emirates Dirham | 34,845 | 21,407 |
| United States of America Dollars | 1,525,244 | (1,070,301) |
| | **3,546,060** | **3,193,684** |

## SECTION 3: RISK MANAGEMENT (CONTINUED)

The following table shows the NZ Super Fund's sensitivity to a change in the New Zealand dollar against the major foreign currencies with all other variables remaining constant. The analysis has been performed only on the effective foreign currency exposure after allowing for the impact of forward foreign exchange contracts and cross currency swaps. The percentages used represent the Board's and management's assessment of a reasonably possible increase in the value of the New Zealand Dollar, relative to other currencies, equivalent to one standard deviation. The increase/(decrease) in profit is calculated after taking into account the standard rate of income tax.

| | | ACTUAL | |
|---|---|---|---|
| 2021 | ONE STANDARD DEVIATION | IMPACT ON PROFIT AFTER INCOME TAX EXPENSE AND EQUITY | |
| | | INCREASE | DECREASE |
| | % | NZD'000 | NZD'000 |
| NZD/USD | 10 | (109,818) | 109,818 |
| NZD/EUR | 10 | (41,964) | 41,964 |
| NZD/GBP | 10 | (47,805) | 47,805 |
| NZD/JPY | 10 | (94,480) | 94,480 |
| NZD/Others | 10 | 38,750 | (38,750) |
| 2020 | | | |
| NZD/USD | 10 | 77,062 | (77,062) |
| NZD/EUR | 10 | (49,338) | 49,338 |
| NZD/GBP | 10 | (115,570) | 115,570 |
| NZD/JPY | 10 | (29,451) | 29,451 |
| NZD/Others | 10 | (112,648) | 112,648 |

### INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market interest rates. The NZ Super Fund is primarily exposed to changes in New Zealand and United States short-term interest rates in relation to its investments in fixed interest securities and cash and cash equivalents.

Interest rate risk is managed by diversification between asset classes and by imposing investment constraints on external investment managers. Interest rate swaps are used to manage exposure to movements in interest rates.

The following table shows the NZ Super Fund's sensitivity to a change in interest rates with all other variables remaining constant. The basis point movement used represents the Board's and management's assessment of a reasonably possible change in interest rates, equivalent to one standard deviation. The increase/(decrease) in profit is calculated after taking into account the standard rate of income tax.

| | | ACTUAL | |
|---|---|---|---|
| 2021 | ONE STANDARD DEVIATION | IMPACT ON PROFIT AFTER INCOME TAX EXPENSE AND EQUITY | |
| | | INCREASE | DECREASE |
| | BASIS POINTS | NZD'000 | NZD'000 |
| Fixed income securities and other interest-sensitive financial instruments | 50 | (141,830) | 141,830 |
| 2020 | | | |
| Fixed income securities and other interest-sensitive financial instruments | 50 | (59,198) | 59,198 |

### COMMODITY PRICE RISK

The NZ Super Fund is exposed to financial risk in respect of its forestry activities due to the global volatility of log prices, exchange rates and transportation costs. These exposures are managed through adjustments to harvest levels and marketing efforts in order to minimise the risk of financial loss.

The NZ Super Fund is also exposed to financial risk in respect of its farming activities due to the global volatility of milk prices and the price of key inputs (e.g. feed and fertiliser). Dairy prices relative to key inputs are continually monitored so that operations can adapt as required. There are procedures, systems and infrastructure in place to minimise and manage the risks to which the land and livestock assets are exposed that could lead to financial loss. Such measures include ongoing animal health management, detailed planning and cost control systems supported by regular visits by agricultural consultants, along with significant investment in farm infrastructure and technology to deal with risks associated with effluent disposal. All rural land investments, livestock and physical assets are inspected at least twice monthly to assess the condition of these assets, and to manage any identified risks.

The NZ Super Fund is exposed to financial risk in respect of derivative financial instruments which reference global corn, crude oil and copper prices. The risk of financial loss is managed by strategically adjusting the NZ Super Fund's exposure in exchange traded futures and by managing margins.

**(c) Credit risk**

Credit risk is the risk that a third party will default on its obligation to the NZ Super Fund, causing the NZ Super Fund to incur a loss. The NZ Super Fund is exposed to credit risk arising from its cash and cash equivalents, receivables and investments. The maximum amount of credit risk for each class of financial asset is the carrying amount included in the Statement of Financial Position.

Capital allocated to internally managed investments is governed by the Investment Risk Allocation Policy and relevant Internal Investment Mandates. The Board and management mitigate the NZ Super Fund's exposure to credit risk through internally managed investments by applying specific prudential limits to any unhedged exposure to any single investment manager or asset. Additionally, investment strategy-specific constraints are imposed, limiting the NZ Super Fund's net unhedged exposure to individual counterparties; collective unhedged exposure to counterparties with credit ratings of 'BBB' or less; and individual clearing houses.

The use of, and capital allocated to, external investment managers is governed by the Investment Risk Allocation Policy and Externally Managed Investments Policy. Each external investment manager relationship is governed by an investment management agreement which outlines the key terms and conditions of the appointment. Specific prudential limits for external investment managers are built into these agreements which restrict the credit risk the NZ Super Fund is exposed to. External investment managers are monitored individually on an on-going basis as well as being considered in the NZ Super Fund’s overall financial risk management activities.

## SECTION 3: RISK MANAGEMENT (CONTINUED)

### COUNTERPARTY CREDIT RISK

It is the NZ Super Fund's policy to enter into financial instruments with reputable counterparties. The Board and management closely monitor the creditworthiness of the NZ Super Fund's counterparties by reviewing their credit ratings, credit default swap spreads, equity pricing, news flows and other indicators on a regular basis.

At balance date, the NZ Super Fund has counterparty exposure in respect of its forward foreign exchange contracts, cross currency swaps, variance swaps, longevity contingent swaps, total return swaps, credit default swaps, interest rate swaps and other over-the-counter swaps. The table below sets out the net exposures, excluding collateral, by individual counterparty (and, where applicable, specific branch) where instruments have a net positive fair value:

| | ACTUAL 2021 NZD'000 | ACTUAL 2020 NZD'000 |
|---|---|---|
| ANZ Bank New Zealand Limited | 71,955 | 213,410 |
| Bank of America | 40,000 | 102,646 |
| Bank of New Zealand | 69,043 | 254,157 |
| Barclays Bank PLC, London Branch | 5,612 | - |
| Barclays Bank PLC, New York Branch | - | 10,311 |
| BNP Paribas, London Branch | 7,609 | 258,552 |
| Citibank N.A., London Branch | 102,876 | 404,624 |
| Citibank N.A., New York Branch | 21,141 | 37,493 |
| Commonwealth Bank of Australia, Sydney Branch | 80,218 | 168,799 |
| Credit Suisse Securities (Europe) Limited | 25,312 | 41,473 |
| D.E. Shaw Galvanic International, Inc. | 23,596 | - |
| Deutsche Bank AG | 5,122 | 616 |
| Goldman Sachs International | 85,751 | 108,238 |
| The Hong Kong and Shanghai Banking Corporation Limited | 56,042 | 81,138 |
| JP Morgan Chase Bank N.A. | 67,369 | - |
| JP Morgan Chase, Sydney Branch | - | 252,261 |
| JP Morgan Chase, London Branch | - | 70 |
| Morgan Stanley & Co. International PLC | 53,207 | 61,732 |
| Morgan Stanley & Co. International PLC, London Branch | 5,304 | 68,565 |
| Morgan Stanley & Co. International PLC, New York Branch | 21,698 | 61,375 |
| Morgan Stanley & Co. LLC | 20,894 | - |
| Natwest Markets PLC | 9,995 | - |
| Societe Generale | 11,448 | 23,592 |
| UBS AG, Singapore Branch | 15,993 | 27,063 |
| Westpac Banking Corporation, Wellington Branch | 55,855 | 152,407 |
| | **856,040** | **2,328,522** |

The Board and management restrict the NZ Super Fund's exposure to loss from derivative financial instruments through requiring collateral and by entering into master-netting arrangements with major counterparties with whom a significant volume of transactions are undertaken. These arrangements provide for a single net settlement of all financial instruments covered by the agreement in the event of default on any one contract. Master-netting arrangements do not result in the offset of assets and liabilities in the Statement of Financial Position unless certain conditions for offsetting under NZ IAS 32 Financial Instruments: Presentation apply. Refer to Note 4(f) for further disclosures on the offsetting of financial assets and financial liabilities.

## CREDIT QUALITY OF FIXED INCOME SECURITIES

A percentage breakdown of the NZ Super Fund's fixed income securities, both internally and externally managed, by credit rating is set out below. Ratings are obtained from Standard & Poor's, Moody's and Fitch depending on the availability of data.

| | ACTUAL 2021 % | ACTUAL 2020 % |
|---|---|---|
| AAA/Aaa | 26 | 37 |
| AA/aa | 29 | 20 |
| A/A | 26 | 24 |
| BBB/Baa | 7 | 6 |
| Other credit rating | 1 | 2 |
| Not rated | 11 | 11 |
| | **100** | **100** |

**(d) Liquidity risk**

Liquidity risk is the risk that the NZ Super Fund will encounter difficulty in meeting the obligations associated with its financial liabilities as they fall due. The NZ Super Fund's liquidity framework is designed to ensure that the NZ Super Fund has the ability to generate sufficient cash in a timely manner to meet its financial commitments.

The Board and management mitigate its exposure to liquidity risk by:

- Forecasting liquidity requirements;
- Maintaining a buffer of cash and highly liquid securities to meet short-term liquidity requirements;
- Regular review of the liquidity available by senior management;
- Periodic 'stress-tests' of the liquidity framework using theoretical scenarios.

## SECTION 3: RISK MANAGEMENT (CONTINUED)

### MATURITY PROFILE OF FINANCIAL ASSETS

The following table shows the maturity profile of financial assets available to meet financial obligations. The maturity profile is based on the earlier of contractual repricing or maturity period and excludes accrued interest.

| ACTUAL | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | FIXED MATURITY DATES | | | | | |
| 2021 | WEIGHTED AVERAGE EFFECTIVE INTEREST RATE | VARIABLE INTEREST RATE | LESS THAN 1 YEAR | 1 - 2 YEARS | 2 - 5 YEARS | 5 - 10 YEARS | 10+ YEARS | NON-INTEREST BEARING |
| | % | NZD'000 | NZD'000 | NZD'000 | NZD'000 | NZD'000 | NZD'000 | NZD'000 |
| Cash and cash equivalents* | 0.15 | 5,460,826 | - | - | - | - | - | 1,118,530 |
| Cash pledged as collateral** | 0.00 | 708,219 | - | - | - | - | - | - |
| Fixed income securities*** | 1.90 | - | 4,188,924 | 760,850 | 1,792,846 | 2,312,975 | 1,846,769 | 660,465 |
| Securities on loan under securities lending and similar agreements | 2.64 | - | 18,397 | 47,492 | 333,412 | 375,815 | 248,344 | - |
| | | **6,169,045** | **4,207,321** | **808,342** | **2,126,258** | **2,688,790** | **2,095,113** | **1,778,995** |
| 2020 | | | | | | | | |
| Cash and cash equivalents* | 0.15 | 5,045,897 | - | - | - | - | - | 677,840 |
| Cash pledged as collateral** | 0.00 | 1,335,069 | - | - | - | - | - | - |
| Fixed income securities*** | 2.34 | - | 4,096,682 | 596,619 | 1,617,096 | 2,175,045 | 1,604,156 | 514,364 |
| Securities on loan under securities lending and similar agreements | 2.88 | - | 12,194 | 18,995 | 66,576 | 85,488 | 118,659 | - |
| | | **6,380,966** | **4,108,876** | **615,614** | **1,683,672** | **2,260,533** | **1,722,815** | **1,192,204** |

* Non-interest bearing cash and cash equivalents is primarily comprised of foreign currencies held in custody, the majority of which earn no interest.

** Cash pledged as collateral is held under Credit Support Annexes to ISDA Master Agreements and with futures exchanges. The rate of interest earned on this cash, whilst variable, is minimal as a result of the current low interest rate environment, and consequently a weighted average effective interest rate of 0.00% has been applied.

*** Non-interest bearing fixed income securities are loans to unconsolidated subsidiaries.

The maturity profile of derivative financial instruments is disclosed in Note 4(e).

**(e) Risks associated with structured entities**

The following table summarises the carrying values recognised in the Statement of Financial Position of the NZ Super Fund's investments in structured entities, as well as the maximum exposure to loss. The maximum exposure to loss is contingent in nature and may arise as a result of the provision of funding commitments (which are common with private equity investment funds). The maximum exposure to loss does not take into account the effects of any hedging or collateralisation designed to reduce that exposure to loss.

The value of the assets of the structured entities themselves have been provided as an indicator of their size, relative to the size of the NZ Super Fund's interest in these entities. These values represent the most current available information.

| | ACTUAL | | | |
|---|---|---|---|---|
| | MAXIMUM EXPOSURE TO LOSS | | | |
| 2021 | CARRYING VALUE OF INVESTMENTS | UNDRAWN COMMITMENTS | TOTAL INVESTMENTS AND UNDRAWN COMMITMENTS | ASSETS OF THE STRUCTURED ENTITY* |
| | NZD'000 | NZD'000 | NZD'000 | NZD'000 |
| Fixed income securities: | | | | |
| Asset-backed securities | 756,738 | 133,945 | 890,683 | 14,622,114 |
| Mortgage-backed securities | 270,117 | 25,127 | 295,244 | 10,133,634 |
| Agency mortgage-backed securities | 644,318 | - | 644,318 | N/A** |
| Shareholder loans | 759,775 | - | 759,775 | 2,691,066 |
| Fixed income exchange traded funds | 199,979 | - | 199,979 | 17,444,551 |
| Collective investment funds | 1,503,697 | 143,112 | 1,646,809 | 189,076,533 |
| Listed global equities: | | | | |
| Equity exchange traded funds | 150,575 | - | 150,575 | 113,187,787 |
| Insurance-linked investments - catastrophe bonds | 437,913 | - | 437,913 | 24,571,754 |
| Private equity investment funds | 1,721,733 | 1,380,574 | 3,102,307 | 21,301,285 |
| Unconsolidated subsidiaries | 5,118,768 | 508,319 | 5,627,087 | 5,831,307 |
| | **11,563,613** | **2,191,077** | **13,754,690** | **398,860,031** |
| 2020 | | | | |
| Fixed income securities: | | | | |
| Asset-backed securities | 1,200,903 | 45,346 | 1,246,249 | 21,383,990 |
| Mortgage-backed securities | 641,932 | 53,537 | 695,469 | 14,113,357 |
| Agency mortgage-backed securities | 388,232 | - | 388,232 | N/A** |
| Shareholder loans | 760,833 | - | 760,833 | 1,777,739 |
| Fixed income exchange traded funds | - | - | - | - |
| Collective investment funds | 958,913 | 233,010 | 1,191,923 | 186,460,626 |
| Listed global equities: | | | | |
| Equity exchange traded funds | - | - | - | - |
| Insurance-linked investments - catastrophe bonds | 221,796 | - | 221,796 | 20,632,317 |
| Private equity investment funds | 1,539,014 | 839,355 | 2,378,369 | 23,242,640 |
| Unconsolidated subsidiaries | 4,512,489 | 551,211 | 5,063,700 | 4,591,768 |
| | **10,224,112** | **1,722,459** | **11,946,571** | **272,202,437** |

* Including the value of the NZ Super Fund's investment.
** Information is not available as the securities have not yet been issued.

## SECTION 4: FINANCIAL ASSETS AND LIABILITIES

### (a) Financial instruments

| | | ACTUAL | | | |
|---|---|---|---|---|---|
| 2021 | NOTE | FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS | FINANCIAL ASSETS AT AMORTISED COST | FINANCIAL LIABILITIES AT AMORTISED COST | TOTAL |
| | | NZD'000 | NZD'000 | NZD'000 | NZD'000 |
| **Financial assets** | | | | | |
| Cash and cash equivalents | 4(b) | | 6,579,356 | | 6,579,356 |
| Cash pledged as collateral | 4(c) | | 708,219 | | 708,219 |
| Trade and other receivables | 4(d) | | 623,318 | | 623,318 |
| **Investments** | | | | | |
| Derivative financial instrument assets | 4(e) | 856,040 | | | 856,040 |
| Other financial assets: | | | | | |
| Listed New Zealand equities | 4(e) | 2,568,642 | | | 2,568,642 |
| Listed global equities | 4(e) | 23,943,807 | | | 23,943,807 |
| Fixed income securities | 4(e) | 10,468,553 | 1,094,276 | | 11,562,829 |
| Collective investment funds | 4(e) | 1,503,697 | | | 1,503,697 |
| Reverse repurchase agreements | 4(e) | | 284,079 | | 284,079 |
| Securities on loan under securities lending and similar agreements | 4(e) | 4,374,675 | | | 4,374,675 |
| Insurance-linked investments | 4(e) | 437,913 | | | 437,913 |
| Private equity | 4(e) | 3,399,851 | | | 3,399,851 |
| Total other financial assets | | 46,697,138 | 1,378,355 | - | 48,075,493 |
| Investments in unconsolidated subsidiaries | 4(e) | 5,118,768 | | | 5,118,768 |
| **Total financial assets** | | **52,671,946** | **9,289,248** | **-** | **61,961,194** |
| | | | | | |
| **Financial liabilities** | | | | | |
| Cash collateral received | 4(c) | | | 1,051,977 | 1,051,977 |
| Trade and other payables | 4(g) | | | 669,076 | 669,076 |
| Investments - derivative financial instrument liabilities | 4(e) | 980,008 | | | 980,008 |
| **Total financial liabilities** | | **980,008** | **-** | **1,721,053** | **2,701,061** |

| 2020 | NOTE | ACTUAL<br>FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS | FINANCIAL ASSETS AT AMORTISED COST | FINANCIAL LIABILITIES AT AMORTISED COST | TOTAL |
|---|---|---|---|---|---|
| | | NZD'000 | NZD'000 | NZD'000 | NZD'000 |
| **Financial assets** | | | | | |
| Cash and cash equivalents | 4(b) | | 5,723,737 | | 5,723,737 |
| Cash pledged as collateral | 4(c) | | 1,335,069 | | 1,335,069 |
| Trade and other receivables | 4(d) | | 557,378 | | 557,378 |
| **Investments** | | | | | |
| Derivative financial instrument assets | 4(e) | 2,328,522 | | | 2,328,522 |
| Other financial assets: | | | | | |
| Listed New Zealand equities | 4(e) | 2,076,813 | | | 2,076,813 |
| Listed global equities | 4(e) | 13,767,933 | | | 13,767,933 |
| Fixed income securities | 4(e) | 9,332,508 | 1,271,454 | | 10,603,962 |
| Collective investment funds | 4(e) | 958,913 | | | 958,913 |
| Reverse repurchase agreements | 4(e) | | 201,942 | | 201,942 |
| Securities on loan under securities lending and similar agreements | 4(e) | 2,391,929 | | | 2,391,929 |
| Insurance-linked investments | 4(e) | 221,796 | | | 221,796 |
| Private equity | 4(e) | 3,198,955 | | | 3,198,955 |
| Total other financial assets | | 31,948,847 | 1,473,396 | - | 33,422,243 |
| Investments in unconsolidated subsidiaries | 4(e) | 4,512,489 | | | 4,512,489 |
| **Total financial assets** | | **38,789,858** | **9,089,580** | **-** | **47,879,438** |
| | | | | | |
| **Financial liabilities** | | | | | |
| Cash collateral received | 4(c) | | | 1,650,760 | 1,650,760 |
| Trade and other payables | 4(g) | | | 1,171,762 | 1,171,762 |
| Investments - derivative financial instrument liabilities | 4(e) | 776,945 | | | 776,945 |
| **Total financial liabilities** | | **776,945** | **-** | **2,822,522** | **3,599,467** |

**Accounting Policy**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The NZ Super Fund is party to financial instruments as part of its normal operations. These financial instruments make up the vast majority of the NZ Super Fund's net assets and include cash and cash equivalents, derivative financial instruments, forward foreign exchange contracts, investments, receivables and payables. All financial instruments are recognised in the Statement of Financial Position and all income and expenditure in relation to financial instruments are recognised in the Statement of Comprehensive Income.

**INITIAL RECOGNITION**

Financial assets and financial liabilities are recognised in the Statement of Financial Position when the NZ Super Fund becomes a party to the contractual provisions of the financial instrument. They are initially recognised at fair value plus, in the case of financial assets and financial liabilities not recorded at fair value through profit or loss, transaction costs (e.g. trading commission) that are attributable to the acquisition of the financial asset or financial liability. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the Statement of Comprehensive Income.

## SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Purchases or sales of financial instruments that require delivery within a time frame established by regulation or convention in the market place are recognised on the trade date, i.e. the date on which the NZ Super Fund commits to purchase or sell the financial instrument.

The classification of financial instruments at initial recognition depends on the NZ Super Fund's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. In making an assessment of the business model for managing a financial asset, the Board and management consider all relevant information such as the investment objectives of the NZ Super Fund and how performance is evaluated and reported to the Board and management.

### SUBSEQUENT MEASUREMENT

The NZ Super Fund's financial assets and financial liabilities are subsequently classified into the following categories:

- Those to be measured at fair value through profit or loss; and
- Those to be measured at amortised cost.

The NZ Super Fund does not have any financial assets classified as financial assets at fair value through other comprehensive income. The NZ Super Fund classifies all financial assets that are either held for trading and/or managed or evaluated on a fair value basis, as financial assets at fair value through profit or loss.

The NZ Super Fund's financial assets are reclassified when, and only when, the business model for managing those financial assets changes.

#### Financial assets and financial liabilities at fair value through profit or loss

The following financial assets and financial liabilities are classified at fair value through profit or loss:

- Financial assets, including debt instruments, that do not qualify for measurement at amortised cost;
- Financial assets and financial liabilities that are held for trading; and
- Financial assets for which the NZ Super Fund has not elected to recognise fair value gains and losses through other comprehensive income.

This category includes investments in derivative financial instruments, forward foreign exchange contracts, listed equities, collective investment funds, insurance-linked investments, private equity and unconsolidated subsidiaries among others. These financial assets are either held for trading or are managed and have their performance evaluated on a fair value basis.

The NZ Super Fund does not designate any derivative financial instruments or forward foreign exchange contracts as hedges in a hedging relationship.

Financial assets and financial liabilities at fair value through profit or loss are recognised in the Statement of Financial Position at fair value with changes in fair value being recognised in the Statement of Comprehensive Income in the period in which they arise.

#### Financial assets at amortised cost

The NZ Super Fund's financial assets are classified at amortised cost if both of the following criteria are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows; and
- The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest.

This category includes cash and cash equivalents, cash pledged as collateral, trade and other receivables, reverse repurchase agreements and some unlisted debt instruments. Unlisted debt instruments that are classified as financial assets at amortised cost include fixed and floating rate notes.

Subsequent to initial recognition, financial assets at amortised cost are measured at amortised cost using the effective interest method and are subject to impairment. When a financial asset is impaired, impairment losses are recognised in the Statement of Comprehensive Income in the period in which they arise.

#### Financial liabilities at amortised cost

Financial liabilities at amortised cost are non-derivative financial liabilities. This category includes cash collateral received and trade and other payables. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

### DERECOGNITION

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or when the NZ Super Fund has transferred substantially all of the risks and rewards of ownership. A financial liability is derecognised when the NZ Super Fund's obligation under the liability is discharged, cancelled or has expired.

### IMPAIRMENT

The Board and management assess, at each reporting date, whether a financial asset or a group of financial assets is impaired. The amount of the impairment loss is the difference between the contractual cash flows due in relation to the financial asset or the group of financial assets and the cash flows that the NZ Super Fund expects to receive, discounted at an approximation of the original effective interest rate.

The following financial assets that are measured at amortised cost are subject to the impairment provisions (the 'expected credit loss model') of NZ IFRS 9 Financial Instruments:

- Cash and cash equivalents;
- Cash pledged as collateral;
- Trade and other receivables;
- Reverse repurchase agreements; and
- Unlisted debt investments carried at amortised cost.

The impairment loss for cash and cash equivalents and cash pledged as collateral is considered immaterial.

Disclosures relating to the impairment of receivables are provided in Note 4(d).

The NZ Super Fund's investments in reverse repurchase agreements and unlisted debt instruments that meet the criteria for being classified as financial assets at amortised cost and which are therefore subject to the expected credit loss model, are considered to have low credit risk and/or the credit risk has not increased significantly since initial recognition. As a result, the impairment loss recognised is limited to 12-month expected credit losses. The Board and management consider these financial assets to have low credit risk because there is a low risk of default and the issuers have a strong capacity to meet their contractual cash flow obligations in the near term. Refer to Note 3(c) for further disclosures on credit risk.

12-month expected credit losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date or a shorter period if the expected life of the financial asset is less than 12 months.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. The gross carrying amount of a financial asset is written-off when the Board and management have no reasonable expectations of recovering a financial asset.

## (b) Cash and cash equivalents

**Accounting Policy**

Cash and cash equivalents includes cash on hand, cash held in bank accounts, demand deposits and other highly liquid investments with original maturities of three months or less, which have an insignificant risk of change in fair value.

At 30 June 2021, cash of $395,084,000 (2020: $578,109,000) had been allocated and was held in Northern Trust's (the NZ Super Fund's global master custodian) custody awaiting investment by investment managers.

## SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

### (c) Collateral

**Accounting Policy**

Cash provided by the NZ Super Fund as security for financial arrangements remains a financial asset of the NZ Super Fund and is recognised as cash pledged as collateral in the Statement of Financial Position, separate from cash and cash equivalents. Cash received by the NZ Super Fund as security for financial arrangements is also recognised as an asset in the Statement of Financial Position, along with a corresponding liability (cash collateral received) to repay the cash collateral when the underlying transaction is terminated.

For non-cash collateral received by the NZ Super Fund, if the NZ Super Fund has the right to sell or re-pledge the collateral, the collateral is recognised accordingly in the Statement of Financial Position. However, if the NZ Super Fund does not have the right to sell or re-pledge the collateral, the collateral is not recognised in the Statement of Financial Position but disclosed in the notes to the financial statements instead.

The NZ Super Fund enters into various derivative financial instruments and securities lending and similar agreements which may require the NZ Super Fund to post or receive collateral as security with counterparties. Where an agreement between counterparties results in one counterparty owing the other, prior to the termination of the agreement, collateral may be exchanged, offsetting some or all of the amount outstanding at that point in time. At the termination of the agreement, should the counterparty that is owing default, the collateral may be applied in order to settle any outstanding liability.

In line with standard industry practice, collateral is provided for derivative transactions in accordance with Credit Support Annexes (CSAs) which may vary from counterparty to counterparty. Settlements of collateral transactions inherently lag behind real-time mark-to-market movements in the related derivative financial instruments; may only be settled once thresholds, as governed by the CSAs, in these mark-to-market movements are achieved; and may be required from one, both or neither of the counterparties involved with the transaction.

#### CASH PLEDGED AS COLLATERAL

The cash balance pledged as collateral to meet obligations under CSAs for derivative positions is $267,192,000 (2020: $490,774,000). The counterparties are permitted to sell or re-pledge the collateral balances. The pledged assets will be returned to the NZ Super Fund when the underlying transaction is terminated, but in the event of default the counterparty is entitled to apply the collateral in order to settle the outstanding liability.

Cash balances totalling $441,027,000 (2020: $844,295,000) are held in separate bank accounts lodged with the relevant futures exchange. These cash balances have been pledged as collateral for potential margin calls on futures with a fair value of $nil (2020: $nil) held by the NZ Super Fund.

#### CASH COLLATERAL RECEIVED

The cash balance received as collateral to meet obligations under CSAs for derivative positions is $747,958,000 (2020: $1,443,290,000). The NZ Super Fund is permitted to sell or re-pledge the collateral cash balances. The pledged assets will be returned to the counterparties when the underlying transaction is terminated, but in the event of default the NZ Super Fund is entitled to apply the collateral in order to settle the liability.

The cash balance received as collateral to meet obligations under securities lending and similar agreements is $304,019,000 (2020: $207,470,000). The NZ Super Fund is permitted to sell or re-pledge the collateral cash balances. At 30 June 2021, cash of $284,079,000 (2020: $201,942,000) had been used to purchase securities under a reverse repurchase agreement. These will be returned to the counterparties of the securities lending and similar agreements once the underlying transactions are terminated, but in the event of default the NZ Super Fund is entitled to apply the collateral in order to settle any liability.

#### NON-CASH COLLATERAL RECEIVED

The fair value of fixed income securities received as collateral to meet obligations under securities lending and similar agreements is $2,106,258,000 (2020: $999,493,000). The fair value of equity securities received as collateral to meet obligations under security lending and similar agreements is $1,911,753,000 (2020: $1,206,289,000). The NZ Super Fund is not permitted to sell or re-pledge the collateral. The assets will be returned to the counterparties when the underlying transaction is terminated, but in the event of default the NZ Super Fund is entitled to apply the collateral in order to settle the liability.

The fair value of fixed income securities received as collateral to meet obligations under a reverse repurchase agreement is $261,669,000 (2020: $206,859,000). The fair value of equity securities received as collateral to meet obligations under a reverse repurchase agreement is $31,226,000 (2020: $nil). The NZ Super Fund is not permitted to sell or re-pledge the collateral. The assets will be returned to the counterparties when the underlying transaction is terminated, but in the event of default the NZ Super Fund is entitled to apply the collateral in order to settle the liability.

### (d) Trade and other receivables

| | ACTUAL 2021 NZD'000 | ACTUAL 2020 NZD'000 |
|---|---|---|
| Trade receivables | 21,380 | 6,240 |
| Accrued interest | 51,026 | 50,275 |
| Dividends receivable | 26,984 | 18,971 |
| Unsettled sales | 523,797 | 481,103 |
| GST receivable | 131 | 789 |
| | **623,318** | **557,378** |

**Accounting Policy**

Trade receivables are initially recognised at their transaction price unless they contain significant financing components, in which case they are recognised at fair value. The NZ Super Fund holds trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost less impairment losses using the effective interest method.

The NZ Super Fund only holds trade receivables that have maturities of less than 12 months and which have no financing components. As such, the Board and management have applied a simplified approach for calculating expected credit losses (ECLs) on trade receivables under NZ IFRS 9 Financial Instruments. As a result, the Board and management do not track changes in credit risk, but instead, recognise impairment losses based on lifetime ECLs at each reporting date. The NZ Super Fund's approach to ECLs reflects a probability-weighted outcome using reasonable and supportable information that is available without undue cost or effort at reporting date about past events, current conditions and forecasts of future economic conditions.

Trade receivables are non-interest bearing and have standard 30-day credit terms. The NZ Super Fund does not have a history of default on trade receivables and the Board and management consider the probability of default to be very low as the counterparties have a strong capacity to meet their contractual obligations in the short term. Accordingly, no allowance has been made for impairment.

The timing and amount of expected cash flows for accrued interest, dividends receivable and unsettled sales are certain as they are based on contractual terms and corporate actions.

As a result of their short-term nature, the carrying value of trade and other receivables held at amortised cost approximates fair value.

## SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

### (e) Investments

| | ACTUAL 2021 NZD'000 | ACTUAL 2020 NZD'000 |
|---|---|---|
| Derivative financial instrument assets: | | |
| Forward foreign exchange contracts | 424,726 | 945,248 |
| Cross currency swaps | 7,787 | 17,675 |
| Longevity contingent swaps | 25,320 | 34,871 |
| Futures contracts | - | - |
| Total return swaps - equity | 293,699 | 1,247,483 |
| Total return swaps - commodities | 2,328 | 11,051 |
| Credit default swaps | 42,143 | 28,056 |
| Interest rate swaps | 60,037 | 44,030 |
| Warrants | - | - |
| Other over-the-counter swaps | - | 108 |
| Total derivative financial instrument assets | 856,040 | 2,328,522 |
| Other financial assets | 48,075,493 | 33,422,243 |
| Investments in unconsolidated subsidiaries | 5,118,768 | 4,512,489 |
| | 54,050,301 | 40,263,254 |
| Derivative financial instrument liabilities: | | |
| Forward foreign exchange contracts | 767,537 | 256,133 |
| Cross currency swaps | 1,394 | 26,028 |
| Variance swaps | - | 35,310 |
| Futures contracts | - | - |
| Total return swaps - equity | 75,615 | 193,789 |
| Total return swaps - bonds | 8,974 | - |
| Credit default swaps | 62,850 | 49,247 |
| Interest rate swaps | 63,310 | 216,438 |
| Other over-the-counter swaps | 328 | - |
| Total derivative financial instrument liabilities | 980,008 | 776,945 |
| **Net investments** | **53,070,293** | **39,486,309** |

## DERIVATIVE FINANCIAL INSTRUMENTS AND FORWARD FOREIGN EXCHANGE CONTRACTS

**Accounting Policy**

The NZ Super Fund enters into a variety of derivative financial instruments and forward foreign exchange contracts to manage its exposure to foreign currency risk, credit risk and interest rate risk and to achieve exposure to assets and asset classes. The use of derivative financial instruments and forward foreign exchange contracts is governed by the Statement of Investment Policies, Standards and Procedures, including the Derivatives Policy, which provide written principles on the use of derivative financial instruments by the NZ Super Fund. Compliance with policies and exposure limits is monitored on a continuous basis.

At 30 June 2021, the NZ Super Fund has positions in the following types of derivative financial instruments and forward foreign exchange contracts:

### Forwards and futures

Forward and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Futures contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements.

The main differences in the risks associated with forward and futures contracts are credit risk and liquidity risk. The NZ Super Fund has credit exposure to the counterparties of non-collateralised forward contracts. The credit risk related to futures contracts is considered minimal because the exchange reduces credit risk by daily margining. Where possible, the NZ Super Fund seeks to settle all forward contracts on a net basis, but in some instances they are settled gross. Forward contracts that are settled gross are considered to bear a higher liquidity risk than the futures contracts which are settled on a net basis. Both types of contracts result in market risk exposure.

### Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts. Where swap contracts are settled net, the payment flows are usually netted against each other, with the difference being paid by one party to the other. Where possible, swaps are settled net but some cross currency swaps are settled gross. In a cross currency swap, the NZ Super Fund pays a specified amount in one currency and receives a specified amount in another currency. Swap contracts expose the NZ Super Fund to counterparty credit risk, market risk and liquidity risk.

### Warrants

Warrants are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

The NZ Super Funds holds warrants at fair value in respect of one (2020: three) of its private equity investments, valued at $nil (2020: $nil).

The contract maturities, notional and fair values for all derivative financial instruments are set out below. Fair values presented correspond in total to the net assets and liabilities for each class of derivative financial instrument.

## FORWARD FOREIGN EXCHANGE CONTRACTS

| | ACTUAL | | | |
|---|---|---|---|---|
| | NOTIONAL VALUE - BUY(SELL) FOREIGN CURRENCY | FAIR VALUE | NOTIONAL VALUE - BUY(SELL) FOREIGN CURRENCY | FAIR VALUE |
| | 2021 | 2021 | 2020 | 2020 |
| | NZD'000 | NZD'000 | NZD'000 | NZD'000 |
| Less than 3 months | (25,198,812) | 127,291 | (22,910,221) | 242,632 |
| 3 to 12 months | (33,459,261) | (457,408) | (17,982,302) | 446,483 |
| 1 to 2 years | (443,237) | (12,694) | - | - |
| | **(59,101,310)** | **(342,811)** | **(40,892,523)** | **689,115** |

## SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Where possible, the NZ Super Fund seeks to settle all forward foreign exchange contracts on a net basis, otherwise, forward foreign exchange contracts are settled gross. Refer to Note 4(f) for further disclosures on the offsetting of financial assets and financial liabilities.

### CROSS CURRENCY SWAPS

| | | ACTUAL | |
|---|---|---|---|
| 2021 | FOREIGN CURRENCY BUY/ SELL | NOTIONAL VALUE | FAIR VALUE |
| | | NZD'000 | NZD'000 |
| Less than 1 year | NZD/EUR | 339,435 | 419 |
| | NZD/JPY | 296,966 | (715) |
| 1 to 2 years | NZD/USD | 245,081 | 6,689 |
| | | **881,482** | **6,393** |
| 2020 | | | |
| Less than 1 year | NZD/EUR | 52,341 | (1,932) |
| | NZD/JPY | 187,465 | 15,492 |
| 1 to 2 years | NZD/EUR | 348,940 | (9,383) |
| 2 to 5 years | NZD/USD | 266,019 | (14,855) |
| 5 to 10 years | NZD/USD | 220,893 | 2,325 |
| | | **1,075,658** | **(8,353)** |

Where possible, the NZ Super Fund seeks to settle all cross currency swaps on a net basis, otherwise, all cross currency swaps are settled gross. Refer to Note 4(f) for further disclosures on the offsetting of financial assets and financial liabilities. Notional value is derived from the 'buy' leg of these contracts.

### VARIANCE SWAPS

| | ACTUAL | | | |
|---|---|---|---|---|
| | NOTIONAL VALUE | FAIR VALUE | NOTIONAL VALUE | FAIR VALUE |
| | 2021 | 2021 | 2020 | 2020 |
| | NZD'000 | NZD'000 | NZD'000 | NZD'000 |
| Less than 1 year | - | - | 3,107 | (12,463) |
| 1 to 2 years | - | - | 6,214 | (22,847) |
| | **-** | **-** | **9,321** | **(35,310)** |

All variance swaps are settled net.

### LONGEVITY CONTINGENT SWAPS

| | ACTUAL | | | |
|---|---|---|---|---|
| | NOTIONAL VALUE | FAIR VALUE | NOTIONAL VALUE | FAIR VALUE |
| | 2021 | 2021 | 2020 | 2020 |
| | NZD'000 | NZD'000 | NZD'000 | NZD'000 |
| Later than 10 years | 203,220 | 25,320 | 251,650 | 34,871 |
| | **203,220** | **25,320** | **251,650** | **34,871** |

All longevity contingent swaps are settled net.

### FUTURES CONTRACTS

| | ACTUAL | | | |
|---|---|---|---|---|
| | NOTIONAL VALUE | FAIR VALUE | NOTIONAL VALUE | FAIR VALUE |
| | 2021 | 2021 | 2020 | 2020 |
| | NZD'000 | NZD'000 | NZD'000 | NZD'000 |
| Equity futures | 4,362,111 | - | 4,809,655 | - |
| Fixed interest futures | 1,828,260 | - | 3,739,571 | - |
| Commodities futures | 481,620 | - | 63,768 | - |
| | **6,671,991** | **-** | **8,612,994** | **-** |

The margin on futures contracts is settled daily.

### TOTAL RETURN SWAPS - EQUITY

| | ACTUAL | | | |
|---|---|---|---|---|
| | NOTIONAL VALUE | FAIR VALUE | NOTIONAL VALUE | FAIR VALUE |
| | 2021 | 2021 | 2020 | 2020 |
| | NZD'000 | NZD'000 | NZD'000 | NZD'000 |
| Less than 1 year | 18,516,718 | 218,084 | 14,313,395 | 1,059,078 |
| 1 to 2 years | - | - | 2,387,135 | (5,384) |
| | **18,516,718** | **218,084** | **16,700,530** | **1,053,694** |

All equity total return swaps are settled net.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2021

# SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

### TOTAL RETURN SWAPS - BONDS

| | ACTUAL | | | |
|---|---|---|---|---|
| | NOTIONAL VALUE | FAIR VALUE | NOTIONAL VALUE | FAIR VALUE |
| | 2021 | 2021 | 2020 | 2020 |
| | NZD'000 | NZD'000 | NZD'000 | NZD'000 |
| Less than 1 year | 286,225 | (8,974) | - | - |
| | **286,225** | **(8,974)** | **-** | **-** |

All bond total return swaps are settled net.

### TOTAL RETURN SWAPS - COMMODITIES

| | ACTUAL | | | |
|---|---|---|---|---|
| | NOTIONAL VALUE | FAIR VALUE | NOTIONAL VALUE | FAIR VALUE |
| | 2021 | 2021 | 2020 | 2020 |
| | NZD'000 | NZD'000 | NZD'000 | NZD'000 |
| Less than 1 year | 84,859 | 2,328 | 87,235 | 9,499 |
| 1 to 2 years | - | - | 87,235 | 1,552 |
| | **84,859** | **2,328** | **174,470** | **11,051** |

All commodity total return swaps are settled net.

### CREDIT DEFAULT SWAPS

| | | ACTUAL | | | |
|---|---|---|---|---|---|
| | | NOTIONAL VALUE | FAIR VALUE | NOTIONAL VALUE | FAIR VALUE |
| | | 2021 | 2021 | 2020 | 2020 |
| | | NZD'000 | NZD'000 | NZD'000 | NZD'000 |
| Buy protection | Less than 1 year | 145,976 | (2,631) | 2,587,185 | 6,391 |
| | 1 to 2 years | 286,225 | (14,111) | 158,448 | (759) |
| | 2 to 5 years | 7,911,621 | (316,827) | 7,618,354 | (65,749) |
| | 5 to 10 years | 228,980 | 23,224 | 227,774 | (7,808) |
| | | **8,572,802** | **(310,345)** | **10,591,761** | **(67,925)** |
| Sell protection | Less than 1 year | 121,647 | 2,699 | 2,553,786 | (6,215) |
| | 1 to 2 years | 249,016 | 14,604 | 135,147 | 1,013 |
| | 2 to 5 years | 5,828,980 | 277,127 | 8,130,694 | 37,492 |
| | 5 to 10 years | 8,462,111 | (4,792) | 6,924,783 | 14,444 |
| | | **14,661,754** | **289,638** | **17,744,410** | **46,734** |

All credit default swaps are settled net.

### INTEREST RATE SWAPS

| | ACTUAL | | | |
|---|---|---|---|---|
| | NOTIONAL VALUE | FAIR VALUE | NOTIONAL VALUE | FAIR VALUE |
| | 2021 | 2021 | 2020 | 2020 |
| | NZD'000 | NZD'000 | NZD'000 | NZD'000 |
| Less than 1 year | 245,000 | (3,187) | 195,348 | (5,967) |
| 1 to 2 years | 397,000 | (1,892) | 245,000 | (8,877) |
| 2 to 5 years | 520,000 | (2,959) | 499,942 | (28,003) |
| 5 to 10 years | 432,000 | 8,371 | 241,000 | (14,112) |
| Later than 10 years | 1,373,404 | (3,606) | 1,743,635 | (115,449) |
| | **2,967,404** | **(3,273)** | **2,924,925** | **(172,408)** |

All interest rate swaps are settled net.

### OTHER OVER-THE-COUNTER SWAPS

| | ACTUAL | | | |
|---|---|---|---|---|
| | NOTIONAL VALUE | FAIR VALUE | NOTIONAL VALUE | FAIR VALUE |
| | 2021 | 2021 | 2020 | 2020 |
| | NZD'000 | NZD'000 | NZD'000 | NZD'000 |
| Credit default arbitrage swaps 2 to 5 years | 14,311 | (328) | 15,534 | 108 |
| | **14,311** | **(328)** | **15,534** | **108** |

All other over-the-counter swaps are settled net.

### WARRANTS

| | ACTUAL | | | |
|---|---|---|---|---|
| | NOTIONAL VALUE | FAIR VALUE | NOTIONAL VALUE | FAIR VALUE |
| | 2021 | 2021 | 2020 | 2020 |
| | NZD'000 | NZD'000 | NZD'000 | NZD'000 |
| Less than 1 year | - | - | 4,893 | - |
| 1 to 2 years | - | - | 26,408 | - |
| 2 to 5 years | 10,221 | - | - | - |
| 5 to 10 years | - | - | 11,097 | - |
| | **10,221** | **-** | **42,398** | **-** |

## SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

### MATURITY PROFILE OF DERIVATIVE FINANCIAL INSTRUMENT LIABILITIES

| | ACTUAL | | | | |
|---|---|---|---|---|---|
| 2021 | LESS THAN 1 YEAR | 1 - 2 YEARS | 2 - 5 YEARS | 5 - 10 YEARS | 10+ YEARS |
| | NZD'000 | NZD'000 | NZD'000 | NZD'000 | NZD'000 |
| Net-settled derivative financial instruments | (87,791) | (3,457) | (57,625) | (16,005) | (46,198) |
| Gross-settled derivative financial instruments - cash inflow | 39,771,468 | 443,237 | - | - | - |
| Gross-settled derivative financial instruments - cash outflow | (40,527,705) | (455,932) | - | - | - |
| | **(844,028)** | **(16,152)** | **(57,625)** | **(16,005)** | **(46,198)** |
| 2020 | | | | | |
| Net-settled derivative financial instruments | (209,169) | (37,117) | (75,300) | (14,112) | (159,086) |
| Gross-settled derivative financial instruments - cash inflow | 14,836,946 | 339,720 | 253,018 | - | - |
| Gross-settled derivative financial instruments - cash outflow | (15,094,869) | (349,103) | (267,873) | - | - |
| | **(467,092)** | **(46,500)** | **(90,155)** | **(14,112)** | **(159,086)** |

### SECURITIES LENDING AND SIMILAR AGREEMENTS

**Accounting Policy**

Securities lending transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the Statement of Financial Position if the risks and rewards of ownership are also transferred. Collateral advanced by the borrower in the form of readily marketable securities (non-cash) is held in escrow by a third party agent. Recourse of those securities is only available in the event of default of the borrower and, because of this, the non-cash collateral is not recognised in the Statement of Financial Position. Collateral advanced by the borrower in the form of cash is recognised as an asset in the Statement of Financial Position, along with a corresponding obligation to repay the cash collateral to the borrower, once the securities have been returned.

Securities purchased under reverse repurchase agreements to resell at a specified future date are not recognised in the Statement of Financial Position. The consideration paid, including accrued interest, is recorded separately in the Statement of Financial Position as an investment, reflecting the transaction's economic substance as a loan by the NZ Super Fund. The difference between the purchase and resale prices is recorded in interest income and is accrued over the life of the agreement using the effective interest rate.

The NZ Super Fund enters into agreements to lend global equities and fixed income securities to other market participants in return for a fee, with an obligation that the securities are returned at the termination of the agreement. These market participants may then use the loaned securities to enter into other contractual agreements themselves, however the NZ Super Fund retains all risks and rewards in relation to the securities throughout this period. Collateral is received from the borrowers of these securities for the period of the agreement.

**(f) Offsetting financial assets and financial liabilities**

At balance date the NZ Super Fund was subject to multiple master netting arrangements with its derivative financial instrument and securities lending and similar agreements' counterparties.

The NZ Super Fund offsets financial assets and financial liabilities when it has a current legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis. Each master netting arrangement allows for net settlement of certain open contracts where the NZ Super Fund and respective counterparty both elect to settle on a net basis. In the absence of such an election, contracts will be settled on a gross basis. However, each party to the master netting arrangement will have the option to settle all open contracts on a net basis in the event of default of the other party. Under the terms of the master netting arrangements, collateral can only be seized by a party in the event of default of the other party.

The following tables present the NZ Super Fund's financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements:

| | ACTUAL | | | | | |
|---|---|---|---|---|---|---|
| | AMOUNTS OFFSET IN THE STATEMENT OF FINANCIAL POSITION | | | RELATED AMOUNTS NOT OFFSET IN THE STATEMENT OF FINANCIAL POSITION | | |
| 2021 | GROSS AMOUNTS | GROSS AMOUNTS SET-OFF IN THE STATEMENT OF FINANCIAL POSITION | NET AMOUNTS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION | FINANCIAL INSTRUMENTS | CASH COLLATERAL | NET AMOUNT |
| | NZD'000 | NZD'000 | NZD'000 | NZD'000 | NZD'000 | NZD'000 |
| **Financial assets** | | | | | | |
| Derivative financial instrument assets | 1,173,623 | 317,583 | 856,040 | - | 747,958 | 108,082 |
| Reverse repurchase agreements* | 284,079 | - | 284,079 | 292,895 | - | (8,816) |
| Securities on loan under securities lending and similar agreements* | 4,374,675 | - | 4,374,675 | 4,018,011 | 304,019 | 52,645 |
| **Financial liabilities** | | | | | | |
| Derivative financial instrument liabilities | (1,297,591) | (317,583) | (980,008) | - | (267,192) | (712,816) |
| 2020 | | | | | | |
| **Financial assets** | | | | | | |
| Derivative financial instrument assets | 2,704,903 | 376,381 | 2,328,522 | - | 1,443,290 | 885,232 |
| Reverse repurchase agreements* | 201,942 | - | 201,942 | 206,859 | - | (4,917) |
| Securities on loan under securities lending and similar agreements* | 2,391,929 | - | 2,391,929 | 2,205,782 | 207,470 | (21,323) |
| **Financial liabilities** | | | | | | |
| Derivative financial instrument liabilities | (1,153,326) | (376,381) | (776,945) | - | (490,774) | (286,171) |

* Financial instruments held as collateral against reverse repurchase and securities lending and similar agreements are held in escrow by a third party agent. Recourse of those securities is only available in the event of default of the borrower and, because of this, the non-cash collateral is not recognised in the Statement of Financial Position.

## SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

### (g) Trade and other payables

| | ACTUAL 2021 NZD'000 | ACTUAL 2020 NZD'000 |
|---|---|---|
| Trade payables | - | - |
| Accrued expenses | 37,302 | 11,337 |
| Unsettled purchases | 617,577 | 1,150,506 |
| Amounts owed for reimbursement of the Guardians' expenses | 14,197 | 9,919 |
| | **669,076** | **1,171,762** |
| Represented by: | | |
| Current | 666,398 | 1,169,946 |
| Non-current | 2,678 | 1,816 |
| | **669,076** | **1,171,762** |

**Accounting Policy**

Short-term trade and other payables are initially recognised at fair value, then subsequently at amortised cost. As a result of their short-term nature, the carrying amount of trade and other payables held at amortised cost approximates fair value.

Trade and other payables represent amounts due to third parties in the normal course of business and to the Guardians for the reimbursement of expenses. Trade payables are non-interest bearing and are normally settled within 30-day terms. The NZ Super Fund has risk management policies in place to ensure that all payables are paid within the credit time frame.

The timing and amount of expected cash flows for unsettled purchases are certain as they are based on contractual terms and corporate actions.

Other than the non-current portion of trade and other payables, all payables are expected to settle within one year. The non-current payable will settle progressively over a four-year period.

### (h) Financial assets and financial liabilities expected to be recovered or settled after more than 12 months

Certain financial assets and financial liabilities combine amounts expected to be recovered or settled no more than 12 months after balance date and amounts expected to be recovered or settled more than 12 months after balance date. The following table sets out the amounts expected to be recovered or settled after more than 12 months:

| | ACTUAL 2021 NZD'000 | ACTUAL 2020 NZD'000 |
|---|---|---|
| **Financial assets** | | |
| Investments - derivative financial instrument assets | 134,105 | 108,431 |
| Investments - other financial assets | 10,978,188 | 9,965,192 |
| | **11,112,293** | **10,073,623** |
| **Financial liabilities** | | |
| Trade and other payables | 2,678 | 1,816 |
| Investments - derivative financial instrument liabilities | 135,980 | 309,852 |
| | **138,658** | **311,668** |
| **Net financial assets** | **10,973,635** | **9,761,955** |

## SECTION 5: NON-FINANCIAL ASSETS AND LIABILITIES

### (a) Provision for performance-based fees

| | ACTUAL 2021 NZD'000 | ACTUAL 2020 NZD'000 |
|---|---|---|
| **Opening balance** | - | - |
| New provision during the year | 7,394 | 2,333 |
| Unused provision released during the year | - | - |
| Current portion transferred to accrued expenses | (7,394) | (2,333) |
| **Closing balance** | **-** | **-** |

**Accounting Policy**

A provision is recognised in the Statement of Financial Position when the NZ Super Fund has a present obligation arising as a result of a past event, it is probable that cash will be paid to settle the obligation and the amount can be estimated reliably. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at balance date, taking into consideration the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Where some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

A provision is recognised by the NZ Super Fund for performance-based fees payable to external investment managers where it is uncertain how much cash will be required to settle a liability and therefore an estimate is required. Performance-based fees are payable to certain external investment managers based on the performance of the assets under their management over and above an agreed benchmark. For some of these external investment managers, the pay-out of the current year's fee is capped, with the remainder of the fee being held by the NZ Super Fund for possible pay-out in future periods. For those managers, poor performance in the following years may lead to a reduction in the entitlement that is being held. Thus, the amount and timing of the eventual pay-out is uncertain.

## SECTION 6: MANAGEMENT OF FUND CAPITAL AND RESERVES

### (a) Fund capital

#### PURPOSE

Fund capital, which comprises investments and all other assets of the NZ Super Fund less any liabilities, is the property of the Crown. The NZ Super Fund's purpose is to build a portfolio of assets to help reduce the impact of providing retirement income, in the form of New Zealand superannuation, to an ageing population.

#### CAPITAL CONTRIBUTIONS

The Crown is required to make capital contributions to the NZ Super Fund in accordance with Sections 42 to 44 of the New Zealand Superannuation and Retirement Income Act 2001 (Act). These capital contributions are made by the Crown for investment purposes based on a percentage of Gross Domestic Product (GDP). Under Section 44 of the Act, the Crown is entitled to contribute lesser amounts than calculated using the formula under Section 43 of the Act. The Government announced in the 2009 Budget a cessation in capital contributions to the NZ Super Fund. As a consequence, no capital contributions were received between 1 July 2009 and 30 June 2017. In December 2017, the Government announced capital contributions to the NZ Super Fund would resume, with the first payment being made on 15 December 2017. Fund capital contributions are recorded in the Statement of Changes in Public Equity.

#### CAPITAL WITHDRAWALS

Under Section 47 of the Act, if the required contribution is less than zero, the Minister of Finance may require a capital withdrawal to be made from the NZ Super Fund up to that amount and paid into a Crown bank account. Capital withdrawals are projected to commence from 2034/35 under current Treasury modelling.

#### SUPERANNUATION ENTITLEMENTS

Under Section 45 of the Act, the Minister of Finance must ensure that sufficient money is transferred into the NZ Super Fund in each financial year to meet the net cost of the superannuation entitlements that are payable out of the NZ Super Fund during that year. This requirement is additional to and separate from the obligation to make annual capital contributions. The Treasury, through the New Zealand Debt Management Office, has facilitated funding for these superannuation entitlements from the Minister of Finance to the Ministry of Social Development on behalf of the NZ Super Fund. The Guardians has no control over these transfers, with The Treasury acting as agent for the NZ Super Fund. Transfers for superannuation entitlements are recorded in the Statement of Changes in Public Equity.

#### MANAGEMENT OF FUND CAPITAL

The NZ Super Fund is a profit-oriented entity, managed by the Guardians. The Guardians' mandate is to invest the NZ Super Fund on a prudent, commercial basis and, in doing so, ensure that the NZ Super Fund is managed and administered in a manner consistent with best-practice portfolio management, maximising return without undue risk to the NZ Super Fund as a whole, and avoiding prejudice to New Zealand's reputation as a responsible member of the world community. The contributions from the Crown to the NZ Super Fund are invested in accordance with its Statement of Investment Policies, Standards and Procedures, which is available at www.nzsuperfund.nz.

### (b) Reserves

#### ASSET REVALUATION RESERVE

The asset revaluation reserve is used to record increases and decreases in the fair value of intangible assets.

## SECTION 7: FINANCIAL PERFORMANCE

### (a) Income

| | ACTUAL 2021 NZD'000 | ACTUAL 2020 NZD'000 |
|---|---|---|
| **Net operating income** | | |
| Interest income | 252,373 | 264,188 |
| Dividend income | 481,299 | 537,163 |
| Net changes in fair value on financial instruments at fair value through profit or loss | 12,654,991 | 141,884 |
| Net foreign exchange gains/(losses) | 120,620 | (136,953) |
| Other income | 6,590 | 5,708 |
| | **13,515,873** | **811,990** |
| **Interest income** | | |
| Interest income - financial instruments at fair value through profit or loss | 225,243 | 187,340 |
| Interest income - financial assets at amortised cost | 27,130 | 76,848 |
| | **252,373** | **264,188** |

**Accounting policy**

Income is recognised when it is probable that economic benefits will flow to the NZ Super Fund and the income can be reliably measured, regardless of when payment is being made. The following specific recognition criteria must also be met before income is recognised:

**INTEREST INCOME**

Interest income comprises interest on financial instruments measured at fair value through profit or loss and interest on financial assets measured at amortised cost.

For financial instruments measured at fair value, interest income is recognised on an accruals basis, either daily or on a yield-to-maturity basis. For financial assets at amortised cost, interest income is recognised as the interest accrues using the effective interest method, which allocates interest at a constant rate of return over the expected life of the financial instrument based on the estimated future cash flows.

**DIVIDEND INCOME**

Dividend income is recognised when the shareholder's rights to receive payment has been established, normally the ex-dividend date. Where the NZ Super Fund has elected to receive dividends in the form of additional shares rather than cash, the amount of the cash dividend foregone is recognised as income. Any excess in the value of shares received over the amount of cash dividend foregone is recognised as a gain in the Statement of Comprehensive Income.

## SECTION 7: FINANCIAL PERFORMANCE (CONTINUED)

**(b) Income received and fair value gains and losses recognised from interests in unconsolidated structured entities**

The following table summarises income received and fair value gains and losses on financial instruments held at fair value through profit or loss recognised in the Statement of Comprehensive Income from interests in unconsolidated structured entities:

| | ACTUAL | | | | |
|---|---|---|---|---|---|
| 2021 | INTEREST INCOME | DIVIDEND INCOME | FAIR VALUE GAINS | FAIR VALUE LOSSES | TOTAL |
| | NZD'000 | NZD'000 | NZD'000 | NZD'000 | NZD'000 |
| Fixed income securities: | | | | | |
| Asset-backed securities | 25,007 | - | 15,143 | (6,231) | 33,919 |
| Mortgage-backed securities | 11,506 | - | 19,112 | (3,504) | 27,114 |
| Agency mortgage-backed securities | 8,668 | - | 4,600 | (17,248) | (3,980) |
| Shareholder loans | 1,208 | - | - | - | 1,208 |
| Fixed income exchange traded funds | 4,858 | - | 4,829 | - | 9,687 |
| Collective investment funds | 475 | - | 128,874 | (1,129) | 128,220 |
| Listed global equities: | | | | | |
| Equity exchange traded funds | - | 1,039 | 7,459 | - | 8,498 |
| Insurance-linked investments - catastrophe bonds | 19,288 | - | 12,245 | (10,871) | 20,662 |
| Private equity investment funds | - | 14,332 | 234,931 | (45,007) | 204,256 |
| Unconsolidated subsidiaries | - | 4,343 | 650,251 | (17,898) | 636,696 |
| 2020 | | | | | |
| Fixed income securities: | | | | | |
| Asset-backed securities | 30,881 | - | 12,293 | (2,029) | 41,145 |
| Mortgage-backed securities | 21,061 | - | 7,589 | (6,568) | 22,082 |
| Agency mortgage-backed securities | 9,272 | - | 20,258 | (9,578) | 19,952 |
| Shareholder loans | 1,919 | - | 41 | (40) | 1,920 |
| Fixed income exchange traded funds | - | - | - | - | - |
| Collective investment funds | 835 | - | 7,826 | (85,632) | (76,971) |
| Listed global equities: | | | | | |
| Equity exchange traded funds | - | - | - | - | - |
| Insurance-linked investments - catastrophe bonds | 14,112 | - | 5,629 | (7,244) | 12,497 |
| Private equity investment funds | - | 16,924 | 126,470 | (90,658) | 52,736 |
| Unconsolidated subsidiaries | - | 11,868 | 272,625 | (221,660) | 62,833 |

### (c) Operating expenditure

| | ACTUAL 2021 NZD'000 | ACTUAL 2020 NZD'000 |
|---|---|---|
| Reimbursement of Guardians' expenses | 56,730 | 51,715 |
| Managers' fees - base | 36,710 | 35,475 |
| Managers' fees - performance | 7,394 | 2,333 |
| Custody fees | 6,560 | 6,493 |
| Depreciation | 512 | 458 |
| Amortisation | 173 | 417 |
| Auditor's remuneration | 540 | 541 |
| Professional advisors | 5,534 | 12,429 |
| Trade expenses | 7,634 | 12,988 |
| Other expenses | 8,985 | 9,352 |
| | **130,772** | **132,201** |

**Accounting policy**

**DEPRECIATION**

Depreciation is provided on a straight-line basis to write off the cost of property, plant and equipment to estimated residual value over their estimated useful lives. The estimated useful lives of the major categories of property, plant and equipment are as follows:

| | |
|---|---|
| Computer and office equipment | 3 years |
| Office fit-out | 12 years |

The cost of office fit-out is capitalised and depreciated over the unexpired period of the lease (held by the Guardians) or the estimated remaining useful lives of the improvements, whichever is shorter.

### (d) Auditor's remuneration

| | ACTUAL 2021 NZD'000 | ACTUAL 2020 NZD'000 |
|---|---|---|
| Audit of the NZ Super Fund's financial statements | 492 | 497 |
| Audit of the NZ Super Fund's unconsolidated subsidiaries met by the NZ Super Fund | 28 | 26 |
| Other fees paid to auditor | 20 | 18 |
| | **540** | **541** |

The auditor of the NZ Super Fund is Graeme Bennett of Ernst & Young, on behalf of the Auditor-General.

On 23 October 2019, a new section (Section 59B) was inserted into the New Zealand Superannuation and Retirement Income Act 2001 (Act) removing the requirement for Fund Investment Vehicles (FIVs) to prepare and have financial statements audited. $28,000 was paid in respect of the voluntary audit of one unconsolidated subsidiary for the year ended 30 June 2021 (2020: $26,000).

The other fees paid to the auditor of the NZ Super Fund were for the assurance review of the calculation of NZ Super Fund performance and the assurance review of the annual self-assessment of the Guardians' adherence to the Generally Accepted Principles and Practices for Sovereign Wealth Funds (Santiago Principles).

## SECTION 7: FINANCIAL PERFORMANCE (CONTINUED)

### (e) Income tax

The income tax expense included in the Statement of Comprehensive Income is analysed as follows:

| | ACTUAL 2021 NZD'000 | ACTUAL 2020 NZD'000 |
|---|---|---|
| **Components of income tax expense** | | |
| Current tax expense: | | |
| Current period | 2,194,348 | 461,018 |
| Prior period adjustment | (39,430) | (12,610) |
| **Total current tax expense** | **2,154,918** | **448,408** |
| Deferred tax expense: | | |
| Current period | (8,320) | 16,730 |
| Prior period adjustment | 58 | 112 |
| **Total deferred tax expense** | **(8,262)** | **16,842** |
| **Income tax expense** | **2,146,656** | **465,250** |
| **Reconciliation of income tax expense and accounting profit for the year** | | |
| Profit for the year before income tax expense | 13,385,101 | 679,789 |
| Income tax expense calculated at 28% | 3,747,828 | 190,341 |
| Fair Dividend Rate* | (1,279,492) | 332,591 |
| Dividend imputation credits | (12,161) | (10,321) |
| Portfolio Investment Entities (PIE) Regime | (266,893) | (61,790) |
| Controlled Foreign Companies (CFC) Regime | (4,720) | 26,957 |
| Expenses non-deductible for tax purposes | - | - |
| Prior period adjustment | (39,372) | (12,498) |
| Other items | 1,466 | (30) |
| **Income tax expense** | **2,146,656** | **465,250** |

* The NZ Super Fund applies the 'Fair Dividend Rate' (FDR) to all equity investments excluding New Zealand equities and certain Australian equities listed on the Australian Stock Exchange (ASX). The investments subject to FDR are taxed on 5% of their market value. Gains, losses and dividends on these investments are not subject to any further tax.

The Guardians has a Co-operative Compliance Agreement with the Inland Revenue Department (IRD). Under this agreement, tax positions undertaken on NZ Super Fund activities, including the tax treatment of new investments, are disclosed to the IRD before the tax return is filed.

The table below sets out the deferred tax liability recognised in the Statement of Financial Position, together with movements during the year:

| | ACTUAL | | |
|---|---|---|---|
| | RECOGNISED 2020 | CHARGED TO PROFIT OR LOSS | RECOGNISED 2021 |
| | NZD'000 | NZD'000 | NZD'000 |
| **Deferred tax liability comprises temporary differences attributable to:** | | | |
| Controlled foreign companies | 51,099 | (9,162) | 41,937 |
| Other items | 29 | 900 | 929 |
| **Total deferred tax liability** | **51,128** | **(8,262)** | **42,866** |

**Accounting Policy**

In accordance with Section HR 4B of the Income Tax Act 2007, income derived and expenditure incurred by the Crown in activities relating to the NZ Super Fund are determined as if the amounts were being derived or incurred by a company, and are therefore subject to New Zealand tax. The income tax expense recognised in the Statement of Comprehensive Income comprises current and deferred tax and is based on accounting profit, adjusted for permanent differences between accounting and tax rules. Income tax relating to items of other comprehensive income is recognised in other comprehensive income.

Current tax is the expected tax payable to or receivable from the taxation authorities based on the taxable income or loss for the year and any adjustment in respect of prior years. It is calculated using tax rates and tax laws that have been enacted or substantively enacted at balance date.

Deferred tax is recognised in respect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the tax bases of assets and liabilities at balance date. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- the initial recognition of goodwill;
- the initial recognition of assets or liabilities that affects neither accounting nor taxable profit or loss other than in a business combination; and
- temporary differences relating to investments in subsidiaries, associates and interests in joint ventures where it is probable that they will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses only to the extent that it is probable that sufficient taxable profit will be available to utilise the deductible temporary differences, the carry forward of unused tax credits and unused tax losses. The carrying amount of deferred tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at balance date.

Deferred tax assets and liabilities are offset when a legally enforceable right to set-off exists, the deferred tax balances relate to income taxes levied by the same taxation authority and the NZ Super Fund intends to settle on a net basis.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2021

## SECTION 7: FINANCIAL PERFORMANCE (CONTINUED)

### (f) Reconciliation of profit for the year to net cash flows from operating activities

The following is a reconciliation of profit for the year to cash provided by operating activities as per the Statement of Cash Flows.

| | ACTUAL<br>2021<br>NZD'000 | ACTUAL<br>2020<br>NZD'000 |
|---|---|---|
| **Profit for the year after income tax expense** | 11,238,445 | 214,539 |
| Add/(Deduct) non-cash items: | | |
| Depreciation and amortisation | 685 | 875 |
| Net fair value gains on financial instruments | (12,654,991) | (141,884) |
| Net foreign exchange (gains)/losses | (120,620) | 136,953 |
| Increase/(Decrease) in deferred tax liability | (8,262) | 16,842 |
| Other non-cash items | (4,691) | 382 |
| Changes in working capital: | | |
| (Increase)/Decrease in assets: | | |
| Trade and other receivables | (65,940) | (221,416) |
| Increase/(Decrease) in liabilities: | | |
| Trade and other payables | (502,686) | 516,764 |
| Increase/(Decrease) in current tax | 1,629,554 | (44,284) |
| Add/(Deduct) changes in net assets and liabilities related to operating cash flows not included in net profit: | | |
| Unsettled sales | 42,695 | 235,412 |
| Unsettled purchases | 532,929 | (519,355) |
| Add/(Deduct) net operating cash flows not included in net profit* | (1,186,435) | 1,744,773 |
| **Net cash provided by/(used in) operating activities** | **(1,099,317)** | **1,939,601** |

* Net operating cash flows not included in net profit is primarily comprised of the cash flows arising from the sale and purchase of investments and the net movement in cash collateral.

## SECTION 8: UNRECOGNISED ITEMS

### (a) Commitments and contingencies

#### LEASE COMMITMENTS

The NZ Super Fund has no commitments for lease contracts that have not yet commenced at 30 June 2021 (2020: $nil).

#### CAPITAL COMMITMENTS

At 30 June 2021, the NZ Super Fund had outstanding commitments to private equity investment funds and collective investment funds (excluding those classified as unconsolidated subsidiaries) totalling $1,003,384,000 (2020: $598,749,000), of which $745,000 has been called but not yet paid (2020: $27,430,000). Additionally, private equity investment funds that have reached the end of their contracted investment periods can call for 'follow on capital' under restricted conditions to support existing investments. The NZ Super Fund has an additional commitment of $520,302,000 for follow on capital (2020: $473,616,000). These commitments are denominated in the foreign currency of the respective private equity investment fund and collective investment funds and have been translated at the exchange rate prevailing at balance date.

At 30 June 2021, the NZ Super Fund had outstanding commitments under loan agreements totalling $159,072,000 (2020: $98,883,000). Under the loan agreements, the borrower can call for cash by giving the NZ Super Fund up to two business days notice.

#### CONTINGENCIES

The NZ Super Fund has no contingent liabilities at balance date (2020: $nil).

### (b) Events after the reporting date

There were no reportable events subsequent to balance date.

**NOTES TO THE FINANCIAL STATEMENTS** (CONTINUED)

For the year ended 30 June 2021

## SECTION 9: OTHER INFORMATION

### (a) Related party transactions

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions. The definition includes subsidiaries, associates and joint ventures. All related party transactions with other government-related entities have been entered into on an arm's length basis.

#### PARENT ENTITY

The NZ Super Fund is managed and administered by the Guardians which is a wholly owned entity of the Crown. Both the Guardians and the Crown prepare financial statements that are available to the public.

The Guardians pays expenses relating to the NZ Super Fund, as it is required to do under the Act. A portion of these expenses is reimbursed by the NZ Super Fund as is entitled under the Act. These expenses are included in the financial statements of the Guardians. The amount of reimbursement to the Guardians for the year ended 30 June 2021 was $56,730,000 (2020: $51,715,000). The related party payable to the Guardians as at 30 June 2021 is $14,197,000 (2020: $9,919,000).

#### SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

**Subsidiaries**

The NZ Super Fund's interests in unconsolidated subsidiaries are set out in Note 1(e). During the year, four (2020: fifteen) new unconsolidated subsidiaries were established for the purpose of holding, facilitating and managing its investments, as outlined in Note 1(e). Holding these investments via unconsolidated subsidiaries, rather than holding them directly, provides the NZ Super Fund with greater flexibility in terms of future investment decisions.

Transactions entered into with unconsolidated subsidiaries during the year are as follows:

| | ACTUAL 2021 NZD'000 | ACTUAL 2020 NZD'000 |
|---|---|---|
| Dividend income | 7,307 | 11,868 |
| Other income | 192 | 218 |
| Expenses paid by the NZ Super Fund on behalf of unconsolidated subsidiaries | 28 | 114 |
| Interest on loans made to unconsolidated subsidiaries | 1,208 | 1,374 |
| Repayment of loans | 105,944 | 86,786 |

The NZ Super Fund has made the following financial commitments to unconsolidated subsidiaries:

| | | | ACTUAL | | | |
|---|---|---|---|---|---|---|
| | NOTE | COMMITMENT EXPIRY DATE | TOTAL COMMITMENT | OUTSTANDING COMMITMENT | TOTAL COMMITMENT | OUTSTANDING COMMITMENT |
| | | | 2021 | 2021 | 2020 | 2020 |
| | | | NZD'000 | NZD'000 | NZD'000 | NZD'000 |
| Bain Capital Credit Managed Account (NZSF) Limited Partnership | (iii) | 30 June 2020 | 263,062 | 98,800 | 270,428 | 89,354 |
| Canyon NZ-DOF Investing Limited Partnership | (i) | 1 Nov 2023 | 357,782 | 143,113 | 388,350 | 77,670 |
| KKR NZSF Energy Investor Limited Partnership | (vi) | 12 Feb 2019 | 357,782 | 206,266 | 388,350 | 223,889 |
| N-Data Center Portfolio Co-Investor, LLC | (i) | No expiry date | 119,732 | 23,501 | 176,000 | 83,035 |
| N-Novva Co-Investor, LLC | (i) | No expiry date | 42,414 | 185 | - | - |
| NZSF Beachlands Limited | (v) | No expiry date | - | - | 3,410 | 3,410 |
| NZSF Hobsonville Investments Limited | (ii) | No expiry date | 49,169 | 9,491 | 49,169 | 9,491 |
| NZSF Land Holdings Limited | (ii) | No expiry date | 11,745 | 129 | 11,745 | 366 |
| NZSF US Renewables, Inc.* | (i) | No expiry date | 123,068 | - | 97,208 | 17,429 |
| NZSF Side Car (Movac) Limited Partnership | (i) | 2 Nov 2021 | 25,000 | 4,446 | 25,000 | 5,733 |
| NZSF Side Car (Pioneer) Limited Partnership | (i) | 2 Dec 2021 | 60,000 | 14,501 | 60,000 | 23,739 |
| NZSF Variable Co-Investment (Direct Capital) Limited Partnership | (i) | 14 Dec 2022 | 50,000 | 7,887 | 50,000 | 15,095 |
| NZSF Hotel Holdings Limited | (iv) | 31 Mar 2021 | - | - | 4,000 | 2,000 |
| | | | **1,459,754** | **508,319** | **1,523,660** | **551,211** |

* Additionally, NZSF US Renewables, Inc. has committed to providing financial support to its joint venture, Longroad Energy Holdings, LLC in respect of a letter of credit taken on by that company. In the event that Longroad Energy Holdings, LLC is unable to pay any outstanding amount arising from the letter of credit as it falls due, NZSF US Renewables, Inc. may require additional funding from the NZ Super Fund to enable it to provide the required support. At balance date, the letter of credit totalled $184,302,000 (equivalent to USD 128,781,000) (2020: $50,077,000) of which NZSF US Renewables, Inc.'s share is $92,151,000 (equivalent to USD 64,390,000) (2020: $25,039,000).

(i) The unconsolidated subsidiary can call on this financial commitment by giving not less than 10 business days' notice.

(ii) The unconsolidated subsidiary can call on this financial commitment by giving not less than 5 business days' notice.

(iii) The contracted investment period has expired. The unconsolidated subsidiary can call for 'follow on capital' under restricted conditions to support the administration of the unconsolidated subsidiary and for existing investments.

(iv) The unconsolidated subsidiary can call on this financial commitment to support short-term working capital. The commitment expired on 31 March 2021.

(v) The unconsolidated subsidiary can call on this financial commitment by giving not less than 20 business days' notice.

(vi) The contracted investment period has expired. The unconsolidated subsidiary can call for 'follow on capital' under restricted conditions to support the administration of the unconsolidated subsidiary and for existing investments. These restrictions limit the contractually available outstanding commitment stated above to $53,315,000 (2020: $57,870,000).

## SECTION 9: OTHER INFORMATION (CONTINUED)

The NZ Super Fund has made the following loans to unconsolidated subsidiaries:

| | NOTE | ACTUAL 2021 NZD'000 | ACTUAL 2020 NZD'000 |
|---|---|---|---|
| NZSF Rural Land Limited | (i) | 41,196 | 29,050 |
| NZSF Southland Farms Limited | (i) | 54,977 | 32,810 |
| NZSF Waikato Farms Limited | (i) | 16,369 | 14,094 |
| NZSF Canterbury Farms Limited | (i) | 6,050 | - |
| NZSF Land Holdings Limited | (i) | 524 | - |
| NZSF Australian Rural Holdings Trust | (ii) | 74,397 | 71,265 |
| Palgrove Holdings Pty Limited | (iii) | 24,913 | 24,468 |
| NZSF Tui Investments Limited | (i) | 37,099 | 42,656 |
| NZSF Timber Investments (No 4) Limited | (i) | 504,250 | 546,491 |
| | | **759,775** | **760,834** |

(i) Interest free, repayable on demand.

(ii) $70,435,000 is repayable by 14 August 2027 and $3,962,000 is repayable by 31 March 2025.

(iii) $17,779,000 is repayable by 14 August 2027 and $7,134,000 is repayable by 31 March 2025.

The loans to unconsolidated subsidiaries are classified as fixed income securities in the Statement of Financial Position.

**Associates**

The NZ Super Fund's interests in associates are set out in Note 1(f). Transactions entered into with associates during the year are as follows:

| | ACTUAL 2021 NZD'000 | ACTUAL 2020 NZD'000 |
|---|---|---|
| Dividend income | - | - |
| Interest income | 26 | - |

Related party loans to Galileo Green Energy GmbH comprise interest-bearing loans of $3,656,000 repayable on 4 February 2040.

The NZ Super Fund has made the following financial commitments to associates:

| | | | ACTUAL | | | |
|---|---|---|---|---|---|---|
| | NOTE | COMMITMENT EXPIRY DATE | TOTAL COMMITMENT 2021 NZD'000 | OUTSTANDING COMMITMENT 2021 NZD'000 | TOTAL COMMITMENT 2020 NZD'000 | OUTSTANDING COMMITMENT 2020 NZD'000 |
| Sustainable Communities Infrastructure Trust | (i) | No expiry date | 9,992 | 6,769 | - | - |
| | | | **9,992** | **6,769** | **-** | **-** |

(i) The associate can call on this financial commitment by giving not less than 10 business days' notice.

**Joint ventures**

The NZ Super Fund's interests in joint ventures are set out in Note 1(g). Transactions entered into with joint ventures during the year are as follows:

| | ACTUAL | ACTUAL |
|---|---|---|
| | 2021 | 2020 |
| | NZD'000 | NZD'000 |
| Dividend income | 4,489 | 2,743 |
| Interest income | - | - |
| Other income | 289 | 281 |
| Purchase of intangible assets | - | 32 |

The NZ Super Fund has made the following financial commitments to joint ventures:

| | | | ACTUAL | | | |
|---|---|---|---|---|---|---|
| | NOTE | COMMITMENT EXPIRY DATE | TOTAL COMMITMENT | OUTSTANDING COMMITMENT | TOTAL COMMITMENT | OUTSTANDING COMMITMENT |
| | | | 2021 | 2021 | 2020 | 2020 |
| | | | NZD'000 | NZD'000 | NZD'000 | NZD'000 |
| RA (Holdings) 2014 Pty Limited | (i) | 31 March 2022 | 10,744 | 10,744 | 10,695 | 10,695 |
| Datacom Group Limited | (ii) | No expiry date | 18,888 | 18,888 | - | - |
| | | | **29,632** | **29,632** | **10,695** | **10,695** |

(i) The joint venture can call on this financial commitment under a mutually agreed notice period.

(ii) The NZ Super Fund has committed to purchasing a further $18,888,000 of shares in Datacom Group Limited. Completion of the sale is conditional on securing specific governmental approvals with a targeted completion in the first quarter of the 2022 financial year.

Amounts accrued or payable to joint ventures for purchases of property, plant and equipment and intangible assets at 30 June 2021 were $nil (2020: $nil). Payables have standard 30-day credit terms. No interest is charged on overdue balances.

## OTHER GOVERNMENT-RELATED ENTITIES

At balance date, the NZ Super Fund held fixed income securities issued by the New Zealand Government valued at $33,241,000 (2020: $35,340,000). Interest income earned from these investments during the year was $1,771,000 (2020: $504,000).

At balance date, the NZ Super Fund held inflation-indexed securities issued by the New Zealand Government valued at $124,637,000 (2020: $121,589,000). Income earned from these investments during the year was $2,352,000 (2020: $2,182,000).

At balance date, the NZ Super Fund held fixed income securities issued by Housing New Zealand Limited valued at $128,417,000 (2020: $108,298,000). Interest income earned from these investments during the year was $3,743,000 (2020: $230,000).

At balance date, the NZ Super Fund held 31,668,000 (2020: 24,831,000) shares in Meridian Energy Limited, valued at $168,790,000 (2020: $119,438,000). Dividend income earned during the year from holdings in this entity amounted to $4,232,000 (2020: $5,380,000).

At balance date, the NZ Super Fund held nil (2020: 57,000) shares in Air New Zealand Limited, valued at $nil (2020: $75,000). Dividend income earned during the year from holdings in this entity amounted to $nil (2020: $582,000).

At balance date, the NZ Super Fund held 15,134,000 (2020: 15,179,000) shares in Mercury NZ Limited, valued at $100,946,000 (2020: $71,343,000). Dividend income earned during the year from holdings in this entity amounted to $2,450,000 (2020: $2,465,000).

At balance date, the NZ Super Fund held, through its subsidiary NZSF Tui Investments Limited, 227,789,000 (2020: 227,789,000) ordinary shares and 61,750,000 (2020: 61,750,000) redeemable preference shares in Kiwi Group Holdings Limited. The total cost

## SECTION 9: OTHER INFORMATION (CONTINUED)

of these investments was $316,271,000 (2020: $316,271,000). Dividend income earned during the year from holdings in this entity amounted to $5,558,000 (2020: $2,779,000).

**(b) Comparison to budget (unaudited)**

During the year ended 30 June 2021 the specific asset mix of the NZ Super Fund varied from the budgeted figures and market returns were higher than the long-term return expectations on which the budget is based. Given the weight of growth assets in the NZ Super Fund, management expects significant year to year variations in the NZ Super Fund's returns. It is not possible to accurately predict these variations and incorporate them into the budget.

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working world

# Independent Auditor's Report

## TO THE READERS OF NEW ZEALAND SUPERANNUATION FUND'S FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

The Auditor-General is the auditor of New Zealand Superannuation Fund (the Fund). The Auditor-General has appointed me, Graeme Bennett, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements of the Fund on his behalf.

### OPINION

We have audited the financial statements of the Fund on pages 158 to 218, that comprise the statement of financial position as at 30 June 2021, the statement of comprehensive income, statement of changes in public equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion the financial statements of the Fund on pages 158 to 218:

- present fairly, in all material respects:
  - its financial position as at 30 June 2021; and
  - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Our audit was completed on 24 September 2021. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of the Guardians of New Zealand Superannuation (the Guardians) and our responsibilities relating to the financial statements, we comment on other information, and we explain our independence.

### BASIS FOR OUR OPINION

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### RESPONSIBILITIES OF THE GUARDIANS FOR THE FINANCIAL STATEMENTS

The Guardians are responsible on behalf of the Fund for preparing financial statements that are fairly presented and comply with generally accepted accounting practice in New Zealand in accordance with NZ IFRS and IFRS.

The Guardians are responsible for such internal control as they determine is necessary to enable them to prepare financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Guardians are responsible on behalf of the Fund for assessing the Fund's ability to continue as a going concern. The Guardians are also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the Fund or to cease operations, or there is no realistic alternative but to do so.

The Guardians' responsibilities arise from the New Zealand Superannuation and Retirement Income Act 2001.

### RESPONSIBILITIES OF THE AUDITOR FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements.

For the budget information reported in the financial statements, our procedures were limited to checking that the information agreed to the Fund's Statement of Performance Expectations for the period 1 July 2020 to 30 June 2021.

We did not evaluate the security and controls over the electronic publication of the financial statements.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Guardians.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Guardians and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Guardians regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

**OTHER INFORMATION**

The Guardians are responsible for the other information. The other information comprises the information included on pages 1 to 113, 118 to 130, 157, 221, 250 to 259 but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**INDEPENDENCE**

We are independent of the Fund in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: *International Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

We have performed limited assurance engagements in respect of Fund performance and the Fund's self-assessment against the Santiago Principles, and performed Agreed Upon Procedures for one of the Fund's subsidiaries. Other than these engagements and the audit, we have no relationship with or interests in the Fund, or any of its subsidiaries.

Graeme Bennett
Ernst & Young
On behalf of the Auditor-General
Auckland, New Zealand

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## STATEMENT OF RESPONSIBILITY

For the year ended 30 June 2021

The Board and management of the Guardians of New Zealand Superannuation accept responsibility for the preparation of the annual financial statements of the Elevate NZ Venture Fund and Group and the judgements used in them.

The Board and management of the Guardians of New Zealand Superannuation accept responsibility for establishing and maintaining a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of financial and non-financial reporting of the Elevate NZ Venture Fund and Group.

In the opinion of the Board and management of the Guardians of New Zealand Superannuation, the annual financial statements for the year ended 30 June 2021 fairly reflect the financial position, operations and cash flows of the Elevate NZ Venture Fund and Group.

**CATHERINE DRAYTON**

CHAIR
24 September 2021

**MATTHEW WHINERAY**

CHIEF EXECUTIVE OFFICER
24 September 2021

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| As at 30 June 2021 | NOTE | ACTUAL | ACTUAL |
|---|---|---|---|
| | | 2021 | 2020 |
| | | NZD'000 | NZD'000 |
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 2(a), 4(a), 4(b) | 2,761 | - |
| Receivables | 2(a), 4(a), 4(c) | 2,275 | 96 |
| **Total current assets** | | **5,036** | **96** |
| **Non-current assets** | | | |
| Investments | 2(a), 4(a), 4(d) | 12,849 | - |
| **Total non-current assets** | | **12,849** | **-** |
| **Total assets** | | **17,885** | **96** |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 2(a), 4(a), 4(e) | 724 | 1,008 |
| **Total current liabilities** | | **724** | **1,008** |
| **Total liabilities** | | **724** | **1,008** |
| **Net assets/(liabilities)** | | **17,161** | **(912)** |
| **PUBLIC EQUITY** | | | |
| Accumulated comprehensive revenue and expense | | (6,244) | (912) |
| Contributed capital | 5(a) | 23,405 | - |
| **Total public equity** | | **17,161** | **(912)** |

The attached notes form part of, and should be read in conjunction with, these financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

| For the year end 30 June 2021 | NOTE | ACTUAL | ACTUAL |
|---|---|---|---|
| | | 2021 | 2020 |
| | | NZD'000 | NZD'001 |
| Revenue | 6(a) | (1,930) | - |
| Expenses | 6(c) | 3,402 | 912 |
| **Surplus/(Deficit) for the year before income tax expense** | | **(5,332)** | **(912)** |
| Income tax expense | 6(e) | - | - |
| **Surplus/(Deficit) for the year after income tax expense** | | **(5,332)** | **(912)** |
| Other comprehensive revenue and expense | | - | - |
| **Total comprehensive revenue and expense for the year** | | **(5,332)** | **(912)** |

The attached notes form part of, and should be read in conjunction with, these financial statements. The comparative period refers to the period from 19 December 2019 to 30 June 2020.

## CONSOLIDATED STATEMENT OF CHANGES IN PUBLIC EQUITY

| For the year ended 30 June 2021 | | ACTUAL | | |
|---|---|---|---|---|
| | NOTE | CONTRIBUTED CAPITAL NZD'000 | ACCUMULATED COMPREHENSIVE REVENUE AND EXPENSE NZD'000 | TOTAL NZD'000 |
| Total comprehensive revenue and expense for the period | | | (912) | (912) |
| Capital contributions from the Crown | 5(a) | - | | - |
| **Balance at 30 June 2020** | | **-** | **(912)** | **(912)** |
| Total comprehensive revenue and expense for the year | | | (5,332) | (5,332) |
| Capital contributions from the Crown | 5(a) | 23,405 | | 23,405 |
| **Balance at 30 June 2021** | | **23,405** | **(6,244)** | **17,161** |

The attached notes form part of, and should be read in conjunction with, these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

| For the year ended 30 June 2021 | NOTE | ACTUAL | ACTUAL |
|---|---|---|---|
| | | 2021 | 2020 |
| | | NZD'000 | NZD'000 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| **Cash was provided from:** | | | |
| Interest received | | 24 | - |
| **Total cash inflow from operating activities** | | **24** | **-** |
| **Cash was applied to:** | | | |
| Purchase of investments | | (17,078) | - |
| Managers' fees | | (2,795) | - |
| Reimbursement of Guardians' expenses | | (774) | - |
| Payments to suppliers | | (21) | - |
| **Total cash outflow from operating activities** | | **(20,668)** | **-** |
| **Net cash flows provided by/(used in) operating activities** | | **(20,644)** | **-** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| **Cash was provided from:** | | | |
| Capital contributions from the Crown | | 23,405 | - |
| **Net cash flows provided by/(used in) financing activities** | | **23,405** | **-** |
| **Net increase/(decrease) in cash and cash equivalents** | | **2,761** | **-** |
| Cash and cash equivalents at the beginning of the year | | - | - |
| **Cash and cash equivalents at the end of the year** | 2(a), 4(a), 4(b) | **2,761** | **-** |

The attached notes form part of, and should be read in conjunction with, these financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

| For the year ended 30 June 2021 | ACTUAL 2021 NZD'000 | ACTUAL 2020 NZD'000 |
|---|---|---|
| **RECONCILIATION OF SURPLUS/(DEFICIT) FOR THE YEAR TO NET CASH FLOWS PROVIDED BY/(USED IN) OPERATING ACTIVITIES** | | |
| **Surplus/(Deficit) for the year** | (5,332) | (912) |
| **Add/(Deduct) non-cash items:** | | |
| Net fair value losses on financial instruments | 1,975 | - |
| Net foreign exchange (gains)/losses | (21) | - |
| **Changes in working capital:** | | |
| (Increase)/Decrease in assets: | | |
| Receivables excluding investment prepayments | 96 | (96) |
| Increase/(Decrease) in liabilities: | | |
| Trade and other payables | (284) | 1,008 |
| **Add/(Deduct) net operating cash flows not included in net deficit*** | (17,078) | - |
| **Net cash provided by/(used in) operating activities** | **(20,644)** | **-** |

* Net operating cash flows not included in net deficit is comprised of the cash flows arising from the purchase of investments.

The attached notes form part of, and should be read in conjunction with, these financial statements.

## SECTION 1: GENERAL INFORMATION, STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES

### (a) General information

These are the consolidated financial statements of the Elevate NZ Venture Fund (Elevate Fund) and its subsidiary (Group). The Elevate Fund is a venture capital fund established under Section 8 of the Venture Capital Fund Act 2019 (Act) on 13 December 2019.

The purpose of the Elevate Fund is to contribute to a sustainable and productive economy by increasing the venture capital available to New Zealand entities and by developing New Zealand's venture capital markets to function more effectively.

The Elevate Fund is managed and administered by the Guardians of New Zealand Superannuation (Guardians). The Guardians was established as a Crown entity by Section 48 of the New Zealand Superannuation and Retirement Income Act 2001 and became operative from 30 August 2002. The Guardians is expected to invest the Elevate Fund in New Zealand's venture capital markets using best-practice investment management that is appropriate for institutional investment in those markets and in doing so, the Guardians must manage and administer the Elevate Fund in a manner consistent with avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

The Elevate Fund invests via its wholly owned subsidiary, the Elevate NZ Venture Fund Limited Partnership. The General Partner of the limited partnership is Elevate NZ Venture Fund GP Limited, a wholly owned subsidiary of New Zealand Growth Capital Partners (NZGCP). The General Partner is responsible for the management, operation and administration of the limited partnership.

The Elevate Fund is domiciled in New Zealand and the address of its principal place of business is set out in the Corporate Directory on page 259.

The consolidated financial statements of the Group for the year ended 30 June 2021 were authorised for issue in accordance with a resolution of the Board of the Guardians of New Zealand Superannuation on 24 September 2021.

### (b) Statement of compliance

The financial statements have been prepared in accordance with the Venture Capital Fund Act 2019.

The Elevate Fund is a public benefit entity for financial reporting purposes. The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with Tier 1 Public Benefit Entity (PBE) Accounting Standards.

### (c) Basis of preparation

The financial statements have been prepared on a historical cost basis, except where modified by the measurement of financial assets at fair value.

The financial statements are presented in New Zealand dollars. All values are rounded to the nearest thousand dollars (NZD'000) unless stated otherwise.

Accounting policies are selected and applied in a manner that ensures the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring the substance of the underlying transactions or other events is reported. Accounting policies relating to specific financial statement items are set out in the relevant notes to the financial statements. Accounting policies that materially affect the financial statements as a whole are set out below.

The comparative figures are for the period from 13 December 2019 (the date of establishment of the Elevate Fund) to 30 June 2020 and are therefore not entirely comparable.

### (d) Significant judgements and estimates

The preparation of the Group's financial statements requires the Board and management to make judgements and use estimates that affect the reported amounts of revenue, expenses, assets, liabilities and the accompanying disclosures. Uncertainty about these judgements and estimates could result in outcomes that require a material adjustment to the carrying amounts of assets and liabilities in future periods. The judgements and estimates used in respect of the Group are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances. The judgement and estimates that the Board and management have assessed to have the most significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

- Assessment of control (Note 1(f));
- Assessment of investments in structured entities (Note 1(g)); and
- Determination of fair value (Note 2(b)).

#### COVID-19 PANDEMIC

The prior financial period saw significant volatility in global financial markets as a result of the COVID-19 pandemic. Markets have subsequently seen a substantial turnaround, however the longer term direct and indirect impacts of the pandemic on the value of investments remains somewhat uncertain whilst businesses and governments continue to respond to the outbreak.

Refer to Notes 2(a), 2(b), and 2(d) for further disclosures on the impact of the COVID-19 pandemic.

## SECTION 1: GENERAL INFORMATION, STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (e) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Elevate Fund and its subsidiary as at 30 June 2021.

The financial statements of the subsidiary are prepared for the same reporting period as the Elevate Fund using consistent accounting policies. In preparing consolidated financial statements, all inter-entity transactions, balances, unrealised gains and losses are eliminated.

### (f) Subsidiaries

Subsidiaries are those entities that are controlled by the Elevate Fund under the provisions of PBE IPSAS 35 Consolidated Financial Statements. The Elevate Fund controls an entity when it is exposed to, or has rights to, variable benefits from its involvement with the entity and has the ability to affect the nature or amount of those benefits through its power over the entity. The Elevate Fund's control of an entity is reassessed if facts and circumstances indicate that there are changes to one or more of the elements of control.

Under Section 25 of the Act, all or any of the investments of the Elevate Fund may be held in a Venture Capital Fund Investment Vehicle (VIV) that is formed or controlled by the Guardians for the purposes of holding, facilitating, or managing investments of the Elevate Fund. A VIV that is controlled by the Guardians is a subsidiary of the Elevate Fund for accounting purposes.

The Elevate Fund has an interest in the following subsidiary:

| | | | | OWNERSHIP INTEREST | |
|---|---|---|---|---|---|
| | | | | 2021 | 2020 |
| NAME | NOTE | BALANCE DATE | COUNTRY OF INCORPORATION | % | % |
| Elevate NZ Venture Fund Limited Partnership | (i) | 30 June | New Zealand | 100.0 | 100.0 |

(i) Elevate NZ Venture Fund Limited Partnership is a Venture Capital Fund Investment Vehicle (VIV) established for the purpose of holding, facilitating and managing investments of the Elevate Fund.

**Key judgement - assessment of control**

The Elevate Fund's investment in its subsidiary has been assessed in light of the control model established under PBE IPSAS 35 Consolidated Financial Statements to ensure the correct classification and disclosure of its investment in the subsidiary.

### (g) Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes:

- Restricted activities;
- A narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors;
- Insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and
- Financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks.

The Group is principally involved with structured entities through its investments in venture capital investment funds. The Group invests in structured entities to assist with the implementation of its overall investment strategy. The Group does not sponsor any structured entities.

#### VENTURE CAPITAL INVESTMENT FUNDS

Venture capital investment funds provide a mechanism to share exposure with other investors and may take various legal forms (e.g. limited liability companies, limited partnerships). The Group makes commitments to, and investments in, these legal structures and in return is issued with rights to a proportional stake in their net assets. They have a broad range of investment objectives and are managed by unrelated asset managers who apply various investment strategies to accomplish their respective investment objectives.

**Key judgement - assessment of investments in structured entities**

The Board and management have assessed which of the Group's investments are investments in structured entities. In doing so, the Board and management have considered voting rights and other similar rights afforded to investors as well as any contractual arrangements in place with these investments.

The Board and management have concluded that certain of the Group's investments meet the definition of a structured entity because:

- The voting rights in the investments are not the dominant factor in deciding who controls the investment; and
- The investments have narrow and well-defined objectives to provide investment opportunities to investors.

Further disclosures on structured entities are contained in Notes 3(e) and 6(b).

### (h) Foreign currency translation

#### FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the Group operates (the functional currency). The functional currency of the Group is New Zealand dollars. It is also the presentation currency.

#### TRANSACTIONS AND BALANCES

Transactions denominated in foreign currencies are converted to New Zealand dollars using the exchange rates prevailing at the dates of the transactions. Foreign currency monetary assets and liabilities are translated at the exchange rate prevailing at balance date. Where there is a movement in the exchange rate between the date of a foreign currency transaction and balance date, the resulting exchange differences are recognised in the Consolidated Statement of Comprehensive Revenue and Expense.

### (i) Goods and services tax (GST)

The Elevate NZ Venture Fund Limited Partnership is registered for GST. The limited partnership invests in venture capital investment funds that, in turn, have a mix of GST taxable and exempt supplies. Consequently, the Elevate NZ Venture Fund Limited Partnership must apportion GST on expenses. Revenue, expenses, assets and liabilities are recognised in the financial statements exclusive of GST, with the exception of receivables and payables which are stated inclusive of GST. Where GST is irrecoverable as an input tax, it is recognised as part of the related asset or expense. The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the Consolidated Statement of Financial Position.

### (j) Statement of Cash Flows

The following are the definitions of the terms used in the Consolidated Statement of Cash Flows:

Operating activities include all activities other than financing activities.

Financing activities are those activities relating to changes in public equity and debt capital structure of the Group and those activities relating to the cost of servicing the Group's equity capital.

Cash flows are included in the Consolidated Statement of Cash Flows on a gross basis. The GST component of cash flows arising from financing activities, which is recoverable from, or payable to, the IRD, is classified as cash flows from operating activities.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2021

## SECTION 1: GENERAL INFORMATION, STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (k) Changes in accounting policies

There have been no changes in accounting policies during the year. All accounting policies are consistent with those applied in the previous financial period.

### (l) Standards issued but not yet effective

The following standards have been issued but are not yet effective for the year ended 30 June 2021:

#### PBE IPSAS 41 FINANCIAL INSTRUMENTS

PBE IPSAS 41 Financial Instruments introduces requirements for the recognition and measurement of financial instruments by Tier 1 and Tier 2 public benefit entities. It supersedes PBE IFRS 9 Financial Instruments, which was issued as an interim standard to mitigate the effect on mixed groups of differences between NZ IFRS and PBE standards. The standard is effective for reporting periods beginning on or after 1 January 2022. The Board and management do not expect any significant changes as a result of this new standard as the requirements are almost identical to PBE IFRS 9 Financial Instruments.

#### PBE FRS 48 SERVICE PERFORMANCE REPORTING

PBE FRS 48 Service Performance Reporting introduces requirements for public benefit entities to select and present service performance information. It replaces the service performance reporting requirements of PBE IPSAS 1 Presentation of Financial Statements and is effective for reporting periods beginning on or after 1 January 2022. The Board and management have not yet determined how application of PBE FRS 48 Service Performance Reporting will affect its Statement of Performance.

## SECTION 2: FAIR VALUE

### (a) Fair value measurement

**Accounting Policy**

The majority of the Group's investments are measured at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Management uses valuation techniques for the Group that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within a fair value hierarchy as follows:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets and liabilities. An active market is one where prices are readily available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The fair value of Level 1 assets and liabilities requires little or no judgement.

Level 2 - Valuation techniques that use observable market data. Such techniques include the use of market standard discounting methodologies, option pricing models and other valuation techniques widely used and accepted by market participants.

Level 3 - Valuation techniques that use inputs not based on observable market data. Unobservable inputs are those not readily available in an active market due to illiquidity or complexity of the product. These inputs are generally derived and extrapolated from other relevant market data and calibrated against current market trends and historic transactions. These valuations are calculated using a high degree of management judgement.

Whilst the determination of fair value of investments categorised under Level 3 is subject to careful consideration and consultation with a range of reliable and independent sources, there remains uncertainty about certain judgements and estimates used as a result of both the direct and indirect impacts of the ongoing COVID-19 pandemic.

The level within which an asset or liability is categorised in the fair value hierarchy is determined based on the lowest level input that is significant to the fair value measurement as a whole.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2021

### SECTION 2: FAIR VALUE (CONTINUED)

The fair value of the Group's assets and liabilities are categorised as follows:

| | | ACTUAL | | | | | |
|---|---|---|---|---|---|---|---|
| 2021 | NOTE | QUOTED MARKET PRICE (LEVEL 1) | VALUATION TECHNIQUE: MARKET-OBSERVABLE INPUTS (LEVEL 2) | VALUATION TECHNIQUE: NON-MARKET OBSERVABLE INPUTS (LEVEL 3) | TOTAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE | ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE* | TOTAL |
| | | NZD'000 | NZD'000 | NZD'000 | NZD'000 | NZD'000 | NZD'000 |
| **ASSETS** | | | | | | | |
| Cash and cash equivalents | 4(a), 4(b) | | | | - | 2,761 | 2,761 |
| Receivables | 4(a), 4(c) | | | | - | 2,275 | 2,275 |
| **Investments** | | | | | | | |
| Venture capital investment funds | 4(a), 4(d) | | | 12,849 | 12,849 | | 12,849 |
| Total investments | | - | - | 12,849 | 12,849 | - | 12,849 |
| **Total assets** | | **-** | **-** | **12,849** | **12,849** | **5,036** | **17,885** |
| **LIABILITIES** | | | | | | | |
| Trade and other payables | 4(a), 4(e) | | | | - | 724 | 724 |
| **Total liabilities** | | **-** | **-** | **-** | **-** | **724** | **724** |
| 2020 | | | | | | | |
| **ASSETS** | | | | | | | |
| Receivables | 4(a), 4(c) | | | | - | 96 | 96 |
| **Total assets** | | **-** | **-** | **-** | **-** | **96** | **96** |
| **LIABILITIES** | | | | | | | |
| Trade and other payables | 4(a), 4(e) | | | | - | 1,008 | 1,008 |
| **Total liabilities** | | **-** | **-** | **-** | **-** | **1,008** | **1,008** |

* Assets and liabilities not measured at fair value are carried at amortised cost but their carrying values are a reasonable approximation of fair value.

### (b) Determination of fair value

The specific valuation techniques and the observability of the inputs used in valuation models are outlined below:

#### VENTURE CAPITAL INVESTMENT FUNDS

The International Private Equity and Venture Capital Valuation Guidelines (IPEV) have been accepted as the industry standard valuation guidelines, are based on the principle of fair value and are reviewed following any relevant changes in accounting standards or market practices. The IPEV guidelines set out principles for investors to determine fair value for their investments and have been adopted by the Group.

In line with the IPEV guidelines, the Group adopts the fair value of venture capital investment funds as provided by the investment managers or administrators at balance date. Prices are based on the fair value of the underlying net assets of the venture capital investment funds which are determined using a variety of methods, including independent valuations, valuation models based on the price of recent transactions, earnings multiples or discounted cash flows and are classified within Level 3 of the fair value hierarchy.

The Group has access to the valuation processes and methodologies adopted by external fund managers through positions on Limited Partnership Advisory Panels (LPACs) with each venture capital investment fund and through ongoing conviction reviews of those managers. Valuations provided are also considered alongside any other available evidence before being adopted.

### Key judgement - determination of fair value

Where the fair value of assets and liabilities cannot be measured based on quoted prices in active markets, fair value is determined using valuation techniques with market observable inputs from third parties such as brokers or pricing vendors. For assets that have no quoted price (which consist of investments in venture capital investment funds) the determination of fair value requires significant judgement. Fair value for these assets is determined as follows:

#### VENTURE CAPITAL INVESTMENT FUNDS WHERE FAIR VALUE IS PROVIDED BY INVESTMENT MANAGERS OR ADMINISTRATORS

The fair value of venture capital investment funds is provided by the investment managers or administrators at balance date. Depending on the nature of the underlying instruments, investment managers and administrators may use observable market prices, their own models or they may engage independent valuers who use models to obtain the fair value of investments. The Board and management may also directly appoint independent valuers to obtain the fair value of certain investments where this information is unable to be provided by an investment manager or administrator or where an investment is directly managed by the Group.

#### VALUATION UNCERTAINTY DUE TO THE COVID-19 PANDEMIC

Since the fair value of investments categorised within Level 1 or Level 2 of the fair value hierarchy reflect market observable prices or inputs, they are inherently less subjective and their valuation less uncertain than those investments categorised within Level 3 of the fair value hierarchy.

All investments made by the Group are categorised within Level 3 of the fair value hierarchy and these investments, by their nature, are inherently more subjective and therefore more exposed to valuation uncertainty as at 30 June 2021.

Whilst the determination of fair value in relation to these investments is subject to careful consideration and consultation with a range of reliable and independent sources, the longer term direct and indirect impacts of the COVID-19 pandemic on the valuation of these investments remain uncertain. The Board and management continue to monitor and evaluate the appropriateness of specific valuation techniques and the judgements and estimates used when determining the fair value of these assets to assess whether material adjustments might be required to their carrying value.

Reporting from investment managers regarding externally managed investment vehicles has also been scrutinised to ensure the impact of the COVID-19 pandemic has been adequately considered and reflected in the valuation of the investments under their stewardship.

## SECTION 2: FAIR VALUE (CONTINUED)

### (c) Reconciliation of fair value measurement under Level 3 hierarchy

The following table provides a reconciliation of movements in the fair value of financial assets categorised within Level 3 of the fair value hierarchy:

| | ACTUAL 2021 NZD'000 | ACTUAL 2020 NZD'000 |
|---|---|---|
| **Opening balance** | - | - |
| Purchases (excluding investment prepayments) | 14,803 | - |
| Unrealised gains/(losses) recognised in net changes in fair value on financial instruments at fair value through surplus or deficit | (1,954) | - |
| **Closing balance** | **12,849** | **-** |

### (d) Fair value sensitivity

The following table shows the Group's sensitivity of fair value measurement to likely changes in non-market observable inputs (where appropriate, to one standard deviation) for financial assets categorised within Level 3 of the fair value hierarchy:

| | | ACTUAL | | |
|---|---|---|---|---|
| 2021 | NON-MARKET OBSERVABLE INPUT | MOVEMENT | IMPACT ON FAIR VALUE MEASUREMENT | |
| | | | INCREASE | DECREASE |
| | | % | NZD'000 | NZD'000 |
| Venture capital investment funds | (i) | 25 | 3,212 | (3,212) |

(i) Level 3 financial assets categorised as venture capital investment funds provide the Group with exposure to a variety of assets across numerous industries and are held via externally managed investment vehicles. Valuations for these investments are provided directly by independent valuers, or by investment managers or administrators if held via a managed structure. The Group does not always have access to the underlying valuation models to fully disclose sensitivities to specific assumptions.

By their nature, investments in this category are inherently subjective and exposed to valuation uncertainty, which has increased further both directly and indirectly as a result of the COVID-19 pandemic. The determination of fair value for these investments is subject to careful consideration and consultation with a range of reliable and independent sources. Refer to Note 2(b) for further disclosure on the determination of fair value.

The Board and management have assessed that the reasonably likely movement in fair value for these financial assets in a one-year period is 20%-30% for venture capital investment funds, based on internal risk modelling.

Valuations for these investments are provided directly by investment managers. The Group does not always have access to the underlying valuation models to fully disclose sensitivity assumptions. All investments are unlisted early-stage growth companies which inherently imposes significant risks and returns and are most likely illiquid assets.

## SECTION 3: RISK MANAGEMENT

### (a) Risk management

Understanding and managing risk is considered a fundamental activity that is central to the management of the Elevate Fund. While risk is a necessary part of the Elevate Fund's activities, it must be understood to ensure the risk profile adopted is commensurate with the objective of the Elevate Fund. Effective risk management is critical to maintaining public and stakeholder confidence in the Guardians as manager of the Elevate Fund.

The Group's investment activities expose it to various types of risk including market risk, credit risk and liquidity risk. The Board and management of the Guardians are responsible for the management of these risks. A separate Risk Committee has been established by management as a risk leadership body to provide leadership on the effectiveness of frameworks and processes at the Guardians.

The Guardians has established risk management policies, procedures and other internal controls for application by staff, external investment managers and other service providers to manage the Group's exposure to risk. The framework for managing this risk is set out in its Statement of Investment Policies, Standards and Procedures.

### (b) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as equity prices, interest rates and foreign exchange rates. The market risks that the Elevare Fund is primarily exposed to are equity price risk, foreign currency risk and interest rate risk.

#### PRICE RISK

Equity price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in equity prices. The Group invests through venture capital investment funds into unlisted early-stage growth companies. Unlisted investments are generally not publicly traded. As there may be no open market to establish an independent value for certain unlisted investments, there can be no assurance that a determination of fair value for an unlisted investment will be obtainable in the market, or that there will be a market for the unlisted investment. Refer to Note 2(b) for further disclosure on the determination of fair value.

#### FOREIGN CURRENCY RISK

Foreign currency risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in foreign exchange rates. The Group is exposed to foreign currency risk through its investment in offshore assets made via venture capital investment funds, which are managed by investment managers. These investments are denominated in United States dollars.

Foreign currency risk is not currently actively managed by the Group given the limited foreign currency exposure at balance date.

As at 30 June 2021, if there were a 10% movement in the New Zealand dollar against the United States dollar, with all other variables remaining constant, the Group's surplus/(deficit) for the year would have been $151,000 (2020: $nil) higher/lower. A 10% movement represents the Board's and management's assessment of a reasonably possible change in the value of the New Zealand dollar relative to the United States dollar.

#### INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market interest rates. The Group's exposure to interest rate risk is limited to movements in short-term interest rates in relation to cash and cash equivalents which are held in short-term floating interest rate accounts. Requests for capital contributions from the Crown are made as and when required to minimise cash holdings in the Group. The Board and management ensure the Group receives a fair market return on its cash position but do not actively monitor exposure to interest rates or interest rate returns.

As at 30 June 2021, if there were a movement in interest rates of 100 basis points higher or lower, with all other variables remaining constant, the Group's surplus/(deficit) for the year would have been $nil (2020: $nil) higher/lower. A 100 basis point movement represents the Board's and management's assessment of a reasonably possible change in interest rates.

## SECTION 3: RISK MANAGEMENT (CONTINUED)

### (c) Credit risk

Credit risk is the risk that a third party will default on its obligation to the Group, causing the Group to incur a loss. The Group is exposed to credit risk arising from its cash and cash equivalents, receivables and investments. The maximum amount of credit risk for each class of financial asset is the carrying amount included in the Consolidated Statement of Financial Position.

The Board and management mitigate the Group's exposure to credit risk by investing cash and cash equivalents with reputable financial institutions with a high credit rating.

The Board and management mitigate the Group's exposure to credit risk from its investments by applying specific prudential limits to any exposure to any single investment manager. The use of, and capital allocated to, external investment managers is governed by the Group's investment policies. Each external investment manager relationship is governed by an investment management agreement which outlines the key terms and conditions of the appointment. External investment managers are monitored individually on an on-going basis.

#### CONCENTRATIONS OF CREDIT RISK

Concentration of credit risk exists if a single counterparty, or group of counterparties, is engaged in similar activities, operate within similar industries, geographies, or have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions.

Cash and cash equivalents is primarily held with ASB Bank Limited which had a credit rating of AA-, obtained from Standard & Poor's as at 30 June 2021.

The following tables analyse the Group's concentration of credit risk by geographical and industrial distribution.

| | ACTUAL | ACTUAL |
|---|---|---|
| | 2021 | 2020 |
| | % | % |
| **By geography** | | |
| New Zealand | 100 | - |
| | **100** | **-** |
| **By industry** | | |
| Venture capital investment funds | 100 | - |
| | **100** | **-** |

In accordance with the requirements of the Act and the associated Policy Statement, the Elevate Fund must be invested wholly or substantially in funds with a New Zealand connection, and those funds must invest wholly or substantially in New Zealand entities. As at 30 June 2021, the Elevate Fund was in compliance with this requirement.

### (d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities as they fall due. The Group's liquidity framework is designed to ensure that the Group has the ability to access sufficient cash in a timely manner to meet its financial commitments.

In addition, the Guardians has entered into an Uncalled Capital Contribution Agreement with the Crown under which the Crown makes available capital in accordance with Section 13 of the Act. The Guardians may request a capital contribution under the terms of this agreement and apply this capital to make payments for any purpose as permitted under Section 12 of the Act, which includes payment for any obligation directly related to the operation of the Elevate Fund.

**(e) Risks associated with structured entities**

The following table summarises the carrying values recognised in the Consolidated Statement of Financial Position of the Group's investments in structured entities, as well as the maximum exposure to loss. The maximum exposure to loss is contingent in nature and may arise as a result of the provision of funding commitments (which are common with venture capital investment funds).

The value of the assets of the structured entities themselves have been provided as an indicator of their size, relative to the size of the Group's interest in these entities. These values represent the most current available information.

| | ACTUAL | | | |
|---|---|---|---|---|
| | MAXIMUM EXPOSURE TO LOSS | | | |
| 2021 | CARRYING VALUE OF INVESTMENTS | UNDRAWN COMMITMENTS | TOTAL INVESTMENTS AND UNDRAWN COMMITMENTS | ASSETS OF THE STRUCTURED ENTITY* |
| | NZD'000 | NZD'000 | NZD'000 | NZD'000 |
| Venture capital investment funds | 12,849 | 72,288 | 85,137 | 60,573 |
| | **12,849** | **72,288** | **85,137** | **60,573** |

* Including the value of the Group's investment.

**NOTES TO THE FINANCIAL STATEMENTS** (CONTINUED)

For the year ended 30 June 2021

## SECTION 4: FINANCIAL ASSETS AND LIABILITIES

### (a) Financial instruments

| | | ACTUAL | | | |
|---|---|---|---|---|---|
| 2021 | NOTE | FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH SURPLUS OR DEFICIT | FINANCIAL ASSETS AT AMORTISED COST | FINANCIAL LIABILITIES AT AMORTISED COST | TOTAL |
| | | NZD'000 | NZD'000 | NZD'000 | NZD'000 |
| **Financial assets** | | | | | |
| Cash and cash equivalents | 4(b) | | 2,761 | | 2,761 |
| Receivables | 4(c) | | 2,275 | | 2,275 |
| **Investments** | | | | | |
| Venture capital investment funds | 4(d) | 12,849 | | | 12,849 |
| | | **12,849** | **5,036** | **-** | **17,885** |
| **Financial liabilities** | | | | | |
| Trade and other payables | 4(e) | | | 724 | 724 |
| | | **-** | **-** | **724** | **724** |
| 2020 | | | | | |
| **Financial assets** | | | | | |
| Receivables | 4(c) | | 96 | | 96 |
| | | **-** | **96** | **-** | **96** |
| **Financial liabilities** | | | | | |
| Trade and other payables | 4(e) | | | 1,008 | 1,008 |
| | | **-** | **-** | **1,008** | **1,008** |

**Accounting Policy**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The Group is party to financial instruments as part of its normal operations. These financial instruments include cash and cash equivalents, receivables, investments and payables. All financial instruments are recognised in the Consolidated Statement of Financial Position and all revenues and expenses in relation to financial instruments are recognised in the Consolidated Statement of Comprehensive Revenue and Expense.

**INITIAL RECOGNITION**

Financial assets and financial liabilities are recognised in the Consolidated Statement of Financial Position when the Group becomes a party to the contractual provisions of the financial instrument. They are initially recognised at fair value plus, in the case of financial assets and financial liabilities not recorded at fair value through surplus or deficit, transaction costs that are attributable to the acquisition of the financial asset or financial liability. Transaction costs of financial assets carried at fair value through surplus or deficit are expensed in the Consolidated Statement of Comprehensive Revenue and Expense.

Purchases or sales of financial instruments are recognised on the trade date i.e. the date on which the Group commits to purchase or sell the financial instrument.

The classification of financial assets at initial recognition depends on the Group's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. In making an assessment of the business model for managing a financial asset, the Board and management consider all relevant information such as the investment objectives of the Group and how performance is evaluated and reported to the Board and management.

### SUBSEQUENT MEASUREMENT

The Group's financial assets and financial liabilities are subsequently classified into the following categories:

- Those to be measured at fair value through surplus or deficit; and
- Those to be measured at amortised cost.

The Group's financial assets are reclassified when, and only when, the business model for managing those financial assets changes.

#### Financial assets at fair value through surplus or deficit

The following financial assets are classified at fair value through surplus or deficit:

- Financial assets that do not qualify for measurement at amortised cost;
- Financial assets for which the Group has not elected to recognise fair value gains and losses through other comprehensive revenue and expense.

This category includes investments. These financial assets are managed and have their performance evaluated on a fair value basis.

Financial assets at fair value through surplus or deficit are recognised in the Consolidated Statement of Financial Position at fair value with changes in fair value being recognised in the Consolidated Statement of Comprehensive Revenue and Expense in the period in which they arise.

#### Financial assets at amortised cost

The Group's financial assets are classified at amortised cost if both of the following criteria are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows; and
- The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest.

This category includes cash and cash equivalents and receivables. Subsequent to initial recognition, financial assets at amortised cost are measured at amortised cost using the effective interest method and are subject to impairment. When a financial asset is impaired, impairment losses are recognised in the Consolidated Statement of Comprehensive Revenue and Expense in the period in which they arise.

#### Financial liabilities at amortised cost

Financial liabilities at amortised cost are non-derivative financial liabilities. This category includes trade and other payables. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

### DERECOGNITION

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or when the Group has transferred substantially all of the risks and rewards of ownership. A financial liability is derecognised when the Group's obligation under the liability is discharged, cancelled or has expired.

### IMPAIRMENT

The Board and management assess, at each reporting date, whether a financial asset is impaired. The amount of the impairment loss is the difference between the contractual cash flows due in relation to the financial asset and the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate.

Financial assets that are measured at amortised cost and therefore subject to the impairment provisions (the 'expected credit loss model') of PBE IFRS 9 Financial Instruments comprise cash and cash equivalents and receivables.

The risk of impairment loss for cash and cash equivalents is considered immaterial. Disclosures relating to the impairment of receivables are provided in Note 4(c).

### OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group offsets financial assets and financial liabilities when it has a current legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis.

## SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

### (b) Cash and cash equivalents

**Accounting Policy**

Cash and cash equivalents includes cash on hand, cash held in bank accounts, demand deposits and other highly liquid investments with original maturities of three months or less, which have an insignificant risk of change in fair value.

### (c) Receivables

| | ACTUAL 2021 NZD'000 | ACTUAL 2020 NZD'000 |
|---|---|---|
| **Receivables from exchange transactions** | | |
| Investment prepayments | 2,275 | - |
| GST receivable | - | 96 |
| | **2,275** | **96** |

**Accounting Policy**

Receivables are initially recognised at fair value which is equal to the amount of consideration that is unconditional. The Group holds receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost less impairment losses using the effective interest method.

The Board and management have applied a simplified approach for calculating expected credit losses (ECLs) on receivables under PBE IFRS 9 Financial Instruments. As a result, the Board and management do not track changes in credit risk, but instead, recognise impairment losses based on lifetime ECLs at each reporting date. The Group's approach to ECLs reflects a probability-weighted outcome using reasonable and supportable information that is available without undue cost or effort at reporting date about past events, current conditions and forecast of future economic conditions.

Investment prepayments relates to a capital call that was paid to one of the Group's venture capital investment funds prior to the due date.

### (d) Investments

| | ACTUAL 2021 NZD'000 | ACTUAL 2020 NZD'000 |
|---|---|---|
| Movac Fund 5 Limited Partnership | 3,444 | - |
| Finistere Aoteroa Fund Limited Partnership | 1,514 | - |
| Pacific Channel Fund II Limited Partnership | 2,461 | - |
| Blackbird New Zealand 2019 Limited Partnership | 5,430 | - |
| | **12,849** | **-** |

The Group invests in early-stage growth companies via holdings in externally managed venture capital investment funds. The fair value of these funds is provided by the investment managers or administrators at balance date. Prices are based on the fair value of the underlying net assets of the venture capital investment fund.

Further disclosures on the valuation of venture capital investment funds are contained in Note 2(b).

### (e) Payables

| | ACTUAL 2021 NZD'000 | ACTUAL 2020 NZD'000 |
|---|---|---|
| **Payables under exchange transactions** | | |
| Trade payables | 712 | 724 |
| Accrued expenses | 12 | 10 |
| Amounts owed for reimbursement of the Guardians' expenses | - | 274 |
| | **724** | **1,008** |

**Accounting Policy**

Short-term trade and other payables are initially recognised at fair value, then subsequently at amortised cost. As a result of their short-term nature, the carrying amount of trade and other payables held at amortised cost approximates fair value.

Trade and other payables represent amounts due to third parties in the normal course of business and to the Guardians for the reimbursement of expenses. Trade payables are non-interest bearing and are normally settled within 30-day credit terms. The Group has risk management policies in place to ensure that all payables are paid within the credit time frame.

## SECTION 5: MANAGEMENT OF FUND CAPITAL AND RESERVES

### (a) Fund capital

#### PURPOSE

Fund capital, which comprises investments and all other assets of the Elevate Fund less any liabilities, is the property of the Crown. The Elevate Fund's purpose is to contribute to a sustainable and productive economy by increasing the venture capital available to New Zealand entities and by developing New Zealand's venture capital markets to function more effectively so that over time:

- More venture capital becomes available to New Zealand entities from sources other than the Elevate Fund;
- New Zealand entities that receive venture capital become more likely to grow into successful and sustainable businesses; and
- Those markets become self-sustaining (including through more investment from New Zealand investors).

#### CAPITAL CONTRIBUTIONS

The Crown may pay any money into the Elevate Fund in accordance with Section 13 of the Venture Capital Fund Act 2019 (Act). These contributions are made by the Crown for investment purposes and for other payments specifically permitted under Section 12 of the Act. The Guardians is responsible for investing capital contributions in New Zealand's venture capital markets.

The Guardians has entered into an Uncalled Capital Contribution Agreement with the Crown under which these capital contributions are made available. Under this agreement, the Guardians may request a capital contribution, with at least 10 business days notice, to apply towards the capital commitments of the Elevate NZ Venture Fund Limited Partnership or to payments permitted under Section 12 of the Act. These payments include amounts due for managers' fees and other obligations directly related to the operation of the Elevate Fund. As at 30 June 2021, the Crown's commitment under this agreement amounted to $259,500,000 (2020: $240,000,000), with the intention of increasing it to $300,000,000 over the longer term.

The amount of capital contributions requested and received into the Elevate Fund for the period ending 30 June 2021 was $23,405,000 (2020: $nil). Capital contributions are recorded in the Consolidated Statement of Changes in Public Equity.

#### MANAGEMENT OF FUND CAPITAL

The Elevate Fund is a public benefit entity, managed by the Guardians. The Guardians must invest the Elevate Fund in New Zealand's venture capital markets using best-practice investment management that is appropriate for institutional investment in those markets. The Guardians must manage and administer the Elevate Fund in a manner consistent with the Policy Statement set out on www.beehive.govt.nz and avoiding prejudice to New Zealand's reputation as a responsible member of the world community. The contributions from the Crown to the Elevate Fund are invested in accordance with its Statement of Investment Policies, Standards and Procedures, which is available at www.nzsuperfund.nz. The Elevate Fund invests via its wholly owned subsidiary, the Elevate NZ Venture Fund Limited Partnership. The General Partner of the limited partnership is Elevate NZ Venture Fund GP Limited, a wholly owned subsidiary of New Zealand Growth Capital Partners (NZGCP). The General Partner is responsible for the management, operation and administration of the limited partnership.

## SECTION 6: FINANCIAL PERFORMANCE

### (a) Revenue

| | ACTUAL | ACTUAL |
|---|---|---|
| | 2021 | 2020 |
| | NZD'000 | NZD'000 |
| **Revenue from exchange transactions** | | |
| Interest income | 24 | - |
| Net changes in fair value on financial instruments at fair value through surplus or deficit | (1,975) | - |
| Net foreign exchange gains/(losses) | 21 | - |
| | **(1,930)** | **-** |
| **Interest income** | | |
| Interest income - financial assets at amortised cost | 24 | - |
| | **24** | **-** |

**Accounting Policy**

Revenue is recognised when it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

**REVENUE FROM EXCHANGE TRANSACTIONS**

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

**Interest income**

Interest income comprises interest on financial instruments measured at amortised cost.

For financial assets at amortised cost, interest income is recognised as the interest accrues, using the effective interest method, which allocates interest at a constant rate of return over the expected life of the financial instrument based on the estimated future cash flows.

### (b) Income received and fair value gains and losses recognised from interests in structured entities

The following table summarises income received and fair value gains and losses on financial instruments held at fair value through surplus or deficit recognised in the Consolidated Statement of Comprehensive Revenue and Expense from interests in structured entities:

| | | ACTUAL | |
|---|---|---|---|
| 2021 | FAIR VALUE GAINS | FAIR VALUE LOSSES | TOTAL |
| | NZD'000 | NZD'000 | NZD'000 |
| Venture capital investment funds | 165 | (2,140) | (1,975) |

## SECTION 6: FINANCIAL PERFORMANCE (CONTINUED)

### (c) Expenses

| | ACTUAL 2021 NZD'000 | ACTUAL 2020 NZD'000 |
|---|---|---|
| Managers' fees | 2,876 | 630 |
| Reimbursement of Guardians' expenses | 500 | 274 |
| Auditor's remuneration | 26 | 8 |
| | **3,402** | **912** |

### (d) Auditor's remuneration

| | ACTUAL 2021 NZD'000 | ACTUAL 2020 NZD'000 |
|---|---|---|
| Audit of the Group's financial statements | 26 | 8 |
| | **26** | **8** |

The auditor of the Group is Graeme Bennett of Ernst & Young, on behalf of the Auditor-General.

### (e) Income tax

The income tax expense included in the Consolidated Statement of Comprehensive Revenue and Expense is analysed as follows:

| | ACTUAL 2021 NZD'001 | ACTUAL 2020 NZD'000 |
|---|---|---|
| **Reconciliation of income tax expense and accounting surplus for the year** | | |
| Surplus/(Deficit) for the year before income tax expense | (5,332) | (912) |
| Income tax expense calculated at 28% | 1,493 | 255 |
| Temporary differences | 7 | - |
| Unused tax losses not recognised as deferred taxation | (1,500) | (255) |
| **Income tax expense** | **-** | **-** |

**Accounting Policy**

In accordance with Section HR 4B of the Income Tax Act 2007, income derived and expenditure incurred by the Crown in activities relating to the Group are determined as if the amounts were being derived or incurred by a company and are therefore subject to New Zealand tax. The income tax expense recognised in the Consolidated Statement of Comprehensive Revenue and Expense comprises current and deferred tax and is based on accounting surplus, adjusted for permanent differences between accounting and tax rules. Income tax relating to items of other comprehensive revenue and expense is recognised in other comprehensive revenue and expense.

Current tax is the expected tax payable to or receivable from the taxation authorities based on the taxable income or loss for the year and any adjustment in respect of prior years. It is calculated using tax rates and tax laws that have been enacted or substantively enacted at balance date.

Deferred tax is recognised in respect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the tax bases of assets and liabilities at balance date.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses only to the extent that it is probable that sufficient taxable surplus will be available to utilise the deductible temporary differences, the carry forward of unused tax credits and unused tax losses. The carrying amount of deferred tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable surplus will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at balance date.

Deferred tax assets and liabilities are offset when a legally enforceable right to set-off exists, the deferred tax balances relate to income taxes levied by the same taxation authority and the Group intends to settle on a net basis.

## SECTION 7: UNRECOGNISED ITEMS

### (a) Commitments and contingencies

#### CAPITAL COMMITMENTS

At 30 June 2021, the Group had outstanding commitments to venture capital investment funds (excluding investment prepayments), totalling $72,288,000 (2020: $nil), of which $549,000 has been called but not yet paid (2020: $nil).

#### CONTINGENCIES

The Group has no contingent liabilities at 30 June 2021 (2020: $nil).

### (b) Events after the reporting date

On 18 August 2021, the Elevate NZ Venture Fund Limited Partnership, the wholly owned subsidiary of the Elevate Fund, made a commitment of $45,000,000 to Global From Day 1 Fund 3 Limited Partnership (GD1), a venture capital investment fund.

## SECTION 8: OTHER INFORMATION

**(a) Related party transactions**

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions. The definition includes subsidiaries.

All related party transactions with other government-related entities have been entered into on an arm's length basis. Outstanding amounts with related parties at balance date are unsecured and subordinate to other liabilities. Interest is not charged on outstanding balances. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 30 June 2021, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2020: $nil).

### PARENT ENTITY

The Elevate Fund is managed and administered by the Guardians which is a wholly owned entity of the Crown. Both the Guardians and the Crown prepare financial statements that are available to the public.

The Guardians pays expenses relating to the Elevate Fund, as it is entitled to do under the Act. These expenses are reimbursed by the Elevate Fund. The amount of reimbursement to the Guardians for the year ended 30 June 2021 was $500,000 (2020: $274,000). The related party payable to the Guardians as at 30 June 2021 is $nil (2020: $274,000).

### SUBSIDIARY

Details of the Elevate Fund's interest in its subsidiary are disclosed in Note 1(f). There were no transactions entered into with its subsidiary during the year.

### OTHER GOVERNMENT-RELATED ENTITIES

The General Partner of the Elevate NZ Venture Fund Limited Partnership is Elevate NZ Venture Fund GP Limited, which is a wholly owned subsidiary of New Zealand Growth Capital Partners Limited, a Crown entity. Transactions entered into with Elevate NZ Venture Fund GP Limited during the period are as follows:

| | ACTUAL | ACTUAL |
|---|---|---|
| | 2021 | 2020 |
| | NZD'001 | NZD'000 |
| Managers' fees | 2,876 | 630 |
| Payables | 712 | 724 |

In conducting its activities, the Group is also required to pay various taxes and levies (such as GST) to the Crown and entities related to the Crown. The payment of these taxes and levies is based on the standard terms and conditions that apply to all tax and levy payers.

Building a better working world

# Independent Auditor's Report

## TO THE READERS OF ELEVATE NZ VENTURE FUND GROUP'S FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

The Auditor-General is the auditor of Elevate NZ Venture Fund and its subsidiary (the Group). The Auditor-General has appointed me, Graeme Bennett, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements of the Group on his behalf.

### OPINION

We have audited the financial statements of the Group on pages 222 to 247, that comprise the consolidated statement of financial position as at 30 June 2021, the consolidated statement of comprehensive revenue and expense, consolidated statement of changes in public equity and consolidated statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion the financial statements of the Group on pages 222 to 247:

- present fairly, in all material respects:
  - its financial position as at 30 June 2021; and
  - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards.

Our audit was completed on 24 September 2021. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of the Guardians of New Zealand Superannuation (the Guardians) and our responsibilities relating to the financial statements, we comment on other information, and we explain our independence.

### BASIS FOR OUR OPINION

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### RESPONSIBILITIES OF THE GUARDIANS FOR THE FINANCIAL STATEMENTS

The Guardians are responsible on behalf of the Group for preparing financial statements that are fairly presented and comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards.

The Guardians are responsible for such internal control as they determine are necessary to enable them to prepare financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Guardians are responsible on behalf of the Group for assessing the Group's ability to continue as a going concern. The Guardians is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the Group, or to cease operations, or there is no realistic alternative but to do so.

The Group's responsibilities arise from the Venture Capital Fund Act 2019.

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**RESPONSIBILITIES OF THE AUDITOR FOR THE AUDIT OF THE FINANCIAL STATEMENTS**

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements.

We did not evaluate the security and controls over the electronic publication of the financial statements.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Guardians.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Guardians and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Guardians regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

**OTHER INFORMATION**

The Guardians is responsible for the other information. The other information comprises the information included on pages 1 to 113, 118 to 130, 157, 221, 250 to 259, but does not include the financial statements, and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**INDEPENDENCE**

We are independent of the Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: *International Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with, or interests in, the Group.

Graeme Bennett
Ernst & Young
On behalf of the Auditor-General
Auckland, New Zealand

GUARDIANS OF
NEW ZEALAND
SUPERANNUATION

ANNUAL
REPORT
2021

# 07.

Our long-term, intergenerational mandate brings sustainability to the heart of our investment strategy. We take a strong, purposeful approach to integrating environmental, social and governance considerations into our investment activity.

## Appendix
## He Āpitihanga

# COMPLIANCE STATEMENTS

## SIPSP COMPLIANCE

The Guardians' Statement of Investment Policies, Standards and Procedures (SIPSP) for both the NZ Super Fund and the Elevate NZ Venture Fund are published on our website www.nzsuperfund.nz. On behalf of the Board and management of the Guardians of New Zealand Superannuation, we hereby certify that, to the best of our knowledge, the SIPSPs have been complied with during the 2020/21 financial year.

CATHERINE DRAYTON, CHAIR

MATT WHINERAY, CEO

## PRESENTATION OF THE ANNUAL REPORT

We are pleased to provide this Annual Report of the Guardians of New Zealand Superannuation for the year ended 30 June 2021.

CATHERINE DRAYTON, CHAIR

DOUG PEARCE, CHAIR - AUDIT COMMITTEE

# GLOSSARY

| | |
|---|---|
| **Access point** | The actual investment the Guardians makes to gain exposure to a desired risk (e.g. buying a listed equity). Access points are our way of exploiting opportunities, themes, stress test outcomes and manager skill. The access point can be passive, active, synthetic or funded, directly (internally) or externally managed. |
| **Active return** | Any return differential between the Actual Portfolio and the Reference Portfolio. In the context of an investment, the positive return we hope to earn for taking on active risk. Same as 'Value-add'. |
| **Active risk** | Any deviation in risk in the Actual Portfolio relative to the Reference Portfolio. Active risk is a relative risk concept. The active risk in the portfolio is dominated by activities in our value-adding strategies. Note that the Actual Portfolio can have the same total or absolute risk as the Reference Portfolio but still have active risk. Technically active risk is expressed as the expected standard deviation of the active returns. |
| **Active strategies** | Value-add strategies. |
| **Actual Portfolio** | The Fund's portfolio at any point in time reflecting all the positions arising from our value-adding strategies as well as drift. Conceptually, the Actual Portfolio equals the Reference Portfolio (cash plus risk premiums) plus drift plus active risk. |
| **Arbitrage** | The simultaneous purchase and sale of an asset in order to profit from a difference in the price. |
| **Asset class** | An asset class is a group of securities or assets that share common risk and return characteristics. |
| **Basis point** | One-hundredth of a percentage point. |
| **Belief** | Our stated view on some aspect of financial markets and investing. It a result of mixed judgement and evidence. |
| **Benchmark** | A standard against which the performance of a security, index or investor can be measured. |
| **Beta** | The sensitivity of a security or asset class to the market or Reference Portfolio. |
| **BMO** | Bank of Montreal – our responsible investment engagement service provider. |
| **Capability** | Management's ability to execute a value-add strategy. Incorporates depth and breadth of experience, risk management abilities etc. |
| **Capital** | A corpus of funds that can be invested to generate economic value. |
| **Cash** | Generally taken to mean a very short-term investment earning interest from a highly rated bank or an equivalent bank bill. |
| **CEM** | CEM Global Benchmarking - a provider of benchmarking services and peer comparisons. |
| **Collateralisation** | The primary means of managing credit exposure among our counterparties. It represents monies or securities that are posted between us and counterparties to mirror unrealised profit and loss on our open derivatives positions. |
| **Commodities** | Tangible products, such as metals, crude oil or grain. |
| **Compensation** | Return for taking on risk. Often, the compensation is the risk premium, or excess return over cash, that the investment offers. |
| **Control effectiveness assessment** | An assessment that supports the identification of reliable evidence that our key controls are operating effectively, and that either individually, or in conjunction with other measures, the controls in place adequately manage the causes and impacts identified for each of our top risks. |
| **Conviction** | A measure of the degree of confidence we have in an active manager's investment skill. The Guardians' approach to rating an active manager. Applicable to both public and private market managers. The conviction rating is a quantitative overall score based on the scores of a number of individual, largely qualitative, factors. |
| **Cost-asset ratio** | Operating expenses ÷ average assets over the period. |
| **Counterparty** | A counterparty describes a legal entity that presents an exposure to financial risk. The Guardians' counterparties are typically banks. |
| **Crown entity** | An organisation that forms part of New Zealand's state sector, as established under the Crown Entities Act 2004. Crown entities are legal entities in their own right. A decision to assign a government activity |

## GLOSSARY (CONTINUED)

| | |
|---|---|
| | or function to a Crown entity indicates that the function should be carried out at 'arm's-length' from the Government. The Crown entity's board directs the entity's day-to-day operations. |
| **Currency management** | The Reference Portfolio's foreign currency exposures are 100% hedged to the New Zealand dollar. This means that we receive the actual return of the assets we are invested in without the currency fluctuations adding or detracting from performance. Occasionally we 'step away' from 100% hedging in order to, for example, take advantage of temporary price dislocations and add value to the Fund. |
| **Cybersecurity** | Technologies, processes and practices that are designed to protect networks, computers, programmes and data from attack, damage or unauthorised access. |
| **Derivative** | A financial instrument that derives its value from the value of underlying entities such as an asset, index or interest rate - it has no intrinsic value in itself. The derivative itself is merely a contract between two or more parties, the value of which at any one time is determined by fluctuations in the value of the underlying asset. Derivatives can be used to manage risk, reduce cost and enhance returns. |
| **Direct** | A direct activity is a financial market transaction undertaken by the Guardians' management. |
| **Diversification** | The potential improvement in a portfolio's Sharpe ratio that arises from introducing assets into the portfolio that behave differently from the assets in the Reference Portfolio. Introducing any new asset or asset class into the portfolio will have a diversification benefit. The more diversified a portfolio, the more difficult it is to achieve further diversification gains. |
| **DM** | Developed Markets. |
| **Double arm's-length** | The Guardians is an autonomous Crown entity, meaning it is legally separate from the Crown and operates at 'double arm's-length'. The first arm of independence is that the Government does not decide the pool of candidates for the Board of the Guardians (candidates are identified by an independent Nominating Committee). The second arm of independence is that investment decisions are made by the Board and management of the Guardians. |
| **EM** | Emerging Markets. |
| **Employee Value Proposition** | The offering that is received by employees in return for their performance at the workplace. |
| **Endowment** | A characteristic of the Fund that provides the Guardians with a natural advantage or edge over the typical investor. |
| **Equilibrium** | The long-term or steady state. Generally expressed in the context of long-term average expected risks and returns. |
| **Equities** | More commonly known as shares or stocks. Securities that signify ownership in a corporation and represents a claim on part of the corporation's assets and earnings. |
| **ESG** | Environmental, Social and Governance. |
| **Exposures** | The amount of money that an investor has invested in a particular asset. |
| **Externally managed** | An investment managed by an appointed external manager. |
| **Factors** | Factor investing is an investment strategy that takes passive market capitalisation-weighted indices and constructs an alternative index that is weighted toward companies possessing certain characteristics. It is expected that these characteristics or 'factors' will deliver superior risk-adjusted returns for investors, above those of a purely passive index, over the long-term. |
| **Fair value** | The amount paid in a transaction between participants if an asset is sold in the open market. |
| **Fixed income** | Assets providing income to investors via a fixed periodic payment. In the context of the Reference Portfolio, fixed income is a very well-diversified set of exposures, including sovereign bonds, investment grade credit, agency debt, high yield bonds and emerging market debt. Inflation-linked securities are also included though an element of the income is variable because it is linked to future inflation out-turns. |
| **Foreign exchange** | The Fund's exposure to non-NZ$ cash rates. In our Reference Portfolio, there is no foreign exchange exposure as all non-NZ$ denominated assets (i.e., foreign funded assets) are hedged back to NZ$. Hedging back to NZ$ essentially replaces foreign cash returns with NZ$ cash returns. Foreign exchange in the Fund's context refers to a basket of the major foreign currencies. |
| **Fund-of-funds model** | A pooled investment fund that invests in other types of funds. |

| | |
|---|---|
| **Fund Investment Vehicle (FIV)** | An entity formed or controlled by the Guardians for the purpose of holding, facilitating or managing investments in the Fund. |
| **Futures** | A financial contract obligating the buyer to purchase an asset (or the seller to sell an asset), such as a physical commodity or a financial instrument, at a predetermined future date and price. |
| **Global Financial Crisis (GFC)** | The worldwide economic downturn from 2007-08. The crisis started with a subprime mortgage lending crisis in 2007 and expanded into a global banking crisis with the failure of investment bank Lehman Brothers in September 2008. |
| **Global Reporting Initiative (GRI)** | An international independent organisation that helps businesses, governments and other organisations to understand and communicate the impact of business on critical sustainability issues. |
| **Global Macro** | A market neutral strategy that produces return by skilfully exploiting inefficiencies within and across a broad range of liquid markets. The key source of return within this opportunity is manager skill. |
| **Growth assets** | In the Reference Portfolio, growth assets comprise equities and REITs. Some private market assets are also growth assets, e.g., private equity. Over the long-term and on average, the largest share of returns accruing to investments in growth assets derive from underlying exposures to real economic growth. |
| **Hurdle** | The minimum expected return required from a proposed investment to compensate the Fund for the inherent risks, fees and other costs (such as taxes) of that investment. |
| **Illiquid** | The inability to buy or sell an investment in a timely manner with minimal transaction costs. |
| **Initial margin** | Collateral exchanged between parties to protect against the potential future exposure of changes in the mark-to-market value of a derivatives transaction during the time it takes to close out and replace the position in the event the other party defaults. |
| **Institutional Investor** | An institutional investor is an organisation that invests money on behalf of other people. Institutional investors include banks, credit unions, insurance companies, sovereign wealth funds, hedge funds, REITs, investment advisors, endowments, and mutual funds. |
| **Internalisation** | To bring management in-house. |
| **Internal Investment Mandate (IIM)** | The policy governing the management of an internal mandate falling under an active strategy. |
| **Investment** | An allocation of risk capital to a specific manager or activity. Could include an individual investment undertaken by our internal management under an Internal Investment Mandate (IIM). |
| **Iwi** | Meaning ‘peoples’. Iwi is often translated as a tribe. Iwi forms the largest social units within Māori culture. |
| **Liquidity** | The degree to which an asset or security can be quickly bought or sold in the market without affecting the asset's price. |
| **Long** | A long or long position is an investment strategy where an entity buys a security, currency or derivative with the expectation that it will rise in value. |
| **Mandate** | An official order or commission to do something. |
| **Mark-to-market** | A measure of the fair value of accounts that can change over time, such as assets and liabilities. Mark-to-market aims to provide a realistic appraisal of an institution’s or company’s current financial situation. The accounting act of recording the price or value of a security, portfolio or account to reflect its current market value rather than its book value. |
| **Market index** | An aggregate value produced by combining several stocks or other investment vehicles together and expressing their total values against a base value from a specific date. Market indices are intended to represent an entire stock market and thus track the market’s changes over time. |
| **Market mispricing** | Market mispricing causes a divergence between the market price of a security and the fundamental value of that security. |
| **Market neutral strategy** | Generally refers to hedge fund investments where the hedge fund has no systematic loading onto market risk, i.e. returns are independent of general market movements. |
| **Market risk** | Is the non-diversifiable risk associated with exposure to a broad mix of asset classes. The risk in the market portfolio. In the context of the Fund, this also refers to the risk in an investment that is correlated with the Reference Portfolio or some investable public market benchmark or asset class. |

## GLOSSARY (CONTINUED)

| | |
|---|---|
| **Merger arbitrage** | Involves simultaneously purchasing and selling the stocks of two merging companies to take advantage of the difference in price of those stocks pre-merger. |
| **Mezzanine loan** | A financial security or a layer of capital that ranks between debt provided by creditors (like banks) and the equity provided by shareholders. Debt claims therefore have first claim on the capital of a business, with the mezzanine loans paid thereafter. These loans are usually convertible to equity under defined circumstances. |
| **NAV** | Net Asset Value. |
| **Net return** | Returns over and above the Treasury Bill return – the Government’s cost of debt. |
| **Net zero economy** | Net zero emissions refers to an overall balance between greenhouse gas emissions produced and greenhouse gas emissions taken out of the atmosphere. The New Zealand Government has set a target of becoming a net zero emissions economy by 2050. |
| **Opportunity** | A feature of the investment environment that is conducive to generating positive risk-adjusted active returns. |
| **OTC** | An over-the-counter financial instrument (securities, derivatives, stocks) traded in some context other than on a formal exchange. The phrase ‘over the counter’ (OTC) can be used to refer to financial instruments that trade via a dealer network as opposed to a centralised exchange. |
| **Passive management** | Passive management, or ‘index-tracking’, is a style of investment management through which a fund’s portfolio mirrors a selected market index. Stocks move in and out of the portfolio according to index inclusion rather than through an active investment decision. |
| **Physical** | An investment that is funded with cash to the full notional amount of the investment. |
| **Portfolio** | A portfolio can be thought of as a pie that is divided into pieces of varying sizes, representing a variety of asset classes and/or types of investments to achieve an appropriate risk-return portfolio allocation. |
| **Portfolio completion** | A value-adding strategy that seeks to access and manage the Fund's portfolio exposure to equities and bonds. It does this by rebalancing (see 'Rebalancing' below) the Fund to our desired Reference Portfolio weightings and managing the currency overlay and liquidity risk in the most effective manner possible. |
| **Portfolio construction** | The allocation of risk in a portfolio. Generally applied to active management, portfolio construction embraces the broad allocation of risk capital to various value-add strategies, as well as the specific allocations of risk capital to individual investments. |
| **Private equity** | Private placement of capital with defined ownership rights (i.e., claims to the profits generated by the business). |
| **Private markets** | Investments not traded on a public exchange or market. |
| **Public markets** | Investments comprising:<br>1. exchange listed securities or<br>2. over the counter financial contracts linked to listed securities and/or widely-followed indices or benchmarks. Public market investments are generally (but not always) liquid and generally (but not always) have regular and transparent pricing. |
| **Rebalancing** | Rebalancing is the process of realigning the weightings of one’s portfolio of assets. The Fund's passive exposures change as markets move over time. Periodically, therefore, we consider whether to rebalance (buy and sell listed equities and fixed income assets) the Fund's actual passive exposures back in line with the weightings in the Reference Portfolio. Minimising the costs of rebalancing this activity is an important objective. |
| **Recession** | A period of temporary economic decline during which trade and industrial activity are reduced, generally identified by a fall in GDP in two successive quarters. |
| **Reference Portfolio** | A simple low cost, passively managed and well-diversified portfolio of listed asset classes that is consistent with the Fund achieving its return objectives without undue risk, i.e. fit for purpose. Conceptually, the Reference Portfolio comprises a 100% cash position (NZ$) plus a set of risk premiums or excess returns that also sum to 100%. |
| **Real Estate Investment Trust (REIT)** | A company that owns, operates, or finances income-generating real estate. |

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| **Risk** | The standard deviation of expected returns. The Fund's risk model uses equilibrium risk (and return) assumptions. |
| **Risk Allocation Process (RAP)** | The process by which risk capital is allocated to the Fund's opportunities. Under the RAP:<br>1. Opportunities are assessed for relative attractiveness;<br>2. Allocation approaches determine how much risk capital should be allocated for various levels of attractiveness; and<br>3. The approaches are scaled to meet risk budgets set for groups of opportunities and for the Fund as a whole. This latter budget is referred to as the total active risk budget and the groups of opportunities as risk budget baskets. |
| **Risk appetite** | The amount of loss an organisation is willing or able to tolerate should a downside risk materialise. |
| **Risk budget** | Articulates the average amount of active risk that is expected to be allocated to an opportunity or group of opportunities referred to as risk budget baskets. Risk budgets aggregate to the total active risk budget. Risk budgeting is a stage of the risk allocation process. |
| **Risk premium** | The return in excess of cash earned by investors as compensation for taking passive exposure to the market or an asset class. Risk premium and excess return can be used interchangeably. |
| **Risk profile** | A risk profile is an evaluation of an investor's willingness and ability to take risks. A risk profile is important for determining the investment asset allocation for a portfolio. |
| **Santiago Principles** | A set of principles and practices generally accepted by the member institutions of the International Forum of Sovereign Wealth Funds as amounting to a basic code of good practice for sovereign wealth funds. |
| **Securities lending** | Loaning a stock, derivative or other security to an investor or a firm. |
| **Sharpe ratio** | A characterisation of how well the return of an investment compensates the investor for the risk taken. |
| **Short** | A short or short position is an investment strategy where an entity sells a security, currency or derivative with the view of buying back the same amount of the relevant instrument at a lower price. |
| **Side-car investment** | Occurs where one investor allows a second investor to control where and how to invest the capital. |
| **SIPSP** | Statement of Investment Policies, Statements and Procedures. |
| **Skill** | Active investment expertise. The ability to generate active returns. |
| **Sovereign bond** | A debt security issued by a national government. |
| **Sovereign Wealth Fund** | Pools of money derived from a country's reserves, which are set aside for investment purposes that will benefit the country's economy and citizens. |
| **Strategic Tilting** | Tilting is a value-adding strategy where the mix of the Fund's market or currency exposures relative to the Reference Portfolio is changed to increase exposure to undervalued asset classes. |
| **Sustainable Development Goals (SDGs)** | A collection of 17 global goals designed to be a 'blueprint to achieve a better and more sustainable future for all'. The SDGs were set in 2015 by the United Nations General Assembly and are intended to be achieved by the year 2030. |
| **Swap** | A derivative in which two parties agree to exchange one stream of cash flows against another. |
| **Synthetic** | Obtaining exposures using derivatives. Generally does not require funding. |
| **Taskforce on Climate-related Financial Disclosures (TCFD)** | The TCFD was created by the Financial Stability Board to help identify the information needed by investors, lenders an insurance underwriters to appropriately assess and price climate-related risks and opportunities. In its final report released in 2017, the TCFD defined four core elements of recommended financial disclosures: governance; strategy; risk management; and metrics and targets. |
| **Theme** | Long-term influences on the economy and capital markets that are expected to be relatively immune to business cycle and other short-term influences. An enduring characteristic or feature of the global economic or financial environment. |
| **Tilt** | Changes in the mix of the Fund's market or currency exposures relative to the Reference Portfolio (other than through drift or the proxies). Tilting is a value-add strategy. |
| **Total risk** | Generally referring to the Fund's total or absolute risk. |

## GLOSSARY (CONTINUED)

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| **Treasury Bill** | Debt instruments issued by the government that mature in less than one year; the yield on these measures the cost of running a budget deficit. |
| **UNPRI** | United Nations Principles for Responsible Investment. |
| **Value-add** | See 'Active returns'. In performance reporting, the difference between the actual return and the Reference Portfolio return, net of the costs of obtaining passive exposures. |
| **Value-adding strategies** | Board approved strategies that define the objectives and parameters for taking on active risk. Also referred to as active strategies or just strategies. |
| **Variation margin** | Collateral exchanged between parties to protect against current exposures caused by changes in the mark-to-market value of a derivatives transaction. |
| **Venture capital** | Money provided to fund early-stage businesses with perceived long-term growth potential. |
| **Volatility** | The amount of uncertainty or risk about the size of changes in a security’s value. |

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