



Investment Valuation Policy

Kaupapa Here mō te Wāriu Haumitanga

This policy outlines the Guardians approach to the valuation of investments held by the NZ Superannuation Fund (NZ Super Fund) and the Elevate NZ Venture Fund (Elevate Fund), for investments made directly, or through or alongside external investment managers. Having a clear and robust framework for determining the fair value of investments is essential in order to comply with financial reporting standards and our legislative requirements, and is aligned with our purpose, mission and risk tolerance. Specific guidelines for applying these principles are contained in a separate Investment Valuation Procedures manual.



Policy Owner: General Manager Strategy & Shared Services





1. Purpose and scope

- 1.1 This policy sets out the general principles to be followed for the valuation of investments held by the NZ Superannuation Fund (NZ Super Fund) and the Elevate NZ Venture Fund (Elevate Fund). It also sets out a reporting framework for investment valuations.
- 1.2 The financial statements of the NZ Super Fund and the Elevate Fund are prepared on a fair value basis in accordance with generally accepted accounting practice in New Zealand (NZ GAAP) and comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and Public Benefit Entity Standards (PBE Standards) respectively.
- 1.3 This policy establishes the approach for determining the fair value of investments that are either managed internally by the Guardians or externally managed on behalf of the Guardians in accordance with applicable financial reporting standards.

2. Definitions

- 2.1 To aid with interpretation of this policy we have a [Glossary of Terms](#), which defines all investment and technical terms used in our policies. In this policy the first instance of any such defined term is highlighted in **bold**. References to other documents are *italicised*.

3. Policy

- 3.1 **Valuation approach:** The approach to investment valuation under this policy is divided into two main parts – the method of valuation to be used and the frequency with which valuations shall be conducted.
- 3.2 **Valuation methodology:** The valuation methodologies outlined in Schedule 1 will be applied to the NZ Super Fund's and the Elevate Fund's investments to determine fair value, based on a fair value hierarchy established under financial reporting standards. The Guardians will use the valuation methodology that is most appropriate in the circumstances in accordance with this policy.
- 3.3 **Valuation frequency:** The frequency of investment valuations will be carried out in accordance with Schedule 2. The Guardians will determine the most appropriate frequency with which valuations shall be conducted having regard to the availability of data and any other constraints.
- 3.4 **Valuation Working Group:** The Valuation Working Group (VWG) is an internal working group that is responsible for reviewing the valuation of investments in accordance with the *VWG Terms of Reference* contained in the *Investment Valuation Procedures document*. The VWG reports the outcomes of their reviews to the Audit & Risk Committee. Whilst the VWG is not a decision-making authority, it will make recommendations as to whether specific investment valuations (including independent third party valuations) should be adopted, based on its review and findings.



- 3.5 **Independent third party valuers:** Where an independent third party valuation is required, an external valuer will be engaged. Prior to engagement, the valuer must be assessed for suitability. Areas to be considered include, but are not limited to, qualifications, experience, capacity to undertake the work, reputation and independence from the Guardians.
- 3.6 **Consistency:** The methodology used for the valuation of investments will be applied consistently across all investments with similar characteristics, wherever practicable. It will also be applied consistently across financial periods unless an alternative methodology becomes more appropriate. A change in valuation approach may be applied where, for example, new information comes available, or information previously used is considered no longer relevant.

4. Procedures and Related Policies

- 4.1 For further guidance on the process for the valuation of investments, staff should refer to the *Investment Valuation Procedures* manual. This document includes the *VWG Terms of Reference*.

5. Reporting

- 5.1 The reporting framework for this Policy is set out in Schedule 3.

6. Policy Approval and Review

- 6.1 This policy was reviewed by the Board on 23 February 2023 and approved by the Board in April 2023. This policy will be reviewed every five years as part of the cycle of reviewing Guardians policies and procedures. The next review will be in February 2028.

7. Delegations

- 7.1 The *Delegations Policy* governs the delegation of authority for matters relevant to this policy.



Schedule 1: Valuation Methodology

The NZ Super Fund and the Elevate Fund have a broad range of investments, the majority of which 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. Fair value can be determined based on a variety of valuation approaches using information from various sources.

All investments for which fair value is determined are categorised within a fair value hierarchy established under financial reporting standards as follows:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or 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.

Level 2: Valuation techniques that use observable market data. These techniques include the use of market standard discounting methodologies and other valuation techniques widely used and accepted by market participants. Observable market inputs include, but are not limited to, interest rates, credit spreads and prices for comparable investments trading in active markets.

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. Non-market observable inputs represent the most judgemental factors used in determining fair value.

The Guardians uses valuation techniques that are the most appropriate in the circumstances and for which sufficient data is available to measure fair value. The most reliable evidence of fair value is a quoted market price in an active market. The Guardians will maximise the use of relevant observable inputs and minimise the use of Level 3 inputs where possible.



The table below outlines the valuation methodologies to be used for the main categories of the NZ Super Fund’s and the Elevate Fund’s investments.

Investment category	Price sourced by Custodian	Valuation provided by manager/administrator	Cost or recent transaction	Third party independent valuation	Third party validation	Internal valuation
Investments with observable/quoted market prices	x					
Derivative financial instruments	x					
Collective investment vehicles		x				
Unlisted direct investments			x	x	x	x
Externally managed unlisted investments		x		x		

For unlisted investments, the Guardians will use the valuation methodology that is most appropriate in the circumstances. Cost, or the price observed from a recent transaction of an investment, may be the best estimate of fair value if it occurred sufficiently close to measurement date. However, in the absence of a recent transaction, the methodology used to determine fair value will depend on the size or **materiality** of the investment. For unlisted direct investments the following thresholds will apply:

Size of investment	Valuation Approach
≥/ > 1% of NAV	Third party independent valuation
0.5% - 1% of NAV	Third party validation of internal valuation or third party independent valuation
< 0.5% of NAV	Internal valuation or third party independent valuation

Third party independent valuations will be mandatory for investments with fair values of greater than or equal to 1% of the NZ Super Fund’s NAV. For investments that fall below this threshold, third party independent valuations will be optional.

For further guidance, please refer to the *Investment Valuation Procedures* manual.



Schedule 2: Frequency of Valuations

The table below outlines the frequency of valuations for the main categories of the NZ Super Fund's and the Elevate Fund's investments.

Investment category	Minimum frequency of valuations			
	Daily	Monthly	Quarterly	Annually
Investments with observable/quoted market prices	x			
Derivative financial instruments*		x		
Collective investment vehicles			x	
Unlisted direct investments				x
Externally managed unlisted investments				x

Regardless of the valuation frequency outlined above, capital flows (such as the provision of additional capital or the return of capital from an investment) will be reflected in the fair value of an investment immediately upon occurrence.

In addition, where there is evidence of impairment, fair value will be assessed immediately and updated as soon as reasonably practicable if necessary. Evidence of impairment includes the financial difficulty of an investee entity, disappearance of an active market, obsolescence or damage as a result of environmental events.

A review of the fair value of any investment may be requested by the VWG or the Audit & Risk Committee at any time throughout the financial year. If such a request is made, the valuation approach as outlined in this policy shall be followed.

For further guidance on valuation frequency, please refer to the *Investment Valuation Procedures* manual.

*Derivative Financial Instruments - Valuation frequency for these instruments varies. The majority of derivatives are priced daily. The frequency table sets a minimum monthly requirement for those derivatives that are not priced daily.



Schedule 3: Reporting Framework

Report	Accountability	Reporting frequency and to whom	Minimum information required
VWG report on unlisted investment valuations	GM Strategy and Shared Services, Head of Finance	Annually to the Audit & Risk Committee	<ul style="list-style-type: none"> Summary of individual investment valuations reviewed including the process followed, application of policy, key areas of focus and recommendations.
Policy breaches	Head of Risk	Immediately to the Risk Committee and Audit & Risk Committee	<ul style="list-style-type: none"> Details of the breach, cause and remedial action taken