Guardians of New Zealand Superannuation

STATEMENT OF INVESTMENT POLICIES, STANDARDS AND PROCEDURES

5 AUGUST 2026

NZSUPERFUND
Te Kaitiaki Tahua Penihana Kaumātua o Aotearoa

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1. Introduction

Purpose of this document

1.1 The Guardians of New Zealand Superannuation (**Guardians**) was established by the New Zealand Superannuation and Retirement Income Act 2001 (the **Act**) to manage and administer the New Zealand Superannuation Fund (**Fund**).

1.2 Section 60 of the Act requires the Guardians to establish and adhere to investment policies, standards and procedures for the Fund that are consistent with its duty to invest the Fund on a prudent commercial basis in accordance with section 58 of the Act.

1.3 Under section 61 of the Act, a statement of investment policies, standards and procedures (**SIPSP**) must cover (but is not limited to) the matters outlined in that section. The policies, standards and procedures established for the purposes of sections 60 and 61 of the Act are set out in this SIPSP and the following policies (**SIPSP Policies**):

(a) The *Portfolio Design Policy***,** which covers our approach to constructing the Fund's Actual Portfolio;

(b) The *Liquidity Policy,* which covers how we manage Fund-wide liquidity and operational liquidity;

(c) The *Investment Policy,* which covers implementing the Actual Portfolio, and making investments into Opportunities both managed externally and internally;

(d) The *Sustainable Investment Policy,* which covers our approach to sustainable investment;

(e) The *Investment Valuation Policy,* which covers our approach to valuing the Fund investments;

(f) The *Delegations Policy,* which provides a framework for the delegation of authority from the Board to the Chief Executive and others in the organisation;

(g) The *Risk Management Policy,* which covers how we manage enterprise risk;

(h) The *Procurement Policy,* which covers how we manage procurement and outsourcing; and

(i) The *Communications & Engagement Policy,* which outlines our approach to communicating Fund performance.

1.4 Procedures for implementing the SIPSP Policies are either contained in schedules to the policies or in standalone documents. Both the SIPSP Policies and the standalone procedures are generally published on our website (www.nzsuperfund.nz).

1.5 The SIPSP and our SIPSP Policies and associated procedures provide a framework for the management and administration of the Fund and are how the Guardians gives effect to its statutory investment mandate.

1.6 The table in section 14 sets out where the matters required by section 61 of the Act are covered.

Interpretation

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

Review

1.8 This SIPSP is effective 5 August 2026 and supersedes all previous versions. It will be subject to at least annual review and amendment as our strategy for managing the Fund evolves. A history of the evolution of the SIPSP can be found in section 15.

1.9 Only the Board of the Guardians can approve material changes to the SIPSP.

2. Fund purpose and investment objective

The Fund has a long-term purpose

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

2.2 The Fund may only be used for the purpose of helping meet the costs of NZ super.

The statutory investment mandate for the Fund

2.3 Under the Act, the Guardians must invest the Fund on a prudent, commercial basis and, in doing so, must manage and administer the Fund in a manner consistent with:

(a) best-practice portfolio management;

(b) maximising return without undue risk to the Fund as a whole; and

(c) avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

2.4 The Guardians gives effect to the statutory mandate by establishing and implementing policies, standards and procedures that are consistent with investing on a prudent, commercial basis and which incorporate:

- principles for best-practice portfolio management considered appropriate for the Fund,
- an investment strategy to maximise Fund returns over the long-term within a risk-appetite considered appropriate for a long-term investment fund, and
- sustainable investment principles considered appropriate for managing and administering the Fund in a manner consistent with avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

3. Endowments and Investment Beliefs

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

Endowments

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

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

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

Investment beliefs

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

Investment beliefs	
Governance & investment objectives	Clear governance and delegation promotes efficiency and accountability that is critical to the delivery of value add to the Fund.
Asset allocation	Asset allocation is the key investment decision. Investors with a long-term horizon can outperform more short-term focused investors over the long-run.
Total Portfolio Approach (TPA)	TPA enables a flexible and dynamic approach to capital allocation, informed by what is best for the total portfolio and

	supported by a high degree of collaboration across the Investment Team.
Investment selection	Asset class expected returns are partly predictable; prices tend to revert to fair value over time. The ability to consistently generate value add from skill versus an appropriate benchmark (net of fees) is rare; where this ability exists, it is hard to access. Some markets or strategies exhibit persistent behavioural biases and incentive-driven market dynamics which create systemic inefficiencies that can be captured through disciplined investment strategies over the long term.
Sustainable investment	Sustainability considerations are fundamental to long-term risk and return.
Operational Alpha	Leveraging data and automation, alongside efficient mandate execution and cost discipline, generates operational alpha and strengthens long-term investment outcomes.
Link to endowments	We achieve the strongest portfolio outcomes in areas where our investment strategy is most closely aligned with our endowments.

4. Fund Governance and Structure

Ownership of the Fund

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

Capital contributions and withdrawals

4.2 Under the Act, the Government is required to make annual capital contributions to the Fund based on a formula set out in the Act. The formula also determines whether or not the Government may make a capital withdrawal from the Fund.

4.3 Treasury is responsible for making the necessary calculations under the formula and publishes the required contribution amount in the annual economic and fiscal update prepared under the Public Finance Act 1989. Should the Government choose to contribute less than the required capital contribution, it must explain its actions in the annual fiscal strategy report required under the Public Finance Act 1989.

Payments out of the Fund

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

Management of the Fund

4.5 The Fund is managed and administered by the Guardians. The Guardians was established by the Act as an autonomous Crown entity, which is a type of statutory body corporate that is legally separate from the Crown and designed to carry out its function independently from the Government.

4.6 The Guardians is overseen by an independent Board. Board members are required by legislation to have substantial expertise in investment management and are appointed by the Governor-General on the recommendation of the Minister of Finance. The Minister's recommendation follows nominations from an independent nominating committee and consultation with representatives of other political parties in Parliament.

Statutory constraints

4.7 The Act is not prescriptive as to what the Fund can, or cannot, be invested in and there are no restrictions on the Guardians' power to invest the Fund other than:

(a) The Fund must be invested on a prudent, commercial basis in accordance with the statutory mandate (*section 58*).

(b) The Guardians must have regard to Ministerial directions regarding the Government's expectations as to the Fund's performance, including the Government's expectations as to risk and return (*section 49(4)*).

4.8 The Guardians may not, except with the approval of the Minister, borrow money in respect of the Fund, grant security interests over Fund property or hold financial instruments that impose a contingent liability on the Fund or the Crown (*section 50*).

4.9 The Guardians is responsible for determining an investment strategy and framework that meets the statutory investment mandate.

Ministerial directions

4.10 The Guardians has operational independence regarding investment decisions. The Minister of Finance can give directions to the Guardians regarding the Government's expectations as to the Fund's performance, including the Government's expectations as to risk and return, to which the Guardians must have regard (*section 64*).

4.11 The Minister cannot give a direction that is inconsistent with the Guardians' duty to invest the Fund on a prudent, commercial basis, and cannot direct the Guardians in regard to the Fund on any other matter.

4.12 To date, there has only been one direction from the Minister of Finance (in 2009), which expressed "the Government's expectation, in relation to the Fund's performance, that opportunities that would enable the Guardians to increase the allocation of New Zealand assets in the Fund should be appropriately identified and considered by the Guardians". A copy of the Ministerial direction and our response are available on our website.

Roles and responsibilities in relation to the Fund

4.13 The Board is responsible for establishing investment policies for the Fund and has overall responsibility for management of the Fund. It has delegated authority for day-to-day investment decision-making to the Chief Executive and senior managers. The framework for delegations is established by our *Delegations Policy*.

4.14 The Board is responsible for approving the endowments, investment beliefs, policies and strategy for the Fund. This includes approving the Fund's risk and return profile, standards and benchmarks, sustainable investment and climate change strategies, investment constraints and exclusion categories. The investment-related matters that are specifically reserved to the Board are specified in our *Delegations Policy*.

4.15 Management is responsible for investing the Fund in accordance with the Board approved investment policies, and managing investment risk and liquidity risk within Board approved risk limits, investment constraints and budgets. The Investment Committee supports management oversight of investment activity and investment risk and makes recommendations to the holders of delegated authority for key investment decisions.

Use of internal and external resources

4.16 The Fund is managed and administered using a mixture of internal staff and external resources. External resources include third parties who manage investments for the Fund or carry out portfolio completion activities for the Fund. We continually monitor the use of external suppliers versus internal provision of services as part of the ongoing review of our business model. The quality, cost and degree of alignment of interests of an outsourced alternative provide benchmarks against which the opportunity to undertake roles internally can be judged.

4.17 A custodian (**Master Custodian**) is used to provide safe keeping of Fund assets, trade settlement services and reporting on the Fund's investment activities. The Master Custodian relationship is a key outsourcing relationship. The appointment, monitoring and management of key outsourcing relationships is governed by our *Procurement Policy.*

Auditor

4.18 The Auditor General is the auditor for the Fund and the Guardians.

5. Controlled entities

5.1 We may:

(a) control an entity as a Fund investment (a **control investment**), and

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

5.2 Control investments can in turn comprise:

(a) controlled direct investments made by the Guardians (**controlled direct investments**), or

(b) controlled externally-managed investments with an external investment manager in place, such as managed funds, co-investment entities, feeder funds and separately managed accounts (**controlled managed investments**).

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

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

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

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

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

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

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

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

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

5.10 Controlled direct investments will have operational independence. The role of the Guardians (or a holding vehicle, as applicable) with respect to a controlled direct investment is that of an investor. Responsibility and accountability for the operations and performance of a controlled direct investment will rest with its board and management (or equivalent). The Guardians will not undertake the management of the business of the controlled direct investment.

5.11 The Guardians' Board has overall ownership of the Guardians' decision-making framework in respect of controlled direct investments. This includes setting parameters for which decisions about controlled direct investments are (i) reserved to the Board, or (ii) delegated to Management.

5.12 A Fund investment, and any related arrangements, does not result in the Official Information Act applying to any entity. However, that Act will apply to the Guardians and the Guardians will ensure that the Guardians has the information about controlled direct investments necessary for the Guardians to manage and administer the Fund in accordance with this SIPSP. Policy statements relating to the Official Information Act are found in our *Communications and Engagement Policy*.

5.13 Our policies, standards and procedures relating to the governance of controlled direct investments are outlined in our *Delegations Policy, Investment Policy and Investment Procedures.* These policies, standards and procedures are applicable to the Fund and are not intended to apply to the controlled direct investments, recognising that they have operational independence and that the role of the Guardians (or holding vehicle, as applicable) is limited to that of an investor.

6. Portfolio design

Balance Between Risk and Return

6.1 Risk and expected return are the two most important characteristics of any investment portfolio. While realised risk and return for different asset classes fluctuate through time, they are more stable when measured across longer time horizons. From the perspective of long-term investors, it is the long-run portfolio risk and expected return characteristics that are of most relevance.

6.2 Asset allocation is the key investment decision for determining the balance of risk and return appropriate for maximising return over the long term, without undue risk. Asset allocation and investment risk allocation are synonymous terms.

Asset allocation approach

6.3 Our asset allocation approach starts with the establishment of a **Reference Portfolio**. The Reference Portfolio is a simple, low-cost portfolio with readily obtainable asset exposures that we believe best meets the objective of maximising returns without undue risk to the Fund as a whole over the long-term. The Reference Portfolio also serves as a risk setting and a performance benchmark for the Fund.

6.4 The Reference Portfolio is a notional portfolio. In the Fund's **Actual Portfolio**, we seek to add more value than the Reference Portfolio would do, through accessing returns not available in the Reference Portfolio. We do this by investing in Opportunities and by gaining access to desired risk exposures, rebalancing the Fund, and managing liquidity risk in the most cost-effective manner possible.

6.5 An **Opportunity** is an investment activity, or a set of investment activities with similar characteristics, that is expected to improve the risk-adjusted expected return of the Actual Portfolio. An Opportunity may also improve liquidity, sustainable investment outcomes and reduce tail risk. An Opportunity can be temporal (cyclical or short term) or structural (of a more enduring nature). This is underpinned by our recognition that investment Opportunities come and go and, to benefit from this fluctuation, the Actual Portfolio must be dynamic.

6.6 The Actual Portfolio comprises investments made that reflect the Reference Portfolio and Opportunity investments. Exposure to asset classes included in the Reference Portfolio is generally through index-tracking or index-replicating investment (**Passive Investment**) rather than through active management.

6.7 Policies, standards and procedures relating to the construction of the Reference Portfolio and Actual Portfolio are contained in our *Portfolio Design Policy and Portfolio Design Procedures*

Risk budgeting process

6.8 The deviation between the Actual Portfolio and the risk exposures inherent in the Reference Portfolio is known as **active risk**. The extent to which the Actual Portfolio can deviate from the Reference Portfolio is established by the Board and is known as the **total active risk budget**. The structure of the Reference Portfolio and the size of the total active risk budget are the key strategic decisions that determine the risk and return profile for the Fund.

6.9 We use a Risk Budgeting Framework to allocate risk to Opportunities based on their risk-adjusted return, liquidity, sustainability and tail risk. This supports a disciplined and consistent approach to allocating total active risk across the Actual Portfolio.

6.10 Policies, standards and procedures relating to Opportunities and the risk budgeting process are contained in our *Portfolio Design Policy and Portfolio Design Procedures*.

Tail risk

6.11 Tail risk refers to the potential for extreme but plausible downside outcomes in portfolio returns that sit in the far left tail of the return distribution and are not well captured by standard risk measures such as volatility. Tail risk is treated as a core Fund portfolio level design consideration alongside expected active return, liquidity and sustainable investment, with detailed assessment and management applied through the Risk Budgeting Framework and supporting procedures.

Asset classes in which the Fund invests

6.12 The Act does not limit the classes of assets in which the Fund may be invested. However, constraints on assets that the Fund may invest in may arise from the application of our *Sustainable Investment Policy* and *Procedures* or applicable legal or regulatory requirements (such as sanctions).

6.13 The Fund is invested in a broad range of asset classes, including public market assets, private equity, real estate, infrastructure, and credit investments. We believe it is important to increase the Fund's efficiency (either by higher returns for the same risk or the same returns for less risk) by diversifying the Fund across and within various asset classes. The differing characteristics of various asset classes provide diversification benefits when they are aggregated into an Actual Portfolio.

6.14 Fund exposures can be divided into two broad categories:

(a) asset classes included in the Reference Portfolio, with exposure generally obtained though Passive Investment ; and

(b) investments in Opportunities.

6.15 The selection of assets for inclusion in the Reference Portfolio, and their relative weighting, is a Board decision. The selection of Opportunity investments is delegated to Management. Opportunities are subject to regular review and may be terminated, redefined or merged as return and risk drivers change.

6.16 Details of the asset classes currently comprised in the Reference Portfolio and Actual Portfolio can be found on our website (www.nzsuperfund.nz).

Proxy system

6.17 We use a system (the **proxy system**) to ensure that the Fund’s total risk is maintained at its target level when investments not represented in the Reference Portfolio are introduced to the Actual Portfolio. The proxy system determines the appropriate mix of growth and income assets (including cash) represented in the Reference Portfolio to sell in order to offset the embedded market risk exposure of an active investment.

6.18 Policies, standards and procedures relating to the proxy system are contained in our *Portfolio Design Policy and Portfolio Design Procedures*.

Rebalancing

6.19 The Actual Portfolio is periodically adjusted (**rebalanced**) to a rebalancing target, which is the desired Reference Portfolio exposures for the Actual Portfolio after taking account of value-adding investments using our proxy system. Rebalancing decisions must weigh transaction costs, liquidity needs, and market conditions, to ensure the Actual Portfolio remains within Board-approved rebalancing constraints.

6.20 The rebalancing constraints form part of the Board-approved investment constraints and budgets set out in our *Portfolio Design Policy*. Policies, standards and procedures relating to rebalancing are contained in our *Investments Policy and Investment Procedures.*

Liquidity risk management

6.21 Liquidity management is a key factor in portfolio design. We have a Fund-wide liquidity risk management framework to ensure that sufficient liquidity is maintained for the Fund to withstand a range of stress events. The framework is comprised of two functions:

- Liquidity Risk Assessment, which seeks to ensure that the Fund is not over-invested in illiquid assets or derivatives so that it can withstand severe market stress without becoming a forced seller or undermining our long-horizon endowments; and
- Operational Liquidity Management, which sets a Minimum Liquidity Requirement to ensure we maintain sufficient liquidity to meet the Fund's short-term payment, margin and collateral obligations.

6.22 Policies, standards and procedures relating to liquidity management are contained in our *Liquidity Policy and Liquidity Procedures.*

7. Implementation

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

Choosing how to invest

7.2 Our legislative mandate, our purpose, the particular advantages we have because of our endowments and investment beliefs all guide how and where we invest.

Total Portfolio Approach

7.3 We have an investment belief that a Total Portfolio Approach enables a flexible and dynamic approach to capital allocation to Opportunities, informed by what is best for the total portfolio and supported by a high degree of collaboration across the investment team.

Physical versus synthetic assets

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

Investment management

7.5 The decision as to whether to manage an investment Opportunity ourselves or have a third party do it for us will depend on which is the most efficient and effective way to access the relevant Opportunity. Relevant factors include the relative risk-adjusted expected returns net of fees; alignment of interests; liquidity; and management and governance capability.

7.6 Externally managed investments include investing in a collective investment vehicle managed by an external manager and appointing an external manager to manage a particular investment mandate on our behalf.

New Zealand investment

7.7 We actively identify and consider investments in New Zealand consistent with the government directive issued in 2009, subject to remaining commercially prudent in our investment activities.

Counterparty selection; exposure management and monitoring

7.8 In the course of investing the Fund, we enter into contractual arrangements with a variety of counterparties. We use a structured selection, monitoring, and exposure management framework to manage counterparty credit risk within defined exposure limits. Counterparty creditworthiness is actively managed to ensure that exposures do not give rise to unacceptable risk or potential loss to the Fund.

Derivatives

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

7.10 We use financial instruments for the purpose of obtaining market exposures, hedging risks, managing liquidity, and executing efficiently.

7.11 We may use derivatives, and may permit external managers to use derivatives, where we are satisfied that all aspects of derivative use are effectively managed and in compliance with our investment, governance and legislative requirements.

7.12 We only use derivatives consistent with the Act, regulations, Ministerial consents and directions, and the investment objectives of the Fund, and maintain appropriate procedures to evaluate the competency of internal and external investment managers to use derivatives as part of their investment management.

Short selling

7.13 Short selling is the sale of a physical security that is not owned by the seller, or that the seller has borrowed.

7.14 We may short sell publicly listed securities to enhance the expected returns of the Fund, or to offset or otherwise manage certain exposures. Short selling will only be undertaken after full consideration of the related risks, including the credit quality of the lender of the securities.

7.15 We may permit short selling to be undertaken by external investment managers or under an internal investment mandate where we are satisfied that necessary controls are in place to ensure prudent use of that ability, and such use is consistent with the relevant investment guidelines or internal investment mandate.

7.16 Uncovered short selling is not permitted.

Securities Lending

7.17 We may lend securities under an internal securities lending programme. The objective of the securities lending programme is to generate income primarily from fees by lending the Fund’s securities. The programme will take a conservative approach to securities lending with a focus on principal protection and liquidity of the Fund’s securities.

7.18 We may use specialist providers to manage components of the securities lending programme, including administration, collateral management and risk management. Key operating principles include the identification, measurement and management of credit, market and liquidity, and operational risks, including appropriate controls over collateral eligibility, margins and approved borrowers.

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

Policies, standards and procedures

7.20 Our policies, standards and procedures for externally and internally managed mandates, use of derivatives, short selling and securities lending are set out in the *Investment Policy* and *Investment Procedures*. These documents include frameworks for:

- evaluating and implementing investments;

- monitoring and managing investments;
- external manager conviction and fee evaluation;
- governance of internally managed investment mandates;
- Portfolio Completion activities, including rebalancing and foreign exchange exposure management;
- investee company director appointments;
- selection, monitoring and management of counterparties and portfolio completion service providers and related exposures;
- controlled investments;
- approved products and authorised dealing in financial markets transactions; and
- the use of derivatives and short selling.

7.21 A six-monthly summary of our external manager relationships and a list of our internally managed investment mandates is available on the Fund’s website (www.nzsuperfund.nz).

8. Investment Constraints

8.1 The Act does not restrict investment in any particular asset or class of assets. It is for the Board to set investment constraints for the Fund.

8.2 Board-approved constraints and budgets used to manage risk within the Fund include:

(a) portfolio risk constraints and budgets, including limits on active risk and the total active risk budget;

(b) concentration constraints, including limits on exposure to a single manager, asset, mandate, and Opportunity;

(c) minimum liquidity requirements, liquidity budget and liquidity related requirements; and

(d) rebalancing, strategic tilting and counterparty exposure constraints.

8.3 These investment constraints are outlined in our *Portfolio Design Policy* and, in the case of liquidity requirements, our Liquidity Policy, and are periodically reviewed in accordance with those policies.

8.4 Investment constraints may also be set to manage risk within individual investment mandates (whether managed internally or externally). These constraints are set out in the relevant investment mandates and operate within, and are subordinate to, the Board-approved Fund-level constraints.

8.5 Restrictions on investing in particular securities may arise as a result of the application of our *Sustainable Investment Policy* and *Sustainable Investment Procedures* or the application of regulatory requirements such as sanctions. A list of companies whose securities we have decided the Fund will not hold is published on our website (www.nzsuperfund.nz).

9. Sustainable Investment

Background

9.1 Our *Sustainable Investment Policy* and *Sustainable Investment Procedures* set out our policies, standards and procedures for sustainable investment. For the purposes of this SIPSP, sustainable investment encompasses ethical investment and includes the integration of environmental, social and governance (**ESG**) considerations into our investment and ownership activities.

9.2 This SIPSP, our *Sustainable Investment Policy* and *Sustainable Investment Procedures*, together, cover:

- ethical investment, including policies, standards and procedures for avoiding prejudice to New Zealand's reputation as a responsible member of the world community under section 61(d) of the Act; and
- the retention, exercise and delegation of voting rights acquired through investments under section 61(i) of the Act.

9.3 These sustainable investment policies, standards and procedures are our principal policies, standards and procedures for managing and administering the Fund in a manner consistent with avoiding prejudice to New Zealand's reputation as a responsible member of the world community, which is part of our duty under section 58(2) of the Act for how the Fund should be managed and administered. Our other Policies and related Procedures also support that part of our s 58(2) obligation. For example, our *Communications and Engagement Policy* sets a general approach to communications designed to maintain our reputation and the trust of our stakeholders.

9.4 There are two broad dimensions within which we manage and administer the Fund in a manner consistent with avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

(a) First, through the way in which we manage and administer the Fund generally. We have policies and procedures that promote responsible business practices, such as standards of integrity, including safeguards against bribery, corruption, and conflicts of interest.

(b) Second, through the sustainable investment procedures we have embedded in our investment activities.

9.5 The sustainable investment procedures have been developed by reference to recognised international best practice guidance for investment practices and responsible business conduct for institutional investors, including the UN-backed Principles for Responsible Investment. They are also consistent with the Guardians' duty under section 58 of the Act to invest the Fund on a prudent, commercial basis, reflecting our belief that ESG considerations, including climate change, are fundamental to long term risk and return.

9.6 These procedures include integrating ESG considerations into our investment decisions, ongoing monitoring of the portfolio for ESG issues, processes for engagement with investee companies and, in certain circumstances, excluding securities from the portfolio. They are designed to reduce the risk of exposure to investments with significant ESG risk, to identify, assess, prioritise and manage risks and opportunities associated with investments, and to respond appropriately if such risks arise.

9.7 Applying sustainable investment procedures designed to achieve these outcomes, and which are aligned with internationally accepted guidance for best practice sustainable investment for institutional investors, provides strong assurance that the Guardians manages and administers the Fund in a manner consistent with avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

9.8 We apply these procedures against the backdrop of Guardians' statutory independence from the Crown, its status as an autonomous Crown entity, and its commercial mandate to invest the Fund on a prudent, commercial basis. That context also significantly mitigates risk to New Zealand's reputation as a responsible member of the world community arising from our investment activities.

9.9 Our *Sustainable Investment Policy* and *Procedures* are designed to comprehensively address the risk of prejudice to New Zealand's reputation as a responsible member of the world community and, in certain circumstances, the *Procedures* provide for specific consideration of that part of our mandate.

Policies, standards and procedures

9.10 Our *Sustainable Investment Policy* sets the UN-backed Principles for Responsible Investment as our performance benchmark for sustainable investment and includes policy statements covering:

- Integration of ESG considerations into investment decision-making.
- Active ownership, including prioritisation of activities, portfolio monitoring, engagement, exclusions, participation in class actions, and the retention, exercise and delegation of voting rights acquired through investments (including in the context of securities lending).
- Climate change investment activities and setting reduction targets.
- Sustainable investment communication and reporting.

9.11 Our *Sustainable Investment Procedures* set out the standards and procedures used to implement the *Sustainable Investment Policy*, including the roles and responsibilities of our staff.

10. Performance expectations and benchmarks

Performance expectations

10.1 Our expectations for the performance of the Fund and measures for assessing performance are set out in the Guardians' *Statement of Intent* (available on our website www.nzsuperfund.nz).

10.2 The Fund is a long-term investment fund, so rolling 20-year periods are the primary basis for evaluating performance expectations.

Performance benchmarks for the Fund as a whole

10.3 Benchmarks for evaluating performance of the Fund are approved by the Board. We measure Fund performance by comparing the Actual Portfolio returns with two benchmarks:

(a) the 90-day New Zealand Treasury Bill return (representing a proxy for the cost of Government borrowing - we expect the Fund to earn more in returns than the Government would save in borrowing costs if it chose to repay debt rather than make contributions to the Fund), and

(b) the Reference Portfolio return, after costs and before New Zealand tax (to measure how successful the Fund's active investment strategies have been in adding value over and above the Reference Portfolio return).

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

10.5 The performance measures and benchmarks for the Fund as a whole are outlined in our current *Statement of Intent*.

Benchmarks used for the Reference Portfolio

10.6 In order to operationalise the Reference Portfolio, we assign benchmark indices to each of the constituent asset classes of the Reference Portfolio. This facilitates unambiguous performance measurement and also allows the Reference Portfolio to become an investable alternative to the Fund's Actual Portfolio.

10.7 The performance benchmark of the Reference Portfolio is the weighted average return of benchmarks for constituent asset classes. These benchmarks are set out in Schedule 1 of our *Portfolio Design Policy* and are periodically reviewed in accordance with that policy. The constituent asset classes of the Reference Portfolio and their related performance benchmarks are approved by the Board.

Benchmarks for value-adding investments

10.8 Every Opportunity investment has a performance benchmark which is the proxy assigned to it. A description of the proxy system can be found in section 7 of this SIPSP.

11. Risk Management

11.1 Managing and administering the Fund involves accepting and managing a wide variety of enterprise and investment risks. These include credit, liquidity, operational, currency, market and other financial risks.

11.2 The Board is responsible for risk governance and oversight, including setting enterprise and investment risk appetite and approving the risk management framework.

11.3 Management is responsible for implementing the risk management framework and for identifying, assessing, monitoring and managing risks within the Board-approved risk appetite. Separate Risk and Investment Committees have been established by Management to provide support for the management of these risks.

11.4 The Board has set its expectations of the level of enterprise risk that is appropriate for the organisation through a Risk Appetite Statement (available on www.nzsuperfund.nz). Our policies, standards and procedures for managing enterprise risk in line with the Risk Appetite Statement are set out in our *Risk Management Policy and Risk Management Procedures*.

11.5 For our investment activities, the financial markets are the dominant driver of risk. Investment risks faced by the Fund include market risk (such as equity price risk, interest rate risk and foreign currency risk), credit risk, liquidity risk and operational risk. The Board sets its investment risk appetite primarily through its choice of the Reference Portfolio and Board-approved investment constraints and policies. Our policies, standards and procedures for managing investment risk are outlined in our *Investment Policy and Investment Procedures, Portfolio Design Policy and Portfolio Design Procedures, Liquidity Policy and Liquidity Procedures and Sustainable Investment Policy and Sustainable Investment Procedures.*

11.6 More detailed information on how enterprise and investment risk is managed, and on the Fund's principal risk exposures, can be found in our Annual Report and in the notes to the Fund's financial statements, available on www.nzsuperfund.nz.

12. Valuation of Assets

12.1 The Fund's financial statements are prepared on a fair value basis in accordance with generally accepted accounting practice in New Zealand and comply with New Zealand Equivalents to International Financial Reporting Standards. The Fund's investments are valued at fair value using a fair value hierarchy established under those standards.

12.2 Quoted market prices and other relevant observable inputs are used for valuing assets wherever they are available. For investments that are not regularly traded on a public exchange, the Guardians will use the valuation methodology that is most appropriate in the circumstances, having regard to the nature of the investment, the availability and reliability of relevant inputs, and the materiality of the investment. Depending on those factors, this may include recent transaction prices, manager or administrator valuations, internal valuations, independent third-party valuations, or third-party validation of internal valuations.

12.3 The methodology used for the valuation of investments will be applied consistently across investments with similar characteristics, wherever practicable. It will also be applied consistently across financial periods unless an alternative methodology becomes more appropriate.

12.4 The Guardians' *Investment Valuation Policy* establishes the methodology used to determine fair value, the frequency of valuations, and the related reporting framework. More detailed guidance on the investment valuation process, including review arrangements, is set out in the Guardians' *Investment Valuation Procedures*.

13. Performance Reporting

13.1 Our *Communications and Engagement Policy* sets out our general approach to communications, including principles of transparency and disclosure, quality, timeliness, coordinated communication and no surprises, and contains a reporting framework for these activities.

13.2 We use several measures for assessing Fund performance. These are set out in our current *Statement of Intent* and *Statement of Performance Expectations* (available on the Fund's website www.nzsuperfund.nz). We report on Fund performance in our Annual Report. A range of current and historical Fund performance information is also available on the Fund's website (www.nzsuperfund.nz).

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

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

13.4 Additional reporting on Fund performance is provided through:

(a) A five-yearly review of the investment performance of the Fund carried out by an independent body appointed by the Minister, which is presented to Parliament.

(b) Parliamentary Select Committee reviews, which are typically conducted annually.

13.5 Standards and procedures for internal reporting on Fund performance are contained in the reporting framework in the *Communications and Engagement Policy, the*

Communications and Engagement Procedures and, where relevant, the reporting schedules and procedures of our investment policies.

14. Additional Information

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

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

15. Version Control

The history of the evolution of the SIPSP is as follows:

Version	Approved by Board	Change from Preceding Version
1	13 October 2003	Interim policy
2	10 November 2003	Derivatives section revised
3	29 March 2004	Ethical and voting policies revised
4	28 June 2004	Review of format to ensure consistency across each section
5	2 May 2006	Updated for revised Strategic Asset Allocation and other developments
6	19 June 2006	Minor changes throughout. Revised Investment Beliefs
7	31 July 2006	Revised Derivatives section and minor changes to section 12
8	11 September 2006	Revised section 6 (ethical investment) and section 11 (voting rights)
9	31 May 2007	Revised throughout. Voting & Ethical Investment combined into Responsible Investment. Securities Lending section added
10	31 May 2008	Revised throughout. Updated revised Strategic Asset Allocation and other developments
11	20 October 2008	Two revised benchmarks in section 4.3 and modification to wording of section 3.2.5
12	9 December 2008	Addition of section 3.2.3 on strategic tilting and some minor changes elsewhere to reflect strategic tilting. Section 3.2.4 on currency hedging updated for 10% target. Addition to section 3.2.5 to clarify rebalancing process.
13	9 February 2009	Revised treatment of hybrid securities in the asset class definitions in section 3.4, modification of wording in sections 3.3 and 3.4, and clarification added to section 9.2 on derivative exposures.
14	23 June 2009	Revised throughout for internal investment mandates. Introduction of cash as an asset class and concepts of duration and credit spread. Revised wording for investment beliefs in 2.2 and use of derivatives for liquidity and counterparty management purposes in 9.

15	7 July 2010	Revised throughout for Reference Portfolio concept and 2010 reference portfolio review. Revised wording for investment beliefs in 2.2 and changed approach to currency hedging.
16	1 July 2011	Comprehensive structural review to link to underlying policies.
17	12 June 2012	Minor revisions to sections 5 and 10.
18	18 June 2013	Modest changes to sections 5, 7 and 10.
19	19 June 2014	Changes in light of the Risk Budget to sections 4, 6 and 11 and other modest changes to sections 7, 8 and 10.
20	17 June 2015	Changes in light of the approval of a standalone Derivatives Policy and Valuation Policy in 2015. Changes in light of replacement of the "How we Invest" document with internal procedures.
21	17 June 2015	Changes in light of the requirements relating to the governance of Fund Investment Vehicles.
22	21 June 2016	Minor revisions to sections 2, 5, 7 and 9.
23	6 April 2017	Revisions to sections 5 and 8 for the Securities Lending programme.
24	19 June 2018	Annual Review
25	20 June 2019	Annual Review
26	24 June 2020	Annual Review
27	24 June 2021	Annual Review
28	22 June 2022	Annual Review
29	22 June 2023	Annual Review
30	20 June 2024	Annual Review
31	18 June 2025	Annual Review
32	13 March 2026	Changes in light of Board approval of updated wording for the Fund's Endowments and Investment Beliefs.
33	5 August 2026	Annual Review