

Portfolio Design Policy

Te Kaupapa Here Whakarite Huinga Haumi

The Guardians' Portfolio Design Policy sets out the principles, governance requirements, constraints, and reporting framework for designing and managing the Fund's portfolio, from the Board-approved Reference Portfolio to the Actual Portfolio.



Policy Owner: Co-Chief Investment Officers

Date: 5 August 2026



1. Purpose and Scope

- 1.1 This policy sets out the principles, governance requirements, investment constraints, and reporting framework for building and managing the Fund's portfolio, from the Board-approved **Reference Portfolio** reflecting the Board's investment risk budget through to gaining exposure to asset classes through **Passive Investment** and applying **Opportunities** and **Proxies** to construct the **Actual Portfolio**.
- 1.2 This policy is part of the Guardians' suite of investment policies, standards and procedures that are established under section 60 of the New Zealand Superannuation and Retirement Income Act 2001 (**Act**) designed to meet the legislative requirement that the New Zealand Superannuation Fund (the **Fund**) be invested on a prudent, commercial basis and managed and administered 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.
- 1.3 This policy is also guided by the Fund's purpose – sustainable investment delivering strong returns for all New Zealanders.
- 1.4 This policy should be read in conjunction with three other policies. These are:

Investment Policy: sets out the principles based on our **Total Portfolio Approach**, governance requirements and reporting frameworks we follow when making investments into Opportunities managed both internally and externally.

Liquidity Policy: sets out principles for managing Fund-wide risk liquidity and operational liquidity management.

Sustainable Investment Policy: sets out our approach to sustainable investment and includes policies for avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

2. Definitions

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*.

When we refer to "we" / "our" / "us" in this policy we mean the Guardians of New Zealand Superannuation.

3. Guiding Principles

The following principles underpin this policy and must be considered in its application:

Overall Asset Allocation Approach

- 3.1 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.
- 3.2 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.

- 3.3 In the Fund's Actual Portfolio, we seek to add more value than the Reference Portfolio would do, through accessing return premia (whether market or skill based) not available in the Reference Portfolio through Opportunities by gaining access to the desired risk exposures, rebalancing the Fund, and managing liquidity risk in the most cost-effective manner possible.
- 3.4 In designing the Actual Portfolio, in addition to Passive Investments, we identify a number of investment opportunities and use a Risk Budgeting Framework to assess the relative attractiveness of the Opportunities. We assess the relative attractiveness and the total amount of investment risk we wish to take and how much **Active Risk** to allocate to each Opportunity.
- 3.5 The Proxy system ensures that active investments not represented in the Reference Portfolio, are funded in such a way that the Fund's total risk remains consistent with the Board-approved risk level implied by the Reference Portfolio.

Guiding Principles for each part of our Asset Allocation Approach

Reference Portfolio

- 3.6 The starting point for our risk allocation decisions is the Reference Portfolio. Approved by the Board, the Reference Portfolio represents a set of diversified asset classes that best meets our statutory obligations on a passive basis given our long-term views on asset class returns. We will establish a Reference Portfolio that will comprise readily obtainable asset exposures and that represents the lowest cost implementation.
- 3.7 **Design Principles:** The design principles of the Reference Portfolio require that the Reference Portfolio:
 - be a simple, liquid, passive and low implementation cost portfolio;
 - be diversified;
 - reflect an appropriate risk and return profile for the Fund, given its purpose;
 - be relevant to a New Zealand based investor: this will include a focus on NZD returns and recognition that our stakeholder is the NZ government and
 - long horizon with link to our endowments.
- 3.8 **Asset Classes:** Asset class decisions are a key determinant of the Fund's risk and total return. 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 Fund comprises a broadly diversified portfolio of assets. The differing characteristics of various asset classes provide diversification benefits when they are aggregated into an Actual Portfolio.
- 3.9 **Benchmarks:** In order to operationalise the Reference Portfolio, we must assign benchmark indices to each of the constituent asset classes. This not only facilitates

unambiguous performance measurement but also allows the Reference Portfolio to become an investable alternative to the Fund's Actual Portfolio.

There are five desirable characteristics to be considered when choosing indices for benchmarking:

1. Objective selection criteria
2. Representativeness
3. Relevance
4. Investability
5. Acceptance by investors

In constructing the Reference Portfolio performance benchmark, we will take into account our tax status and any changes in that status need to be reflected in the benchmark construction. We estimate the cost of implementing and maintaining the Reference Portfolio and incorporate these costs into the Reference Portfolio benchmark. Sustainability considerations are also built into the Reference Portfolio.

We will also use benchmarks to assess the performance of Opportunity investments.

Actual Portfolio

- 3.10 The actual composition of the Fund at any one time is called the Actual Portfolio. The purpose of the Actual Portfolio is to represent the best portfolio possible at any point in time, reflecting the Fund's Purpose and Endowments, as well as our Investment Beliefs and organisational capability. The Actual Portfolio is constructed by combining Reference Portfolio exposures with Opportunities with active risk allocated through the Risk Budgeting Framework and Proxy system whilst managing liquidity, tail risks, and sustainable investment considerations.
- 3.11 **Opportunities:** The Actual Portfolio exposures will deviate from the Reference Portfolio as a result of the value adding activities represented by Opportunities we choose to invest in. An Opportunity is an investment activity that is expected to improve the risk adjusted expected return of the Actual Portfolio and may also improve liquidity, sustainable investment outcome and reduce tail risk. It 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. These investment Opportunities are the key method for us to add value to the Fund and require Board oversight.
- 3.12 **Proxy System:** The Proxy system ensures that the Fund's total risk is maintained at its target level when investments are introduced to the Actual Portfolio. It is used when we make investments not represented in the Reference Portfolio.
- 3.13 Investments in the Actual Portfolio, made under one of our Opportunities, generally have embedded market risk exposures. The proxy system seeks to offset these embedded market risks by selling down an appropriate mix of growth and income assets (including cash) represented in the Reference Portfolio.

- 3.14 **Risk Budgeting:** The Board sets the overall active risk budget and limit. We follow a Risk Budgeting Framework to allocate risk to Opportunities based on their risk adjusted return, liquidity, sustainability and tail risk. This ensures that the attractiveness of all Opportunities is assessed on a consistent basis and that the active risk of the Actual Portfolio will meet approved risk budgets, on average over time.
- 3.15 **Tail Risk:** 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.
- 3.16 **Liquidity Management:** Liquidity management is a key factor in portfolio design to ensure the Fund can take advantage of investing in illiquid assets and other active return Opportunities whilst meeting its obligations, rebalancing efficiently under both normal and stressed conditions, while minimising the cost of holding liquidity and avoiding forced asset sales. This is achieved through a Fund-wide Liquidity Policy.

Governance Principles

- 3.17 **Board:** The Board is responsible for approving the Endowments, *Investment Beliefs*, investment policies and strategy for the Fund. This includes approving the Fund's risk and return profile, standards and benchmarks, investment constraints, carbon targets and Sustainable Investment exclusion categories.
- 3.18 **Management:** Management is responsible for investing the Fund in accordance with the Board-approved investment policies, and managing investment risk within Board approved risk limits, investment constraints and budgets. The **Investment Committee** is responsible for oversight of investment risk, including monitoring and reviewing all investment activities. It makes recommendations to the holders of delegated authority for key investment decisions.

4. Policy

Portfolio Design: Reference Portfolio

- 4.1 **Reference Portfolio:** The Reference Portfolio asset class allocations, weights and benchmarks must be approved by the Board. The approved Reference Portfolio must be maintained in Schedule 1. This ensures the Reference Portfolio continues to reflect the Board's long-term risk and return expectations and provides a stable, transparent foundation for all subsequent portfolio design decisions. The framework for Reference Portfolio review must be maintained in the *Portfolio Design Procedures*.
- 4.2 **Asset Classes:** Board approval of eligible Reference Portfolio asset classes ensures that changes to the Fund's core risk exposures are deliberate, explicit, and aligned with the Fund's Purpose and risk appetite. All approved Reference Portfolio asset classes must be maintained in Schedule 1.

- 4.3 **Benchmarks:** Reference Portfolio asset benchmarks must be approved by the Board and be maintained in Schedule 1. Maintaining approved benchmarks provides a consistent basis for performance measurement, accountability, and assessment of value added relative to the Reference Portfolio. Every Opportunity investment has a performance benchmark which is the Proxy assigned to it under the Proxy system.

Portfolio Design: Actual Portfolio

- 4.4 **Opportunities:** For all new and existing Opportunities we will maintain and adhere to opportunity evaluation, risk budgeting and Fund-wide **Liquidity Risk Assessment** frameworks. The framework for Opportunity Evaluation and the framework for Risk Budgeting must be maintained in the *Portfolio Design Procedures*. The framework for a Fund-wide Liquidity Risk Assessment must be maintained in the *Liquidity Procedures*. A list of approved Opportunities must be maintained in the *Portfolio Design Procedures*. These frameworks provide a common and disciplined basis for assessing opportunities, allocating active risk, and ensuring portfolio-level liquidity considerations are integrated into investment decisions.
- 4.5 **Risk Budgeting:** For Opportunities we will maintain and adhere to the Risk Budgeting Framework that aligns with the key objectives of active return, liquidity, tail risk and sustainability. This framework ensures that active risk is allocated consistently across Opportunities, while remaining within the total active risk parameters approved by the Board. The Board-approved **Total Active Risk Budget** must be maintained in Schedule 2*.
- 4.6 **Proxy System:** Allocations to asset classes not represented in the Reference Portfolio must be in accordance with the opportunity evaluation, risk allocation and Fund-wide liquidity management considerations. The Reference Portfolio assets that the new allocation replaces will be determined by the Proxy system. The process to approve proxies must be maintained in the *Portfolio Design Procedures*.
- 4.7 **Liquidity Management:** Fund-wide liquidity is managed through the Liquidity Policy.
- 4.8 **Investment Capital and Risk Constraints and Budgets:** The Board-approved investment constraints and budgets must be maintained and adhered to for the purpose of managing investment risk within the Fund. The categories of Fund-level constraints and budgets are summarised in Schedule 2*; detailed settings are maintained internally. Constraints in Internally Managed Mandates are contained in Investment Procedures and operate within, and are subordinate to, the Board-approved Fund-level constraints. The IIM constraints or limits are approved by the CEO on the recommendation of the Investment Committee. Constraints in Investment Management Agreements are approved by Management under the relevant delegated authority.

*Not included in the abridged version of this policy published externally.

5. Procedures

- 5.1 Management is responsible for the development, maintenance and approval of procedures supporting this policy including those listed below. Changes to these procedures must be subject to appropriate Management governance including oversight from the Investment Committee or Risk Committee (as appropriate) over changes that have a material impact on Opportunity evaluation, Risk Budgeting and operation of the Proxy system.
- 5.2 Staff are guided in matters of this policy by the *Portfolio Design Procedures* document that is available on Supercharged.
- 5.3 The *Portfolio Design Procedures* cover:
- Reference Portfolio Review Process
 - Framework for Opportunity Evaluation
 - Risk Budgeting Framework
 - List of Approved Opportunities
 - Proxy System Description
 - Investments Requiring Investment Committee Consideration
 - Investment Committee Terms of Reference
 - Responsibilities

6. Reporting

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

7. Policy Approval and Review

- 7.1 The review framework for this policy is set out in Schedule 3*.
- 7.2 This policy was reviewed and approved by the Board on 5 August 2026. This policy will be reviewed every five years as part of the cycle of reviewing Guardians policies and procedures. The next scheduled review will be in 2031.

8. Governance and Delegations

- 8.1 The *Delegations Policy* governs the delegation of authority for matters relevant to this policy.
- 8.2 **Board:** The Investment Capital and Risk Constraints and Budgets specifically reserved to the Board are specified in Schedule 2* of this Policy and a full list of investment related matters reserved to the Board are set out in the Delegations Policy.
- 8.3 **Investment Committee:** The Investment Committee oversees investment risk and recommends key investment decisions.

* Not included in the abridged version of this policy published externally.

Schedule 1 Reference Portfolio, Asset Classes, Weightings and Benchmarks

Reference Portfolio Asset Class	Weighting	Benchmark
Global equities	75%	MSCI World & EM Climate Paris Aligned Total Return Index: 70% hedged to NZD, 30% unhedged
New Zealand equities	5%	NZX 50 Gross Total Return Index
Total Growth	80%	
Fixed income	20%	Bloomberg Global Aggregate Total Return Index: 70% hedged to NZD, 30% unhedged The corporate bond segment of the fixed income index stated above is replaced with the Bloomberg MSCI Global Corporate Paris Aligned Select Total Return Index (for both hedged and unhedged).
Total	100%	

Schedule 2 Investment Constraints and Budgets (on the Actual Portfolio)

The investment constraints and budgets set by the Board cover portfolio active risk, concentration risk, rebalancing, strategic tilting, counterparty and clearing-house exposure, liquidity.

Emission reduction targets set by the Board:

	Target	Supporting Guidelines
Reduction in carbon intensity of the Fund	By at least 75% by 2030	Measured against a fixed baseline unadjusted Reference Portfolio (as at 30 June 2019),
Reduction in the potential emissions from fossil fuel reserves owned by the Fund	By at least 80% by 2030	Measured against a fixed baseline unadjusted Reference Portfolio (as at 30 June 2019),

Schedule 3: Reporting and Review Framework

The Investment Committee and Board receive regular reporting on portfolio performance, active risk, liquidity, constraints and material events.

The Reference Portfolio, investment settings and supporting frameworks are reviewed periodically.