The test of time
Tā te wā whakamātau

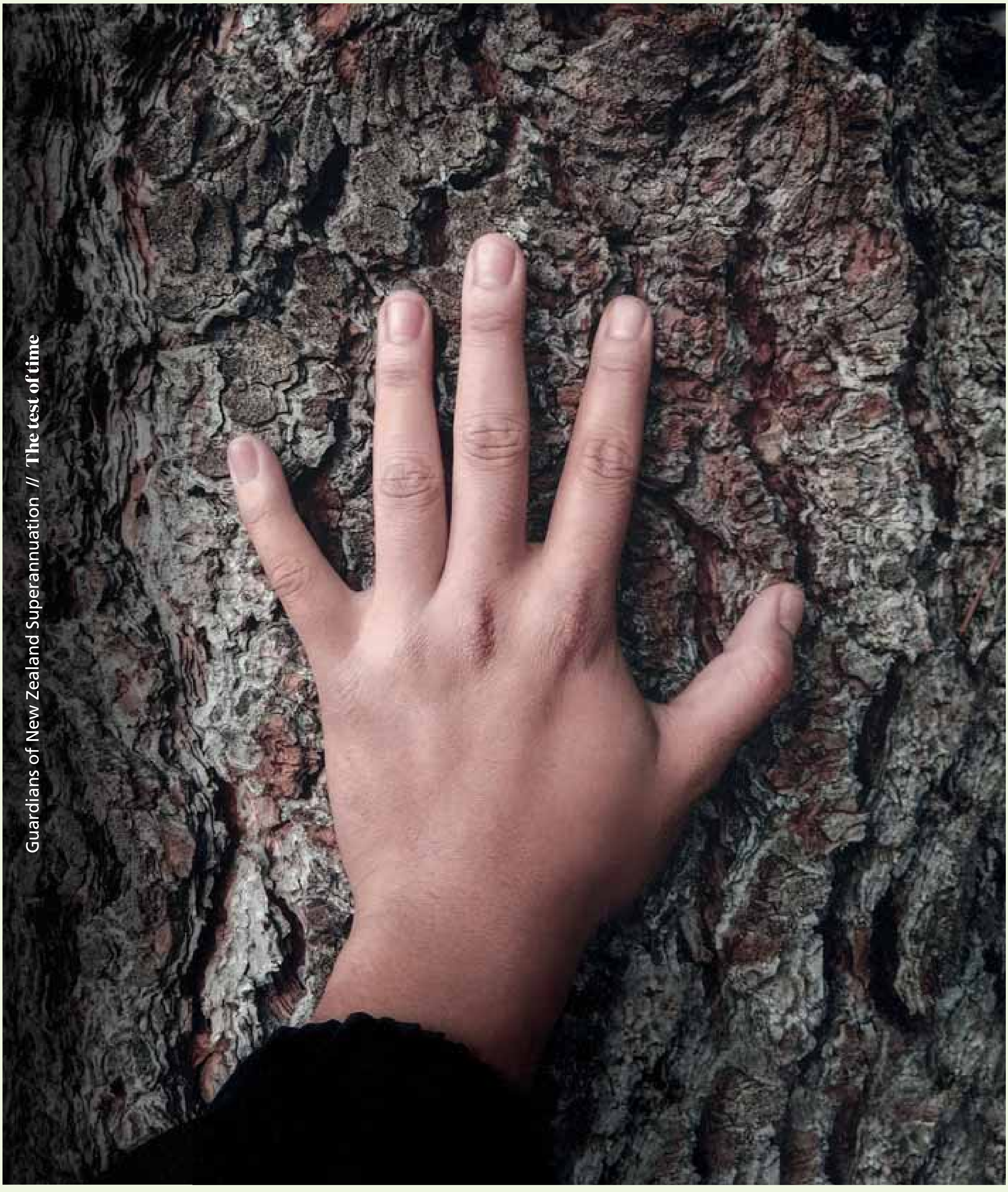
NZ SUPERFUND
Te Kaitiaki Tahua Penihana Kaumātua o Aotearoa

ELEVATE
NZ VENTURE FUND

Guardians of New Zealand Superannuation // Annual Report // **2020**

Like a tōtara, we **stand strong**, focused on our long-term purpose: helping fund superannuation for New Zealand's future generations.

—


Guardians of New Zealand Superannuation // The test of time

The tōtara stands tall, enabling life to prosper beneath its wide canopy. But examine the deep knotted rings of its trunk and you'll find it has weathered many storms to get to where it is today.

—

At the Guardians, now is the time we must retain our discipline to stay the course and capitalise on our ability to ride out tough patches to maximise returns over the long term.

—

OUR MISSION:

Each year, the Government puts money aside so that it can be used to pay for superannuation in the future, reducing the tax burden faced by future generations of New Zealanders.

The Guardians is responsible for investing the money the Government sets aside into a growth-oriented and diversified portfolio of investments: the New Zealand Superannuation Fund.

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.

—

2019/20 MAJOR ACHIEVEMENTS:

- Applied our investment strategies through the market volatility brought about by Covid-19, with a view to maximising returns over the long term
- Reviewed the composition of the NZ Super Fund's Reference Portfolio
- Input into the establishment of the Elevate NZ Venture Fund
- Reviewed and increased our carbon reduction targets

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PRIORITIES FOR 2020/21:

- Refresh our Responsible Investment Strategy
- Following the 2020 Culture Survey, undertake a range of initiatives to sustain the Guardians' culture
- Implement control effectiveness assessments and key risk indicators for the Guardians' top risks

NZ SUPER FUND SIZE

$44,796,195,494

(AFTER COSTS, BEFORE NZ TAX)

2019/20 RETURN

1.73%

(AFTER COSTS, BEFORE NZ TAX)

INCREASE IN FUND SIZE IN 2019/20

$1.7b

(BEFORE NZ TAX)

VALUE ADDED IN 2019/20

-$923m

(VS REFERENCE PORTFOLIO BENCHMARK, AFTER COSTS)

VALUE ADDED SINCE INCEPTION

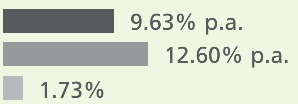
$7.8b

(VS REFERENCE PORTFOLIO BENCHMARK, AFTER COSTS)

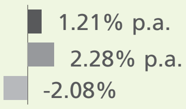
NZ SUPER FUND RETURNS

As at 30 June 2020

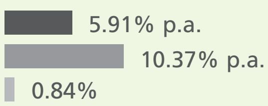
ACTUAL FUND RETURN
(after costs, before NZ tax)



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



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



● Since inception (September 2003) ● 10 years ● 1 year

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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, the Elevate NZ Venture Fund, and the Guardians of New Zealand Superannuation ('Guardians'), the Crown entity that manages the funds, over the 2019/20 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 at: www.nzsuperfund.nz. The supplementary information includes a report against the TCFD, a GRI Index and a list of the NZ Super Fund's global portfolio holdings as at 30 June 2020.

Previous Annual Reports, including the last report (2018/19), are available at: www.nzsuperfund.nz/publications/annual-reports.

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

01

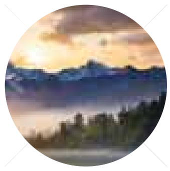
OVERVIEW OF THE GUARDIANS

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 2019/20 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.



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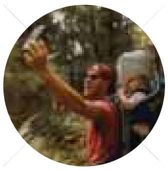
GOVERNANCE

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.



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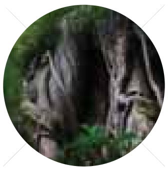
STATEMENT OF PERFORMANCE

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



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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.

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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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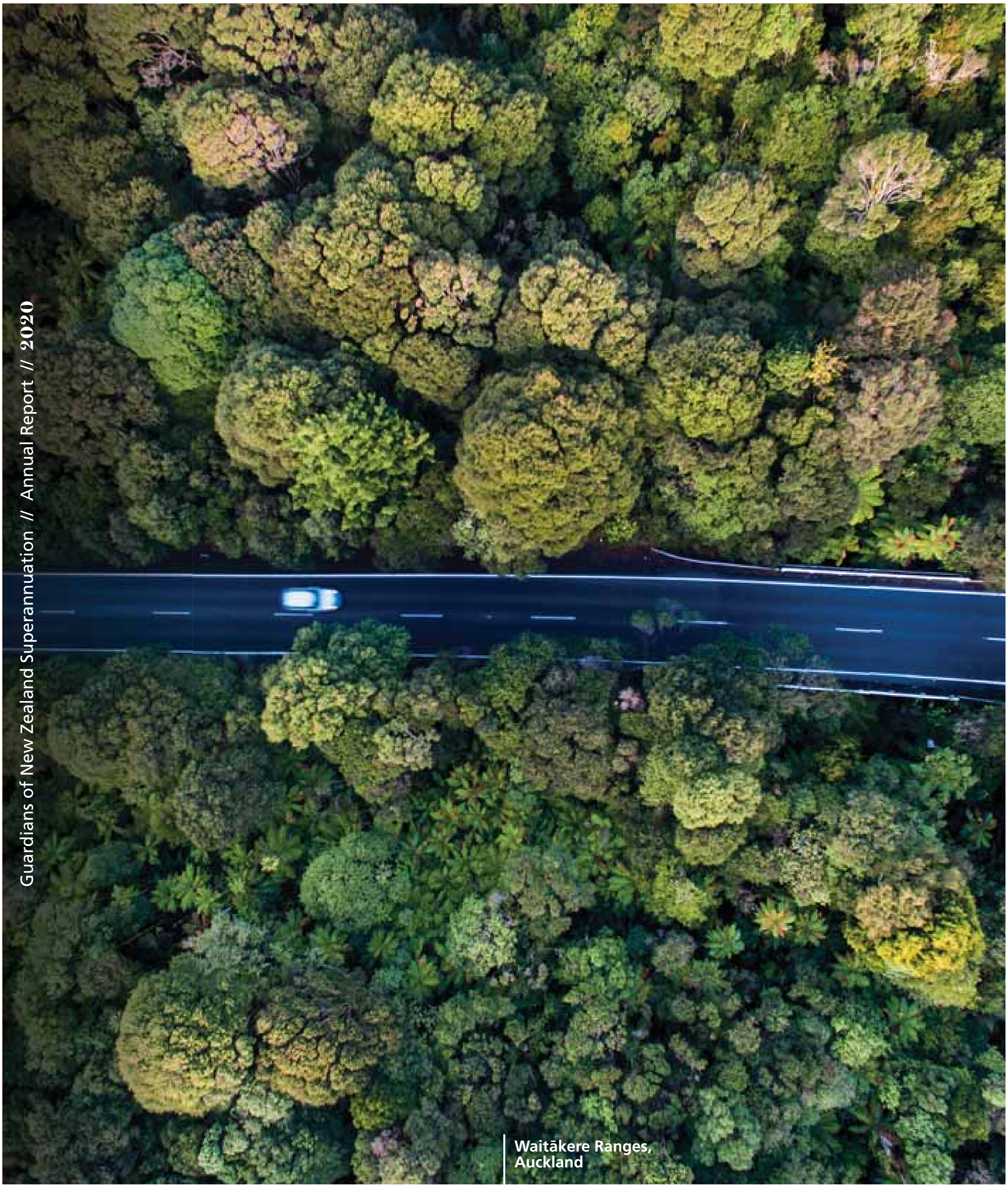

Waitākere Ranges,
Auckland

01

Overview of the Guardians

He Tiro Whānui ki ngā Kaitiaki me te Tahua

OVERVIEW

Investing for the Long Term

The Guardians invests money, on behalf of the Government, to help pay for the increased cost of universal superannuation payments (New Zealand Superannuation) 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 payments (also known as the pension, National Super, Government Superannuation or Super). The Government pays for these 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 universal superannuation, future generations face a much higher tax burden than their predecessors.

HOW DO WE FIT IN?

The NZ Super Fund was created as a means of partially pre-funding future retirement benefits to help smooth the cost of New Zealand Superannuation between today's taxpayers and future generations. The New Zealand Superannuation and Retirement Income Act 2001 (the Act) established:

- the New Zealand Superannuation Fund (NZ Super 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 2003 and 2009, the Government contributed NZD14.88 billion to the NZ Super Fund. Contributions were suspended in 2009, during the Global Financial Crisis, and were restarted in December 2017. The Government contributed NZD1.5 billion to the Fund in 2019/20. Full funding, in accordance with the formula in the Act, is projected to commence from 2022.

From around 2034/35, the Government is expected to begin to withdraw money from the NZ Super Fund to help pay for New Zealand Superannuation. On current forecasts, a larger, permanent withdrawal period will commence in the 2050s. The NZ Super Fund is expected to peak in size as a percentage of GDP in the early 2070s (see **www.treasury.govt.nz/government/assets/nzsf/** for the contribution rate model for projections by New Zealand Treasury).

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On current Treasury projections, capital withdrawals from the NZ Super Fund will be meeting 10% of the net cost of Superannuation by 2071, peaking at 11.8% in 2078, and averaging 10.8% for the 30 years to 2100. The NZ Super Fund will also be paying tax to the Government in addition to the capital withdrawals. At the NZ Super Fund's peak, the capital withdrawals and tax payments combined will total 19.5% of the total net cost of New Zealand Superannuation and more than 46% of the incremental cost increase since 2019/20 due to the rising proportion of retirees in the population.

Fund returns have averaged 9.63% per year (after costs, before New Zealand tax), significantly ahead of both the Government's cost of debt and our passive benchmark. This means that the burden on future taxpayers of the cost of Superannuation has been materially reduced as a result of the existence and performance of the Guardians and the NZ Super Fund.

In this way, the NZ Super Fund adds to Crown wealth, improves the ability of future governments to pay for Superannuation and, ultimately, reduces the tax burden on future generations of New Zealanders.

WHAT IS THE ELEVATE NZ VENTURE FUND?

The Venture Capital Fund Act 2019 established the Elevate NZ Venture Fund (Elevate Fund), which is designed to increase the amount of venture capital available to New Zealand entities over time and, in doing so, develop New Zealand's venture capital markets. The Elevate Fund is administered by the Guardians under a new mandate, run separately from the NZ Super Fund. It is managed on our behalf by New Zealand Growth Capital Partners.

The Elevate Fund consists of NZD259.5 million of Crown capital commitments that have come via diverted contributions from the NZ Super Fund. The Government expects this to reach NZD300 million over time as further commitments are provided.

WHAT DO WE DO?

With respect to the NZ Super Fund, the Guardians invests the money the Government has contributed in a growth-oriented and diversified global portfolio of investments. For the Elevate Fund, the Guardians' role is to provide 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 venture capital.

In undertaking both of its mandates the Guardians has operational independence from the Government.

Our Mandates

The Guardians' role is to manage and administer the NZ Super Fund and the Elevate Fund.

NZ SUPER FUND MANDATE

Under the New Zealand Superannuation and Retirement Income Act 2001, the Guardians must invest the NZ Super Fund on a prudent, commercial basis and, in doing so, must manage and administer 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 Guardians must maximise the NZ Super Fund's return over the long term, without undue risk, so as to reduce future New Zealanders' tax burden.

OUR VALUES

At the Guardians we have four values:

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

ELEVATE FUND MANDATE

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

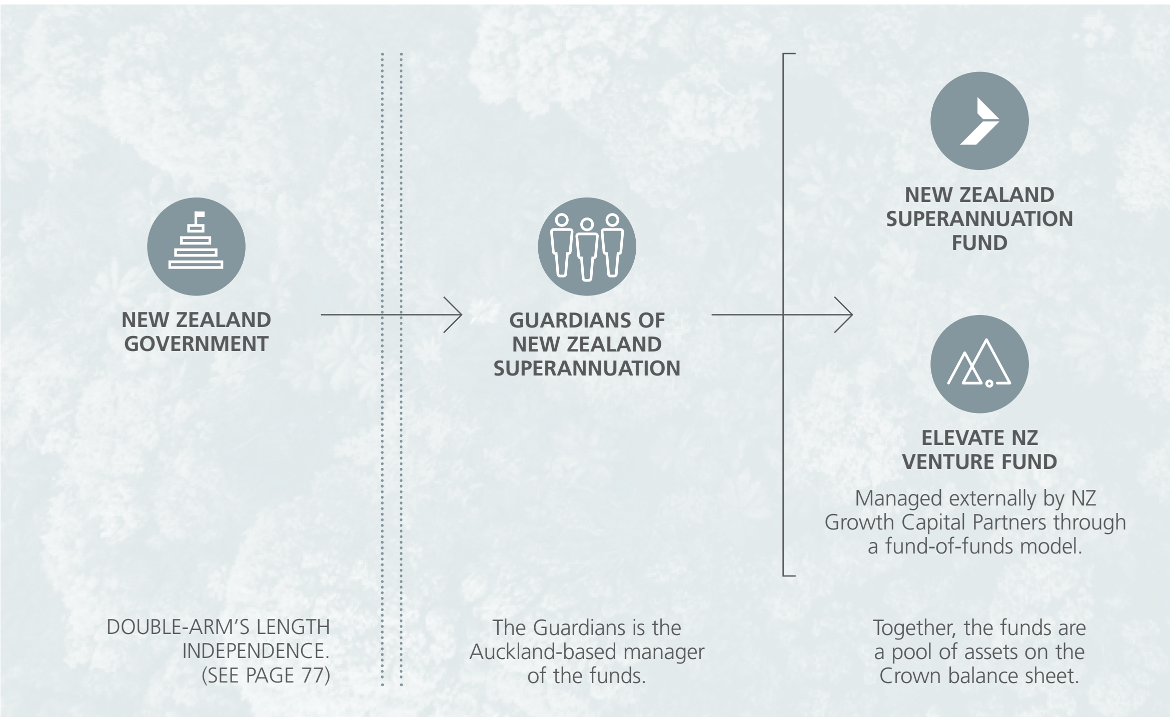
- the policy statement, and
- avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

The Guardians must invest the Elevate Fund in New Zealand's venture capital markets using best-practice investment management that is appropriate for institutional investors in those markets.

The Elevate Fund launched in March 2020 and its progress, despite the impact of Covid-19, is set out on page 73.

OUR VISION

A great team building the best portfolio.



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CHAIR'S STATEMENT
TE TAUĀKĪ A TE KAIHAUTU

CATHERINE SAVAGE
CHAIR

I te roanga o te tau pūtea kua pahemo, kua matatū tātou i te mōrearea nui whakaharahara i toro rā ki ngā tōpito katoa o te ao whānui.

I ngā Kaitiaki, pērā i te nuinga o ā mātou tahua ā-aropā, kua whakatarahia mātou e tētahi tūāhuatanga kua whakamātautau i te turapa o ngā Kaitiaki me te Tahua. Hei whakahaere, e ū tonu ana mātou i runga i te āta whai i tā ngā Kaitiaki e whakapono nei, e whai wāhi nei ō mātou whakapono ā-haumitanga me ngā uara ā-whakahaere tae atu ki te ngoto o te arotahi ki te pae tawhiti.

Te whakahaere i ngā tūraru me ngā hua i te mōreareatanga

I waenga i a Hānuere me te puku o Māehe i tēnei tau, i te mōhiotanga o te whānuitanga o te pānga mai o te KOWHEORI-19 wheori, i kaha rawa atu te heke o te uara o te Tahua, pērā i ngā pae tauhokohoko ā-tūtanga o te ao. Mai i taua wā, kua turapa ake, ā, i te mutunga o te tau pūtea, kua tau ki te 44.8 piriona tāra o Aotearoa, 1.7 piriona tāra o Aotearoa te pikinga i te taumata o tērā tau. I tēnei wā, e kaha rawa atu ana te pāhekeheke tonu o ngā pae tauhokohoko ā-tūtanga o te ao, e tino nekeneke nei ōna utu i ia rā, i ia rā.

Pērā i tā mātou i tuhi ai ki tā mātou Pūrongo ā-Tau o te tau 2018, ahakoa te pāhekeheke o ngā nekehanga i te pae tauhokohoko, kāore e nui ana ngā tūraru ka pā ki te Tahua i tētahi mōreareatanga pēnei i tēnei. Hei kaihaumi, e whai painga ana mātou i ngā pūtea ka tukuna mai ki a mātou; kei te pae tawhiti ngā hua o ā mātou haumitanga, ka mutu kāore e nui ngā tangohanga pūtea ā tae noa ki te puku o te tekau tau 2050. Ka whakaritea ā mātou rautaki haumi me te huinga haumi i runga i tēnei whakaaro, ā, e tāmore ana te tū a te Tahua i ngā pāhekeheketanga e kitea ana ināianei, waihoki ka whai painga tonu mātou i taua pāhekeheketanga.

E tōpāparu ana te huinga haumitanga o te Tahua i ngā tūtanga, ka mutu i te ueuetanga ā-pae tauhokohoko i puta rā i a KOWHEORI-19, i mōhio tonu mātou ka tere heke te uara o te Tahua. Heoi, e mahara nei hoki mātou ka whai hua te Tahua hei whakakapi i aua hekenga – hei whakawhānui anō – i ngā tau e haere ake nei i te upa haeretanga o ngā pae tauhokohoko. Ko te mea nui ki a mātou i te roanga o ngā piki me ngā heke o ngā marama torutoru nei ki muri, ko te noho urupū tonu hei kaihaumi, ko te tū māia me te whakaaro ake ki ngā pānga tauroa o ā mātou whakatau.

Ahakoa kua tere upa ngā pae tauhokohoko i ngā marama tata kua pahemo, e mōhio ana mātou ka noho whakaraerae tonu pea te ōhanga ā-ao me tō Aotearoa anō hoki i te mōreareatanga o te wā nei, waihoki ka hia tau nei te roa e pērā anō ai ngā taumata i ō te wā i mua i te mōreareatanga. Me mātua panoni ngā tauira pakihi a ngā kamupene, ā, kāore tētahi wāhanga nui o ērā e ora tonu i ō rātou hanga o nāianei. I tēnei tūāhuatanga, kua kite mātou i te nui ake o te arotahitia o ngā āhuatanga pāpori o te turapa ā-rangatōpū e ngā kaihaumi, hei wāhanga mō ā rātou whakaritenga ā-taiao, ā-pāpori, ā-mana hautū hoki. Ki a mātou, ka whakamiramira

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Over the past financial year we have endured a profound and globally far-reaching crisis.

At the Guardians, in common with most of our peer funds, we have been challenged by an environment that has put the Guardians and the Fund's resilience to the test. As an organisation, we remain committed to staying true to what the Guardians stands for, which encompasses both our Investment Beliefs and our organisational values, and focusing firmly on the long term.

Managing risk and return through a crisis

Between January and mid-March this year, when the full extent of the impact of the Covid-19 virus became known, the Fund's value dropped significantly, in line with global equity markets. It has recovered since then, and finished the financial year at NZD44.8 billion, up NZD1.7 billion from last year. Today, global equity markets remain extremely volatile, with substantial day-to-day movements in price.

As we noted in our 2018 Annual Report, as volatile as the market movements have been, a crisis like this one does not present a major risk to the Fund. As investors, we are advantaged by our endowments; we have a long-term investment horizon with no substantial withdrawals until well into the 2050s. Our investment strategy and portfolio choices are designed with this in mind, and the Fund is well placed to weather and even benefit from the volatility we are experiencing now.

The Fund's portfolio is heavily weighted towards equities, and with a market shock like Covid-19, we expected the value of the Fund to fall sharply. Yet we also expect the Fund to earn back these losses – and then some – in subsequent years as markets recover. The most important thing for us amid the upheaval of the past few months has been to maintain our discipline as investors, hold our nerve and consider the long-term implications of our decisions.

While markets may have recovered quickly in recent months, we know that the global economy, and New Zealand's, may continue to be severely challenged by the current crisis and will take many years to recover to pre-crisis levels. Companies' business models will need to change and many will not survive in their current form. In this environment, we have seen increased focus by investors on social aspects of corporate resilience, as part of their Environmental, Social and Governance (ESG) considerations. We believe the current crisis highlights the importance of these factors in positive corporate and investment outcomes and that the strategic review of our responsible investment framework reflects the critical nature of this to the successful pursuit of our mandate.

The Board's most important decision

Amid the Covid-19 crisis, the Board worked closely with Guardians' management to ensure we were informed and aligned in our view on the Fund's response. At the same time, we remained resolutely focused on a very important te mōreareatanga o te wā nei i te hiranga o ēnei āhuatanga i roto i ngā putanga ā-rangatōpū, ā-haumitanga hoki e whai hua ana, waihoki e whakaata ana tā mātou arotake rautaki i tā mātou anga haumitanga e haepapa ana, i te āhua mātuatua o taua tūāhuatanga ki te angitu o te whai i tā mātou e whakamanahia nei.

Te whakatau whakahirahira katoa a te Poari

I te wā o te mōreareatanga o KOWHEORI-19, i āta mahi tahi te Poari me ngā kaiwhakahaere o ngā Kaitiaki kia mārama ai, kia hāngai ai hoki tā mātou titiro e pā ana ki te urupare a te Tahua. I taua wā tonu, i niwha tonu tā mātou arotahi ki te haepapa tino whakahirahira; ki te whakahaere i te arotake ā-rima tau o te Huinga Tūāpapa o te Tahua. Ka noho te kai o roto i te Huinga Tūāpapa hei pae e whakatauritea ai te whai hua o tā mātou Huinga Tūturu, ā, koirā tonu te whakaawenga nui katoa ka pā ki ngā hua e hoki mai ana ki te Tahua. I kōwhiri te Poari i tā rātou Huinga Tūāpapa e paingia ana i a Āperira, i muri i tētahi tukanga hurihuri, 10 marama nei tōna roa, i whai wāhi hoki rātou ki ia whakatau i te roanga o taua tukanga.

Kua whakatau mātou kia puritia tētahi huinga, ko tētahi 75% o ōna kai, he tūtanga ā-ao, ko tētahi 5% he tūtanga ā-Aotearoa, ā, ko tētahi 20% he pūtea taurewa ā-ao me te 100% o te āraitanga i te pūnaha moni e whakahāngaihia ana ki ngā rawa o tāwāhi. E takoto ana te roanga o ngā whakamārama mō te tukanga whakaputa whakatau tae atu ki ngā pānga o tā mātou whakatau ki te whārangi 38.

Te koke – ō mātou awhero mō te taiao

Ko tā mātou rautaki haumitanga e pā ana ki te mahana haere o te ao kua hua ake i ngā haumāuiui i roto i ngā tau maha. Hei tā te Poari titiro, i āhua roa tonu kātahi ka mārama haere ki te take, ka tau haere hoki te mauri ki te whakaputa i tētahi whakatau whakahirahira, i tētahi whakatau mō te pae tino tawhiti tonu. Nō mātou ka whakatakoto tuatahi i te rautaki i te tau 2016, i mōhio tonu mātou ka panonitia i roto i te wā i te putanga mai o ētahi taipitopito anō mō te tere o te mahana haeretanga, mō te panonitanga ā-kaupapa here, mō ngā urupare i ngā utu o te pae tauhokohoko, waihoki, i te pai ake o ngā raraunga me ngā taputapu e wātea ana hei ine, hei whakahaere hoki i ngā tūraru ā-taiao.

He tau nui te tau 2020 ki a mātou, i tā mātou whakatutuki, ki tua atu i tā mātou i whakaaro ai, i ngā whāinga o te tau 2020 e iti iho ai tā mātou tuku hauhā ki te taiao, i whakatakotohia rā i te tau 2016. Nā konā mātou i whakarite ai kia noho ki te arotake, ki te titiro anō hoki ki tā mātou mahere e pā ana ki te taiao me ngā awhero kia whakaitihia te tukunga hauhā i runga i ngā whanaketanga i ngā tau o waenganui. I a Āperira o tēnei tau, i arotakehia, i whakapikihia hoki ā mātou whāinga, ka kōkiri hoki i tētahi mahere hou mō te whakaiti tukunga hauhā hei ārahi i a mātou tae noa ki te tau 2025. Pānuitia he kōrero anō i te whārangi 56.

Taku kupu whakamutunga hei Toihau

I a Hepetema o te tau 2020, i mutu i tētahi o ngā mema tūroa o te Poari i kopoua rā ki te Poari o ngā Kaitiaki i te tau 2009, i a Stephen Moir tonu, tōna wā ki te Poari. E rere ana ngā mihi o te ngākau ki a Stephen i tana ū, i āna mahi hoki mā ngā Kaitiaki me te Tahua i te roanga o te ngahuru tau kua pahemo.

Koinei taku pūrongo whakamutunga hei Toihau mō ngā Kaitiaki. Ka makere au i te Poari hei a Māehe o te tau 2021, i muri i ngā tau ngahuru hemihemi. I te roanga o taua wā, kua tino whanake ngā Kaitiaki, ā, kua rekareka te ngākau i te kitenga i te whanaketanga o ana anga haumitanga, o tana mana hautū me ōna pūkenga ā-roto kua eke nei ki te taumata o ngā tikanga pai katoa, waihoki i te whakanuitanga o tērā ekenga. He mea nui ki a au ngā akoranga, ngā tāngata i mahi tahi ai au, me te wātea o tēnei ara e ārahi ai au i tētahi whakahaere e ngākaunui ana ki te whakapiki i te oranga ā-pūtea o ngā reanga o muri o ngā tāngata o Aotearoa.

responsibility: undertaking a five-yearly review of the Fund's Reference Portfolio. The composition of the Reference Portfolio sets the benchmark against which we measure the performance of our Actual Portfolio, and constitutes the single-biggest influence on Fund returns. The Board selected its preferred Reference Portfolio in April after a 10-month iterative process, engaging in every key decision along the way.

We have chosen to retain a portfolio consisting of 75% global equities, 5% New Zealand equities and 20% global bonds with 100% currency hedging applied to foreign assets. A full explanation of the decision-making process, as well as the implications of our decision, is set out at page 38.

Moving forward - our climate change ambitions

Our Climate Change Investment Strategy is the product of several years of work. From the Board's perspective, it took some time to come to grips with the issue and feel comfortable making what was a material and very long-term decision. When we first established the strategy in 2016, we knew that it would evolve over time as more detail came to light about the pace of global warming, policy change, and market pricing reactions, and as the data and tools available to measure and manage climate risk improved.

The 2019/2020 financial year has been a milestone year for us, having met and exceeded our 2020 carbon reduction targets, which we'd set in 2016. We took this as a chance to take stock and reassess our climate change approach and carbon reduction ambitions given the developments over the intervening years. In April this year we reviewed and increased our targets, setting in motion a refreshed carbon reduction plan to take us through until 2025. Read more on page 56.

My final statement as Chair

Mr Stephen Moir, a long-standing Board member appointed to the Guardians' Board in 2009, ended his term in September 2020. I would like to sincerely thank Stephen for his commitment and service to the Guardians and Fund over the past decade.

This will be my final report as Chair of the Guardians. I will be stepping down from the Board in March 2021 after more than 10 years. Over this time the Guardians has come a long way, and it has been pleasing to see its investment frameworks, governance and internal capability developed to best-practice standard and to be recognised as such. I have valued the experience, the people I have served and worked with, and the opportunity to lead an organisation committed to furthering the financial wellbeing of future generations of New Zealanders.

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CHIEF EXECUTIVE OFFICER'S STATEMENT
TE TAUĀKĪ A TE TUMU WHAKARAE

MATT WHINERAY
CHIEF EXECUTIVE OFFICER

Nōku te hōnore ki te ārahi i ngā Kaitiaki i tētahi anō tau hei Pou Whakahaere.

Tuatahi, e rere ana aku mihi ki te āhua o tā te rōpū mahi tahi ki te whakatutuki i tā mātou e whai nei i runga i te ū ki ngā tāngata katoa o Aotearoa, kia tautoko hoki tētahi i tētahi. Ahakoa ngā auheke o te wā, e kaneke ana mātou i ētahi kaupapa maha.

Te uara o te takatū

I ngā Kaitiaki, ka roa tonu tā mātou whakaaroaro me tā mātou whakariterite mō te anamata. Ka whakaaro mātou ki te anamata i ā mātou whakaputanga whakatau ā-haumitanga nā te mea e aro ana mātou ki te pae tawhiti o ngā haumitanga, otirā ko ngā hua ka puta i te roanga o ngā ngahurutanga tau maha nei te mea nui. Heoi, ka whai mātou ki te whakahāngai i taua aronga ki anamata rā ki ētahi atu anō o ngā whakatau. Ki a au nei, nā tēnei aronga ki anamata i whai rautaki ai, i takatū ā-whakahaere ai hoki mātou ki te urupare ki te mōreareatanga o KOWHEORI-19 i tana pātanga mai.

I runga i te ohiti, i wawe tā mātou whakarite taiao mahi ki tawhiti. Nā te hononga o ētahi kaupapa tōmua ake i āwhina ki te whakamāmā i te whakawhitinga i te mahi ki te tari ki te mahi i te kāinga:

- Kua nekehia ā mātou anga hangarau ki te Cloud i te tau 2018, ā, kua auau ngā whakahoutanga ki ngā hangarau mai i taua wā;
- Ka whakarite mātou i ngā mahere me ngā whakamātautau e auau ana, e uhupoho ana hoki e auroa ai te pakihi;
- I ia tau, ka whakatauirahia te teretere o ā mātou pūtea mā te whakawātea i te Tahua ki ētahi momo ueuetanga whakataruna (e kīia nei he 'whakamātautau whakaueue'); ā,
- I tērā tau, i whakawhanake, i whakarewa ā-rōpū hoki mātou i tētahi huinga uara ā-whakahaere hou.

Nā ēnei mahi tonu i āwhina ki te whakarite i ngā hononga, i te turapa ā-whakahaere me te ahurea nā reira i āwhina kia puta ai ō mātou ihu i te wā o te mōreareatanga.

He whai hua tonu te huinga uara ā-whakahaere hou, i whakamāramahia rā i te Pūrongo ā-Tau o tērā tau, hei urupare ki te mōreareatanga o nā tata nei. Nā te kaupapa o *Ka Tū Pakari Mātou* i whakaara te āhua o te tū māia i ngā pēhitanga o te wā, me te pēhitanga ka ara ake i te ao i te wā e puta ana he huringa ohotata, he tūāhuatanga matawhawhati hoki, e huri ai ō tātou whakaaro, e hinga ai rānei tātou i te totoa o te āhua o te wā. I tū pakari mātou ahakoa ngā piki me ngā heke o te pae tauhokohoko, me te āta whai i te huarahi i wātea rā i te kaha o te heke o ngā uara i te pae tauhokohoko tūtanga ā-ao. Ko tā *Ka Tautoko Tētahi i Tētahi* he whakaata i tā mātou kaupapa matua o te tautoko a tētahi i tētahi, e angitu ngātahi ai hoki mātou – me taea e mātou te urupare wawe ki ngā ueuetanga. Ko ēnei uara e rua, me ētahi atu o ō mātou uara: *Te Aronga ki Anamata* me *He Toa Takitini* ngā paearu

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It has been a privilege to lead the Guardians through another year as Chief Executive Officer.

I'd first like to acknowledge the way the team has pulled together to deliver on our commitment to New Zealanders, and to support each other. Despite the trying circumstances, we continue to make progress on a number of fronts.

The value of preparation

At the Guardians we spend a great deal of time thinking about and preparing for the future. We think about the future in our investment decision-making because we have a long-term investment horizon, which means it's our performance over many decades that matters. But we try to apply the same future focus to other decisions as well. In my view, it was this focus on thinking ahead that has meant we were organisationally equipped and ready to respond to the Covid-19 crisis when it hit.

We took the precautionary step of moving to a remote working environment early. A combination of earlier projects and initiatives helped ease the transition from working in the office to working at home:

- We had moved our IT infrastructure to the cloud in 2018 and have undergone regular technology upgrades since then.
- We run regular and rigorous business continuity planning and testing.
- Each year we model our liquidity by subjecting the Fund to various simulated shocks (or 'stress tests').
- Last year, as a team, we developed and launched a new set of organisational values.

These actions, in particular, helped to create the connectivity, the organisational resilience, and the culture that helped us to cope with the crisis.

The new set of organisational values, described in last year's Annual Report, were particularly useful in responding to the latest crisis. *We Stand Strong* contemplated leaning into hard times, and how, in a world of sudden change and unexpected events, there will be pressure to change our minds or to yield to the immediacy of the situation. We stood strong through the market disruptions, leaning firmly into the opportunity presented by sharply falling global equity markets. *We Support Each Other* reflects our imperative to look out for each other and to ensure we succeed together – we must be able to respond quickly to disruption. These two, and our other values *Future Focused* and *Team Not Hero* were critical touchstones in guiding our mātuatua i ārahi rā i tā mātou urupare ki te mōreareatanga, i te mahi hoki kia whai hua hei rōpū rawe e whakakotahi nei i te katoa, i runga i te ngākau tapatahi.

Te rerewhenua terewhiti o Tāmaki-makaurau

I te taha o CDPQ Infra, i tuku mātou i tētahi tono ki te Kāwanatanga i a Noema o te tau 2019, hei wāhanga mō tētahi tukanga tuku tono i runga i te tātāwhāinga ki te tuku pūtea, ki te whakatutuki, ki te whakahaere hoki i te kaupapa o te rerewhenua terewhiti o Tāmaki-makaurau i te Pokapū ki Māngere. I te mutunga iho, i muri i ngā takaroatanga o te whakataunga i hua ake rā i te mōreareatanga o KOWHEORI, i runga hoki i te korenga i taea o tētahi whakaaetanga ki te ara whakamua e ngā rōpū ārahi, i whakamutu te Kāwanatanga i te tukanga tuku tono me te kore i whiriwhiri i tētahi hoa pātui e paingia ana hei whakatutuki i te kaupapa. Ahakoa tō mātou ngere i te taenga mai o tēnei kōrero, e ngāwari ana, e mārama ana anō hoki mātou ki te whakatau a te Kāwanatanga. E ngākau whakapuke ana mātou ko te tono a NZ Infra te kōwhiringa i tautohua ai hei tāpaetanga ki te aroaro o te Rūnanga o te Kāwanatanga. Tirohia te whārangi 46 e kitea ai he pārongo anō.

He pikonga i te ara

He maha ngā take e hua ai te whakaaro he pikonga i te ara te tau 2020. I a mātou i ngā Kaitiaki e kuhu nei ki tō mātou tau tuangahuru mā whitu hei whakahaere, kua āta whakarite mātou kia whai wā ki te aro tōkeke, ki te whakaaroaro hoki ki te taiao o waho me te wāhi e tū nei mātou.

Hei tā te arotake motuhake a Willis Towers Watson i ngā Kaitiaki me te Tahua, kua whanake te whakaaro ki te haumitanga me ngā mahi haumi i runga i te haepapa i nā tata nei, ā, kua nui ake anō hoki ngā taumata ā-waho me ngā tūmanako. Nā reira, i tēnei tau, i tīmataria e mātou tētahi kaupapa tautini hei whakatau anō i tā mātou rautaki haumi i runga i te haepapa. He taipitopito anō mō tēnei kaupapa kei te whārangi 63.

I te mea kua tupu te huinga, ā, kua whānui haere ā mātou rautaki haumi, kua whakahoki haerehia mai hoki ki raro i te maru o ā mātou ake whakahaere, kua matatini ake te taha ki te whakahaere tūraru. I te tau 2020, i whai mātou ki te whakawhanake tonu i ā mātou tukanga tautuhi me te aromatawai i te whakahaerenga me te herenga o ngā tūraru. He kōrero anō mō tēnei mahi kei te whārangi 96 hei pānuitanga māu.

I tīmata hoki tā mātou whakahaere i te kaupapa tuarua o tā mātou e whakamanahia nei, i te Tahua Hinonga o Mairangi Aotearoa (Elevate Fund), i te taha o te Tahua Penihana Kaumātua o Aotearoa. He ekenga whakahirahira te whakarewanga o Mairangi Aotearoa ki a mātou. I roto i te wā, i tōna tikanga, ka whāngai te tahua nei i te ōhanga kia tautini, kia whai hua hoki mā te whakapiki i te rahi o te pūtea e wātea ana ki ngā kamupene e hou ana, e auaha ana hoki kei Aotearoa, mā te whakawhanake hoki i ngā pae tauhokohoko o te pūtea hinonga i Aotearoa kia whai hua ake ērā whakahaere. He taipitopito anō mō ngā whakamahuki e pā ana ki tēnei tahua me tōna kaneketanga kei te whārangi 70.

Hei whakatepe ake, tēnei au ka mihi ki te Poari o ngā Kaitiaki i tā rātou tautoko e rere tonu nei, ki te rōpū hoki i ā rātou whakapetonga ngoi i raro i ngā pēhanga. E whakahī ana te ngākau ki te āhua o tā te ranga whānui o ngā Kaitiaki tautoko i a rātou anō i te roanga o tēnei tau kua hori me ōna uauatanga.

response to the crisis, and working as a great team effectively, bringing everyone along, together.

Auckland light rail

Together with CDPQ Infra, we submitted a proposal to the Government in November 2019, as part of a competitive bid process to fund, deliver and operate the City Centre to Māngere Auckland light rail project. Ultimately, following delays to decision-making caused by the Covid crisis, and with the governing parties unable to agree on the way forward, the Government ended the bid process without selecting a preferred delivery partner for the project. While we received this news with disappointment, we respect and understand the Government's decision. We are proud that the NZ Infra bid was the recommended option for consideration by Cabinet. See page 46 for more information.

A turning point

In many ways 2020 feels like a turning point. For us at the Guardians entering into our 17th year as an organisation, we have taken the opportunity to stand back and consider our external environment and where we're at.

As highlighted in Willis Towers Watson's independent review of the Guardians and Fund, responsible investment thinking and practice have evolved in recent times, and external standards and expectations have increased. Accordingly, this year we began a multi-year project to reset our Responsible Investment Strategy. We discuss this in further detail at page 63.

Another example is our approach to risk. As the portfolio has grown and our investment strategies have broadened and increasingly been brought in-house, risk management has become more complex. In 2020 we sought to further develop our risk management and control identification and assessment processes. You can read more about this work on page 96.

And we began managing our second mandate, the Elevate NZ Venture Fund (Elevate Fund), alongside the NZ Super Fund. The launch of the Elevate Fund was an important milestone for us. Over time, this Fund is intended to contribute to a sustainable and productive economy by increasing the amount of capital available to young, innovative New Zealand companies, and developing New Zealand's venture capital markets to function more effectively. We detail further the fund's background and progress on page 70.

Finally, I'd like to thank the Board of the Guardians for their ongoing support, and the team for their hard work under pressure. I'm very proud of the way the wider Guardians' team supported each other through what has been a difficult year.

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PROGRESS AGAINST OUR STRATEGIC PLAN

Here, we provide an overview of the progress we made during 2019/20 against our strategic activities for the year.

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

Each of the strategic activities relates to at least one of the strategic objectives in our Strategic Plan: Best Portfolio; Strong External Relationships; Great Team; Efficiency, Scalability and Innovation.

Our strategic framework is outlined in greater detail in our Statement of Intent 2020 – 2025 (available on our website at www.nzsuperfund.nz).

1.

REFERENCE PORTFOLIO

OBJECTIVE:
Five-yearly review and selection of the NZ Super Fund's Reference Portfolio, to be decided by the Guardians' Board.

OUTCOME:
Led by a project team comprising members of Asset Allocation along with advisors from across the Guardians, the Board discussed several progress reports over the past financial year as part of planned updates. This culminated in a final decision on the Reference Portfolio in April 2020. These were:

1. Candidate asset classes for the 2020 Reference Portfolio;
2. Long-run risk and return analysis and the currency hedging ratio;
3. Preliminary modelling results and an initial risk tolerance discussion; and
4. The full Reference Portfolio review report setting out a recommendation on the Reference Portfolio including the currency hedging ratio, benchmark indices, rebalancing, tax and costs.

100% complete. See pages 38-39 for more information on the Board's chosen Reference Portfolio.

MEDIUM-TERM CONTRIBUTION:
Disciplined progress to achievement of Fund purpose.

LONG-TERM CONTRIBUTION:
Appropriate risk appetite for our purpose.

STRATEGIC OBJECTIVE:
Best Portfolio.

2.

STRENGTHEN THE GUARDIANS' CULTURE

OBJECTIVE:
Roll out the new values, implement material actions from the 2018/19 risk culture survey, and design and conduct the culture survey.

OUTCOME:
Our new values have played an important role in our internal communications, including in guiding our response to the Covid-19 pandemic. This year, our values were rebranded and communicated in the context of our newly launched Employee Value Proposition. Eight of the thirteen risk culture work-plan actions have been completed, with some of the remainder intended to be completed over a longer time frame. The culture survey was designed and distributed to all staff in February 2020, with a 99% response rate.

Strategic activities related to culture and values are 100% complete. Work on the risk culture was 70% complete, with three work streams continuing into the 2020/21 financial year. Completion of these activities is being tracked by the Board's Employee Policy and Remuneration Committee. See page 11 for more information about our values, page 96 for information on the risk culture survey and page 25 for the culture survey.

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

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

STRATEGIC OBJECTIVE:
Great Team.

3.

TALENT LIFE CYCLE

OBJECTIVE:
Establish an integrated framework for the Talent Life Cycle that ensures consistency and alignment to significantly improve our ability to build and maintain a great team.

OUTCOME:
Key projects related to the Talent Life Cycle advanced over the past financial year included a review of our current performance framework, the roll-out of a new recruitment selection methodology, the creation of a people manager training framework, the Employee Value Proposition defined and communicated, a continuous listening tool implemented to measure staff engagement and the creation of a learning portal on our intranet.

100% complete. See page 26 for more information on each of these Talent Life Cycle initiatives.

MEDIUM-TERM CONTRIBUTION:
Strong leadership throughout the Guardians; team members' skills and expertise maximised; talent attracted and retained; key person risk reduced.

LONG-TERM CONTRIBUTION:
Motivated staff with Guardians' organisational buy-in achieved through talent and development programmes.

STRATEGIC OBJECTIVES:
Great Team; Efficiency, Scalability and Innovation.

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1. REFERENCE PORTFOLIO
2. STRENGTHEN THE GUARDIANS' CULTURE
3. TALENT LIFE CYCLE

REDUCING FUTURE NEW ZEALANDERS' TAX BURDEN

4. DATA MANAGEMENT
5. CONTROL EFFECTIVENESS ASSESSMENT
6. REMUNERATION STRUCTURE REVIEW

4.

DATA MANAGEMENT

OBJECTIVE:
In addition to the business-as-usual progressive roll-out of our data warehouse platform, pilot a process-oriented review of a business area to inform future data improvement initiatives, assessing data requirements and identifying any major gaps. Determine and implement the organisational model required to support and promote ongoing data governance improvements.

OUTCOME:
A cross-functional team has been brought together to form a Data Strategy Group. The Group's ongoing role is to review, prioritise and manage initiatives required to address the needs of our investment data users. While the group is now up and running, progress slowed midway through the year due to the impact of Covid-19 to allow the team to support business-as-usual activities. A joint process-oriented review by the Portfolio Completion and Application Development teams was also carried out, resulting in enhanced data for currency exposure management. Separately, the data governance model has been refined and the recommended approach for implementation approved by the Leadership team in February 2020. Further improvements in data governance will be coordinated and monitored by the Data Strategy Group. Work on our data management is expected to continue over multiple years.

80% complete. See page 108 for more information about our Data Management Strategy.

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

LONG-TERM CONTRIBUTION:
Best-practice data governance and data architecture; strong support and use by the wider business.

STRATEGIC OBJECTIVES:
Best Portfolio; Efficiency, Scalability and Innovation.

5.

CONTROL EFFECTIVENESS ASSESSMENT

OBJECTIVE:
Implement control effectiveness assessments and key risk indicators for the Guardians' top risks.

OUTCOME:
The control effectiveness assessment framework was considered by the Board in February 2020. The Board supported the proposed framework and were presented with the Fraud and Cyber Security control effectiveness assessments at its June Board meeting. Control effectiveness work is also being completed as part of the cyclical business unit risk register reviews, with the control effectiveness framework significantly enriching these risk discussions.

100% complete. See page 96 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 clarity on risk management.

STRATEGIC OBJECTIVES:
Best Portfolio; Efficiency, Scalability and Innovation.

6.

REMUNERATION STRUCTURE REVIEW

OBJECTIVE:
Consider the remuneration structure for all Guardians' staff, and recommend next steps on the remuneration design.

OUTCOME:
A comprehensive governance review of the Guardians' remuneration was completed. The review was presented to the Board in February 2020 with the Board accepting all the recommendations from the Employee Policy and Remuneration Committee (EPRC) on the resulting remuneration design. Changes to our remuneration structure took effect from 1 July 2020.

100% complete. See page 27 for more information on the remuneration review and pages 101-105 for more information on the Guardians' remuneration and discretionary incentive programme.

MEDIUM-TERM CONTRIBUTION:
Retain and attract talented, motivated staff, while cognisant of the public-sector environment.

LONG-TERM CONTRIBUTION:
Single-team approach with a strong, constructive culture and motivated staff.

STRATEGIC OBJECTIVE:
Great Team.

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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.

Prior to our last Annual Report, 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 and the NZ Super Fund, 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 impact of Covid-19 on our portfolio, the Auckland light rail project, and our approach to climate change investment risk;
- seeking feedback from Treasury on our proposed Annual Report content and discussing reporting priorities with them;
- considering feedback from a judging panel of reporting experts from the Australasian Reporting Awards;
- considering the 2019 Letter of Expectations received from the Minister of Finance, and
- reviewing the results of qualitative research carried out on our behalf by market research company UMR into awareness and understanding of the Guardians and the NZ Super Fund among a broad set of New Zealanders.

GENERAL PUBLIC UNDERSTANDING

In 2019 UMR ran a series of focus groups in Auckland with a cross-section of New Zealanders. The objective of this research was to provide an in-depth understanding of perceptions and views on the extent, effectiveness and nature of the Guardians' investment activity in New Zealand.

The key findings of the research were as follows:

- Unprompted awareness and, therefore, knowledge of the NZ Super Fund is very low, particularly among younger New Zealanders and ethnic minorities. We will factor this into our communications planning going forward.
- While some of the participants have an active interest in investing, for most their interest and knowledge is limited.
- After prompting with a brief description, there is consensus that the NZ Super Fund is a sensible and fiscally responsible decision, and if invested wisely, will benefit New Zealanders of today and the recipients of Superannuation in the future.

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- Some participants worry about the logistics and governance of the NZ Super Fund and whether the Fund is safe and insulated from potential misuse.
- The attribute most strongly identified with the NZ Super Fund among the participants was 'has long-term goals that will benefit New Zealand', while at a secondary level, 'being good communicators', 'innovative', 'an organisation to be proud of' and 'reflecting Kiwi values' are also important, but less so than the safety and performance of the NZ Super Fund.
- Easily accessible and user-friendly information should be available for those who seek to understand more about the NZ Super Fund, but more important for most participants is knowing the NZ Super Fund is well managed and that the decisions made on behalf of New Zealand taxpayers are the right ones.
- Specifically, information about the management and oversight of the NZ Super Fund, as well as the role of the Guardians and its independence from the government of the day may help to reassure people that the Fund is safe and protected.

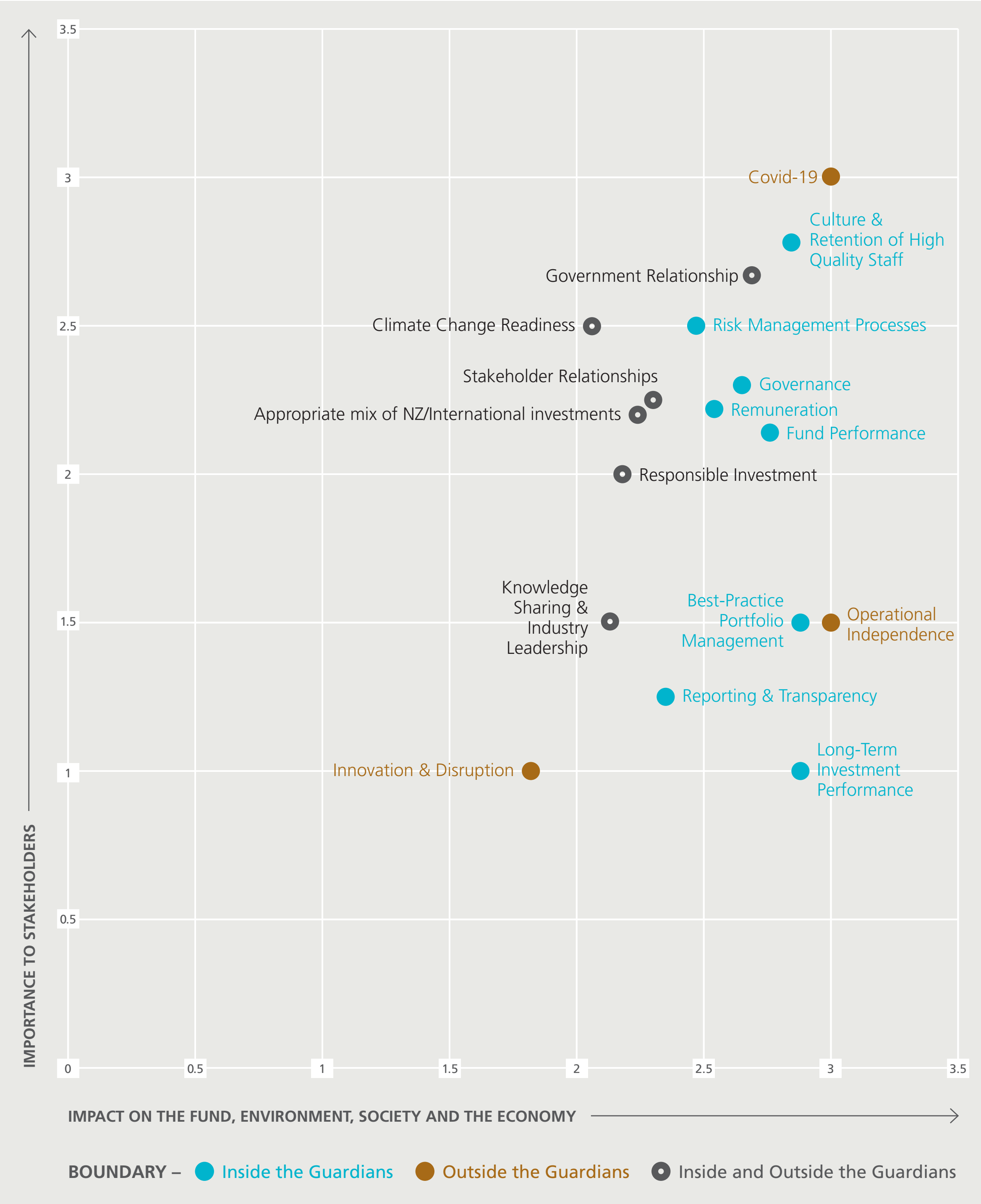
ENHANCEMENTS TO OUR REPORTING

As a result, we have made the following enhancements to our reporting:

- included a comprehensive analysis of the impact of the Covid-19 pandemic on our portfolio, the actions we took in response to the market volatility, and the reasons for these;
- expanded our introductory and governance sections to provide more clarity to our stakeholders on the role of the Guardians, the NZ Super Fund and the Elevate Fund, as well as our 'double arm's-length' independence from the government of the day;
- improved our strategic overview section to help explain the various components of our Strategic Plan and how they fit together, and improved the transparency of our reporting by providing a per cent completed figure against each activity;
- increased the biographical information provided for each of our Board members (see pages 85 - 86) to help readers of our Annual Report understand more about the people making the strategic and operational decisions;
- increased the level of detail provided in our non-investment sections (e.g. Our People) to allow readers to determine the veracity of the qualitative information provided;
- produced a report against the recommended disclosures of the Taskforce on Climate-related Financial Disclosures, to be released alongside this Annual Report; and
- provided in-text explanations for technical terms where possible, and reviewed and increased the number of terms included in our glossary to help a wider cross-section of New Zealanders understand the purpose and performance of the Guardians and its funds.

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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* 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

STEPHEN MOIR — CATHERINE DRAYTON — SIMON BOTHERWAY — CATHERINE SAVAGE — HENK BERKMAN — JOHN WILLIAMSON — DOUG PEARCE

CATHERINE SAVAGE
CA, BCom
CHAIR
APPOINTED TO GUARDIANS' BOARD IN 2009

Committees:

Employee Policy and Remuneration (Chair) and Audit

STEPHEN MOIR
APPOINTED TO GUARDIANS' BOARD IN 2009

Committee:

Employee Policy and Remuneration

JOHN WILLIAMSON
BA, LLB, LLM
APPOINTED TO GUARDIANS' BOARD IN 2016

Committees:

Employee Policy and Remuneration and Audit

DOUG PEARCE
BCom, ICD.D
APPOINTED TO GUARDIANS' BOARD IN 2016

Committee:

Employee Policy and Remuneration

SIMON BOTHERWAY
BCom, CFA
APPOINTED TO GUARDIANS' BOARD IN 2018

Committee:

Audit

HENK BERKMAN
PhD, MCom
APPOINTED TO GUARDIANS' BOARD IN 2018

Committee:

Audit

CATHERINE DRAYTON
LLB, BCom, FCA
APPOINTED TO GUARDIANS' BOARD IN 2018

Committee:

Audit (Chair)

For bios of our Board members, visit:
www.nzsuperfund.nz/nz-super-fund-explained-governance/board

LEADERSHIP TEAM

DAVID SARA — SARAH OWEN — STEPHEN GILMORE — MATT WHINERAY — MIKA AUSTIN — MARK FENNELL — STEWART BROOKS

MATT WHINERAY
BCom, LLB (Hons)

CHIEF EXECUTIVE OFFICER

Areas of responsibility:

General management of the Guardians under delegation from the Board.

STEPHEN GILMORE
BCom, MCom, CA, GAICD

CHIEF INVESTMENT OFFICER

Areas of responsibility:

Asset Allocation, Responsible Investment, External Investments and Partnerships, Direct Investment.

MIKA AUSTIN
BA, LLB

GENERAL MANAGER HUMAN RESOURCES

Areas of responsibility:

People and performance, culture, administration.

STEWART BROOKS
BCom, CA

GENERAL MANAGER FINANCE AND RISK

Areas of responsibility:

Enterprise risk (including records management), external audit process, financial control, financial reporting, portfolio risk and compliance, tax.

MARK FENNELL
MSocSci (Hons), DipAcc, CA, CTP

GENERAL MANAGER PORTFOLIO COMPLETION

Areas of responsibility:

Treasury operations, including passive exposure, currency overlay, liquidity management and portfolio rebalancing; portfolio investments.

SARAH OWEN
BA, LLB, DipAcc

GENERAL MANAGER CORPORATE STRATEGY AND GENERAL COUNSEL

Areas of responsibility:

Board Secretariat, communications, legal, strategic development.

DAVID SARA
BMS (Hons), MBS (Dist)

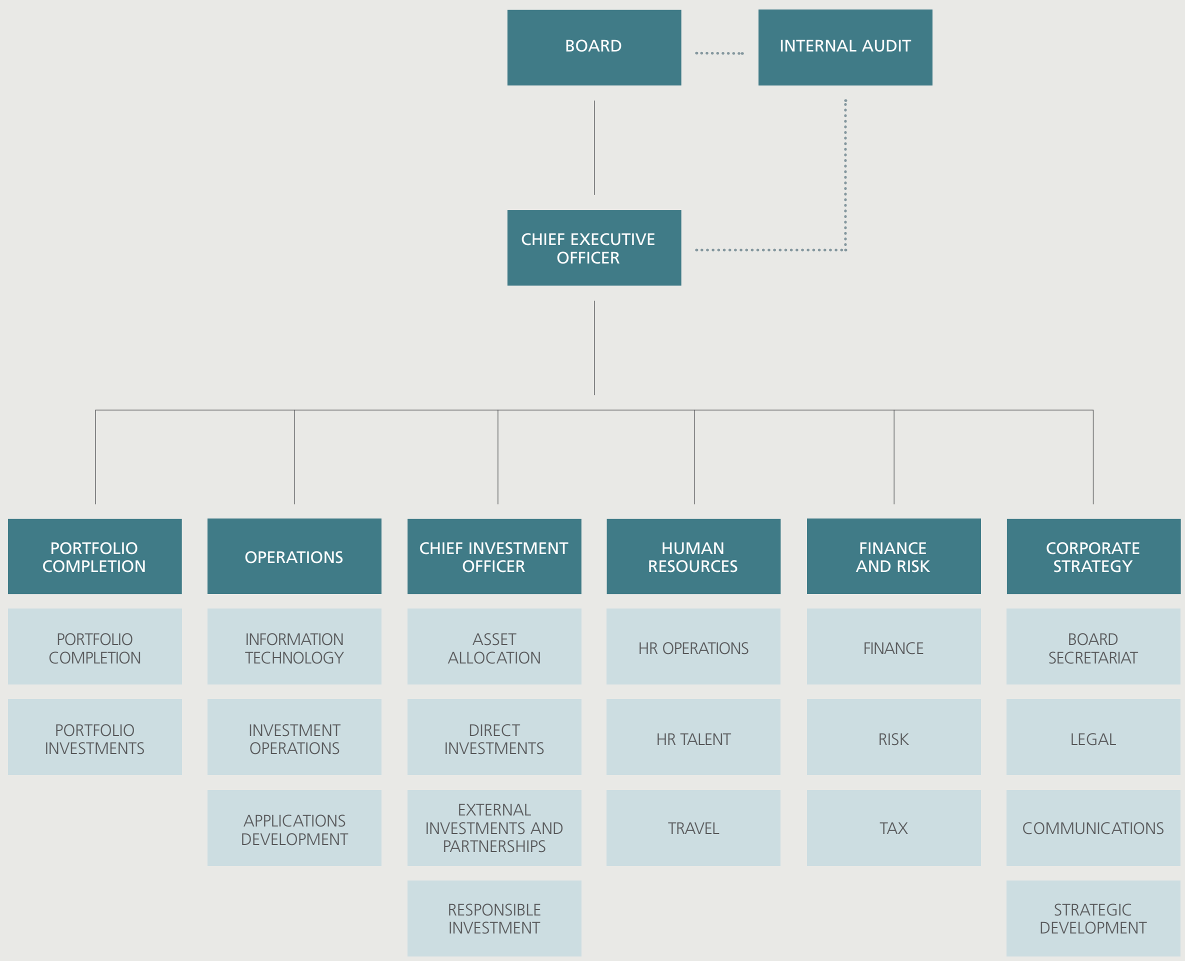
GENERAL MANAGER OPERATIONS

Areas of responsibility:

Information technology, investment operations.

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

ORGANISATIONAL CHART



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OUR PEOPLE

WORKFORCE PROFILE

COMPONENTS	2020	2019	2018	2017	2016
Our Workforce					
Full-Time Equivalent (FTE) employees	154.8	139.1	127.8	124.4	112.2
People	157	141	130	127	115
Full-Time (FTE)	96%	96%	95%	93%	93%
Part-Time (FTE)	4%	4%	5%	7%	7%
Staff members with disabilities	0%	0%	0%	1%	1%
Female Representation					
Female staff members	68 (43%)	55 (39%)	48 (37%)	47 (37%)	44 (38%)
Female Board members	2 (29%)	2 (29%)	2 (29%)	3 (43%)	3 (43%)
Female Leadership Team members and direct reports to CEO	2 (29%)	2 (29%)	2 (33%)	2 (29%)	2 (22%)
Female Heads of Teams	6 (33%)	6 (35%)	5 (31%)	6 (33%)	4 (22%)
Female Investment Professionals	16 (29%)	12 (22%)	12 (22%)	12 (25%)	13 (28%)
Gender Pay Gap*					
Gender pay gap – mean	25%	23%	20%	25%	Not reported
Gender pay gap – median	37%	32%	29%	37%	Not reported
Turnover**					
Turnover – all staff	3.9%	6.3%	6.9%	13.8%	10.7%
Turnover – male (of male FTE)	5.7%	5.9%	6.2%	7.6%	7.1%
Turnover – female (of female FTE)	1.5%	6.9%	8.6%	17.3%	3.6%
Educational Qualifications					
% of staff with a postgraduate tertiary qualification	50%	52%	53%	51%	50%
% of staff with an undergraduate tertiary qualification	90%	90%	90%	88%	90%
Investment in staff training as a % of total Guardians' operating expenditure	0.9%	1.2%	1.2%	1.3%	1.1%
Return to Work and Retention after Parental Leave (as primary carer)					
Return to work – male	100%	100%	None taken	None taken	None taken
Return to work – female	75%	100%	100%	100%	50%
Retention as at 30 June after returning during the year – male	67%	None taken	None taken	None taken	None taken
Retention as at 30 June after returning during the year – female	100%	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	2.9	3.9	4.7	4.1	4.1

* In line with reporting guidelines from the Human Rights Commission, we commenced reporting on the gender pay gap in 2016/17. We report contractual base hourly rate of pay for the entire permanent workforce (including CEO, and for full and part time work). The calculation does not include bonus payments, KiwiSaver and other staff benefits such as insurance. 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.

** We define turnover as voluntary turnover.

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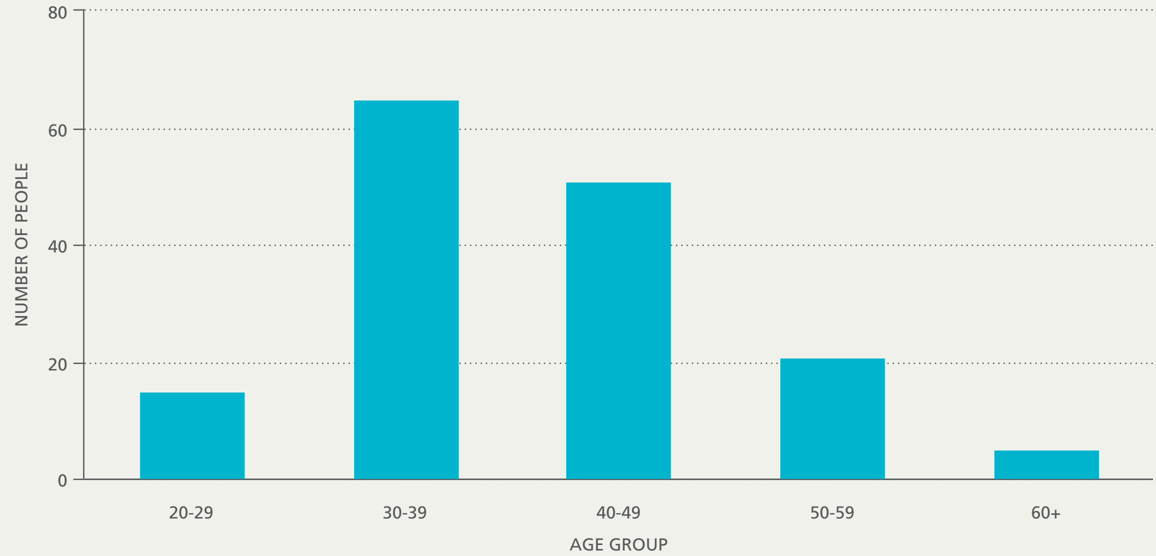
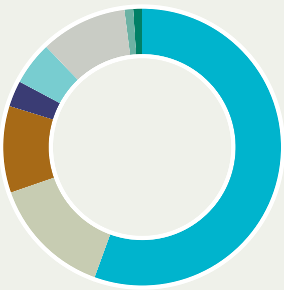
OUR PEOPLE (CONTINUED)

Workforce Age as at 30 June 2020



Ethnic Profile* as at 30 June 2020



- New Zealand European (90): **56%**
- Chinese (23): **14%**
- Other European (17): **10%**
- Pacific Peoples (5): **3%**
- Indian (8): **5%**
- Other ethnicity (17): **10%**
- Māori (2): **1%**
- Not stated (1): **1%**

* Five employees identify with more than one ethnic group.

Gender Balance as at 30 June 2020

- Male (89): **57%**
- Female (68): **43%**
- Non-binary (0): **0%**

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

Key achievements during 2019/20

- *Strengthen the Guardians' culture* – we successfully rolled out new organisational values, implemented improvements following the results of the risk culture survey, and designed and conducted a culture survey.
- *Remuneration structure review* – the remuneration and bonus structure for all Guardians' staff was reviewed, and the revised remuneration design was implemented.
- *Talent Life Cycle* – an integrated framework for the talent life cycle was established.

COVID-19 AND EMPLOYEE WELLBEING

Consistent with the New Zealand Government's Covid-19 advice and in order to protect our team, all Guardians staff worked remotely from their homes for approximately 12 weeks, from late-March until mid-June. We also ceased all business travel. Fortunately, because of robust crisis management planning and, crucially, practice, we were well placed to execute a relatively smooth and early transition to a remote working environment. Our technology and internal systems were fully operational throughout, and investment and organisational activity continued as normal. Our focus during the lockdown period was on making sure that the team felt connected and supported, with a number of employee wellness initiatives mobilised across April to June.

Since then we have worked to identify and enable new ways of working, including greater take-up of flexible work arrangements. Rather than taking a one-size-fits-all approach across the organisation, Heads of teams have worked with their teams to establish a flexible working pattern that fits both the team and the individual's needs.

We have also introduced a short, weekly, pulse-style survey using an online platform from Peakon. Initially, the focus of the survey was to help the management team and Board to understand the effectiveness of our Covid-19 response while staff were navigating the first few weeks back to office-based working. Beyond this, we expect the survey to provide useful feedback on staff engagement.

OUR CULTURE

Culture is the number one priority of the Human Resources team, with strong emphasis placed on creating a high-performing and constructive environment for Guardians' team members.

This year we measured our culture via a team-wide culture survey, using the Human Synergistics Organisational Culture Inventory (OCI) and Organisational Effectiveness Inventory (OEI) tools. The OCI assesses culture by measuring to what extent Guardians' staff are expected or implicitly required to demonstrate constructive, passive or defensive behavioural styles. The OEI provides insights into specific areas to target to improve culture, and identifies the impact of the current operating culture.

Together, these tools provide us with rich data against which to measure our long-term effectiveness as an organisation. This is the fifth time we have used these tools to measure our organisational culture, with surveys run previously in 2011, 2013, 2015 and 2017.

Ahead of this year's survey, we updated our ideal culture circumplex, originally set in 2011, which identifies the optimal or preferred culture at the Guardians. This acts as an aspirational benchmark against which we measure our culture survey results. We also ran an information campaign and a series of staff awareness sessions, with a focus on increasing culture capability across the organisation.

The culture survey was rolled out to all staff in February 2020, with a 99% response rate. In the period between this culture survey and the last, 23 permanent staff left the Guardians, and a total of 56 new employees were asked to complete the culture survey for the first time (representing 36% of the organisation). The results of this year's culture survey indicated that all four of our primary styles remain in the constructive quadrant, with the results between 2017 and 2020 largely static. Where there were changes (contracting slightly on the constructive behavioural styles and moving in both directions on the passive and defensive styles), these were not statistically significant.

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OUR PEOPLE (CONTINUED)

OUR IDEAL CULTURE	OUR 2011 RESULTS	OUR 2020 RESULTS
2019 TARGET N = 49	2011 N = 65	2020 N = 154

Research and Development by: Robert A. Cooke, Ph.D., Janet L. Szumal, Ph.D., and Jessica D. Cooke

CULTURE SURVEY

TALENT MANAGEMENT

We are a team of around 160 staff based in Auckland, New Zealand. Our teams span the investment, portfolio completion, operations, finance, risk, human resources and corporate strategy functions, and our people draw on a range of different backgrounds, work experiences and academic disciplines. In order to get the best out of our talent, we seek to ensure our staff are fulfilled through meaningful professional and career development opportunities.

One of our multi-year strategic objectives for the 2019/20 financial year was to bolster our human resources offerings and capability across the talent life cycle, which encompasses processes around talent architecture, recruitment and selection, onboarding, learning and development, and succession planning. Key projects related to the talent life cycle advanced over the past financial year included:

- A review and revision of our current performance framework to enable it to be applied across the talent life cycle. The revised framework will undergo a consultation process before it is finalised and implemented.
- Developing an Employee Value Proposition (EVP) to help support our recruitment efforts and staff engagement. In its independent review of the Guardians, Willis Towers Watson highlighted the importance of developing a strong EVP to build brand awareness and improve opportunities to attract new talent. Accordingly, we will be using the EVP to showcase the Guardians to prospective staff on our new careers website, while progressively rolling it out across our internal communications channels.
- The recruitment selection methodology has been refreshed, with changes to shortlisting, interviews, psychometric testing and reference checking.
- An intranet learning portal has been created, hosting a wealth of learning content aligned with our performance framework.
- Following consultation with the Heads of teams and Leadership Team, a people manager training framework has been created which will guide all future manager training activity.

APPOINTMENTS

Over the 2019/20 year there was a high level of appointment activity, both via the external market and with internal movement of existing staff. In total, we made 40 appointments, made up of:

- 30 external hires; and
- 10 internal placements (promotions and job transfers).

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REMUNERATION REVIEW

At the request of the Guardians' Board, a review of our remuneration and bonus structure design was commenced in 2018/19, and completed in 2019/20. In setting out this project, the Board was seeking to ensure that the way the Guardians remunerates and incentivises our staff is fit for purpose; consistent with our desired culture; appropriate for the type of mandates we have; and will ensure that the Guardians can attract and retain skilled and diverse talent in a competitive market.

The Board engaged independent experts McLagan for advice and analysis of the Guardians' incentive rates against industry benchmarks in New Zealand and globally, to inform how competitive and appropriate our offering is. McLagan indicated the Guardians' remuneration strategy was broadly fit for purpose and market competitive, and met the objectives of a strong remuneration strategy.

Having satisfied itself that the foundational principles of its remuneration strategy and design remained fit for purpose, the Board made no fundamental changes to the strategy. Minor changes were made to allow new employees who qualify for the Fund performance bonus to be eligible for all four active bonus vintages from the commencement of their employment. Changes were also made to the calculation methodologies for rewarding merit increases and netting interim at risk payments, to align the outcomes more closely with the programme's intent.

Please see pages 101 - 105 for more information on the Guardians' remuneration and discretionary incentive scheme.

EQUAL 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.

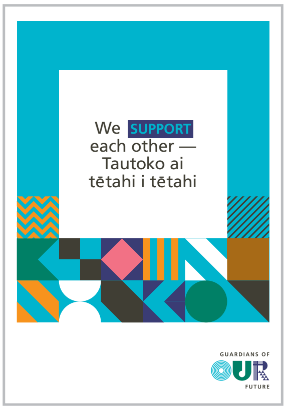
While this is pleasing, in calculating our gender pay gap each year, we are disappointed with our overall current gender pay gap of 37% (median) and 25% (mean). It reflects the fact that we have fewer women in higher-paying, more senior roles, and fewer men in lower-paying, more junior roles. More information on the gender pay gap is on page 23, including the calculation methodology.

The reality is, especially for senior investment roles, many more men than women apply for roles at the Guardians. By comparison, we are not seeing a significant shortage of female candidates for early-career roles. This indicates that while women are entering the industry, the industry has not been effective in retaining women and bringing them through into higher-paid jobs.

While we can't control the demographics of the global investment workforce, reducing the gender pay gap will continue to be an ongoing focus. We are addressing this through a diversity and inclusiveness policy; a flexible work policy; and a revised leave and benefits policy (changes include the introduction of a paid parental leave top-up and school-term contracts).

We acknowledge that our initiatives will take time before they start to make a difference. We have a relatively small team and figures such as this can be volatile, especially compared to larger organisations. We have made sound progress and were proud to be recognised with YWCA Equal Pay Awards in 2016 and again in 2018.

We will continue to monitor metrics to ensure we are paying equally for work of equal value, and regularly tracking and reporting on our overall gender pay gap.



HEALTH AND SAFETY

Our Human Resources Policy, available at www.nzsuperfund.nz, 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.

With our people being mainly desk-based, the Guardians is a relatively low risk environment from a physical safety point of view. Identified 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 across the business and leads the response to, and prevention of, HSSE-related risks throughout the organisation. The Committee aims to promote a culture that identifies and takes steps to mitigate unsafe situations and behaviours before they have an impact on people, the environment and the Guardians' reputation.

The Committee meets every two months, and reports to the Board on an annual basis.

In 2019/20, the Committee's core focus was obtaining the carbon zero certification in relation to the Guardians' operational carbon emissions. We are committed to fully offsetting our emissions each year against certified carbon credits, and actively looking to reduce our emissions footprint on an intensity basis.

Other Guardians' health, safety and wellness activities include:

- annual health and safety training;
- subsidised health, trauma and income continuance insurance;
- workstation assessments for all employees;
- height-adjustable desks made available for all staff;
- domestic violence awareness training for all staff;
- free healthy heart checks and influenza injections;
- access to meditation resources via Headspace;
- 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; and
- regular Occupational Health Nurse visits.

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GOOD EMPLOYER

The Guardians is committed to being a good employer. This includes offering equal employment opportunities (EEO) to prospective and existing staff and recognising the employment aims of Māori, ethnic minorities, women and people with disabilities. 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 that being a good employer will help us achieve our long-term business goals. To us, being a good employer means that our people enjoy and feel safe in their workplace; trust the processes and procedures around their appointment, development, recognition, promotion and exit; and are enthused and professionally satisfied by their roles.

GOOD EMPLOYER REPORTING

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
	Implementation of our most recent Organisational Culture and Organisational Effectiveness surveys
Employee development, promotion and exit	Programme in place to identify and develop talent
	Vacancies advertised internally
	Secondment programme
	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 eighth year
Flexibility and work design	IT systems facilitate remote working from home
	Flexible working arrangements supported
	6/7 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 28)

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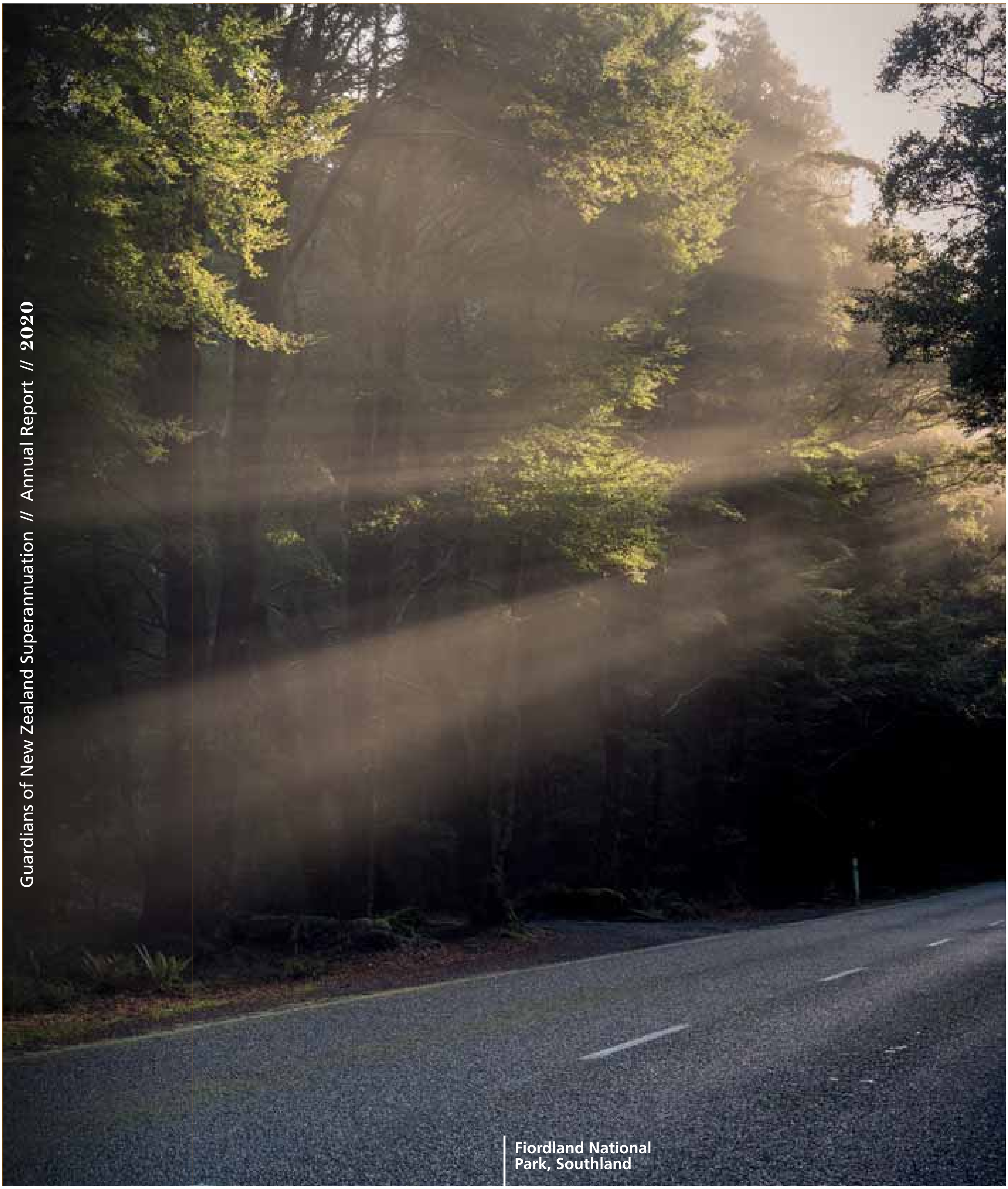

Fiordland National Park, Southland

02

Investment Reports
Ngā Pūrongo Haumi Pūtea

Statement on the Covid-19 Crisis: Into the era of unknowns

STEPHEN GILMORE
CHIEF INVESTMENT OFFICER

In the 22 days following 19 February the S&P500 index of US stocks dropped 30%. It represents the fastest decline of that magnitude ever. However, since those turbulent days (and at the time of writing), stock markets have largely recovered.

The seeming discrepancy between markets and the real economy is something we constantly think about at the Guardians. Markets should, of course, be forward-looking. But how can they be as strong as they are when signs of economic stress are apparent? To understand why, it is important to understand what happened in the volatile early months of the dislocation, and what lessons were learnt following 2008's Global Financial Crisis.

In short, central banks and governments respectively worked in tandem to inject a colossal amount of monetary and fiscal stimulus into the system. The amount dwarfed what occurred following the Global Financial Crisis, and building on knowledge gained from that event, the speed of the injection was far quicker. But where to from here? This is where we enter the era of unknowns.

The first unknown is how long the real economic shock will continue. It is unclear how deep the recession will be and there is no consensus over what shape the eventual recovery will take. Unfortunately the foundation of economic recovery in certain regions appears to be challenged by the ongoing persistence of Covid-19. At the same time, some of the fiscal support that has been put in place is scheduled to soon end or to be scaled back.

At the present time, markets continue to price the drivers that are in front of them – interest rates remaining low for the foreseeable future, policymakers' continued determination to do whatever it takes to keep economies afloat, and the development of solutions and vaccines to the virus itself. However, with markets pricing a strong future rebound in earnings, any undermining of these drivers is likely to put downwards pressure on sentiment and prices.

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Assuming we do find a vaccine, the world faces a difficult period unwinding all the cash and other support that has been provided to the system and which has led to an increase in already high debt levels. There are three potential paths under which those debt loads can be brought down or made more sustainable. The first path is a less than ideal eventual crash which sees debts written down to the detriment of savers and other creditors. A second path encompasses a more gradual redistribution of the debt load. The typical way that happens is through unanticipated inflation, which has the effect of bringing down real interest rates, although it can also happen through various forms of financial repression. At present that higher inflation path seems some way off. The third and final path is via sustained growth that brings values back into line with the real economy. The latter is obviously the most desirable, but it is a brave soul who predicts we are heading into a strong recovery.

Does this all change the assumptions that underpin the NZ Super Fund? Not especially. Our long-term horizon (sizeable transfers back to the Government to help smooth the future cost increases of providing universal superannuation do not begin until the 2050s) means we have the ability to look through shorter periods of market volatility. As a result, short-term shifts in markets translates to volatility in the valuation of our assets under management, which are heavily weighted to equities.

The Fund is positioned to take advantage of these market opportunities via a counter-cyclical strategy that enables leaning into markets when risk sentiment is at its lowest, and through constant reassessments of what constitutes fair value for the various markets we operate in. Our long-term horizon, known contribution and distribution profile, and subsequent tolerance for illiquidity allow us to implement strategies, such as Strategic Tilting (dynamic asset allocation) and a credit- and funding-based mandate, which take advantage of market volatility and enable us to lean into markets when risk sentiment is at its lowest. Over the past 10 years, Strategic Tilting and Active Collateral have been among our biggest users of active risk and delivered strong active returns.

With any strategy like these, day-to-day liquidity management is front of mind for the team and is a core part of risk/return modelling for the Fund. It means having well-conceived and well-understood processes for running the portfolio, so we understand how it will function under different conditions –

and then stress-testing those conditions so we can operate with more confidence in uncertain times.

We take an opportunistic approach to investing and don't look to add risk unless attractive opportunities arise; yet, where and when these opportunities will arise is hard to predict. To the extent that opportunities arise from Covid-related market/economic stress, we expect to see opportunities in our arbitrage, credit and funding risk baskets. We recently increased our risk allocation to convertible arbitrage, with investments sourced both internally and through managers, while Strategic Tilting utilises the most active risk in the portfolio.

Whether opportunities arise in private market assets over the next six to twelve months depends to a large extent on how economies respond when Covid-related government support programmes are removed. Here we look for opportunities for both direct and manager-sourced investments in real assets and structural risk – which we choose depends on the specifics of the investment at hand.

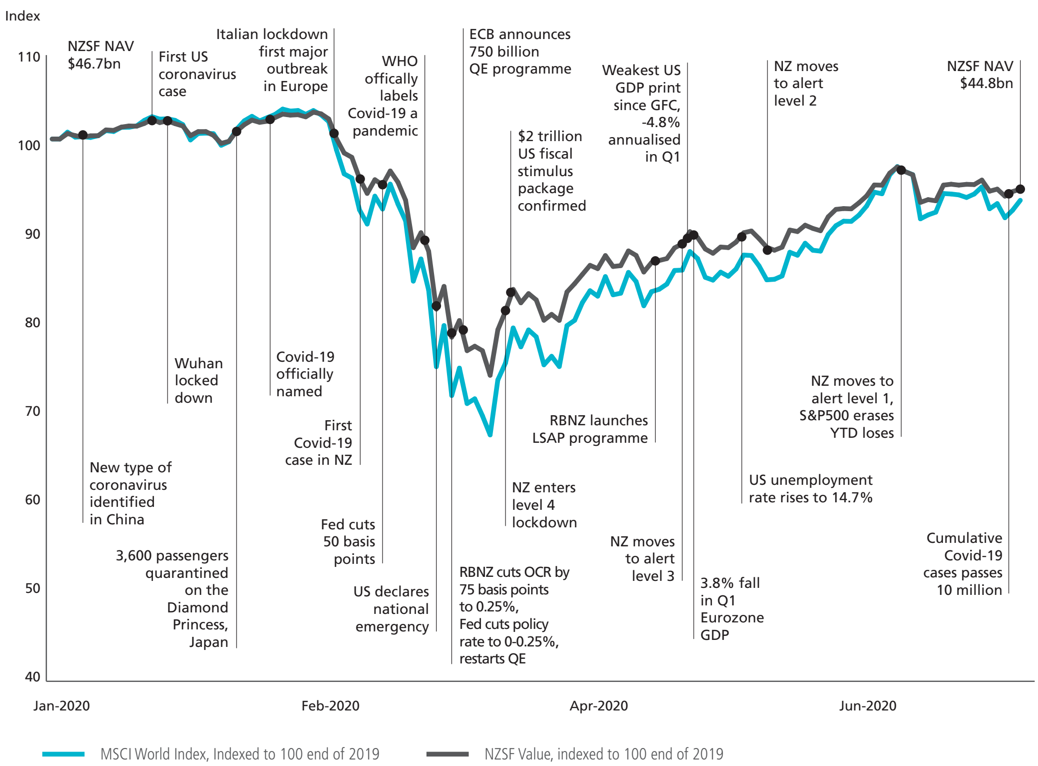
Our key takeaway is that it is a fool's errand to try to precisely time the economic cycle and the markets. Our long horizon allows us to be patient with respect to when the economic cycle and markets might revert back to what we might consider normal. You are better spending your time understanding your risk profile and testing underlying assumptions about the direction of the industry/market or economy you operate in.

At the Guardians, this means thinking about potential structural shifts and changes in trends. Four key ones we are looking at include acceleration of the existing digitisation trend and increased uptake of new technologies, supply chain reconfiguration, medium-to-longer-term shifts or developments in consumer preferences and actions, and changing political behaviour. The latter includes protectionism, fiscal impulses, heightening inequalities, regulation/tax changes, responses to the continuing rise of China and pull back of the US, and increasing regionalisation.

We also consider the higher-level implications for potential growth, inflation, the longer-term level of interest rates and the premium that we can expect to be paid for taking on market risk. All those factors influence how future cash flows and earnings will be valued. At the same time, we need to be alert to possible changes to the social contract and their distributional implications.

In an era of unknowns, perhaps the only thing that is certain is that one day things will get back to normal – at the Guardians we call this 'mean reversion' – although what constitutes normal can itself change over time. What everyone needs to focus on is how we can best prepare our economy for that return to normal – but in a world that has likely changed forever.

A version of this article appeared in the 31 July 2020 NZ Herald Capital Markets Report.



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PERFORMANCE REPORT

TOTAL RETURN 2019/20
(AFTER COSTS AND BEFORE NZ TAX)

1.73%

NZ SUPER FUND SIZE UP BY

$1.7b

THE YEAR IN SUMMARY

The Covid-19 economic shock provided a challenging set of circumstances for a number of our investments in 2019/20. Disruption in financial markets affected investment opportunities that rely on market liquidity and orderly market functioning; and the sudden brake on global economic activity interrupted the ability of portfolio companies to operate as intended.

Although equity markets themselves had mostly recovered by the June year-end, there was considerable variation within the equity sector, with large high-growth tech companies performing much better than other sectors where the NZ Super Fund tends to invest. Bonds were a strong performer this year as a result of monetary policy intervention; however, the NZ Super Fund is underweight this asset class in favour of assets that diversify our portfolio over the longer-term. Both factors contributed to underperformance against the benchmark across a number of our opportunities.

Our risk-budgeting approach (see pages 36 - 37) allows us to use more active risk (or tracking error) when opportunities become more attractive as a result of events like Covid-19. We started the year well under our average level of active risk, and dialled up our active risk as conditions deteriorated. The subsequent recovery in financial conditions rewarded some of our largest users of active risk (Strategic Tilting and Active Collateral) for staying true to our endowments and strategies.

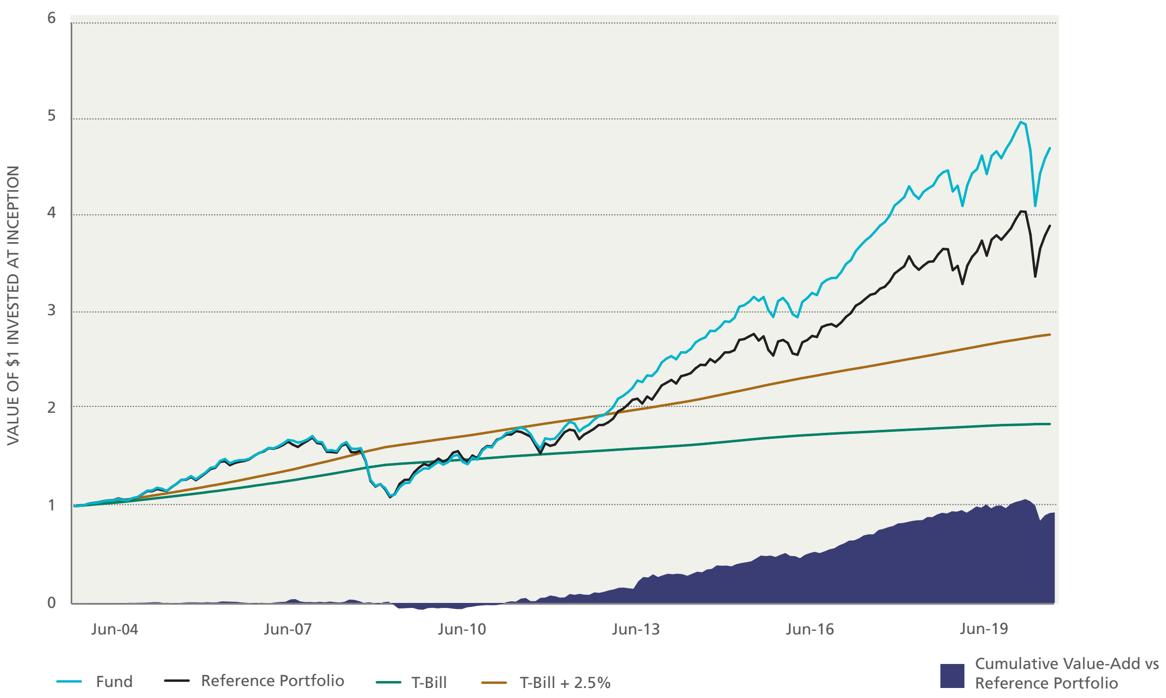
REFERENCE PORTFOLIO RETURNS

Just over half of the NZ Super Fund is invested passively, in line with the Reference Portfolio. Therefore, the composition of the Reference Portfolio is the biggest single influence on Fund returns. The table below shows how the components of the Reference Portfolio performed during the year. The returns are shown on a hedged to NZD basis for the year ended 30 June 2020. Total return includes estimated costs.

Reference Portfolio benchmark	Weight	Return
Global Equities	75%	3.17%
New Zealand Equities	5%	9.31%
Global Fixed Income	20%	5.69%
Total	100%	3.82%

NZ SUPER FUND RETURNS

This year the Fund returned 1.73% (after costs, before New Zealand tax). As detailed above, this compares to a Reference Portfolio return of 3.82%. This means the Guardians' active investment strategies underperformed their benchmark by 2.08%. The Fund finished the year at NZD44.8 billion before New Zealand tax, an increase of NZD1.7 billion, inclusive of Crown contributions. The graph below shows the cumulative NZD Fund return since inception, relative to its key benchmarks.



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KEY BENCHMARKS

Treasury Bills measure

It is our expectation, given our mandate and chosen portfolio construction, that the NZ Super Fund will return at least the 90-day Treasury Bill rate + 2.8% p.a. over any 20-year moving average period. This expectation is based on the long-run equilibrium return assumption for each asset class within the Fund.

It is important to understand that the 90-day Treasury Bill rate + 2.8% is not a target to be hit precisely; rather, it is a long-term performance expectation that we aim to exceed by as much as possible.

We prefer to work to an expectation rather than a target so as to avoid any short-term incentive to simply add risk to the NZ Super Fund if expected returns are low, i.e. increasing risk when returns are least rewarding and vice versa.

Treasury Bills, which are wholesale debt securities issued by the Crown, are an appropriate measure of the NZ Super Fund's performance. This is because they proxy the cost to the Government of contributing capital to the NZ Super Fund instead of using the money to retire debt, and are seen as the most risk-free asset. Over time, the NZ Super 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.

The gap between the Treasury Bill return and the Fund return (the green and blue lines in the graph above) shows the return earned in excess of the Government's marginal cost of short-term debt (NZD26.12 billion or 5.91% p.a.).

Reference Portfolio measure

We also use a Reference Portfolio, which is set by the Guardians' Board, to benchmark the performance of the NZ Super Fund's actual investment portfolio and the value we are adding.

The Reference Portfolio, which is capable of meeting the NZ Super Fund's objectives over time, is a shadow or notional portfolio of passive, low-cost, listed investments suited to the Fund's long-term investment horizon and risk profile. It has an 80:20 split between growth equities and fixed income investments and its foreign currency exposures are 100% hedged to the New Zealand dollar.

The Reference Portfolio comprises just over half of our actual portfolio, with our active investment strategies making up the balance. We invest actively in an effort to enhance our long-term performance. These activities bring a higher expected return and/or offer diversification benefits for the NZ Super Fund, albeit with more risk, complexity and cost. They are consistent with our statutory duty regarding best-practice portfolio management and are based on our Investment Beliefs and competitive advantages.

The gap between the Reference Portfolio return and the NZ Super Fund return (the black and blue lines, also represented by the purple shaded area at the bottom of the graph) illustrates the value the Fund's active investment strategies have added since inception (NZD7.75 billion or 1.21% p.a.).

Note: the Reference Portfolio was introduced in July 2010. Figures prior to then are based on the Strategic Asset Allocation model at the time. From 1 July 2020, the long-term Reference Portfolio performance expectation changed from Treasury Bills + 2.7% to Treasury Bills + 2.8%.

NZ Super Fund Performance as at 30 June 2020	**NZ Super Fund Size NZD44.8 billion, before NZ tax**			
	SINCE INCEPTION p.a.	**TEN YEARS p.a.**	**FIVE YEARS p.a.**	**ONE YEAR**
Actual Fund returns (after costs, before NZ tax)	9.63%	12.60%	8.52%	1.73%
Reference Portfolio return (after costs, before NZ tax)	8.42%	10.32%	7.52%	3.82%
Value-added (actual return less Reference Portfolio return)	1.21%	2.28%	0.99%	-2.08%
Estimated $ earned relative to Reference Portfolio	$7,752m	$8,367m	$1,913m	-$923m
New Zealand income tax paid	($6,991m)	($5,563m)	($2,324m)	($513m)
New Zealand Treasury Bill (T-Bill) return	3.72%	2.24%	1.73%	0.89%
Net return (actual return less T-Bill return)	5.91%	10.37%	6.79%	0.84%
Estimated $ earned relative to T-Bills	$26,123m	$27,164m	$11,762m	$370m
$ change in net asset position	$44,796m	$29,171m	$15,254m	$1,683m

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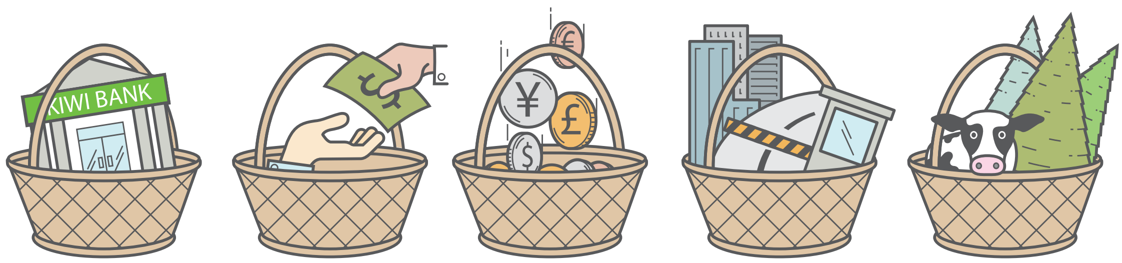
VALUE-ADD IN 2019/20

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



ASSET SELECTION

MARKET PRICING – ARBITRAGE, DISTRESSED 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 this 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 NZ Super 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.

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

Setting risk budgets involves determining the allocation of the total risk budget among the different baskets, and then to the opportunities within each basket. This process is informed by our confidence in the various opportunities and groups of opportunities and how they align with our endowments and beliefs. In this way, the opportunities within each risk basket will essentially be sharing and competing with each other for risk budget within that basket. In making this decision, we aim to maximise the Fund's expected active return per unit of active risk over time.

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.

In total, the Fund under-performed the Reference Portfolio by -2.08% (NZD-923 million) over the year. This compares with a 1.21% annual (NZD7.75 billion) out-performance since inception. We expect to outperform the Reference Portfolio by 1% per year, over the long term, based on the level of active risk we expect to take.

Source of value-add (by risk basket)	2019/20	2018/19	2017/18	2016/17	2015/16
ASSET SELECTION e.g. opportunistic, buyout, active equities. This basket contains opportunities that involve the skill to pick assets. Opportunistic assets are one-off investments that we are able to access because of who we are and where the key driver is our endowments – long horizon, independence, sovereign status – which may give us a competitive advantage in some situations. Underperformance in this risk basket was largely driven by our opportunistic assets, which are mostly in the early investment phase, partially offset by the strong performance of our New Zealand active equities portfolio.	-0.07%	0.25%	-0.18%	-0.05%	0.20%
MARKET PRICING – ARBITRAGE, DISTRESSED CREDIT AND FUNDING e.g. active collateral, merger arbitrage. These investments are mainly in the area of credit and funding that draw on the Fund's endowments, including its sovereign status and known contribution and distribution profile. These endowments may allow us to benefit from structural features of the market. This basket holds risk in reserve	-0.27%	0.10%	0.46%	1.20%	0.20%

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Source of value-add (by risk basket)	2019/20	2018/19	2017/18	2016/17	2015/16
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. This year our distressed credit, merger arbitrage and opportunistic volatility opportunities underperformed their benchmarks as a result of a deterioration in financial conditions, while our active collateral mandate took advantage of opportunities where market liquidity was scarce. Usage in this basket increased significantly as the Covid-19 events played out, reflecting our view that market events had provided an excellent entry point to increase our exposures.					
MARKET PRICING – BROAD MARKETS e.g. global macro, strategic tilting, dividend derivative futures. The investments in this basket draw on the Fund's long-term horizon and ability to look through short-term market movements. This includes Strategic Tilting, one of our internal mandates that 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. The global macro and dividend derivative opportunities underperformed their benchmarks this year due to dislocations associated with Covid-19, offset in part by another strong year for our Strategic Tilting programme.	-0.29%	0.17%	1.22%	2.27%	-0.53%
MARKET PRICING – REAL ASSETS e.g. alternative energy, growth capital, infrastructure, real estate. These opportunities are mainly driven by our views of the pricing of real assets in their respective markets, which include infrastructure, real estate, energy investments and growth capital. Our investments in the real assets risk basket generally underperformed their benchmarks across the board this year.	-0.94%	0.35%	-0.52%	-0.20%	0.91%
STRUCTURAL e.g. equity factors, emerging markets equity up-weight, insurance-related securities, timber. 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. The underperformance in the structural risk basket was largely driven by our equity multi-factor investments.	-1.00%	-0.70%	0.62%	1.05%	0.10%
Source of value-add (portfolio completion)	**2019/20**	**2018/19**	**2017/18**	**2016/17**	**2015/16**
PORTFOLIO COMPLETION e.g. rebalancing, liquidity management, currency management. 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. This year's outperformance was mainly driven by the Reference Portfolio implementation (rebalancing), our currency hedging programme, as well as a Reference Portfolio cost rebate of 0.25%.	0.65%	0.66%	0.58%	0.27%	-0.21%
GUARDIANS' COSTS	-0.15%	-0.16%	-0.16%	-0.17%	-0.15%
TOTAL OUTPERFORMANCE RELATIVE TO REFERENCE PORTFOLIO	**-2.08%**	**0.67%**	**2.02%**	**4.37%**	**0.52%**

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The Reference Portfolio Review

We review the composition of the NZ Super Fund's Reference Portfolio once every five years. This section provides a summary of the 2020 Reference Portfolio Review.

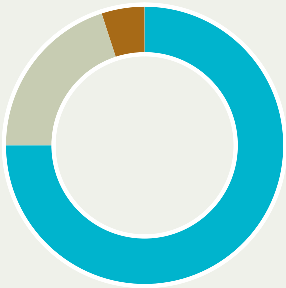
The NZ Super Fund is a long-term, growth-oriented global investment fund, which assists the Government in smoothing the tax burden of superannuation payments on future taxpayers. The Government sets aside some assets now that can be drawn down later, while earning a risk premium by investing these assets in capital markets.

The Guardians' mandate is to invest the Fund on a prudent, commercial basis. In doing so, it must manage 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.

In order to fulfil our mandate, since 2010 we have adopted a 'Reference Portfolio' approach. The Reference Portfolio, which is an alternative portfolio and benchmark for the Fund, is designed to be a simple, low cost portfolio that reflects a risk level which is appropriate for the Fund given its purpose.

We have undertaken to review the composition of the Reference Portfolio at least once every five years. In April this year we concluded the 2020 Reference Portfolio review. The review was led by the Portfolio Design team within the Asset Allocation business unit, with the final decision resting with the Guardians' Board. Running over the course of a full financial year, the review was broken up into three major categories of decision: composition, risk profile and benchmarking.

Reference Portfolio



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COMPOSITION

Which asset classes should be represented in the Reference Portfolio?

The Reference Portfolio is underpinned by a number of key design principles. They are that it:

- be a simple, low-cost portfolio. Therefore, a passive implementation approach is needed.
- be diversified. We achieve this by using broad indices to represent asset classes.
- be appropriate in risk and return terms for the Fund.
- be relevant to a New Zealand-based investor.
- be an equilibrium construct, that is, we take a very long-term perspective where investors are appropriately compensated for the systemic risk they bear.

Given these principles, our starting point for the composition of the Reference Portfolio is the listed/liquid market (rather than the full investable market). The Board chose global equities and fixed income as these are by far the largest and most liquid asset classes.

The weight assigned to each asset class is based on free-float index weights rather than full market capitalisation weights, as we consider investability of the Reference Portfolio more important than representativeness of the full investable market, a view deviating from the 2015 review.

Consequently, in 2020 the Board agreed to combine the developed market (DM) and emerging market (EM) allocations into a single global equities building block, with each being able to vary in line with the relevant free-float global equity index, while the 2015 review had fixed weights assigned to separate DM and EM blocks.

Consistent with the 2009 direction from the Minister of Finance instructing us to consider opportunities to increase the allocation of New Zealand assets in the Fund (see page 50 for more information about the direction), since 2010 we have included a dedicated 5% allocation to New Zealand equities. This represents an overweight relative to its benchmark weight in the global equities universe (0.12% of MSCI All Country World Investable Market Index as at 30 June 2020), and is designed to represent a meaningful contribution by the Fund to the New Zealand capital market. The Board decided to retain the 5% allocation to New Zealand equities in 2020.

RISK PROFILE

What level of risk and return is appropriate given the Fund's purpose?

Risk and expected return are the two most important characteristics of any investment portfolio. We interpret our objective of "maximising return without undue risk" as requiring us to earn a return that exceeds the Government's cost of funding, as measured by the Treasury Bill return, by as much as possible without incurring undue risk. The most challenging aspect of choosing a Reference Portfolio is determining what constitutes undue risk. In other words, how does the Board best balance the risk of losses in the short-to-medium term against the higher expected long-term gains?

While realised risk and return of different asset classes fluctuate through time and can fluctuate widely at times, they are more stable when measured across longer time frames. From the perspective of long-term investors like the Guardians, it is the long-run portfolio risk and return characteristics that are of most relevance. The equilibrium assumptions are estimates of these long-run risk and return characteristics that we use to help inform the choice of the Reference Portfolio.

In setting the equilibrium risk and return assumptions for Reference Portfolio assets, we start with the risk assumptions, which involve estimating the long-term volatility of each asset and correlations among assets. The return assumptions are based on the risk assumptions and the classical capital asset pricing model. In that model, the expected return on any asset is given by the risk-free rate plus a risk premium. We use the assumed New Zealand cash rate as the risk-free rate and the global investable market as a proxy for the unobservable market portfolio.

Historically, we have observed a persistent interest rate differential between the New Zealand dollar and a basket of developed market currencies, that is, there is a risk premium for hedging the currency risk of offshore assets to the New Zealand dollar. We view this premium as compensation for holding a risky currency of a country that is dependent on commodity exports and capital inflows.

The currency risk premium is an important component of the return from holding currency-hedged foreign assets. However, currency hedging is not just about earning a return – an important purpose is to reduce asset return volatility as hedging removes currency risk.

We then used these risk and return assumptions and a proprietary simulation model to explore the risk-return trade-off at various hedge ratios and proportions of growth vs fixed income assets in the Reference Portfolio. The Fund's long-run investment horizon implies a greater tolerance for equity risk than the typical investor, with an allocation to global fixed income in the Reference Portfolio seen as desirable for diversification reasons. Since inception, then, and throughout the Reference Portfolio reviews of 2010 and 2015, the Board has considered high, but not total, exposure to growth (or equity-like) assets as best fulfilling the Fund's mandate.

The 2020 review endorsed this decision and retained the existing Reference Portfolio allocation of 80% to growth assets and 20% to fixed income, with its foreign currency exposures 100% hedged to the New Zealand dollar.

The composition of our Reference Portfolio in 2010, 2015 and 2020 is shown below.

	2010	2015	2020
Developed Market Equities	70%	65%	75%
Emerging Market Equities		10%	
NZ Equities	5%	5%	5%
Global Listed Property	5%	-	-
Total Growth	**80%**	**80%**	**80%**
Global Fixed Income	20%	20%	20%
Total	**100%**	**100%**	**100%**

BENCHMARKING

How will we implement the Reference Portfolio?

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. We believe there are five desirable characteristics that we should consider in deciding on their merits (see table). Based on these considerations, we adopted the following indices:

- Global Equities: MSCI All Country World Investable Market (ACWI IMI) Total Return Index hedged to NZD
- NZ Equities: NZX50 Gross Total Return Index
- Global Fixed Income: Bloomberg Barclays Global Aggregate Total Return Index hedged to NZD

The above equity indices are customised to reflect responsible investment exclusions and adjustments required to meet our carbon footprint targets. The Reference Portfolio is scheduled to be reviewed again in 2025.

Characteristic	Description
Objective selection criteria	Objective, well-defined and published rules subject to a transparent governance structure.
Representativeness	Broadly representative of the relevant universe and well diversified so that the opportunity cost of active decisions is clear.
Relevance	An investor should be able to closely replicate the index performance.
Investability	An investor can readily trade the constituent stocks with minimum market impact and transaction costs.
Acceptance by investors	Well recognised and widely used and that derivatives based on the index are traded in liquid markets.

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Our Revised Investment Beliefs

At the Guardians we have a number of Investment Beliefs. These provide a clear statement about how we believe investment markets work. They cannot be definitively proven; instead, they are collectively agreed and collectively held judgements based on research and experience.

One of the recommendations of the 2019 five-yearly Independent Review of the Guardians and NZ Super Fund was that we review these beliefs. Over the course of four months, from December 2019 to March 2020 we carried out this review.

The review was undertaken in three stages:

1. A series of workshops held with the Investments team. Team members had the opportunity to express their views about our then-existing beliefs and volunteer additional ones we might add.
2. Collating the feedback, identifying areas of consensus, and distilling this down into a set of proposed changes. A paper setting out the proposed changes was presented to the Investment Committee, with the Committee recommending a few further minor changes.
3. A workshop run with the Board at the Board Strategy Day held at the end of 2019.

The Board then signed off on the changes proposed by the Investments team, subject to the addition of one further change to our ESG belief, rounding out the process. In the end, the differences between the previous and revised set of beliefs were not large, with the changes more of a clarifying nature. In order to better articulate the importance of the beliefs, we also added a statement to each belief explaining how it impacts our portfolio.

The new beliefs are set out below.

Decision	Belief	Portfolio Impact
Governance & investment objectives	Clear governance and decision-making structures that promote efficiency and accountability are effective and add value to the Fund.	Legislation grants the Fund operational independence. We believe this is a necessary condition for good governance. Our investment frameworks guide all aspects of our decision-making. Management has been delegated responsibility and accountability for the active portfolio.
Asset Allocation	Asset allocation is the key investment decision.	The most important determinant of Fund returns is the Reference Portfolio. The key Reference Portfolio decision is how much weight to allocate to each asset class. The risk budgeting framework guides the allocation of active risk.
	Investors with a long-term horizon can outperform more short-term focused investors over the long-run.	We seek access to assets that offer a risk premium (e.g. illiquidity, value, development) to investors that can stay the course. Our willingness to stay the course stems from our long horizon and stable risk appetite. Our ability to stay the course depends on disciplined management of liquidity.
Asset class strategy & portfolio structure	Asset class expected returns are partly predictable; prices tend to revert to fair value over time. By fair value we mean the longer term expected value of an asset rather than fair value as defined by accounting standards.	We allocate much of our active risk to valuation-based strategies (e.g. Strategic Tilting) in the belief that market cycles of fear and greed cause asset prices to swing around fair value as assessed by an investor with a stable risk appetite. We seek to exploit this by taking long or short positions in cheap or expensive assets to generate positive excess returns.

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Decision	Belief	Portfolio Impact
Manager & investment selection	The ability to consistently generate excess returns from skill vs an appropriate benchmark (net of fees) is rare; where this ability exists, it is hard to access.	We do not allocate risk to skill-based managers in the most efficient asset classes (e.g. developed markets equities). We typically have lower confidence in investments that rely heavily on manager skill. Regardless, when we do hire managers, we are careful to select those we believe have the most skill. This is typically not, however, the highest confidence part of an investment decision.
	Some markets or strategies have characteristics that are conducive to a manager's ability to generate active returns. These characteristics may change over time.	We seek to invest in assets which are likely to generate an excess return due to identifiable characteristics such as risk premium, structural imbalance or behavioural anomaly. An example is the developed markets equity factors opportunity (see page 52 for more information on this opportunity) which is premised on all three of these drivers. Another example is timber, with structural change due to assets being transferred from companies producing integrated forest products to financial institutions which leads to higher returns.
	Environmental, social and governance considerations, including climate change, are fundamental to long-term risk and return.	We incorporate environmental, social and governance (ESG) considerations into investment management. We seek to reduce the carbon footprint of our portfolio because we view a large exposure to carbon as representing undue risk (see pages 56 - 57 for more detail on our Climate Change Investment Strategy). We actively promote strong ESG policies in our investee companies and the broader investment community. We are also active in exercising our voting rights in support of good governance.

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Q&A: Strategic Tilting

Strategic Tilting, sometimes called dynamic asset allocation, is the NZ Super Fund's largest active investment strategy by share of active risk.

ALEX BACCHUS
MANAGER, STRATEGIC TILTING

To add value, we invest in a contrarian style: buying when others want to sell and selling when others want to buy. It follows, then, that extreme market events like the Covid-19 crisis present an opportunity to take advantage of temporary price dislocations.

Since it was set up in 2009 the tilting programme has been a strong source of active returns, adding 1.0% per annum to the Fund on average, or NZD2.8 billion over and above our benchmark. Strategic Tilting sits within the market pricing - broad markets risk basket (see page 37). In this Q&A, Alex Bacchus talks about applying the tilting strategy through the market volatility brought about by Covid-19.

Why is Strategic Tilting a suitable strategy for the Guardians?

Strategic Tilting aligns strongly with the Fund's endowments and beliefs. It relies on the Fund's long horizon and our belief in mean reversion.

The Guardians has a view that in the long-run, risk and return are related, and that risk premiums should mean revert (or move back toward fair value - by fair value we mean the longer term expected value of an asset rather than fair value as defined by accounting standards) over time. This concept helps us determine long-term valuations for assets and it also underpins the Strategic Tilting allocation approach - how we change Strategic Tilting exposures through time.

Tilting is designed to make money in the long term, but it will have significant periods of negative returns. It's important that an investor can ride through these periods of adverse market movements. A short-term investor sometimes can't do that; they might have retail investors withdrawing money or they might be worried about short-term risk measures. Because of the Fund's long-term investment horizon, we can focus on longer-term risk measures and weather short-term volatility in returns.

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How does it work in practice?

The strategy is based on our views on the long-term value of assets. We tilt around 35 assets across equities, interest rates, currencies, credit and commodities, and we've developed models and valuation assumptions for all our tilted assets.

We also have a disciplined allocation approach where we take trading positions based on our views of expected return, long-run risk and our confidence in these investments. Expected return is primarily driven by how far prices deviate from fair values. So, the greater the price-value gap, the larger the position, all else being equal.

We spend a lot of time thinking about and planning how we will allocate through various market scenarios. We calibrate in advance how much equity exposure we might buy through a large equity drawdown to make sure that we're buying an appropriate amount for the Fund and for the amount of risk we're expected to run in the tilting strategy. This forward planning allows us to respond quickly to market moves when these scenarios play out.

We manage the trade execution internally through our Portfolio Completion team. This ensures we can act quickly when we need to, net trades with other strategies, reduce market impact and transact with low costs. This internal capability is important for the tilting strategy, and, supported by the Operations and Risk teams, results in a best-practice approach covering all tilting assets.

Clear valuation assumptions and a disciplined allocation approach allow us to run the strategy with confidence on a day-to-day basis. We review all our assumptions regularly to ensure they include all the relevant information we have. Inevitably, especially in a year like this, there is a lot of information and a lot of noise which can move market prices in the short term, but we need to make sure we focus on what really affects our long-run valuations.

Why is governance important?

The tilting strategy requires strong governance. It's a long-term strategy for the Fund, but it's important that the short-term volatility is managed so that we can get to the long-term. Tilting is a contrarian strategy, and there will be significant periods where the strategy makes or loses money. Contrarian strategies can be behaviourally difficult to run, buying assets when other investors are fearful and selling into greed and momentum. Being underweight an asset class in a bull market or overweight in a bear market can give rise to a lot of pressure to unwind the strategy. Strong governance, coupled with a good understanding of what to expect from the strategy, helps us to stand strong through this pressure.

It's very important that we hold our ground, and that we don't close out a long-run strategy like tilting due to short-term performance losses if they are what we expect from the strategy: doing so would inevitably lock in losses. The Guardians has strong governance and the Fund has a long-term investment horizon and purpose, which makes Strategic Tilting a good fit.

How do you review your assumptions of fair value?

Tilting uses well over 100 assumptions that feed into all valuation models and models for investment allocation (the allocation models determine how we translate information into investment positions). The tilting assumptions are effectively views about what is reasonable to expect in the future: a central scenario that we think will play out over the long term. We are not trying to forecast what might happen next week or next month: we are looking through market cycles and focusing on where we think 'normal' is.

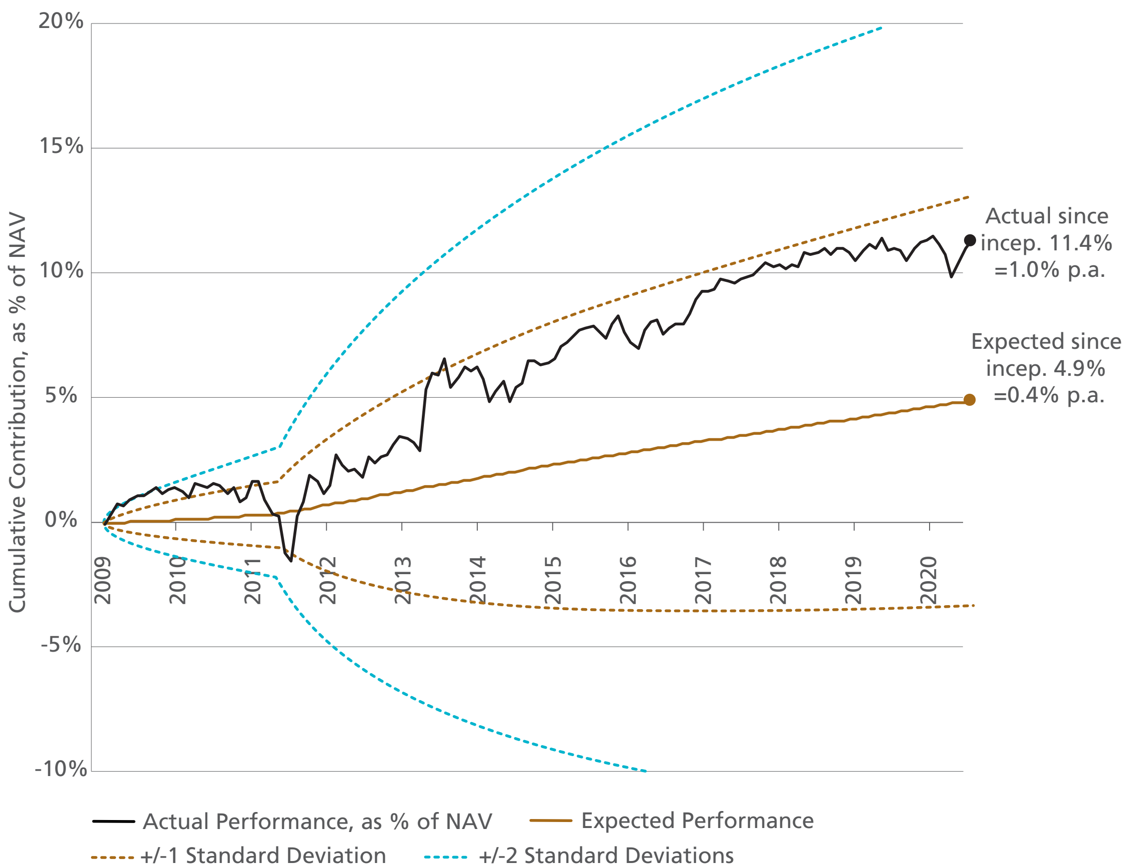
We regularly review each of these assumptions to make sure that they're fit for purpose and up to date with the most relevant information. We also have a framework that we apply for event-based assumption reviews. This is for when we believe a current or future event could materially impact our valuations, confidence or other assumptions.

Between the five of us in the tilting team, we're always reading and debating all the information we can find that we think is important to the programme. If we think something has shifted in a way that warrants a change to one of our assumptions, we'll debate this within our team and with other groups at the Guardians. This can include the Economics team, the broad markets risk basket team, Portfolio Completion, Portfolio Investments, the Investment Committee and subject-matter experts from across the wider team. Once we agree on how the assumption should change, we implement the change then document and communicate it to the Investment Committee.

How did Strategic Tilting change to respond to the market volatility brought on by Covid-19?

The Covid-19 crisis caused a huge and swift disruption to asset pricing. As always, we needed to manage the strategy through the event while reviewing our assumptions to make sure they still made sense given everything that was happening.

The Covid-19 crisis was pretty stressful in terms of the speed of the decline in equity markets, and then the speed of the recovery. There was a lot of information to read and



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understand, a lot of data to interpret on the virus, policy responses and economic outcomes.

In terms of day-to-day portfolio management, the main thing that helped us was the planning and disciplined approach that we take. Because of this planning we were able to respond reasonably quickly. We significantly changed our positions to assets, as we had planned to do, and we were able to buy some risky assets (such as equities) as they became cheaper through the crisis – and then sell them later into the recovery.

New Zealand went into lockdown during the height of the market volatility. This transition was relatively smooth for us as our IT team had spent considerable time over previous years developing and testing our business continuity plans. Our technology and systems worked well from home right from the start of the lockdown, enabling us to focus on managing the tilting strategy. We immediately became heavy users of Zoom (video conferencing) for our trading discussions, communication with the wider team, market debates and to ensure the team were in good spirits.

The speed and volatility of market moves during the crisis brought challenges as many markets primarily trade during New Zealand's night time. We worked closely with the Portfolio Completion team to ensure we were both flexible and fast enough to capture this volatility. This meant many early mornings, some late night trading, and a number of Saturday morning sessions during lockdown where the teams worked together on video calls to ensure the tilting trades were sized appropriately and executed well.

All our trading, including the weekend sessions, was ably supported by the Operations and Risk teams. This ensured that bookings were correct, matched and settled, collateral and margins were transferred as needed, compliance rules were followed and that risks remained managed and within limits. This was also done seamlessly as the teams transitioned to working from home.

Importantly, we also had to make sure that our assumptions reflected the post-Covid 19 world. So we needed to look through the crisis and focus on the long term, on what the new 'normal' might look like after the pandemic. Following considerable discussion and debate, we agreed some changes to our assumptions for long-term interest rates and equity earnings, and changes to how we planned to allocate to very extreme price scenarios.

The Covid-19 issues are far from over; significant economic damage has been done followed by unprecedented responses from governments and central banks. We will continue to manage the tilting programme through this volatility and make sure our assumptions are fit for purpose as these issues are worked through.

What lessons did you take from applying the strategy through the pandemic?

The crisis reinforced the importance of planning in advance and having a clear allocation approach. We spent a lot of time up-front on calibrating the strategy for extreme events and being clear on what to expect in terms of trading, positions and returns. This planning allowed us to maintain discipline with our day-to-day trading while focusing on how our long-term assumptions were affected.

Breadth in the tilting strategy was also helpful. Although this strategy takes significant equity positions which can quickly lose money during such a crisis, we also take positions in other assets such as currencies which can have offsetting effects.

Another lesson from the pandemic is that good governance is vital. It's important that the stakeholders at the Guardians know what to expect from the tilting strategy through such a crisis. Running a contrarian strategy through these types of events can be trying at times. There can be pressure to change course in the middle of a crisis or even shut things down due to short-term returns if we are not properly prepared for what to expect.

Good governance ensures that the focus remains on long-term outcomes for the Fund. We appreciated the support of the Guardians' management and the Board through the initial phases of the crisis.

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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 2020	1.18	1.21
Since inception (December 2003) to 30 June 2020	0.49	0.53

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.

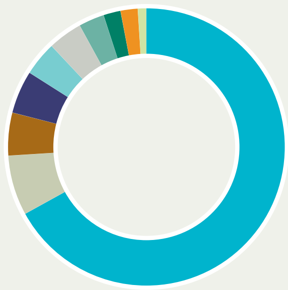
REFERENCE PORTFOLIO

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 0.49. Since its introduction in 2010, the Reference Portfolio has had a Sharpe ratio of 1.18. This means that 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 1.21, 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 risk. On a since inception basis, the Actual Portfolio has realised a Sharpe ratio of 0.53. Over both periods, the Sharpe ratio of the Actual Portfolio compares favourably with that generated by the Reference Portfolio.

Actual Portfolio*



* Excludes the impact of any strategic tilts.

SECTION TWO
INVESTMENT REPORTS
02

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CASE STUDY

Investing in Domestic Infrastructure: Auckland Light Rail

Bidding to be the New Zealand Government's preferred delivery partner for the high-profile Auckland City Centre to Māngere light rail project was a significant focus for the Guardians over the year.

A visualisation of the Réseau Express Métropolitain (REM). Led by CDPQ Infra, the project involves construction of a new automated light-rail network serving the Greater Montréal area.

While our interest in this potential investment had developed over a number of years, the partner selection process ramped up and came to a head during 2019/20. We committed significant resource to developing our proposal as part of the NZ Infra entity, a joint venture with our peer fund from Canada, CDPQ Infra.

Our involvement effectively started back in 2017 when we explored other established international models for infrastructure delivery that would allow the Guardians to invest our domestic New Zealand public capital into local (and international) infrastructure investment opportunities.

Infrastructure is an attractive investment category for the NZ Super Fund because of its consistent, competitive returns and yields, defensive characteristics and diversification benefits. It also has the potential to deliver the scale we require of our active investments in order to be meaningful within what is a NZD45 billion and growing portfolio. In addition, infrastructure is a scalable way in which the Guardians can deliver on the direction we received from the Minister of Finance in 2009, to consider opportunities to increase the allocation of New Zealand assets in the NZ Super Fund, in a manner consistent with our investment mandate and objectives.

The infrastructure investment model is based on long-term investment in large-scale infrastructure by publicly-owned but commercially-run investors, in partnership with central and local governments. It shares some attributes with models such as the 'Alliance' model that has been used occasionally to fund infrastructure in New Zealand, but is fundamentally different to the more common Public-Private Partnership (PPP) funding model.

Late in 2017, we considered a range of potential infrastructure projects. Auckland light rail, with the potential to be the biggest and among the most transformational infrastructure investments in New Zealand's history, was an obvious and compelling place for us to start. We determined that it was a good fit with the infrastructure investment model and of the various projects considered had the most potential to be commercially attractive.

It was then that we selected and partnered with leading global infrastructure investor and light rail experts CDPQ Infra to develop the unsolicited proposal for a light metro model which was delivered to the Minister of Transport in April 2018.

Initially, Cabinet directed the New Zealand Transport Agency (NZTA) to lead the development of a single-stage business case, establish a process to engage with a range of potential partners and report back on procurement options, including partnership opportunities. NZTA commenced a market engagement, and NZ Infra submitted a proposal. With this approach failing to gain traction, however, from August 2019 the Ministry of Transport was instructed to lead a process whereby we would further develop our model, in a contestable process, for consideration against NZTA's approach. Proposals were delivered in November, with a view to a preferred delivery partner being chosen by Cabinet in early 2020.

The Government process outlined the following objectives:

1. Access and Integration - Improved access to employment, education and other opportunities through enhancing Auckland's rapid transit network and integration with Auckland's current and future transport network.
2. Environment - Optimised environmental quality and embedded sustainable practices.
3. Urban and Community - Enabling of quality integrated urban communities, especially around Māngere, Onehunga and Mt Roskill.
4. Customer Experience - A high quality service that is attractive to users, with high levels of patronage.

As a result of the extensive work undertaken during the proposal period, and the quality of the contribution and depth of experience of our partner, CPDQ Infra, we were able to develop a comprehensive, detailed, credible and deliverable proposal in what was an exacting process and within a demandingly short time frame. Similar to a light rail project CDPQ Infra is involved with in Montreal, our proposal involved delivering an automated and driverless fast 'metro'-style service, completely separated from road and pedestrian traffic, with safe, reliable trains every few minutes, easy user access, integration with other public transport modes and adherence to strong environmental values.

After the competing bids were lodged in November 2019, the Ministry led an across-government appraisal process to identify a preferred delivery partner for recommendation to Ministers and Cabinet. That NZ Infra emerged from the process as the preferred partner was testament to our proposal's high quality.

The delivery partner decision was initially due to go to Cabinet in February 2020, but the Covid-19 pandemic, and resulting lockdown, understandably caused this to be delayed.

A Cabinet decision in relation to the project was eventually taken in late June, with the government parties unable to reach agreement on a preferred proposal. Cabinet then decided to end the light rail partner selection process without accepting either of the bids. The Government did announce that it was asking officials to report back on a public sector delivery model for the project after the General Election.

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 highest quality local advisors available, gained invaluable insights into stakeholder engagement and developed extremely high value intellectual property.

In the infrastructure sector, there are many more projects that don't make it from investigation to construction than there are that do. We were entirely realistic in relation to that in our decision-making about the Fund's involvement.

The outcome of this process does not represent an end to our interest in investing in strategic infrastructure, which remains an attractive and compelling investment class in our real assets risk basket for the Fund both in New Zealand and internationally. We will continue to look for opportunities and value within the infrastructure sector.

Where We Invest

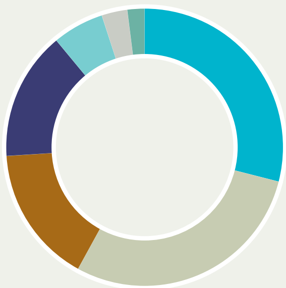
The NZ Super Fund is highly diversified, with investments in a range of markets and sectors all around the world. More than 85% of the Fund is invested offshore, in both developed and emerging markets. This diversification is in keeping with the Guardians' mandate to manage the Fund in line with best-practice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

The majority of the Fund's international investments are held passively. These holdings give us cost-effective, diversified exposure to global sharemarkets. We also invest globally in a variety of active investment opportunities, including timber, private equity, insurance-linked securities and distressed credit.

Exposure	2020	2019	2018	2017	2016
New Zealand	13.9%	12.9%	13.9%	12.0%	12.6%
Australia	3.0%	1.6%	2.7%	2.6%	2.1%
North America	48.5%	48.8%	45.8%	47.0%	46.7%
Europe	16.2%	17.3%	19.3%	19.9%	21.2%
Asia (excl. Japan)	10.2%	10.9%	10.2%	10.1%	8.9%
Japan	6.7%	6.0%	6.1%	6.1%	6.1%
South America	1.1%	1.7%	1.3%	1.5%	1.6%
Africa	0.4%	0.8%	0.7%	0.8%	0.8%

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

NZ Investments as at 30 June 2020



- Timber: **29%**
- NZ Listed Equities: **29%**
- Fixed Income: **16%**
- Other Private Companies: **15%**
- Rural Land: **6%**
- Expansion Capital +Private Equity Real Estate: **3%**
- Infrastructure: **2%**

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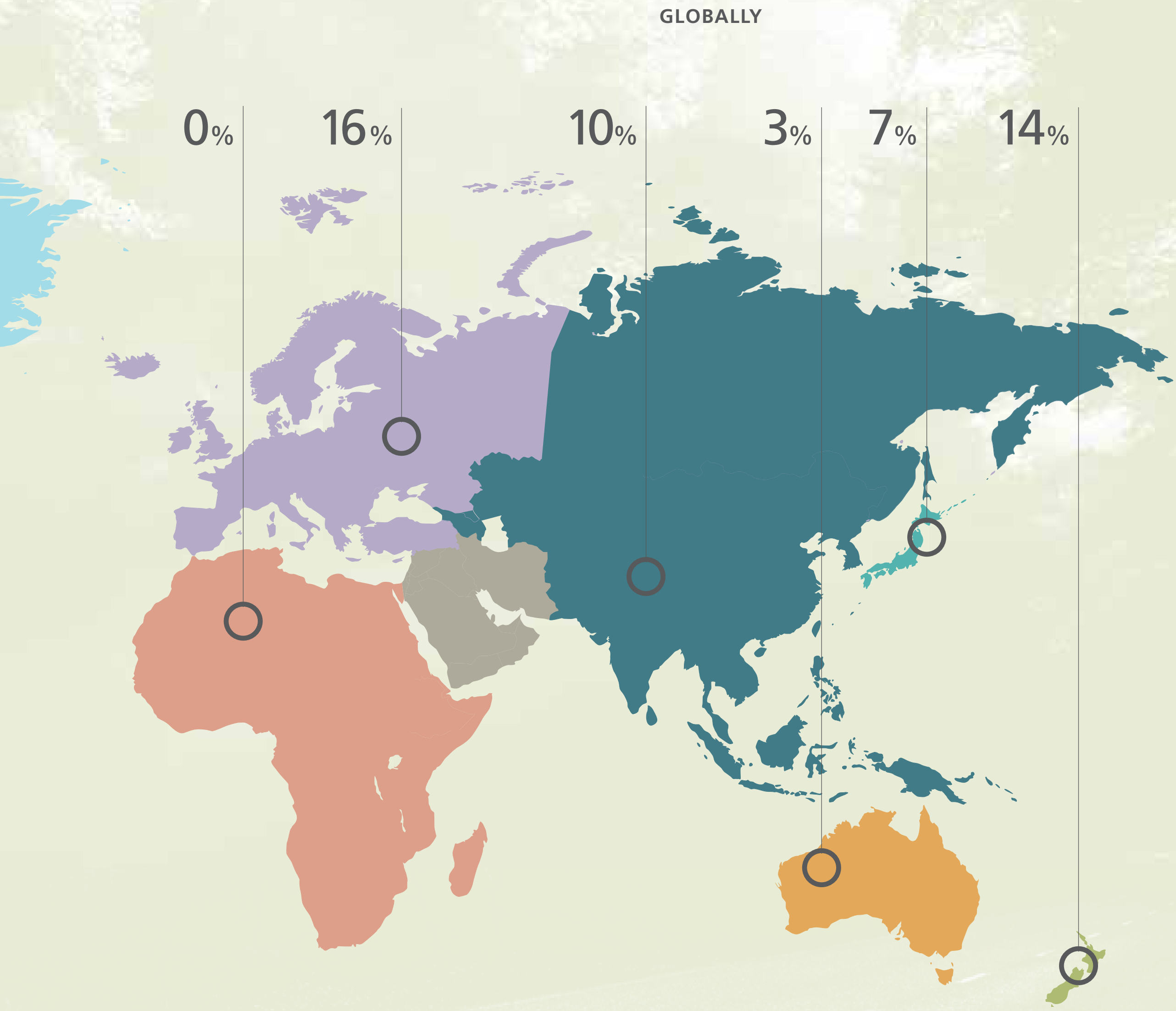

GLOBALLY
0%
16%
10%
3%
7%
14%

INVESTMENT ACTIVITY - NEW ZEALAND

OUR APPROACH TO INVESTING IN NEW ZEALAND

New Zealand is our home. It is a market we understand and value, and one we have an advantage in as a long-term investor. We have grown to be one of New Zealand's largest institutional investors, and we play a significant role in its capital markets. We take our role in supporting New Zealand's economic future very seriously.

Our direct investment activity in New Zealand commenced in 2006 when we acquired a stake in Kaingaroa Timberlands, and was further cemented with a letter from then-Minister of Finance Bill English in May 2009 directing the Guardians to identify and consider New Zealand assets as part of its portfolio. Importantly, the direction was not intended to be inconsistent with our duty to invest the NZ Super 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.

> "...I direct the Guardians to note that it is 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. This direction is not considered to be inconsistent with the Guardians' duty to invest the Fund on a prudent, commercial basis..."

MINISTER OF FINANCE, 2009

SIZE OF NEW ZEALAND INVESTMENTS

Our local advantage means we are strongly weighted to New Zealand-based assets relative to the size of the local market. Overall, we have just over NZD7.2 billion invested in New Zealand, or 18.4% of our total investments by value. To provide context about the relative size of our local investments, while New Zealand makes up just 0.1% of listed global equities, approximately 5% of the NZ Super Fund is invested in local shares. Although the dollar figures of our investments in New Zealand increased from NZD2.4 billion to NZD7.2 billion in the eleven years since 1 July 2009, the proportion of the overall Fund that is invested in New Zealand (in value terms) has reduced from 21.3% to 18.4%. The proportional drop also reflects the strong performance of global equities in recent years, even after significant new investments by the Guardians in New Zealand.

In contrast to the exposure analysis provided in the 'Where we invest' section on page 48, this figure is calculated based on the value of the NZ Super Fund's New Zealand investments, as a proportion of the value of the NZ Super Fund's investments
102 - 4 figure in our financial statements. This calculation includes
102 - 6 investments in rural and forest land, but excludes foreign
102 - 10 exchange hedging instruments such as FX contracts and cross-currency swaps. While we envisage continued growth in exposure to local assets, it is important to note that given the increasing total size of the NZ Super Fund, the percentage invested in New Zealand will likely continue to decrease.

COVID-19 RESPONSE

The impact of Covid-19 on business operations around the world in the first half of 2020 was swift, unprecedented and is enduring. Economic contraction resulting in the loss of customers, interruptions to supply chains, changing consumption habits and the impact of lockdowns and physical distancing requirements drastically altered the day-to-day operations of companies around the world. The NZ Super Fund has several direct investments in New Zealand businesses that operate both locally and offshore. In response to Covid-19's emergence, these businesses made bold changes to how they operate in order to meet the needs of the transforming environment and serve their customers. Here are a few of the responses our investee companies undertook with support from the team:

KAINGAROA TIMBERLANDS - The NZ Super Fund owns 42% of Kaingaroa Forest, which spans 190,000 hectares and is located between Rotorua and Taupo on the North Island of New Zealand. Although wood production was not considered an essential service and therefore the industry had to quickly cease normal production during lockdown, some operations delivering pulpwood to pulpmill customers were permitted to support the production of hygiene paper and paperboard to the food and horticulture sectors. To enable this, Kaingaroa Timberlands added additional health and safety measures to permit production to take place, and meet new workplace restrictions required for operation.

RURAL LAND – In total, the NZ Super Fund has approximately NZD400 million invested in rural New Zealand including dairy/beef farms, vineyards, orchards and a hops garden. Our rural holdings are managed by FarmRight and remained operational during the lockdown as food production was deemed an essential service. The farms functioned under revised health and safety rules to ensure physical distancing on the respective sites. Pastoral care was also provided for seasonal workers that were unable to return to home countries after fruit picking and pruning activities were completed for the season.

NZ GOURMET – In 2018 the NZ Super Fund took a 27% stake in NZ Gourmet, which was established in 1982 as a specialist exporter of premium quality New Zealand produce. NZ Gourmet produces and markets a range of high-quality fruit and vegetables to both local and international markets, which were upended by Covid-19. Traditional distribution chains became challenging with airfreight being significantly disrupted. The business had to quickly adapt its logistical operations, increasing use of sea freight and exploring charter airfreight options, all whilst remotely handling delivery schedules to ensure its produce got to market.

KIWIBANK – Covid-19's impact on general economic conditions and a lower interest rate environment reduced profitability for the bank, which is 25% owned by the NZ Super Fund alongside ACC (22%) and NZ Post (53%). Throughout the crisis Kiwibank prioritised the health and safety of staff and provided support for customers and suppliers. Highlights included:

- introducing a Relief and Resilience programme that provided support to more than 8,000 personal and business banking customers for loans totalling more than NZD2.6 billion;

- supporting local businesses by moving from paying suppliers on the 20th of the month to paying accounts on a weekly basis;
- taking a market-leading position on the fixed home-loan market and introducing a significant reset to variable home loan rates;
- the temporary closure of bank branches during lockdown and redeployment of staff into areas where they could continue to support its customers; and
- supporting staff by making a commitment not to reduce jobs, hours, or pay rates.

DATACOM – The NZ Super Fund is a significant minority investor in Datacom Limited, holding 39% of the company. One of the big workplace shifts prompted by restrictions imposed by the Covid-19 outbreak was the accelerated trend to remote working and adoption of cloud-based technologies. In response, Datacom serviced large increases in customer demand in the areas of networking/VPN solutions and installation of other modern workplace technologies. It has also provided technology services to the New Zealand Government as it deals with virus-related challenges and has scaled-up in areas such as its call centre operations to service increased outsourcing demands from customers.

LANZATECH - The NZ Super Fund is a cornerstone investor in New Zealand-founded carbon recycling company LanzaTech, now headquartered in the United States. LanzaTech's technology uses anaerobic bacteria to convert carbon-rich waste gases into high-value fuels and chemicals through a process of gas fermentation. While the global economic downturn is expected to slow overall project schedules and project investment decisions, LanzaTech believes most companies have not changed carbon reduction goals in response to the event and it is preparing for a return to normalcy when customers are expected to proceed with planned sustainability projects. LanzaTech also sees interest from new customers as Covid-19 recovery funds for industry are tied to sustainability metrics.

HOTEL PORTFOLIO AND EAST AUCKLAND LAND PURCHASE

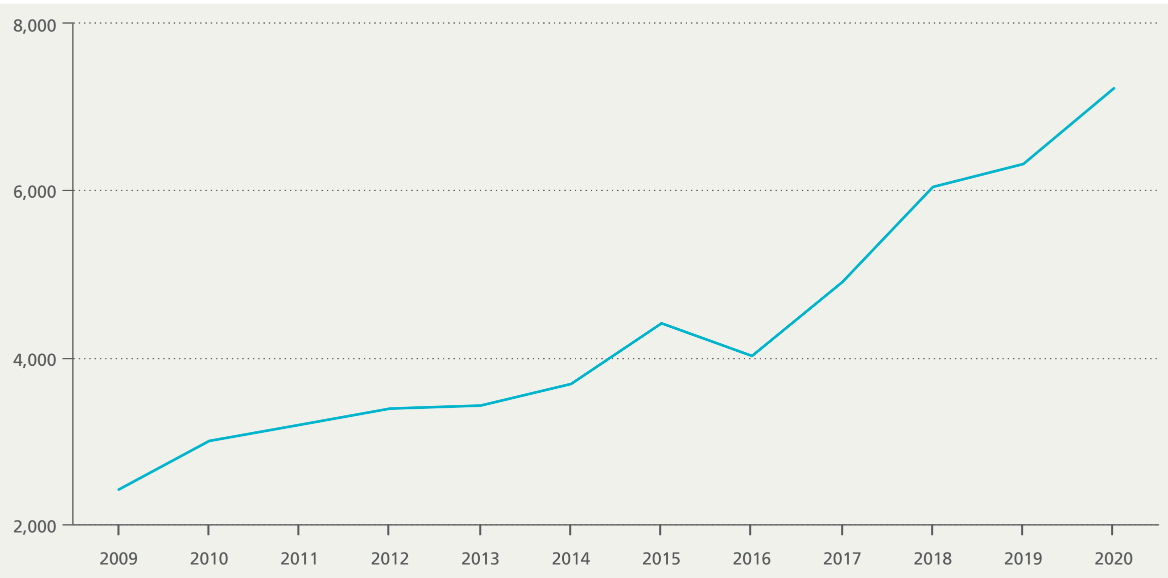
In July 2019 we partnered with Russell Property Group and Lockwood Property Group to invest in a new NZD300 million hotel portfolio, creating a platform for further investment in New Zealand's tourism sector. The phased investment included a range of assets in New Zealand's key tourism hubs and gateway cities, including: the Four Points by Sheraton and Adina Auckland Britomart in Auckland; the BreakFree Hotel in Christchurch; and most recently the Holiday Inn Rotorua.

The partnership, NZ Hotel Holdings, gives the NZ Super Fund exposure to New Zealand's tourism sector and unlisted assets which are not ordinarily available in New Zealand. It also helps to diversify the Fund's investment portfolio. Under the arrangement, two joint ventures have been created, one to own properties operating as hotels and the other to manage properties and identify future opportunities. Since the global onset of Covid-19, we have been working with the New Zealand Government and to date two of our hotels have been contracted for use as isolation facilities for returning New Zealanders. The pandemic has had an immense impact on New Zealand's tourism sector and has created uncertainty around the short to medium-term market trends.

In March 2020, the Guardians and parties associated with Russell Property Group also acquired a significant waterfront land holding in east Auckland, including the Formosa Golf Course. The partnership, Beachlands South LP, will be a separate venture to the limited partnership NZ Hotel Holdings established to acquire hotel assets. The acquisition comprises around 250 hectares and consolidates the Formosa Golf Course land (170.5 hectares at 110 Jack Lachlan Drive), as well as a property of 80 hectares at 620 Whitford-Maraetai Road.

As a long-term investor, this acquisition signals our confidence in Auckland's future growth and our commitment to the region. In time we will engage with the community and Auckland Council about the kind of masterplan and associated infrastructure improvement that could work for the area.

Value of NZ Investments ($m)



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INVESTMENT ACTIVITY - GLOBAL

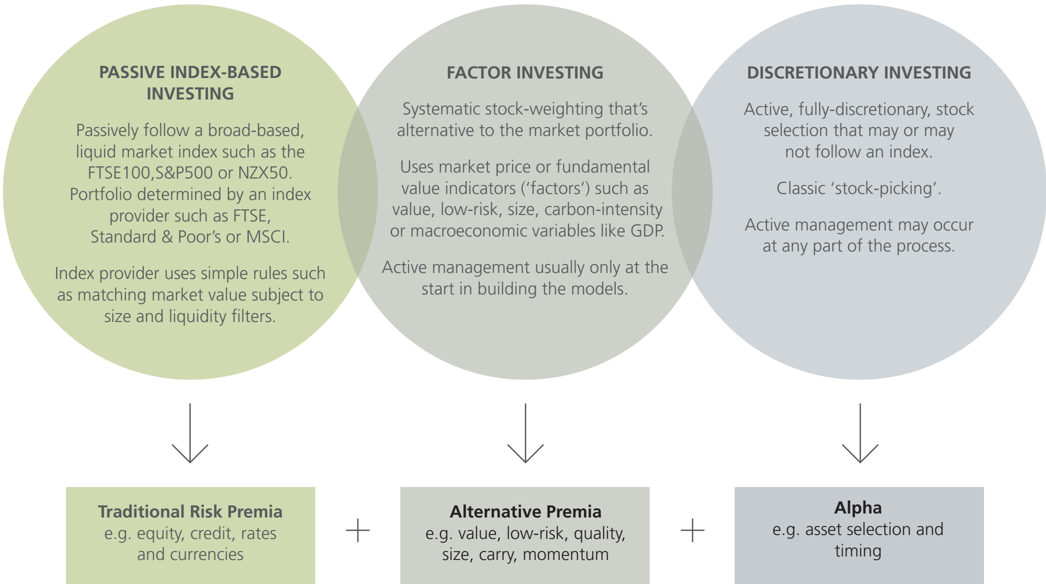
FACTOR STRATEGIES

Factor investing is an investment strategy that takes passive market capitalisation-weighted indices and constructs an alternative index that is weighted towards 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 (see diagram below for more information).

We have sought factor risk premia in developed market equities via external managers AQR and Northern Trust since 2016. Over the past financial year, we reviewed the composition and performance of our factors mandates. As a result of this review, we:

- combined our existing portfolios, which centred on two separate factors (value and low risk), and added two more factors (quality and momentum), to run an integrated 'multi-factor' investment strategy;
- increased the amount of risk allocated to factors from 10% of NAV to 20% of NAV;
- considered the effects that increasing our allocation to factors might have on general risk management, liquidity, transaction costs and fees; and
- approved the appointment of a third access point for this opportunity in the form of a custom index constructed by Robeco.

Robeco is a research-driven active asset manager, and a global leader in quantitative and sustainable investing, based in the Netherlands. Under the terms of our mandate, Robeco applies its intellectual property to construct a developed markets equity multi-factor index on our behalf. We are afforded flexibility in the implementation of the index, allowing us to appoint an implementation-agent of our choosing and reap significant liquidity advantages.



GLOBAL MACRO

We define global macro as a broad, market-neutral strategy that produces returns by skilfully exploiting inefficiencies within and across a broad range of liquid markets. The key source of return within this opportunity is manager skill. This means that we will only appoint a manager if they are assessed to be sufficiently skilled to exploit market mispricing and deliver attractive returns over long time frames. Following a refresh of the global macro opportunity definition, we appointed two new managers to join our existing manager, Bridgewater Associates. We committed USD100 million to Two Sigma (appointed June 2020), and USD50 million to Citadel LLC (appointed July 2020), both US based.

COMMERCIAL REAL ESTATE

Within the real assets risk basket (for more information on this risk basket, see page 37) we have an allocation to real estate. Within this allocation, we have defined three opportunities that draw on this risk allocation – prime real estate, secondary real estate and development real estate. Development real estate refers to greenfield assets that have development risk. It can span activities ranging from investment in undeveloped land, construction, renovation and re-lease of property through to urban regeneration projects. We believe the development real estate market exhibits characteristics of an inefficient market where sophisticated investors with strong track records, relationship bases, origination capabilities and good access to capital flows can do well. Further, the logistics real estate development market in particular is aided by structural tailwinds from the transition to e-commerce and changes in consumer expectations on delivery timelines.

This year, we committed USD125 million to US Industrials Club V, a collective investment vehicle run by Hillwood. Hillwood is a US-based developer and manager of global industrial and logistics real estate. Hillwood leverages its US local market experience, existing relationships and acquisitions team to aggregate a portfolio of investment opportunities for US Industrials Club V. Hillwood focuses on markets with attractive supply-demand characteristics and strong industrial/logistics infrastructure. We view Hillwood as a valuable partner in accessing this opportunity set going forward.

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EUROPEAN RENEWABLE ENERGY

This year, via investment manager Morrison & Co, we purchased a 20% stake in Galileo Green Energy (GGE), a newly established Zurich-based European renewable energy developer, alongside Infratil, Commonwealth Super Corp and Morrison Growth Infrastructure Fund. GGE will invest in wind, solar and storage projects across Europe. The investment is consistent with the alternative energy opportunity within our real assets risk basket, and also aligns with the 'search' arm of our Climate Change Investment Strategy (see more detail on pages 56 - 57).

Since 2016 we have co-invested with Infratil in another renewable energy platform: Longroad Energy Holdings. Longroad specialises in the development of utility-scale wind and solar generation in North America. The NZ Super Fund holds a 40% stake in Longroad.

Rio Bravo wind farm in Starr County, Texas, developed, financed, and sold by Longroad Energy.

INSURANCE RUN-OFF

Insurance run-off is a new opportunity that looks to take advantage of changing interest rate environments, changing regulatory environments, new reporting standards, and general consolidation activity that each have an impact on insurance companies. The net result of these drivers is that certain historic lines of insurance business (but where the policies are still in force) are no longer efficient uses of capital for an insurer. As a result, insurers will often look to sell such liabilities (and corresponding assets) to specialist investment managers who may be better placed to run these liabilities off. This year, we invested USD245 million in a run-off transaction wherein a certain set of insurance liabilities originally issued by a U.S. based global insurance company were partially acquired by a fund managed by Carlyle, a US-based asset manager.

BLOOM ENERGY

We have exited our stake in alternative energy company Bloom Energy (Bloom) for USD21.51 million. We invested USD50 million into Bloom in 2013 and a further USD50 million in 2014. In July 2018, Bloom held an initial public offering for 20% of the company on the New York Stock Exchange, valuing the company at USD2.65 billion.

It is inevitable in such a big portfolio that some investments will underperform. That is the nature of diversified investing. While this individual investment has been disappointing, overall we remain confident in our active investment strategy, which continues to contribute significant value to the NZ Super Fund. We felt this capital could be put to better use in other investments, which is why the decision was made to exit.

SOVEREIGN EXPOSURE

Over the past year, we internalised (brought in-house) the management of our sovereign bond holdings, valued at approximately NZD1.6 billion (as at 30 June 2020). Holding sovereign bonds internally enhances our liquidity profile, which means we have greater ability to buy or sell the investments in this portfolio in a timely manner, and with minimal transaction costs.

The move will also allow us to become more active in the repurchase agreement (repo) markets, where we had previously abstained as borrowing bonds from external investment managers produced operational complexity and performance disruptions. Building up our capacity to trade in these markets will also aid in our liquidity during market shocks. The mandate is managed by the Portfolio Completion team.

METLIFECARE

At the time of writing, the Guardians has a 19.9% investment in Metlifecare, a retirement village operator listed on the New Zealand and Australian stock exchanges. Metlifecare operates 24 retirement villages primarily located in the Auckland, Tauranga, Hamilton and Kapiti regions. Metlifecare is currently subject to a Scheme of Arrangement offer from Swedish-based EQT at NZD6 per share.

OPPORTUNITY – ACTIVE EMERGING MARKET MANDATE

Following a review of the active emerging markets opportunity, we formed the view that the drivers of excess return in this space were no longer persuasive. As a result, we terminated the opportunity, and consequently, our emerging markets equity mandate with LSV Asset Management.

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CASE STUDY

The Portfolio Completion Team

The Portfolio Completion team at the Guardians adds value to the NZ Super Fund through the efficient and cost-effective implementation of investments, liquidity and cost management. Cash that is raised through efficient management supports three value-adding investment mandates managed by the Portfolio Investments team within Portfolio Completion.

L - R: Ken Li, Mark Fennell, Bob Xia, Paul Gargan, Kat Starrie, Tim Koller, Pablo Sosa, George Crosby, Brad Dunstan
Absent: Ray Guo, Julian Swanton

BACKGROUND AND TEAM MEMBERS

The Portfolio Completion team was established in 2009 as the Treasury team, with the initial purpose of taking over cash management, currency rebalancing and execution, and running the then-passive New Zealand equities portfolio. Some of these activities were previously performed by external managers or agents.

As the programme developed the Guardians saw opportunities for it to contribute more broadly to the NZ Super Fund by taking on some of its active risk budget and seeking active returns; proactively taking on positions, rather than pure execution or operating in a risk-reducing fashion. Since then it has grown quickly to encompass the management of fourteen internal investment mandates and provides execution for two other teams within the Guardians.

The team has grown from an initial two staff members to a team of eleven. In recognition of the broader efforts of the Treasury business unit, it was renamed ‘Portfolio Completion’ in 2011. In 2018 the Guardians was recognised at the Institute of Finance Professionals New Zealand (INFINZ) Awards, winning the 'Excellence in Treasury' Award.

The team is led by Mark Fennell. Mark joined the Guardians in 2007 as General Manager of the Operations business unit before he was appointed General Manager of Portfolio Completion in 2012. Prior to this, he worked for The Warehouse Group, where he held roles as Company Secretary, Treasurer and Chief Risk Manager. Mark has considerable public sector experience in State Owned Enterprises, working as Treasurer for the Forestry Corporation, Ministry of Foreign Affairs and the NZ Railways Corporation.

Heading the Portfolio Completion and Portfolio Investments teams within the wider business unit are Brad Dunstan and George Crosby, respectively. Brad joined the Guardians in 2013 having worked for Canaccord Genuity in London as co-Head of European Equity Derivatives. Before this, he spent eleven years working in London for various investment banks including Bear Stearns and JP Morgan.

George, who was named in *Chief Investment Officer* magazine's 'Top 40 Under 40' list of global investment professionals in 2016, has been with the Guardians since 2008. His previous experience includes trading derivatives books at Westpac, BNP Paribas and Toronto Dominion Bank in Wellington and London.

PORTFOLIO COMPLETION

The Portfolio Completion team consists of Portfolio Managers Tim Koller, Ray Guo, Bob Xia and Ken Li. The team's responsibilities include managing and rebalancing the Fund to the Guardians' desired Reference Portfolio weightings, overseeing our currency hedging, managing liquidity risk in the most cost-effective manner possible, and trade execution.

Rebalancing – the Fund's passive exposures change as markets move over time. Periodically, therefore, the Portfolio Completion team will 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. We also have multiple ways of accessing the Fund's passive exposures, avoiding the possibility of being locked into one, potentially expensive, option. These include physically owning a share or a bond, using a derivative instrument, or using an exchange traded fund.

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 currency fluctuations adding or detracting from performance. There are reasons, however, why we sometimes step away from 100% hedging in the Actual Portfolio, in order to add value to the Fund. For example, we may delay or bring forward hedging because of possible market impact, or in the case of many emerging market and frontier market currencies, the high interest costs of hedging may mean we wish to target a lower hedge ratio to earn a better risk-adjusted return.

Liquidity Management – the Portfolio Completion team manages the Fund's liquidity to ensure it meets day-to-day actual and potential payment obligations while minimising the direct and indirect costs of meeting those obligations. More recently, the ongoing impact of Covid-19 on international markets demonstrated the importance of sound liquidity management, with the Portfolio Completion team raising liquidity to ensure we were well positioned to take advantage of market opportunities.

Trade Execution – the Portfolio Completion team provides all trade execution services for the Guardians, executing trades for the Strategic Tilting and New Zealand Active Equities teams. Through the 15+ bank relationships that the Guardians has established, the team is able to provide and share market intelligence, market insights, and access points for other investment themes and ideas across the organisation.

PORTFOLIO INVESTMENTS

The Portfolio Investments team is made up of Portfolio Managers Paul Gargan, Julian Swanton and Pablo Sosa, and Analyst Kat Starrie. The team runs three active mandates: credit, direct arbitrage, and opportunistic volatility.

Credit (or Active Collateral) – the objective of this mandate is to generate a return by actively seeking credit and liquidity opportunities. Examples of the kinds of transactions we may undertake include opportunities arising from tight funding conditions where we can hedge out (remove) risk and earn a premium for taking on illiquidity risk, and the provision of short-term funding to enable the issuance of collateralised loan obligations to investors.

Direct Arbitrage – this mandate aims to take advantage of market dislocations that create arbitrage opportunities, including arbitrage on dual-listed companies, credit default indices and bond future basis (the difference between a cash price and a futures price).

Opportunistic Volatility – in this mandate we use long and short strategies to take advantage of dislocations between over-the-counter structured volatility products offered by banks.

GOVERNANCE

Successful implementation of the Portfolio Completion strategy requires robust governance and decision-making processes, which help us to manage uncertainty and navigate complex challenges in order to secure cost-efficiencies and generate a return for the Fund. The work undertaken by the Portfolio Completion team is closely aided by our Investment Operations, Risk, IT and Applications Development teams, as well as other support teams at the Guardians. Thanks in large part to the support of these teams, as well as the Guardians' continued investment in technology and business continuity planning, the Portfolio Completion team was able to trade remotely throughout the Covid-19 crisis with relative ease.

Activities are managed according to internal, CEO-approved investment mandates that detail the mandate objective, benchmark (if any), mandate guidelines, use of approved products, risk and prudential limits, as well as reporting and valuation requirements.

You can read more about our Portfolio Completion strategy in a 'How we Invest' white paper available on our website.

CLIMATE CHANGE

Given the NZ Super Fund's long-term horizon and purpose, it is important that the risks and opportunities stemming from climate change are factored into our investment strategies and ownership practices.

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. This year, for the first time, we have mapped our strategy against the TCFD recommendations in a separate report. This section is a summary of the disclosures contained in our 2020 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 NZ Super Fund's investment risk appetite; therefore responsibility for the management of climate change investment risk ultimately sits with the Board. The Board delegates this responsibility to the Leadership Team by ensuring the overall strategy includes climate change priorities and by setting a stand-alone Climate Change Investment Strategy.

Our Chief Executive Officer leads the delivery of our strategic objectives and also plays an active role in promoting a focus on climate change across the New Zealand investment industry, particularly in his role as co-Chair of the Sustainable Finance Forum. Climate change responsibilities are delegated throughout the Guardians, with our Chief Investment Officer, Head of Responsible Investment, and key internal committees each playing a role in ensuring that the Climate Change Investment Strategy is implemented.

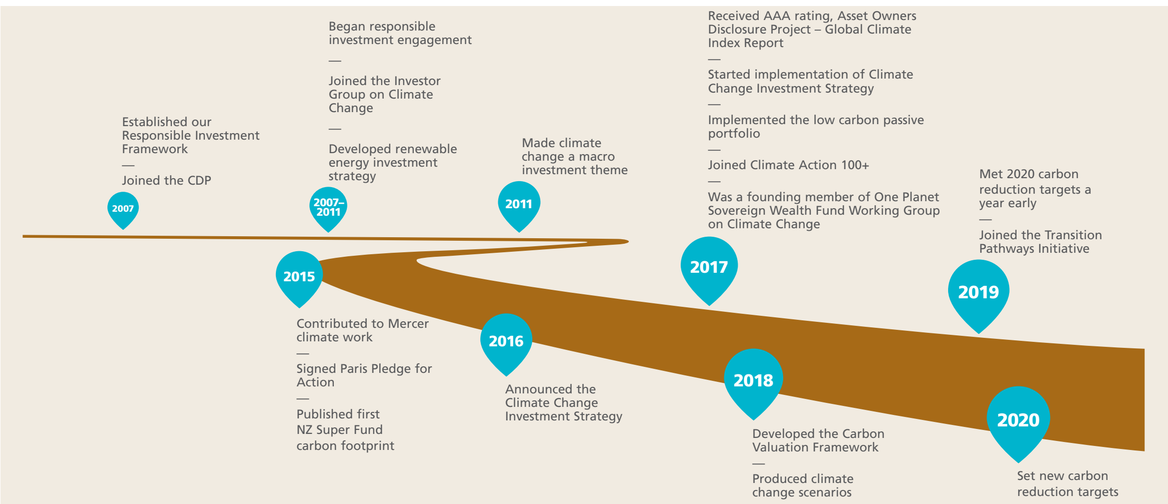
Members of the Investments team are required to integrate climate change into their investment decisions, and they are supported in doing so by the Responsible Investment team. We also have a Climate Change Champion who is embedded in the Investments team, who promotes the integration of climate change in our investment process. 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

Our Climate Change Investment Strategy has four work streams:

- *Reduce* – implement rules and activities to reduce exposure in the portfolio to fossil fuel reserves and emissions;
- *Analyse* – implement frameworks to assist investment professionals in integrating climate change into valuations for active and prospective investments;
- *Engage* – implement an engagement programme and voting policy on climate change; and
- *Search* – progress implementation of climate change opportunities identified.

The Reduce element is mainly focused on reducing carbon intensity and exposure to fossil fuel reserves in equities. The targets are for the whole Fund. The Analyse element applies to all of our investments but we have placed more focus on our direct investments. The Search element focuses on positive impact investments which support a low carbon economy. The Engage element covers all of our investments but is mostly focused on where we have the most influence and where climate risk is greatest.



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RISK MANAGEMENT

Climate change risk management is a fundamental component of each of the elements of our Climate Change Investment Strategy.

Reduce	We manage our exposure to carbon by setting reduction targets and adjusting our equity portfolio.
Analyse	We integrate climate change considerations into the valuation of our direct investments.
Engage	The Engage element involves us working with the Fund's investments to help them actively consider climate change in their strategies, voting to support climate change initiatives proposed for our listed equities, and partnering with like-minded investors to push for better climate reporting and action.
Search	We look for investments which will benefit from the opportunities created by the low-carbon transition in response to climate change.

METRICS AND TARGETS

In 2017 we committed to reduce the carbon emissions intensity of the Fund by at least 20%, and the carbon reserves of the Fund by at least 40%, by 2020, measured relative to the original Reference Portfolio.

To date, we have delivered on these targets primarily by adjusting our holdings in our Reference Portfolio, as it contains our largest concentration of carbon and because we could adjust these holdings by excluding some companies with high emissions intensity or large fossil fuel reserves without this having a major impact on the Fund's diversification or strategy. Having met and exceeded our 2020 carbon reduction targets, in April 2020 we reviewed our carbon reduction expectations, and the Board decided to make them more ambitious. This is because:

- There is a risk that the equity market as a whole is becoming more intensive through the inclusion of new carbon intensive assets in the index.
- Enhancements in our data provider's carbon research and methodology allow us to use additional metrics to test the impact of various carbon reduction scenarios and this analysis showed that we could take more ambitious targets without severely impacting portfolio diversification.
- With three years of experience in implementing carbon reductions we now have greater confidence that doing so will improve the Fund's portfolio and believe more ambitious targets are appropriate.

With our new targets set, by 2025 we now expect:

- to reduce the carbon emissions intensity for the NZ Super Fund **by at least 40%** (previously 20%), and
- to reduce the carbon reserves of the NZ Super Fund **by at least 80%** (previously 40%), relative to the original Reference Portfolio.

We believe the new targeted reductions are robust and are expected to achieve a meaningful decrease in the Fund's carbon footprint, while remaining consistent with our Investment Beliefs and investment mandate.

We use carbon footprinting to measure the carbon exposure of the Fund and to track progress towards these carbon reduction targets. Our 2020 carbon footprint assessment reported that the total Fund's carbon emissions intensity* is 40% lower than our baseline level, and its exposure to potential emissions from reserves** is 90% lower. These measurements were externally assured by KPMG.

Our full TCFD Report is available to view online.

* Carbon emissions intensity is defined as measured tonnes CO_2e/\$m sales = tonnes of carbon emissions divided by \$m out of company sales. This measures the portfolio in terms of carbon emissions per unit of output and provides a measure of the overall efficiency of the portfolio by comparing emissions with the economic activity that produces them. This metric is robust to movements in market valuations.

** Fossil fuel reserves are defined as potential future emissions: measures tonnes CO2e/$m invested = tonnes of carbon emissions divided by $m invested. This measures the carbon equivalent emissions stored in fossil fuel reserves that would be released if those reserves were produced and used in the future, relative to dollars invested. MSCI ESG research calculates the potential emissions should all reserves be produced and burnt expressed as tonnes of CO_2 equivalent using the methodology from the Potsdam Institute. This includes proved and probable reserves.

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RESPONSIBLE INVESTMENT REPORT

The Guardians has a long-standing commitment to responsible investment. This report summarises our responsible investment activities for the year.

In this report, you will find an overview of our approach to responsible investment, including a summary of our environmental, social and governance (ESG) integration, voting, engagement and exclusion activities for the period under review.

HOW WE THINK ABOUT RESPONSIBLE INVESTMENT

We have a number of Investment Beliefs that underlie all our investment decisions. One of these Beliefs is that ESG considerations, including climate change, are fundamental to long-term risk and return.

Alongside this Belief sits our responsibility as a New Zealand sovereign investor. Our governing legislation requires us to invest the NZ Super Fund on a prudent, commercial basis, and manage 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. Accordingly, we take a strong, purposeful approach to integrating ESG considerations into our investment activity.

"Our view is that ESG integration is both good for returns and for the advancement of our objective to be active owners and responsible investors. Therefore, we look to integrate responsible investment considerations throughout our investment process. We also acknowledge the wider beneficial impact on corporate practice, regulatory standards and the healthy functioning of capital markets from active, constructive engagement."

MATT WHINERAY, CHIEF EXECUTIVE OFFICER

GOVERNANCE

At the Guardians, responsible investment is governed by our Statement of Investment Policies, Standards and Procedures (SIPSP). The SIPSP includes a specific statement on responsible investment, which states our policy, standards and procedures as they relate to responsible investment. It defines responsible investment activities and embeds our responsible investment framework as the process for implementation.

The responsible investment framework sets out in greater detail our responsible investment procedures which are part of management of the Fund in accordance with our governing legislation. It guides all our responsible investment decision-making, including activities relating to the integration of ESG considerations into investment analysis and due diligence and into manager selection and monitoring. It also guides us on how we prioritise engagement activities, execute voting and exclusion decisions, and implement our Climate Change Investment Strategy.

Our Board has overall responsibility for the SIPSP and the responsible investment framework. Both are reviewed annually. They are available in full on our website at https://www.nzsuperfund.nz/publications/policies/.

All staff are held accountable for implementing our commitment to responsible investment, and a dedicated Responsible Investment team is charged with supporting and upskilling our other investment professionals.

The diversity of the NZ Super Fund's investments and the degree of influence we have across different levels of investee company ownership can mean ESG integration is more challenging in some areas than others. By providing training, carrying out detailed due diligence, setting up the decision-making protocols and undertaking research on new or complex ESG issues, the Responsible Investment team provides support to the rest of the Investments team, ensuring they are equipped with the knowledge and expertise to make meaningful decisions around ESG.

A NOTE ON COVID-19

As responsible and long-term investors, we are conscious of the impact of Covid-19 on companies, communities and the environment. We believe that public health, social equity and climate change mitigation should be central to our collective response.

In New Zealand we have seen calls* for sustainability principles to be considered when providing for and using funds made available as part of the Government's fiscal stimulus packages. Used smartly, the recovery frameworks implemented now could better prepare New Zealand for further market disruptions, including a changing climate, social inequality, health crises and a lack of affordable housing.

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* The Investor Group on Climate Change represents Australian and New Zealand institutional investors and advisors, including the Guardians. It joined similar organisations around the world in asking governments to prioritise job creation projects in a way that upholds the Paris Agreement and net zero emission solutions. The Sustainable Finance Forum sent a letter to the Minister of Finance stating the importance of sustainable finance in the Covid-19 recovery.

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

The PRI is a global network of international investors that seek to implement six principles that drive responsible investment practices. The PRI is the globally accepted benchmark for how institutional investors should manage ESG issues. Our responsible investment work programme is closely aligned to its principles and priorities.

Below we outline our performance in the PRI's annual benchmarking process and provide a summary of our 2019/20 activities against the six PRI principles.

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. We were very pleased to receive an A+ rating from the PRI for the governance and strategy module and either an A or A+ rating in the other categories against which we reported.

Module	2020	2019	2018	2017	2016	Global median
Strategy & Governance	A+	A+	A+	A+	A+	A
Manager Selection, Appointment & Monitoring (SAM)						
– Listed Equity	A+	A+	A	A+	A+	A
– Fixed Income (SSA)	A	A	A	A	A	B
– Fixed Income (Corporate Financial)	A	A	A	N/R	N/R	A
– Fixed Income (Corporate Non-Financial)	A	A	A	A	A	A
– Fixed Income (Securitised)	A	A	A	A	A	A
– Private Equity	A+	A+	N/R	N/R	N/R	A
– Property	A+	A+	N/R	N/R	N/R	A
– Infrastructure	A+	A+	N/R	N/R	N/R	A
Direct Listed Equity – Incorporation	A	A	A	A+	A+	A
Listed Equity – Active Ownership	A	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

ESG issues are integrated throughout our investment approach. We consider ESG issues in our asset allocation and analysis of investment opportunities, before we consider how we might get exposure to different markets and asset classes. We have developed specific ESG guidelines for different investment opportunities.

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 company is addressing or managing them adequately. Management monitoring and reporting on any key ESG risks is ongoing post investment. Our direct investments are rated on ESG performance as well.

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. Managers are rated on ESG practices and the results are integrated into the overall application of our manager conviction framework. This influences whether we maintain, dial up or dial down any manager mandates.

We may also undertake site visits to investee companies to assess ESG risks and activities directly.

KEY ACHIEVEMENTS FOR 2019/20:

- Completed ESG review of two new direct assets and six new external managers; upgraded the RI rating of two of our current external managers
- Strengthened our carbon reduction targets and refined our carbon reduction methodology
- Refined our natural catastrophe opportunity due to increasing wildfire risk
- Supported the ongoing development of the Director Governance Portal
- Completed a research project on ESG as an overlay in passive and multi-factor portfolios
- Began our new mandate associated with the Venture Capital Fund Act: In the associated policy statement setting out terms with our manager, the Guardians is required to "have regard to (among other things) relevant aspects of the Government's economic strategy and plan to transition to a low-carbon economy."

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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. We exercise our voting rights globally. We monitor and engage with portfolio companies that have breached – or might breach – recognised ESG standards.

If engagement is ineffective, we may make a decision to exclude a company. 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 (more than 6,500 holdings), 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 2019/20:

- Internal engagement efforts focused on the social media collaborative engagement, climate change management and post-Covid response of investee companies
- Focus on aligning engagement efforts with voting actions
- Joined the Transition Pathway Initiative which, through engagement, assesses companies' preparedness for the transition to a low-carbon economy, supporting efforts to address climate change
- Signed UNPRI Investor Statement to the US Securities Exchange Commission (SEC) opposing some of the proposed changes to Rule 14a-8 (shareholder proposal rule) and for proxy advisory firms
- Signed the UNPRI investor Statement on the Amazon Fires which called on relevant companies to disclose and implement a commodity-specific, no deforestation policy
- Signed the investor letter to Alphabet regarding board oversight of societal impacts and risks of the company's products and services.

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 2019/20:

- Ongoing support of the CDP and Climate Action 100+ (CA100+)
- Became a formal supporter of the Taskforce on Climate-related Financial Disclosures (TCFD) which drives better climate-related financial disclosures
- Submitted on the Ministry for the Environment/Ministry for Business, Innovation and Employment discussion document in support of the proposed regime for climate-related financial disclosures
- Continued support for the Tailings Dam Safety Initiative which has developed a global database of tailings dams in the world to help assess their risk levels. In addition, it has finalised a global standard for tailings dam safety. This is the first time that an investor-led initiative has resulted in a global standard for companies.

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;
- Investor Group on Climate Change Australia/New Zealand;
- International Corporate Governance Network;
- Responsible Investment Association of Australasia (RIAA); and
- Australian Council of Superannuation Investors.

KEY ACHIEVEMENTS FOR 2019/20:

- Completed PRI benchmarking assessment, achieving an A+ rating for strategy and governance and either an A or an A+ for all other modules we reported against (see page 59)
- Part of the UN Finance Commission on Modern Slavery (see page 62)
- CEO Matt Whineray co-Chair of the Sustainable Finance Forum (see page 62)
- Continued direct involvement in the OPSWF Initiative (see page 63)
- Case Study on our Climate Change Investment Strategy in World Economic Forum White Paper on Transformation Investment
- Sponsored the Responsible Investment Association Australasia (RIAA) New Zealand Benchmark Report and the annual RIAA New Zealand Conference
- Participated in the New Zealand Crown Financial Institution (CFI) quarterly meetings on responsible investment.

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 2019/20:

- Won a gold award at the 2020 Australasian Reporting Awards; finalist in the public-sector governance reporting category
- Shortlisted for the ICGN Global Stewardship Disclosure Awards (winner announced November 2020)
- Matt Whineray named a finalist for Advocate of the Year at the Institutional Investor Allocator's Choice Awards
- Produced ninth Annual Report against GRI criteria.

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RESPONSIBLE INVESTMENT REPORT

KEY AREAS OF FOCUS OVER 2019/20

This section sets out a summary of our responsible investment activity over the past financial year. The past financial year has been an unprecedented one for many reasons. The Responsible Investment team's efforts were primarily focused on a number of key, large projects driving significant outcomes for the NZ Super Fund and wider industry. Alongside this, the recommendations of the 2019 Willis Towers Watson Independent Review of the Guardians and Fund led us to reassess our responsible investment strategy and consider the evolving responsible investment landscape over the next decade.

On pages 50 - 51 we detail our efforts to support our investee companies through the current pandemic. The human, economic and financial impacts of the crisis have been immense, and it remains unclear how quickly the virus will be brought under control and normal activity, across the globe, can resume.

SUSTAINABLE FINANCE FORUM

The Sustainable Finance Forum (Forum) is a network of key players in New Zealand's finance sector, including Māori, representatives from banks, insurance companies, industry, professional services, civil society, academia and government, who have joined together to explore how to shift New Zealand to a sustainable financial system. Launched in October 2018 by The Aotearoa Circle, a partnership of public- and private-sector leaders, the Forum is co-chaired by Guardians' CEO Matt Whineray and Karen Silk, General Manager Experience Hub at Westpac New Zealand.

The vision of the Forum is to change the financial system so that it provides for environmental, social and economic prosperity. By this, it means a financial system where business and finance respect and operate within environmental and social constraints and recognise their dependencies, and that preserves, enhances, and restores the planet for future generations. In October 2019 the Forum released its interim report, which brings together the collective efforts undertaken by the Forum since its inception. The report outlines the characteristics of a sustainable financial system and sets out the case for why a shift to a sustainable financial system is required. It reviews the latest local and international thinking and best practice, along with a future state vision for New Zealand's financial system. It assesses how well our current financial system performs against that benchmark and presents some potential pathways for change.

From November 2019 until September 2020 these potential pathways were tested with civil society, Māori and iwi, as well as the public and private sectors. Taking this advice and guidance, the Forum aims to present a Roadmap for Action in November 2020. This Roadmap will provide tangible recommendations to establishing a sustainable financial system by 2030. The Guardians, via Matt Whineray and the Responsible Investment team, has committed to providing leadership and support to the Sustainable Finance Forum.

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UNITED NATIONS FINANCE COMMISSION ON MODERN SLAVERY

Anne-Maree O'Connor, the Guardians' Head of Responsible Investment, served as a Commissioner for the United Nations (UN) supported Liechtenstein Initiative for a Financial Sector Commission on Modern Slavery and Human Trafficking. In October 2019 the Commission released its final report, "Unlocking Potential: A Blueprint for Mobilizing Finance Against Slavery and Trafficking", during the UN General Assembly in New York. The report is a culmination of the work undertaken by the Commission, and sets out five goals to bolster the finance industry's response to modern slavery and human trafficking. Each goal is based on a set of proposed actions, which include:

- increasing resources for financial investigations of modern slavery and human trafficking;
- developing better indicators of trafficking-related money laundering and terrorist financing risks;
- promoting collaboration across the sector on human rights due diligence and social risk mapping;
- developing detailed leverage guidance; and
- investing in digital and social finance, including microfinance, to serve the most vulnerable.

The report includes an implementation tool kit that contains practical steps to help financial sector institutions take action to end modern slavery and human trafficking. Human rights and safety continues to be a core area of focus for engagement efforts undertaken by our Responsible Investment team.

ONE PLANET SOVEREIGN WEALTH FUNDS (OPSWF) INITIATIVE

The OPSWF Initiative was established at the inaugural One Planet Summit in December 2017 in Paris, championed by President Emmanuel Macron of France. The Guardians is one of five founding SWFs on the steering group of the OPSWF Initiative which has grown its SWF members and has supporting initiatives across the asset manager, public equity and academic communities. The group has committed to implement an investment framework published in 2018 to address climate-related financial risk, devise methods and indicators that can help inform investors' priorities as shareholders and participants in financial markets, and accelerate alignment with the Paris Agreement.

VOTING AND ACTIVE OWNERSHIP

We own shares in around 6,500 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.

We cannot turn our minds to every individual voting opportunity. It is for this reason that our voting is guided by 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 who help us to implement our voting and recall activities.

Voting Statistics 2019/20

	Global	*New Zealand*
Number of distinct company meetings voted at	7,582 meetings	48 meetings
Number of proposals sponsored	Management: 77,661 proposals Shareholders: 2,024 proposals	Management: 209 proposals Shareholders: 0 proposals
Category with the most proposals	Directorship related	Directorship related
% of votes cast in line with management's recommendations	81% in line; 19% contrary	94% in line; 6% contrary

RESETTING OUR RESPONSIBLE INVESTMENT STRATEGY

A key area of focus over 2019/20 was preparing for a reset of our responsible investment strategy. In their independent review of the Guardians, Willis Towers Watson (WTW) noted that the Guardians' current approach to ESG integration and stewardship was impressive and aligns with best practice in the following activities:

- exclusions (where reputation issues are concerned);
- management of climate risk through carbon footprinting;
- voting and engagement (where universal owner principles can be applied); and
- use of the BMO engagement overlay (where BMO is employed as an engagement service provider and the Fund's holdings are put alongside other BMO client holdings to benefit from network influences).

Overall, WTW graded the Guardians at an AA level for effective implementation of stewardship, engagement and active ownership, singly or through delegations or collaborations. However, they stated that there was a need to continue to evolve and innovate to maintain our position as a leader in this area. Responsible investment thinking and practice has evolved in recent times, and external standards and expectations have increased.

Other key developments in the external context include:

- The Minister of Finance's most recent Letter of Expectations, in which he set out his expectation that we 'maintain robust ethical investment policies which are reviewed regularly, and reflect best-practice standards both in New Zealand and internationally.'
- Continued evolution of the discussion on a shift to a sustainable financial system.
- There is an increasing expectation among governments and public-interest groups that institutions such as the Guardians should respond to the United Nations' Sustainable Development Goals (SDGs).
- Prominent international forums and some prominent investors emphasise the need for a paradigm shift in the way financial institutions, corporations and companies approach their role in financial and economic systems. This has been reinforced by the Covid-19 crisis.

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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, as a shareholder, to influence a company's management if we believe that it is not adequately mitigating risks or adapting to opportunities.

THE GUARDIANS' ENGAGEMENT ACTIVITIES DURING 2019/20

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.

This year, our direct engagement efforts have largely focused on leading the collaborative engagement initiative with social media companies (see pages 66 - 67 for more information).

Given that engagement can be very resource intensive, and considering the widely diversified nature of the portfolio, we employ BMO as a service provider to undertake engagement on our behalf. We also require our managers to engage on our behalf. In addition, we may also join local or international engagement collaborations.

EXCLUSIONS

While we are committed to engagement as the best way of persuading companies to improve their behaviour, we may also choose to make exclusions from our portfolio. When we do make a decision to exclude, it is based on the clear process and principles set out in our responsible investment framework, and informed by a number of factors including our mandate, international conventions, New Zealand law, Crown actions and material statements of public policy, and the company's own involvement and activities. Companies that are directly involved in the following activities are excluded:

- 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; and
- recreational cannabis.

BMO'S ENGAGEMENT PROGRAMME

Appointing BMO as a service provider has expanded our engagement reach. On behalf of the Guardians, BMO conducted in-depth engagement with 580 companies, in 41 countries, on a range of issues over the year ending 30 June 2020. BMO recorded 349 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.

COVID-19 ENGAGEMENT

Following the onset of Covid-19, BMO focused on talking to companies about:

- managing business and labour commitments to employees and stakeholders;
- executive remuneration;
- dividend payments (prioritising the needs of employees, contractors and suppliers over immediate returns to shareholders);
- economic recovery with a sustainable backbone;
- rescheduling of AGMs, and the shift to virtual meetings - the importance of ensuring shareholders have a platform for their voice to be heard;
- impacts on supply chains; and
- role of the Board in crisis management.

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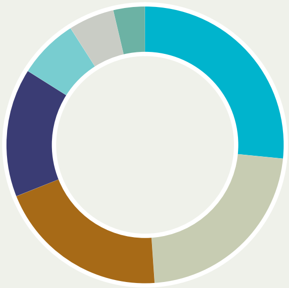
* A milestone can be described as evidential progress towards a predefined engagement objective.

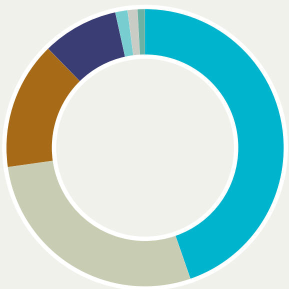
BMO'S ENGAGEMENT STATISTICS DURING 2019/20

BMO: Companies Engaged by Issue



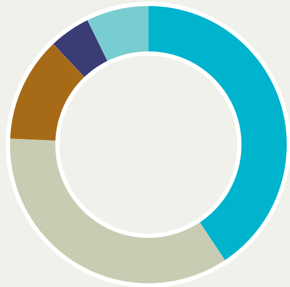
- Labour Standards: **27%**
- Corporate Governance: **22%**
- Climate Change: **20%**
- Environmental Standards: **15%**
- Public Health: **7%**
- Business Conduct: **5%**
- Human Rights: **4%**

BMO: Milestones Achieved by Issue



- Corporate Governance: **45%**
- Climate Change: **28%**
- Environmental Standards: **15%**
- Labour Standards: **9%**
- Public Health: **1%**
- Business Conduct: **1%**
- Human Rights: **1%**

BMO: Companies Engaged by Country



- Europe: **41%**
- North America: **35%**
- Asia (excl Japan): **12%**
- Japan: **5%**
- Other: **7%**

BMO'S ENGAGEMENT ON CLIMATE CHANGE DURING 2019/20

BMO plays a key role in helping to implement the Engage pillar of our Climate Change Investment Strategy.

Examples of milestones achieved by BMO with their climate change engagement include:

- 17 companies committed to a 1.5°C climate target reduction.
- 17 companies improved disclosure on climate change management.
- 4 companies signed a deal to reduce US fleet emissions.

	Total
Number of unique companies engaged on climate change matters	70
Total milestones	98

Sector Breakdown	Total	%
Materials	39	32%
Consumer Discretionary	21	17%
Utilities	20	16%
Energy	16	13%
Consumer Staples	13	11%
Industrials	6	5%
Financials	5	4%
Real Estate	2	2%
TOTAL	122	100%

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CASE STUDY

Social Media Collaborative Engagement

On Friday 15 March 2019, one gunman armed with several weapons entered two Christchurch mosques – the Al Noor mosque and the Linwood Islamic Centre – and opened fire on people gathered for afternoon prayers.

In total, 51 people were killed: 42 at the Al Noor mosque, and seven at Linwood. A further two people died later in hospital. A 29-year-old man was convicted of 51 charges of murder, 40 charges of attempted murder and one charge of committing a terrorist act, and sentenced to life imprisonment without parole. The gunman used the internet as a tool to maximise exposure to the killings and further his hateful agenda. Facebook live-streamed the attack for 17 minutes. Facebook, YouTube (owned by Google which is owned by Alphabet) and Twitter all carried links to video footage of the attack, and struggled to stamp out repeat uploads of the footage. The video, in various forms, reached millions of viewers and can still be found online.

In the days following the attacks, 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 2020, the engagement had 102 participating global investors representing NZD13.5 trillion* in assets under management.

KEY ACTIVITIES TO DATE

Date	Action
15 May 2019	Support by the collaboration for the Christchurch Call. The Christchurch Call action plan is a commitment by governments and tech companies to eliminate terrorist and violent extremist content online. At launch in May 2019, the Call was immediately adopted by 18 countries as well as by Amazon, Facebook, Dailymotion, Google, Microsoft, Qwant, Twitter, and YouTube.*
24 July 2019	First engagement letters sent to the chairs of the boards of each of the three companies on behalf of the investor collaboration.
August - December 2019	Engagement meetings held to discuss each of the companies' responses to the Christchurch terrorist attack and the changes they have put in place since. The companies all provided evidence of strengthening controls, but their actions were mostly reactive rather than preventative.
15 November 2019	Distributed a resource designed for investors not part of this collaboration engaging on the same issue.
20 March 2020	Because of our belief that we had not been heard at an appropriately senior level, we escalated our engagement by releasing an Open Letter in the week following the anniversary of the Christchurch terrorist attack. The Open Letter called for: • clear lines of governance and accountability throughout senior levels within the three companies to ensure social media platforms cannot 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.
May – June 2020	We signalled our voting intent to the wider collaboration and the companies in advance of their 2020 AGMs. We exercised our voting rights as follows: • either withholding votes or voting against directors who are up for re-election when we were of the view that they had not carried out their responsibilities as they relate to the live-streaming and dissemination of content such as the Christchurch terrorist attack; • supporting shareholder resolutions which in some way drive progress towards meeting the objective of our engagement.

* By the first anniversary of the Christchurch Call, 48 countries, the European Commission, two international organisations, and eight tech companies are now actively contributing to the implementation of the Call commitments, together with an advisory network of 44 international civil society representatives, which include non-governmental organisations, academia, think-tanks and others who focus on human rights (including freedom of expression and digital rights), counter-radicalisation, victim support and public policy.

* As at 31 Dec 2019.

ENGAGEMENT PROGRESS

In the Engagement Plan, we committed to a clear timeline, which has been followed and implemented. We also set the performance measures - actions we could expect companies to take in order to achieve the engagement objective. A summary of progress is provided below.

	Facebook	Twitter	Alphabet
Strengthen controls to prevent live-streaming of objectionable content being viewed	In progress	In progress	In progress
Strengthen controls to detect objectionable content so it can be removed to prevent it being viewed and shared	In progress	In progress	In progress
Seek industry-wide support and input from external experts and organisations	In progress	In progress	In progress
Develop robust, transparent, anonymous complaint systems with regular reporting	In progress	In progress	In progress
Board-level accountability and strengthened governance	**No progress**	**No progress**	**No progress**
Increased transparency on reporting metrics for objectives	In progress	In progress	In progress
Responsiveness to engagement	Most	Middle	Least

IN SUMMARY

Facebook, Twitter and Alphabet have all moved to strengthen controls to prevent live-streaming and dissemination of objectionable content. However, as the additional mass shootings across the world have shown, the platforms are still open to abuse.

Through the collective engagement, we have sought to represent the investor voice in the debate, ensuring that the companies know we expect them to fully manage this issue by investing in technical solutions and collaborating with other key industry players. These platforms are global; therefore, global solutions are needed. With a persistent narrative, we have kept the issue at the forefront of their minds.

NEXT STEPS

The New Zealand Crown-owned investors have committed to an additional 12 months of leading engagement with these companies.

Our experience in trying to engage these companies in an impactful way has lead us to draw a specific focus on proceeding with another round of (private) engagement where a smaller subgroup of investors seeks further meetings with the companies to push for strengthened governance at the board subcommittee level with regards to content.

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ENGAGEMENT REPORT

THE GUARDIANS' COLLABORATIVE ENGAGEMENTS

	Objective and Progress Update	Organisation Leading Collaboration	Progress Indicator	Milestones Recorded
HUMAN RIGHTS				
Vale	The engagement began in early 2019 as a result of the second major tailings dam failure for this company causing the deaths of more than 248 people. Engagement is very focused on preventing any future disasters. In general, the engagement has seen positive results, with a high response rate from the company to investor enquiries. The engagement has also seen progress around the decommission of dams; changes in Vale's governance structure related to health and safety; and reparations to local communities. However, there is a need for continued engagement and monitoring as local communities continue to raise concerns about the company.	UNPRI	Nearing completion	Yes
Tailings Dam Safety Initiative	In response to the collapse of the Vale-owned tailings dam in the Brumadinho, Brazil, we joined an initiative which has sought to develop a global standard that can drive best practice to address the risk of tailings facility failure. The Global Industry Standard on Tailings Management ('the Standard') strives to achieve the ultimate goal of zero harm to people and the environment with zero tolerance for human fatality. The Standard was agreed and finalised in July 2020. This is the first time that an investor-led initiative has resulted in a global standard for companies. Alongside the development of the Standard, a global database seeking information on more than 1,700 tailings facilities across the world has also been developed. This has been a huge effort by investors and, for the first time, enables assessment of risk levels relating to individual tailings dams. A total of 727 companies have been contacted and 339 have responded (47%).	CoEPF and Swedish AP Funds	In progress	Yes
Social media companies	Strengthening controls around the live-streaming and distribution of objectionable content. See pages 66 - 67 for further information.	NZ Crown-owned investors	In progress	Yes
SEVERE ENVIRONMENTAL DAMAGE				
Palm oil	We have been participating in this UNPRI collaboration since 2011. Over the years, the working group has focused its efforts on palm oil buyers, growers, financiers, traders and processors, as well as on sustainable certification of palm oil through the Roundtable on Sustainable Palm Oil (RSPO). Towards the end of 2019, the working group moved to focus on the Asian Fast Moving Consumer Goods sector, a 'leakage' market for unsustainable palm oil.	UNPRI	In progress	Yes
CLIMATE CHANGE				
CDP	As a signatory to CDP's investor climate change programme, we seek to increase the number of companies reporting on climate change emissions and risk management. A total of 515 institutional investors with a combined USD106 trillion are signatories to CDP's climate change collaboration. The 2020 Investor Disclosure Request was sent to over 6,000 companies around the world.	CDP	In progress	Yes

	Objective and Progress Update	Organisation Leading Collaboration	Progress Indicator	Milestones Recorded
Carbon Action 100+ (CA100+)	We joined the CA100+ in December 2017, at its launch. The initiative has now grown into one of the largest investor-led engagement initiatives with over 450 investor signatories representing more than USD39 trillion in AUM. It seeks to engage with 161 global companies across 33 markets. These companies account for up to 80% of global industrial emissions. They are critical to the decarbonisation of investment portfolios and the global economy. The Initiative has three central goals: 1. Improve corporate climate governance; 2. Curb greenhouse gas emissions in line with the Paris Agreement; 3. Strengthen climate-related financial disclosures. Reports show that while there are pockets of progress, it is clear that many of the companies being engaged with are not yet aligned with the CA100+ engagement agenda. The task of moving all 161 companies into alignment with the goals of the Paris Agreement has only just begun.	UNPRI/IGCC et al.	In progress	Yes
Transition Pathway Initiative (TPI)*	The TPI assesses companies' preparedness for the transition to a low-carbon economy so investors can better understand how companies are managing climate change and the risk it poses to their business. In turn, this enables better-informed investment processes and decisions, and can also shape engagement activities and proxy voting decisions. TPI's data provides insights on how a company's transition plans align with the Paris Agreement goals. They compare a company's current emissions intensity with benchmark pathways for meeting the 2030 goals of the Paris Agreement. When we joined the TPI, it covered 274 companies in 14 sectors of the economy, accounting for approximately 41% of emissions from public companies worldwide. There are plans to increase coverage to 700 firms (covering 80% of emissions).	CoEPB and UK Environment Agency Pension Fund	In progress	Yes
Investor Sign-on Statements/Letter				
Letter to SEC*	Investor Statement to the SEC opposing some of the proposed changes to Rule 14a-8 (shareholder proposal rule) and for proxy advisory firms (Jan 2020).	UNPRI		
Letter to Brazilian companies*	Investor Statement on the Amazon Fires (Sept 2019).	UNPRI		

* New in 2019/20.

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ELEVATE
NZ VENTURE FUND

In 2019, legislation passed by Parliament established the Elevate NZ Venture Fund.

The Fund exists to support the development of New Zealand's early stage growth companies and venture capital ecosystem, and is administered by the Guardians under a new mandate, separate from the NZ Super Fund.

BACKGROUND

The Government has tasked the Guardians with a second mandate, a venture capital fund, alongside the NZ Superannuation Fund. This mandate, known as the Elevate NZ Venture Fund (Elevate Fund), was launched in March 2020.

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 young, innovative New Zealand companies, developing New Zealand's venture capital markets and early-stage capital ecosystem.

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 the next stage of development. It is aimed predominantly at Series A and B venture funding rounds.

The Fund itself is a pool of assets owned by the Crown. The Guardians has responsibility for governance and oversight of the Fund. Under the policy design, the Elevate Fund is managed externally by NZ Growth Capital Partners (NZGCP) through a fund-of-funds model. This means that NZGCP makes investment decisions for the Elevate Fund, which invests into other venture capital funds alongside other investors. These 'underlying' venture capital funds will in turn invest in New Zealand growth companies.

Under the Venture Capital Fund Act 2019, the Guardians' core obligation is 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 accordance with a supporting policy statement set by the Minister of Finance. With the fund-of-funds model, this role is effectively one of governance and oversight to monitor whether NZGCP follows best-practice investment management in the context of venture capital markets.

NZGCP is a government agency set up in 2002 to help build early-stage investment markets in New Zealand. It also manages a seed capital fund, the Aspire NZ Seed Fund.

POLICY DEVELOPMENT

The Guardians worked closely with the Government and NZGCP as the investment framework was developed. We were consulted on the legislation and a supporting policy statement which sets out definitions of key terms and the broad investment requirements the Guardians is required to give effect to as part of its oversight role with the Elevate Fund.

The Elevate Fund initially consists of NZD259.5 million of Crown capital commitments. The Government expects this to reach NZD300 million over time as further commitments are provided.

NZGCP will allocate capital to underlying funds progressively, targeting an initial investment period of five years. 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, funds will be returned to the Crown. The Guardians and NZGCP's operating costs come out of the capital on a cost-recovery basis.

A benefit of the fund-of-funds model is that it helps to build capabilities in the sector. Investors with experience in venture capital markets or early-stage companies can add value to investee companies beyond the capital they invest. They provide industry or market knowledge and access to networks that can help the investee company achieve its goals. Venture capital investors are often actively involved in supporting the development of the business.

The legislation and associated policy statement include several requirements to ensure that the policy outcomes are met:

- NZGCP allocates capital to fund managers according to best-practice investment management.
- At least 70% of net committed capital of the Elevate Fund must be invested through funds with a New Zealand connection. To have a New Zealand connection, funds must be established to invest predominantly in New Zealand entities and the locally established manager/general partner must demonstrate a commitment to developing early-stage capital markets in New Zealand and meet certain other requirements as set out in the policy statement.
- Up to 30% of net committed capital of the Elevate Fund can be invested via foreign fund investments, provided they (or the vehicle the Elevate Fund invests in) are investing predominantly in New Zealand entities at the Series A and B stage.
- Capital allocated from the Elevate Fund to underlying funds must be matched with capital from other sources. The Elevate Fund will seek to maximise the private capital leverage where possible.
- There are requirements for underlying funds to invest in New Zealand entities, with minimum allocations to Series A and B capital rounds. Series A and B capital rounds are defined in the policy statement as those that are between NZD2 million and NZD20 million.

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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.

For information about how the Elevate Fund operates and the investment process see the NZGCP website.

In addition to its role as the manager of the Fund, NZGCP has its own separate mandate 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.

Guardians	External manager (NZGCP)	Minister of Finance
• Enter into contract with NZGCP to operate the fund-of-funds with terms and conditions that meet the requirements of the legislation and associated Ministerial policy statement. • Monitor the performance of the Elevate Fund and NZGCP as the manager of the Elevate NZ Venture Fund Limited Partnership, including through a Limited Partner Advisory Committee that reviews significant matters such as conflicts of interest. • Manage and administer the Elevate Fund in a manner consistent with the Ministerial policy statement and avoiding prejudice to New Zealand's international reputation. • Through the above functions, ensure that the Fund is invested using best-practice investment management appropriate for institutional investment in venture capital markets, subject to the requirements in the Ministerial policy statement. • Annual financial reporting for the Elevate Fund. • Preparation of Statement of Investment Policies, Standards and Procedures for the Elevate Fund. • Preparation of Statements of Intent and Performance Expectations for the Elevate Fund. • 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). • Manage the Elevate NZ Venture Fund Limited Partnership and to make and oversee investments based on best-practice fund selection and investment management practices. • Establish an investment committee to make decisions on investment of capital in underlying funds. • Monitor investments and report in line with the requirements set out in the management agreement for the fund-of-funds. • Ensure that underlying funds continue to meet the eligibility and other requirements agreed with NZGCP at investment, including requirements for the development of New Zealand's early-stage capital markets.	• 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. • Revise the policy statement if required, following consultation with the Guardians, NZGCP and the wider venture capital ecosystem. • Issue directions for the winding up of the Fund when market development objectives have been achieved.

What is Series A and B venture capital?

Most successful start-up companies engage in multiple efforts to raise capital through rounds of external funding. These funding rounds provide outside investors the opportunity to invest cash in a new and growing company in exchange for equity or partial ownership of the company. Series A, Series B and Series C funding rounds refer to this process of growing a business through outside investment.

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Start-up businesses often begin with little or no external funding, bankrolled by their founders, family or friends. This is known as 'pre-seed' funding or 'bootstrapping'. Seed funding, or angel investing, is the first official equity funding stage, typically helping a company to finance first steps such as market research and product development.

Series A and B rounds are for companies that have proven ideas, markets and strategies and are ready to grow beyond the development phase. Investors with experience in early-stage companies and markets can add substantial value to investee companies, beyond their capital. They are likely to be actively involved in the development of the business. Further rounds, Series C and beyond, are pursued when a new venture is ready to grow at scale.

The Elevate Fund is focused on Series A and B rounds of funding. For its purposes Series A and B rounds range between NZD2 million and NZD20 million.

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 venture capital markets. We deliver on our responsibilities under the venture capital fund mandate 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 the Guardians complies with the Statement of Investment Policies and Procedures.

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 set up an investment committee and made progress in assessing potential venture capital fund investments and completing due diligence. The Elevate Fund announced its first two investments in August and September 2020. The table below sets out the progress to date. Some of the reporting criteria are not applicable in 2019/20 as the Fund was still in an early phase of development during this period, but information will be provided in future reports.

Elevate NZ Venture Fund financial statements	Elevate Fund financial statements for the period ended June 2020 are included in the financial section of this Annual Report.
Statement of Intent (SOI)	The Guardians' SOI for the period 1 July 2020 to 30 June 2025 includes a new section on the Elevate Fund. It was sent to the Minister of Finance in June 2020 and published on the Guardians' website.
Statement of Performance Expectations (SPE)	The Guardians' SPE for the period 1 July 2020 to 30 June 2021 includes a section on the Elevate Fund. It was sent to the Minister of Finance in June 2020 and published on the Guardians' website.
Statement of Investment Policies, Standards and Procedures (SIPSP)	The initial Elevate Fund SIPSP was prepared in 2019, approved by the Guardians' Board and formally adopted as soon as the legislation establishing the new Fund was passed by Parliament in December 2019. The annual review of the SIPSP was approved by the Board in June 2020. The Chair and Chief Executive report on compliance with the SIPSP in the compliance section of this Annual Report.
Conviction Review	An initial conviction review was completed on NZGCP prior to entering into the management agreement with them. The conviction review will next be updated following a transitional period to 30 September 2020 during which time NZGCP has been given time to implement improved processes, procedures and controls required for the new mandate.
Number of funds in which the Elevate Fund has invested, comprising: • **funds with a New Zealand connection including foreign-originated funds establishing a fund with a New Zealand connection; and** • **foreign fund investments**	0 in 2019/20 As of 24 September 2020: • Two funds with a New Zealand connection, including one foreign-originated manager establishing a fund with a New Zealand connection; • No foreign fund investments.
Capital invested into funds with a New Zealand connection	0 in 2019/20 As of 24 September 2020, NZD31.5 million committed of which at least 70% is allocated for investment by the underlying funds into Series A/B capital rounds, and a commitment of up to a maximum of an additional NZD20 million.
Ratio of matching private capital raised by underlying funds	Not applicable for 2019/20 As of 24 September 2020, the ratio is close to 7:1 (i.e. $7 of matching private capital per $1 committed by the Elevate Fund). This ratio is subject to change as certain fundraising processes are ongoing.
Capital invested by underlying funds	Not applicable for 2019/20 As of 24 September 2020, one investment into a New Zealand entity.

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Lake Matheson,
Fox Glacier Town

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Governance

OVERVIEW

The Government has given the Guardians the powers and responsibilities necessary to fulfil its investment mandates. In turn, sound governance and quality public reporting, and a high degree of transparency, are critical to maintaining our stakeholders' confidence.

We have a governance framework that:

- exemplifies best practice in the operation of a sovereign wealth fund;
- ensures investment decisions are made on a purely commercial basis;
- reflects our statutory framework as well as the New Zealand Financial Market Authority's corporate governance principles and NZX's Corporate Governance Code (to the extent applicable);
- has a strong focus on transparency, legislative compliance, risk awareness and ethical behaviour; and
- provides clarity over accountability, roles and responsibilities.

An important part of our governance framework is a five-yearly review of the Guardians 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."

We have been working on implementing some of the recommendations and suggestions made in the independent review, and a summary of the actions taken or to be taken can be found on our website. In the governance context, these activities include:

- completing a review of the Guardians' remuneration structure;
- working to develop a deeper understanding of stakeholder expectations;
- including more external content in the Board education programme;
- improving awareness of bias-risk across the team through education programmes on bias and inclusion, and strengthening our recruitment and development processes; and
- continuing to focus and invest in maintaining and evolving the cultural effectiveness of the Guardians.

A key event for the Guardians over the course of the financial year has been obtaining a new mandate to manage the Elevate Fund alongside the NZ Super Fund. The Guardians' policy framework and Statement of Intent have been updated to reflect the new mandate and, for the first time, our Annual Report reports on the two funds.

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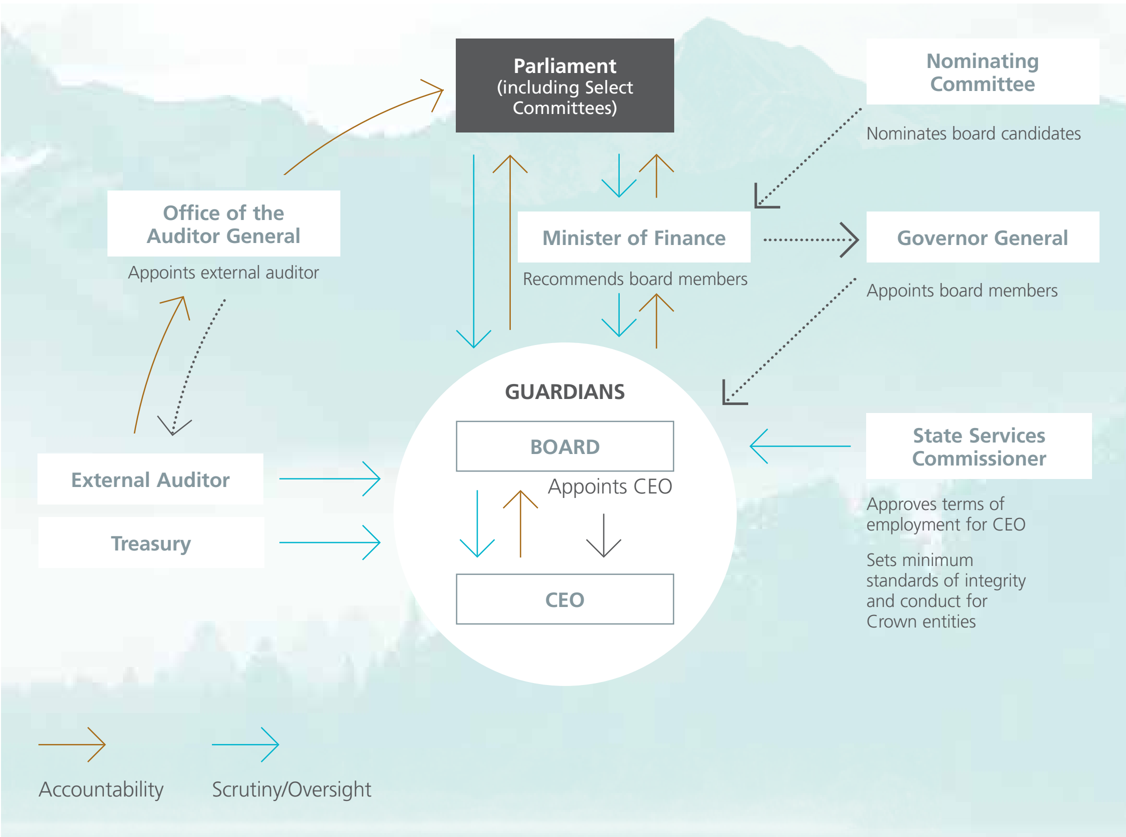
GOVERNANCE FRAMEWORK

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, 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.

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 by the following diagram.



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 can be found on our website at: www.nzsuperfund.nz/nz-super-fund-explained/governance/board/.

BOARD AND STAFF CODES OF CONDUCT

The Guardians has Codes of Conduct for Board members and for staff which set out the standards for appropriate ethical and professional conduct. Board members and staff are also required to adhere to the Standards of Integrity and Conduct (the code of conduct for the State services) published by the State Services Commission. These Standards require Board members and staff to be fair, impartial, responsible and trustworthy.

Matters covered by the Codes include:

- expected standards of ethical and professional conduct;
- complying with the law;
- disclosure of conflicts of interest;
- dealing with (and not personally benefitting from) confidential information;
- use of Guardians' assets;

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- gifts and hospitality; and
- political neutrality.

The Codes of Conduct are reviewed regularly.

- The Board Code of Conduct is included in the Board Charter and can be found at: www.nzsuperfund.nz/nz-super-fund-explained/governance/board/.
- The Employee Code of Conduct is included in the Human Resources Policy and can be found at: www.nzsuperfund.nz/publications/policies.

SECURITIES TRADING PROCEDURE

The Guardians' Securities Trading Procedure aims to reduce the risk of the Guardians, staff 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. Staff members must seek permission in advance before trading securities and in the New Zealand dollar currency (over a threshold), and every six months all staff are required to disclose any personal trading they have undertaken. A copy of the Securities Trading Procedure is set out in our Human Resources Policy, which can be found on our website at: www.nzsuperfund.nz/publications/policies.

CULTURE

Culture is a core strength at the Guardians but we are aware that good culture declines over time without strong actions to maintain it. The Board is committed to continuing to strengthen culture, and this is a multi-year strategy in our Strategic Plan. The Guardians' organisational culture is regularly tested using culture surveys conducted by Human Synergistics. Survey results provide data against which to measure our long-term effectiveness as an organisation. More information about the results of the latest survey and steps taken to strengthen our culture can be found on pages 25 - 26.

There was considerable focus on wellness and culture during the initial Covid-19 lockdown. As noted in the Remuneration section on pages 101 - 105, the discretionary incentive scheme is designed to promote a positive, constructive workplace culture.

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 2020.

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.

Board members and staff are expected to demonstrate the highest level of ethical standards and integrity. This expectation is embodied in the Board and employee Codes of Conduct.

Board members and employees must at all times act honestly and in good faith and in the best interests of the Guardians.

To ensure that the Guardians maintains the highest standards of integrity and transparency, staff are required to complete six-monthly attestations covering health and safety, conflicts of interest, securities trading, gifts, hospitality and delegations.

The Guardians' expectations concerning the giving of gifts, koha and donations is set out in its Travel and Sensitive Expenditure Policy (which can be found at: www.nzsuperfund.nz/publications/policies).

WHISTLE-BLOWING

It is important that the Guardians and its funds are protected from fraud, bribery, corruption or any other conduct that causes staff or others to feel uncomfortable (for example, harassment, bullying or discrimination). A confidential Speak-Up line has been set up as a way for staff, contractors, managers and external parties to highlight potential issues they may have experienced or come across.

As part of the employee Code of Conduct, the Guardians has adopted a policy for employees to report instances of suspected breaches of laws or wrongdoing by the Guardians and/or any of its employees without fear of adverse consequences and for such reporting to be properly investigated.

CONFLICTS OF INTEREST

For Board members, conflicts of interest are managed in accordance with the requirements of the Guardians' governing legislation and the Board Code of Conduct.

Under the Guardians' procedures for managing conflicts of interest:

- Board members are required to make a general disclosure upon appointment of all matters that may give rise to an interest and to promptly notify the Board Chair and Secretariat of any changes to those disclosures.
- Periodically, Board members are required to review their interests register and confirm that the information disclosure is correct.
- At the beginning of each Board meeting, members are asked to confirm whether or not they have any interest in the matters to be discussed.
- Board members with an interest in a matter may not vote on it or participate in discussions about it.
- A former role of a Board member is treated as continuing to be a relevant interest for a period of time after the role has ceased. The relevant period will depend on the circumstances (for instance, how long the Board member was in the role) but may be up to two years.

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PRINCIPLES (CONTINUED)

2. BOARD COMPOSITION AND PERFORMANCE

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

APPOINTMENT

The process for appointing members of the Guardians' Board is summarised below and includes unique features that are designed to promote the independence of Board members.

NEW ZEALAND GOVERNMENT 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 Identifies candidates for the Board →	Board candidates must have substantial experience and expertise in the management of financial investments.
MINISTER OF FINANCE Recommends candidates from the pool chosen by the Nominating Committee →	The Minister must consult with representatives of other political parties in Parliament.
GOVERNOR-GENERAL 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.

The first Board members were appointed in August 2002. The Board composition at 30 June 2020 is set out on page 20.

RESPONSIBILITIES

The Guardians' governing legislation and the Board Charter define collective and individual responsibilities, matters reserved for the Board and matters delegated to management. Details of individual Board members' backgrounds and the Board Charter are available on our website at: www.nzsuperfund.nz/nz-superfund-explained-governance/board.

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 CEO 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 that, 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 is available at: **www.nzsuperfund.co.nz/publications/policies**.

INDUCTION AND DEVELOPMENT

There is a formal induction programme for new Board members, including education sessions at the Guardians' offices, one-on-one sessions with management and comprehensive induction papers. An ongoing education programme for Board members ensures they 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 Board hears directly from a range of external experts on relevant topics (for example, investment markets and cyber security). The Board members regularly visit international peer funds and attend international forums (including the Pacific Pension Institute, International Forum of Sovereign Wealth Funds, International Centre for Pension Management and the Sovereign Investor Institute Roundtables) to assess developments in best practice. In light of Covid-19 travel restrictions the Board will focus on maintaining our relationships with overseas-based peers remotely.

BOARD PROCESSES

The Board Secretariat is accountable to the Board for governance matters. 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 is managed by the General Counsel.

BOARD EVALUATION

The performance of the Board, its committees and individual members is evaluated at regular intervals at least once every two years. The Board and committees undertake either self-evaluation or use an outside specialist.

The Guardians engaged Kerridge & Partners to conduct a review of the Board in 2019. This review followed a self-evaluation in 2018 and a review by Kerridge in 2017. The process involved interviews with all the Board members, members of the Leadership Team and the Chair of the Independent Nominations Committee. The interviews covered a broad range of topics, including strategy, key challenges, stakeholder relationships, Board composition, culture and operations, effectiveness of committees and interface with management.

Kerridge also conducted a behavioural type analysis, in the form of a peer evaluation via a survey tool, based on Dr Richard Leblanc's behavioural types for directors and chairs; and used the tool to give Board members the opportunity to provide more general qualitative peer feedback.

Kerridge presented the results of the review to the Board at the February 2020 Board meeting for discussion by the Board. In addition, individual feedback reports were provided to each Board member.

A strong theme from the review results was of the Board's improvement in several areas since the 2017 review (which had itself been a positive review). These areas included:

- sense of 'team' between the Board and management;
- calibre of the Board members – in terms of skills and ability to work constructively together and with management; and
- positive Board culture and style.

The increase in diverse perspectives around the board table was noted as a positive attribute and the Board Committees were found to be operating well.

The Chair has developed an action plan to track progress against the review recommendations.

BOARD SKILLS

The following table identifies the skills needed and possessed by the Guardians' Board. These skills reflect the purpose and mandates of the Guardians. 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. Under the Act, all Board members are required to have substantial experience, training and expertise in the management of finance and investments. More information about the skills of Board members can be found on pages 85 - 86.

Corporate Governance	To support strong Board and management accountability, values transparency and execution of the Guardians' 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 NZ Super Fund and the Guardians
Talent Management Expertise	To attract, motivate and retain skilled personnel in the context of a Fund with long-term objectives
Global Investment Experience	To review and understand investment strategies and benchmarking our performance against world best practice

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DIVERSITY

The strength and effectiveness of the Board is supported by the diversity of its members. The following attributes inform the diversity of perspectives within the current Board:

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

ETHNICITY
NZ European, Canadian, Dutch

ACADEMIC DISCIPLINES
Accounting, Arts, Economics, Finance, Law, Marketing, Mathematics and Science

GENDER
Male 5 Female 2
The Board and its two standing committees are chaired by female Board members

COUNTRY EXPERIENCE
Australia, Canada, New Zealand, Singapore, Central and Eastern Europe

AGE RANGE
50 – 70s

BOARD SUCCESSION

The tenure of the current Board as at 30 June 2020 is set out below.

0–2 YEARS	3–5 YEARS	6+ YEARS
42%	29%	29%

AVERAGE TENURE
4.98 YEARS

The terms of four Board members will expire over the next twelve months. The process for reappointing two of those Board members for second terms and appointing replacements for the other two Board members has largely been completed. The reappointments and new appointments will be announced by the Minister of Finance.

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BOARD ACTIVITY

Meetings

During 2019/20, the Board held six scheduled meetings and two special meetings. 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 the desired 'long-term target state' for the Guardians, investment beliefs and future focus for responsible investment.

A change has been made to the way in which Board meetings are run to allow for a short reflection time after 'chunky' board papers to enable the Board to reflect on the paper and discuss issues and whether further information is needed.

Holding meetings during the initial Covid-19 lockdown period using Zoom worked well and Zoom technology will continue to be used periodically.

Summary of matters considered

One of the most important decisions for the Board is on the construction of the Reference Portfolio for the NZ Super Fund. The Reference Portfolio serves as both a governance benchmark and an articulation by the Board of risk appropriate for the NZ Super Fund's purpose. The Reference Portfolio is reviewed by the Board every five years and was a strategic activity for the Guardians for 2019/20. The review process began with the Board approving a review plan in June 2019 and ended with a final decision in June 2020. The review involved papers being presented to six Board meetings. More information about this review can be found at pages 38 - 39.

Other important areas of focus for the Board were the response to the Covid-19 pandemic and the conclusion of a major review of the Guardians' remuneration structure. More information about the Covid-19 response can be found at pages 32 - 33 and more information on the remuneration structure review can be found at page 27.

Two major projects that the Board focused on in the 2019/20 financial year were:

- The proposal to fund, design, construct, own and operate Auckland's light rail project, alongside Canadian investor CDPQ Infra. Large-scale domestic infrastructure is seen by the NZ Super Fund as an attractive investment opportunity.
- The Venture Capital Fund Act 2019 was enacted to establish a new venture capital fund (Elevate Fund) and the Guardians was given a mandate to manage the Fund. NZ Growth Capital Partners was been appointed as an external manager to manage the fund on a 'fund-of-funds basis'. The Board approved changes to the Guardians' Statement of Intent and policies to reflect the new mandate, and delegated authority to implement the new mandate to the CEO.

Other significant matters considered during the financial year were:

Compliance and risk

- Approving a new control effectiveness assessment framework
- Reviewing control effectiveness assessments
- 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 Risk Management Policy
- Approval of Cooperative Compliance Agreement with Inland Revenue
- Review of revised Cyber Security Dashboard Report
- Review of Annual Guardians' Health & Safety Report
- Review of Externally Managed Investments Policy
- Annual IT Security Strategy Review
- Review of six-monthly policy compliance attestation and approving changes to attestation process
- Considering six-monthly reports on direct asset health & safety

Investment strategy and performance

- Annual Responsible Investment Review
- Review of Investment Beliefs
- Annual reviews of the portfolios managed by the Direct Investments and the External Investments and Partnerships teams
- Approving the Developed Markets Multifactor Opportunity
- Approving changes to Carbon Target Expectations
- Considering the NZ Super Fund's Performance Measurement – NZ tax
- Six-monthly reviews of internal mandates and portfolio completion activity
- Portfolio Overview and Investment Environment reports
- Updates on specific direct investments

Organisation strategy

- Reviewing progress on implementing recommendations and suggestions from the five-yearly independent review
- Reviewing the culture survey results
- Considering the proposed plan for a People Strategy refresh
- Reviewing the draft and final Strategic Plan and updates on strategic activities
- Reviewing the annual Remuneration Summary
- Annual CEO Performance Review and Remuneration Review
- Approving the 2020-2025 Statement of Intent and 2020/21 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 2020/21
- Review of the Master Custodian

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- Annual Cost-Effectiveness Measurement review
- Considering the Board 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
- A Dashboard report
- A Secretariat report
- A report from the General Counsel

Dashboard Report

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
- key market updates
- Investment Committee and Risk Committee activity
- Fund and Guardians' financials
- reporting on derivatives activity and counterparty exposure
- Fund 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 2019/20 financial year.

Board member	Board	Audit	EPRC*
Catherine Savage	6/6	4/4	3/4
Catherine Drayton	6/6	4/4	N/A
Stephen Moir	6/6	1/1**	4/4
Henk Berkman	6/6	4/4	N/A
Simon Botherway	6/6	4/4	N/A
Doug Pearce	6/6	1/1	4/4
John Williamson	6/6	4/4	4/4

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

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CATHERINE SAVAGE
(Board Chair & Chair of EPRC)

Appointed:
2 November 2009

Term expiry:
31 March 2021

Key strengths and experience:

- extensive funds management experience
- extensive experience of business leadership and governance

Currently the Managing Director of the Savage Group, and an independent director of Infratil. On the Advisory Board for Pāua Wealth Management.

Previously Chair of the National Provident Fund. Served as an independent director of the Todd Family Office, Kiwibank and Pathfinder Asset Management, and earlier led AMP Capital in New Zealand.

Co-Chair of the New Zealand Chapter for Women Corporate Directors. A Fellow of Chartered Accountants Australia and New Zealand, a Fellow of the Institute of Directors in New Zealand and a Fellow of the Institute of Financial Professionals New Zealand (INFINZ).

CATHERINE DRAYTON
(Audit Committee Chair)

Appointed:
1 November 2018

Term expiry:
30 September 2022

Key strengths and experience:

- extensive financial markets and mergers and acquisitions (M&A) experience
- extensive leadership and governance experience
- considerable overseas experience
- extensive risk management expertise

Currently Chair of Christchurch International Airport and a director of Genesis Energy, Beca Group, Fronde Systems Group and Southern Cross Medical Care Society and Southern Cross Hospitals. A Fellow of Chartered Accountants Australia & New Zealand.

Previously a director of Ngāi Tahu Holdings and of technology company PowerbyProxi (which was acquired by Apple) and Meridian Energy.

Formerly the partner in charge of audit and advisory services for PricewaterhouseCoopers in Central/Eastern Europe, specialising in M&A.

STEPHEN MOIR
(EPRC)

Appointed:
2 November 2009

Term expiry:
30 September 2020

Key strengths and experience:

- extensive experience in the financial services sector
- extensive experience of business leadership and governance
- considerable overseas experience

Currently on the board of Port of Napier and the Todd Family Office.

More than 25 years of experience in financial services, including being the General Manager of the Westpac Institutional Bank from 1998 to 2001, preceded by senior positions with Credit Suisse in Singapore and Citibank in Singapore, Bangkok and Sydney. Previously served on the board of Bank of New Zealand 2008 to 2017.

DOUG PEARCE
(EPRC)

Appointed:
30 May 2016

Term expiry:
30 September 2020

Key strengths and experience:

- extensive funds management experience
- extensive experience of business leadership and governance
- global investment perspective

Sits on the boards of FortisBC and the Alzheimer Society of British Columbia.

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 CAD100 billion in assets under management. Held these positions from 1988 till he retired in 2014 and has over 35 years of experience in the capital markets.

Formerly a director of CPI Card Group.

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). A member of the advisory board at the Forum for Women Entrepreneurs and the Faculty Advisory Board at UBC Sauder School of Business.

PRINCIPLES (CONTINUED)

JOHN WILLIAMSON
(Audit Committee, EPRC)

Appointed:
30 May 2016

Term expiry:
30 September 2020

Key strengths and experience:

- extensive experience of business leadership and governance
- extensive M&A experience

Held 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.

Previous governance experience includes Hellaby Holdings, Hockey New Zealand and numerous distribution, manufacturing, industrial services and retail businesses in New Zealand and Australia.

SIMON BOTHERWAY
(Audit Committee)

Appointed:
1 August 2018

Term expiry:
30 September 2021

Key strengths and experience:

- extensive experience in investment management, and investment regulation and supervision
- extensive experience of business leadership and governance

Chair of NZX listed Serko Limited and Fidelity Life Assurance Limited.

Formerly a director on Callaghan Innovation, Chair of the FMA Establishment Board and a member of the Securities Commission.

Co-founded boutique fund manager Brook Asset Management where he was Chairman from 2004 to 2008.

A past President of the CFA Society of New Zealand and was a member of the CFA Asia-Pacific Advocacy Committee.

HENK BERKMAN
(Audit Committee)

Appointed:
1 October 2018

Term expiry:
30 September 2022

Key strengths and experience:

- extensive understanding of investment, corporate finance and corporate governance

Professor of Finance at the University of Auckland and Honorary Professor of Finance at the University of Sydney.

Completed his PhD at Erasmus University Rotterdam and has published extensively in leading finance journals.

Was adjunct director at Arthur Andersen Global Corporate Finance, and has acted as consultant for a number of multinationals and market regulators around the world.

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.

President of the Dutch language school in Auckland.

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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 ensuring the integrity of financial reporting, including oversight of: • the financial statements and internal control environment • the external audit process and relationship with the external auditor • the internal audit function	Assists the Board with matters relating to human resource management policies and practices, including: • managing the Board's employment relationship with the Chief Executive • ensuring recruitment policies are designed to attract and retain quality staff while providing appropriate accountability for performance • succession planning • oversight of policies for diversity and inclusion	Established when or if necessary (for instance to manage potential conflicts of interest).

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 are contained within the Board Charter, available on our website at www.nzsuperfund.nz/nz-superfund-explained-governance/board.

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. 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. 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 either meet quarterly, or are 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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PRINCIPLES (CONTINUED)

BOARD COMMITTEE ACTIVITY

AUDIT COMMITTEE

Members	Summary of matters considered during the year
Five members: • Catherine Drayton (Chair) • Catherine Savage • John Williamson • Simon Botherway • Henk Berkman **Meetings** Met four times in the 2019/20 financial year (once with full Board attendance). **Attendance** See page 84 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.	• Covid-19 impact on private market valuations • Audit arrangements for the Elevate Fund • Changes to Public Benefit Entity reporting standards • Review of high risk systems • IT security assurance of third parties • Sources of comfort on the NZ Super Fund's tax risk • Foreign tax structure review • Control effectiveness reviews for key service providers • 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 • Annual Statement of Performance • Appointment of the external auditor • Annual report from the external auditor • Annual external audit plan • Annual internal audit work plan • Internal audit annual review of outcomes • Internal audit reports (including Investment Conviction Review; IT Operations Cloud Operations Checkpoint Review; Business Continuity & Disaster Recovery; Commodities Trading Process; Capital Calls and Distributions; Third party Supplier Risk Management; Software Development/Change Management (includes Platform as a Service implementation); Credit Card Data Analytics; Data Governance; and Trade Life Cycle Reviews – Money Market & Securities) • Regulatory changes report • Annual tax compliance strategy • Update on emerging IFRS issues (including IFRS 9) • Internal audit evaluation • Review of internal audit charter • Review of Committee calendar for 2021 • Inland Revenue Co-operative Compliance Agreement Certificate • Format of NZ Super Fund and Elevate Fund financial statements • Tax updates

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EMPLOYEE POLICY AND REMUNERATION POLICY COMMITTEE (EPRC)

Members

Four members:

- Catherine Savage (Chair)
- Stephen Moir
- Doug Pearce
- John Williamson

Meetings

Met for four scheduled meetings and one special meeting in the 2019/20 financial year.

Attendance

See page 84 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
- Remuneration structure review
- 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
- Committee performance evaluation
- Review of terms of reference
- Human Resources Policy update

PRINCIPLES (CONTINUED)

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 its funds. The Guardians has adopted an approach of being as transparent as commercial sensitivities allow about its investment approach, the funds' performance and the organisation in general. The Guardians' 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 (see **www.nzsuperfund.nz/performance/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.

Three-yearly	Annually	Quarterly to Minister	Monthly	As it happens
Five-year Statement of Intent setting out key strategic objectives and performance measures	Annual Statement of Performance Expectations including, for the NZ Super Fund, forecasting Fund performance and setting out priority activities for the year Annual Report summarising the year's performance against the Annual Statement of Performance Expectations Review by Parliamentary Select Committee annually or on request with participation from the Office of the Auditor-General	NZ Super Fund performance Important developments relating to the funds Important developments at the Guardians	NZ Super Fund performance	Anything necessary to comply with the expectation that we will operate on a 'no surprises' basis with the Minister of Finance Responses to questions from Parliament, media and via the Official Information Act 1982

The latest Statement of Intent, setting out strategic objectives and performance measures for the five years from 2020–2025 was published in June 2020. The Annual Statement of Performance Expectations sets out a detailed plan of work and financial forecasts for the NZ Super Fund for the coming financial year, and was also published in June 2020.

The Guardians' objectives for the 2019/20 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 at: www.nzsuperfund.co.nz/publications/annualreports.

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 Risk 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 February 2020.

The disclosures are available at: www.nzsuperfund.nz/publications/disclosures.

The Guardians received three requests under the Official Information Act 1982 during 2019/20 (nine in 2018/19). Copies of our responses, where we consider these to be of material public interest, are available at: www.nzsuperfund.nz/publications-disclosures/oia.

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 therefore is not controlled by the Guardians. The remuneration set for Board members in the 2019/20 financial year was:

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

From April 2020, Board members took a voluntary pay cut of 20% in line with the response from some public sector leaders.

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.

During the year, the Board completed a major review of the Guardians' remuneration structure. Details of this review and the Guardians' discretionary incentive scheme, and comprehensive information regarding executive remuneration, are disclosed at pages 27, 101 - 105 and at Notes 3(a) and 3(b) of the Guardians' financial statements.

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 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. This includes 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 Venture Capital Fund 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).

NZGCP will monitor the investment risk of the venture capital funds that it invests in within a monitoring framework agreed with the Guardians.The risk associated with the manager of the Elevate Fund is managed through ongoing monitoring using our conviction process and by 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 on the Limited Partnership advisory committee for the Elevate Fund.

To give the Board greater comfort on the effectiveness of the controls in place for identified risks, a new 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 two of the Guardians' top enterprise risks. Control effectiveness assessments and KRIs will also be established for the Guardians' remaining top risks. The control effectiveness assessments and KRIs are reviewed by the Board.

Reporting to the Board during the initial Covid-19 lockdown increased, to keep the Board members informed on the impact of the pandemic on: the health and well-being of staff; the heightened risk environment; investment strategies; investment opportunities; the effectiveness and efficiency of processes; cyber security; and the wider economy.

Further information on the Guardians' approach to risk management (including the control effectiveness assessment framework) is contained on pages 96 - 100.

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 Ernst & Young (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 fourth year of the new rotation. The Elevate Fund was established during the financial year ended 30 June 2020 so is being audited for the first time.

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 and the Auditor-General. 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 a 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 90. As noted on page 11, 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 in accordance with the Act.

102 - 21 The Minister of Finance may give directions regarding the
102 - 40 Crown's expectations as to the funds' performance, including
102 - 42 its expectations regarding risk and return. The Minister may
102 - 56 not, however, give any direction that is inconsistent with the duty to invest the NZ Super Fund on a prudent, commercial basis. No directions were received in the 2019/20 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 50.

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 November 2019. This letter and the Guardians' response are available at: www.nzsuperfund.nz/publications/disclosures.

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 mandates we manage. 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 2019/20 included:

- Within the bounds of a probity agreement with the Ministry of Transport, engaging with central and local government, and other key stakeholders, to inform NZ Infra's City Centre to Māngere light rail proposal;
- Engaging with central Government agencies to inform decision-making about: the establishment of the Elevate Fund and our involvement in monitoring it; Kiwisaver default fund settings (in respect of fossil fuel investments); and Taskforce for Climate-Related Financial Disclosures reporting requirements;
- Regular information sharing and education sessions with the Treasury;
- Meetings with Ministers and Members of Parliament;
- Hosting a media education session;
- Hosting a government relations workshop to upskill the Guardians' staff on the context in which we operate;
- Increasing the information available on our website portal for investee company directors;
- Our Chief Executive Officer co-chairing the Sustainable Finance Forum;
- Our Head of Responsible Investment acting as a Commissioner on the United Nations Commission on Modern Slavery and Human Trafficking;
- Our Head of Direct Investment joining the Board of the Institute of Financial Professionals of New Zealand (INFINZ);
- Development of the Guardians' Employee Value Proposition, to help position the Guardians as an attractive place to work and support our recruitment objectives;
- Rebuilding and redesigning our external website, www.nzsuperfund.nz;
- Running a series of focus groups with the public, as discussed on page 18.

Priorities for 2020/21 include:

- Further workshops to support domestic media and public sector awareness and understanding of the Guardians and the mandates it manages;
- Gathering perspectives from a range of stakeholders, including iwi/Māori, the general public and the NZ investment industry, to inform a refresh of our Responsible Investment strategy;
- Engaging with domestic stakeholders to build awareness and understanding of our investment approach and model, in particular with respect to direct investment in infrastructure;
- Launching a careers website to support our recruitment objectives;
- Reviewing our sponsorship strategy and portfolio; external speaking and presentation programme and our social media strategy, to ensure these are fit-for-purpose;
- Ongoing participation in the Sustainable Finance Forum, New Zealand Corporate Governance Forum and the OPSWF Initiative.

OUR STAKEHOLDERS

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

- employees;
- public of New Zealand;
- suppliers;
- asset and investment managers (for a full list of Managers and Custodians see page 119);
- co-investors;
- other Crown Financial Institutions;
- investee companies (and their stakeholders);
- investor groups;
- iwiMāori;
- 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. the 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).

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;
- daily estimated NZ Super Fund net asset value and monthly NZ Super Fund performance figures;
- 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 at www.nzsuperfund.nz/publications/policies.

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 wide range of global investment and responsible investment initiatives. Groups on which we are represented at Board/governance level include: INFINZ, International Centre for Pension Management; the OPSWF Initiative; Pacific Pension Institute; New Zealand Corporate Governance Forum; New Zealand Corporate Taxpayer Group; and Responsible Investment Association Australasia (RIAA).

We also participate in the International Pensions Conference, 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.

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 2019/20, 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; and
- Auckland University of Technology Best Paper Award, New Zealand Finance Meeting

Several of our sponsorships in the 2019/20 financial year were put on hold by the sponsored organisation due to the impact of Covid-19. Total sponsorship spend in 2019/20 was NZD20,500 (2018/19 was NZD14,000).

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CASE STUDY

The NZ Super Fund Contributions Model

BACKGROUND AND PURPOSE OF THE NZ SUPER FUND

The majority of New Zealanders aged 65 and over receive the public pension, called New Zealand Superannuation. Superannuation payments are paid from general tax revenue; this means that current taxpayers cover the cost of Superannuation each year.

However, New Zealand's population structure has been ageing in recent decades, as is the case for many other countries. Statistics New Zealand projects that this will continue until at least the end of this century, and quite likely beyond. This means that the number of superannuitants – and therefore the total cost of Superannuation – is growing relative to the size of the taxpayer base funding our superannuation system.

This demographic shift is at the heart of the 'tax smoothing' principle that is fundamental to the role of the NZ Super Fund. By contributing to the Fund out of current taxes, a pool of wealth is created that can be used to partially pay for Superannuation, reducing the need for future generations of workers to see taxes rise or government spending cuts.

Between the fiscal years 2001/02 and 2009/10, and then again from 2017/18 onwards, the government made capital contributions to the NZ Super Fund so that it could invest with a long-term horizon. As a result of strong returns, the assets have grown and now exceed the value of contributions made by NZD26.2 billion.

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 nominal dollar terms, but, more significantly, as a share of the economy.

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. In 2070, for instance, the Fund is projected to pay for 10% of the total and 25% of the increased cost since 2019/20. Additionally, tax paid by the Fund could support another 9% of the total and 22% of the increased cost since 2019/20.

HOW THE CONTRIBUTIONS MODEL WORKS

The New Zealand Treasury is responsible for calculating the amount of the annual capital contribution in each fiscal year, or capital withdrawal once these begin in future years.

Section 43 of the New Zealand Superannuation and Retirement Income Act 2001 specifies how the calculation is to be done. The primary purpose of the contribution model is to perform this calculation, and the majority of the model's assumptions, inputs and computational logic are concerned with working out the contribution rate in each year. This is the variable denoted as "a" in the formula in Section 43 of the Act.

As required by the legislation, the contribution rate, as a percentage of GDP in any year, is the sum of the capital contribution (or, in later years, the capital withdrawal), and the aggregate amount of net (after-tax) Superannuation expenditure, divided by nominal GDP. All three components need to be in the same units, which is normally billions of New Zealand dollars.

The Treasury maintains, develops and runs the model. Most of the inputs to the model are produced by the Treasury, such as the long-range GDP and aggregate net Superannuation expenditure tracks, using some of its other models. The model also makes use of forecasts from both the Guardians itself and from the Ministry of Social Development (MSD) and utilises the demographic projections of Statistics New Zealand.

CONTRIBUTIONS SUSPENSION AND 2020 OUTCOME

In the 2009 budget the Government announced its intention to suspend capital contributions to the NZ Super Fund due to the scale of the impact of the Global Financial Crisis on the Government's finances.

The Government resumed capital contributions in December 2017 after an eight-year hiatus, with the intention to progressively build up towards full funding in accordance with the legislated formula from 2022.

Because of the Covid-19 pandemic, the 2020 Budget forecast produced an unusual outcome. Planned contributions, which were set by the Government's policy track, are actually higher than the required contributions as per the legislated formula, by NZD2.8 billion in total over the 2021 and 2022 fiscal years.

This outcome has arisen because the required contributions have fallen, albeit temporarily, as a result of the large forecast decline for nominal GDP arising from the impact of Covid-19.

In layman's terms, contributions are made to the Fund to smooth the total cost of Superannuation relative to GDP through time: contributions are made when the cost is low and withdrawals are made when it is high. When GDP is temporarily low, the cost of Superannuation relative to GDP is temporarily high.

Given the way that the legislated contribution rate formula works, this leads to a lower required contribution amount. This aligns with the Fund's tax smoothing role, as taxpayers in this year are already facing a higher-than-normal cost of Superannuation relative to GDP, even if it is only temporary.

Despite the drop in required contribution as per the formula, the Government intends to continue on the fixed contribution track for 2020/21 it announced as a policy after the 2017 General Election.

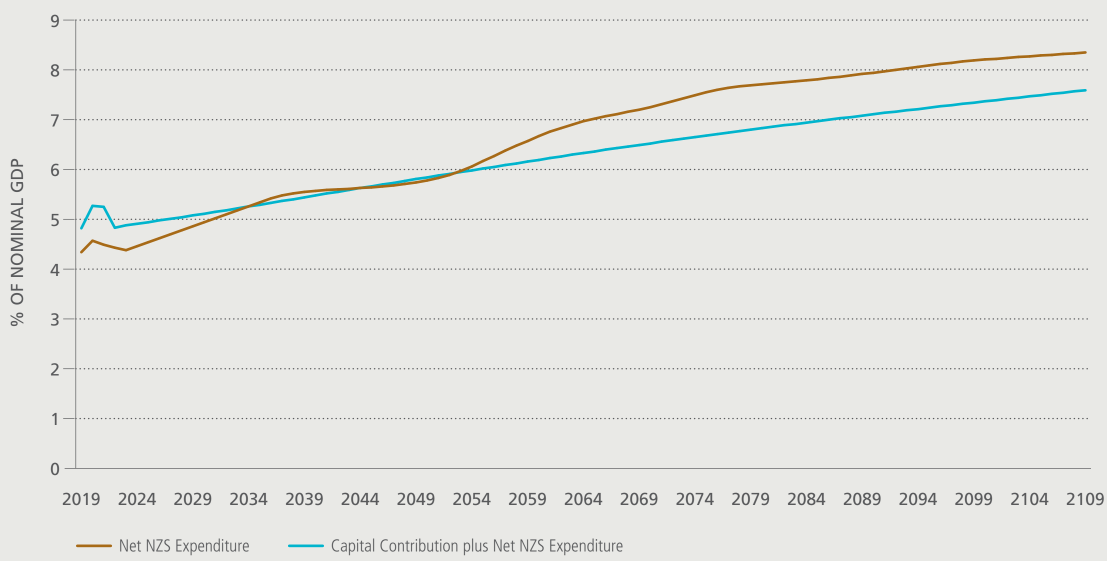
NZ Super Fund Contributions Model Formula - Technical Explanation

Capital contributions to (or withdrawals from) the NZ Super Fund are the residual of the contribution rate calculation after the aggregate net Superannuation expense is subtracted. The required annual capital contribution for each fiscal year is:
a ÷ 100 × that year's GDP – b, where:

- **a** is the contribution rate calculated by the legislated formula, which is the percentage of nominal GDP that, if it was adhered to for the next 40 years, would cover the aggregate net Superannuation expense over this period, while making contributions to the NZ Super Fund in the early part of this period and allowing withdrawals in later years.
- **b** is the aggregate net Superannuation expense in that fiscal year.

While the **a** and **b** factors in the above formula have not changed much, the forecast GDP factor was revised 10% lower in 2020/21 as a result of Covid-19, although this change partially reverses in the post-pandemic economic recovery period. This means that the contribution amount will fall in 2020/21, i.e. after the relatively constant percentage **a** is applied to the GDP and the Superannuation amount **b** is deducted from that, there is less available to go to the Fund.

NZ Super Fund Contribution Rate and Net Superannuation Expenditure as a % of GDP



The gold line shows the projected cost of superannuation as a percentage of nominal GDP, absent the existence of the NZ Super Fund. The blue line shows the projected cost after allowing for contributions into (and withdrawals from) the Fund. The difference (the gap) between the two lines shows the amount of the projected contribution (withdrawal) in any one year.

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 top risks identified by the Guardians' Risk Committee every six months, and it reviews the Guardians' risk appetite statement and risk assessment framework on at least a five-yearly basis.

The Guardians has 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 Investment Risk Allocation Policy, both of which are available at www.nzsuperfund.co.nz/publications/policies. 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 Guardians' performance against this statement is measured and reported to the Board regularly, with any major breaches being notified on an exception basis. The 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 is required to sign off the financial statements and confirm to the Board that the integrity of the financial statements is founded on a sound system of risk management and internal compliance and that control systems are operating efficiently and effectively in all material respects.

CONTROL EFFECTIVENESS ASSESSMENT

Establishing a framework to set control effectiveness and key risk indicator measures for our top risks was one of our strategic activities for the 2019/20 financial year. The control effectiveness assessment framework 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.

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Over the 2019/20 financial year, we tested the control effectiveness assessment framework by applying it to two of our top risks: 'incidents of fraudulent activity' and 'cyber security event occurs'. The framework is to be applied to the remainder of our risks over the next two to three years. Recent risk register reviews by business units at the Guardians have evidenced that teams throughout the Guardians are now discussing more fully the internal and external business environment to better understand and identify how we might be exposed to emerging or changes in risks. We are now incorporating the control effectiveness assessment to review the controls that are key to managing their risks and considering their effectiveness.

The risk management framework has come a long way in developing the maturity of the control identification and assessment process in place at the Guardians. It has provided the Board and management with a better idea of the effectiveness of our control environment, and the actions required to strengthen it.

RISK CULTURE SURVEY AND ACTIONS TAKEN

At the end of 2018 we carried out a survey, run on our behalf by PwC, to help us better understand our risk culture. Following the results of the survey, we put together an action plan to address the areas of recommended improvement, with a risk culture working group coordinating its implementation. In total we identified thirteen separate action items coming out of the survey that would improve our risk culture. Of the thirteen action items eleven were due to have been completed by 30 June 2020. By year end we completed eight action items. Significant accomplishments included:

- developing a risk culture statement;
- simplifying our policy and personal trading attestation process;
- developing a training programme on the application of policies and procedures;
- streamlining our incident reporting process;
- identifying a training programme on constructive challenge and rolling this out to all managers; and
- initiating a risk culture monitor.

Of the uncompleted items; one is foundational, a workshop for all staff on what risk culture means to them. The workshop has been designed and will be produced and rolled out to all staff in the first half of the 2020/21 financial year. We are scheduled to complete our second risk culture survey in the latter part of the 2020/21 financial year, which will allow us to measure how we are progressing compared with the 2018 baseline.

RISK REPORTING FRAMEWORK

The Board receives and considers an enterprise-risk dashboard report every six months. This report is derived from the top 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 business objectives and activities and includes related controls and action plans to improve or enhance those controls.

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 Forms an input into business unit risk register refresh	Summary of main changes affecting the business	Business unit staff Business unit Heads Risk Committee Enterprise Risk team
2. Business unit risk register annual review	Assessment of existing and potential emerging risks and the effectiveness of the controls in place	Updated business unit risk registers	Business units Heads Business unit staff Risk Committee
3. Consolidated outputs of business unit risk register reviews	Confirm or identify any new or any changes to existing top risks Assess emerging risks and identify those that should be escalated in reporting	Draft summary of top risks and emerging risks	Enterprise Risk team Risk Committee
4. Review of top risks by Leadership Team	Evaluate identified top risks and emerging risks Evaluate effectiveness of risk management plans and consider whether further actions are required	Refined draft summary of top risks and emerging risks	Leadership Team Enterprise Risk team Risk Committee
5. Review of top risks by Board	Evaluate top risks and identify emerging risks Evaluate effectiveness of risk management plans in place and consider whether further actions are required	Finalised summary of top risks and emerging risks	Board Leadership Team Enterprise Risk team

TOP RISKS

While the Board is ultimately responsible for risk at the Guardians, our first line of defence against risk is everyone who works in the organisation. We take a holistic view and fit many pieces together, particularly the non-investment and investment risk components. The Enterprise Risk team identifies the organisation's top risks through consultation with business units. The top risks are updated every six months, together with an outline of how they are managed.

The period under review was dominated by the impact of Covid-19, with the following existing risks heightened:

- **Insufficient liquidity** – market volatility has tested some of the assumptions underpinning our liquidity appetite and used in our models. These lessons have been captured and will result in reviews and appropriate actions to strengthen the control environment.
- **Staff capability shortfall** – restrictions on travel may hinder the Guardians' ability to attract the right talent.
- **Incidents of fraudulent activity** – there is a heightened possibility of fraud, both internally and among third-party suppliers. Alongside ongoing monitoring by our external stakeholder relationship owners, the Operational Due Diligence team have been proactively contacting managers and seeking assurance from them about their ability to maintain their controls.
- **Wellness/culture** – an extended period of working from home, the absence of normal support structures for some, together with a time of significant uncertainty, places pressure on our team's resilience. Additional resources were provided to support the team as the pandemic continued, and the Leadership Team, Heads of teams and managers maintained an ongoing dialogue with all employees via the feedback platform Peakon.
- **Cyber security event occurs** – the industry has seen a significant increase in the number of Covid-19 themed cyber-attacks over the period. We have reviewed and, where appropriate, updated our IT Security controls to address these new risks to our environment.
- **Process failures leading to poor execution** – a combination of impacts, including a higher error rate, a distributed workforce impacting cross-team collaboration, and third-party control weaknesses impacting Guardians' processes, among others, can affect the Guardians' operations. We have increased the number of regular communications channels, and surveyed our staff on their working-from-home experience to identify positive and negative outcomes, together with actions required.

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RISK MANAGEMENT (CONTINUED)

TOP RISKS

The risks identified in the latest report to the Board, for June 2020, are set out below.

Definitions of Risk Rating		
🟢 Within tolerance	🟠 Risk is elevated	🔴 Action needs to be taken

Trend Nov 2019	Trend Jun 2020	Top 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 • Ongoing assessment of opportunities with wide and deep peer relationships and strategic partners • Ongoing induction of staff in investment processes
🟢	🟠	**Insufficient liquidity**	• Liquidity scenario model (stress testing) • Ability to access opportunities through multiple access points • Reporting escalates to Board if liquidity falls below levels set within the Board's risk appetite
🟢	🟢	**Key investment beliefs are inappropriate**	• Investment framework and associated processes • New and Existing Opportunities Group • Diversification considered during Risk Allocation Process • Continued re-examination and stress testing of investment opportunities via the Risk Budget teams • Hurdle/proxy for new investments is assessed by the Asset Allocation team; this team sits outside the access point teams • Systematic scenario analysis • Review of Investment Beliefs
GREAT TEAM			
🟢	🟠	**Staff capability shortfall**	• Diversity and Inclusiveness Policy • Individual development plans • Succession planning, including talent plans and talent agenda • Well-researched and documented procedures and processes • Maintain appropriate total remuneration • Culture shaping and measurement
🟢	🟠	**Incidents of fraudulent activity (including rogue traders, bribery and corruption)**	• Segregation of duties • Standard Settlement Instruction (SSI) and proper instruction processes • Staff recruitment screening processes • Investment and operational due diligence • Whistle-blower hotline • Annual fraud risk assessment • Fraud awareness education monitoring

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Trend Nov 2019	Trend Jun 2020	Top Risk	Controls
			• 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 • Adherence to Government guidelines
STRONG EXTERNAL RELATIONSHIPS			
		Change in key stakeholder support, including Minister of Finance and the Board	• Stakeholder management and communication including engagement plan and relationship map • Ongoing education of Board and other stakeholders • Accurate, clear and consistent reporting • Clear risk budgeting approach
		Threat to Guardians' independence	• Stakeholder engagement plan • Strong and ongoing relationship with Treasury and the Minister of Finance's office • Ongoing education of stakeholders on the Fund's purpose and activities • Effective 'no surprises' protocol in place
		Cyber Security event occurs	• System protections, threat monitoring and detection • IT Security Policy, user access controls, cyber security training • Cloud protection systems analysis
EFFICIENCY AND INNOVATION			
		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 • Business continuity framework • Regular maintenance and upgrade of IT infrastructure • Regular monitoring of strength of network • Secondary data centre • Service Desk focus on delivery • Focus on reducing IT fragility
		Process failures leading to poor execution	• Embedded systems for cross team input on investment and non-investment deals • Access to external resources e.g. IT, Risk, Operations Due Diligence, Tax, Legal and Finance • New opportunities approval process
		Significant breach of legislation or regulation	• Six-monthly policy and trading attestations by staff • Ongoing Board and staff education • Ongoing monitoring of new or changing regulations • Relationships with external experts, providing access to timely and relevant information • Six-monthly legislative change reporting to the Risk Committee and Board • Six-monthly tax update to the Risk Committee and Audit Committee • External whistle-blowing service

RISK MANAGEMENT (CONTINUED)

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	**2019/20**	**2018/19**	**2017/18**	**2016/17**	**2015/16**
INVESTMENT RISK MEASURES						
REBALANCING						
Breaches of Fund rebalancing absolute risk limit	0	0	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	4	1	2	1	1
Loss of data/IT services of more than 30 minutes	0	0	0	1	0	0
Regulatory non-compliance	0	0	0	0	0	0
Processes and profit & loss impacts of more than NZD10m	0	0	0	0	0	Not reported
Loss of key personnel**	0	0	0	0	0	Not reported
Operational incidents or errors rated as potentially high risk***	N/A	2	0	2	1	3

* 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 investment managers. In the case of serious incidents, a claims process may be available to the Fund.

** 'Loss of key personnel' is defined as a loss of a member of the Leadership Team.

*** 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 medium or high impacts are reported to the 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.

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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 in the investment sector 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 and investment operations, along with highly skilled specialists in finance, human resources, law, IT and communications.

Fixed remuneration consists of salary, KiwiSaver and participation 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 funds.

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 are performing.

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. 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. See page 27 for further details.

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 NZD451,487 in 2019/20 (NZD406,560 in 2018/19).

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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REMUNERATION AND DISCRETIONARY INCENTIVE SCHEME (CONTINUED)

Bonuses are calculated as a percentage of average base remuneration and vary up to a maximum percentage. The maximum available is:

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

REMUNERATION SUMMARY

Benefit	Purpose and link to strategy	Operation
Base salary	Building and maintaining a great team To reflect the responsibilities of the individual role and the individual's level of experience and competence in the role Set at appropriate level to mitigate risks of over reliance on discretionary income	Reviewed annually. Each individual has a pay range associated with their position. Job sizes are re-evaluated periodically. Base salaries are determined by positions being evaluated by remuneration specialists using market evaluation systems. The general approach is to benchmark against upper quartile, New Zealand financial services sector rates as a proxy for median fund management sector rates. Individual performance is reviewed twice a 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 Linked to employee behaviour consistent with the Guardians' desired workplace culture	Bonus payments are at the Board's discretion. 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 return and Reference Portfolio Incentivises whole-of-Fund approach and aligns with statutory mandate of maximising returns without undue risk Based on Fund performance over rolling four year periods to encourage sustainable performance Interim payments for each four year period are made annually Negative performance will need to be made up in subsequent years before interim payments are made	Bonus payments are at the Board's discretion. Based on audited NZ Super Fund performance results. Employees with a performance rating outcome equivalent to below target are not eligible for a bonus. Available to the Leadership, Investments and Portfolio Completion teams.
Other benefits	Building and maintaining a great team Good employer	Discretionary life, income protection, trauma and health insurance.

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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 upon 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 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 maximum bonus payable under this portion is capped at 13.33% of base remuneration 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. Payments based on this measure are capped at 26.67% of base remuneration 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 percentage paid out is a quarter of the Vintage in Year 1 and increases by a quarter of the Vintage each year thereafter, in line with the percentage of services rendered by the employee.

Therefore, once a staff member has been employed for four years, they 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 Fund, 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 2019/20

For eligible staff who have been employed for the past four full years:

- Payments made in respect of the Treasury Bill return were 9.20% of average base remuneration for the equivalent period, compared with the maximum possible 13.33%.
- Payments made in respect of the Reference Portfolio return were 6.67% of average base remuneration for the equivalent period, compared with the maximum possible 26.67%.
- The Fund exceeded the Treasury Bill return by an average of 8.95% p.a. over the past four years (0.84% in 2019/20). The average annual excess return in dollar terms over the period was NZD2.9 billion.
- The Fund exceeded the Reference Portfolio return by an average of 1.25% p.a. over the past four years (-2.08% in 2019/20). The average annual value add in dollar terms over the period was NZD331 million.

The maximum possible refers to the maximum 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 performance may improve the status of previously underperforming Vintages and result in a catch-up of interim payments. This year, three of the Vintages are showing negative performance which would need to be made up in future years before payments are made under those Vintages.

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.

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REMUNERATION AND DISCRETIONARY INCENTIVE SCHEME (CONTINUED)

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 87), based on independent advice from external remuneration specialists, reviews the CEO's remuneration annually and makes recommendations to the Board. While the terms and conditions of employment of the CEO are determined by agreement between the Board and the CEO, the Board must obtain the written consent of the State Services Commissioner before finalising or amending the CEO's terms of employment.

The State Services Commissioner must provide reasons for refusing consent to any proposed terms and conditions and is required by the Act to have regard to the following (among any other relevant factors):

- the legal, commercial and operational context of the relevant Crown entity;
- any information provided by the Board, which might include, for example, the Board's advice about a person's knowledge, skills, experience and performance;
- the public interest in prudent stewardship of public resources;
- Government expectations; and
- relevant market information.

As a result of the findings of the independent statutory review of the Guardians that changes to the Crown Entities Act creates difficulties for the Guardians' remuneration structures, the Commissioner advised that he intended to discharge his obligations under Section 117 of the Crown Entities Act by treating the Guardians as if it were a State Owned Enterprise (SOE). He advised that he will do this by providing remuneration guidance to the Board that is consistent with the advice that Treasury provides to SOEs, and will consent if the Guardians agrees to implement that guidance.

Factors Taken into Account

In the Board's view, the role of the CEO of the Guardians is unique in New Zealand, requires original strategic thinking and leadership, and has grown in complexity and scope over time.

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.

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

Incentive Achievement

The discretionary bonus scheme is designed to create strong alignment between the CEO's remuneration and the performance of the Guardians and its funds. 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 2019/20	
Individual objectives and performance component	
The Board assessed this component as 90% achieved. The payment made is therefore 18% out of a maximum possible 20%.	
Total individual component:	$119,170
Fund performance - Excess Return component (% achieved; Excess Return payment)	
The payment made in respect of the Treasury Bill return was 9.20% out of a maximum possible 13.33%. The Fund exceeded the Treasury Bill return by an average of 8.95% p.a. over the past four years (0.84% in 2019/20). The average annual excess return in dollar terms over the period was $2.9 billion.	
Total Excess Return payment:	$57,209
Fund performance - Value Add component (% achieved; Value Added payment)	
The payment made in respect of the Reference Portfolio return was 6.67% out of a maximum possible 26.67%. The Fund exceeded the Reference Portfolio return by an average of 1.25% p.a. over the past four years (-2.08% in 2019/20). The average annual value add in dollar terms over the period was $331 million.	
Total Value Add payment:	$39,993
Total Fund Performance component:	$97,202
Total Incentive Achievement 2019/20:	**$216,372**

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

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CHIEF EXECUTIVE OFFICER REMUNERATION

Financial Year	2019/20[1]		2018/19[1]		2017/18[2]		2016/17		2015/16	
	$	% achieved	$	% achieved	$	% achieved	$	% achieved	$	% achieved
Contractual Base Remuneration	$611,000	-	$600,000	-	$700,400	-	$700,400	-	$682,000	-
Actual Base Remuneration Payment (including holiday pay)[3]	$638,481	-	$623,525	-	$522,263	-	$740,476	-	$690,322	-
At Risk - Individual Component	$119,170	18.0%	$124,705	20.0%	N/A	N/A	$116,995	15.8%	$117,355	17.0%
At Risk – Fund Financial Performance 'Excess Return' on a 4 year moving average	$57,209	9.2% (max 13.3%)	$78,917	13.3% (max 13.3%)	N/A	N/A (max 13.3%)	$116,647	13.3% (max 13.3%)	$61,829	10.0% (max 13.3%)
Cumulative Fund Performance can impact interim payments resulting in payments in a subsequent year. See page 103 for more detail.		(4.1%)		-		-		3.3%		(3.3%)
At Risk – Fund Financial Performance 'Value Add' on a 4 year moving average	$39,993	6.7% (max 26.7%)	$153,220	25.9% (max 26.7%)	N/A	N/A (max 26.7%)	$200,330	26.7% (max 26.7%)	$155,616	24.6% (max 26.7%)
Cumulative Fund Performance can impact interim payment resulting in payments in a subsequent year. See page 103 for more detail.		(20.0%)		(0.8%)		N/A		2.1%		(2.1%)
KiwiSaver	$68,087	-	$78,429	-	$15,668	-	$35,233	-	$30,754	-
Benefits (Life Income Protection, Trauma, and Health Insurance)[4]	$5,593	-	$5,114	-	$5,398	-	$7,431	-	$4,879	-
Total Remuneration[5]	**$928,533**	**-**	**$1,063,910**	**-**	**$543,329**	**-**	**$1,217,112**	**-**	**$1,060,753**	**-**

1. Figures for 2019/20 and 2018/19 relate to a new CEO from July 2018.
2. Figures for 2017/18 are to March 2018, when the previous Guardians' CEO ceased to be an employee (9 months).
3. 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 mid-April 2020, the CEO took a voluntary pay cut of 20% of base salary for six months.
4. Benefits include FBT where applicable, but exclude GST.
5. Total Remuneration would have been $953,994 if not for the effect of the 20% voluntary reduction in base salary.

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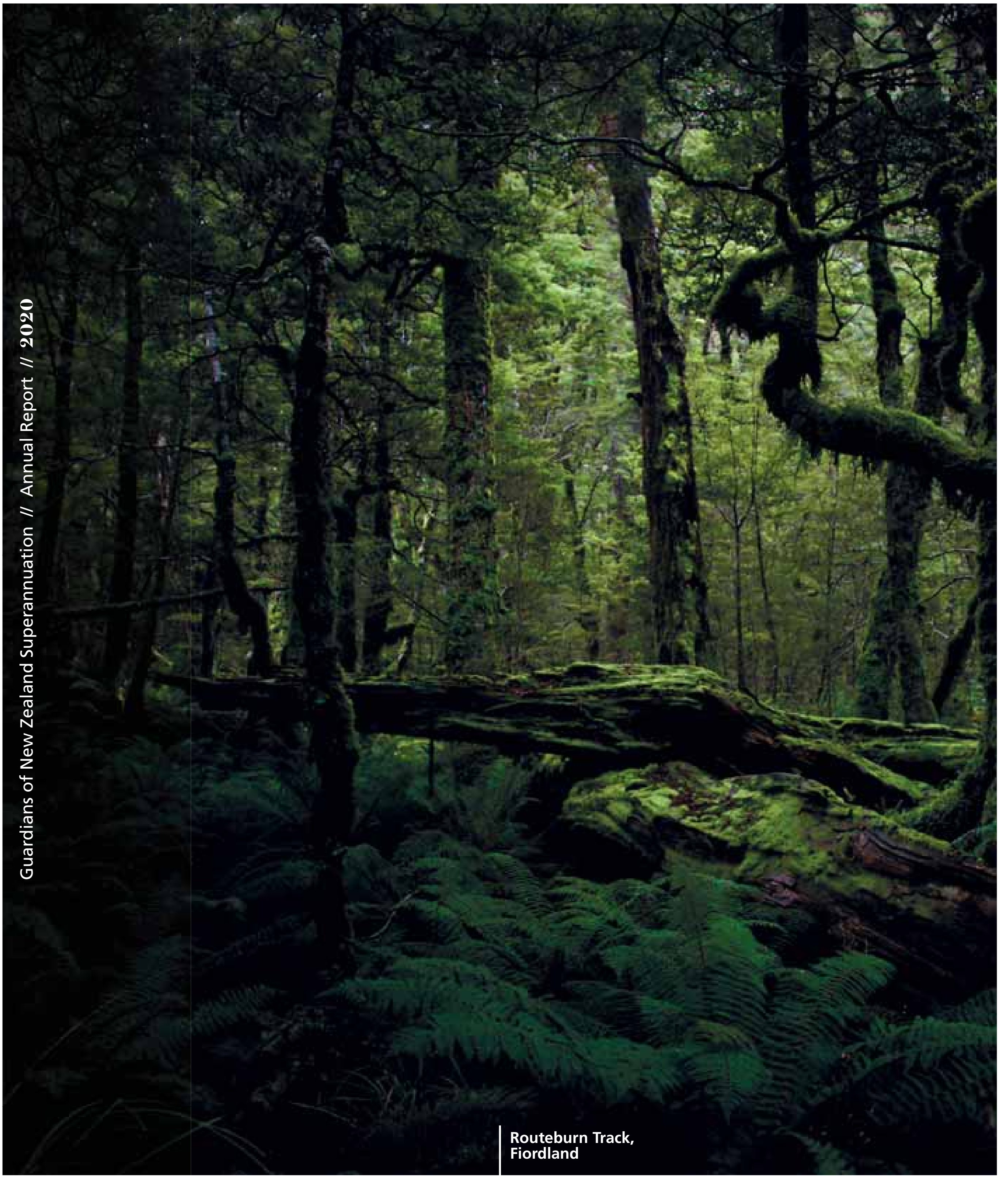

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04

Operational Report
Ngā Tīpakonga ā-Whakahaere

HIGHLIGHTS FROM OPERATIONS AND IT

Our Investment activity depends on a robust, high-quality operational platform. Our IT, Applications Development and Operations teams oversee the systems, data and technology in place at the Guardians.

In this section, we highlight operational achievements from the Guardians' 2019/20 financial year.

COVID-19 AND REMOTE WORKING CAPABILITY

For approximately three months between March and June all Guardians' staff worked from home as New Zealand went into lockdown following the Covid-19 outbreak. Ongoing investment in technology and our shift to the cloud in 2018 were key to ensuring our team was able to work from home effectively and securely.

Shortly before the lockdown we had initiated three projects that aided us in our working from home capability:

- *Zoom deployment* – Zoom video conferencing software was rolled out across the organisation in November 2019.
- *Accounting system upgrade* – we upgraded our accounting solution, with the new platform launched the first week of lockdown. Since its launch, the new system has created efficiencies, made our operations more scalable, and is accessible via mobile phone.
- *Customer Relationship Management (CRM)* – midway through lockdown we deployed a new CRM system for managing and tracking our interactions with external stakeholders. This was an important investment for us, with the launch date brought forward to aid in our internal communication and relationship management over the lockdown period.

DATA MANAGEMENT

Like most other organisations, the importance of technology, and especially, sound data management, has increased significantly over recent years. Acknowledging this, improving our data management is a multi-year strategic objective for the Guardians, and we have continued to invest and grow the IT team to support our current and future data needs.

In particular, we have an ongoing need to understand the organisation's current data governance gaps, as well as to identify appropriate solutions to address these gaps. This year we made a number of changes to our organisational structure and data governance framework in order to better address the growing demands of data management.

The Applications Development team, responsible for data at the Guardians, was lifted out of the IT function and elevated as its own team within the Operations business unit. In addition, to support the work of the Applications Development team, a cross-functional committee was brought together to form a Data Strategy Group (DSG). Going forward, the DSG will review, prioritise and manage initiatives required to solve current data-related problems and address the needs of our investment data users. It will make recommendations to the Leadership team on all material strategic and tactical data initiatives that are required to enable us to achieve our desired business objectives, as well as any strategic objectives.

Next year, the DSG will lead the development of our data strategy, which will be a key strategic focus for the 2020/21 financial year.

CYBER SECURITY

Cyber security continues to be an ongoing operational priority. We use specialist advisers 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.

As a global investor, our activities are affected by a wide range of legal and regulatory requirements. Ensuring that we comply with these requirements is an important task.

In this section, we provide examples of areas of regulatory change relevant to our activities or to the business of our investment managers, counterparties and service providers.

MONITORING FRAMEWORK

The Legal team at the Guardians identifies and monitors proposed changes to core legal obligations that affect our business and operations. Once changes are identified, the Legal team will update the relevant teams through training or targeted updates to ensure the changes are adequately considered when making investment decisions and/or incorporated in business-as-usual processes to meet compliance. Legislative and regulatory changes of relevance to the Guardians are reported via a regulatory radar and discussed by the Risk Committee and the Audit Committee.

COVID-19 LEGAL IMPLICATIONS

Covid-19 has triggered a wide range of regulatory responses globally. These include issues such as possible contractual default where the impacts of Covid-19 have precluded performance of contractual obligations, employment implications, health and safety, insurance implications/exclusions, and complications with finance transactions. It also represents a significant governance consideration for our investee company directors as a material business risk. We continue to monitor developments and consider the legal implications for our investments, along with providing relevant information to our staff and Directors.

OVERSEAS INVESTMENT ACT

The Government is partway through the process of reforming the Overseas Investment Act (OIA), with a view to refining foreign investment screening processes and ensuring New Zealand’s rules are more consistent with other comparable jurisdictions. An initial suite of changes has recently been enacted, with further important amendments working through the legislative process. These changes are relevant to the Fund, as we need to comply with the OIA if we divest an existing New Zealand investment or partner with a foreign investor to acquire a new one.

We provided detailed feedback during the formal consultation process on the reforms, outlining our key issues and priorities in respect of foreign investment processes.

WESTERN SAHARA LEGAL ACTION

In 2020 proceedings were filed against the Guardians relating to its obligations under the New Zealand Superannuation and Retirement Income Act and application of its responsible investment framework in regard to entities that source phosphate from or operate in the Western Sahara. We do not accept these allegations.

CLIMATE CHANGE REGULATION

A diverse and growing regulatory response to climate change is discernible, both in New Zealand and abroad. These include increases in climate change-related litigation globally, new requirements for disclosure of climate change-related risks for Crown entities (including Crown Financial Institutions like the Guardians) and the increasing relevance of climate change considerations in corporate governance more generally.

Taken together, the impact of regulatory responses to climate change has the potential to be significant. We continue to monitor developments in this area and evaluate opportunities to submit on regulatory consultations of relevance to our activities.

SUBMISSIONS

During the year, we made the following submissions:

- submission to the Ministry for the Environment on their discussion document on action on agricultural emissions;
- joint submission to the US Department of Treasury on proposed regulations under section 897(1) (FIRPTA);
- joint submission to the OECD on its Public Consultation Document Global Anti-Base Erosion Proposal ('GloBE') - Pillar Two;
- submission to the Ministry for the Environment and the Ministry of Business, Innovation and Employment on the Climate-Related Financial Disclosures Discussion Document; and
- submission to the Commission for Financial Capability's 2019 Review of Retirement Income Policies.

Copies of our submissions can be viewed at: www.nzsuperfund.nz/publications/submissions/.

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We are committed to understanding and managing the environmental impact of our activities.

Today, significant activity is underway 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 concerns 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 our engagement with the organisations we invest in. See the Responsible Investment Report that begins on page 58 for more information.

Our environmental performance falls under the remit of the Health, Safety, Security and Environment (HSSE) Committee. This Committee aims to improve staff awareness about the environmental impact of our activities and sets achievable targets for minimising this impact.

In 2018, as recommended by the HSSE, we introduced a new natural environment statement and accompanying schedule into our Human Resources Policy. The statement outlines our commitment to understanding and managing the environmental impact of our activities in an effort to safeguard our natural environment. As all staff must complete regular policy attestations, the addition of the statement both further ingrains our commitment to the environment into our operations and keeps our environmental impact at the forefront of our team's minds.

The measures set out in this section are the greenhouse gas emissions for the corporate operations of the Guardians. They have been calculated in accordance with the ISO 14064-1:2006 GHG accounting standard, and verified by Toitū Envirocare. A verification report is available on our website here: www.nzsuperfund.nz/performance/best-practice/. 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)

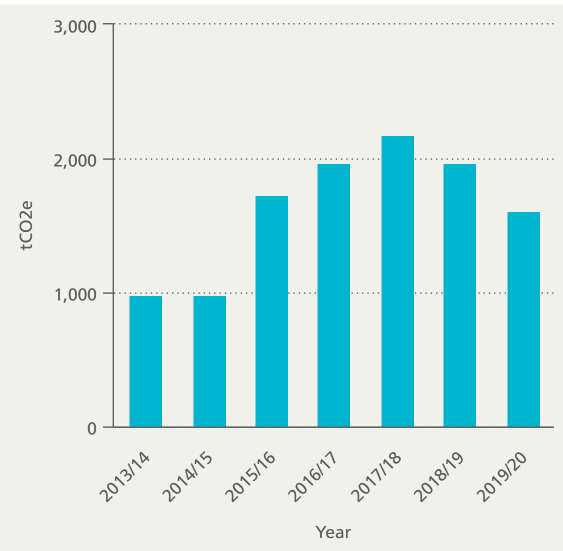
	2019/20	2018/19	2017/18
Scope 1	0	0	0
Scope 2	13t	14t	19t
Scope 3	1,604t	1,954t	2,157t
Total gross emissions	**1,617t**	**1,968t**	**2,175t**

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 - 2020



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GHG EMISSIONS BY SOURCE

		2019/20		2018/19		2017/18	
ENERGY SOURCE	**MEASURE**	**QUANTITY**	**CO_2E**	**QUANTITY**	**CO_2E**	**QUANTITY**	**CO_2E**
Electricity	kwh	130,467	12.75t	144,414	14.11t	155,772	18.61t
International air travel (long haul)	km	3,054,217	1,405.06t	3,628,306	1,703.35t	4,411,359	1,886.96t
International air travel (short haul)	km	795,356	151.60t	887,581	161.66t	1,017,052	185.68t
Domestic air travel	km	160,437	38.90t	264,621	79.37t	271,477	72.60t
Mileage (medium car) 1.6 – 2.0L	km	9,027	2.24t	4,673	1.16t	6,872	1.44t
Taxi – cost	$	69,883.12	5.22t	100,835.61	7.53t	103,832.41	6.91t
Waste to landfill *	kg	4,037.12	0.98t	4,732.92	1.15t	2,392	2.71t
TOTAL			**1,616.75t**		**1,968.33t**		**2,174.91t**

* Non-hazardous waste.

Carbon emissions produced during the 2019/20 financial year were impacted by Covid-19 related restrictions which meant we disposed of less waste, used less electricity in the office, took fewer taxis, and travelled less.

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.

The Guardians is Toitū carbonzero certified for its second 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. This offsetting activity supports projects meeting specified standards that either store, avoid or reduce greenhouse gas emissions.

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'.

We are committed to continuing to offset our carbon emissions going forward. We also aim to lower our emissions year on year in relation to the number of staff we employ and the amount of funds we manage and turn over.

TOITŪ
CARBON ZERO
ISO 14064-1 ORGANISATION

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Queenstown,
Otago

05

Statement of Performance
Te Pūrongo Whakahaere Pūtea

This Statement of Performance measures the Guardians' progress against objectives and measurements set out in the Guardians' 2014 – 2019, 2016 – 2021, 2019 - 2024 and 2020 - 2025 Statements of Intent and the 2019 – 2020 Statement of Performance Expectations.

This year, for the first time, we will report on our progress in achieving objectives set for both the NZ Super Fund and the Elevate Fund.

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. This year, appropriated funds were also applied to meet certain costs of the Guardians in the establishment of the new Elevate Fund mandate (expenditure during 2019/20 of NZD724,000 compared with budget of NZD728,000). All other costs (e.g., manager fees, staff salaries, research costs) are met by the funds, and it is these costs that 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 withdrawals 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 and, in any event, only after 30 June 2020. 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%*	+2.92%	+2.8% p.a.*	+8.08% p.a.
Actual Portfolio returns relative to Reference Portfolio (after costs)	+1.0%	-2.08%	+1.0% p.a.	+2.28% 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%	+3.82%	- 5.9% p.a.	+10.32% 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 at www.nzsuperfund.nz/how-we-invest/reference-portfolio.

** 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 2020 approximately NZD13.6 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 2020–2025 Statement of Intent, which is available at: www.nzsuperfund.nz.

OUTPUT MEASURES 2019/20

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 **www.nzsuperfund.nz**.
Investment	Actual Fund returns above Reference Portfolio (p.a, net of costs)	1.0% p.a.	Not Achieved in 2019/20.	Outcome Measures table and **www.nzsuperfund.nz**.
Cost Control	Costs relative to peers in CEM survey	Achieve a rating of 'median cost, value adding' or better.*	Cost (5 year) – Achieved. Value-Add (5 year) – Achieved.	An executive summary of the survey results, once final, will be available at **www.nzsuperfund.nz/performance/cost.**
Risk Management	In a 1-in-100 year event, potential Reference Portfolio loss	≤-30.5% p.a.	Refer to Outcome Measures table.	See page 11 in our 2020–2025 Statement of Intent.
Risk Management	Transparency ratings	10/10 in the Sovereign Wealth Fund Institute's Transparency Index; top quartile or higher ratings in other surveys.	Achieved 10/10 in the SWFI's Transparency Index. No other surveys noted.	Refer to **www.nzsuperfund.nz/transparency-reporting** 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 **www.nzsuperfund.nz/performance/best-practice** 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.	Achieved an A+ rating for Strategy and Governance in the 2019/20 UNPRI assessment.	See page 58; **www.unpri.org** and **www.nzsuperfund.co.nz** 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 www.nzsuperfund.nz/performance-esg-management/voting-reporting-platform and the Responsible Investment Report at page 63.
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 2019/20. The last independent review completed by Willis Towers Watson was in 2018/19. Response published on our website at www.nzsuperfund.nz/publications/papers-reports-reviews.	Page 76 and online at www.nzsuperfund.nz/publications/papers-reports-reviews.

Work Programme	Measure	Expected Outcome	Actual Result	Further Information
Organisational Capability	Result of organisational culture survey	Achieve the constructive benchmark in at least 2 of the 4 constructive styles in the biennial Human Synergistics OEI/OCI surveys.	Achieved.	See page 25. The Guardians has achieved the constructive benchmark by Human Synergistics' definition, which does not apply to each constructive style. Human Synergistics calculates the constructive benchmark on the basis of the median scores of 172 organisations identified as having predominantly constructive operating cultures. Organisations that average above the 60th percentile for constructive styles and below the 50th percentile for both sets of defensive styles (aggressive and passive) meet this benchmark.

* At the time of print, only a draft CEM survey report had been made available to survey participants.

STATEMENT OF PERFORMANCE - ELEVATE NZ VENTURE FUND

A further output of the Guardians, not included in the 2019/20 Statement of Performance Expectations, is managing and administering the Elevate Fund according to the high-level policy directions provided in the Policy Statement, and using best-practice investment management that is appropriate for institutional investment in those markets.

We will deliver on this output by:

- appointing New Zealand Growth Capital Partners (NZGCP) as the external fund manager for the Fund;
- 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.

The Elevate Fund is a fund-of-funds programme, managed on behalf of the Guardians by an external investment manager: NZGCP. It is our responsibility to monitor their performance in line with the best-practice approach we have developed to manage relationships with other local and international investment managers, as applicable to the New Zealand venture capital market. 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 73.

KEY 2019/20 STRATEGIC PLAN ACTIVITIES

ULTIMATE GOAL

Reducing New Zealanders' future tax burden

PERFORMANCE EXPECTATIONS

Maximise returns for the NZ Super Fund without undue risk to help reduce the tax burden on future New Zealand taxpayers of the cost of New Zealand Superannuation as measured, over rolling 20-year periods, by achieving:

- The 90-day Treasury Bill rate + 2.8% p.a. + 1% p.a. value add (with only a 1% chance of delivering a return over 20 years worse than -1.7% p.a.)

OUTPUT

MANAGING THE NZ SUPER FUND

KEY 2019/20 ACTIVITIES

Reference Portfolio	Strengthen the Guardians' Culture	Talent Life Cycle	Control Effectiveness Assessment	Remuneration Structure Review	Data Management

MEASURES

Investment	Cost control	Risk management	Governance	Organisational capability
- Reference Portfolio returns above 90-day Treasury Bills (p.a. Actual Fund returns above Reference Portfolio (p.a., net of costs). - A 1% chance of an outcome worse than that set out in the performance expectation above.	Costs comparable to peers in CEM benchmark's investment management cost survey.*	- A 1% chance of an outcome worse than that set out in the performance expectation above - Transparency ratings over time - Annual response to 'Santiago Principles' - UNPRI Assessment over time - Proxy voting reports - Annual Responsible Investment reporting	5-yearly independent review	Developing and maintaining a constructive workplace culture. Biennial Human Synergistics OEI/OCI surveys.

WORK PROGRAMME

Investment	Cost control	Risk management	Governance	Organisational capability

STRATEGIC OBJECTIVES

#1 Best Portfolio	#2 Strong External Relationships	#3 Building & maintaining a Great Team	#4 Efficiency, Scalability & Innovation

* Or equivalent ratings in equivalent surveys, bearing in mind that over 10- or 20-year periods our preferred survey methodology might change.

KEY 2019/20 STRATEGIC PLAN ACTIVITIES (CONTINUED)

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 2019/20 financial year.

THE REFERENCE PORTFOLIO REVIEW

ACHIEVED: 100% complete

WORK PROGRAMME: Investment, Cost Control

STRATEGIC PLAN OBJECTIVE: Best Portfolio

See pages 38 - 39 for more details.

STRENGTHENING THE GUARDIANS' CULTURE

ACHIEVED: Strategic activities related to culture and values are 100% complete. Work on the risk culture was 70% complete, with three work streams continuing into the 2020/21 financial year. 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

See page 25 for more information about our culture and values, and page 96 for information on the risk culture survey.

TALENT LIFE CYCLE

ACHIEVED: 100% complete

WORK PROGRAMME: Organisational Capability

STRATEGIC PLAN OBJECTIVE: Great Team, Efficiency and Innovation

See page 26 for more details.

DATA MANAGEMENT

ACHIEVED: 80% complete. Work on our data management is expected to continue over multiple years.

WORK PROGRAMME: Investment, Cost Control

STRATEGIC PLAN OBJECTIVE: Best Portfolio, Efficiency and Innovation

See page 108 for more details.

CONTROL EFFECTIVENESS ASSESSMENT

ACHIEVED: 100% complete.

WORK PROGRAMME: Risk Management, Governance

STRATEGIC PLAN OBJECTIVE: Best Portfolio, Efficiency and Innovation

See page 96 for more details.

REMUNERATION STRUCTURE REVIEW

ACHIEVED: 100% complete

WORK PROGRAMME: Organisational Capability

STRATEGIC PLAN OBJECTIVE: Great Team

See page 27 for more details.

This section sets out a complete list of the NZ Super Fund's asset and investment managers and custodians during the financial year.

The table below includes both those managers appointed by us and those who manage funds in which the NZ Super Fund is invested. It identifies where new managers 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, as at 30 June 2020.

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.

As at 30 June 2020, the Elevate NZ Venture Fund had not appointed any investment managers or custodians.

Managers appointed since 1 July 2019	Year appointed	Fund name and focus areas	Type	Value of investment NZD'm	% of Total NZSF (pre-tax)
Hillwood	2019	US Industrial Club V, LP - Industrial development assets in US	Unlisted	32	0.1%
Carlyle	2020	Carlyle FRL, L.P. Insurance runoff	Unlisted	377	0.8%
Two Sigma	2020	Two Sigma Absolute Return Macro Enhanced Fund, LP - Global macro	Listed	155	0.3%

Mandates closed since 1 July 2019	Year appointed	Fund name and focus areas	Type	Value of investment NZD'm	% of Total NZSF (pre-tax)
LSV Asset Management	2005	Segregated mandate - emerging markets equities	Listed		

Incumbent managers as at 30 June 2020	Year appointed	Fund name and focus areas	Type	Value of investment NZD'm	% of Total NZSF (pre-tax)
Adams Street Partners	2007	Adams Street Partnership Fund – 2007 Non-U.S. Fund – buyout, funds of funds	Unlisted	5	0.0%
Apollo Global Management LLC	2014	Financial Credit Investment II – US life settlements	Unlisted	190	0.4%
	2017	Financial Credit Investment III – US life settlements	Unlisted	232	0.5%
AQR Capital Management, LLC	2009	CNH Convertible Arbitrage Fund – a diverse convertible arbitrage fund	Listed	38	0.1%
	2018	Segregated mandate – multi-factor investing	Listed	2,048	4.6%
Ascribe Capital	2010	American Securities Opportunity Fund II – distressed credit	Unlisted	4	0.0%
Bain Capital	2013	Bain Capital Credit Managed Account (NZSF), L.P. - distressed credit	Unlisted	171	0.4%
BlackRock Investment Management UK	2013	Segregated mandate – passive global equities	Listed	1,849	4.1%
	2016	Global Merger Partners LLC – merger arbitrage	Listed	765	1.7%
	2020	Segregated mandate – multi-factor investing	Listed	0*	0.0%
	2020	Segregated mandate – fixed interest securities (ex Treasuries)	Listed	1,663	3.7%

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STATEMENT OF PERFORMANCE
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MANAGERS AND CUSTODIANS (CONTINUED)

Incumbent managers as at 30 June 2020	Year appointed	Fund name and focus areas	Type	Value of investment NZD'm	% of Total NZSF (pre-tax)
Bridgewater Associates	2006	Bridgewater Pure Alpha Fund II, Limited – global macro	Listed	546	1.2%
Canyon Capital Advisors	2010	Canyon Distressed Opportunities Fund (Delaware) – distressed credit	Unlisted	2	0.0%
	2016	Canyon NZ DOF Investing L.P. – distressed credit	Unlisted	295	0.7%
CIM	2019	N-Data Center Portfolio Co-Investor, LLC – US & Canadian real estate	Unlisted	104	0.2%
CITP	2011	China Infrastructure Partners V Fund – Chinese infrastructure and related investments	Unlisted	109	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	386	0.9%
Direct Capital	2005	Direct Capital Partners III – New Zealand growth capital	Unlisted	0*	0.0%
	2009	Direct Capital Partners IV – New Zealand growth capital	Unlisted	3	0.0%
	2014	George H Limited co-investment	Unlisted	1	0.0%
	2016	Direct Capital Partners Fund V – New Zealand growth capital	Unlisted	48	0.1%
	2020	TR Group Limited co-investment	Unlisted	0*	0.0%
	2020	Direct Capital Partners Fund VI – New Zealand growth capital	Unlisted	0*	0.0%
Elementum Advisers	2010	Segregated mandate - Natural catastrophe reinsurance	Unlisted	222	0.5%
FarmRight	2010	Rural land in New Zealand	Unlisted	425	0.9%
Global Forest Partners	2007	Global Timber Investors 8 - timber assets in Australia, New Zealand and South America	Unlisted	91	0.2%
	2009 & 2012	AIF Properties - Australian Timber	Unlisted	144	0.3%
	2010	Global Timber Investors 9 - timber assets in New Zealand, Australia, Asia, Africa and South America	Unlisted	35	0.1%
HarbourVest Partners	2006	HarbourVest International Private Equity Partnership V Fund - buyout, funds of funds	Unlisted	8	0.0%
H.R.L. Morrison & Co	2006	Global infrastructure mandate, which includes our investment in Retire Australia, Flow Systems, Longroad Energy and Galileo Green Energy	Listed and Unlisted	754	1.7%
	2009	Public Infrastructure Partners Fund - social infrastructure such as educational and healthcare facilities, and student accommodation	Unlisted	157	0.3%
Kohlberg Kravis Roberts (KKR)	2007	KKR Asian Fund - Asian private equity	Unlisted	1	0.0%
	2008	KKR 2006 Fund - global private equity	Unlisted	9	0.0%
	2014	KKR Energy Income and Growth Fund (EIGF) and private equity flexible mandate in North American natural gas exploration and	Unlisted	91	0.2%

Incumbent managers as at 30 June 2020	Year appointed	Fund name and focus areas	Type	Value of investment NZD'm	% of Total NZSF (pre-tax)
		production, midstream, downstream and/or energy infrastructure and services			
Leadenhall Capital Partners	2013	Natural catastrophe reinsurance	Unlisted	337	0.8%
Mint Asset Management	2015	Segregated mandate - New Zealand active equities	Listed	488	1.1%
Movac	2016	Movac Fund 4 – New Zealand growth capital	Unlisted	55	0.1%
Neuberger Berman	2018	Neuberger Berman Principal Strategies Merger Fund (NZSF), LP - merger arbitrage	Listed	350	0.8%
Northern Trust	2013	Segregated mandate - passive global equities	Listed	3,042	6.8%
	2015	Segregated mandate – passive emerging markets equities	Listed	550	1.2%
	2018	Segregated Mandate – multi-factor investing	Listed	2,792	6.2%
Pencarrow Private Equity	2011	Pencarrow IV Investment Fund – New Zealand growth capital	Unlisted	14	0.0%
Pioneer Capital Partners	2013	Pioneer Capital Partners Fund II - New Zealand growth capital	Unlisted	25	0.1%
	2016	Pioneer Capital Partners Fund III – New Zealand growth capital	Unlisted	85	0.2%
State Street Global Advisors	2009	Segregated mandate - passive global listed equities (large cap)	Listed	3,972	8.9%
		Segregated mandate - passive global listed equities (small cap)	Listed	637	1.4%
		Segregated mandate – passive emerging markets equities	Listed	933	2.1%
Waterman Capital	2010	Waterman Fund II – New Zealand growth capital	Unlisted	17	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 are awaiting funding or the managers have returned such capital that the residual balance of the mandate is less than NZD 1 million.

In addition to the above, 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.

MANAGERS AND CUSTODIANS (CONTINUED)

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 Collateral
- Active Direct
- Active NZ Equities
- Beta Implementation and Completion
- Cash
- Currency Management
- Direct Arbitrage
- Dividend Derivatives
- Event Driven Opportunity
- Infrastructure Transition Assets
- Life Settlements
- Opportunistic Volatility
- Passive NZ Equities
- Securities Lending
- Sovereign Bonds
- Strategic Tilting
- US Transition Assets
- Volatility Strategy

06

Financial Statements
Ngā Pūrongo Tahua

Explaining our financial statements

STEWART BROOKS
GENERAL MANAGER FINANCE AND RISK

This Annual Report includes three sets of financial statements: the Guardians of New Zealand Superannuation (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, including, this year, the costs for the establishment of the Elevate Fund. As a result it has a 'zero' net profit/loss for the year. It includes mainly staff salaries/costs and is prepared under 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 under International Financial Reporting Standards (IFRS). Key elements of these financial statements are discussed on the following pages.

The Elevate Fund is a new mandate for the Guardians this year. It was formed in December 2019 with the main purpose of investing in venture capital opportunities in New Zealand. The Elevate Fund is managed externally by NZ Growth Capital Partners (NZGCP), a fellow Crown entity, with a fund-of-funds model. As of 30 June 2020, the Elevate Fund was progressing with due diligence and had not yet made any investments or commitments to investments. Its financial statements therefore only reflect the recharge of overheads from the Guardians; manager fees payable to NZGCP; and the fee payable to the external auditors. The financial statements are prepared under the PBE accounting standards.

The financial statements for the Guardians are at page 130; the NZ Super Fund are at page 157; and for the Elevate Fund at page 221.

A five-year financial summary for the NZ Super Fund can be found at page 125.

Of further note, remuneration information can be found at pages 144 - 145 (Note 3(b)). This information should be read alongside the explanation of our remuneration framework on pages 101 - 105.

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NZ Super Fund Five-Year Financial Summary

	2020	2019	2018	2017	2016	
	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000	
Balance Sheet						
Cash and cash equivalents	5,408,046	2,709,203	1,356,550	2,167,742	2,135,442	Increased cash in 2020 as a result of restructuring the portfolio to improve liquidity in response to the impact of Covid-19.
Investments	39,486,309	40,242,349	37,943,023	34,403,663	27,973,626	Decreased value of investments in 2020 resulting primarily from the restructuring of the portfolio (refer to pages 32-57).
Other assets	583,564	355,835	610,120	1,184,490	310,302	Higher levels of rebalancing activity in 2020 have resulted in higher pending sales and purchases.
Other liabilities	(1,171,762)	(654,998)	(540,809)	(2,382,830)	(314,880)	
Net Assets excluding NZ income tax	**44,306,157**	**42,652,389**	**39,368,884**	**35,373,065**	**30,104,490**	
Current NZ income tax	(257,725)	(302,009)	128,151	(504,696)	(247,016)	
Deferred NZ income tax	(51,128)	(34,286)	(475,301)	(364,723)	(305,613)	
Net Assets including NZ income tax	**43,997,304**	**42,316,094**	**39,021,734**	**34,503,646**	**29,551,861**	
Contributed capital	17,842,079	16,382,079	15,382,079	14,882,079	14,882,079	Crown contributions to the Fund – suspended in 2009 and restarted in 2017.
Other reserves	26,155,225	25,934,015	23,639,655	19,621,567	14,669,782	Predominantly cumulative net profit after New Zealand tax.
Total equity	**43,997,304**	**42,316,094**	**39,021,734**	**34,503,646**	**29,551,861**	
Income Statement						
Investment income	807,059	982,887	828,623	756,432	708,141	Interest and dividend income, both of which vary in line with the amount invested and market returns.
Investment gains and losses	4,931	1,944,667	3,659,785	5,566,624	(50,103)	Changes in the value of our investments - fluctuates in line with market movements. The lower result for the 2020 year primarily due to the market impact of Covid-19.
Net Operating Income	**811,990**	**2,927,554**	**4,488,408**	**6,323,056**	**658,038**	
Expenses	(132,201)	(109,468)	(106,204)	(121,333)	(98,959)	Our biggest expense is external manager and performance fees. These cost vary from year to year in line with investment returns. The increase in costs in 2020 is primarily due to an increase in trade expenses following the restructure of the portfolio, plus higher professional advisor costs incurred through due diligence activity.
Profit before NZ income tax	**679,789**	**2,818,086**	**4,382,204**	**6,201,723**	**559,079**	
Tax (expense)/credit	(465,250)	(525,166)	(350,787)	(1,255,031)	(537,798)	The Fund makes returns to the Crown in the form of tax payments. See pages 128-129 for further discussion.
Profit after NZ income tax	**214,539**	**2,292,920**	**4,031,417**	**4,946,692**	**21,281**	

SECTION SIX
FINANCIAL STATEMENTS
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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 2019/20 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.

As at 30 June 2020 the NZ Super Fund's balance sheet totalled NZD44.0 billion, made up of NZD17.8 billion contributed by the Crown and NZD26.2 billion added by the Guardians from investing those contributions. Further to this, the NZ Super Fund has also repaid NZD7.0 billion to the Crown via tax payments since investing began.

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 2020, this figure totalled NZD44.8 billion (after adding back income tax payable, deferred tax payable, and the tax liabilities of the Fund's subsidiaries which sit within the value of its investments).

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 when they fall due; and paying suppliers (including the Guardians). During March and April 2020, in response to the volatility in global financial markets as a result of Covid-19, the Guardians restructured part of the NZ Super Fund's portfolio, selling some of its physical holdings of listed equities and obtaining the same exposures through the use of derivative financial instruments instead. This enabled the NZ Super Fund to hold greater reserves of cash, placing it in a stronger position to respond to further market changes. The results of this restructure can be seen at 30 June 2020, in particular in the increased cash balance and the reduced global equities balance on the NZ Super Fund's balance sheet.

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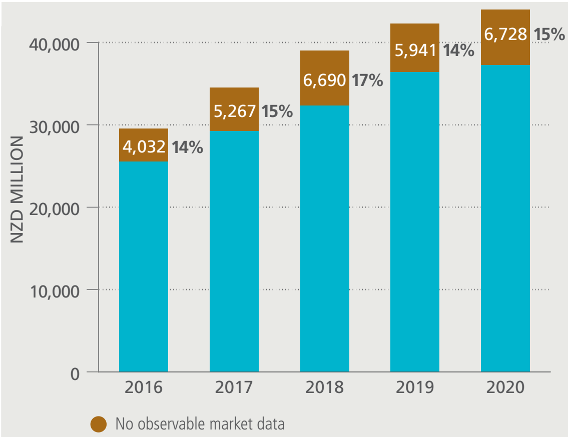
Investments and fair value

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.

The volatility seen in financial markets during the year led to significant swings in the value of the NZ Super Fund's 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 2020, by their nature, there remains a degree of uncertainty regarding their value. The NZ Super Fund's investment in assets of this type has increased 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 page 172 (Note 2(a)).

Contributions

During the year, a total of NZD1.5 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.

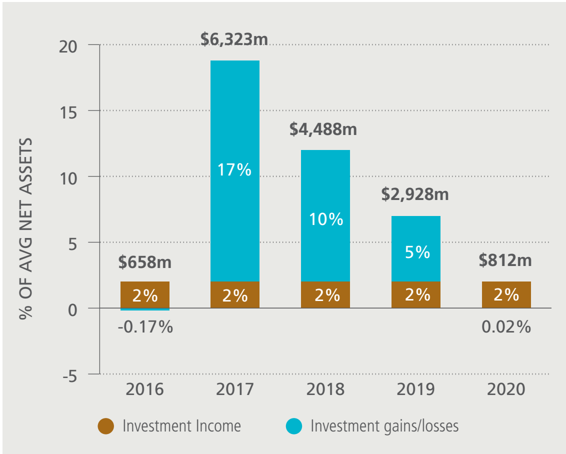
INCOME STATEMENT

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 and 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 other currencies. This balance is highly variable, driven largely by the performance of global equity markets.

In 2020 the NZ Super Fund's net operating income was NZD0.8 billion. Mark-to-market gains on the value of the NZ Super Fund's investments in particular reduced significantly from the previous year mainly due to volatility in market movements as a result of Covid-19.

Investment Income and Gains/Losses as a % of Average Net Assets



EXPENSES

MANAGEMENT FEES

$35.5m

WHAT DO THEY PAY FOR?

Payments to external managers to pay for operating costs they incur in managing the 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 had a slight increase of 0.01% to 0.09% as a % of the net assets.

PERFORMANCE FEES

$2.3m

WHAT DO THEY PAY FOR?

High performance and alignment of interests between NZSF and the external fund 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 increased in the current year to 0.01% as a % of net assets.

OTHER COSTS

$54.4m

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 conduct greater due diligence costs as well as compliance costs required to align with international regulatory and tax regimes.

CURRENT YEAR COST

Other costs were 0.12% in proportion to 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

$40.0m

WHAT DO THEY PAY FOR?

Salaries, director fees, travel costs, training and professional development.

WHY DO WE INCUR THE COST?

To prudently manage the Fund, we employ top-tier talent and often have to travel to key markets to access the best investment opportunities.

CURRENT YEAR COST

Guardians' personnel costs remained steady at 0.09% as a proportion of net assets.

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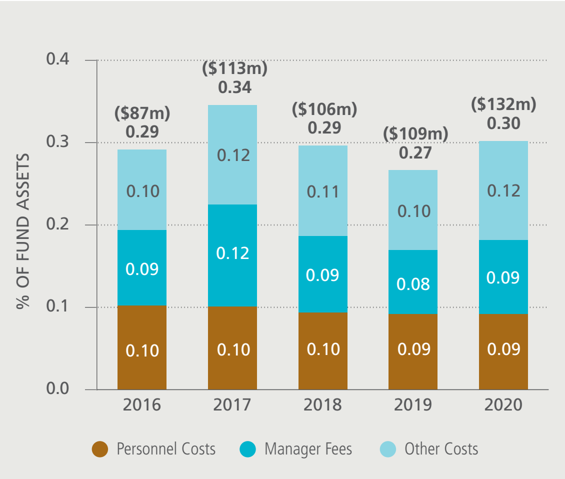
In 2020 the cost of managing the NZ Super Fund's investments was NZD132.2 million. As a percentage of net assets, total costs were 0.30%.

The movement of 0.03% in costs from prior to current year is primarily due to an increase in:

- Manager fees due to the addition of mandates (NZD6 million);
- Trade expenses following the restructure of the portfolio (NZD5 million); and
- Professional advisor costs incurred through due diligence activity for prospective investments (NZD5 million).

Cost of Managing the Fund as a % of Net Assets



The net expected return of an investment (return after taking account of all expenses) 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 115).

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 expenses. 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, however, are netted off against returns within 'Investment gains and losses'.

Indirect investment management costs, specifically manager and performance fees, for 2020 were NZD28.4 million and (NZD 2.4) million respectively.

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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 financial year.

In providing this additional information, we seek to provide 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 and therefore it is possible 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 NZD7 billion in tax to the New Zealand Government. Tax paid is considered as a return to the Crown in calculating the NZ Super Fund's performance.

The NZ Super Fund is one of the largest taxpayers in New Zealand, and its income tax expenses can be highly volatile. This is largely driven by the New Zealand tax rules for physical equity investments. 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. 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% per annum of the market value of the foreign equity investment is taxable while actual dividends received are not subject to tax.

Tax is paid on actual dividends received from New Zealand and most listed Australian equity investments.

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 graph to the right illustrates the tax volatility the NZ Super Fund has experienced over the past five years.

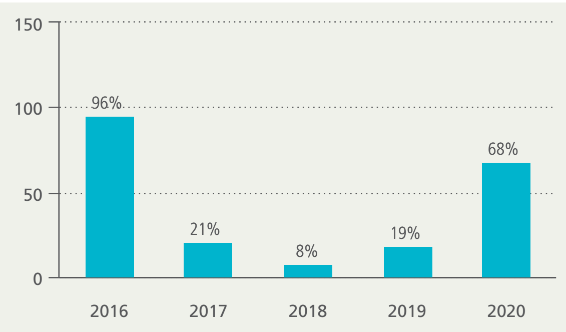
Tax Rate Volatility in a Nutshell

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 2018 and 2020 financial years illustrate both of these outcomes.

In 2019/20, the NZ Super Fund had an effective tax rate of 68% compared to 19% in 2018/19.

Fund Tax Expense as a Percentage of Net Income (Effective Tax Rate)



NEW ZEALAND

INCOME TAX PAID NZD513 million during 2019/20 year. This included payments of NZD196 million relating to FY20 and payments of NZD317 million relating to FY19.

An additional NZD320 million owing for FY20 was paid in July 2020 (at the third provisional tax due date of 28 July 2020).

OFFSHORE

WITHHOLDING TAXES NZD13 million (excludes underlying taxes paid by the NZ Super Fund's investments).

TAX GOVERNANCE

A new co-operative compliance agreement (CCA) with the New Zealand Inland Revenue Department was signed in September 2019. The agreement remains in place unless terminated by either party and applies to all mandates.

Our previously accepted submissions to the Tax Working Group (regarding tax regimes applicable to the NZ Super Fund and nationally significant infrastructure) remain on the tax policy work programme but no progress has been made that we are aware of. Both submissions are available on our website at: www.nzsuperfund.nz/submissions.

STATEMENT OF RESPONSIBILITY

For the year ended 30 June 2020

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 2020 fairly reflect the financial position, operations and cash flows of the Guardians of New Zealand Superannuation and Group.

CATHERINE SAVAGE

CHAIR
24 September 2020

CATHERINE DRAYTON

BOARD MEMBER
24 September 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

For the year ended 30 June 2020	NOTE	ACTUAL	ACTUAL	BUDGET (UNAUDITED)
		2020	2019	2020
		NZD'000	NZD'000	NZD'000
Revenue	2(a)	52,829	50,401	64,124
Expenses	2(b)	52,829	50,401	64,124
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 2020	NOTE	ACTUAL	ACTUAL	BUDGET (UNAUDITED)
		2020	2019	2020
		NZD'000	NZD'000	NZD'000
ASSETS				
Current assets				
Cash and cash equivalents	4(b)	2,588	2,560	606
Receivables from exchange transactions	4(c)	8,710	10,503	11,706
Receivables from non-exchange transactions	4(c)	55	102	-
Prepayments		521	600	-
Total current assets		**11,874**	**13,765**	**12,312**
Non-current assets				
Receivables from exchange transactions	4(c)	1,816	895	-
Total non-current assets		**1,816**	**895**	**-**
Total assets		**13,690**	**14,660**	**12,312**
LIABILITIES				
Current liabilities				
Payables under exchange transactions	4(d)	971	1,163	766
Employee entitlements	4(e)	9,891	11,504	9,920
Deferred lease incentive	4(f)	86	86	86
Total current liabilities		**10,948**	**12,753**	**10,772**
Non-current liabilities				
Employee entitlements	4(e)	1,816	895	614
Deferred lease incentive	4(f)	426	512	426
Total non-current liabilities		**2,242**	**1,407**	**1,040**
Total liabilities		**13,190**	**14,160**	**11,812**
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 2020	ACTUAL		
	GENERAL EQUITY RESERVE	ACCUMULATED COMPREHENSIVE REVENUE AND EXPENSE	TOTAL
	NZD'000	NZD'000	NZD'000
Balance at 1 July 2018	**500**	**-**	**500**
Total comprehensive revenue and expense for the year	-	-	-
Balance at 30 June 2019	**500**	**-**	**500**
Total comprehensive revenue and expense for the year	-	-	-
Balance at 30 June 2020	**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 2020	NOTE	ACTUAL	ACTUAL	BUDGET (UNAUDITED)
		2020	2019	2020
		NZD'000	NZD'000	NZD'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
Receipts from the Crown		771	579	728
Receipts from the New Zealand Superannuation Fund		52,945	49,022	59,497
Interest received		26	56	60
Goods and Services Tax		-	23	343
Other receipts		68	93	128
Total cash inflow from operating activities		**53,810**	**49,773**	**60,756**
Cash was applied to:				
Payments to Board members		(379)	(395)	(404)
Payments to suppliers		(14,025)	(13,960)	(19,843)
Payments to employees		(39,316)	(35,250)	(42,697)
Goods and Services Tax		(62)	-	-
Total cash outflow from operating activities		**(53,782)**	**(49,605)**	**(62,944)**
Net cash provided by/(used in) operating activities		**28**	**168**	**(2,188)**
Net cash provided by investing activities		**-**	**-**	**-**
Net cash provided by financing activities		**-**	**-**	**-**
Net increase/(decrease) in cash and cash equivalents		**28**	**168**	**(2,188)**
Cash and cash equivalents at the beginning of the financial year		2,560	2,392	2,794
Cash and cash equivalents at the end of the financial year	4(b)	**2,588**	**2,560**	**606**

The attached notes form part of, and should be read in conjunction with, these financial statements.

For the year ended 30 June 2020	ACTUAL	ACTUAL
	2020	2019
	NZD'000	NZD'000
RECONCILIATION OF SURPLUS/(DEFICIT) FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Surplus/(Deficit) for the year	-	-
Changes in working capital:		
(Increase)/Decrease in assets:		
Receivables and prepayments	998	(792)
Increase/(Decrease) in liabilities:		
Trade and other payables	(884)	1,046
Deferred lease incentive	(86)	(86)
Net cash provided by/(used in) operating activities	**28**	**168**

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 2020

SECTION 1: GENERAL INFORMATION, STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES

(a) General information

These are the 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 249.

The financial statements of the Guardians and Group for the year ended 30 June 2020 were authorised for issue in accordance with a resolution of the Board of the Guardians of New Zealand Superannuation on 24 September 2020.

(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 2020.

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 Board and management reassess whether or not the Guardians controls an entity 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 2020 %	OWNERSHIP INTEREST 2019 %
New Zealand Superannuation Fund Nominees Limited	(i)	30 June	New Zealand	100.0	100.0
NZSF Timber Investments (No 1) Limited	(i)	30 June	New Zealand	100.0	100.0
NZSF Private Equity Investments (No 1) Limited	(i)	30 June	New Zealand	100.0	100.0
NZSF Rural Investments (No 1) Limited	(i)	30 June	New Zealand	100.0	100.0
NZSF Aotea Limited	(ii)	30 June	New Zealand	100.0	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) The principal activity of NZSF Aotea Limited is to hold 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2020

SECTION 1: GENERAL INFORMATION, STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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

The Guardians has applied PBE IPSAS 34-38 for the first time in these financial statements. These standards replace the existing standards for interests in other entities. There have been no material changes as a result of the adoption of these standards. All other accounting policies have been applied consistently throughout these financial statements.

(k) Budget figures

The budget was approved by the Board of the Guardians of New Zealand Superannuation for the year ended 30 June 2020. The budget figures are unaudited.

SECTION 2: FINANCIAL PERFORMANCE

(a) Revenue

	NOTE	ACTUAL 2020 NZD'000	ACTUAL 2019 NZD'000
Revenue from exchange transactions			
Cost reimbursement from the New Zealand Superannuation Fund	3(a)	51,715	49,671
Cost reimbursement from the Elevate NZ Venture Fund	3(a)	274	-
Other revenue		90	90
Interest income - financial assets at amortised cost		26	56
		52,105	**49,817**
Revenue from non-exchange transactions			
Appropriations from the Crown	3(a)	724	584
		724	**584**
Total revenue		**52,829**	**50,401**

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.

SECTION 2: FINANCIAL PERFORMANCE (CONTINUED)

(b) Expenses

	ACTUAL 2020 NZD'000	ACTUAL 2019 NZD'000
Employee entitlements and other employment-related expenses		
Employee benefits (including salaries, annual leave and long service leave) and other employment-related expenses	30,440	26,125
Employee incentive scheme	6,869	8,904
Employer contributions to KiwiSaver	2,694	2,603
	40,003	**37,632**

Further disclosures on employee entitlements are contained in Note 4(e).

	NOTE	ACTUAL 2020 NZD'000	ACTUAL 2019 NZD'000
Other expenses			
Travel and accommodation expenses		1,508	2,159
IT expenses		5,962	5,282
Operating lease expenses		1,140	1,137
Professional fees		1,027	818
Board members' fees	3(a)	379	395
Auditor's remuneration	2(c)	50	50
Other expenses		2,760	2,928
		12,826	**12,769**
Total expenses		**52,829**	**50,401**

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 6 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 2020 NZD'000	ACTUAL 2019 NZD'000
Audit of the Guardians financial statements	50	50
	50	**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 audited individual financial statements.

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 2020, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2019: $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 2020 were $724,000 (2019: $584,000). The related party receivable from the Crown as at 30 June 2020 is $55,000 (2019: $102,000).

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 2020 was $51,715,000 (2019: $49,671,000). The related party receivable from the NZ Super Fund as at 30 June 2020 is $9,919,000 (2019: $11,149,000).

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 2020 was $274,000 (2019: $nil). The related party receivable from the Elevate Fund as at 30 June 2020 is $274,000 (2019: $nil).

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 $1,998,000 for the year ended 30 June 2020 (2019: $1,731,000). The related party payable to these entities as at 30 June 2020 is $41,000 (2019: $116,000).

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 (2019: 7 employees).

The compensation of the Board and the Leadership Team is set out below:

	ACTUAL 2020 NZD'000	ACTUAL 2019 NZD'000
Leadership team		
Employee benefits (including salaries, annual leave and long service leave)	3,334	2,908
Employee incentive scheme	1,182	1,614
	4,516	**4,522**
Board members' fees		
Board members earned the following fees during the year:		
C Savage (Chair)	93	98
L Wright (Deputy Chair) (retired 31 October 2018)	-	20
H Berkman (appointed 1 October 2018)	47	37
S Botherway (appointed 1 August 2018)	47	45
C Drayton (appointed 1 November 2018)	51	36
S Moir	47	49
D Pearce	47	49
J Williamson	47	49
C Ansley (retired 30 September 2018)	-	12
	379	**395**

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 Chair of the Audit Committee (a further $4,900). The Board opted for a 20% reduction in Board members' fees for the period 1 April 2020 to 30 June 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 2020

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 101 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	NUMBER OF EMPLOYEES	NUMBER OF EMPLOYEES	TOTAL REMUNERATION RANGE	NUMBER OF EMPLOYEES	NUMBER OF EMPLOYEES
NZD'000	2020	2019	NZD'000	2020	2019
100 - 110	13	5	100 - 110	6	8
110 - 120	9	6	110 - 120	7	10
120 - 130	5	6	120 - 130	10	3
130 - 140	6	8	130 - 140	7	5
140 - 150	5	8	140 - 150	5	3
150 - 160	6	1	150 - 160	5	3
160 - 170	5	6	160 - 170	5	2
170 - 180	6	7	170 - 180	4	9
180 - 190	6	2	180 - 190	5	1
190 - 200	8	1	190 - 200	5	4
200 - 210	3	8	200 - 210	4	9
210 - 220	4	7	210 - 220	5	2
220 - 230	13	9	220 - 230	5	3
230 - 240	6	5	230 - 240	3	1
240 - 250	1	2	240 - 250	2	2
250 - 260	2	3	250 - 260	6	5
260 - 270	4	4	260 - 270	2	2
270 - 280	4	2	270 - 280	1	1
280 - 290	2	2	280 - 290	4	1
290 - 300	1	1	290 - 300	4	-
300 - 310	3	2	300 - 310	4	5
310 - 320	-	-	310 - 320	5	3
320 - 330	-	1	320 - 330	3	7
330 - 340	1	-	330 - 340	2	-
340 - 350	1	1	340 - 350	1	3
350 - 360	-	-	350 - 360	4	2
360 - 370	-	1	360 - 370	3	1
370 - 380	1	1	370 - 380	1	4
380 - 390	1	2	380 - 390	-	2
390 - 400	2	2	390 - 400	2	-
400 - 410	1	-	400 - 410	-	2

ACTUAL					
BASE REMUNERATION RANGE NZD'000	NUMBER OF EMPLOYEES 2020	NUMBER OF EMPLOYEES 2019	TOTAL REMUNERATION RANGE NZD'000	NUMBER OF EMPLOYEES 2020	NUMBER OF EMPLOYEES 2019
410 - 420	-	1	410 - 420	1	1
420 - 430	1	1	420 - 430	-	1
430 - 440	1	-	430 - 440	-	3
450 - 460	-	-	450 - 460	1	-
460 - 470	-	-	460 - 470	-	1
490 - 500	-	-	490 - 500	1	-
500 - 510	1	1	500 - 510	1	-
510 - 520	-	-	510 - 520	1	1
520 - 530	-	-	520 - 530	1	-
530 - 540	-	-	530 - 540	1	-
550 - 560	-	-	550 - 560	-	1
560 - 570	-	-	560 - 570	1	-
570 - 580	-	-	570 - 580	1	-
580 - 590	1	1	580 - 590	-	-
590 - 600	-	-	590 - 600	-	2
600 - 610	-	-	600 - 610	-	2
610 - 620	-	-	610 - 620	-	1
620 - 630	-	1	620 - 630	-	-
630 - 640	1	-	630 - 640	-	2
650 - 660	-	-	650 - 660	-	1
660 - 670	-	-	660 - 670	1	-
700 - 710	-	-	700 - 710	1	-
780 - 790	-	-	780 - 790	-	1
850 - 860	-	-	850 - 860	1	-
980 - 990	-	-	980 - 990	-	1
	124	**108**		**132**	**121**

There were no redundancy and severance payments during the year ended 30 June 2020 (2019: one payment for one individual who resigned during the year and one payment for one individual who was made redundant, totalling $120,093).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2020

SECTION 4: FINANCIAL POSITION

(a) Financial instruments

		ACTUAL		
2020	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)	2,588		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**
2019				
Financial assets				
Cash and cash equivalents	4(b)	2,560		2,560
Receivables from exchange transactions (excluding GST receivable)	4(c)	10,267		10,267
Receivables from non-exchange transactions	4(c)	102		102
		12,929	**-**	**12,929**
Financial liabilities				
Payables under exchange transactions	4(d)		1,163	1,163
		-	**1,163**	**1,163**

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 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 2020 NZD'000	ACTUAL 2019 NZD'000
Current receivables			
Receivables from exchange transactions			
Receivable for reimbursement of the Guardians expenses from the New Zealand Superannuation Fund	3(a)	8,103	10,254
Receivable for reimbursement of the Guardians expenses from the NZ Venture Capital Fund	3(a)	274	-
Trade receivables		35	13
GST receivable		298	236
		8,710	**10,503**
Receivables from non-exchange transactions			
Receivable for Crown appropriations	3(a)	55	102
		55	**102**
Non-current receivables			
Receivables from exchange transactions			
Receivable for reimbursement of the Guardians expenses from the New Zealand Superannuation Fund	3(a)	1,816	895
		1,816	**895**

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 2020 NZD'000	ACTUAL 2019 NZD'000
Payables under exchange transactions		
Trade payables	653	831
Accrued expenses	318	332
	971	**1,163**

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 2020 NZD'000	ACTUAL 2019 NZD'000
Current liabilities		
Accrued salaries (including annual leave and long service leave) - key management personnel	363	312
Accrued salaries (including annual leave and long service leave) - other employees	2,524	1,739
Incentives - key management personnel	1,105	1,649
Incentives - other employees	5,899	7,804
	9,891	**11,504**
Non-current liabilities		
Long service leave - key management personnel	120	65
Long service leave - other employees	932	479
Incentives - key management personnel	167	92
Incentives - other employees	597	259
	1,816	**895**

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.

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 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 Group manages 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 6 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 Group ensures it receives a fair market return on its cash position but it does not actively monitor exposure to interest rates or interest rate returns.

SENSITIVITY ANALYSIS

As at 30 June 2020, 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 $26,000 (2019: $26,000) 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- as at 30 June 2020 (2019: 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 management 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2020

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	
2020	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	FINANCIAL ASSETS AT VARIABLE INTEREST RATE
	%	NZD'000
Financial assets		
Cash and cash equivalents	0.60	2,588
		2,588
2019		
Financial assets		
Cash and cash equivalents	1.46	2,560
		2,560

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 2020 NZD'000	ACTUAL 2019 NZD'000
Less than 1 year	1,292	1,268
1 to 2 years	1,293	1,292
2 to 5 years	4,009	3,957
Later than 5 years	1,353	2,698
Total operating lease commitments	**7,947**	**9,215**

CONTINGENCIES

The Guardians has no contingent liabilities as at 30 June 2020 (2019: nil).

(b) Events after the reporting date

There were no reportable events after balance date.

(c) Comparison to budget (unaudited)

	ACTUAL 2020 NZD'000	BUDGET (UNAUDITED) 2020 NZD'000	FAVOURABLE/ (UNFAVOURABLE) VARIANCE 2020 NZD'000
Consolidated Statement of Comprehensive Revenue and Expense: total expenses incurred*	52,829	64,124	11,295
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.

Building a better working world

Independent Auditor's Report

TO THE READERS OF THE GUARDIANS OF NEW ZEALAND SUPERANNUATION'S GROUP FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION

FOR THE YEAR ENDED 30 JUNE 2020

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 2020, 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 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 118.

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 2020; 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 Tier 1 Public Benefit Entity Accounting Standards; and
- The performance information on pages 114 to 118:
  - Presents fairly, in all material respects, the Group's performance for the year ended 30 June 2020, 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 2020. This is the date at which our opinion is expressed.

The basis of 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 OF 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 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 Tier 1 Public Benefit Entity Accounting Standards. The Board is responsible for such internal control as it determines necessary to enable it 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.

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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, 119 to 130, 157, 221 and 240 to 249, 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 interest 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 2020

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 2020 fairly reflect the financial position, operations and cash flows of the New Zealand Superannuation Fund.

CATHERINE SAVAGE

CHAIR
24 September 2020

MATTHEW WHINERAY

CHIEF EXECUTIVE OFFICER
24 September 2020

STATEMENT OF FINANCIAL POSITION

As at 30 June 2020	NOTE	ACTUAL	ACTUAL	BUDGET (UNAUDITED)
		2020	2019	2020
		NZD'000	NZD'000	NZD'000
ASSETS				
Cash and cash equivalents	2(a), 4(a), 4(b)	5,723,737	2,357,277	4,406,201
Cash pledged as collateral	2(a), 4(a), 4(c)	1,335,069	516,122	568,415
Trade and other receivables	2(a), 4(a), 4(d)	557,378	335,962	1,192,993
Investments				
Investments - derivative financial instrument assets	2(a), 4(a), 4(e)	2,328,522	858,857	-
Investments - other financial assets	2(a), 4(a), 4(e)	33,422,243	35,855,754	37,800,427
Investments in unconsolidated subsidiaries	2(a), 4(a), 4(e)	4,512,489	4,040,894	4,950,675
		40,263,254	40,755,505	42,751,102
Property, plant and equipment	2(a)	1,803	1,859	1,093
Intangible assets	2(a)	24,383	18,014	19,063
Total assets		**47,905,624**	**43,984,739**	**48,938,867**
LIABILITIES				
Cash collateral received	2(a), 4(a), 4(c)	1,650,760	164,196	2,229,379
Trade and other payables	2(a), 4(a), 4(g)	1,171,762	654,998	482,081
Investments - derivative financial instrument liabilities	2(a), 4(a), 4(e)	776,945	513,156	-
Income tax payable	2(a)	257,725	302,009	174,843
Provision for performance-based fees	2(a), 5(a)	-	-	23,728
Deferred tax liability	2(a), 7(e)	51,128	34,286	84,733
Total liabilities		**3,908,320**	**1,668,645**	**2,994,764**
Net assets		**43,997,304**	**42,316,094**	**45,944,103**
PUBLIC EQUITY				
Retained surplus		26,136,370	25,921,831	28,048,235
Asset revaluation reserve	6(b)	18,855	12,184	13,788
Contributed capital	6(a)	17,842,079	16,382,079	17,882,080
Total public equity		**43,997,304**	**42,316,094**	**45,944,103**

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 2020	NOTE	ACTUAL	ACTUAL	BUDGET (UNAUDITED)
		2020	2019	2020
		NZD'000	NZD'000	NZD'000
Net operating income	7(a)	811,990	2,927,554	3,869,686
Operating expenditure	7(c)	132,201	109,468	165,396
Profit for the year before income tax expense		**679,789**	**2,818,086**	**3,704,290**
Income tax expense	7(e)	465,250	525,166	889,163
Profit for the year after income tax expense		**214,539**	**2,292,920**	**2,815,127**
Other comprehensive income - not reclassifiable to profit or loss in subsequent periods				
Gains/(losses) on revaluation of assets		6,671	1,440	-
Tax expense on items of other comprehensive income	7(e)	-	-	-
Other comprehensive income for the year, net of tax		**6,671**	**1,440**	**-**
Total comprehensive income for the year		**221,210**	**2,294,360**	**2,815,127**

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 2020

	NOTE	ASSET REVALUATION RESERVE NZD'000	CONTRIBUTED CAPITAL NZD'000	RETAINED SURPLUS NZD'000	TOTAL NZD'000
Balance at 1 July 2018		**10,744**	**15,382,079**	**23,628,911**	**39,021,734**
Profit for the year				2,292,920	2,292,920
Other comprehensive income		1,440			1,440
Tax expense on items of other comprehensive income		-			-
Total comprehensive income for the year		1,440	-	2,292,920	2,294,360
Fund capital contributions from the Crown	6(a)		1,000,000		1,000,000
Capital contributions from the Crown in respect of funding the net cost of New Zealand superannuation entitlements	6(a)		14,562,000		14,562,000
Capital withdrawals by the Crown in respect of funding the net cost of New Zealand superannuation entitlements	6(a)		(14,562,000)		(14,562,000)
Balance at 30 June 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**

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 2020	NOTE	ACTUAL	ACTUAL	BUDGET (UNAUDITED)
		2020	2019	2020
		NZD'000	NZD'000	NZD'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
Proceeds from sale of investments		35,427,214	15,551,493	31,416,915
Cash collateral received		16,165,463	10,334,140	-
Dividends received		556,162	676,622	607,679
Interest received		258,089	314,378	328,401
Other income		5,712	-	-
Total cash inflow from operating activities		**52,412,640**	**26,876,633**	**32,352,995**
Cash was applied to:				
Purchases of investments		(34,339,772)	(16,102,770)	(32,184,368)
Cash collateral paid		(15,497,846)	(10,542,760)	-
Managers' fees		(37,529)	(45,785)	(40,690)
Payments to suppliers		(85,519)	(67,580)	(129,312)
Income tax paid		(508,457)	(55,019)	(1,171,582)
Goods and Services Tax		(3,916)	(4,174)	-
Total cash outflow from operating activities		**(50,473,039)**	**(26,818,088)**	**(33,525,952)**
Net cash provided by/(used in) operating activities	7(f)	**1,939,601**	**58,545**	**(1,172,957)**
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash was provided from:				
Proceeds from sale of property, plant and equipment		31	21	-
Total cash inflow from investing activities		**31**	**21**	**-**
Cash was applied to:				
Purchases of property, plant and equipment		(585)	(226)	(303)
Purchases of intangible assets		(60)	(397)	(816)
Total cash outflow from investing activities		**(645)**	**(623)**	**(1,119)**
Net cash provided by/(used in) investing activities		**(614)**	**(602)**	**(1,119)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash was provided from:				
Fund capital contributions from the Crown		1,460,000	1,000,000	1,500,000
Net cash provided by/(used in) financing activities		**1,460,000**	**1,000,000**	**1,500,000**
Net increase/(decrease) in cash and cash equivalents		**3,398,987**	**1,057,943**	**325,924**
Cash and cash equivalents at the beginning of the financial year		2,357,277	1,238,880	4,080,277
Effects of exchange rate changes on the balance of cash held in foreign currencies		(32,527)	60,454	-
Cash and cash equivalents at the end of the financial year	2(a), 4(a), 4(b)	**5,723,737**	**2,357,277**	**4,406,201**

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 2020

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 249.

The financial statements of the NZ Super Fund for the year ended 30 June 2020 were authorised for issue in accordance with a resolution of the Board of the Guardians of New Zealand Superannuation on 24 September 2020.

(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 2020. 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

There has been significant volatility in financial markets during the year ended 30 June 2020 due to the Covid-19 global pandemic. As at 30 June 2020, financial markets had largely recovered to pre-Covid-19 levels, however, whilst the pandemic persists, there remains significant uncertainty about certain judgements and estimates used in the valuation of investments at that date and the extent of financial impact that the volatility in financial markets will have on the determination of fair value in future periods.

Refer to Note 2(a), 2(b), 2(e) and Note 8(b) 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 Board and management reassess whether or not the NZ Super Fund controls an entity 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.

SECTION 1: GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The NZ Super Fund has interests in the following unconsolidated subsidiaries:

				OWNERSHIP INTEREST	
NAME	NOTE	BALANCE DATE	COUNTRY OF INCORPORATION	2020 %	2019 %
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	97.6
Global Merger Partners LLC	(ii)	31 December	Delaware, US	99.3	98.4
Global Merger Partners Master Limited	(ii)	31 December	Cayman Islands	68.4	80.9
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
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	89.8	81.3
Palgrove Land Holdings Trust	(iii)	30 June	Australia	93.7	91.0
Palgrove Pastoral Co. Pty Limited	(ii)	30 June	Australia	89.8	81.3
NZSF Beachlands Limited	(ii)	30 June	New Zealand	100.0	0.0
Beachlands South GP Limited	(ii)	30 June	New Zealand	77.5	0.0
Beachlands South Limited Partnership	(ii)	30 June	New Zealand	77.5	0.0
NZSF Frontier Investments, Inc.	(ii)	30 June	Delaware, US	100.0	100.0
NZSF Horticulture Investments Limited	(ii)	30 June	New Zealand	100.0	100.0
NZSF Hotel Holdings Limited	(ii)	30 June	New Zealand	100.0	0.0
NZ Hotel 396 Queen Asset GP Limited	(ii)	30 June	New Zealand	80.0	0.0
NZ Hotel 396 Queen Asset Limited Partnership	(ii)	30 June	New Zealand	80.0	0.0
NZ Hotel Cashel Street Asset GP Limited	(ii)	30 June	New Zealand	80.0	0.0
NZ Hotel Cashel Street 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	0.0
NZ Hotel CNI Asset Limited Partnership	(ii)	30 June	New Zealand	80.0	0.0
NZ Hotel Holdings Asset GP Limited	(ii)	30 June	New Zealand	80.0	0.0
NZ Hotel Holdings Asset Limited Partnership	(ii)	30 June	New Zealand	80.0	0.0
NZ Hotel Quba Asset GP Limited	(ii)	30 June	New Zealand	80.0	0.0
NZ Hotel Quba Asset Limited Partnership	(ii)	30 June	New Zealand	80.0	0.0
NZSF Infrastructure Limited	(ii)	30 June	New Zealand	100.0	0.0
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
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

NAME	NOTE	BALANCE DATE	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST 2020 %	2019 %
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 22 Segregated Accounts of Bermudan-domiciled Segregated Account Company Horseshoe Re II Limited (2019: 19 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 FIV's:

NZSF Beachlands Limited was incorporated during the year for the purpose of holding, facilitating and managing the NZ Super Fund's investment in Beachlands South Limited Partnership, a limited partnership established to acquire, hold and maintain certain land assets in Beachlands, Auckland.

NZSF Hotel Holdings Limited and its subsidiaries were formed during the year for the purpose of holding, facilitating and managing the NZ Super Fund's investment in a portfolio of hotels in New Zealand.

NZSF Infrastructure Limited was incorporated during the year for the purpose of holding, facilitating and managing the NZ Super Fund's investment 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.

(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 2020, 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).

Key judgement – assessment of control

The Board and management have assessed the NZ Super Fund's investments in subsidiaries 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2020

SECTION 1: GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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:

			OWNERSHIP INTEREST	
NAME	BALANCE DATE	COUNTRY OF INCORPORATION	2020 %	2019 %
Fidelity Life Assurance Company Limited	30 June	New Zealand	41.1	41.1
Galileo Green Energy GMBH	31 March	Switzerland	20.0	0.0
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	0.0
Sustainable Communities Infrastructure Trust	30 June	Australia	30.0	0.0

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.

On 4 February 2020, the NZ Super Fund acquired a 20% interest in Galileo Green Energy GMBH. 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 the shareholder loan 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 the shareholder loan is classified as fixed income securities.

On 24 July 2019, the NZ Super Fund acquired a 30% interest in Sustainable Communities Infrastructure Pty Limited (the Trustee) and Sustainable Communities Infrastructure Trust. The Trust was established to acquire shares in Flow Systems Pty Limited and and 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 RBNZ, under revised Conditions of Registration, banned locally incorporated banks from making distributions to common equity shareholders. As a result of these restrictions, Kiwibank is unable to make distributions 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 further notice, with the aim of relaxing them when NZ’s economic outlook has sufficiently recovered. As at 30 June 2020, 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 Board and management have assessed the NZ Super Fund's investments in associates 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	2020 %	2019 %
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 Hotel Holdings Management GP Limited	30 June	New Zealand	50.0	0.0
NZ Hotel 396 Queen Management GP Limited	30 June	New Zealand	50.0	0.0
NZ Hotel Cashel Street Management GP Limited	30 June	New Zealand	50.0	0.0
NZ Hotel CNI Management GP Limited	30 June	New Zealand	50.0	0.0
NZ Hotel Quba Management GP Limited	30 June	New Zealand	50.0	0.0
NZ Hotel Holdings Management Limited Partnership	30 June	New Zealand	50.0	0.0
NZ Hotel 396 Queen Management Limited Partnership	30 June	New Zealand	50.0	0.0
NZ Hotel Cashel Street Management Limited Partnership	30 June	New Zealand	50.0	0.0
NZ Hotel CNI Management Limited Partnership	30 June	New Zealand	50.0	0.0
NZ Hotel Quba Management Limited Partnership	30 June	New Zealand	50.0	0.0
NZ Infra Limited	31 December	New Zealand	50.0	0.0
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.

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.

SECTION 1: GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 during the year. 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. 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 during the year 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 2020, 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.

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.

Further disclosures on structured entities are contained in Notes 3(e) and 7(b).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2020

SECTION 1: GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 operating cash flows.

(m) Changes in accounting policies

The NZ Super Fund has applied NZ IFRS 16 Leases for the first time in these financial statements. The nature and effect of changes as a result of the adoption of this new accounting standard are described in Note 1(n). There have been no other changes in accounting policies during the year.

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) New and amended standards adopted

NZ IFRS 16 LEASES

NZ IFRS 16 Leases sets out the principles for the recognition, measurement, presentation and disclosure of leases. It removes the current distinction between operating and financing leases and requires lessees to recognise most leases on the balance sheet.

The adoption of NZ IFRS 16 Leases has had no impact on recognition or measurement in the NZ Super Fund's financial statements. Although the NZ Super Fund meets the cost of leasehold improvements in relation to the lease of office premises at 21 Queen Street, Auckland, the NZ Super Fund is not the legal party to this lease and therefore this lease is not recognised in the NZ Super Fund's financial statements.

(o) 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 2020.

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 significant uncertainty about certain judgements and estimates used due to the ongoing Covid-19 pandemic and its impact on the volatility of financial markets. In particular, certain unobservable valuation inputs used may be less reliable e.g. where fair value is determined using valuation models based on the price of recent and comparable transactions.

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.

The fair value of the NZ Super Fund's assets and liabilities are categorised as follows:

		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
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
Variance swaps	4(e)		-		-		-
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 - bonds	4(e)		-		-		-
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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2020

SECTION 2: FAIR VALUE (CONTINUED)

		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
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.

		ACTUAL					
2019	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)				-	2,357,277	2,357,277
Cash pledged as collateral	4(a), 4(c)				-	516,122	516,122
Trade and other receivables	4(a), 4(d)				-	335,962	335,962
Investments							
Derivative financial instrument assets:							
Forward foreign exchange contracts	4(e)		493,777		493,777		493,777
Cross currency swaps	4(e)		9,742		9,742		9,742
Variance swaps	4(e)		471		471		471
Longevity contingent swaps	4(e)			44,045	44,045		44,045
Futures contracts	4(e)				-		-
Total return swaps - equity	4(e)		242,139		242,139		242,139
Total return swaps - bonds	4(e)		2		2		2
Total return swaps - commodities	4(e)		6,172		6,172		6,172
Credit default swaps	4(e)		15,077		15,077		15,077
Interest rate swaps	4(e)		47,432		47,432		47,432
Warrants	4(e)				-		-
Other over-the-counter swaps	4(e)				-		-
Total derivative financial instrument assets		-	814,812	44,045	858,857	-	858,857
Other financial assets:							
Listed New Zealand equities	4(a), 4(e)	1,902,246			1,902,246		1,902,246
Listed global equities	4(a), 4(e)	22,326,216	66,052	4,081	22,396,349		22,396,349
Fixed income securities	4(a), 4(e)		5,944,115	124,198	6,068,313	1,923,018	7,991,331
Collective investment funds	4(a), 4(e)	-	708,389	626	709,015		709,015
Reverse repurchase agreements	4(a), 4(e)				-	-	-
Securities on loan under securities lending and similar agreements	4(a), 4(e)	5,856	-		5,856		5,856
Insurance-linked investments	4(a), 4(e)		83,699		83,699		83,699
Private equity	4(a), 4(e)			2,767,258	2,767,258		2,767,258
Total other financial assets		24,234,318	6,802,255	2,896,163	33,932,736	1,923,018	35,855,754
Investments in unconsolidated subsidiaries	4(a), 4(e)		1,040,345	3,000,549	4,040,894		4,040,894
		24,234,318	8,657,412	5,940,757	38,832,487	1,923,018	40,755,505
Property, plant and equipment					-	1,859	1,859
Intangible assets		17,434			17,434	580	18,014
Total assets		**24,251,752**	**8,657,412**	**5,940,757**	**38,849,921**	**5,134,818**	**43,984,739**

* 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)

		ACTUAL					
2019	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)				-	164,196	164,196
Trade and other payables	4(a), 4(g)				-	654,998	654,998
Derivative financial instrument liabilities:							
Forward foreign exchange contracts	4(e)		311,553		311,553		311,553
Cross currency swaps	4(e)				-		-
Variance swaps	4(e)		90		90		90
Futures contracts	4(e)				-		-
Total return swaps - equity	4(e)		61,917		61,917		61,917
Credit default swaps	4(e)		62,969		62,969		62,969
Interest rate swaps	4(e)		75,302		75,302		75,302
Other over-the-counter swaps	4(e)		1,325		1,325		1,325
Total derivative financial instrument liabilities		-	513,156	-	513,156	-	513,156
Income tax payable					-	302,009	302,009
Provision for performance-based fees	5(a)				-		-
Deferred tax liability	7(e)				-	34,286	34,286
Total liabilities		**-**	**513,156**	**-**	**513,156**	**1,155,489**	**1,668,645**

* Assets and liabilities not measured at fair value are carried at amortised cost but their carrying values are a reasonable approximation of fair value.

Assets and liabilities not measured at fair value but for which fair value is disclosed are categorised as follows:

Level 1 - Cash and cash equivalents, cash pledged as collateral and cash collateral received.

Level 2 - Trade and other receivables, fixed income securities, reverse repurchase agreements, trade and other payables, income tax receivable, payable and deferred tax liability.

Level 3 - Property, plant and equipment, intangible assets and provision for performance-based fees.

(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 have been classified within Level 2 of the fair value hierarchy and are principally determined using valuation techniques with market observable inputs. 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 instruments are classified within Level 3 of the fair value hierarchy and include longevity contingent swaps and warrants. 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 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 have been 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 have been classified within Level 3 of the fair value hierarchy.

FIXED INCOME SECURITIES

The fair value of liquid fixed income securities, including those on loan under securities lending and similar agreements, is determined based on the last quoted bid price provided by a reputable pricing vendor (being a financial data provider such as Bloomberg or Thomson Reuters) or broker at balance date and have been 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 have also been classified within Level 2 of the fair value hierarchy. For illiquid securities, because of the inherent uncertainty of valuation, it is possible that the fair values estimated may differ from those that would have been determined had a ready market for those securities existed and those differences may be significant. These securities have been classified within Level 3 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 have been 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 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 have been 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 have been 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 or the price of recent investments and have also been 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 have been 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.

SECTION 2: FAIR VALUE (CONTINUED)

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

The fair value of investments categorised within Level 1 or Level 2 of the fair value hierarchy have been impacted by increased volatility in market prices during the year ended 30 June 2020. However, as the fair value of these assets reflect market observable prices or inputs that existed at balance date, they are inherently less subjective and their valuation less uncertain than those investments categorised within Level 3 of the fair value hierarchy as at 30 June 2020.

Whilst the NZ Super Fund's investments categorised within Level 3 of the fair value hierarchy make up a minority of the overall portfolio, these investments, by their nature, are inherently more subjective and therefore more exposed to valuation uncertainty as at 30 June 2020. This category predominantly includes 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 volatility in market conditions at balance date has resulted in certain valuation inputs being less reliable e.g. where fair value is determined using valuation models based on the price of recent and comparable transactions. 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:

2020	LEVEL 1 NZD'000	ACTUAL LEVEL 2 NZD'000	LEVEL 3 NZD'000
Transfers between Levels 1, 2 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.

2019	LEVEL 1 NZD'000	ACTUAL LEVEL 2 NZD'000	LEVEL 3 NZD'000
Transfers between Levels 1 and 3:			
Listed global equities	1,086	73,850	(1,086)
Private equity	-	-	(73,850)

Listed global equities transferred to Level 1 relate to positions whose trading was suspended as at 30 June 2018 but were actively traded in the year ended 30 June 2019.

Private equity transferred to Level 2 listed global equities relates to a company that was privately held as at 30 June 2018 but was subsequently listed 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 2020 NZD'000	ACTUAL 2019 NZD'000
Opening balance	5,940,757	6,690,222
Unrealised gains and losses recognised in net fair value gains on financial instruments held at fair value through profit or loss	(109,352)	123,211
Realised gains and losses recognised in net fair value gains on financial instruments held at fair value through profit or loss	31,173	273,933
Purchases	1,217,845	723,865
Sales	(2,169)	(303,094)
Settlements	(356,762)	(476,042)
Transfers to/(from) other categories*	6,765	(1,091,338)
Closing balance	**6,728,257**	**5,940,757**

* On 30 November 2018, a former nominee company of the Guardians, NZSF Timber Investments (No 4) Limited, was restructured as a subsidiary of the NZ Super Fund and became the beneficial owner of the investment in Kaingaroa Timberlands Partnership. As part of this transaction, the NZ Super Fund provided debt funding to the subsidiary, which is held at amortised cost. As a result, the proportion of the NZ Super Fund's investment held at fair value through profit or loss was reduced.

SECTION 2: FAIR VALUE (CONTINUED)

(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			
2020	NON-MARKET OBSERVABLE INPUT	MOVEMENT	IMPACT ON FAIR VALUE MEASUREMENT	
			INCREASE	DECREASE
		%	NZD'000	NZD'000
Longevity contingent swaps	Discount rate	2	807	(770)
Listed New Zealand equities	Share price	18	-	-
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)
2019				
Longevity contingent swaps	Discount rate	2	2,395	(2,157)
Listed New Zealand equities	Share price	18	-	-
Listed global equities	Share price	23	920	(920)
Fixed income securities	Yield	12	10,731	(10,731)
Collective investment funds	Unit price	13	80	(80)
Private equity	(i)	(i)	426,736	(426,736)
Unconsolidated subsidiaries	(i)	(i)	438,151	(438,151)

(i) The NZ Super Fund's Level 3 investments that have been categorised as private equity and unconsolidated subsidiaries provide exposure to a wide variety of assets across numerous industries, and are held either directly; or via internally- or externally-managed investment vehicles.

The Board and management have assessed that the reasonably likely movement in fair value in a one-year period is: 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; 20% for insurance run-off investments; and 13% for other private equity, based on internal risk modelling. The volatility seen in financial markets during the year ended 30 June 2020 resulted in movements in excess of these percentages for certain assets. This degree of volatility is however considered unusual and, given this and the relative recovery of financial markets by 30 June 2020, the likely movements in value are still considered appropriate.

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 as a result of the Covid-19 pandemic as at 30 June 2020. 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 established 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 independent valuations of certain investments within the private equity and unconsolidated subsidiaries categories received particular attention and scrutiny from the VWG for the year ended 30 June 2020 as a result of the Covid-19 pandemic. For these investments, the valuations were reviewed in-depth and compared with internally-developed valuation models. As part of this process, management verified key valuation inputs, reviewed valuation methodologies, assessed valuation movements since the prior year and held extensive discussions with the valuers to assess the reasonableness of the valuations. In certain cases, where appropriate, management have adopted a lower valuation than recommended by the independent valuers.

Reporting from investment managers regarding externally-managed vehicles has also been scrutinised to ensure the impact of Covid-19 has been adequately considered and reflected in the valuation of the investments under their stewardship.

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.co.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.

(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.

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 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.

		ACTUAL	
2020	ONE STANDARD DEVIATION	IMPACT ON PROFIT AFTER INCOME TAX EXPENSE	
		INCREASE	DECREASE
	%	NZD'000	NZD'000
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)
2019			
New Zealand equities	18	318,436	(318,436)
Global equities*	16	4,535,802	(4,535,802)
Emerging markets equities	26	1,039,517	(1,039,517)
Private equity	20	661,701	(661,701)

* 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. These figures therefore 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; 13% for developing markets multi factor equities; and 12% for global infrastructure equities, based on internal risk modelling.

The volatility seen in financial markets during the year ended 30 June 2020 resulted in movements in excess of these percentages for certain assets. This degree of volatility is however considered unusual and, given this and the relative recovery of financial markets by 30 June 2020, the likely movements in value are still considered appropriate.

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.

SECTION 3: RISK MANAGEMENT (CONTINUED)

The table below shows effective foreign currency exposure after forward foreign exchange contracts and cross currency swaps have been taken into account.

	ACTUAL 2020 NZD'000	ACTUAL 2019 NZD'000
Australian Dollars	391,981	980,156
Brazilian Real	52,764	213,126
British Pounds	1,605,136	1,198,165
Canadian Dollars	1,012,735	799,614
Chilean Pesos	23,039	46,379
Chinese Yuan	285,570	121,614
Colombian Peso	6,986	19,561
Czech Koruna	3,627	9,994
Danish Kroner	18,822	(3,659)
Egyptian Pounds	4,577	6,519
European Union Euros	685,244	(643,196)
Hong Kong Dollars	196,875	326,421
Hungarian Forints	10,134	16,643
Indian Rupees	43,964	256,303
Indonesian Rupiahs	1,504	32,894
Israeli New Shekels	57,065	48,242
Japanese Yen	409,047	(344,783)
Malaysian Ringgits	100,383	32,246
Mexican Pesos	4,059	28,427
Norwegian Krone	(2,047)	2,453
Pakistan Rupee	906	1,241
Philippines Pesos	33,986	55,418
Polish Zloty	29,054	59,234
Qatari Rial	33,641	45,999
Russian Rubles	98,312	156,505
Saudi Riyal	109,215	69,236
Singaporean Dollars	2,934	3,524
South African Rand	14,624	193,537
South Korean Won	28,178	173,942
Swedish Kronor	55,132	11,456
Swiss Francs	(1,142,970)	(1,050,234)
Taiwanese New Dollars	43,642	136,690
Thai Baht	6,642	55,382
Turkish New Lira	17,817	24,865
United Arab Emirates Dirham	21,407	31,652
United States of America Dollars	(1,070,301)	2,098,671
	3,193,684	**5,214,237**

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.

		ACTUAL	
2020	ONE STANDARD DEVIATION	IMPACT ON PROFIT AFTER INCOME TAX EXPENSE	
		INCREASE	DECREASE
	%	NZD'000	NZD'000
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
2019			
NZD/USD	10	(151,104)	151,104
NZD/EUR	10	46,310	(46,310)
NZD/GBP	10	(86,268)	86,268
NZD/JPY	10	24,824	(24,824)
NZD/Others	10	(209,187)	209,187

The volatility seen in financial markets during the year ended 30 June 2020 resulted in movements in excess of these percentages for certain currencies. This degree of volatility is however considered unusual and, given this and the relative recovery of financial markets by 30 June 2020, the likely movements in value are still considered appropriate.

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 it's 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.

		ACTUAL	
2020	ONE STANDARD DEVIATION	IMPACT ON PROFIT AFTER INCOME TAX EXPENSE	
		INCREASE	DECREASE
	BASIS POINTS	NZD'000	NZD'000
Fixed income securities and other interest-sensitive financial instruments	50	(59,198)	59,198
2019			
Fixed income securities and other interest-sensitive financial instruments	50	40,654	(40,654)

SECTION 3: RISK MANAGEMENT (CONTINUED)

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.

(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.

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.

The following tables analyse the NZ Super Fund's concentration of credit risk 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	ACTUAL
	2020	2019
	%	%
By geography		
New Zealand	17	15
Australia	7	7
North America	46	47
Europe	12	17
Asia	16	12
Other	2	2
	100	**100**
By industry		
Basic materials	6	6
Communications	4	6
Consumer - cyclical	5	6
Consumer - non-cyclical	6	8
Energy	1	3
Financial	25	24
Funds	8	7
Government	19	7
Healthcare	7	8
Industrial	6	8
Real estate	2	2
Technology	9	10
Utilities	2	2
Other	-	3
	100	**100**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2020

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 2020 NZD'000	ACTUAL 2019 NZD'000
ANZ Bank New Zealand Limited	213,410	66,349
Bank of America	102,646	667
Bank of New Zealand	254,157	50,204
Barclays Bank PLC, New York Branch	10,311	5,473
BNP Paribas, London Branch	258,552	59,215
Citibank N.A., London Branch	404,624	2,049
Citibank N.A., New York Branch	37,493	44,519
Commonwealth Bank of Australia, Sydney Branch	168,799	64,314
Credit Suisse Securities (Europe) Limited	41,473	50,586
Deutsche Bank AG	616	-
Deutsche Bank AG, London Branch	-	2
Goldman Sachs International	108,238	135,998
The Hong Kong and Shanghai Banking Corporation Limited	81,138	67,297
JP Morgan Chase, Sydney Branch	252,261	4,939
JP Morgan Chase, London Branch	70	56,049
Morgan Stanley & Co. International PLC	191,672	106,503
Societe Generale	23,592	9,698
Standard Chartered Bank	-	862
UBS AG, Singapore Branch	27,063	72,189
Westpac Banking Corporation, Wellington Branch	152,407	61,944
	2,328,522	**858,857**

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 2020 %	ACTUAL 2019 %
AAA/Aaa	37	16
AA/aa	20	29
A/A	24	21
BBB/Baa	6	6
Other credit rating	2	1
Not rated	11	27
	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					
2020	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	5,045,897	-	-	-	-	-	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**
2019								
Cash and cash equivalents*	1.83	2,099,304	-	-	-	-	-	257,973
Cash pledged as collateral**	0.00	516,122	-	-	-	-	-	-
Fixed income securities	3.21	-	1,946,533	558,362	1,311,578	1,765,189	1,733,735	675,934
Securities on loan under securities lending and similar agreements	0.00	-	-	-	-	-	-	-
		2,615,426	**1,946,533**	**558,362**	**1,311,578**	**1,765,189**	**1,733,735**	**933,907**

* 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.

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			
2020	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	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
Collective investment funds	958,913	233,010	1,191,923	186,460,626
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**
2019				
Fixed income securities:				
Asset-backed securities	613,848	82,074	695,922	12,882,685
Mortgage-backed securities	989,473	39,607	1,029,080	21,945,176
Agency mortgage-backed securities	380,202	-	380,202	N/A**
Shareholder loans	828,142	-	828,142	2,407,170
Collective investment funds	709,015	148,887	857,902	177,114,679
Insurance-linked investments - catastrophe bonds	83,699	-	83,699	18,176,601
Private equity investment funds	1,090,095	567,369	1,657,464	16,913,838
Unconsolidated subsidiaries	4,040,894	610,856	4,651,750	4,256,778
	8,735,368	**1,448,793**	**10,184,161**	**253,696,927**

* Including the value of the NZ Super Fund's investment.
** Information is not available as the securities have not yet been issued.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2020

SECTION 4: FINANCIAL ASSETS AND LIABILITIES

(a) Financial instruments

		ACTUAL			
2020	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)		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**

2019	NOTE	ACTUAL 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)		2,357,277		2,357,277
Cash pledged as collateral	4(c)		516,122		516,122
Trade and other receivables	4(d)		335,962		335,962
Investments					
Derivative financial instrument assets	4(e)	858,857			858,857
Other financial assets:					
Listed New Zealand equities	4(e)	1,902,246			1,902,246
Listed global equities	4(e)	22,396,349			22,396,349
Fixed income securities	4(e)	6,068,313	1,923,018		7,991,331
Collective investment funds	4(e)	709,015			709,015
Reverse repurchase agreements	4(e)				-
Securities on loan under securities lending and similar agreements	4(e)	5,856			5,856
Insurance-linked investments	4(e)	83,699			83,699
Private equity	4(e)	2,767,258			2,767,258
Total other financial assets		33,932,736	1,923,018	-	35,855,754
Investments in unconsolidated subsidiaries	4(e)	4,040,894			4,040,894
Total financial assets		**38,832,487**	**5,132,379**	**-**	**43,964,866**
Financial liabilities					
Cash collateral received	4(c)			164,196	164,196
Trade and other payables	4(g)			654,998	654,998
Investments - derivative financial instrument liabilities	4(e)	513,156			513,156
Total financial liabilities		**513,156**	**-**	**819,194**	**1,332,350**

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.

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

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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 (FVPL):

- 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. 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 2020, cash of $578,109,000 (2019: $301,068,000) had been allocated and was held in Northern Trust's (the NZ Super Fund's global master custodian) custody awaiting investment by investment managers.

(c) Collateral

Collateral is pledged and received as security for financial agreements. Where an agreement between counterparties results in one party 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 party owing default, the collateral may be forfeited.

In line with standard industry practice, collateral transactions are settled in line with the relevant Credit Support Agreements (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 $490,774,000 (2019: $196,941,000). 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 liability.

Cash balances totalling $844,295,000 (2019: $319,181,000) are held in separate bank accounts lodged with the relevant futures exchange. Fixed income securities with a fair value of $nil (2019: $nil) have been lodged with a clearing broker. These cash and fixed income securities have been pledged as collateral for potential margin calls on futures with a fair value of $nil (2019: $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 $1,443,290,000 (2019: $162,613,000). 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 $207,470,000 (2019: $1,583,000). The NZ Super Fund is permitted to sell or re-pledge the collateral cash balances. At 30 June 2020, cash of $201,942,000 (2019: $nil) had been used to purchase securities under a reverse repurchase agreement. These will be returned

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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 $999,493,000 (2019: $6,040,000). The fair value of equity securities received as collateral to meet obligations under security lending and similar agreements is $1,206,289,000 (2019: $23,000). 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 $206,859,000 (2019: $nil). The fair value of equity securities received as collateral to meet obligations under a reverse repurchase agreement is $nil (2019: $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 2020 NZD'000	ACTUAL 2019 NZD'000
Trade receivables	6,240	7,830
Accrued interest	50,275	44,176
Dividends receivable	18,971	37,970
Unsettled sales	481,103	245,691
GST receivable	789	295
	557,378	**335,962**

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.

(e) Investments

	ACTUAL 2020 NZD'000	ACTUAL 2019 NZD'000
Derivative financial instrument assets:		
Forward foreign exchange contracts	945,248	493,777
Cross currency swaps	17,675	9,742
Variance swaps	-	471
Longevity contingent swaps	34,871	44,045
Futures contracts	-	-
Total return swaps - equity	1,247,483	242,139
Total return swaps - bonds	-	2
Total return swaps - commodities	11,051	6,172
Credit default swaps	28,056	15,077
Interest rate swaps	44,030	47,432
Warrants	-	-
Other over-the-counter swaps	108	-
Total derivative financial instrument assets	2,328,522	858,857
Other financial assets	33,422,243	35,855,754
Investments in unconsolidated subsidiaries	4,512,489	4,040,894
	40,263,254	40,755,505
Derivative financial instrument liabilities:		
Forward foreign exchange contracts	256,133	311,553
Cross currency swaps	26,028	-
Variance swaps	35,310	90
Futures contracts	-	-
Total return swaps - equity	193,789	61,917
Credit default swaps	49,247	62,969
Interest rate swaps	216,438	75,302
Other over-the-counter swaps	-	1,325
Total derivative financial instrument liabilities	776,945	513,156
Net investments	**39,486,309**	**40,242,349**

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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 2020, 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 three of its private equity investments.

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
	2020	2020	2019	2019
	NZD'000	NZD'000	NZD'000	NZD'000
Less than 3 months	(22,910,221)	242,632	(23,632,386)	104,531
3 to 12 months	(17,982,302)	446,483	(16,914,457)	77,693
	(40,892,523)	**689,115**	**(40,546,843)**	**182,224**

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		
2020	FOREIGN CURRENCY BUY/ SELL	NOTIONAL VALUE	FAIR VALUE
		NZD'000	NZD'000
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)**
2019			
Less than 1 year	NZD/AUD	208,963	4,878
1 to 2 years	NZD/EUR	50,866	142
2 to 5 years	NZD/EUR	339,105	1,140
	NZD/USD	511,055	1,621
5 to 10 years	NZD/USD	211,717	1,961
		1,321,706	**9,742**

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
	2020	2020	2019	2019
	NZD'000	NZD'000	NZD'000	NZD'000
Less than 1 year	3,107	(12,463)	-	-
1 to 2 years	6,214	(22,847)	2,978	(90)
2 to 5 years	-	-	2,978	471
	9,321	**(35,310)**	**5,956**	**381**

All variance swaps are settled net.

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

LONGEVITY CONTINGENT SWAPS

	ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2020	2020	2019	2019
	NZD'000	NZD'000	NZD'000	NZD'000
Later than 10 years	251,650	34,871	275,441	44,045
	251,650	**34,871**	**275,441**	**44,045**

All longevity contingent swaps are settled net.

FUTURES CONTRACTS

	ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2020	2020	2019	2019
	NZD'000	NZD'000	NZD'000	NZD'000
Equity futures	4,809,655	-	2,830,247	-
Fixed interest futures	3,739,571	-	4,069,022	-
Commodities futures	63,768	-	253,418	-
	8,612,994	**-**	**7,152,687**	**-**

The margin on futures contracts is settled daily.

TOTAL RETURN SWAPS - EQUITY

	ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2020	2020	2019	2019
	NZD'000	NZD'000	NZD'000	NZD'000
Less than 1 year	14,313,395	1,059,078	9,742,311	180,222
1 to 2 years	2,387,135	(5,384)	76,421	-
	16,700,530	**1,053,694**	**9,818,732**	**180,222**

All equity total return swaps are settled net.

TOTAL RETURN SWAPS - BONDS

	ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2020	2020	2019	2019
	NZD'000	NZD'000	NZD'000	NZD'000
Less than 1 year	-	-	348	2
	-	**-**	**348**	**2**

All bond total return swaps are settled net.

TOTAL RETURN SWAPS - COMMODITIES

	ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2020	2020	2019	2019
	NZD'000	NZD'000	NZD'000	NZD'000
Less than 1 year	87,235	9,499	169,553	6,172
1 to 2 years	87,235	1,552	-	-
	174,470	**11,051**	**169,553**	**6,172**

All commodity total return swaps are settled net.

CREDIT DEFAULT SWAPS

		ACTUAL			
		NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
		2020	2020	2019	2019
		NZD'000	NZD'000	NZD'000	NZD'000
Buy protection	Less than 1 year	2,587,185	6,391	1,082,235	(31,020)
	1 to 2 years	158,448	(759)	2,549,691	(61,666)
	2 to 5 years	7,618,354	(65,749)	2,968,274	(170,604)
	5 to 10 years	227,774	(7,808)	238,219	(6,875)
		10,591,761	**(67,925)**	**6,838,419**	**(270,165)**
Sell protection	Less than 1 year	2,553,786	(6,215)	967,394	29,286
	1 to 2 years	135,147	1,013	2,509,864	56,754
	2 to 5 years	8,130,694	37,492	2,021,843	122,817
	5 to 10 years	6,924,783	14,444	3,038,823	13,416
		17,744,410	**46,734**	**8,537,924**	**222,273**

All credit default swaps are settled net.

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

INTEREST RATE SWAPS

	ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2020	2020	2019	2019
	NZD'000	NZD'000	NZD'000	NZD'000
Less than 1 year	195,348	(5,967)	134,344	(2,121)
1 to 2 years	245,000	(8,877)	195,224	(8,592)
2 to 5 years	499,942	(28,003)	974,000	(17,094)
5 to 10 years	241,000	(14,112)	671,777	(17,020)
Later than 10 years	1,743,635	(115,449)	1,600,867	16,957
	2,924,925	**(172,408)**	**3,576,212**	**(27,870)**

All interest rate swaps are settled net.

OTHER OVER-THE-COUNTER SWAPS

	ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2020	2020	2019	2019
	NZD'000	NZD'000	NZD'000	NZD'000
Credit default arbitrage swaps 2 to 5 years	15,534	108	59,555	(1,325)
	15,534	**108**	**59,555**	**(1,325)**

All other over-the-counter swaps are settled net.

WARRANTS

	ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2020	2020	2019	2019
	NZD'000	NZD'000	NZD'000	NZD'000
Less than 1 year	4,893	-	-	-
1 to 2 years	26,408	-	19,355	-
2 to 5 years	-	-	4,690	-
5 to 10 years	11,097	-	10,636	-
	42,398	**-**	**34,681**	**-**

MATURITY PROFILE OF DERIVATIVE FINANCIAL INSTRUMENT LIABILITIES

	ACTUAL				
2020	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	(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)**
2019					
Net-settled derivative financial instruments	(65,772)	(19,910)	(72,127)	(17,020)	(26,774)
Gross-settled derivative financial instruments - cash inflow	18,338,722	-	-	-	-
Gross-settled derivative financial instruments - cash outflow	(18,650,275)	-	-	-	-
	(377,325)	**(19,910)**	**(72,127)**	**(17,020)**	**(26,774)**

SECURITIES LENDING AND SIMILAR AGREEMENTS

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.

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.

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(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		
2020	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	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)
2019						
Financial assets						
Derivative financial instrument assets	1,192,802	333,945	858,857	-	162,613	696,244
Reverse repurchase agreements*	-	-	-	-	-	-
Securities on loan under securities lending and similar agreements*	5,856	-	5,856	6,063	1,583	(1,790)
Financial liabilities						
Derivative financial instrument liabilities	(847,101)	(333,945)	(513,156)	-	(196,941)	(316,215)

* 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.

(g) Trade and other payables

	ACTUAL 2020 NZD'000	ACTUAL 2019 NZD'000
Trade payables	-	-
Accrued expenses	11,337	12,698
Unsettled purchases	1,150,506	631,151
Amounts owed for reimbursement of the Guardians' expenses	9,919	11,149
	1,171,762	**654,998**
Represented by:		
Current	1,169,946	654,103
Non-current	1,816	895
	1,171,762	**654,998**

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 2020 NZD'000	ACTUAL 2019 NZD'000
Financial assets		
Investments - derivative financial instrument assets	108,431	118,061
Investments - other financial assets	9,965,192	9,338,145
	10,073,623	**9,456,206**
Financial liabilities		
Trade and other payables	1,816	895
Investments - derivative financial instrument liabilities	309,852	135,831
	311,668	**136,726**
Net financial assets	**9,761,955**	**9,319,480**

SECTION 5: NON-FINANCIAL ASSETS AND LIABILITIES

(a) Provision for performance-based fees

	ACTUAL 2020 NZD'000	ACTUAL 2019 NZD'000
Opening balance	-	-
New provision during the year	2,333	599
Unused provision released during the year	-	-
Current portion transferred to accrued expenses	(2,333)	(599)
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.

All provisions for performance-based fees are non-current.

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. Capital contributions to the NZ Super Fund are forecast to increase over the next 5 years under current Treasury modelling. Fund capital contributions are recorded in the Statement of Changes in Public Equity.

CAPITAL WITHDRAWALS

Under Section 47 of the Act, no withdrawal of capital is permitted from the NZ Super Fund prior to 1 July 2020.

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. As no capital withdrawals are permitted from the NZ Super Fund prior to 1 July 2020, the Minister of Finance is obliged to provide funding to meet superannuation entitlements in the interim. 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.co.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 2020 NZD'000	ACTUAL 2019 NZD'000
Net operating income		
Interest income	264,188	304,409
Dividend income	537,163	678,429
Net changes in fair value on financial instruments at fair value through profit or loss	141,884	1,703,131
Net foreign exchange gains/(losses)	(136,953)	241,536
Other income	5,708	49
	811,990	**2,927,554**

	ACTUAL 2020 NZD'000	ACTUAL 2019 NZD'000
Interest income		
Interest income - financial instruments at fair value through profit or loss	187,340	190,617
Interest income - financial assets at amortised cost	76,848	113,792
	264,188	**304,409**

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.

(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				
2020	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	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
Collective investment funds	835	-	7,826	(85,632)	(76,971)
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
2019					
Fixed income securities:					
Asset-backed securities	32,915	-	1,367	(4,048)	30,234
Mortgage-backed securities	30,123	-	2,602	(3,477)	29,248
Agency mortgage-backed securities	9,821	-	16,173	(7,250)	18,744
Shareholder loans	12,639	-	201	(206)	12,634
Collective investment funds	334	-	47,956	(22,544)	25,746
Insurance-linked investments - catastrophe bonds	7,522	-	214	(5,472)	2,264
Private equity investment funds	-	1,522	103,547	(98,654)	6,415
Unconsolidated subsidiaries	-	3,626	478,090	(163,054)	318,662

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2020

SECTION 7: FINANCIAL PERFORMANCE (CONTINUED)

(c) Operating expenditure

	ACTUAL 2020 NZD'000	ACTUAL 2019 NZD'000
Reimbursement of Guardians' expenses	51,715	49,671
Managers' fees - base	35,475	31,273
Managers' fees - performance	2,333	599
Custody fees	6,493	5,491
Depreciation	458	452
Amortisation	417	392
Loss on disposal of property, plant and equipment	-	45
Auditor's remuneration	541	571
Professional advisors	12,429	6,377
Trade expenses	12,988	7,846
Other expenses	9,352	6,751
	132,201	**109,468**

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 2020 NZD'000	ACTUAL 2019 NZD'000
Audit of the NZ Super Fund's financial statements	497	466
Audit of the NZ Super Fund's unconsolidated subsidiaries met by the NZ Super Fund	26	87
Other fees paid to auditor	18	18
	541	**571**

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) lifting the requirement for Fund Investment Vehicles (FIVs) to prepare and have financial statements audited. $26,000 was paid in respect of the voluntary audit of one unconsolidated subsidiary for the year ended 30 June 2020.

Audit fees paid to the auditor for the audit of the NZ Super Fund's unconsolidated subsidiaries for the year ended 30 June 2019 relate to the audit of NZSF Land Holdings Limited, NZSF Tui Investments Limited, NZSF Australian Rural Holdings Limited, NZSF Horticulture Investments Limited and NZSF Timber Investments (No 4) Limited.

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).

(e) Income tax

The income tax expense included in the Statement of Comprehensive Income is analysed as follows:

	ACTUAL 2020 NZD'000	ACTUAL 2019 NZD'000
Components of income tax expense		
Current tax expense:		
Current period	461,018	506,311
Prior period adjustment	(12,610)	(2,774)
Total current tax expense	**448,408**	**503,537**
Deferred tax expense:		
Current period	16,730	21,520
Prior period adjustment	112	109
Total deferred tax expense	**16,842**	**21,629**
Income tax expense	**465,250**	**525,166**
Reconciliation of income tax expense and accounting profit for the year		
Profit for the year before income tax expense	679,789	2,818,086
Income tax expense calculated at 28%	190,341	789,064
Fair Dividend Rate*	332,591	(222,536)
Dividend imputation credits	(10,321)	5,402
Portfolio Investment Entities (PIE) Regime	(61,790)	(105,904)
Controlled Foreign Companies (CFC) Regime	26,957	56,018
Expenses non-deductible for tax purposes	-	504
Prior period adjustments	(12,498)	(2,665)
Other items	(30)	5,283
Income tax expense	**465,250**	**525,166**

* 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.

SECTION 7: FINANCIAL PERFORMANCE (CONTINUED)

The table below sets out the deferred tax liability recognised in the Statement of Financial Position, together with movements during the year:

	ACTUAL		
	RECOGNISED 2019	CHARGED TO PROFIT OR LOSS	RECOGNISED 2020
	NZD'000	NZD'000	NZD'000
Deferred tax liability comprises temporary differences attributable to:			
Controlled foreign companies	35,413	15,686	51,099
Other items	(1,127)	1,156	29
Total deferred tax liability	**34,286**	**16,842**	**51,128**

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.

(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 2020 NZD'000	ACTUAL 2019 NZD'000
Profit for the year after income tax expense	214,539	2,292,920
Add/(Deduct) non-cash items:		
Depreciation and amortisation	875	844
Net fair value gains on financial instruments	(141,884)	(1,703,131)
Net foreign exchange (gain)/loss	136,953	(241,536)
Increase/(Decrease) in deferred tax liability	16,842	(441,015)
Other non-cash items	382	497,044
Add items classified as investing activities:		
Loss on disposal of property, plant and equipment	-	45
Changes in working capital:		
(Increase)/Decrease in assets:		
Trade and other receivables	(221,416)	255,564
Increase/(Decrease) in liabilities:		
Trade and other payables	516,764	114,190
Increase/(Decrease) in current tax	(44,284)	430,160
Add/(Deduct) changes in net assets and liabilities related to operating cash flows not included in net profit:		
Unsettled sales	235,412	(249,396)
Unsettled purchases	(519,355)	(124,398)
Add/(Deduct) net operating cash flows not included in net profit*	1,744,773	(772,746)
Net cash provided by/(used in) operating activities	**1,939,601**	**58,545**

* 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 2020 (2019: $nil).

CAPITAL COMMITMENTS

At 30 June 2020, the NZ Super Fund had outstanding commitments to private equity investment funds and collective investment funds (excluding those classified as unconsolidated subsidiaries) totalling $598,749,000 (2019: $216,199,000), of which $27,430,000 has been called but not yet paid (2019: $2,286,000). 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 $473,616,000 for follow on capital (2019: $500,057,000). 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 2020, the NZ Super Fund had outstanding commitments under loan agreements totalling $98,883,000 (2019: $121,681,000). 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 (2019: nil).

(b) Events after the reporting date

COVID-19 PANDEMIC

As noted within the financial statements, the Covid-19 pandemic has resulted in significant volatility in financial markets. This volatility has continued to have an impact on the fair value of the NZ Super Fund's investments subsequent to balance date and is expected to continue to have an impact for as long as the extent and duration of Covid-19 is unknown. At the end of August 2020, the NZ Super Fund's net assets were approximately $46,912,225,000 (unaudited), which is an increase of $2,914,921,000 since 30 June 2020.

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 2020 was $51,715,000 (2019: $49,671,000). The related party payable to the Guardians as at 30 June 2020 is $9,919,000 (2019: $11,149,000).

UNCONSOLIDATED SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Transactions entered into with unconsolidated subsidiaries during the year are as follows:

	ACTUAL	ACTUAL
	2020	2019
	NZD'000	NZD'000
Unconsolidated subsidiaries		
Dividend income	11,868	9,537
Expenses paid by the NZ Super Fund on behalf of unconsolidated subsidiaries	114	87
Interest on loans made to unconsolidated subsidiaries	1,374	2,103
Repayment of loans	86,786	100,061

During the year, the NZ Super Fund established fifteen new unconsolidated subsidiaries 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2020

SECTION 9: OTHER INFORMATION (CONTINUED)

The NZ Super Fund has made the following financial commitments to unconsolidated subsidiaries:

	NOTE	COMMITMENT EXPIRY DATE	ACTUAL TOTAL COMMITMENT 2020 NZD'000	ACTUAL OUTSTANDING COMMITMENT 2020 NZD'000	ACTUAL TOTAL COMMITMENT 2019 NZD'000	ACTUAL OUTSTANDING COMMITMENT 2019 NZD'000
Bain Capital Credit Managed Account (NZSF) Limited Partnership	(iv)	30 June 2020	270,428	89,354	262,805	86,835
Canyon NZ-DOF Investing Limited Partnership	(i)	1 Nov 2023	388,350	77,670	372,218	122,832
N-Data Center Portfolio Co-Investor LLC	(iii)	No expiry date	176,000	83,035	168,689	96,785
KKR Energy Investor Limited Partnership	(vii)	12 Feb 2019	388,350	223,889	372,218	214,589
NZSF Beachlands Limited	(vi)	No expiry date	3,410	3,410	-	-
NZSF Hobsonville Investments Limited	(ii)	No expiry date	49,169	9,491	48,737	9,058
NZSF Land Holdings Limited	(ii)	No expiry date	11,745	366	11,935	1,150
NZSF US Renewables, Inc.*	(i)	No expiry date	97,208	17,429	70,819	8,338
NZSF Side Car (Movac) Limited Partnership	(i)	2 Nov 2021	25,000	5,733	25,000	9,972
NZSF Side Car (Pioneer) Limited Partnership	(i)	2 Dec 2021	60,000	23,739	60,000	39,262
NZSF Variable Co-Investment (Direct Capital) Limited Partnership	(i)	14 Dec 2022	50,000	15,095	50,000	22,035
NZSF Hotel Holdings Limited	(v)	31 Mar 2021	4,000	2,000	-	-
			1,523,660	**551,211**	**1,442,421**	**610,856**

* 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 $50,077,000 (equivalent to USD 32,237,000) (2019: $137,300,000) of which NZSF US Renewables, Inc.'s share is $25,039,000 (equivalent to USD 16,119,000) (2019: $68,650,000).

(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 unconsolidated subsidiary can call on this financial commitment by giving not less than 7 business days' notice.

(iv) 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.

(v) The unconsolidated subsidiary can call on this financial commitment to support short-term working capital.

(vi) The unconsolidated subsidiary can call on this financial commitment by giving not less than 20 business days' notice.

(vii) 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 $57,870,000 (2019: $55,467,000).

The NZ Super Fund has made the following loans to unconsolidated subsidiaries:

	NOTE	ACTUAL 2020 NZD'000	ACTUAL 2019 NZD'000
NZSF Rural Land Limited	(i)	29,050	29,050
NZSF Southland Farms Limited	(i)	32,810	32,810
NZSF Waikato Farms Limited	(i)	14,094	14,094
NZSF Australian Rural Holdings Trust	(ii)	71,265	47,275
Palgrove Holdings Pty Limited	(iii)	24,468	9,716
NZSF Tui Investments Limited	(i)	42,656	45,435
NZSF Timber Investments (No 4) Limited	(i)	546,491	630,498
		760,834	**808,878**

(i) Interest free, repayable on demand.

(ii) $69,294,000 is repayable by 14 August 2027 and $1,971,000 is repayable by 31 March 2025.

(iii) $17,489,000 is repayable by 14 August 2027 and $6,979,000 is repayable by 31 March 2025.

Transactions entered into with associates during the year are as follows:

	ACTUAL 2020 NZD'000	ACTUAL 2019 NZD'000
Associates		
Dividend income	-	1,719
Interest income	-	1,653

Related party loans to Galileo Green Energy GmbH comprise interest-bearing loans of $1,987,000 repayable on 4 February 2040.

Transactions entered into with joint ventures during the year are as follows:

	ACTUAL 2020 NZD'000	ACTUAL 2019 NZD'000
Joint ventures		
Dividend income	2,743	6,953
Interest income	-	5,568
Other income	281	3,025
Purchase of intangible assets	32	-

Amounts accrued or payable to joint ventures for purchases of property, plant and equipment and intangible assets at 30 June 2020 were $nil (2019: $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 $35,340,000 (2019: $nil). Interest income earned from these investments during the year was $504,000 (2019: $20,000).

At balance date, the NZ Super Fund held inflation-indexed securities issued by the New Zealand Government valued at $121,589,000 (2019: $118,372,000). Income earned from these investments during the year was $2,182,000 (2019: $nil).

At balance date, the NZ Super Fund held fixed income securities issued by Housing New Zealand Limited valued at $108,298,000 (2019: $nil). Interest income earned from these investments during the year was $230,000 (2019: $nil).

SECTION 9: OTHER INFORMATION (CONTINUED)

At balance date, the NZ Super Fund held 24,831,000 (2019: 28,979,000) shares in Meridian Energy Limited, valued at $119,438,000 (2019: $137,651,000). Dividend income earned during the year from holdings in this entity amounted to $5,380,000 (2019: $6,075,000).

At balance date, the NZ Super Fund held 57,000 (2019: 5,368,000) shares in Air New Zealand Limited, valued at $75,000 (2019: $14,224,000). Dividend income earned during the year from holdings in this entity amounted to $582,000 (2019: $1,450,000).

At balance date, the NZ Super Fund held 15,179,000 (2019: 16,581,000) shares in Mercury NZ Limited, valued at $71,343,000 (2019: $77,100,000). Dividend income earned during the year from holdings in this entity amounted to $2,465,000 (2019: $2,671,000).

At balance date, the NZ Super Fund held, through its subsidiary NZSF Tui Investments Limited, 227,789,000 (2019: 227,789,000) ordinary shares and 61,750,000 (2019: 61,750,000) redeemable preference shares in Kiwi Group Holdings Limited. The total cost of these investments was $316,271,000 (2019: $316,271,000). Dividend income earned during the year from holdings in this entity amounted to $2,779,000 (2019: $5,557,000).

(b) Comparison to budget (unaudited)

During the year ended 30 June 2020 the specific asset mix of the NZ Super Fund varied from the budgeted figures and market returns were lower 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.

Building a better working world

Independent Auditor's Report

TO THE READERS OF THE NEW ZEALAND SUPERANNUATION FUND'S FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

The Auditor-General is the auditor of the 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 2020, 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 2020; 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 2020. This is the date at which our opinion is expressed.

The basis of our opinion is explained below, and we draw your attention to other matters. In addition, we outline the responsibilities of the Board of 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.

EMPHASIS OF MATTER – IMPACT OF COVID-19

Without modifying our opinion, we draw attention to the disclosures about the impact of Covid-19 on the Fund as set out in Section 1(c): *Significant judgements and estimates* to the financial statements. We draw specific attention to the following matters due to the significant level of uncertainty caused by Covid-19:

Investments

Sections 2(a) and 2(b) on pages 172 and 178 describe the impact of Covid-19 on the valuation uncertainty of investments categorised within Level 3 of the fair value hierarchy;

Section 2(b) on page 178 describes the impact of Covid-19 on investments categorised within Level 1 and Level 2 of the fair value hierarchy;

Section 2(e) on pages 180 to 181 describes the impact of Covid-19 in determining the fair value sensitivity of investments categorised within Level 3 in the fair value hierarchy.

Section 8(b) on page 214 describes the impact of Covid-19 on the Fund subsequent to 30 June 2020.

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 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 that comply with NZ IFRS and IFRS.

The Guardians are responsible for such internal control as it determines is necessary to enable it 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 have 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 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 2019 to 30 June 2020.

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, 119 to 130, 157, 221 and 240 to 249, 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. 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 period 13 December 2019 to 30 June 2020

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 period ended 30 June 2020 fairly reflect the financial position, operations and cash flows of the Elevate NZ Venture Fund and Group.

CATHERINE SAVAGE

CHAIR
24 September 2020

MATTHEW WHINERAY

CHIEF EXECUTIVE OFFICER
24 September 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020	NOTE	ACTUAL
		2020
		NZD'000
ASSETS		
Current assets		
Receivables	3(a)	96
Total current assets		**96**
Total assets		**96**
LIABILITIES		
Current liabilities		
Trade and other payables	3(a), 3(b)	1,008
Income tax payable		-
Total current liabilities		**1,008**
Total liabilities		**1,008**
Net assets/(liabilities)		**(912)**
PUBLIC EQUITY		
Accumulated comprehensive revenue and expense		(912)
Contributed capital	4(a)	-
Total public equity		**(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 period 13 December 2019 to 30 June 2020	NOTE	ACTUAL
		2020
		NZD'000
Revenue		-
Expenses	5(a)	912
Surplus/(Deficit) for the period before income tax expense		**(912)**
Income tax expense	5(c)	-
Surplus/(Deficit) for the period after income tax expense		**(912)**
Other comprehensive revenue and expense		-
Total comprehensive revenue and expense for the period		**(912)**

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 period 13 December 2019 to 30 June 2020		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	4(a)	-		-
Balance at 30 June 2020		**-**	**(912)**	**(912)**

The attached notes form part of, and should be read in conjunction with, these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the period 13 December 2019 to 30 June 2020	ACTUAL 2020 NZD'000
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash was applied to:	
Managers' fees	-
Reimbursement of Guardians' expenses	-
Payments to suppliers	-
Goods and Services Tax	-
Total cash outflow from operating activities	**-**
Net cash provided by/(used in) operating activities	**-**
Net cash provided by/(used in) investing activities	**-**
CASH FLOWS FROM FINANCING ACTIVITIES	
Cash was provided from:	
Capital contributions from the Crown	-
Net cash provided by/(used in) financing activities	**-**
Net increase/(decrease) in cash and cash equivalents	**-**
Cash and cash equivalents at the beginning of the financial period	-
Cash and cash equivalents at the end of the financial period	**-**

The attached notes form part of, and should be read in conjunction with, these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the period 13 December 2019 to 30 June 2020	ACTUAL
	2020
	NZD'000
RECONCILIATION OF SURPLUS/(DEFICIT) FOR THE PERIOD TO NET CASH FLOWS FROM OPERATING ACTIVITIES	
Surplus/(Deficit) for the period after income tax expense	(912)
Changes in working capital:	
(Increase)/Decrease in assets:	
Receivables	(96)
Increase/(Decrease) in liabilities:	
Trade and other payables	1,008
Net cash provided by/(used in) operating activities	-

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 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 is domiciled in New Zealand and the address of its principal place of business is set out in the Corporate Directory on page 249.

The financial statements of the Elevate Fund and Group for the period ended 30 June 2020 were authorised for issue in accordance with a resolution of the Board of the Guardians of New Zealand Superannuation on 24 September 2020.

(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, which is the Elevate Fund's functional currency. 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.

These are the first set of financial statements for the Elevate Fund. Accordingly, there are no comparative figures.

(d) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Elevate Fund and its subsidiary as at 30 June 2020.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the period 13 December 2019 to 30 June 2020

SECTION 1: GENERAL INFORMATION, STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Subsidiary

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 Board and management reassess whether or not the Elevate Fund controls an entity if facts and circumstances indicate that there are changes to one or more of the elements of control.

Under Section 25 of the Venture Capital Fund Act 2019, all or any of the investments of the Elevate Fund may be held in a Venture Capital Fund investment vehicle (VCF investment vehicle) that is formed or controlled by the Guardians for the purposes of holding, facilitating, or managing investments of the Elevate fund. A VCF investment vehicle 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:

NAME	NOTE	BALANCE DATE	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST %
Elevate NZ Venture Fund Limited Partnership	(i)	30 June	New Zealand	100

(i) Elevate NZ Venture Fund Limited Partnership is a VCF investment vehicle established on 25 February 2020 for the purpose of investing in venture capital opportunities in New Zealand. The General Partner of the limited partnership is Elevate NZ Venture Fund GP Limited. The General Partner is responsible for the management, operation and administration of the limited partnership.

(f) 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.

(g) 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.

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 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.

(h) Changes in accounting policies

The Elevate Fund has applied all mandatory standards and interpretations, which are effective for all financial reporting periods commencing on or after 13 December 2019 in these financial statements. The Elevate Fund has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

All accounting policies have been applied consistently throughout these financial statements.

SECTION 2: 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.

Through its activities, the Elevate Fund will be exposed 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 Elevate Fund'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 Elevate Fund will be primarily exposed to are equity price risk and interest rate risk.

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 Elevate Fund is exposed to changes in equity prices where the fair value of its investments is determined with reference to an equity market index or to comparable transactions in a listed equity market. At 30 June 2020, the Elevate Fund has no investments and therefore it has no exposure to equity price risk at balance date.

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. At 30 June 2020, the Elevate Fund has no financial assets with exposure to interest rate risk.

(c) Credit risk

Credit risk is the risk that a third party will default on its obligation to the Elevate Fund, causing the Elevate Fund to incur a loss. The Elevate 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 Consolidated Statement of Financial Position.

At 30 June 2020, the Elevate Fund's only financial asset was GST receivable from the IRD. The Board and management do not consider there to be any credit risk in respect of this asset.

(d) Liquidity risk

Liquidity risk is the risk that the Elevate Fund will encounter difficulty in meeting the obligations associated with its financial liabilities as they fall due. The Elevate Fund's liquidity framework is designed to ensure that the Elevate Fund 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 Venture Capital Fund Act 2019 (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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the period 13 December 2019 to 30 June 2020

SECTION 3: FINANCIAL ASSETS AND LIABILITIES

(a) Financial instruments

		ACTUAL			
2020	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					
GST receivable			96		96
		-	**96**	**-**	**96**
Financial liabilities					
Trade and other payables	3(b)			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 Elevate Fund is party to financial instruments as part of its normal operations. These financial instruments include 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 Elevate 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 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 Elevate Fund commits to purchase or sell the financial instrument.

The classification of financial assets at initial recognition depends on the Elevate 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 Elevate Fund and how performance is evaluated and reported to the Board and management.

SUBSEQUENT MEASUREMENT

The Elevate Fund'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 Elevate Fund'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 Elevate Fund 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 and financial liabilities 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 Elevate 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 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 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 Elevate Fund has transferred substantially all of the risks and rewards of ownership. A financial liability is derecognised when the Elevate 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 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 Elevate Fund 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 receivables.

OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Elevate 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.

SECTION 3: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(b) Payables

	ACTUAL 2020 NZD'000
Trade payables	724
Accrued expenses	10
Amounts owed for reimbursement of the Guardians' expenses	274
	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 Elevate Fund has risk management policies in place to ensure that all payables are paid within the credit time frame.

SECTION 4: 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 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. At 30 June 2020, the Crown's commitment under this agreement amounted to $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 2020 was $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.co.nz.

SECTION 5: FINANCIAL PERFORMANCE

(a) Expenses

	ACTUAL 2020 NZD'000
Managers' fees	630
Reimbursement of Guardians' expenses	274
Auditor's remuneration	8
	912

(b) Auditor's remuneration

	ACTUAL 2020 NZD'000
Audit of the Elevate Fund's financial statements	8
	8

The auditor of the Group is Graeme Bennett of Ernst & Young, on behalf of the Auditor-General.

(c) Income tax

The income tax expense included in the Consolidated Statement of Comprehensive Revenue and Expense is analysed as follows:

	ACTUAL
	2020
	NZD'000
Reconciliation of income tax expense and accounting surplus for the period	
Surplus/(Deficit) for the period before income tax expense	(912)
Income tax expense calculated at 28%	255
Unused tax losses not recognised as deferred taxation	(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 Elevate 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 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 period 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 period 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 Elevate Fund intends to settle on a net basis.

SECTION 6: UNRECOGNISED ITEMS

(a) Commitments and contingencies

CAPITAL COMMITMENTS

The Elevate Fund has no capital commitments at balance date.

CONTINGENCIES

The Elevate Fund has no contingent liabilities at balance date.

(b) Events after the reporting date

On 14 August 2020, the Crown's commitment under the Uncalled Capital Contribution Agreement was increased by $19,500,000 to $259,500,000.

On 8 September 2020, the Elevate NZ Venture Fund Limited Partnership, the wholly owned subsidiary of the Elevate Fund, made a commitment of $21,500,000 to Blackbird New Zealand 2019, LP (Blackbird), an investment fund. On 18 September 2020, the Elevate NZ Venture Fund Limited Partnership made a commitment of $10,000,000 to Movac Fund 5, LP, an investment fund.

The first drawdown against the uncalled capital facility with the Crown will be made in line with the initial capital call from Blackbird.

SECTION 7: 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 period ended 30 June 2020, the Group has not recorded any impairment of receivables relating to amounts owed by related parties.

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 period ended 30 June 2020 was $274,000. The related party payable to the Guardians as at 30 June 2020 is $274,000.

SUBSIDIARY

Details of the Elevate Fund's interest in its subsidiary are disclosed in Note 1(e). There were no transactions entered into with its subsidiary during the period.

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 2020 NZD'000
Managers' fees	630
Payables	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 PERIOD 13 DECEMBER 2019 TO 30 JUNE 2020

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 237, that comprise the consolidated statement of financial position as at 30 June 2020, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period 13 December 2019 to 30 June 2020 (the "period") 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 237:

- present fairly, in all material respects:
  - its financial position as at 30 June 2020; and
  - its financial performance and cash flows for the period then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity (PBE) Accounting Standards.

Our audit was completed on 24 September 2020. 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 opinion.

RESPONSIBILITIES OF THE GUARDIANS FOR THE FINANCIAL STATEMENTS

The Guardians is responsible on behalf of the Group for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The Guardians is responsible for such internal control as it determines is necessary to enable it to prepare financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Guardians is 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.

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:

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- 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 Group 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, 119 to 130, 157, 221 and 240 to 249, 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.

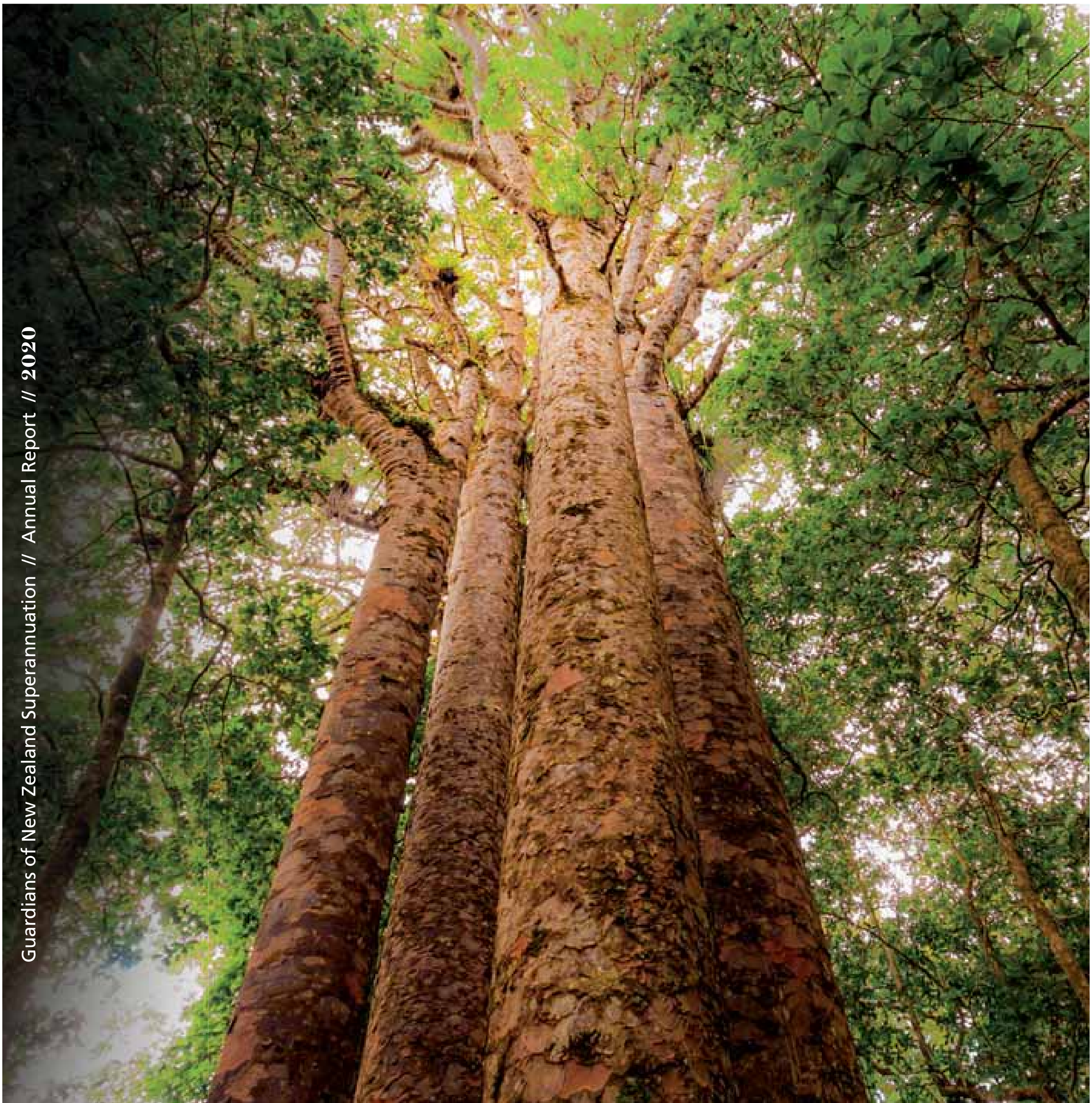
In connection with our audit of the financial statements, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially 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



Waipoua Forest,
Northland

07

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 SIPSP has been complied with during the 2019/20 financial year.

CATHERINE SAVAGE, 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 2020.

CATHERINE SAVAGE, CHAIR

CATHERINE DRAYTON, 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-NZD cash rates. In our Reference Portfolio, there is no foreign exchange exposure as all non-NZD denominated assets (i.e., foreign funded assets) are hedged back to NZD. Hedging back to NZD essentially replaces foreign cash returns with NZD 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.
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: 1. exchange listed securities or 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 (NZD) 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.
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: 1. Opportunities are assessed for relative attractiveness; 2. Allocation approaches determine how much risk capital should be allocated for various levels of attractiveness; and 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 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.
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.

GLOSSARY (CONTINUED)

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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New Zealand Superannuation Fund
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