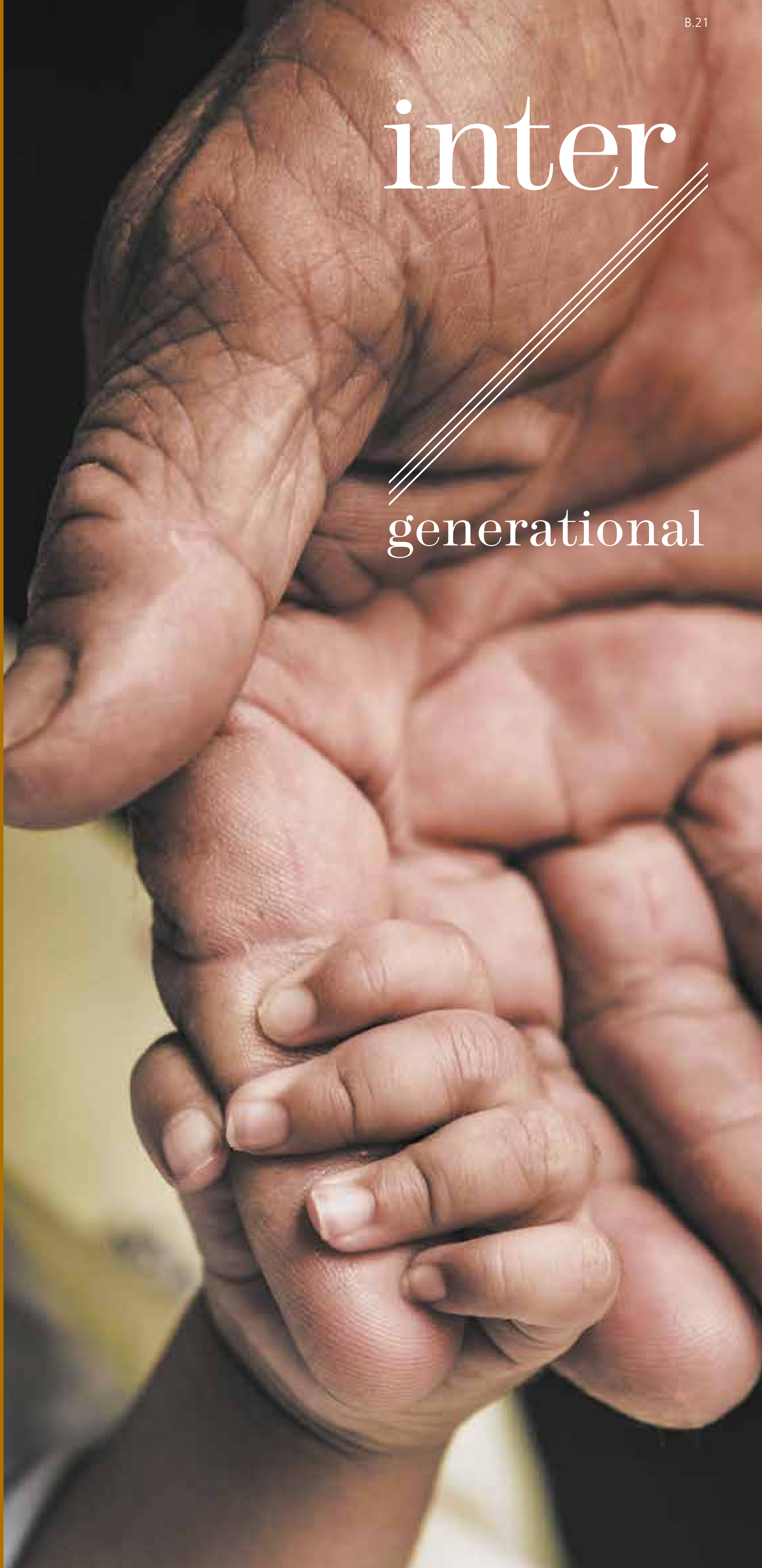
GUARDIANS OF
NEW ZEALAND
SUPERANNUATION

ANNUAL
REPORT
2022

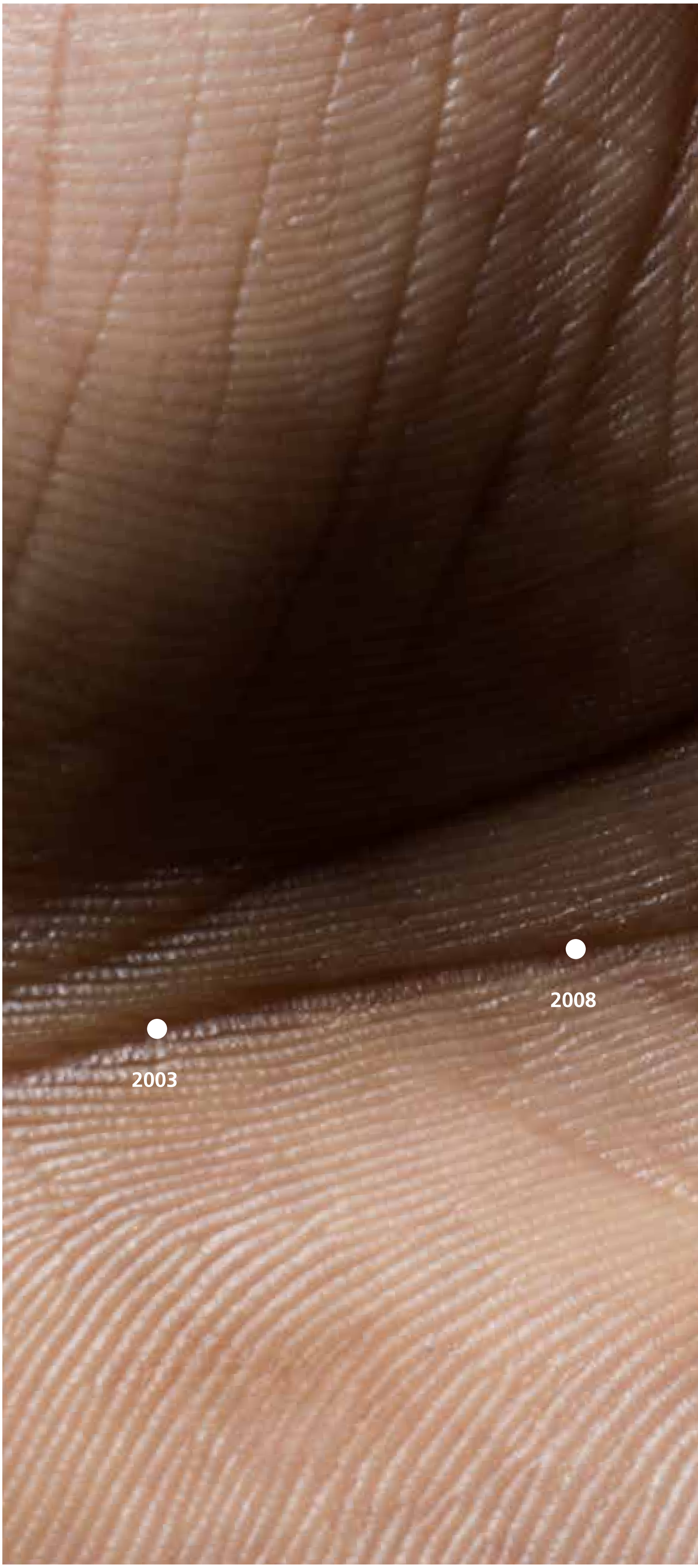
inter generational



NZSUPERFUND
Te Kaitiaki Tahua Penihana Kaumātua o Aotearoa

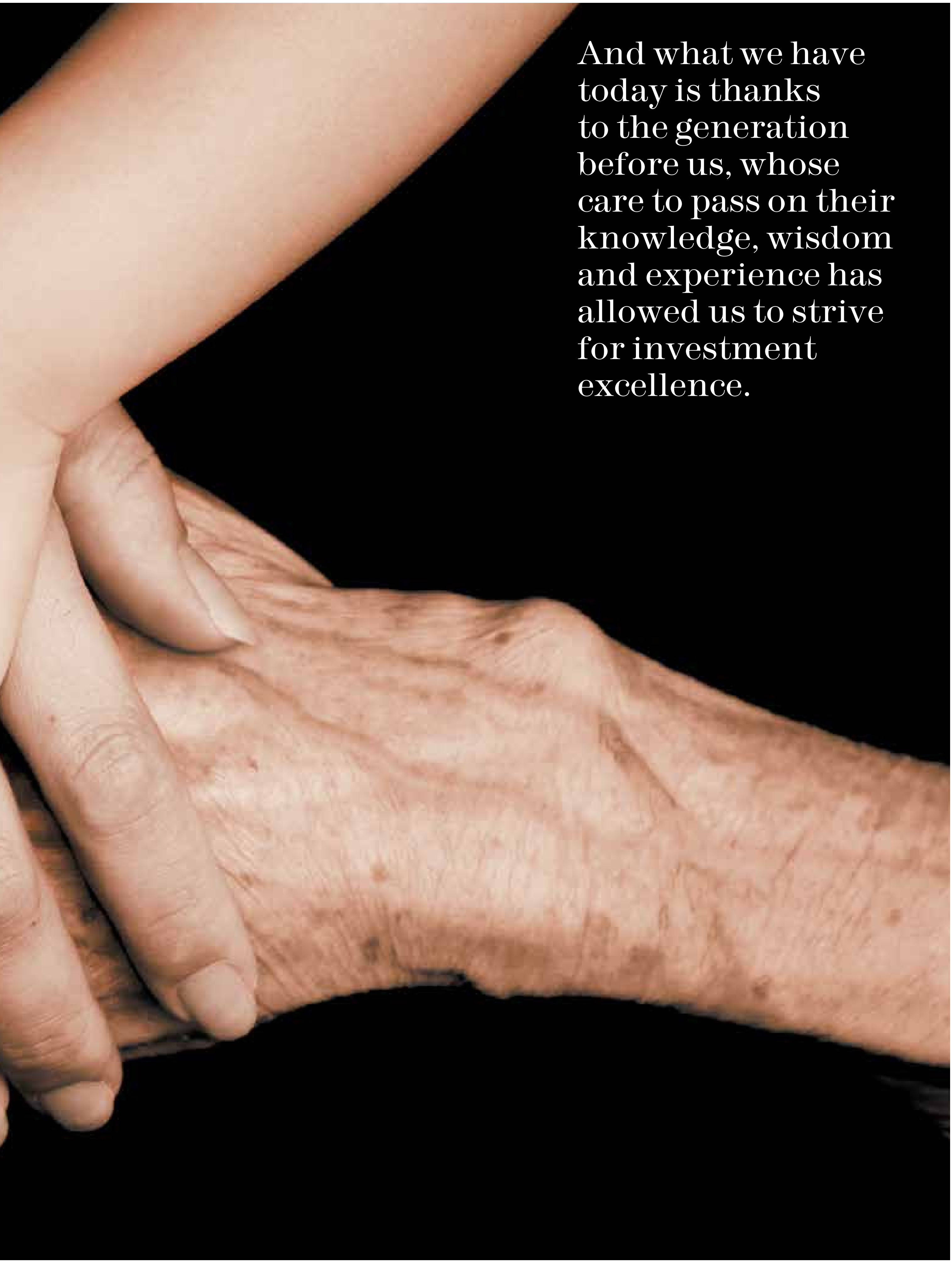
ELEVATE
NZ VENTURE FUND

As the Guardians of New Zealand Superannuation, we carry a deep responsibility for creating a better tomorrow for all New Zealanders.




2022
2018
2013

Tomorrow starts with our actions today, doing the mahi together, as one, to preserve and grow what we have for the benefit of those who come next.



And what we have today is thanks to the generation before us, whose care to pass on their knowledge, wisdom and experience has allowed us to strive for investment excellence.

OUR PURPOSE:

Sustainable investment delivering strong returns for all New Zealanders

Kia toitū te haumi hei hua mā ngā tāngata katoa o Aotearoa

OUR VISION:

An inclusive team creating a better future through investment excellence

Mā te kotahi ā-kapa, mā te kounga ā-haumi, ka tino eke ki tua

2021/22 MAJOR ACHIEVEMENTS:

- Despite a negative return, the NZ Super Fund proved resilient to ongoing volatility and added a record $4.5 billion in value above its Reference Portfolio benchmark.
- We measured our workplace culture for the sixth time (over 12 years), achieving strong results in the desired constructive behavioural styles.
- We committed to net zero by 2050, joining the Paris Aligned Investment Initiative's Asset Owners Commitment.
- We progressed our Sustainable Finance Strategy including preparing to shift to Paris-aligned benchmark indices.

PRIORITIES FOR 2022/23:

- Continue to progress our investment data initiatives, including building our data analytics capability.
- Continue to develop our Diversity, Equity and Inclusion (DE&I) maturity, including our understanding and integration of Te Ao Māori.
- Further integrate the Sustainable Finance Strategy into our investment process, with a focus on increasing impact investments.
- Identify and assess opportunities around the changing nature of work, the workforce and the workplace.

NZ SUPER FUND SIZE

$55.71b

(AFTER COSTS, BEFORE NZ TAX)

2021/22 RETURN

-6.99%

(AFTER COSTS, BEFORE NZ TAX)

VALUE ADDED IN 2021/22

$4.50b

(VS REFERENCE PORTFOLIO BENCHMARK, AFTER COSTS)

VALUE ADDED OVER TREASURY BILLS SINCE INCEPTION

$34.61b

(AFTER COSTS)

VALUE ADDED OVER REFERENCE PORTFOLIO SINCE INCEPTION

$13.29b

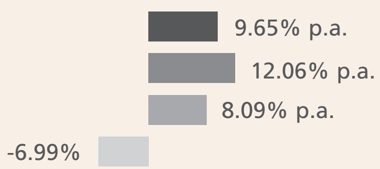
(AFTER COSTS)

NZ SUPER FUND RETURNS

As at 30 June 2022

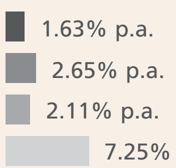
ACTUAL FUND RETURN

(after costs, before NZ tax)



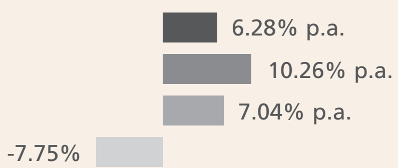
VALUE ADDED BY THE GUARDIANS

(compared to passive Reference Portfolio benchmark)



RETURN OVER TREASURY BILLS

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



● Since inception (September 2003) ● 10 years ● 5 years ● 1 year

201-1

HOW TO READ THIS REPORT

This Annual Report has been prepared in accordance with the 2021 Global Reporting Initiative (GRI) Standards core option. It describes the performance of the New Zealand Superannuation Fund ('NZ Super Fund'), the Elevate NZ Venture Fund ('Elevate Fund'), and the Guardians of New Zealand Superannuation ('Guardians'), the autonomous Crown entity that manages the funds, over the 2021/22 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 detail, the remainder of the report details five important aspects of the Guardians and its funds: investment performance and activities, governance, an overview of operations, our statement of performance, and the financial statements.

An overview of the report, and supplementary information, are available on our website. The supplementary information includes a Climate Change Report against the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD), a GRI Index and a list of the NZ Super Fund's portfolio holdings as at 30 June 2022.

Previous Annual Reports are available on our website.

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

01

OVERVIEW OF THE GUARDIANS

This section provides high level information on the purpose and mandate of the Guardians and its funds. It also provides detail on our people-related initiatives.

02

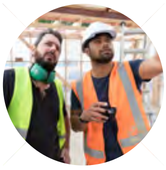
INVESTMENT REPORTS

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 our Sustainable Finance Report and a feature on our Climate Change Investment Strategy.

03

GOVERNANCE

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



04

OPERATIONAL REPORT

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

05

STATEMENT OF PERFORMANCE

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

06

FINANCIAL STATEMENTS

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

07

APPENDIX

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

Overview of the Guardians

He Tiro Whānui ki ngā Kaitiaki me te Tahua

OVERVIEW

Our Mandates

The Guardians' function is to manage two mandates: the New Zealand Superannuation Fund and the Elevate NZ Venture Fund.

The Guardians of New Zealand Superannuation (the Guardians) was established by the New Zealand Superannuation and Retirement Income Act 2001 (the Act). At the time, the Guardians' sole function was to manage the New Zealand Superannuation Fund (the NZ Super Fund). In 2019, the Government gave the Guardians a second mandate, the Elevate NZ Venture Fund (Elevate Fund).

NZ SUPER FUND

What is the challenge the NZ Super Fund is helping to solve?

New Zealand Superannuation (NZ Super) is the government pension paid to New Zealanders aged 65 and over. Currently, the after-tax NZ Super rate for couples (who both qualify) is based on 66% of the 'average ordinary time wage' after tax. For single people, the after-tax NZ Super rate is around 40% of that average wage. The universal provision of NZ Super is a key reason why New Zealand has low rates of poverty among over 65s.

Currently, the Government pays for NZ Super through taxes paid by today's taxpayers. But New Zealand has an ageing population: each year, the proportion of New Zealanders who are over 65 and receiving NZ Super increases, and the proportion of people who are paying taxes to fund NZ Super decreases. It's getting harder and harder for the Government to pay for NZ Super: in 2022, the Government made payments to over-65s of around $18 billion. Over the next 10 years, that's expected to roughly double.

This demographic pressure is the reason the Government created the NZ Super Fund, a pool of assets on the Crown's balance sheet. It's a way for the Government to save now, in order to give future governments more room in their accounts to maintain NZ Super payments in the future. To date, the government has contributed $22.4 billion to the NZ Super Fund. Contributions are intended to continue until the mid-2030s, at which time the government will start drawing down from the NZ Super Fund to help fund NZ Super.

The Treasury (the Government's economic and financial advisor) runs a model calculating Government contributions to the Fund, under a formula that is legislated in the Act. NZ Super Fund withdrawals are expected to start in 2035. By the mid-2070s, when the NZ Super Fund is projected to be at its peak, withdrawals and tax payments combined will cover approximately 20% of the total annual net cost of superannuation.

Most importantly, the Fund meets the majority of the incremental cost increase caused by this demographic pressure, reducing the need to raise taxes or reduce other spending to maintain NZ Super. The Fund therefore has a smoothing effect – improving the ability of future governments to pay for NZ Super.

What do we do?

As set out in the Act, it is our job to invest the NZ Super Fund on a prudent, commercial basis, and 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 NZ Super Fund's performance is set out in further detail on pages 40 – 53.

2-1
2-2
2-6

ELEVATE NZ VENTURE FUND

What is the challenge the Elevate Fund is helping to solve?

The Elevate Fund, which was established by the Venture Capital Fund Act 2019, is a government initiative aimed at growing more innovative industries in New Zealand. It aims to attract private sector investors to the domestic venture capital market to grow innovative, knowledge-intensive businesses. This is an important step towards future-proofing the New Zealand economy in a time of rapid technological change.

The new fund is designed to support investments into New Zealand companies that have moved beyond the start-up, or "angel" investor stage, and need capital for further development. The Government believes that there is a gap in these early stage capital markets in New Zealand, leading to many innovative young companies heading offshore for capital. The Elevate Fund supports early-stage companies and encourages private investors into the domestic venture capital market by providing matching capital. The aim is to develop the early stage capital ecosystem in New Zealand, growing new venture capital managers and supporting innovation in the economy. The Elevate Fund is expected to have a life of 15 years (consisting of a five-year investment period and a 10-year "harvest" period).

What do we do?

The Government tasked the Guardians with overall responsibility for the Elevate Fund because of our experience as an institutional investor and reputation for best-practice management. The Elevate Fund is a fund-of-funds programme and is managed on behalf of the Guardians by New Zealand Growth Capital Partners (NZGCP) (formerly the NZ Venture Investment Fund). The Guardians' role is to govern and oversee NZGCP to ensure best practice investment management in the context of venture capital markets in New Zealand.

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

- A policy statement released by the Government on 19 December 2019; and
- Avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

The Elevate Fund's performance is set out in further detail on pages 76 – 79.

2-1
2-2
2-6

OVERVIEW (CONTINUED)

NEW ZEALAND GOVERNMENT

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

GUARDIANS OF NEW ZEALAND SUPERANNUATION

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

Funds eventually returned to government via scheduled capital withdrawals.

Funds returned to Crown when Fund is eventually wound down.

NZ GROWTH CAPITAL PARTNERS

NZSUPERFUND
Te Kaitiaki Tahua Penihana Kaumātua o Aotearoa

NEW ZEALAND SUPERANNUATION FUND

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

ELEVATE NZ VENTURE FUND

ELEVATE NZ VENTURE FUND

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

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

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

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

Delivering to our why

CATHERINE DRAYTON
CHAIR

MATT WHINERAY
CHIEF EXECUTIVE OFFICER

Tēnā koutou,

Kua tino rerekē te tau ā-pūtea 2021/22 mō *Guardians*. Whai muri mai i ngā kaha o te tau 2020/21- te tau i kitea ai te ekenga pūrawa a te ki te NZ Super Fund ki te 29%, i kitea rā te tāmatenga o ngā mākete i te pito tōmuri o te tau ā-pūtea, ā, i reira ngoikore ai. Hui katoa, i eke te puna pūrawa a te *NZ Super Fund* ki te -6.99% ō muri ake i ngā utu, ā, i mua mai hoki i ngā utu tāke mō Aotearoa. E eke panuku noa atu te Tahua (arā, te Fund) ki tua atu i tōna anō taumata Pūtoi Tohutoro* i te 7.25%, i eke ai te puna pūrawa ki te $4.5 piriona, ā, neke atu. Atu i te 30 o Hune 2022, i tatū te Tahua ki te $55.7 piriona (tāke takamua); āhua iti iho tēnei i te $59 piriona (tāke takamua) i te pito o te tau ā-pūtea i mua mai.

I te marama o Tīhema 2021, kua taka ngā utu toharite o te ao, nā runga i te pikiutu tukipū, te pikinga o ngā pāpātanga huamoni me ngā māharahara whakatumatuma a Rūhia ki roto o Ukarani. Tōna otinga, kei te ōrite te wāriu o te Tahua tērā ki te wāriu i te marama o Māehe 2021 – tōna 15 marama i mua mai. Ka whakamārama mātou i ngā whakatutukitanga a te Tahua i roto i ngā toimaha o ngā mākete, me te tikanga i pai ake i ngā mākete whānui, kei te whārangi 40 – 47.

I tēnei wā uaua, kua ū mātou ki te aronga ahungaroa mā te kōkiritanga o tētahi rautaki hou e ārahitia nei e tētahi whāinga matua, whakakitenga hou hoki:

- **Te Whāinga Matua**: *Ngā hua haumitanga toitū mō Aotearoa whānui*
- **Te Whakakitenga**: *He rōpū tūhono e whai nei kia pakari ake te āpōpō mā roto i ngā haumitanga hiamo.*

E aro ana te poutarāwaho hou, kua whakarōpopotia i ngā whārangi 20 – 21, ki ngā tūhonohonga kaha, ki ngā pānga tūraru me ngā whāinga. Mā tēnei hei arataki i ā mātou kohinga whakaaro me te āta whakahāngai i ngā rauemi hei ārai atu i ngā uauatanga me ngā whakararu mai o te wā.

Ngā āhukahuka ki te ao

I harikoa mātou i te nui o ngā whakamānawa puta noa i te ao me tēnei motu tonu i tēnei tau. E ai ki te mātaitanga motuhake i puta i a *Global SWF* ko te *NZ Super Fund* te tahua whairawa toa puta noa i te ao i tōna pūrawa 11.79% te nui i roto i ngā tau ā-tahua 2015–2021. I whakaihuwaka hoki mātou i ā mātou mahi kaitiakitanga, i tā mātou Rautaki Haumitanga mō Te Āhuarangi (arā, te *Climate Change Investment Strategy*) me te pai hoki o ā mātou pūrongo whakamōhiohio – kei roto katoa i ngā whārangi 66–67.

Tēnā koutou,

The 2021/22 financial year has been an unusual one for the Guardians. After a very strong year in 2020/21, which saw the NZ Super Fund (the Fund) produce a record return of 29%, markets were significantly weaker in the second half of the 2022 financial year, giving up some of those gains. The NZ Super Fund earned an overall return of -6.99%, after costs, before New Zealand tax. The Fund significantly outperformed its passive Reference Portfolio benchmark* by 7.25%, earning a record $4.5 billion in value-add. As at 30 June 2022 the Fund stood at $55.7 billion (before tax), down from approximately $59 billion (before tax) at the end of the previous financial year.

Since December 2021, global equity prices have fallen as a result of higher-than-expected inflation, rising interest rates, fears of a global recession and Russia's invasion of Ukraine. Consequently, the Fund value is now sitting around where it was in March 2021 – about 15 months ago. We explain how the Fund performed during this period of market stress and the reasons why it did better than broader markets on pages 40 – 47.

Throughout this challenging period, we have retained our long-term focus, introducing a new strategic framework driven by a refreshed organisational Purpose and Vision:

- **Our Purpose**: *Sustainable investment delivering strong returns for all New Zealanders*
- **Our Vision**: *An inclusive team creating a better future through investment excellence.*

The new framework, which is summarised on pages 20 – 21, focuses on our strategic relationships, risks and goals. It provides a guide to where we will concentrate our thinking and put our resources in order to face the changing and challenging environment.

Global recognition

We were delighted to receive a number of international and local accolades during the year. A study by the independent think-tank *Global SWF* found the NZ Super Fund was the world's top-performing sovereign wealth fund, with an 11.79% return over the 2015–2021 financial years. We also won a host of awards for stewardship, our Climate Change Investment Strategy and transparent public reporting, which we cover on pages 66 – 67.

2-22

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

He whakawhenua i ngā haumitanga toitū ki tō mātou Whāinga Matua

He mea nui ki a mātou te whakawhenua i ngā haumitanga toitū ki tō mātou Whāinga Matua. Kia mārama mai, ka ū tonu te aronga ki ngā tūraru piki pūrawa. Mārama kehokeho ana tō mātou Whāinga Matua hou ki ngā kaimahi me te hunga whai pānga, inā rā, kia toitū te whakatutuki i ngā pūrawa pūtea. Ko tētahi o ō mātou whāinga tōmua toitū i tēnei tau ko te whakapai ake i ā mātou kawenga taiao, pāpori, whakahaerenga hoki (*ESG*) o te Pūkete Tahua Toharite ā-Ao (arā, te *Fund's Global Equities Portfolio*). Ko te nuinga hoki ka kōmuhu te whakahaeretia, ā, koinei te wāhanga nui rana o te Tahua (ko tōna 40%).

Ka tutuki ēnei whanaketanga mā ngā panonitanga taupū e whakamahia nei e mātou mō tā mātou paerewa Kōpaki Tohutoro (arā, te *Reference Portfolio*). Kia mātua tutuki ai tēnei, ka tau pai te ora ki te Tahua i āna toro whānui puta noa i ngā rohe me ngā rāngai, waihoki, ka whāiti noa mai te pūmautanga o ngā hea ki ngā kamupene iti nei. Mā konei hua ai tētahi Kōpaki Toharite ā-Ao (arā, te *Global Equity Portfolio*) e hāngai ake ki ngā whāinga āhuarangi, me ngā ngahuru *ESG* whānui. Mō te roanga atu o ngā panonitanga kuputohu, me ngā mahi whakawhanake i ngā putanga haumi kei ngā whārangi 63–64.

Ngā kokenga āhuarangi

I roto i ngā whakamārama mō Te Pūrongo Āhuarangi, kua tutuki ngā whāinga a te *NZ Super Fund* mō te tau 2025 kia iti iho ngā tukunga waro me ngā huranga taiāpure. Kua iti iho ngā pūkaha waro mā roto i te 49%, me ngā taiāpure mātātoka mā roto i te 91% e ai ki tā ngā tairitenga taumata mākete (kua inea e te Kōpaki Tohutoro). Waihoki, atu i te 30 o Hune 2022 kāore ngā haumitanga ahunga roa i ngā taiāpure koranehe tō te Tahua. I tēnei wā tonu, e noho ana ngā hekenga o ngā tukunga me ngā whāinga taiāpure hei whakahekenga putanga waro a te Tahua, kauaka mā roto i te mākete whānui. Kei ngā whakamārama o raro nei e tau ana kei te whakahāngaitia ngā whāinga whakaheke waro ki te whāinga matua kia raumata kore hei te tau 2050.

I te marama o Oketopa 2021, i whakaūtia te Tahua kia raumata kore hei te tau, kia mātua hāngai ake ki te *Paris Aligned Investment Initiative*, he wāhanga nō te *Net Zero Asset Owners Commitment*. Hei tā te Whakaūtanga nei, ka haere tonu ā mātou mahi ki te whakaheke i ngā kawenga waro a te Tahua mā te whakamau ki te ara whānui o te ao kia raumata kore ai.

I pōhiritia mai hoki te Mahere Haepapa Haumitanga (arā, te *Crown Responsible Investment Framework*) a te Kāwanatanga, inā, ka whakamahia e te *NZ Super Fund*, e *ACC*, e te Tahua Penihana a te Kāwanatanga me te *National Provident Fund* ngā ngāhuru ōrite hei tuku pūrongo mō ngā whakahekenga waro, ā, ka mahi tahi hoki i ngā toronga ki ngā kamupene haumitanga, me te whai āheinga hoki hei tuku pūtea tautoko mō ngā rongoā āhuarangi.

Āpiti atu, tokomaha ngā haumitanga hou mō ngā rongoā āhuarangi e aro kē ana ki te tūāhanga, hanga kāinga hoki, ā, i whakapāhotia hoki he kōtuinga hou me ētahi mātanga nō te ao whānui ki *Copenhagen Infrastructure Partners* ki te tūhura i te pitomata whai ngao ā-hau ki waho atu i te takutai moana o te Tonga o Taranaki rohe. Mō te roanga ake, tirohia ngā whārangi 59–61.

Embedding sustainable investment into our Purpose

Embedding 'sustainable investment' into our organisation's Purpose is an important shift for us. To be clear, our focus on maximising risk-adjusted returns remains. Our new Purpose sends a clear message to our staff and stakeholders about the importance of achieving those financial returns in a sustainable way.

One of our key sustainable investment priorities during the year was to improve the environmental, social and governance (ESG) profile of the Fund's passive global equities portfolio, which makes up the single biggest piece of the Fund (around 40%).

These improvements will be achieved in part by changes to the indices we use for our Reference Portfolio benchmark. Once fully implemented, the Fund will retain a prudent level of diversification across geographies and sectors while holding shares in significantly fewer companies. This will result in a passive global equity portfolio with greater alignment with climate-related goals and improved ESG metrics across the board.

Further information on these index changes along with our efforts to scale up our impact investments is available on pages 63 – 64.

Progress on climate change

As explained in our 2022 Climate Change Report, the NZ Super Fund has met its 2025 targets for reducing its carbon emissions and exposure to reserves. Carbon intensity has been reduced by 49% and fossil fuel reserves by 91%, compared to market levels (as measured by the unadjusted Reference Portfolio). Furthermore, as at 30 June 2022 the Fund had no material, long-term investments in fossil fuel reserves. Emissions and reserves reduction targets have, to date, been set as reductions in the Fund's carbon exposure versus the broader market. As we explain below, we are now moving to aligning the Fund's carbon reduction targets with the goal of net zero by 2050.

In October 2021 we committed the Fund to become net zero by 2050, joining the Paris Aligned Investment Initiative's Net Zero Asset Owners Commitment. Under this Commitment we will continue the work we have already done to significantly reduce the Fund's carbon footprint by meeting and reporting against a globally-accepted pathway to net zero.

We also welcomed the New Zealand Government's new Crown Responsible Investment Framework, which will see the NZ Super Fund, Accident Compensation Corporation (ACC), the Government Superannuation Fund and National Provident Fund using common metrics to report on carbon reductions, collaborating on climate change engagements with investee companies and seeking opportunities to invest in climate solutions.

In addition, we made a series of new investments in climate solutions, with a focus on infrastructure and real estate, and announced a new partnership with global experts Copenhagen Infrastructure Partners to explore the potential for offshore wind energy generation off New Zealand's South Taranaki coast. Our Investment Report at pages 59 – 61 contains more details.

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Ko ngā tāngata me te ahurea hei whakamatuatanga

I te otinga atu, mā ō mātou tāngata me ngā whakatau o ia rā, o ia rā e whai hua ai ngā kaiutu tāke e tutuki ai te Whāinga Matua me te Whakakitenga.

Nā reira, e whai ana mātou i ngā hātepe kia hōhonu ake ō mātou māramatanga ki te kanorau, toharite me te whai wāhinga ki *Guardians*, ā, kei te hangaia he rautaki whakapaipai i ā mātou tikanga mahi kia aro ki ngā kaihautū wāhine, ki ngā mema Māori, Pasifika hoki kei tō mātou rōpū. Mātua rā, ko te whakapakari ake i ō mātou mōhiotanga ki te ao Māori tētahi whāinga tōmua. Mā tēnei e papai ake ai a Guardians hei kaituku mahi, me te āwhina hoki i a mātou ki te tuku i te Tahua hei pūtea tautoko i a Aotearoa kia kitea mai ngā iwi hei tautōhito i ngā mākete mahi moni. Kei tā mātou hopunga uiui me te Tumu Hou mō te Kanorau, Toharite me te Whai Wāhinga, me Rachael Le Mesurier e whakamāramatia ana te roanga ake o ēnei kawenga mahi, kei te whārangi 36.

Whai muri mai i te roanga o ngā here noho taratahi ki Tāmaki Makaurau, ka harikoa anō mātou i tō mātou hokinga ki te tari, me te kitekite i a mātou anō. Kua kitea i te tau kua huri e tino piri kaha ana tō mātou rōpū i te ekenga mai o ētahi pūkenga nui puta noa i tēnei wāhi mahi, tae atu ki te whakapūmautanga o te taumahi tātaritanga raraunga hou. Nā ngā kaimahi hou, nā te roa hoki o te noho taratahi ki te kōkiri i ngā mahi i noho mai ai te ahurea mahi hei whāinga tōmua mō mātou. Nō reira mai tō mātou koa i ngā whakataunga a ngā kaimahi e tino uekaha ake ana tēnei wāhi mahi i te tau 2021/22 i ngā hua pai i puta i mua i te mate urutā KOWHEORI-19. Tēnei ka mihi ki ngā kaimahi katoa me ngā kaihautū i whakapau kaha ki te hāpai i te mana o te kaupapa i tēnei tau kua huri, i roto mai i ngā uauatanga me ngā whakararu mai o te wā.

Nō te makeretanga mai o ngā here noho mohoao kua āhei anō te haereere, ā, e āhei ana mātou te hui tahi me ō mātou kamupene haumi, kaiwhakahaere haumi, kaiwhakarato me ā mātou hoa mahi i Aoteroa nei, ā, puta noa i te ao hei whakatītina i ngā tūhononga o tēnei wā me te hanga tūhononga hou. He mea nui ēnei mahi ki tā ngā tirohanga maha – te aro turuki me te whakahaere kōpaki, te haurapatanga, te aro turuki i ngā kaiwhakahaere, ngā paerewa kawenga mahi me ngā torotoronga ki te hunga whai pānga. E hīkaka ana mātou te tūhono, whakahoahoa whatunga me ngā kōtuinga hei te tau 2022/23.

Hei whakamutu ake, e whai whakaaro ana ki te hinganga o te manu karapīpiti e whai pānga ana ki te whakapapa o ngā Kaitiaki (arā, ko ngā Guardians). Moe mai rā e ngā rangatira, Tā Michael Cullen, kōrua ko Brian Gaynor. Ko ō kōrua whakareretanga iho i roto i te 18 tau i eke nei ki te $12.6 piriona, kua nui atu te utu Tahua ki te $34.6 piriona mō ngā Kaiutu Tākē tērā i ngā utu a te Kāwanatanga hei tautoko i te Tahua**. Mō te āhua ki a mātou ngā kaitiaki, he hōnore nui tēnei mō mātou e whai haere tonu nei ki te whakaū i tō kōrua whakakitenga.

Hei konā mai
Nā Catherine Drayton me Matt Whineray

Prioritising people and culture

Ultimately, it is our people and the decisions we make each day that enable us to create value for taxpayers, deliver our Purpose and live up to our Vision.

With this in mind, we are taking steps to deepen our understanding of diversity, equity and inclusion (DE&I) at the Guardians, and are developing a strategy to mature our practices, with a focus on women in leadership, and Māori and Pasifika representation in our team. In particular, lifting our competency in Te Ao Māori is a priority. Doing so will help position the Guardians positively as an employer and assist in our efforts to invest more of the Fund in New Zealand, where iwi investors are significant players in the capital markets. Our Q&A with Rachael Le Mesurier, our newly appointed Head of DE&I, explains this work stream in more detail on page 36.

Following an extended pandemic-related lockdown in Auckland, we have been thankful to once again return to the office and see each other in person. The past year has been one of strong growth in the team, as we have added capability across the organisation, including establishing a new data analytics function. With many new starters and having spent such a long period working remotely, workplace culture continues to be a high priority. We were therefore delighted to see staff rating our workplace culture even better in 2021/22 than the good results we achieved before the COVID-19 pandemic. Thank you to all our staff and leaders who have worked so hard to maintain this culture over the past year, in what we acknowledge have been trying circumstances.

The removal of border restrictions has enabled the resumption of travel and we are taking the opportunity to meet with our investee companies, investment managers, suppliers and peers in New Zealand and across the globe, aiming to strengthen existing relationships as well as build new connections. This work is important from a range of perspectives – portfolio monitoring and governance, due diligence, manager monitoring, benchmarking against best-practice, and stakeholder engagement. We look forward to connecting with more of our network and partners in 2022/23.

Finally, we would like to acknowledge the passing this financial year of two significant figures who are part of the whakapapa of the Guardians. Moe mai rā e te Rangatira Sir Michael Cullen. Moe mai rā e te Rangatira Brian Gaynor. Your legacy, 18 years on: with net contributions of $12.6 billion, the Fund has earned $34.6 billion more for taxpayers than the cost to the Government to fund it.** As the current kaitiaki/Guardians, we are privileged to continue building on your vision.

Hei konā mai
Nā Catherine Drayton me Matt Whineray

* We use a passive Reference Portfolio to benchmark the performance of the NZ Super Fund's Actual Portfolio and the value we are adding to it. In 2021/22, the Reference Portfolio returned -14.24%.

** Net contributions = actual government contributions less NZ tax paid by the Fund to the Government. Cost of funding = Treasury Bill return over the same period.

PROGRESS AGAINST OUR STRATEGIC PLAN

Here, we provide an overview of the progress we made during 2021/22 in achieving our strategic priorities for the year.

We have set out how each priority contributes to the new strategic goals which were agreed in April 2022 as part of our new strategic framework, and are set out in the 2022 – 2027 Statement of Intent and 2022/23 Statement of Performance Expectations available on our website.

1.

RESPONSIBLE INVESTMENT STRATEGY REVIEW

—

OBJECTIVE:

Include sustainable finance[1] in key policies; assess methodologies to improve the environmental, social and governance (ESG) profile of the NZ Super Fund; and options to improve impact investment.

OUTCOME:

In June 2021 the Board approved a goal of moving from a Responsible Investment (RI) to a sustainable finance approach, with a roadmap for implementation. In 2021/22 we developed the Sustainable Finance Strategy and have made significant progress in implementing it. Objective achievement: 100% complete.

Sustainable finance has been incorporated into the Guardians' purpose statement, strategic goals, the Statement of Investment Policies, Standards and Procedures (SIPSP) and into the RI Framework.

A range of options was investigated for improving the ESG profile of the Fund, resulting in a change of benchmark indices for the global equity component of the Reference Portfolio. These changes are explained at page 63.

An Impact Investment (previously called Positive Investment) plan was developed to focus on three key areas: impact measurement and reporting; scaling up impact investment; and influence and knowledge. The plan is now being implemented and includes criteria to qualify as an impact investment; a market review identifying opportunities to scale up investment; integration of impact investing into existing processes; and a programme to raise internal capabilities in impact investment and to strengthen external relationships.

CONTRIBUTION TO STRATEGIC GOALS (new strategic framework):

- Move from RI to sustainable finance
- Investment excellence

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1. Sustainable finance means considering the impact **of** investments on society and the environment, as well as thinking about the environmental, social and governance (ESG) risks **on** investments.

2.

INVESTMENT DATA STRATEGY

—

OBJECTIVE:

Continue to progress the three legs of the Investment Data Strategy including:

Data technology: Decision on the strategic direction for our investment data architecture and progress on retiring legacy solutions in favour of more efficient, flexible and lower-risk solutions.

Data analytics: Establish a data analytics support function, supporting cross-Guardians' data analysis and reporting needs.

Data services: Establish a data services function to provide a hub for data sourcing, production and maintenance activities.

OUTCOME:

Significant progress was made across the three areas of focus; however, some aspects have taken longer than expected due to: additional complexities encountered; recruitment challenges; and work required to establish fit-for-purpose environments to enable delivery team productivity. Objective achievement: 60% complete.

Data technology – risks relating to legacy data presentation software were mitigated with key data sets transitioned to new systems. This has provided a modern user experience to manage the data, a better data ownership model and improved efficiency and consistency. Platform delivery work for the investment data architecture launched with our technology and business transformation partner.

RESPONSIBLE INVESTMENT STRATEGY REVIEW

INVESTMENT DATA STRATEGY

Sustainable investment delivering strong returns for all New Zealanders

HUMAN RESOURCES SYSTEM

DIVERSITY, EQUITY AND INCLUSION (DE&I)

Data analytics - Head of Data Analytics joined in March 2022 and initial research and needs analysis undertaken to feed into the data analytics workplan. Recruitment of the Data Analytics team and rollout of the supporting enterprise software suite is underway.

Data services – the function was established and data sourcing and procurement/onboarding processes are being coordinated. Work is underway to assess and select an appropriate Data Governance tool. The focus has been on developing a common understanding of the structure of our data amongst our data users.

CONTRIBUTION TO STRATEGIC GOALS (new strategic framework):

- Increase capability and capacity in data and technology
- Investment excellence
- Increase our risk maturity

3.

HUMAN RESOURCES SYSTEM

—

OBJECTIVE:
Complete implementation of Phase 1 (core HR activities, recruitment and onboarding).

Prototype refinement, testing, training and implementation of Phase 2 (performance, careers and goals, learning management, health and safety) and Phase 3 (compensation management, talent review and succession).

OUTCOME:
In November 2021, Phase 1 of the new Oracle HR system was launched. Roll-out of Phase 1 was a significant milestone and included: setting up core human resources data; establishing security settings; integrating talent search, recruitment and onboarding into the system; and integrating payroll and leave management.

In light of ongoing resourcing and implementation challenges, Phases 2 and 3 of the project were deferred until 2023 to enable the Guardians to focus on embedding the Phase 1 modules across the business.

Objective achievement: 33%.

CONTRIBUTION TO STRATEGIC GOALS (new strategic framework):

- Design our future of work
- Investment excellence

4.

DIVERSITY, EQUITY AND INCLUSION (DE&I)

—

OBJECTIVE:
Agree overall objectives for the DE&I Strategy and appoint the Head of DE&I.

OUTCOME:
Following an external review by Deloitte of our DE&I practices in 2020/21, the associated report was shared with staff and the Board and discussion forums undertaken.

Building on the report's findings, five Guiding Principles were developed and endorsed by the Board to guide development of our DE&I Strategy and roadmap. Our Head of Diversity, Equity and Inclusion joined in March 2022 and is leading this work. Further information on our approach can be found on pages 33 and 36.

The Board also considered the drivers underpinning the importance of improving our cultural competency through understanding and integrating Te Aō Māori into our organisation.

Objective achievement: 100%.

CONTRIBUTION TO STRATEGIC GOALS (new strategic framework):

- Constructive and aligned team
- Investment excellence

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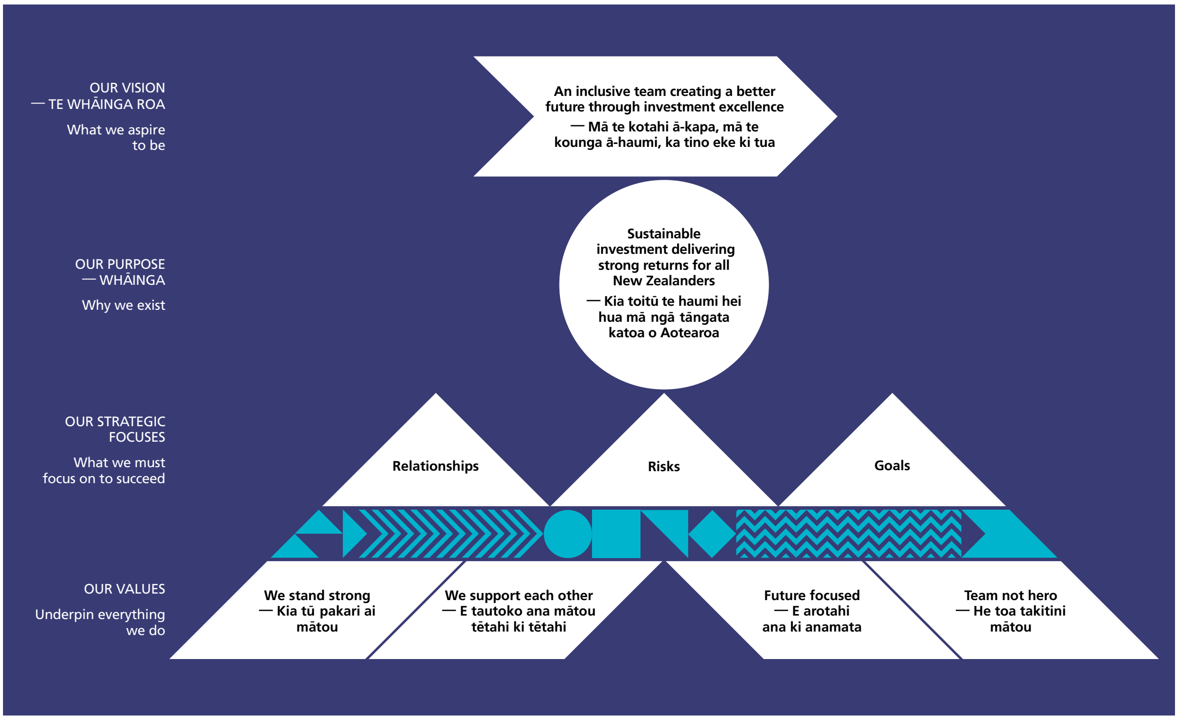
OUR NEW STRATEGIC FRAMEWORK

Our Purpose and Vision statements set the scene for our new strategic framework.

Established in 2001, the Guardians has developed into, and has a strong ambition to remain, a world-class organisation. To ensure we do this, we must be grounded in a Purpose and Vision which reflect the organisation we want to be, and articulate our why.

In January 2022, the Guardians agreed our new Purpose and Vision statements. These set the scene for our new strategic framework, which was approved by the Board in April 2022.

Three key focuses shape how our Purpose and Vision will be delivered in accordance with our risk appetite, and reinforce what we must focus on to succeed. These strategic focuses are: Relationships, Risks and Goals.



RELATIONSHIPS

In addition to the Crown, Parliament and the Minister of Finance, we build and manage relationships with a wide range of stakeholders including: our team of employees and contractors; the public of New Zealand; suppliers; asset and investment managers; co-investors; other Crown Financial Institutions; investee companies; investor groups; iwi; Māori; media; non-government organisations; peer funds; prospective employees/recruitment pool; regulatory bodies in New Zealand and globally; and relevant New Zealand public sector agencies.

RISKS

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Taking risks is an integral part of what we do as an investor. Understanding and managing them helps us ensure the risks taken are appropriate for the returns anticipated. We revisited our Risk Appetite Statement with the Board this year, which is described in detail on page 101. We use all reasonable measures, without imposing excessive costs or constraints, to manage risks and maximise outcomes.

GOALS

We have developed new strategic goals that provide us with a medium-term focus to build the capabilities and capacity required to deliver our Purpose and Vision. Aspects of these goals are things that we already do that we need to keep doing. Others are things that need to evolve as the Guardians matures and the NZ Super Fund increases in size, or that we need to target to reflect the changing environment around us.

VALUES

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

Here we provide more detail on our new strategic goals. You can find out more information about how we measure our progress against these goals in our 2022 – 2027 Statement of Intent, available on our website.

Goals	Description
Investment excellence	The people, processes and technology that support and enable investment are effective and efficient and continue to evolve to meet our Purpose and Vision.
Move from responsible investment to sustainable finance	The ESG context is evolving rapidly, with changing stakeholder expectations. While responsible investment focuses on the ESG risks in investments, sustainable finance also considers the impact of investments on the environment and society, which is critical to us as a long-term investor. We will move to a sustainable finance approach and support the development of sustainable financial systems.
Increase our risk maturity	We will embed deep maturity about the different types of risks we manage (investment and enterprise), including our ability to identify and take appropriate risk to achieve our Purpose. Managing complex risk is fundamental to what we do. We want to nurture a culture supporting a more agile, continuous change approach that empowers our team to test novel ideas while effectively managing the downside risks.
Increase capability and capacity in data and technology	We will be expert at using data and technology to operate efficiently, and to support our investment processes and decision-making. Decisions about data and technology will be business-led and balance the need for security, stability and reliability with increased data analytics, information management and collaboration capabilities across the team.
Design our future of work	We will incorporate evolving approaches to work while maintaining our great culture. Our success depends on the knowledge and capabilities of our staff, attracting and retaining diverse talent, and leveraging global networks. We will embrace new ways of working.
Constructive and aligned team	Maintaining and continuing to develop a strong, diverse and inclusive team with a constructive culture is essential to fulfil our Purpose and Vision and embrace ongoing external and internal challenges effectively. A team that has the same focus is greater than the sum of its parts. Together it can harness diversity to tackle complex challenges and maximise opportunities. "Team not hero" is one of our values.

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MATERIALITY

Sustainable investment is fundamental to delivering on our Purpose.

In this Annual Report, as well as reporting on financial performance we report on matters that are material from the perspective of our stakeholders and how we manage the impact of our activities more broadly on the environment, economy and people.

In our reporting we follow the Global Reporting Initiative (GRI) standards, including the assessment of material issues. The GRI standards are designed to allow organisations to report on the impacts of their activities in a structured way that is transparent to stakeholders and other interested parties. In this context, impacts can be direct, indirect or linked to an organisation's activities.

We have direct control over the Guardians' own activities and impact as an organisation. These include areas such as health and safety, office recycling arrangements, energy efficiency and monitoring our carbon emissions, including travel. We manage these through our relevant organisational policies and processes.

As an investor, we manage a portfolio of investments and our ability to influence most of the companies we invest in is thus indirect.The NZ Super Fund's global equities portfolio includes thousands of listed company stocks and each of these companies has its own impacts on the environment, economy and people. Our Responsible Investment (RI) Framework addresses material ESG issues in the investment process and is based on the United Nations-supported Principles for Responsible Investment, widely recognised as global best-practice. For more information on our Sustainable Finance Strategy, which includes a work stream to improve the overall ESG profile of the Fund, based on ESG metrics for investee companies and assets, please see page 63.

In order to identify which matters our stakeholders consider to be material to the Guardians and its mandates, we:

- Commissioned a third-party review from Willis Towers Watson of how we communicate NZ Super Fund investment performance across our corporate publications, website and other official channels. This work has deepened our understanding of stakeholder expectations of investment performance reporting, what stakeholders want to see more of, and where we can improve. The research involved a review of peer reporting practices and interviews with a small number of external and internal stakeholders;
- Analysed stakeholder perception research undertaken by GRC Partners as part of the review of the Guardians' Responsible Investment Strategy. This research looked at emerging trends and stakeholder expectations pertaining to the Guardians' social licence to operate in relation to responsible investment and ESG matters;
- Identified issues of significant media and stakeholder importance during the year. Topics included continued market volatility, exclusion of Russian Federation sovereign debt and the securities of majority Russian state-owned enterprises, our shift to sustainable finance and ongoing commitment to managing climate risk and net-zero pledge;
- Reviewed feedback from a judging panel of reporting experts from the Australasian Reporting Awards;
- Assessed previous qualitative stakeholder research into current and future expectations of the Guardians, with a focus on responsible investment; and
- Held internal discussions across teams to explore the Guardians' actual and potential negative and positive impacts, with input and review by the Senior Leadership Team and Board. This includes our work on the review of our responsible investment approach, including consideration of how we expect best practice to evolve.

Given the size of the NZ Super Fund relative to the Elevate Fund, our most material topics are focused on the NZ Super Fund. Based on our engagement activities and taking into account its statutory context, the most material topics for the NZ Super Fund are summarised in the table below. These topics are directly linked to our Purpose: *Sustainable investment delivering strong returns for all New Zealanders.*

Topic	Impact	Reporting
Strong returns	**People and Economy:** • Helping future governments afford the cost of providing universal superannuation • Reducing the tax burden for future taxpayers • Improving the financial well-being of all New Zealanders	Information on how we add value and relevant performance indicators can be found on pages 40 – 61
Sustainable investment	**People, Environment and Economy:** • Investing to support the net-zero transition • Directing capital away from high-emitting companies towards more sustainable alternatives • Shifting our investment approach to sustainable finance • Improving, through engagement, the human rights and health and safety policies and practices of investee companies	Information on our sustainable finance approach and relevant performance indicators can be found on pages 62 – 75

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Note: the Guardians has its own definition of impact in the context of impact investment (see page 64 of the Sustainable Finance Report). This is different from the way the term 'impact' is used by the GRI.

ENHANCEMENTS TO OUR REPORTING

This year we made the following enhancements to our reporting:

- Revised our reporting to align with the revised 2021 GRI standards;
- Made progress toward reporting consistent time-horizons across all performance measures;
- Expanded the qualitative and quantitative information provided on our organisational carbon emissions and the efforts underway to reduce the impact of the corporate operations of the Guardians;
- Expanded on our value-add reporting, providing additional detail on the performance of our investment opportunities;
- Provided information on our unadjusted and adjusted Reference Portfolio demonstrating the performance impact of our RI and carbon exclusions over time;
- Produced a third report against the recommended disclosures of the TCFD and Crown Responsible Investment Framework alongside this Annual Report; and
- Expanded the Guardians' cost analysis to provide additional transparency and more comparable information.

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BOARD MEMBERS

CATHERINE DRAYTON
LLB, BCom, FCA
CHAIR

APPOINTED TO THE GUARDIANS' BOARD IN 2018

Committees: Audit, Employee Policy and Remuneration (ex officio)

JOHN WILLIAMSON
BA, LLB, LLM

APPOINTED TO THE GUARDIANS' BOARD IN 2016

Committees: Audit and Employee Policy and Remuneration (Chair)

HENK BERKMAN
PhD, MCom

APPOINTED TO THE GUARDIANS' BOARD IN 2018

Committees: Audit

DOUG PEARCE
BCom, ICD.D

APPOINTED TO THE GUARDIANS' BOARD IN 2016

Committees: Audit (Chair) and Employee Policy and Remuneration

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

APPOINTED TO THE GUARDIANS' BOARD IN 2020

Committees: Employee Policy and Remuneration

For full bios of our Board members see pages 88-89 or visit: www.nzsuperfund.nz/nz-super-fund-explained-governance/board

Changes to Board

The Board's composition changed during the year with the appointment of David McClatchy for a five-year term beginning 1 October 2021, Simon Botherway's term ending in September 2021 and the resignation of Kirsty Mactaggart in February 2022.

We welcomed David McClatchy to the Board on 1 October 2021. David is a respected business leader and financial markets professional. Over his career he has run and directed multinational investment organisations across New Zealand, Australia and Asia, managing funds for insurance firms, corporates, sovereign wealth funds, superannuation funds, iwi and charities. A full profile of David is available on page 89.

DAVID MCCLATCHY
BCom

APPOINTED TO THE GUARDIANS' BOARD IN 2021

Committees: Audit

LEADERSHIP TEAM

MATT WHINERAY
BCom, LLB (Hons)
CHIEF EXECUTIVE OFFICER

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

MIKA AUSTIN
BA, LLB
GM HUMAN RESOURCES

Areas of responsibility:
People and performance, culture, administration

GEORGE CROSBY
BCom, LLB
GM PORTFOLIO COMPLETION

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

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

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

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

STEPHEN GILMORE
BCom, MCom, CA
CHIEF INVESTMENT OFFICER

Areas of responsibility:
Asset allocation, strategic tilting, data analytics, responsible investment, external investments and partnerships, direct investment

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

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

CRISTINA BILLETT
LLB (Hons)
GM CORPORATE AFFAIRS

Areas of responsibility:
Board secretariat, communications, legal

PAULA STEED
BCA, CA
GM STRATEGY AND SHARED SERVICES

Areas of responsibility:
Investment operations, financial control, financial reporting, tax, external audit process and corporate strategy

Changes to our Leadership Team

In February 2022 we farewelled Sarah Owen, General Counsel and General Manager, Corporate Strategy. Sarah joined the Guardians in 2007, initially as Head of Legal, and joined the Leadership Team in 2013. We thank Sarah for her contribution to the Guardians and the Funds, and wish her all the best for her new role at the Reserve Bank of New Zealand.

On 1 July 2022 Cristina Billett was promoted from her role of General Counsel to the position of General Manager, Corporate Affairs. Cristina has been with the Guardians since 2009, following roles in both law firms and as in-house counsel in the financial services industry. Cristina has substantial experience in financial services with expertise across various facets of law including mergers and acquisitions, corporate and commercial law, health and safety, public law and governance.

SIR MICHAEL CULLEN AND BRIAN GAYNOR REMEMBERED

Moe mai rā e te Rangatira

We would like to acknowledge the passing this financial year of two significant figures who are part of the whakapapa of the Guardians. As the current kaitiaki, we are privileged to continue building on their vision.

"Michael Cullen, 2008" by New Zealand Labour Party is licensed under CC BY 3.0.
To view a copy of this license, visit https://creativecommons.org/licenses/by/3.0/?ref=openverse.

SIR MICHAEL CULLEN KNZM

1945 – 2021

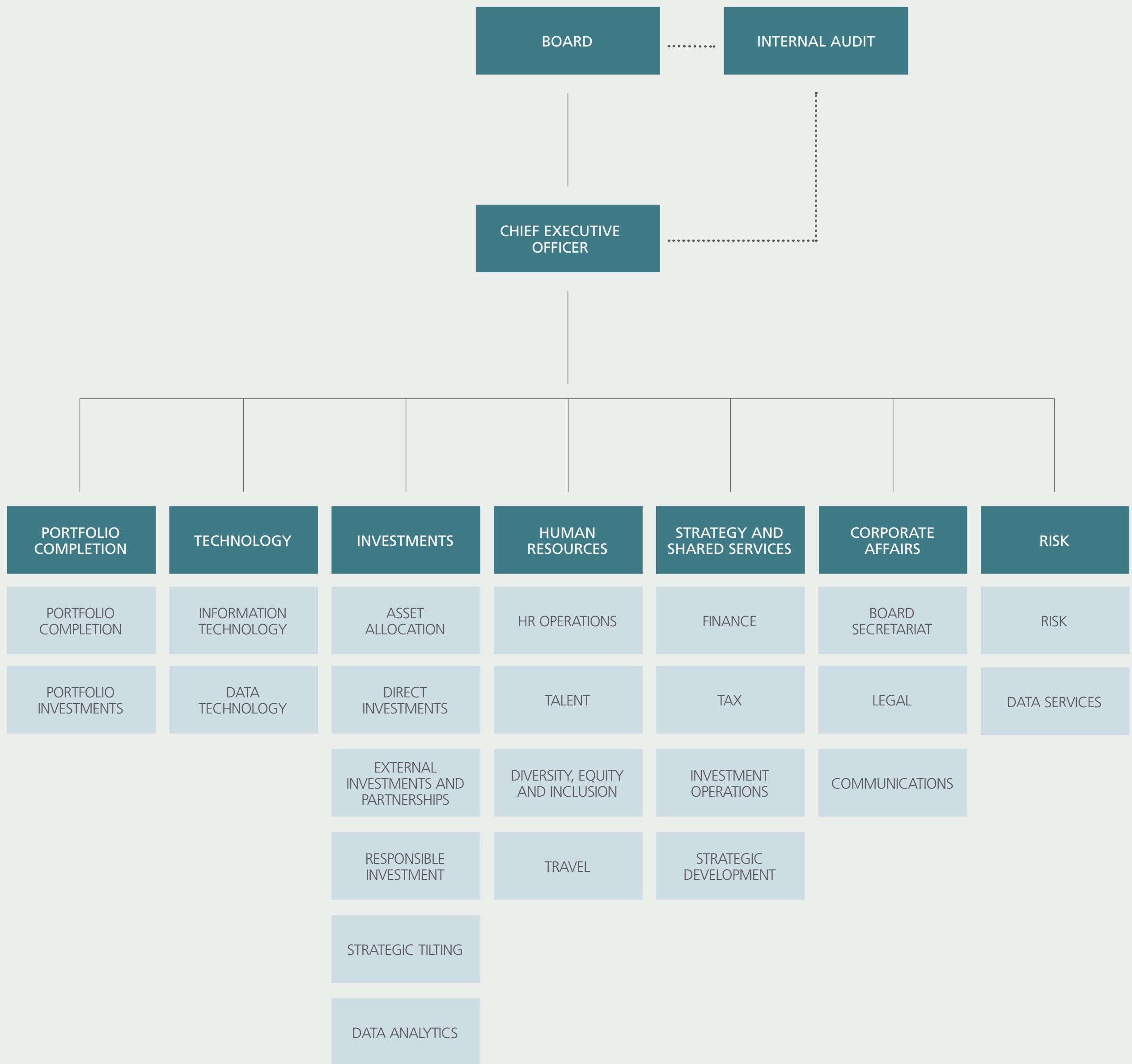
Moe mai rā e te Rangatira Sir Michael Cullen. In August 2021 we said goodbye to our founder Sir Michael Cullen. Sir Michael's legacy is deeply felt by many of us at the Guardians, and we would like to acknowledge his lasting contribution to supporting future generations of New Zealanders with dignity in retirement.

BRIAN GAYNOR

1948 – 2022

Moe mai rā e te Rangatira Brian Gaynor. A major and influential figure in New Zealand's capital markets, Brian was on the establishment board for the Guardians and played a key role in setting strong foundations for the NZ Super Fund to succeed.

ORGANISATIONAL CHART



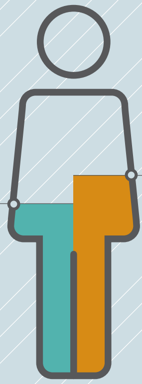
WORKFORCE SNAPSHOT

An INCLUSIVE team creating a better future through investment excellence

GENDER BALANCE

44% Female

84 Total



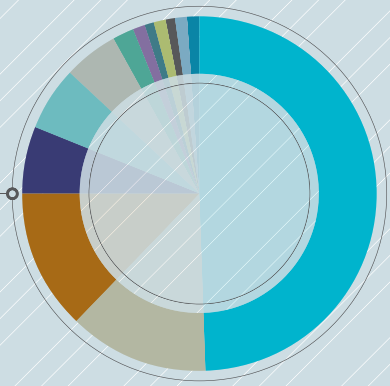
56% Male

106 Total

As at 30 June 2022, no one in the Guardians' team identified as non-binary

ETHNIC PROFILE*

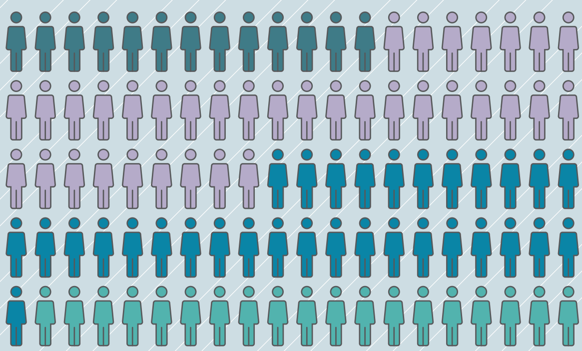
New Zealand European	50%
Other European and European NFD**	13%
Chinese	13%
Southeast Asian	6%
Indian	6%
Other Asian and Asian NFD**	5%
Māori	2%
Pacific Peoples NFD**	1%
Samoan	1%
Fijian	1%
Latin American	1%
Other ethnicity	1%
Not stated	1%



*Totals do not add to 100% due to rounding. **NFD stands for "Not Further Defined".

BY AGE

20-29	13%
30-39	36%
40-49	32%
50+	19%



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3-3

All data correct as at 30 June 2022

New permanent employees hired **42**

190 People

FEMALE REPRESENTATION

44% Staff Members

33% Board Members

38% Leadership Team

33% Heads of Teams

36% Investment Professionals

GENDER PAY GAP

100%
17% Mean
0%

100%
27% Median
0%

ALL STAFF TURNOVER

9.5%

2-7
3-3

OUR PEOPLE

People are at the heart of what we do. Attracting, retaining, developing and caring for our people is critical to our success and fundamental in achieving our Purpose and Vision.

OUR VALUES

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

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

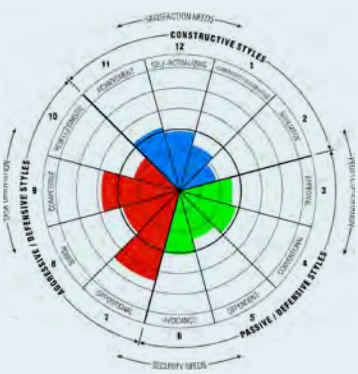
OUR CULTURE

In February 2022 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 survey was completed by 97% of our employees. This is the sixth time we have used these tools to measure our organisational culture, with surveys run previously in 2011, 2013, 2015, 2017 and 2020. The OCI assesses culture by measuring to what extent Guardians' staff are expected or implicitly required to demonstrate a variety of behavioural styles. The OEI identifies the impact of the current operating culture. Together the tools provide valuable insight to enable action planning.

Interestingly, we conducted our 2020 Culture Survey just ahead of the COVID-19 lockdown period, which caused a substantial change to the way our team worked. Over the 24 month period, together with the rest of Aotearoa New Zealand, we have weathered the changes brought on by COVID-19, and have kept our team's health and well-being top of mind. We are delighted with the 2022 Culture Survey results. The results showcase a constructive culture with minimal evidence of aggressive/defensive or passive/defensive styles. Even through a tough two-year period our culture has continued to improve as we strive towards our ideal culture.

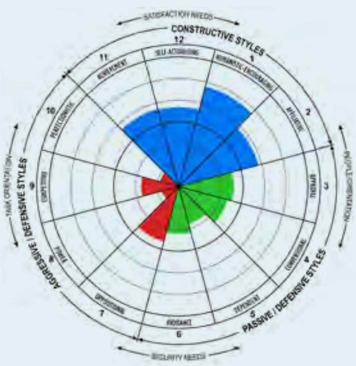
OUR FIRST CULTURE SURVEY

2011
N = 65



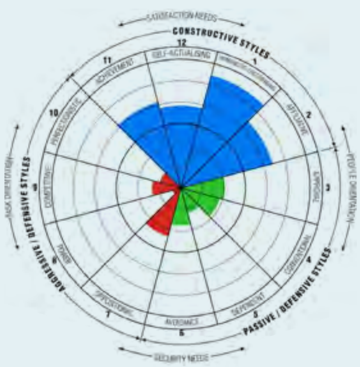
OUR 2020 CULTURE SURVEY

2020
N = 154



OUR 2022 CULTURE SURVEY

2022
N = 182



*N represents the total number of employees who completed the Culture Survey.

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Culture Survey **2022**

DIVERSITY, EQUITY AND INCLUSION (DE&I)

We have a long-standing organisational commitment to DE&I in our workplace. We are dedicated to cultivating a diverse and inclusive environment where all our people are treated fairly and feel fully engaged, valued and included. We first identified DE&I as a key strategic priority for 2020/21 and engaged an external provider to conduct an independent review of our DE&I current state. This review involved more than 60 participants and gathered over 400 data points through various research methods.

The review found the Guardians has good foundational practices to support DE&I, but to move towards best-practice there is still significant work to do. To do this, the Leadership Team and Board agreed five principles that will guide us on the way forward:

- We build the Guardians to reflect the communities we serve as we believe it is the right thing to do to enable better outcomes and decision-making;
- We promote all aspects of diversity including ethnic diversity, and we have a particular focus on Māori and Pasifika representation, and women in leadership;
- A Te Ao Māori approach is integrated into our approach and ways of working;
- Leadership accountability and transparency will help drive our DE&I progress; and
- We will build our DE&I maturity through bottom-up and top-down support.

To lead the development of our DE&I strategy, the Guardians appointed Rachael Le Mesurier as Head of DE&I in March 2022. Since being on board, Rachael has been exploring how we approach our understanding and integration of Te Ao Māori as an organisation and is working alongside Te Amokura and colleagues to form our strategy going forward. Rachael has also been building on the DE&I work already done, by co-creating with all our teams the fundamentals necessary to build a DE&I Strategy that is relevant, values-based and fit for purpose. She shares the Leadership Team's aim that the final DE&I Strategy will engender a sense of ownership for everyone across the entire organisation.

Rachael Le Mesurier, *Head of Diversity, Equity and Inclusion*

Rachael is responsible for leading the design of a Guardians' DE&I Strategy, helping us clearly define our DE&I goals, and partnering with leaders and staff across the organisation to enable us to realise these goals.

She has extensive experience and expertise as a leader and enabler with 'for purpose' organisations that are values-based, people-centred and governance led. Most recently the Executive Director for Oxfam Aotearoa (2014–2022), Rachael has worked across Aotearoa New Zealand, the Pacific and the UK for over 35 years as a volunteer, frontline worker, senior executive/CEO and as a Board/Executive Committee member.

This includes working with Tangata Whenua and Mana Whenua; Pacific communities in Aotearoa and in their island nations; women and girls; LGBTQI+/sexual minorities; people with disabilities; survivors of sexual assault; people living with HIV; sex workers; migrants and refugees.

In the 2020 New Year's Honours, Rachael was awarded the Companion of the New Zealand Order of Merit (CNZM) for services to governance, the community and health. To learn more about Rachael and her thoughts on DE&I at the Guardians and the wider investment community, go to page 36.

LEARNING AND DEVELOPMENT

We provide a wide range of learning and development opportunities at the Guardians, including job rotation opportunities, secondments, centrally coordinated and funded courses (including LinkedIn Learning) available to all employees, and manager budgets to fund unique individual development needs.

In the 2022/23 financial year we will be launching a new campaign under the banner of "Take Charge of Your Career" to further encourage staff to reflect on career aspirations, development gaps and learning goals, and to engage with our Individual Development Planning process. In addition, we have designed and will be launching two leadership development programmes: a People Leader programme, and Leader of Leaders programme. These initiatives will provide education on both managerial processes and important leadership concepts, thereby creating a common understanding of 'what great leadership looks like' at the Guardians.

OUR PEOPLE (CONTINUED)

TALENT AND RECRUITMENT

Ensuring we attract and retain top talent at the Guardians is an ongoing priority. We're pleased to report that 2021/22 has marked one of the busiest years for recruitment to date, reflecting the growth of the Guardians and the Funds, our operations here in Aotearoa New Zealand and our partnerships across the globe.

This year we made 94 appointments. This has included:

- 51 new hires*; and
- 43 internal placements (promotions and job transfers).

Continuing to improve our talent sourcing is an ongoing priority for 2022/23. We are in the process of developing a talent sourcing strategy and roadmap which aims to support us in being more proactive in our talent sourcing practices, including building qualified talent pools, and supporting our DE&I objectives. A key focus will be aligning the talent sourcing and DE&I strategies being formed, to ensure we are continuing to nurture a workforce that is high-performing, inclusive and representative of New Zealand.

COVID-19 AND EMPLOYEE WELL-BEING

The health and well-being of our team and our response to COVID-19 have been a significant focus in 2021/22. Throughout the financial year, we regularly assessed the risk associated with COVID-19 to ensure the health, safety and well-being of Guardians' employees, contractors, service providers and visitors, as well as their whānau.

Our response to the pandemic has been enabled through an ongoing process of engagement, including the monitoring of employee sentiment on a weekly basis and periodic COVID-19 specific surveys consulting the team to inform next steps in our pandemic response.

Following feedback regarding the emotional impact of being disconnected from family and friends based abroad, we established an international working offering, allowing employees to work outside of New Zealand for a temporary period. As domestic and international COVID-19 related restrictions have eased we have also conservatively opened up business travel to reconnect and nourish our international relationships. In March we welcomed the team back into the office on a voluntary basis and have steadily seen office attendance increase, since then.

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* Includes two fixed-term employees and seven interns.

IMPLEMENTATION OF OUR IMPROVED HUMAN RESOURCES SYSTEM

In late 2019 we recognised a need for a digital solution to streamline our human resources processes and data. This new platform will deliver end-to-end management of the whole employee life cycle, including core HR, recruitment, talent and succession, learning, performance and goal management, compensation, benefits, and health and safety.

In November 2021 Phase 1 of the cloud-based Oracle HCM implementation went live, delivering two modules – Recruitment and Core HR with integration to 10 of our existing services/tools. These modules provide a foundational functionality for our core people records, improving the user experience, allowing more self-service by individuals and streamlining people processes.

There have also been some challenges as a result of the implementation, such as ensuring we are consistent and streamlined in the onboarding of our contractors, and these processes continue to be refined.

Implementation of Phase 2 – rolling out additional modules (performance management, career development, goal management, learning and health and safety) – is expected to commence in mid-2023. Until that time we will continue to use the existing platforms to manage these processes.

HEALTH AND SAFETY

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

- Reduce and, where possible, eliminate hazards;
- Educate employees on health and safety issues;
- Prevent injury to people at work; and
- Comply with the requirements of the Health and Safety at Work Act 2015.

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

The Health, Safety, Security and Environment (HSSE) Committee comprises staff from across the business and advises the Leadership Team on the response to, and prevention of, HSSE-related risks across the organisation. The Committee aims to promote a culture that identifies and mitigates unsafe situations and behaviours before they can impact people, the environment and the Guardians' reputation. The Committee meets every two months and reports to the Board annually. The Guardians monitors the health and safety of our team on an ongoing basis.

In 2021/22, the Committee's core focus was on monitoring and advising the Guardians' Leadership Team of health and safety concerns arising out of the adoption of our wider working-from-home operating model as a result of the pandemic. This included guidance in relation to COVID-19 vaccinations, response to the Government's COVID-19 Traffic Light System, and travel.

Other Guardians' health, safety and wellness activities include:

- Annual health and safety training;
- Fully funded life, health, trauma, and income continuance insurance;
- Workstation assessments for employees;
- Height-adjusted desks provided in the office;
- Free healthy heart checks and influenza injections;
- Access to corporate subscription for a mindfulness app;
- Wellness webinars available to all employees and their families;
- Provision of emergency kits to comply with Civil Defence and Emergency Management recommendations;
- Access to counselling via independent Employee Assistance Programme providers;
- Regular Occupational Health Nurse visits.

GOOD EMPLOYER

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

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

Element	Guardians' activity
Leadership, accountability and culture	• Alignment between Strategic Plan objectives, individual objectives and performance measures • Following up on the results of our most recent Organisational Culture Inventory (OCI) and Organisational Effectiveness Inventory (OEI) surveys
Employee development, promotion and exit	• Programme in place to identify and develop talent • Vacancies advertised internally • Internal secondment opportunities • Exit interview process
Recruitment, selection and induction	• Robust recruitment and selection processes • Onboarding and induction for all staff
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 tenth year, with increased participation and refinements to simplify the programme this year
Flexibility and work design	• IT systems facilitate remote working from home • Flexible working arrangements supported • 6/7 primary carer 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

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Q&A: Rachael Le Mesurier, Head of Diversity, Equity and Inclusion

RACHAEL LE MESURIER
HEAD OF DIVERSITY, EQUITY AND INCLUSION

Why is DE&I important to the Guardians?

Our Vision, Te Whāinga Roa, is to have *an inclusive team creating a better future through investment excellence.*

We see improving the Guardians' DE&I practices as a core step in living our values, enhancing the breadth of our talent, maximising the experience from our diverse backgrounds and expanding the depth of our insights – all of which will help us achieve better outcomes for all New Zealanders. In recent years the Guardians has introduced a number of DE&I initiatives, such as our Diversity and Inclusiveness Policy, a comprehensive review of staff leave and benefits, and enhanced public reporting on organisational demographics and gender pay equity. We are concerned, however, about significant underrepresentation of Māori and Pasifika across our workforce and in our decision making. We are acutely aware of the lower numbers of women in leadership positions and the resulting gender pay gap, despite our gender pay equity achievements.

How has DE&I improved outcomes in the broader investment sector?

A great piece of research, 'The Other Diversity Dividend' (Gompers & Kovvali, 2018)[*] in the *Harvard Business Review*, analysed the venture capital industry and was able to show that diversity significantly improves financial performance on measures such as profitable investments at the individual portfolio-company level, and overall fund returns.

Many across the finance and investment sector in Aotearoa have made similar moves to prioritise DE&I in their governance and workforce with all making the case very clearly that a more diverse workforce delivers better performance overall. For the Guardians, we believe the benefits of increasing DE&I will provide advantages organisation-wide, by improving our resilience, effectiveness, cultural competence and problem-solving abilities.

Where do you see the greatest challenges and opportunities for DE&I at the Guardians?

Where we have wonderful champions who are passionate, can see what we need to do and want us to move quickly, we will also have those who are new to these discussions and understandably want to go slower so they have more time to find their place in these changes. Therefore, one of the greatest challenges is not going fast enough for some and going too fast for others.

We're also very aware of the intense competition for top, diverse talent – the recruitment market at the moment is very challenging. We see an opportunity to leverage our Purpose and strong employee value proposition to attract the very best candidates to the Guardians, and to invest in growing our own talent. We believe growing our DE&I will make the Guardians an even more enjoyable, stimulating, fun and rewarding place to work.

How is Te Ao Māori being integrated into the Guardians' approach and why?

We already have a focus on honouring the place of the Treaty of Waitangi/Te Tiriti and Te Ao Māori (the Māori world view) in our work and building a safe working environment that welcomes, celebrates and values real diversity. We believe having a more diverse, equitable and inclusive workplace that values Te Tiriti and is enhancing our understanding of Te Ao Māori will make the Guardians a truly values-based organisation in all that we do.

There are three key areas in which we are looking to grow our understanding and integrate Te Ao Māori into the organisation: 1) te reo – Māori language; 2) Tikanga – protocols and customs; and 3) Te Tiriti – the Treaty.

Building our cultural capacity and deepening our respect and understanding of Te Ao Māori, including te Tiriti, we think will benefit all of us, Tangata Whenua and Tauiwi.

3-3

* Gompers, P., & Kovvali, S. (2018). The Other Diversity Dividend. Harvard Business Review. https://hbr.org/2018/07/the-other-diversity-dividend

WORKFORCE PROFILE

COMPONENTS	2022	2021	2020	2019	2018
Our workforce					
Full-Time Equivalent (FTE) employees	188.5	160.8	154.8	139.1	127.8
People (headcount)	190	163	157	141	130
Full-time (FTE)	98%	96%	96%	96%	95%
Part-time (FTE)	2%	4%	4%	4%	5%
Employees reporting disabilities	0%	0%	0%	0%	0%
Female representation					
Female staff members	84 (44%)	74 (45%)	68 (43%)	55 (39%)	48 (37%)
Female Board members	2 (33%)	3 (43%)	2 (29%)	2 (29%)	2 (29%)
Female Leadership Team members	3 (38%)	2 (29%)	2 (29%)	2 (29%)	2 (33%)
Female Heads of Teams	7 (33%)	6 (33%)	6 (33%)	6 (35%)	5 (31%)
Female Investment Professionals	24 (36%)	18 (31%)	16 (29%)	12 (22%)	12 (22%)
Gender pay gap*					
Gender pay gap – mean	17%	25%**	25%	23%	20%
Gender pay gap – median	27%	34%**	37%	32%	29%
Turnover* **					
Turnover – all staff	9.50%	6.10%	3.90%	6.30%	6.90%
Turnover – male (of male FTE)	8.60%	10.20%	5.70%	5.90%	6.20%
Turnover – female (of female FTE)	10.80%	1.10%	1.50%	6.90%	8.60%
Educational qualifications					
% of staff with a postgraduate tertiary qualification	48%	50%	50%	52%	53%
% of staff with an undergraduate tertiary qualification	87%	90%	90%	90%	90%
Investment in staff training as a % of total Guardians' operating expenditure	0.80%	0.90%	0.90%	1.20%	1.20%
Return to work and retention after parental leave (as primary carer)**					
Return to work – male	67%	100%	100%	100%	None taken
Return to work – female	100%	100%	75%	100%	100%
Retention as at 30 June after returning during the year – male	100%	100%	67%	None taken	None taken
Retention as at 30 June after returning during the year – female	100%	83%	100%	100%	100%
Health and safety					
Lost-time work injuries	0	0	0	0	0
Sick-leave days per FTE	3.6	3.3	2.9	3.9	4.7

* We report contractual base hourly rate of pay for the entire employee workforce (excluding CEO). 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 mid-points in the range of hourly base pay of males and females. The mid-point 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. As outlined on page 112, we pay equally for work of equal value.

** 2020/21 gender pay gap results have been restated due to a correction in the calculation.

*** We define turnover as voluntary turnover.

**** All employees are eligible to take leave from work to care for their new child, subject to meeting the requirements of the Parental Leave and Employment Protection Act 1987.

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Investment Reports
Ngā Pūrongo Haumi Pūtea

Investing for future generations

For the NZ Super Fund to meet its intergenerational purpose, the ability to take market risk to earn investment returns over long periods of time is crucial.

A significant downturn in global markets during the second half of the financial year saw the NZ Super Fund finish the year $3.3 billion smaller than it was a year earlier. At $55.71 billion (before tax), Fund size was well below the all time peak for a month-end of $61.3 billion (before tax) seen on 31 December 2021. Overall, the Fund returned -6.99% over 2021/22 (after costs, before New Zealand tax), compared to a Reference Portfolio benchmark return of -14.24%, reflecting significant negative returns from all components including global and New Zealand equities and global fixed income.

As we have seen this year, the Fund's weighting to growth assets carries the "market risk" of experiencing unrealised losses when financial markets fall in value. In the short-term, growth assets such as shares can experience large price fluctuations. Over the long-term, however, the Fund's exposure to market risk is expected to pay off in the form of higher returns than the cost of the Government contributions. Furthermore, the Fund's long-term investment horizon enables it to ride out and potentially benefit from these short-term movements.

This exact scenario played out during 2021/22 as the impact of the challenging market conditions was cushioned by a highly successful year for active investment strategies. Strategies ranging from strategic tilting to timber, global macro, tactical credit and equity factors mandates did well during what was a volatile period, delivering very strong returns. In dollar terms, value added by the Guardians' active management hit an all time high of $4.5 billion. On this basis, while it might seem counter-intuitive given the headline loss, 2021/22 was actually a very strong year for the Fund. We outline the performance of our value-adding active strategies in more detail on pages 48 – 53.

The table below illustrates how the NZ Super Fund has performed against its key benchmarks; over 1, 5 and 10 year time horizons and since inception (October 2003).

The Government is $34.61 billion better off as a result of investing in the Fund instead of paying off debt.

NZ Super Fund Performance as at 30 June 2022

	SINCE INCEPTION p.a.	10 YEARS p.a.	5 YEARS p.a.	1 YEAR
Actual Fund Returns (after costs, before tax)	9.65%	12.06%	8.09%	-6.99%
Reference Portfolio Return (after costs, before tax)	8.02%	9.41%	5.98%	-14.24%
Value-added (Actual Return – Reference Portfolio Return)	1.63%	2.65%	2.11%	7.25%
Estimated $ earned relative to Reference Portfolio*	$13.29b	$11.24b	$5.03b	$4.50b
New Zealand Treasury Bill Return	3.37%	1.80%	1.05%	0.77%
Net Return (Actual Return – Treasury Bill Return)	6.28%	10.26%	7.04%	-7.75%
Estimated $ earned relative to Treasury Bills*	$34.61b	$32.00b	$14.80b	($4.84b)
Crown contributions*	$22.4b	$7.5b	$7.5b	$2.4b
New Zealand income tax paid*	$9.76b	$7.57b	$4.19b	$2.21b
$ change in Fund size*	$55.71b	$36.71b	$20.34b	($4.08b)

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* Figures are cumulative and not per annum.

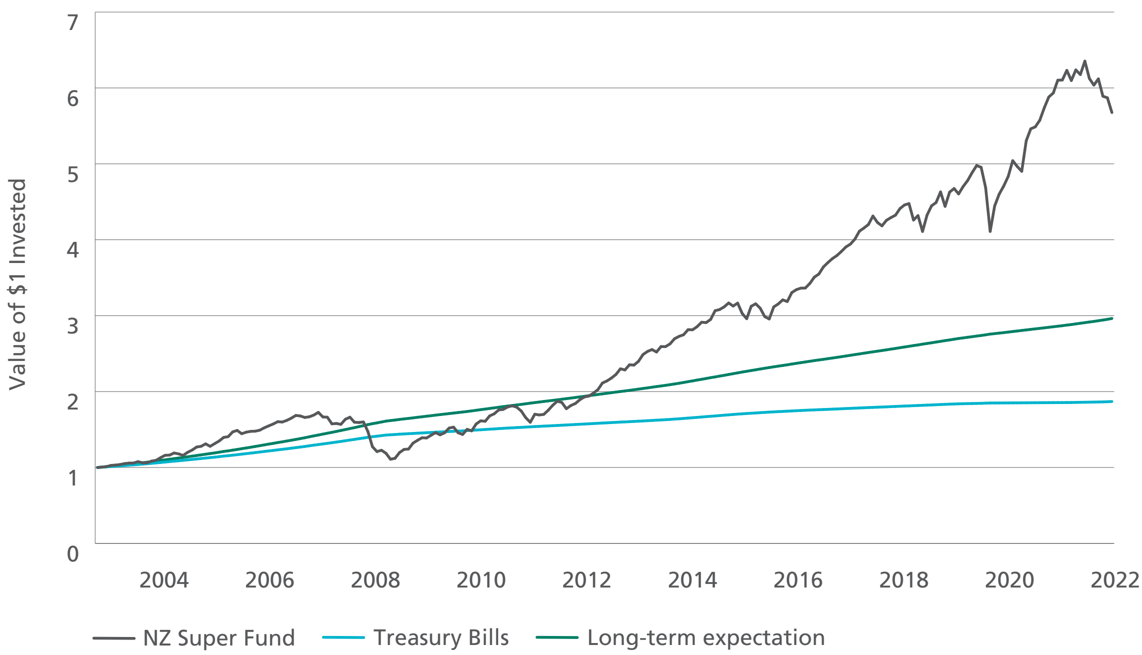
We measure the NZ Super Fund's performance using two key benchmarks: Treasury Bills and the Reference Portfolio.

TREASURY BILL BENCHMARK

In simple terms, the Treasury Bill benchmark measures whether the Government would have been better to pay off debt instead of putting money into the Fund. Treasury Bills are wholesale debt securities issued by the Crown. Over time, the Fund is expected to earn more in investment returns than the Government is paying in interest on the Treasury Bills it is issuing, increasing overall Crown wealth and putting the Government in a better position to meet future superannuation costs.

The graph below shows the cumulative Fund return since inception, relative to Treasury Bills. The gap between the blue and black lines represents the additional $34.6 billion (after costs, before New Zealand tax) that has been earned, above the return on Treasury Bills, since investing began in 2003.

NZ SUPER FUND PERFORMANCE VS TREASURY BILLS AND LONG-TERM PERFORMANCE EXPECTATION



The green line shows our **long-term expectation** that the Fund will return at least the 90-day Treasury Bill rate (estimated at 4% p.a.) + 2.8% p.a. over any 20-year rolling average period; 2.8% is the amount we expect the Reference Portfolio, with its weighting of 80% growth assets and 20% income assets, will earn, over and above the return on Treasury Bills. This expectation recognises that the Reference Portfolio is invested in riskier assets than the Treasury Bills and the 2.8% represents the return required to compensate for that additional risk. This is based on an assumed cost of running the Reference Portfolio of 0.23% p.a. and historical data about the kind of returns investors can expect from taking on market risk. As the graph shows, to date the Fund has significantly exceeded our long-term return expectation. We discuss the Reference Portfolio further in the next section.

OUR ENDOWMENTS

LONG HORIZON

We have the ability to invest in illiquid assets and ride out short-term market movements

OPERATIONAL INDEPENDENCE

Investments by the NZ Super Fund are made on a purely commercial basis

SOVEREIGN STATUS

Our sovereign status allows us to pay lower tax in some jurisdictions and is often favourably regarded by business partners

GOVERNANCE

The Guardians is designed to operate at arms' length from the Government

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REFERENCE PORTFOLIO BENCHMARK

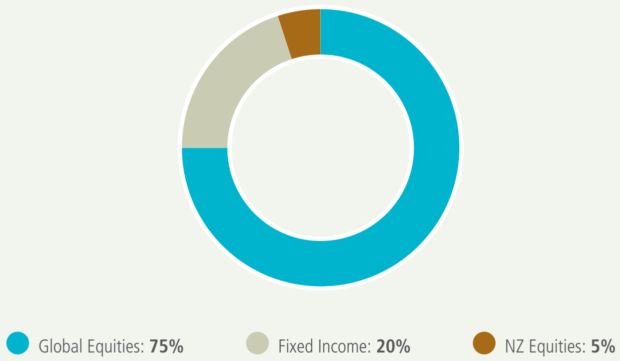
We adopted a Reference Portfolio benchmark and portfolio construction approach in July 2010.

We use the Reference Portfolio to benchmark the performance of the Fund's Actual Portfolio and the value we are adding to it.

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

We have chosen a Reference Portfolio made up of 80% equities (or shares) and 20% bonds, with foreign currency exposures 100% hedged to the New Zealand dollar (NZ$). We believe that this 80:20 asset allocation represents an appropriate balance between maximising return and avoiding undue risk. The composition of the Reference Portfolio is reviewed every five years by the Board, most recently in 2020.

Reference Portfolio



The table below shows how the components of the Reference Portfolio have performed over time. The returns are shown on a hedged to NZ$ basis to the year ended 30 June 2022. Total return includes estimated costs to operate the Reference Portfolio.

Reference Portfolio Benchmark*	Weight	2021/22 Return	Return p.a. since 2010	Since inception p.a.
Global Equities	75%	-15.55%	10.87%	9.13%
New Zealand Equities	5%	-14.06%	11.40%	9.38%
Global Fixed Income	20%	-8.85%	4.19%	5.74%
Property**	0%	N/A	14.73%	6.67%
Total	100%	-14.24%	9.37%	8.02%

* The Reference Portfolio was introduced in 2010. Returns prior to 2010 use a former Strategic Asset Allocation benchmark.
** Property had a 5% weight between July 2010 and June 2015.

In the short term, because of the high proportion of equities in the Reference Portfolio, we may experience considerable volatility in our investment returns – as was the case during 2021/22. Over the long term, however, the Reference Portfolio has exceeded return expectations.*

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* Returns prior to the introduction of the Reference Portfolio in 2010 are estimated based on a former Strategic Asset Allocation benchmark.

ACTIVE INVESTMENT STRATEGIES

While the Reference Portfolio in itself does a reasonable job of meeting the Fund's long-term objectives, we use our governance and decision-making processes to try and do better: to pursue active investment strategies that aim to make an additional return over and above the Reference Portfolio 'market' return.

The Fund is $13.29 billion better off as a result of the Guardians' active investment management.

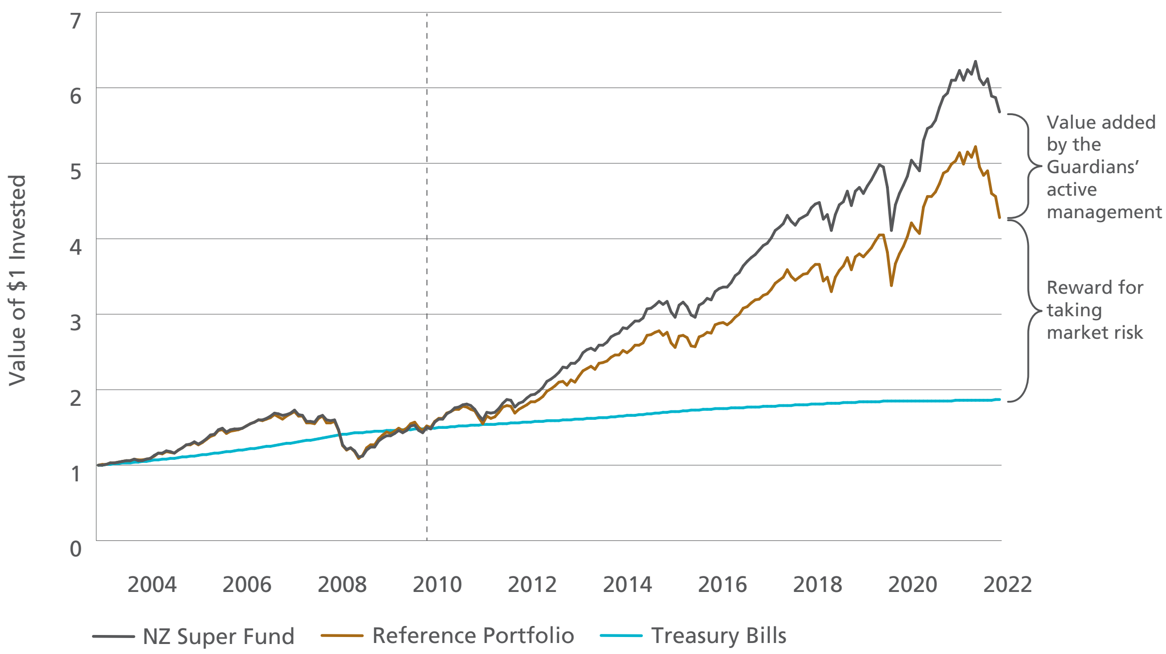
While these activities diversify our risk exposures away from equities with the goal of generating higher-than-expected returns, undertaking them entails complexity and cost, and brings other risk concerns, such as liquidity, into play. This is why we will only invest actively where we have a strong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

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

We deviate from the Reference Portfolio through our active investment strategies by investing in ways that allow us to benefit from our endowments (outlined on page 41), whether by investing in illiquid assets, buying assets cheaply in periods of market crisis, or leveraging our long-term investment horizon to make investments that would be challenging for other market participants.

Many of these strategies rely on the belief that withdrawals from the Fund will not be made until 2035, which enables us to embrace active, contrarian strategies that may pay off over the long-term. An example is our Strategic Tilting Strategy, which uses derivatives to take positions across a number of investment markets (including equities, bonds, currencies and commodities). This programme relies on a belief in mean reversion in asset prices and is a buyer of 'risky' assets during financial market shocks, like the recent COVID-19 crisis.

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



*The Reference Portfolio was introduced in 2010. Returns prior to this are based on a former Strategic Asset Allocation Benchmark.

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

Our expectation, given our current active risk settings, is that over rolling 20-year periods the Fund's active investment strategies will be able to add an extra 1.0% p.a. above the 6.8% return we expect the Reference Portfolio to deliver.

This year, the Fund returned -6.99% (after costs, before New Zealand tax). As detailed above, this compares to a Reference Portfolio return of -14.24%. This means that our active investment strategies outperformed our benchmark by 7.25%. Expressed differently, this outperformance equates to an additional $4.5 billion return for the Fund.

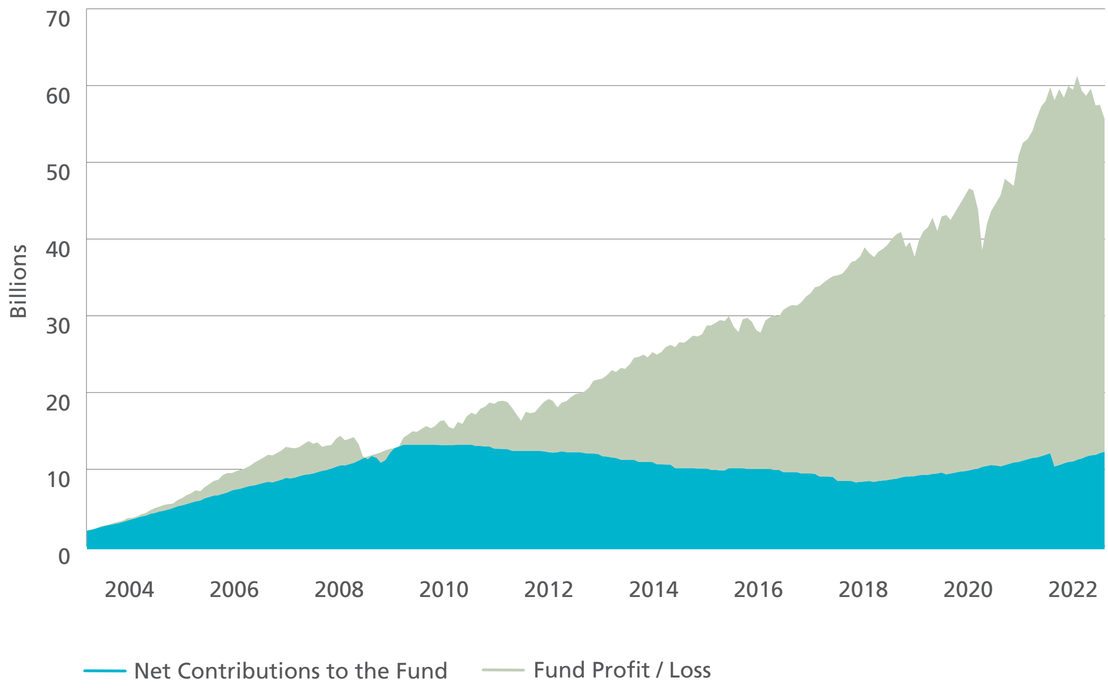
See pages 47 for an assessment of the investment environment influencing the Reference Portfolio return, and pages 48 – 53 for a breakdown of the active investments driving our value-add performance.

The graph on the previous page helps to illustrate how each of the components of our investment decision-making has contributed to our outperformance of the Treasury Bill return. Taken together, the returns generated by our 80:20 Reference Portfolio approach ($21.3 billion) and our active investment strategies ($13.3 billion) comprise the $34.6 billion we have generated over and above the Treasury Bill return since inception.

Over the next 50 years, the Fund is expected to become an increasingly important asset for the New Zealand Government. Based on Treasury modelling, the Fund will increase in size from about 17% to 39% of GDP and NZ Super Fund tax paid to the Crown will increase from 0.1% to 0.6% of GDP. All these projections are based on the return expectation driven by high market risk exposure, supported by our governance framework.

CUMULATIVE NET CONTRIBUTIONS AND SIZE OF NZ SUPER FUND

The graph below shows net government contributions to the Fund (factoring in tax paid back to the government), and the investment returns the Fund has earned on those contributions. The Fund continued to pay tax while government contributions were suspended between 2009 and 2017. On current Treasury projections, the government will start withdrawing money from the Fund to pay for universal superannuation from 2035. **At that point Treasury estimates the government will have contributed net $6.55 billion to the Fund (i.e. less than current net contributions of $12.6 billion) and the Fund will be worth more than $150 billion.** Net contributions to the Fund will decrease over time because the substantial amount of tax that the Fund pays in NZ will increasingly offset Government contributions.



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Performance impact of responsible investment exclusions and carbon reductions

As detailed in our Sustainable Finance Report on page 72, we exclude some securities from the Fund for responsible investment reasons. Broadly speaking, there are three types:

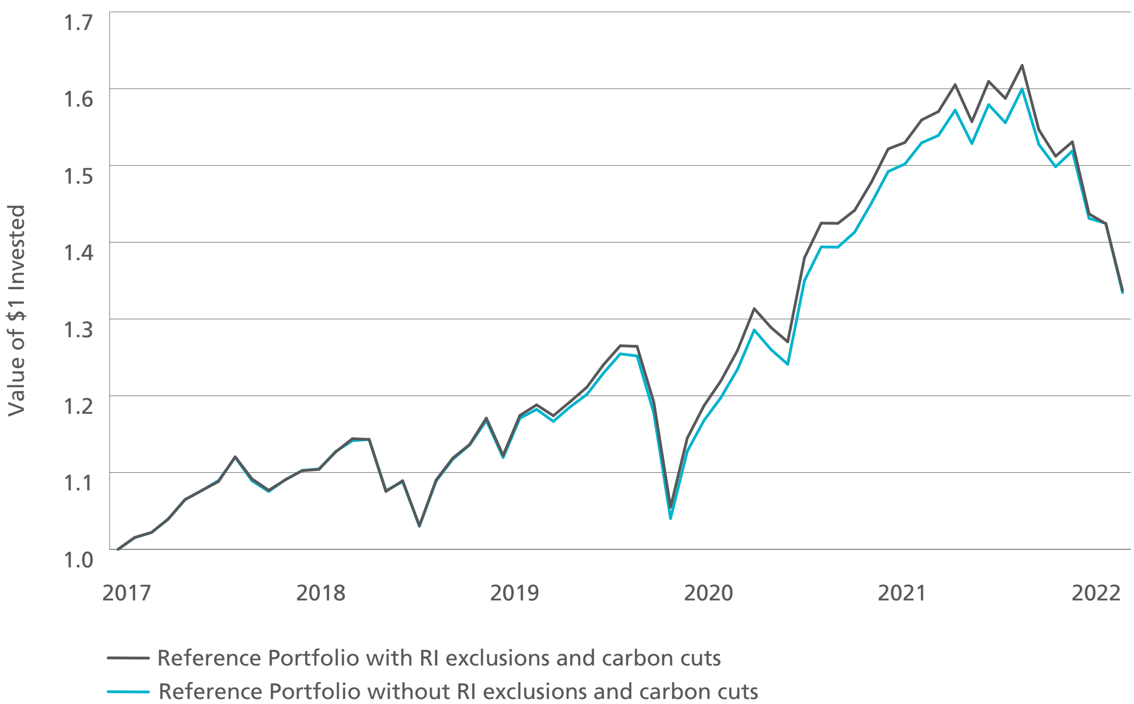
- selected sovereign bonds;
- product exclusions (e.g. tobacco); and
- exclusion of specific companies for corporate practices that breach our standards.

Full details of the criteria applied are available in the exclusions section on our website.

Under our Climate Change Investment Strategy we have also removed some companies from the Fund's listed equity portfolio in order to meet our emissions intensity and fossil fuel reserve reduction targets. Our Climate Change Report sets out our approach and our bespoke carbon methodology in detail.

In the following graph we illustrate the impact that the product and specific company exclusions, and the carbon reduction changes, have had on the performance of the Reference Portfolio. (Sovereign bond exclusions are not tracked). The most efficient way to estimate this is by calculating the performance of our Reference Portfolio with and without the changes. 2017 is chosen as a starting date as this is when we first implemented carbon cuts (the biggest influence on performance). The blue line shows how the Reference Portfolio would have performed without the changes, and the black line shows the difference to performance they have made. As the graph shows, while they generated some out-performance between 2019 and early 2022, as at 30 June 2022 the changes had not made a material difference to performance.

IMPACT OF RI EXCLUSIONS AND CARBON REDUCTIONS ON PERFORMANCE



From 1 July 2022 we changed the global equities component of the Reference Portfolio from the MSCI ACWI IMI index to the MSCI World Climate Paris Aligned Index and the MSCI EM Climate Paris Aligned Index. More information is available on page 63.

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RISK-ADJUSTED RETURN PERFORMANCE

THE SHARPE RATIO

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

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

30 June 2022	Reference Portfolio	Actual Portfolio
Expected Sharpe Ratios	0.21	0.28
Realised Sharpe Ratios		
Since introduction of Reference Portfolio (July 2010) to 30 June 2022	0.74	0.97
Since inception (December 2003) to 30 June 2022	0.44	0.53

Our long-run expectation is that the 80% growth, 20% income Reference Portfolio will achieve a Sharpe ratio of 0.21. For the Actual Portfolio, we expect a slightly higher Sharpe ratio of 0.28, with the increase as a result of the value we expect to be able to add through active investing.

REFERENCE PORTFOLIO

The Reference Portfolio has generated a higher Sharpe ratio than the 0.21 we expected. Since its introduction in 2010, the Reference Portfolio has a realised Sharpe ratio of 0.74. This is because the Reference Portfolio has experienced higher-than-expected returns, and lower-than expected risk, over both periods. This reflects strong market returns and lower volatility than our expectations since 2010. On a since inception basis, the realised Sharpe ratio of the Fund's benchmark is 0.44.

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 0.97, materially exceeding our expectation of 0.28. Again, this has been driven largely by returns exceeding expectations and, to a lesser extent, lower-than-expected volatility. On a since inception basis, the Actual Portfolio has realised a Sharpe ratio of 0.53. Over both periods, the Sharpe ratio of the Actual Portfolio compares favourably with that generated by the Reference Portfolio.

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Here, we discuss the major drivers of the economic and investment environment over 2021/22.

The investment environment during the past year has been defined by the unwinding of COVID-19 restrictions, the lasting implications of COVID-19 related policy measures, and the war in Ukraine.

The severe sell-off in global markets caused by COVID-19 in 2020 was followed by a rapid recovery as governments and central banks loosened policy to support their economies and protect jobs put under threat by the restrictions imposed. An additional consequence of this support was that asset values, from property to shares, rallied strongly.

Towards the end of 2021, it was clear that countries were getting on top of the pandemic and, for many, restrictions around people mobility and interaction were eased. Travel and service sector demand recovered strongly. One country that has taken a different approach is China, where their zero-COVID objective continues to contribute to global supply chain disruption.

A consequence of the policy approaches put in place to protect people and economies through the pandemic is now inflationary pressure which has increased significantly following a multi-decade low in most economies.

> "The main drivers of that higher inflation have been very strong demand, which was a natural and desired consequence of the stimulative monetary and fiscal policies, combined with supply constraints."

STEPHEN GILMORE, CHIEF INVESTMENT OFFICER

By early 2022, it became clear that inflation was higher and more persistent than expected. Compounding the outlook was Russia's invasion of Ukraine, which delivered an additional supply shock leading to increases in global energy and food prices.

Central banks have responded by taking an increasingly strong stance – increasing policy rates to remove stimulus and address inflationary pressure. However, the size and pace of policy tightening has markets on edge.

Many market observers are predicting a US recession within the next 18 months. The ability of European policy-makers to navigate their way through energy supply will be central to European economic growth.

Both of these issues are having significant global impacts:

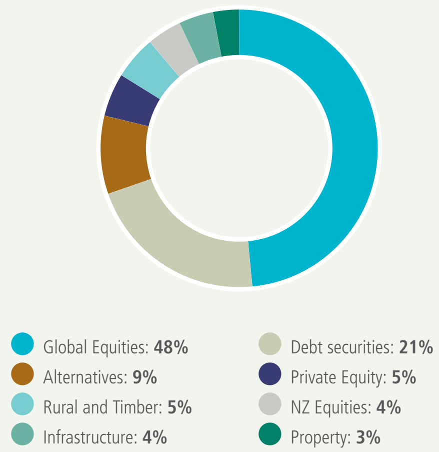
- Equity markets pulled back considerably through the second half of the financial year with global equity prices falling almost 16%* over the June quarter to go along with the 5% fall during the March quarter.
- Bond market returns have declined in light of tightening fiscal policy and rising yields.

The NZ Super Fund is strongly exposed to economic growth through our Reference Portfolio (80% global equities and 20% global bonds), which anchors the asset allocation of the actual Fund.

With such a strong weighting towards growth assets, the sell-off in equities this year has impacted the performance of the Fund, resulting in a negative annual return of -6.99%. However, our active investments have performed well relative to their benchmarks and have significantly reduced the draw-down of the Actual Portfolio relative to the Reference Portfolio (see pages 40 – 53 for more detail on the NZ Super Fund performance).

As a long-term investor, with no withdrawals scheduled until around 2035, the NZ Super Fund is well positioned to ride out short-term market volatility. As a result we have retained our long-term focus and continued to implement active investment opportunities that suit our long investment horizon.

NZ Super Fund Asset Exposures as at 30 June 2022*



* Excludes the impact of any strategic tilts. Totals do not add to 100% due to rounding.

* MSCI ACWI total return index

INVESTMENT OPPORTUNITY REPORT

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

In simple terms, there are two types of investments in the Fund:

- Passive, where a market index determines the stocks the Fund invests in; and
- Active, where we (or a manager working on our behalf) make a deliberate choice to invest in a company or security because we believe it will deliver a better risk-adjusted return over the long term.

Our active investments are funded from our passive Reference Portfolio holdings. To manage the risk that the Fund will be more volatile as a result of our active investments, when we make an active investment we fund it from a combination of growth and income assets in the Reference Portfolio that matches its risk characteristics. For example, Core Infrastructure is funded 60% with growth assets and 40% income assets. Similarly, when we sell an active investment, we will invest the proceeds back into the Reference Portfolio in the same proportion of growth and income as the initial funding. We call this proportion of growth and income assets the *proxy*: it represents the opportunity cost of the funding of an active investment and forms part of our hurdle rate (the minimum rate of return on an investment that we require). The active return of an investment is the difference between the asset return and its proxy return.

In making active investments, we take what we call 'active risk' (commonly known as tracking error). This means that there is a chance that the Fund will perform better or worse, or show more volatility, than the Reference Portfolio. It is really important, therefore, that we are prudent and commercial in how we manage this active risk – both in total, and in terms of how it is allocated to specific investment opportunities.

Our total budget for active risk is 4%. That is, we expect that the standard deviation of active returns is 4%. The 4% works as a long-term average rather than a cap on active risk. Within this total budget, we use a 'risk budgeting' process to allocate risk to specific investment opportunities. We are looking to allocate the most risk to the investment opportunities we believe will add the most value to the Fund.

OUR APPROACH TO ACTIVE INVESTING

START WITH THE REFERENCE PORTFOLIO

This 80% growth / 20% income portfolio reflects our equilibrium views and is the base case investment allocation and risk and return expectation.

→

DEVIATE FROM THE REFERENCE PORTFOLIO

We aim to make higher risk-adjusted returns by deviating from the equilibrium view, i.e. take active risk relative to the Reference Portfolio.

→

ALLOCATE ACTIVE RISK

Fund's active risk budget is allocated across Opportunities (areas where we have specific endowment advantages).

→

THIS RESULTS IN THE ACTUAL PORTFOLIO

With the Reference Portfolio as the base and after taking active risk, the Actual Portfolio achieves a higher risk-adjusted expected return.

An **opportunity** is a specific area within an asset class which has common drivers of returns and is conducive to generating active returns due to some combination of our endowments, structural economic features or manager skill.

The **proxy** is the proportion of growth and income assets in the Reference Portfolio that we will sell in order to fund an Opportunity to keep the volatility of the Fund the same as the Reference Portfolio.

Active return is the difference between the return generated from an Opportunity and its proxy. It is also the difference between the return on the Actual Portfolio and the Reference Portfolio.

Active risk is the degree to which the behaviour of the Actual Portfolio differs from that of the Reference Portfolio.

A **risk-adjusted return** is a calculation of the return or expected return from an investment that takes into account the degree of risk that must be accepted in order to achieve it. The risk is measured in comparison with that of a virtually risk-free investment.

The Fund's **active risk budget** (currently 4%) is a pre-agreed amount set by the Board, based on our Board's risk appetite and the potential for adding value. The 4% works as a long-term average rather than a cap on active risk.

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There are two key strategic decisions that determine the risk and return profile of the Fund: (i) choosing the structure of the Reference Portfolio, as discussed on page 42, and (ii) determining the size of the Fund's active risk budget. These are both Board decisions, informed by recommendations by the Guardians' management. The risk budget is then allocated to investment opportunities by management.

RISK BUDGET REVIEW

In 2022 we undertook a five-yearly review of the size of the total active risk budget and how we are allocating this active risk across investment opportunities. We ask ourselves what is the best way of doing this in order to maximise the Fund's risk-adjusted active return.

Factoring in the Fund's long-term information ratio, liquidity needs and its appetite for taking risk, the Board agreed to maintain a 4% active risk budget that has been in place since 2014.

The Board also approved a revised framework for allocating active risk budget across investment opportunities, incorporating:

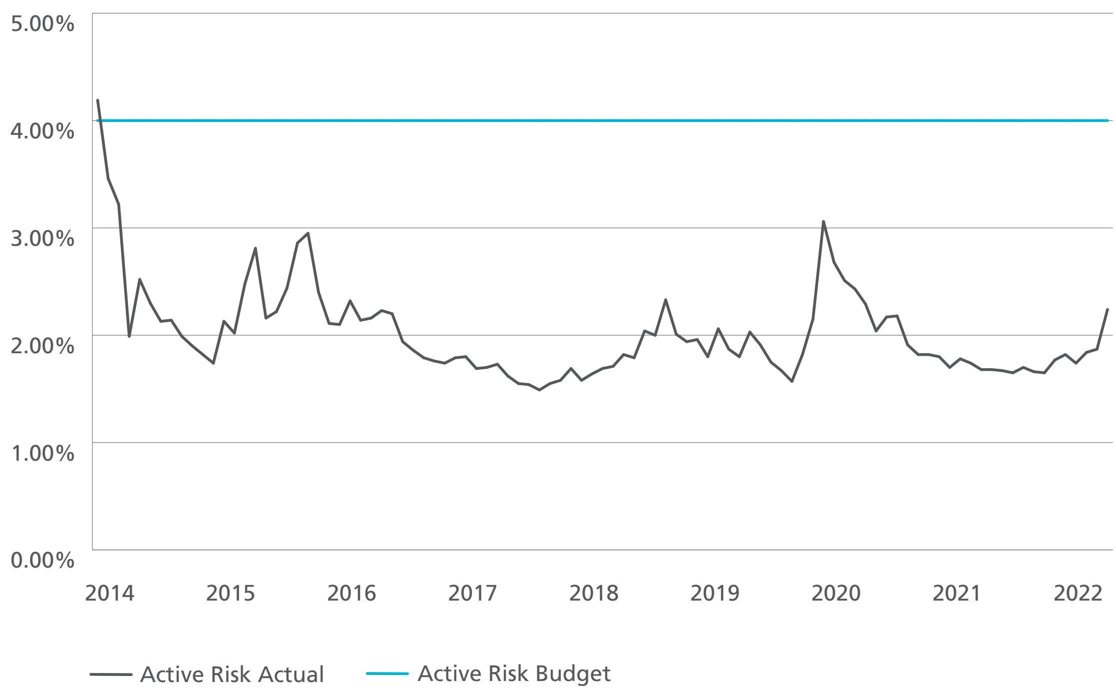
- Allocating budgets directly to opportunities. Previously, a two-step process was taken where budgets were first allocated to risk baskets, and then opportunities within baskets;
- Use of historical and forward-looking data due to new innovation and technology;
- Integrating sustainable finance objectives into the risk budget process; and
- Taking into account total portfolio liquidity considerations when allocating risk to opportunities.

USING ACTIVE RISK

The graph below gives an overview of the active risk the Fund has taken since 2014. The blue line represents the risk budget (the average allocation of active risk to opportunities over time), which is set and regularly reviewed by the Board. The black line represents how much actual risk the Fund has taken relative to the budget. As the graph shows, the Fund has been under its budget for active risk over this period. There is a range of reasons for this:

- Until recently the Fund's passive equity and bond holdings have performed very strongly. This has had the effect of depressing active risk usage as it reduces the size of the active portfolio as a share of the total portfolio below what it otherwise would have been.
- Active risk spiked in early 2020 as our Strategic Tilting Strategy responded to market volatility caused by the COVID-19 pandemic.
- The Fund has been underweight in real assets for some time. This reflects our view that Real Estate and Infrastructure have not been attractive sectors in which to allocate capital as strong demand for real assets from pension funds has bid prices up to high levels. We have recently added internal resourcing by hiring real asset specialists and, as pricing becomes more attractive, we will look to actively build our exposures in these sectors.
- Looking ahead, we see the Fund's active risk usage continuing to rise as we expect structural shifts in the economic environment to create attractive returns across a variety of opportunities.

TOTAL FUND ACTIVE RISK USAGE OVER TIME



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INVESTMENT OPPORTUNITY REPORT (CONTINUED)

ALLOCATING RISK TO INVESTMENT OPPORTUNITIES

Each investment opportunity is assigned to one of four groups and its attractiveness is assessed every six months. We set a target risk allocation for each opportunity on the basis of its assessed attractiveness. This process and these groupings have replaced the risk basket approach we have used since 2014, and which was described in last year's Annual Report.

TIME-VARYING ALLOCATION APPROACH

Group	Equity, Credit & Arbitrage	Internal Investment Mandates	Real Assets	Static Targets
Opportunities	• Growth Capital • Distressed Credit • Convertible Arbitrage • Natural Catastrophe Reinsurance • Life Settlements • Insurance Run-off • Merger Arbitrage • Buyout*	• Direct Arbitrage • Opportunistic Volatility • Tactical Credit • Strategic Tilting • Active Equities (NZ) • Event-Driven Opportunities • Variance Swaps* • Dividend Futures*	• Timber • Rural Land • Real Estate • Infrastructure • Energy Growth (Alt.)* • Energy (Shale)*	• Spectrum • Developed Markets Equity Multifactor • Global Macro • Opportunistic • Venture Capital
Description	The Equity, Credit and Arbitrage Grouping is a collection of opportunities that are either equity-like, offer credit exposure or are based on the potential for arbitrage.	The Internal Investment Mandate Group represents all of the strategies that are run internally by Guardians' staff.	The Real Assets Grouping comprises investments or holdings in physical assets. These are typically long-term physical assets.	Opportunities in the Static Target Grouping are those Opportunities that we do not believe we can effectively 'time' the Fund's exposure to (e.g. we do not increase or decrease our allocation depending on market conditions).

*Terminated opportunity.

The following table shows how the different opportunity groupings have performed over time.

Source of Value-add	1 year (p.a.)	5 year (p.a.)	10 year (p.a)
Static Targets	2.09%	0.32%	0.23%
Internal Investment Mandates	0.80%	1.06%	1.62%
Real Assets	3.28%	0.59%	0.76%
Equity, Credit & Arbitrage	0.91%	0.05%	0.11%
Terminated*	-0.37%	-0.33%	-0.28%
Total**	**6.71%**	**1.68%**	**2.45%**

* The returns of the terminated opportunities are not included in the returns of the opportunity groupings in the rows above.

** Totals may not equal the sum of underlying components due to rounding. The difference between the 6.71% total shown here and the Fund's total annual value-add performance of 7.25% for the year can be attributed to portfolio completion activities (see page 53), benchmark calculation methodology factors and Guardians costs.

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OPPORTUNITY PERFORMANCE

So which opportunities have added the most value to the Fund?

The graph below shows how each of our investment opportunities* has performed over the last five years. The vertical axis represents the percentage returns each opportunity has delivered relative to the Reference Portfolio. The horizontal axis represents the average amount of active risk we have allocated to each opportunity over the same period. The green line represents our expected information ratio of 0.2, a measurement of active return per unit of risk taken.

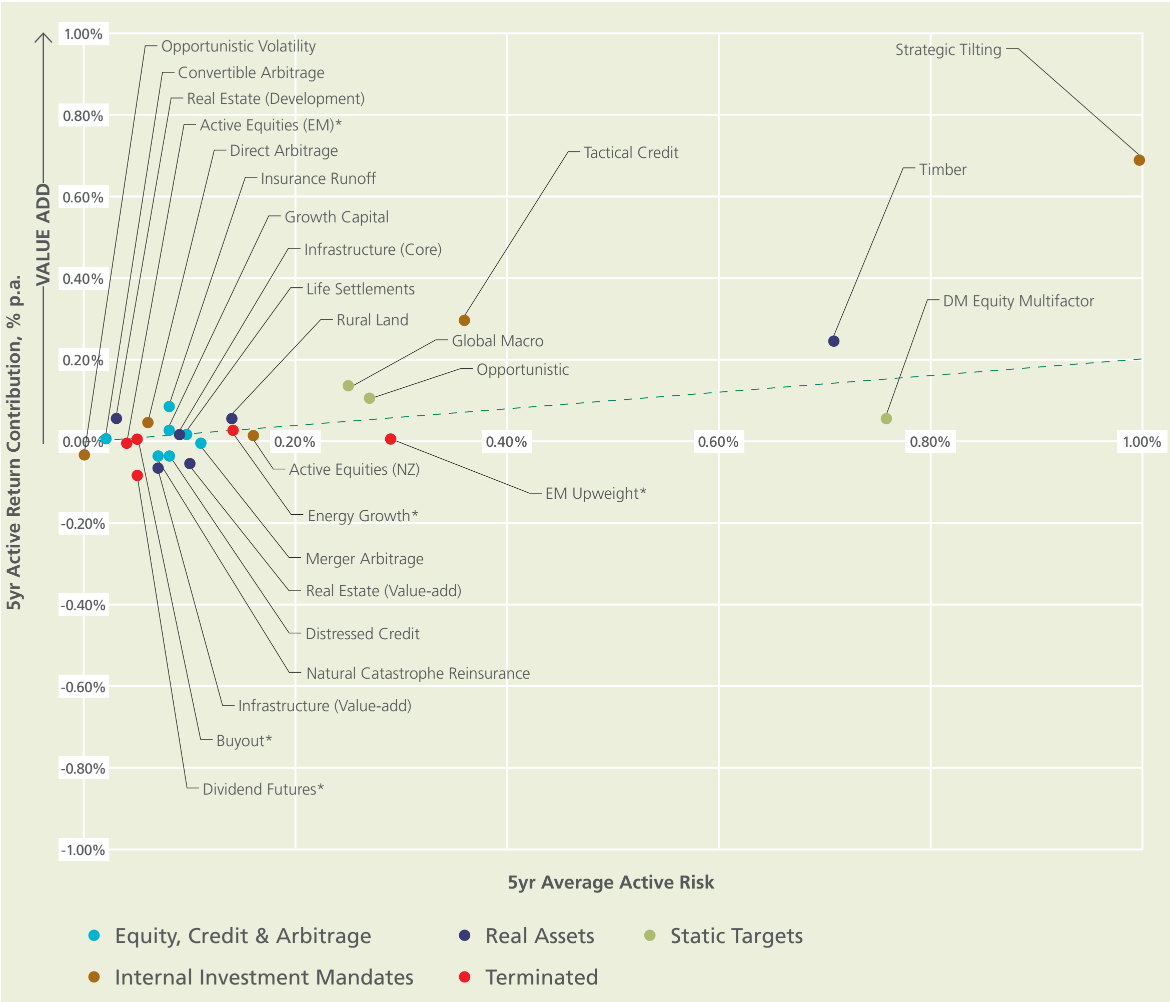
Simply put, those opportunities above 0% have provided value relative to the Reference Portfolio, and those sitting above the blue line (Information Ratio) have achieved our overall expectation of reward for risk.

When reading the graph, it is important to understand:

- A low (positive) return contribution is not in itself a bad outcome, as some opportunities are allocated less risk over time and therefore have less potential to make large returns. We expect opportunities with low risk allocations to make small active contributions to the portfolio.
- Some opportunities are new, or are based on a long-term case, and will take longer to play out than a five year time frame.
- The graph shows whether an opportunity has beaten the Reference Portfolio proxy or not. It may not have beaten the Reference Portfolio over the timeframe shown, but may still have made money on a total return basis. The Reference Portfolio has generated a return of 5.98% over the last five years.

We chose a five-year time frame because it strikes a good balance between ensuring there are enough opportunities for which we have the requisite data (i.e. it is not too long) and ensuring that the average return is meaningful given that we are long-term investors (i.e. it's not too short). As data permits we will report on opportunity performance over longer time frames.

OPPORTUNITY PERFORMANCE OVER TIME**



* We have included all opportunities for which we have at least two years of data. The following opportunities have been terminated, but were active in the portfolio at a particular point in time over the past five years: Energy Growth Shale (terminated December 2019); EM Active (terminated December 2019); EM Upweight (terminated February 2020); Dividend Futures (terminated February 2021); Buyout (terminated April 2021); and Energy Growth Alternative (terminated December 2021).

** Because the active returns of the opportunities are not perfectly correlated, the active risk of all opportunities combined (i.e. the active portfolio) is less than the sum of the individual opportunity active risks.

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INVESTMENT OPPORTUNITY REPORT (CONTINUED)

NOTABLE OPPORTUNITY PERFORMANCES

- Our **Tilting** strategy continues to perform above expectations and deliver strong value, with returns in 2021/22 largely driven by higher bond yields as central banks hiked interest rates in response to inflation. The team continues to navigate the programme through economic uncertainty, reflation and geopolitical risks. Since the inception of the strategy, it has added value of $3.70 billion to the Fund.
- **Timber** has outperformed both over 2021/22 and since inception. Our large investment in Kaingaroa Timberlands, a radiata pine forest in the central North Island of New Zealand, has been the dominant contributor to the outperformance.
- **Global Macro** (a hedge fund strategy that bases its holdings primarily on the overall economic and political views of various countries or their macroeconomic principles) delivered strong active returns over the year. Since inception, returns have also been positive. Our global macro managers are Bridgewater, Citadel and Two Sigma.
- **Tactical Credit** (formerly Active Collateral Opportunity), an internal mandate through which we look to provide debt funding and sell downside protection to mitigate or prevent a decrease in the value of an investment, has delivered very strong returns, both in an absolute sense and relative to its benchmark, since inception. Since 2009, the mandate has added value of $1.26 billion to the Fund. It has the highest information ratio out of the Fund's current investment opportunities. We continue to look for ways to scale up this mandate.
- Our **Developed Markets Equity Multi-Factor** opportunity had a very strong year, reversing under-performance suffered in prior years. Factor-based investing is a long-term strategy that uses a range of criteria – such as value, quality, momentum and low risk factors – in an effort to outperform traditional equity benchmarks while taking lower levels of risk. An allocation to the 'value' factor, which had historically weighed negatively on performance, started to reverse in late 2021 when global equity markets began to pull back after reaching all-time highs. Our factor managers are AQR, Northern Trust and Robeco.
- The **Real Estate** and **Infrastructure** opportunities have generally performed above their Reference Portfolio proxies since inception, largely as a result of material outperformance in 2021/22. Underlying asset performance is varied, with the number of underperforming assets outweighed by those that have outperformed. Our Real Estate Strategy is increasingly focusing on living, logistics and technology-driven real estate, while the strategic focus for Infrastructure remains primarily on energy transition and digital infrastructure.
- The terminated **Energy Growth** opportunity represents a mix of overperforming and underperforming opportunities. The opportunity includes our very successful investment in Longroad Energy, the Fund's legacy investments in shale energy, which are in wind-down mode, and our investment in View Glass. Our waste-to-energy investment LanzaTech is categorised as Opportunistic.
- View Glass experienced significant share price volatility over the year, including as a result of being at risk of delisting as the result of an SEC investigation. The SEC investigation concluded without finding any wrongdoing and since then View's share price has improved.
- In future reporting, Energy Growth will be largely subsumed into two newer opportunities: Sustainable Transition and Infrastructure Development.***
- **Dividend Futures** are futures contracts based on the dividends payoff of sharemarket index constituents over one calendar year. This opportunity took advantage of the structural misprice of the forward dividend curve. The performance of this mandate was heavily impacted by COVID-19 when regulators imposed restrictions on the payment of future dividends from European financial institutions and has subsequently been terminated.

What is the Information Ratio?

A measurement of portfolio returns beyond the returns of a benchmark, our Reference Portfolio, compared to the volatility of those returns.

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*** Infrastructure development was introduced as an opportunity in November 2021. As it has less than two years of data, it is not included in the Opportunity Performance Over Time graph on page 51.

In addition to our opportunities, we also seek to add value to our portfolio through efficient implementation – what we call portfolio completion.

Our Portfolio Completion Team executes a value-adding strategy focused on obtaining cost-effective access to liquid exposures and managing them efficiently. Through this strategy, we aim to minimise and reduce the direct and indirect costs associated with investing the Fund.

Our Portfolio Completion Team does this in four key ways:

Portfolio optimisation	Portfolio optimisation is where we make a decision to hold securities in the portfolio that will best replicate the performance of our benchmarks.
Asset rebalancing	Asset rebalancing is where we rebalance the proportion of equities and bonds in our portfolio back to desired Reference Portfolio weights.
Foreign exchange hedging	Currency hedging is where we adjust our hedges to match the Reference Portfolio currency exposure. At times we may be over hedged or under hedged. We also adjust our duration of foreign exchange forwards versus our benchmark.
Securities lending	Securities lending is where we lend out both our equities and bonds to other market participants to achieve a return.

Our Portfolio Completion activities have added considerable value to the Fund over time. Over the past five years, in dollar terms, we estimate the value added as approximately $923 million.

	1 year	5 year (p.a.)	10 year (p.a.)
Portfolio completion	**0.27%**	**0.34%**	**0.16%**
- Passive replication	0.11%	0.24%	0.05%
- Transitions and other	0.01%	0.01%	0.02%
- Currency overlay - Manager	0.15%	0.09%	0.09%

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Where We Invest

The NZ Super Fund is highly diversified across a range of markets and sectors all around the world. This diversification is in keeping with the Guardians' mandate to invest the Fund on a prudent, commercial basis, and in a manner consistent with best-practice portfolio management.

In this section, we show where the Fund's Actual Portfolio is invested, compared to where it would be invested if we took a passive approach and invested solely in line with the Reference Portfolio. As you can see, the Fund is strongly weighted to New Zealand assets relative to the size of the market. This is because of our local advantage: New Zealand is a market we understand and value, and one in which we have some advantages that others do not. The Fund is local and Crown-owned, which is attractive to some investee businesses and co-investment partners; in New Zealand terms, the Fund is relatively large and able to undertake investment at scale; we have a long investment horizon and the ability to sell illiquid assets (assets that can be hard to sell quickly) in order to earn a premium over time.

	Reference Portfolio	Actual Portfolio
North America	56%	50%
Europe	17%	17%
Asia (excl. Japan)	10%	4%
Japan	7%	4%
New Zealand	5%	15%
Australia	2%	5%
Other	2%	4%

*totals do not add to 100% due to rounding.

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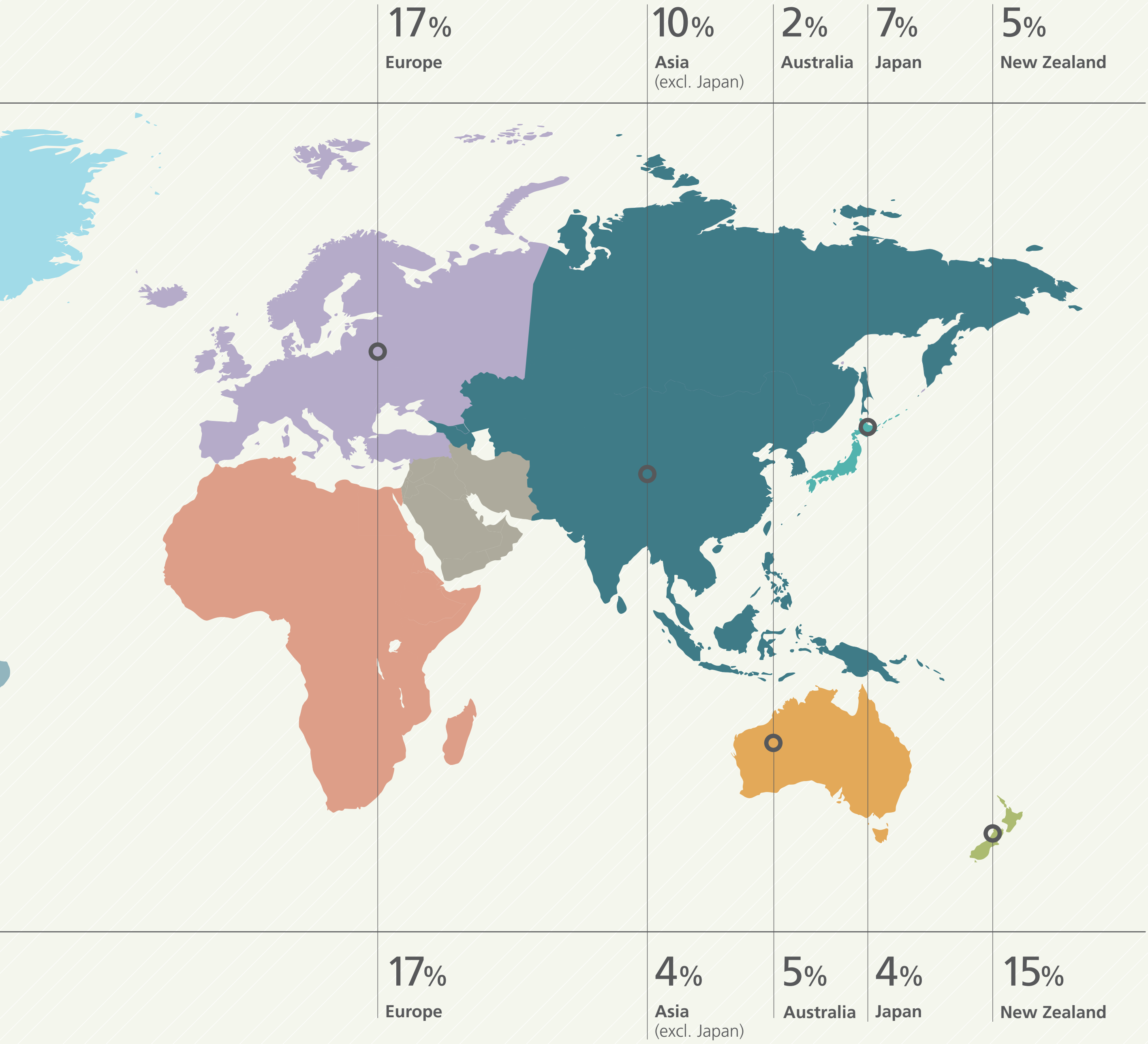

17%
Europe
10%
Asia
(excl. Japan)
2%
Australia
7%
Japan
5%
New Zealand
17%
Europe
4%
Asia
(excl. Japan)
5%
Australia
4%
Japan
15%
New Zealand

Invested in New Zealand

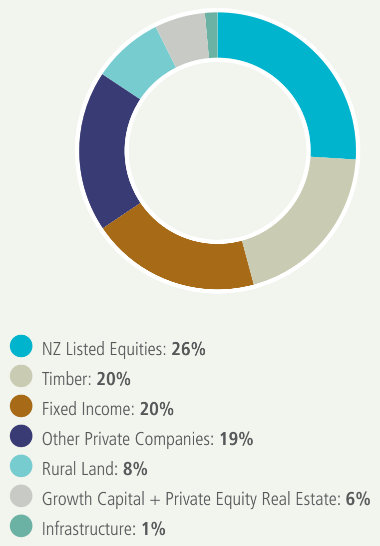
Kaingākau ana ki Aotearoa

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

In line with our Ministerial directive* to explore ways to increase the allocation to New Zealand assets in the Fund, and our commercial mandate, we are actively looking to invest domestically. We believe our long-term horizon, sovereign status and scale give us a competitive advantage in some domestic transactions, and our New Zealand investments have performed well over time.

At the time of the directive in 2009, the Fund had around $2.4 billion in New Zealand investments; this has now grown to $8.5 billion, with sizeable exposures to timber, rural land and real estate in the Fund's portfolio, along with a wide mix of investments in listed and unlisted companies.

NZ Investments as at 30 June 2022



Proportionally, however, the Fund's New Zealand investments have dropped, from 21.3% to 14.7% of the total portfolio, in the 13 years since we received the directive.** This drop reflects the above-average performance of the Fund's global equity investments over that time period, which included the recovery from the Global Financial Crisis, and the success of our Strategic Tilting Strategy over time, which we describe on page 52.

The Fund will continue to grow in size in future decades, and as it does we expect that its domestic investment portfolio presence will extend even further.

Focus in 2021/22

Over the past year we have had a significant focus on how our long-term investment mandate can be applied to infrastructure and real estate investments that will meet our commercial mandate while delivering environmental and social benefits.

We see infrastructure as an attractive asset class because it tends to generate consistent returns and yields, and can also act as a diversifier in a broader portfolio. Large infrastructure projects provide an opportunity for us to invest at scale, and deliver on our directive to increase our allocation to New Zealand assets, while, at the same time, developing our country's economy and capabilities. Ultimately, all of our investments must meet challenging commercial return requirements. While we do not undertake feasibility studies lightly, we may review many projects, but will only pursue those which are consistent with our mandate to maximise return without undue risk.

In New Zealand, there is a significant amount of investment in infrastructure required to support net zero targets.

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

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** Calculated on a value basis. Excludes foreign exchange hedging instruments such as foreign exchange contracts and cross-currency swaps.

SUPERBUILD

Over the past few years, with a view to making large-scale domestic investments and increasing the proportion of the Fund that is invested in New Zealand, we have developed the SuperBuild partnership model (https://www.nzsuperfund.nz/how-we-invest/investing-in-nz/superbuild/) to help enable large-scale investment by the Fund in domestic infrastructure and real estate. An end-to-end investment and delivery solution, SuperBuild takes a holistic, partnership approach to designing, financing, building and operating transformational infrastructure and urban development projects in New Zealand.

Under our model, once an infrastructure or urban development need is identified – this could come from the Government, council, business or other interest groups – NZ Super Fund and our partners then jointly agree the financial and social outcomes with key stakeholders. The NZ Super Fund and partners then manage the project from end to end, with collaboration from relevant government agencies, bringing accelerated delivery.

SuperBuild works best for large-scale projects that require long-term vision, scale and innovation, and where partnerships with world-leading peers can add value. As with all investment decisions, we will only consider SuperBuild opportunities which are consistent with our mandate.

Examples of the SuperBuild model in action include:

- Our partnership with Copenhagen Infrastructure Partners to explore the feasibility of offshore wind energy in South Taranaki;
- Our partnership with Eke Panuku Development Auckland to accelerate and scale up town centre regeneration projects; and
- Our Beachlands South investment with the Russell Group in large-scale urban development in Auckland.

LISTED EQUITIES

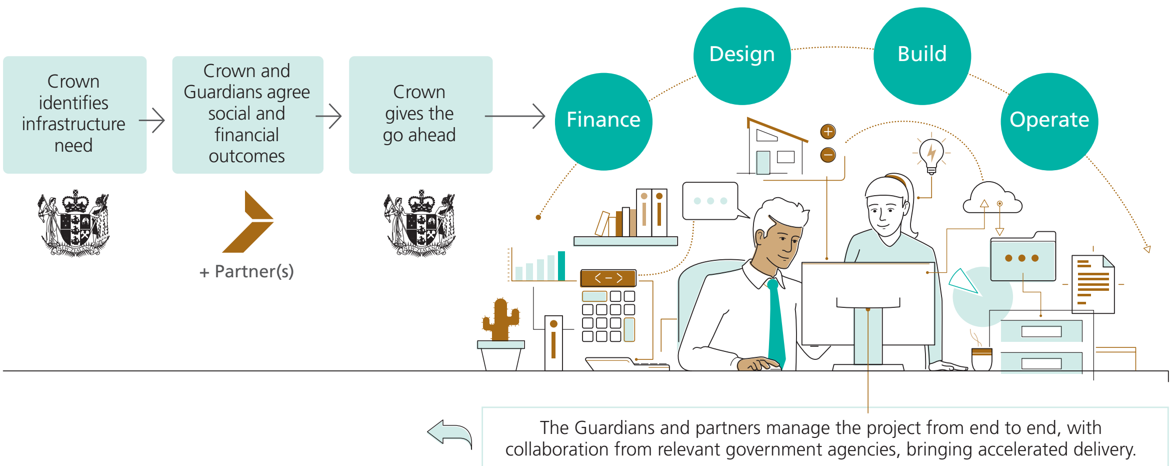
Around 4% (more than $2 billion) of the Fund is invested in New Zealand shares. A full list of all our holdings, and the percentage of the company we hold, is available on our website. As at the end of June 2022, our largest five holdings in dollar terms were: Fisher & Paykel Healthcare; Spark NZ; Contact Energy; Auckland International Airport and Infratil.

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

In general, we believe stock selection in efficient markets is a zero-sum game (what one investor gains, another loses, and everyone pays fees). We believe, however, that the New Zealand share market has some characteristics that make it conducive to generating returns from active investment management. These characteristics give us confidence that we are relatively well positioned to achieve active investment returns compared to other market participants with shorter time frames, greater cash flow requirements and less tolerance for volatility.

While New Zealand active equities underperformed this year, our internal team and externally appointed managers have outperformed their benchmark by 1.84% p.a. since inception.

Our position as a large local investor also permits us to be influential and active owners. We actively engage with management and boards of the New Zealand listed companies, and are active members of the New Zealand Corporate Governance Forum.



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HOW WE INVEST (CONTINUED)

Katie Dean, *Portfolio Manager, Direct Investments*

In November 2021 we welcomed Katie Dean as Portfolio Manager within the Direct Investments Team. Katie is responsible for managing our current property investments and leading our prospective investment in direct real estate. She holds a Bachelor of Civil Engineering with Honours from the University of Canterbury. In 2012 Katie decided to move into Finance, initially through Stanford Graduate School of Business, and then completing her MBA under scholarship at Cranfield School of Management. Prior to the Guardians, Katie worked in Strategic Improvement for BP UK, and across Real Estate with Goldman Sachs UK before returning to New Zealand, taking up a role as Development Director at the Templeton Group.

GROWTH CAPITAL

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

Through a combination of fund investments and co-investments with our New Zealand growth capital managers (Direct Capital, Pioneer Capital, Movac, Pencarrow Private Equity and Waterman Capital), we have approximately $757 million invested or committed to small, high-growth New Zealand businesses. (See pages 60 – 61 for more information about our New Zealand growth capital mandates, including two new co-investments we made alongside Pioneer Capital Partners Fund IV.)

Our presence in the growth capital space was further cemented by the passing of the Venture Capital Fund Act in 2019, which established the Elevate NZ Venture Fund (Elevate Fund). On pages 76 – 79 we provide further detail on the Elevate Fund and our role in relation to it.

DIRECT INVESTMENTS

Direct investment is when we purchase an equity interest in an organisation by providing our capital into the enterprise directly, i.e. there is no intermediate manager between ourselves (as owners) and the asset. In our direct investment activity, our in-house team of investment professionals focuses primarily on private market (non-listed) transactions. Because direct investment can be a complex and resource-intensive process for us, we target transactions that are large enough to represent a meaningful addition to the Fund; typically transactions of over $100 million to $200 million, where we acquire a 20% to 50% stake.

Our direct investment activity in New Zealand started in 2006 when we acquired a stake in Kaingaroa Timberlands, which owns and operates the largest single plantation forest in the Southern Hemisphere. Other investments include substantial stakes in Datacom, APHG, Kaha Ake, Fidelity Life and NZ Gourmet, alongside significant property investments in hotels, and land development. An agreement to sell the Fund's 25% holding in KGHL, the parent of Kiwibank, was signed in August 2022.

The Fund also owns a $700 million rural land portfolio with assets throughout New Zealand.

Our Direct Investments team devotes significant time and resource to developing best-in-class governance and Responsible Investment Frameworks across all our investments.

Strong and comprehensive shareholders' agreements are formulated to govern and formalise interactions and expectations between shareholders. Building and leveraging relationships is another key focus – becoming more involved and visible in the New Zealand market to increase the understanding of the Fund and to help originate transactions and build team profile.

CREDIT AND FUNDING

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

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SECTION TWO
INVESTMENT REPORTS
02

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

INFRASTRUCTURE

Over the past year we have increased our exposure to infrastructure, both internationally and domestically, with a focus on energy transition and digital infrastructure.

Partnership to explore offshore wind energy in South Taranaki

In March 2022 we announced our partnership with Copenhagen Infrastructure Partners (CIP) to explore the potential for large-scale offshore wind energy in the South Taranaki Bight. Subject to feasibility, an initial planned 1GW development would represent over 11% of New Zealand's current electricity demand capacity and could power over 650,000 homes. We believe the project could later expand to 2GW, helping to meet strong projected growth in demand for electricity in New Zealand.

In June 2022 the partnership submitted a pre-activity notice to New Zealand's Environment Protection Authority (EPA) for a floating wind measurement device to be deployed 37km off the South Taranaki coast. This is an important step in understanding the wind resource that is available in our location of interest. Our initial research suggests the South Taranaki area has world-class fundamentals; however, deploying the wind measurement device will help us build a fuller environmental picture and develop an investible proposition.

Offshore wind energy has the potential to be an attractive commercial opportunity that aligns with the NZ Super Fund's Climate Change Investment Strategy and focus on sustainable finance, as well as its desire to invest in large-scale New Zealand infrastructure. We are focused on opportunities that allow us to apply our long-term investment capital to support this shift and the Fund's own public commitment to being net zero by 2050. While this proposal is still at a very early, exploratory stage, we are confident it could help New Zealand's transition away from fossil fuels and towards clean energy.

Copenhagen Infrastructure Partners Energy Transition Fund

In October 2021 we committed €125 million (NZ$208 million) to Copenhagen Infrastructure Partners' Energy Transition Fund. The Fund is focused on developing industrial-scale sustainable energy infrastructure, known broadly as Power-to-X (power-to-hydrogen, power-to-ammonia and power-to-methanol). Investments will be focused in OECD markets in Western Europe, North America and Asia-Pacific.

Stonepeak Infrastructure Partners

In December 2021 we made a US$150 million commitment to a diversified infrastructure fund managed by Stonepeak Infrastructure Partners. The fund is Stonepeak's flagship series and focuses on value-add assets primarily located in North America. Stonepeak is a specialist infrastructure manager that has close to 200 staff globally and US$49 billion under management. We continue to grow the relationship with Stonepeak through participation in co-investment opportunities.

Longroad Energy

The NZ Super Fund, alongside NZX-listed Infratil, has been invested in Longroad Energy Holdings since 2016. Over the year, Longroad achieved several project milestones across the United States, including the completion of the 200MW Sun Streams 2 solar project in Maricopa County, Arizona. Over the 2021/22 financial year, the Guardians worked with co-investors and the Longroad management team to welcome a new investor, MEAG, acting as the asset management arm for entities of Munich Re, which was announced in August 2022. MEAG has committed to invest US$300 million to acquire a 12% stake in Longroad Energy, subject to certain conditions.

The transaction implies a pre-money valuation for Longroad common equity of US$2,000 million. The associated valuation uplift contributed to an increase in performance fees to Morrison & Co. These fees are subject to an annual payment cap and may be offset against future underperformance.

More information can be found on page 138 of our Financial Summary.

REAL ESTATE

In 2021 we completed a review of our Real Estate Strategy, establishing a global investment strategy for the asset class. Internationally we look for real estate in sustainable cities in sectors that have solid property fundamentals but are underserviced by capital.

In New Zealand we seek real estate investments that use our balance sheet and strong market relationships to address infrastructure and housing issues, generating growth, jobs and attractive long-term investment returns. Working in partnership with the public and private sectors, we want to unlock game-changing projects that are important to regional or national economic prosperity by supporting alternative financing and delivery models. Our long-term investment horizon and desired risk profile allow us to invest in projects with development risk, and our size means we can engage at scale. We are interested in both greenfield and brownfield developments, particularly where there are synergies with transportation projects.

Eke Panuku

In June 2022 we announced a new investment partnership between the NZ Super Fund and Eke Panuku Development Auckland which aims to accelerate and improve the regeneration of town centres in Tāmaki Makaurau. We see Eke Panuku as an ideal partner for us in searching for commercial opportunities in large-scale (>$100 million), climate-friendly property investments. The broader property development market should gain additional confidence and delivery assurance from the funding, commercial rigour and governance focus we add to the partnership. In addition, the strong capability and focus on achieving leading environmental and community outcomes that Eke Panuku is known for aligns with our sustainable finance approach. The partnership is focused on development opportunities in Eke Panuku's strategic priority locations (as set by Auckland Council), such as Northcote and Panmure.

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INVESTMENT ACTIVITY REPORT

Kaha Ake (Stronger Together)

Partnering with Tauranga-based Classic Group, in 2021 we established a new land development company, Kaha Ake. Through this commercial partnership we will use our scale and capital to increase housing supply in New Zealand. Classic Group currently has a land pipeline of approximately 3,000 sections across New Zealand. We have approved three projects into the partnership in the regions and look forward to growing this pipeline of development.

Beachlands South

In May 2022 we welcomed iwi investors Ngāi Tai ki Tāmaki and Hāpai Development Property LP in joining the NZ Super Fund and Russell Property Group to develop a 255-hectare site at Beachlands in east Auckland. The Beachlands South Limited Partnership has applied to Auckland Council for the plan change necessary to facilitate the development of a transformative, master-planned coastal urban neighbourhood that will greatly enhance the Beachlands community and surrounding areas. In line with the NZ Super Fund's commitment to sustainable finance we aim for Beachlands to deliver both attractive commercial returns and excellent environmental and social outcomes for the local community.

Expansion of tourism portfolio

NZ Hotel Holdings, a partnership between NZ Super Fund, The Russell Property Group and Lockwood Property Group had a very busy year in 2021/22, continuing with the strategy to be NZ's Best Hotel Portfolio. With key acquisitions of the QT Hotel in Auckland, Sofitel Queenstown and Rydges Wellington adding to an already strong portfolio that includes Four Points by Sheraton and Adina Apartment Hotel in Auckland, Breakfree Hotel in Christchurch, and the recently rebranded Rydges in Rotorua. A CEO has been appointed and with both business and leisure travel ramping up the hotel portfolio is placed well for the return of business.

Slate

In September 2021 we made a €225 million anchor investment in Slate Asset Management's (Slate's) European Essential Real Estate Income Fund ('EU Essential Fund'). The EU Essential Fund is a perpetual, income-focused strategy targeting stabilised essential real estate assets throughout Western Europe. Slate defines essential real estate as the critical infrastructure that facilitates the distribution of essential goods and services to end consumers, such as grocery, healthcare assets, and affiliated warehouses and logistics assets. The proceeds of our anchor investment were used to acquire seed assets for the vehicle, which comprised 140 grocery-anchored real estate assets located across Germany. Slate has been active in Europe since 2016, with a focus on acquiring, owning, and operating grocery and essential real estate assets. The transaction was a recapitalisation of a €427 million portfolio of assets already owned by Slate in its earlier value add funds.

In February 2022 we subsequently increased our investment in the EU Essential Fund, committing a further €70 million which allowed the vehicle to acquire two portfolios of Norwegian grocery assets (38 individual stores). The majority of the Norwegian assets are concentrated in and around Norway's two most densely populated cities, Oslo and Bergen. Notably from a sustainable investment perspective, 100% of energy within the larger portfolio (36 assets) is generated by
2-6 renewable energy sources and the existing tenants are
3-3 committed to their own sustainability initiatives such as reducing plastic waste, CO2 emissions and food waste.

Hillwood

In December 2021 we committed US$200 million to US Industrial Club VI, a collective investment vehicle run by Hillwood. Hillwood is a US-based developer and manager of global industrial and logistics real estate who will seek to leverage its local market experience, relationships and development capability to aggregate a portfolio of modern logistics properties. This investment follows our prior commitment with Hillwood into US Industrial Club V in 2019.

SUSTAINABLE TRANSITION

Fifth Wall Early-Stage Climate Technology Fund

In November 2021, the Fund committed US$100 million to the Fifth Wall Climate Fund, a fund managed by leading real estate technology venture capital firm Fifth Wall, that seeks to invest in new technologies to decarbonise the global real estate industry. In April, we invested US$35 million in Turntide Technologies, a manufacturer of smart, energy-efficient electric motors, as part of a co-investment with the Climate Fund. We see this as an impact investment that will support decarbonisation while also delivering strong financial returns. We are excited about the possibilities new technologies present for the real estate sector, which by some metrics is the largest asset class in the world, and consumes around 40% of the world's energy.

Generation Investment Management Sustainable Solutions Fund IV (SSF IV)

In May 2022 the NZ Super Fund invested US$97 million in Generation Investment Management's Sustainable Solutions Fund IV (SSF IV). Generation is a pure-play sustainable investment manager with over $36 billion of assets under management. SSF IV is a $1.7 billion fund that continues the firm's commitment to invest globally in companies and teams driving the sustainable future.

Sustainable Solutions Fund IV is Generation's fourth and largest growth equity fund, enabling Generation to invest US$50-$150 million as active minority investors in high-growth companies that are shifting industries towards sustainability and responsible innovation at scale.

NZ GROWTH CAPITAL

Fertility Associates

In December 2021, a consortium made up of NZ Super Fund, Pioneer Capital (via their Fund IV) and UK private equity firm White Cloud Capital bought into New Zealand's leading fertility treatment provider Fertility Associates. The Fund's investment in Fertility Associates gives it exposure to the New Zealand healthcare sector and fits with our focus of identifying local businesses where we can add value by investing to help them grow and develop. Founded in 1987, Fertility Associates is the leading provider of reproductive support, diagnostic services and fertility treatments in New Zealand and Malaysia. To date Fertility Associates has helped bring 25,000 babies into the world in New Zealand and 5,000 babies in Malaysia. The consortium has acquired approximately 70% of the business, with the balance continuing to be owned by Fertility Associates' doctors and management team. As this is a co-investment, our direct stake in the business is being managed and monitored by Pioneer Capital Partners.

Bluelab Group Holdings

In September 2021 the Fund acquired a 35% stake in Bluelab Group Holdings, an agriculture monitoring technology company based in Tauranga. Bluelab produce measurement and automation devices that support exceptional crop and yield performance in the Controlled Environment Agriculture (CEA) market. We co-invested in this asset alongside incumbent manager Pioneer Capital Partners. Pioneer Fund IV, which we are the anchor investor of, also acquired 35% of the asset. The remaining 30% of the company is held by the Bluelab founders and senior management. As this is a co-investment, our direct stake in the business is being managed and monitored by Pioneer Capital Partners.

Fidelity Life

In February 2022, Fidelity Life completed the acquisition of Westpac's New Zealand life insurance business, Westpac Life, alongside new shareholder Ngāi Tahu Holdings. As Fidelity Life's largest shareholder, the NZ Super Fund funded the majority of the acquisition, with Ngāi Tahu Holdings taking a $140 million, 24.9% stake.

SPECTRUM

Columbia Spectrum Partners V

In 2020, the NZ Super Fund committed US$100 million to Columbia Spectrum Partners IV to target spectrum Auction 107 held in December 2020. Pricing was higher than expected in this auction. Columbia showed strong discipline and wound up the fund without deploying capital. NZ Super Fund then recycled the US$100 million into Columbia Spectrum Partners V to target Auction 110. The auction was held in October 2021, pricing for comparable mid-band spectrum was significantly more attractive than Auction 107 and the full amount was deployed.

VENTURE CAPITAL

In 2021 we created a new venture capital investment opportunity.

StepStone VC Secondaries Fund V

In August 2021, the Fund committed US$150 million to StepStone VC Secondaries Fund V, a fund which invests in global Venture Capital both via funds and direct investments, and primarily through secondary market transactions. StepStone provides strong proprietary deal flow through its position as one of the largest and most established fund and direct venture capital investors, predominantly in the United States, but with a global reach. We are continuing to investigate further venture capital investments over time.

TIMBER

In May 2022, the Fund appointed a new manager, Timberland Investment Group (TIG), and committed US$100m to the BTF II Fund to invest in brownfield timberland assets across Latin America. This appointment follows ongoing work on the Timber Strategy which identified Latin America as a key destination to deploy capital with attractive risk-adjusted returns. TIG is one of the world's largest timberland investment management organisations with nearly three million acres under management throughout the United States and Latin America, and it holds the prerequisite experience, relationships and on-the-ground presence to access deal flow and manage assets successfully. We are continuing to investigate further timber investment opportunities via funds and direct investments over time.

INVESTMENT DATA STRATEGY

Establishing a new data platform and building data analytics capabilities is one of the Guardians' multi-year strategic priorities. This is driven by business goals articulated by a cross-organisation group of stakeholders.

To support our Investment Data Strategy, we have established a Data Analytics Team, which sits within our larger Investments team. The Data Analytics Team works with and supports data users across the organisation to ensure that solutions are business led, meet the needs of users and are aligned with enterprise technology and agreed standards. The function helps bring together data consumers, Data Technology and Data Services teams, and IT.

The goals of the Data Analytics Team are to:

- Foster collaboration across investments and IT teams, including upskilling staff, to improve our ability to make data-driven decisions;
- Support investment excellence by developing new quantitative models;
- Create efficiencies by automating existing models and processes; and
- Mitigate risk by standing up industry best practices in the data analytics space.

Kathryn Kerner, *Head of Data Analytics*

In March 2022 we welcomed Kathryn Kerner into our newly created Head of Data Analytics role. A seasoned data and analytics leader with extensive experience in predictive modelling, operations and information technology, Kathryn will drive forward the Guardians' Investment Data Strategy. This includes establishing a data analytics function to support cross-organisation data analysis and reporting needs and the provision of convenient frameworks and ways to access investment data. Kathryn held leadership positions within supervisory stress testing at the Board of Governors of the Federal Reserve System and Federal Reserve Bank of Chicago. She holds a Master of Science in Business Analytics from NYU Stern School of Business and a Bachelor of Arts in Economics from Princeton University where she graduated with honours. We are currently recruiting to fill four additional roles within Kathryn's new team.

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This year the Guardians' Board embedded sustainable finance at our core adopting a new organisational purpose statement:

Sustainable investment delivering strong returns for all New Zealanders.

Kia toitū te haumi hei hua mā ngā tāngata katoa o Aotearoa.

This is a profound evolution that supports the Board's June 2021 decision to move from a responsible investment approach to sustainable finance.

The move to sustainable finance follows a two-year review of our responsible investment approach, which found that sustainable finance is emerging best practice in global portfolio management. Importantly, the Board determined that sustainable finance is consistent with our legislated mandate. We can advance sustainability outcomes while fulfilling our financial purpose and delivering strong long-term returns.

Sustainable finance means considering the impact **of** investments on society and the environment, as well as thinking about the environmental, social and governance (ESG) risks **on** investments.

RESETTING THE RESPONSIBLE INVESTMENT COMPASS

In 2019, an independent review of the Guardians and NZ Super Fund carried out by advisory firm Willis Towers Watson (WTW) rated our responsible investment performance highly. However, WTW observed that our Board and management needed to undertake deeper thinking and analysis on developments in responsible investment, and in particular sustainability and long-term portfolio themes, to prepare for the future.

In response, we started the comprehensive review, Resetting the Responsible Investment (RI) Compass. The purpose of the RI Compass programme was to review our Responsible Investment Strategy, consistent with our legislative mandate, and to develop a pragmatic, commercial approach ready to meet future developments and that is feasible to implement from investment and operational perspectives.

In the first phase of the programme, we researched the industry landscape, stakeholder expectations and the requirements of our legislative mandate. We also considered ways to improve the ESG profile of our portfolio and options to increase the number and scale of impact investments.

Our landscape and stakeholder research confirmed that the global direction of travel is towards sustainable finance, a development from the responsible investment approach that has been best practice for the past 20 years. Our research also established that, while our stakeholders think we have a well-developed responsible investment programme, the bar will continue to rise. Stakeholders expect us to meet best-practice standards and to demonstrate leadership, certainly within New Zealand but also globally in relevant areas.

In June 2021 the Board agreed to incorporate sustainable finance into managing the NZ Super Fund by:

(a) Integrating ESG considerations into investment decisions, with the intention of advancing sustainability outcomes while fulfilling our financial purpose;

(b) Considering the impact of ESG on our investments and the impact of our investments on society and the environment; and

(c) Supporting the development of a sustainable financial system.

In the second phase of the RI Compass (2021/22), we continued to work on deeper detail in three work streams, mapped to the key work areas of the Toitū Tahua Centre for Sustainable Finance:

- Strategy, governance, leadership – Changing mindsets;
- Improving the ESG profile of the Fund – Transforming the financial system; and
- Impact investment – Financing the transformation.

The strategy work stream focused on embedding sustainable finance into our governance, strategic frameworks and policies. This included adding climate change measures into our latest Statement of Intent, which sets our strategic intentions for the medium term, and updating the Guardians' Responsible Investment Framework (RIF) to include our commitment to developing and integrating a Sustainable Finance Strategy in support of our sustainable finance goals within the context of our legislated purpose. The RIF also supports the implementation of our Climate Change Investment Strategy.

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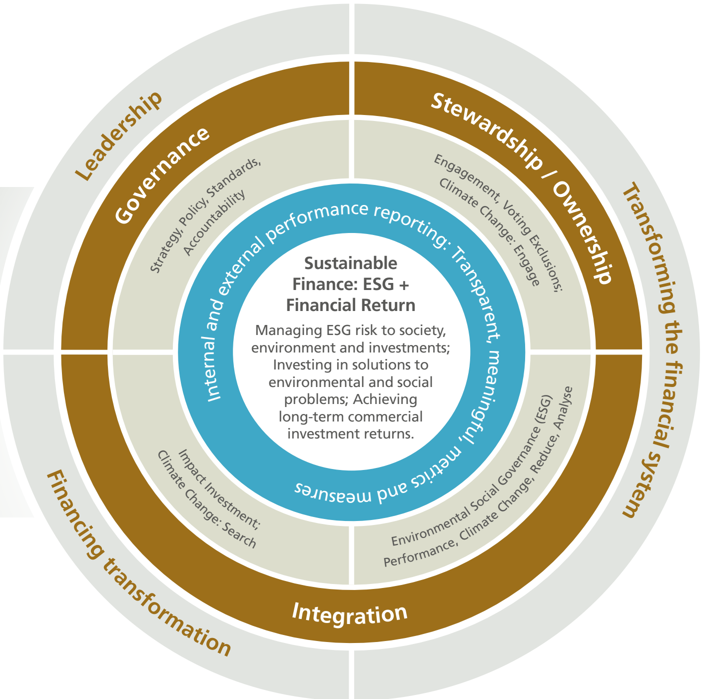
SUSTAINABLE FINANCE STRATEGY

Guardians' Purpose:
Sustainable investment delivering strong returns for all New Zealanders.

Sustainable Finance Goal

Incorporate sustainability considerations into investment decision-making and support the development of a sustainable financial system.



ESG PROFILE

Research into improving the ESG profile of the portfolio focused initially on our passively held global equities portfolio. It found that we could improve the ESG characteristics of the portfolio, without compromising financial returns, by moving to a portfolio with fewer constituent stocks and better ESG ratings.

Phase 2 of the ESG profile work stream investigated options and proposed a methodology to deliver measurably improved ESG outcomes for the Fund's passive portfolio while continuing to deliver market risk exposures. To date, we have used the MSCI All Country World Investible Market Total Return Index as a benchmark that provides broad market exposures across developed and emerging markets, covering a large universe of stocks.

We developed a set of climate, ESG and financial criteria for assessing portfolio alternatives and evaluated customised and index solutions against these. After an initial assessment, we decided that an off-the-shelf index solution would provide a suitable solution and be easier to implement. More detailed evaluation led to the decision to adopt the MSCI World Climate Paris Aligned Index and the MSCI EM Climate Paris Aligned Index as the two building blocks for the global equity component of our Reference Portfolio benchmark. These indices provide broad market coverage but with fewer constituent stocks.

These Paris-aligned indices were designed to facilitate achieving a net-zero-aligned world by 2050. Investments referenced to these indices deliver improved ESG scores, low carbon portfolio footprint, lower exposure to companies with poor ESG performance and increased investment in climate change solutions. At the same time, they are expected to deliver the required financial characteristics, and a market-like return – i.e. they do not generate excess tracking error or unacceptable changes to factor, geographic, or sector exposures.

The transition to the new indices began in June 2022. The move was applied to the benchmark effective 1 July 2022 and progressively rolled out to the actual portfolio, significantly reducing the number of stocks the Fund holds. While our old customised Reference Portfolio benchmark had more than 8,500 stocks in it, the new indices total around 1,100. In terms of the actual portfolio, the Fund holds those 1,100 passive securities plus a further 2,000 or so actively invested stocks. The Fund holds these companies both directly and via derivative exposure. We believe a smaller, more concentrated portfolio will be cheaper to run, and more manageable for us when looking to identify and engage on responsible investment issues.

Around 2,000 of the listed securities in the Fund's portfolio are actively managed, through our factors mandates. The managers of these mandates are already tasked with matching our carbon reduction targets. Looking forward we intend to look for further ways to improve their ESG profile, along with that of our fixed income holdings.

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IMPACT INVESTMENT

We have developed a plan to increase the number and scale of impact investments by the Fund and to continue to integrate impact into our investment processes. This work is focused on the Fund's direct investments.

The plan focuses on three key areas:

- Impact measurement and reporting;
- Scaling up impact investment; and
- Influence and knowledge building.

We define impact as 'an investment made with the intent to deliver both measurable positive social and/or environmental impacts, and the Fund's required financial return'.

We intend to set a high bar for impact investments. For an investment to qualify as an impact investment it must have a specific, meaningful and credible impact that we will measure and report on. General improvements in ESG performance are a part of good investment management and will not qualify as impact.

Our priorities include developing clear criteria that an investment must meet before it can qualify as an impact investment, including materiality of the impact, measurement, monitoring and reporting. We intend using an off-the-shelf framework for the measurement of impact.

There has already been some increase in the momentum of impact investing as a result of a review of our investment opportunities and risk budget allocation, completed in June 2022, when we incorporated additional ESG considerations into the approach and introduced a new sustainable transition opportunity.

EMBEDDING SUSTAINABLE FINANCE

The shift to sustainable finance represents a significant change in the way we will invest. We expect it will take three to five years to embed. The data, tools and services available will continue to evolve and we will continue to monitor developments. Importantly, we remain focused on maximising risk-adjusted returns, as outlined in our legislated mandate. Our Sustainable Finance Strategy and Purpose statement sends a clear message to our team and stakeholders about the importance of achieving those financial returns in a sustainable way.

In the 2022/23 year we will focus on building knowledge about sustainable finance across the whole team, determining performance measures for internal and external reporting, rolling out sustainable finance in personal objectives and individual development plans.

In the investment work stream, we will implement the new ESG indices in our passive equities and focus on improving the ESG profile of the active equity component and other parts of the portfolio.

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

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

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

PRI BENCHMARKING REPORT

The PRI's main accountability mechanism is an annual assessment and benchmarking process. Reporting is mandatory for all asset owner signatories such as the Guardians.

The PRI piloted extensive revisions for the 2021 assessment, restructuring the process, criteria, grading and due consideration of sustainability outcomes from investments.

As part of the restructure, the assessment framework changed from alphabetical grading (A+ to E) to a star rating and percentage scoring system. 'Five star' ratings are awarded to signatories who demonstrate leading practices within the responsible investment industry. The scores the NZ Super Fund received under this revised assessment framework are set out below; with the highlight being a five star rating for 'Investment and Stewardship Policy'.

The ratings reflect our efforts on improving the ESG performance of the portfolio by focusing firstly on high level investment policy and then prioritising the most material asset classes and amounts under management. Our four star rating for our large indirect listed equities demonstrates our commitment to applying evolving global good practice. Our next focus will be on equities held in our multi-factor portfolios.

Our one star score for our relatively small passive 'Fixed Income' portfolio reflects its lower priority (we have given to improving the ESG profile of this part of the Fund) compared to other, more financially material components. We do apply responsible investment exclusions to our fixed income portfolio (including corporate bonds), but this is not well reflected in the new PRI assessment criteria for 'ESG incorporation'.

Finally, the assessment revisions reflect the PRI's shift to supporting the evolution from an ESG risk and return-focused approach to one that encompasses investors' role in driving real world ESG outcomes. Signatories are now invited to report on the sustainability outcomes of their investment strategies over time, a trend which aligns well with the implementation of our new Sustainable Finance Strategy from 2022/23. It is likely that the PRI assessment approach will continue to evolve over the coming years to further reflect shifts in sustainable finance.

For more detail, please see the summary of the PRI assessment report available on our website. The next assessment and reporting cycle will start in 2023.

	Star Score	Module Score
Investment and Stewardship Policy	*****	92%
Direct – Listed equity – Active fundamental – incorporation	****	66%
Direct – Listed equity – Passive – incorporation	***	42%
Direct – Listed equity – Active quantitative – voting	****	68%
Direct – Listed equity – Active fundamental – voting	****	68%
Direct – Listed equity – Passive – voting	****	68%
Direct – Fixed income* – SSA	*	0%
Indirect – Listed equity – Passive	****	73%
Indirect – Listed equity – Active	****	72%

* The pilot assessment and reporting process involved some issues with reporting on RI incorporation for fixed income assets. This led to inaccurate representation of the Guardians policy and practice in this respect, including our approach to excluding certain sovereign securities. The PRI have indicated that these issues will be addressed in future reporting cycles. At the same time, the Guardians is reviewing opportunities for further improving ESG performance of our Fixed Income portfolio as part of our new Sustainable Finance Strategy.

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SUSTAINABLE FINANCE REPORT (CONTINUED)

THE SIX PRINCIPLES OF RESPONSIBLE INVESTMENT

01.

INTEGRATION

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

Consideration of ESG issues is integrated into our investment approach. We incorporate ESG into our analysis of investment opportunities and asset allocation approach, and integrate ESG into how we invest in different markets and asset classes. We update specific ESG investment guidelines as standards and practice evolve.

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

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

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

KEY MILESTONES FOR 2021/22

- Embedded sustainable finance in the Guardians' organisational Purpose and Vision.
- Board approval to transition the passive portfolio to indices with an improved ESG profile, including the benchmark Reference Portfolio.
- Conducted due diligence on a large number of potential direct investments, including major co-investment initiatives, including offshore wind energy and housing.
- Developed internal guidelines on modern slavery for the wider investment team.
- Trialled new tools to assess valuation at risk from climate change and applied our climate change valuation framework to potential and existing investments.
- Asset Allocation Risk Budget review integrated sustainable finance leading to an upweight for infrastructure because of its potential renewable energy, environmental and social drivers and benefits.
- Updated internal responsible investment guidelines for opportunities, including real estate, infrastructure and rural.
- An internal audit of our engagement and exclusion process in 2021 confirmed that the process was operating effectively and consistent with public statements.

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02.

ACTIVE OWNERSHIP

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

We are committed to being an active owner of our investments, and we use our influence as a shareholder to encourage companies to manage their ESG risks. We do this by encouraging high governance standards across markets and asset classes, particularly in the New Zealand market, where our influence as an investor is strongest. We take a substantial interest in the management of ESG issues with companies in which we hold a significant stake. We exercise our voting rights globally, and monitor and engage with portfolio companies that have breached – or might breach – recognised ESG standards. More information about our approach to engagement is available on pages 68 – 72.

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

Given that engagement is resource intensive, and our portfolio of listed stocks is large, we employ an engagement service provider, Columbia Threadneedle (formally Bank of Montreal), 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 MILESTONES FOR 2021/22

- Concluded the global, collaborative initiative on the dissemination of objectionable content with social media companies in response to the March 2019 terrorist attacks in Christchurch. On conclusion we publicly released an assessment of the engagement's outcomes conducted by independent external reviewer. The social media collaborative engagement won the 2021 PRI Stewardship of the Year Award.
- Developed a plan for New Zealand's government-owned investors (the Crown Financial Institutions) to engage with investee companies on climate change. The plan will be rolled out over the next two years.
- Co-signed a global investor statement to governments on the climate crisis, leading up to the UN Climate Change Conference of the Parties (COP26) in November 2021.
- Co-signed a global investor statement calling on companies with business links to conflict-affected Myanmar to identify and address human rights issues.
- Joined a collective investor engagement on facial recognition technology, aiming to prioritise human rights in relation to the development and use of the technology.

- Voting is part of active ownership and our policy is customised to incorporate ESG including to support improvements in ESG disclosure, climate strategy and diversity on the Board.

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 MILESTONES FOR 2021/22

- Produced our second NZ Super Fund Climate Change Report in September 2021, reporting against the Taskforce for Climate-related Financial Disclosures (TCFD).
- Appeared before the Foreign Affairs, Trade and Defence Select Committee to discuss the Guardians' responsible investment approach, including engagement and exclusions, and answered further written questions.
- Contributed or submitted to a number of initiatives supporting disclosure, including disclosure on climate change, the NZX Corporate Governance Code update, and development of a climate-related disclosure framework for Aotearoa New Zealand by the External Reporting Board (XRB). A member of our Responsible Investment Team is on the XRB Advisory Panel.
- Joined the member-only RIAA nature working group, which is exploring options on how to manage and report on the use of natural capital, including the development of a framework for reporting on capital.
- Hosted an RIAA workshop on nature-related risks and opportunities for investors to begin to educate investors on the need for nature-related disclosures.

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

KEY MILESTONES FOR 2021/22

- Continued our collaboration with the government-owned investors, and supported the development of the CFI Responsible Investment Framework, announced in October 2021. It calls on New Zealand sovereign funds to be leaders in the transition to a low-carbon economy, seek to invest in climate solutions and use their collective influence as asset owners to engage with companies on climate change and emissions reductions.
- Committed to be aligned with a net-zero emissions economy by 2050 or sooner and joined the Paris Aligned Investment Initiative's Net Zero Asset Owners Commitment.
- Continued to support Toitū Tahua Centre for Sustainable Finance, whose purpose is to accelerate progress towards a sustainable and equitable financial system in Aotearoa New Zealand, including developing a Stewardship Code for New Zealand.
- Sponsored and presented a Mindful Money seminar on modern slavery and gave presentations to other workshops/discussions on modern slavery.
- Contributed to a government working group on developing modern slavery legislation for New Zealand and submitted on the resulting consultation document about the shape and scope of proposed legislation.
- Contributed the responsible investment perspective to the Infrastructure Commission's proposed infrastructure strategy.

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 MILESTONES FOR 2021/22

- Produced our 11th annual report using the Global Reporting Initiative criteria, winning the Australasian Reporting Awards 'Report of the Year'.
- Recognised as a Responsible Investment Association Australasia (RIAA) Responsible Investment Leader, based on whole-of-organisation attributes.
- Winner of the Gold Standard Award for Reporting and Accountability, recognising communications excellence in an organisation's reporting and accountability programmes.
- Developed our third Climate Change Report based on the recommendations of the TCFD. This report covers our response to climate change in detail, including reporting on our carbon footprint methodology and climate value-at-risk assessment.

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

OUR ENGAGEMENT APPROACH

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

Engagement is a word used to describe ongoing communication between investors and the companies they are invested in on matters relating to ESG issues. Through engagement, investors look to set their expectations of corporate behaviour with the company, and discuss risks and opportunities relating to their practice. Over the course of the engagement, investors will seek to establish regular contact with company representatives and track progress made by the company against engagement milestones.

Most institutional investors have global equity portfolios with holdings in a large number of stocks, and therefore need to prioritise which companies they engage with. We prioritise by issue and the severity of the company's breach of standards. Our priority areas for engagement are human rights, bribery and corruption, severe environmental damage and climate change.

The PRI has well-established guidance on how investors should engage with companies, including increasing leverage through collaboration. For us, this means combining our efforts in collaborative engagement initiatives with other institutional investors. This collective approach, a single message from many voices, is far more powerful than acting alone.

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

We have an ongoing collaboration on engagement with the three other Crown Financial Institutions (CFIs), the Accident Compensation Corporation, New Zealand Government Superannuation Fund and the National Provident Fund. We have a small number of engagements with companies where they are not covered by our external service provider.

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SOCIAL MEDIA COLLABORATIVE ENGAGEMENT

Our major engagement initiative over the previous two years has been the social media engagement which concluded in October 2021. The initiative, a response to the March 2019 terrorist attacks in Christchurch, called on social media companies to strengthen controls against the dissemination of objectionable content on social media. The New Zealand CFIs, supported by 105 New Zealand and global investors representing approximately NZ$13.5 trillion, conducted engagements with the world's three largest social media companies (Facebook, Alphabet and Twitter).

The engagement actions from shareholders were significant in increasing Board accountability, for content, including incorporating oversight into the audit and risk committee at Facebook (Meta). The social media companies have moved to strengthen controls against the live-streaming of objectionable content on their platforms. We commissioned an independent consultant, Brainbox Institute, to assess whether the changes made are appropriate for the scale of the problem.

Brainbox concluded that progress has been made, but a continuous focus on the evolution of preventative safeguards is needed. It found that the measures put in place by the platforms are likely to be highly effective in mitigating the scale in which objectionable content of a similar type to the Christchurch terror attack can be disseminated online. However, it is unlikely the platforms will be able to entirely prevent a similar type of incident in the future.

Brainbox's research drew out some robust legislative mechanisms that investors can look for and advocate for, as regulation in this area emerges. In its view, increasing transparency and auditability of content moderation systems is the key area that will drive improvement.

In October 2021 the Guardians was awarded the PRI Stewardship of the Year Award for its efforts in leading the social media collaborative engagement at the United Nations-supported Principles for Responsible Investment (PRI) Awards.

Looking ahead to other areas of focus, the CFIs are now working together on a programme of engagement on climate change with New Zealand companies. The purpose of the engagement is to ensure that companies understand investor expectations as we transition to a low-carbon economy. This includes measuring and reporting on carbon and other greenhouse gas emissions in line with best-practice guidelines, and meaningful reduction plans.

COLUMBIA THREADNEEDLE INVESTMENTS REO® ENGAGEMENT PROGRAMME

The Guardians uses an external engagement service provider because it expands our engagement depth and reach.

The specialised stewardship service conducts ESG engagement on our behalf across companies we prioritise and engages with hundreds of other companies globally. The service we use is the Columbia Threadneedle Responsible Engagement Overlay (reo®) stewardship service. It gives us access to a powerful portal that enables us to monitor information about a large number of companies. We are able to monitor the individual reo® engagements with all companies, in addition to those we prioritise. The service provides us with access to engagement history, research and an expert knowledge base. It supports our ability to collaborate on some engagement initiatives. In addition, the service has its own priorities for engagement, including thematic engagements, projects and collaborations.

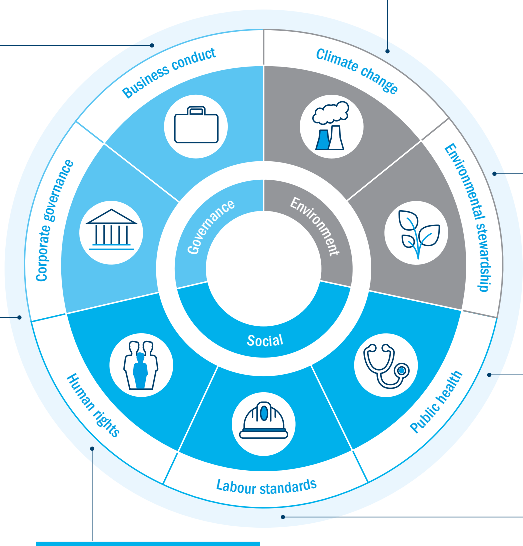
Although engagement with companies is carried out on a confidential basis, the reo® service is able to share summary information and case studies, some of which may be made public with the agreement of the company involved.

We publish reo®'s quarterly reports in the Sustainable Finance section of the Guardians' website. The reports cover the number of engagements carried out during the quarter, the number of companies engaged, countries covered, engagements by theme and milestones achieved, and public case studies.

Reo® structures its engagement programme around seven high-level themes:

Seven themes of engagement

Our engagement programme is structured around seven high level themes encompassing Environmental, Social and Governance issues of most relevance to investors. Underlying each theme is a range of more granular sub themes.



Climate change
- Climate finance
- Emissions management
- Energy transition
- Resilience and adaption
- Net zero strategy

Business conduct
- Anti-competitive practices
- Bribery and corruption
- Data privacy and security
- Lobbying
- Whistleblowing systems
- Responsible marketing and sales
- Tax
- Access to finance

Environmental stewardship
- Environmental finance
- Environmental supply chain management
- Natural resource management
- Product sustainability
- Waste and recycling

Public health
- Access to healthcare
- Food security
- Nutrition
- Health security
- Product quality and safety

Corporate governance
- Audit
- Board diversity
- Board effectiveness
- Board independence
- Capital structure and shareholder rights
- ESG oversight
- Succession planning
- Remuneration
- Risk management and internal controls
- Strategy and execution
- Sustainability innovations

Labour standards
- Diversity and discrimination
- Forced labour and child labour
- Freedom of association
- Human capital management
- Occupational health and safety
- Social supply chain management

Human rights
- Community relations
- High risk areas
- Human rights due diligence

This graphic applies to the group of legal entities whose parent company is Columbia Threadneedle Investments UK International Limited and which formerly traded as BMO Global Asset Management EMEA. These entities are now part of Columbia Threadneedle Investments which is the asset management business of Ameriprise Financial, Inc.

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REO®'S CURRENT ENGAGEMENT PROJECTS

Reo®'s current engagement projects include the Climate Action 100+ collaboration, coal phase-out, energy efficiency in real estate, protecting biodiversity, human rights disclosure, and human rights and indigenous peoples' rights. Other projects include collaboration on banks and climate lobbying, managing physical climate risks, decarbonising the steel industry and the sustainable management of hazardous materials.

Collaborating with other investors through industry working groups is useful in addressing systemic issues within a sector or market, and gives companies the opportunity to hear a clear investor voice on a topic. Reo® is involved in several initiatives, including access to medicine, access to nutrition, anti-microbial resistance, modern slavery, forced labour and worker safety.

Gender diversity

Another collaboration through reo®, the 30% Club, aims to increase gender diversity in corporate boardrooms across France, the United Kingdom and the United States, where it is known as the 30% Coalition. Reo® joined this collaboration because of the need for systemic change in Board-level diversity, which is central to social and governance engagement efforts in other areas. In the UK, the 30% Club has a goal to have more than 30% representation of women on all FTSE 350 boards and executive committees. Reo® has participated in a working group on racial/ethnic diversity at board and senior management level, producing recommendations for investors and corporates.

Human rights

Reo® is participating in several initiatives on human rights, including moves to require mandatory disclosure on human rights in the UK. Both reo® and the NZ Super Fund are participants in an ongoing investor group organised by CANDRIAM addressing the human rights risks linked to the development and use of facial recognition technology. CANDRIAM is one of Europe's leading asset managers and is a specialist in responsible investment.

Reo® was involved in a multi-stakeholder collaboration on a new international accord on health and safety in the textile and garment industry agreed in August 2021. This built on its previous work on the Bangladesh Accord on Fire and Building safety, following the devastating collapse of a garment factory in Bangladesh in 2013.

On behalf of the Guardians, the reo® service conducted in-depth engagement with 644 companies, in 44 countries, on a range of issues over the year ending 30 June 2022. It recorded 182 milestones achieved during that period.

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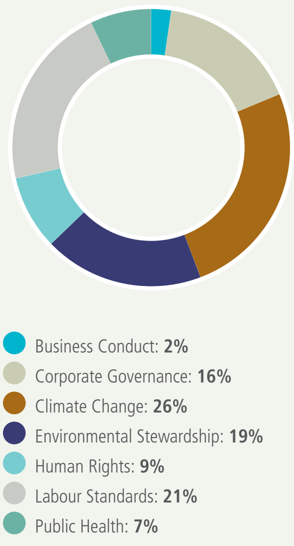
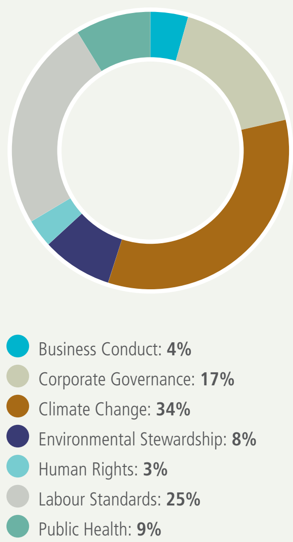
REO®'S ENGAGEMENT STATISTICS DURING 2021/22

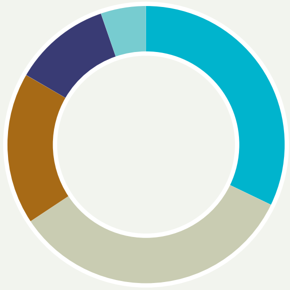
Reo®: Companies Engaged by Theme



Reo®: Milestones Achieved by Theme



Reo®: Companies Engaged by Country



REO®'S ENGAGEMENT ON CLIMATE CHANGE DURING 2021/22

Engagement on Climate Change	Total
Number of engagement activities on climate change	594
Number of companies engaged	347
Total milestones	61

Sector Breakdown	Total	%
Financials	58	17%
Materials	47	14%
Energy	11	3%
Consumer Discretionary	39	11%
Consumer Staples	37	11%
Industrials	48	14%
Utilities	8	2%
Real Estate	8	2%
Healthcare	46	13%
Information Technology	36	10%
Communication Services	9	3%
Total	347	100%

VOTING AND CORPORATE GOVERNANCE

We own shares in a large number of listed companies globally, giving us broad, diversified exposure to global equity markets. Most of our global equity investments are passively held, which means they are included in broad market equity indices rather than actively selected for investment.

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. So while the selection of the companies reflects a 'passive' approach, we are active in exercising our voting rights as owners of the companies.

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 have a customised voting policy to increase our support for improvements in ESG management and disclosures. The policy is based on the ISS specialised policies. ISS is our proxy voting service provider helping us implement voting and recall-to-vote activities.

Given the breadth of companies held on the portfolio and large number of shareholder meetings, our voting policy, and those of ISS, are based on international standards such as the G20/OECD Principles of Corporate Governance, and, for New Zealand companies, the New Zealand Corporate Governance Forum Guidelines and the NZX Code.

Voting Statistics 2021/22

	Global	*NZ*
Number of distinct company meetings voted at	5,450	41
Number of management-sponsored proposals	54,427	184
Number of shareholder-sponsored proposals	1,800	0
Category with the most proposals	Directorship-related	Directorship-related
Percentage of votes cast in line with management's recommendations	81%	93%

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EXCLUSIONS

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

Companies may be excluded because of the products they make or because of their poor corporate practice, including ESG practices. Sovereign bonds exclusions may be introduced because of sanctions on nation states.

Products

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

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

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

Corporate practice

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

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

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

Decisions to exclude an individual company based on poor corporate practices are made by our Chief Investment Officer on the recommendation of our Investment Committee.

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

We disclose our exclusions every six months, including the relevant category of exclusion.

Sovereign bonds exclusions

Our Responsible Investment Framework states that we will exclude the government (sovereign) bonds of any nation state where there is widespread condemnation or sanctions by the international community and New Zealand has imposed meaningful diplomatic, economic or military sanctions aimed at that government.

In March 2022, following the invasion of Ukraine, we excluded Russian Federation sovereign debt (bonds).

Sanctions

We are legally required to comply with sanctions imposed by the New Zealand Government. Under New Zealand law, we are also required to comply with sanctions imposed by the United Nations (UN) Security Council.

This includes the sanctions against certain Russian and Belarusian entities and individuals implemented by the New Zealand Government in 2022, following the invasion of Ukraine.

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

The Guardians has been an early mover and leader on climate change investment, in both a New Zealand and a global context. For more than a decade, we have made it a priority to consider how the NZ Super Fund's investment portfolio, and the companies we invest in, should respond to the risks and opportunities stemming from climate change.

Since we first developed our Climate Change Investment Strategy in 2016, the Taskforce for Climate-related Financial Disclosures (TCFD) has released a set of recommendations on financial disclosures. We first began reporting against the TCFD recommendations in 2020, and since then have reported annually against the recommendations in our annual Climate Change Reports.

Over the past financial year we have made two significant commitments in regard to climate change which are outlined below. Looking ahead, our Climate Change Strategy will come under the umbrella of our wider sustainable finance approach.

COMMITTING TO NET ZERO BY 2050

In October 2021, we announced that the we joined the Paris Aligned Investment Initiative's Net Zero Asset Owners Commitment to demonstrate our commitment to decarbonising our portfolio and achieving net zero carbon emissions by 2050. The Initiative's framework helps investors on the pathway to net-zero by developing metrics and methodologies across a range of asset classes. We will seek to achieve emissions reductions through influencing companies to develop robust climate change strategies.

As part of this commitment, we have developed a climate action plan, which outlines the steps we plan to take to deliver on this commitment. This can be found in our 2022 Climate Change Report.

CROWN FINANCIAL INSTITUTION REPORTING

Over the past financial year we worked closely with the Treasury and the other Crown Financial Institutions (CFIs) to develop the Crown Responsible Investment Framework that was announced by the Minister of Finance in late 2021. This Framework includes a commitment to reporting against common carbon metrics.

We have reported on our progress against these commitments in detail throughout our 2022 Climate Change Report, which you can find on our website.

This section provides a summary of the disclosures contained in our 2022 Climate Change Report, and is mapped against the recommendations of the TCFD.

GOVERNANCE

The Guardians' Board is responsible for setting the Fund's investment risk appetite through its decision on the composition of the Reference Portfolio. In 2017, the Board agreed to change the composition of the Reference Portfolio to significantly reduce the Fund's carbon footprint and address climate change investment risk.

The Board delegates responsibility for managing climate change risk to the Leadership Team by including climate change priorities in our investment and organisational strategies.

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

Different elements of the strategy are integrated into the objectives of relevant members of the Investment Team, with the Heads of each team responsible for ensuring delivery. We continue to build the tools and education needed to deliver on our climate change objectives.

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CLIMATE CHANGE (CONTINUED)

STRATEGY

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

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

Our strategy has four elements:	Key Achievements 2021/22:
REDUCE **Reduce** decreases the transition risk of the portfolio. We do this by: • Measuring our carbon footprint; • Setting a target to reduce our portfolio's emissions intensity and our exposure to potential emissions from reserves; and • Adopting Paris Aligned benchmarks as our Reference Portfolio and investing our passive equity mandates accordingly.	• We have decided to transition our Reference Portfolio to a set of Paris-Aligned indices. This means we will invest our passive equity mandates in line with these benchmarks. • Increased the number of our direct investments that report their carbon emissions to 21.
ANALYSE **Analyse** integrates climate change considerations into our assessment of potential new investments and the review of our existing holdings. We do this by building climate change scenarios into our valuation framework.	• We have begun using MSCI's Real Estate Climate Value at Risk tool as part of our due diligence process for real estate investments. • We have enhanced our approach to climate change assessments which has led to a significant increase in the number of assessments completed.
ENGAGE **Engage** influences the companies we own to continuously mitigate and improve resilience to climate-related risks. We do this by being an active owner, including prioritising engagement and voting in accordance with our climate change views.	• We have continued to actively participate in international collaborations such as the Transition Pathway Initiative and the One Plant Sovereign Wealth Funds. • We have been active on climate engagement globally for many years and have been developing a climate change engagement programme for the local market which we will launch in the FY22/23 financial year.
SEARCH **Search** focuses on finding companies that will thrive during the low-carbon transition. We do this by actively searching for new opportunities in areas such as alternative energy, energy efficiency and transformational infrastructure.	• We have developed a new sustainable transition opportunity, focused on investments which will benefit from the ongoing transition to a more sustainable economy. • We have also made a number of investments specifically focused on sustainability including: Generation Investment Management's Sustainable Solutions Fund IV, Fifth Wall's Climate Technology Fund, and Copenhagen Infrastructure Partners' Energy Transition Fund. We have also launched a joint venture to look at developing offshore wind energy in New Zealand. • One of our larger investments in the renewables sector, Longroad Energy, recently raised US$300 million from a new investor, together with US$100 million each from existing investors, the NZ Super Fund and Infratil, to fund the development of renewable energy generation and storage in the US.

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CLIMATE RISK MANAGEMENT

As investors, risk management is a fundamental part of each of the work streams that make up our Climate Change Investment Strategy. We seek to address this risk through the analyse work stream of our strategy, by factoring in ESG considerations when making allocation decisions and through our ESG due diligence and management. We also carry out responsible investment due diligence as part of the operational risk assessment process that we undertake before we make an investment or appoint an external investment manager.

In our recent asset allocation review we explicitly adjusted each opportunity's risk allocation based on the ESG profile of the investments we believed we would be able to access in each opportunity.

METRICS AND TARGETS

We aim to lower the entire Fund's exposure to investments that are most at risk from the transition to a low-carbon world, from policy, technology and consumer trends. We do this by setting climate emissions targets which includes reducing our exposure to companies with the highest emissions intensities and to companies with ownership of fossil fuel reserves.

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

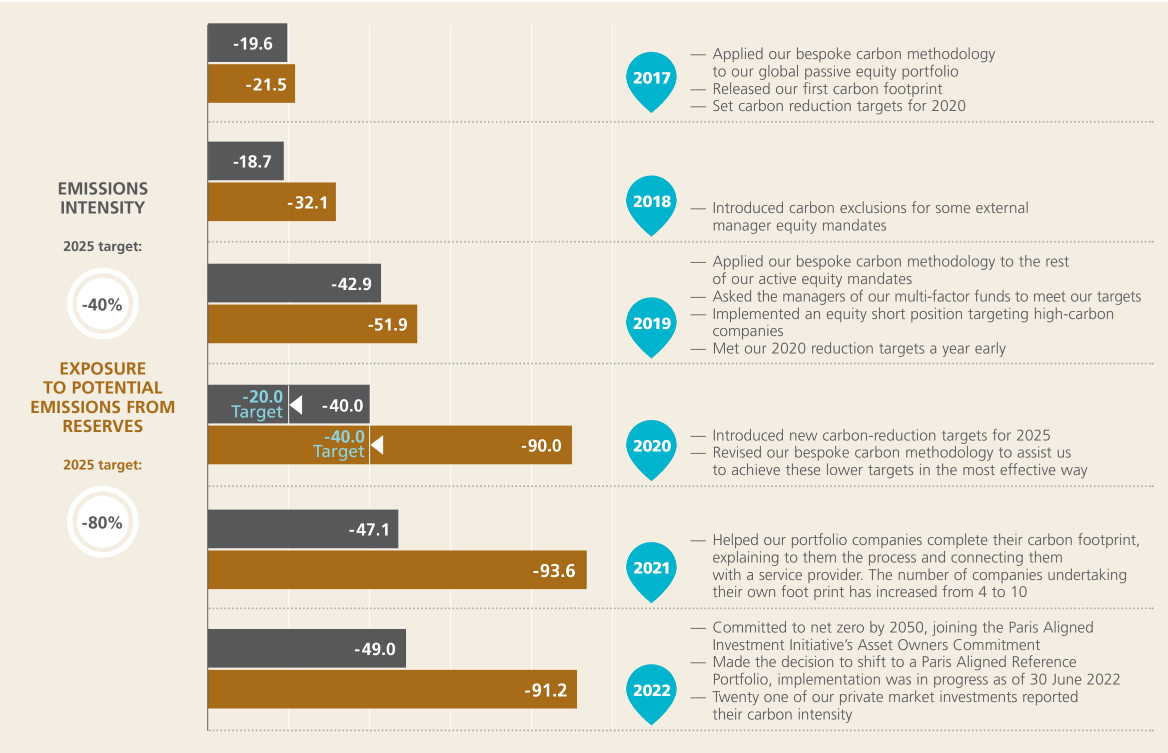
- To reduce the emissions intensity of the Fund by at least 40%; and
- To reduce the carbon reserves of the Fund by at least 80%.

The heavy lifting in achieving these targets is done by our passive global equity portfolio. Up until 30 June 2022 we implemented carbon reduction using a bespoke carbon methodology within the Reference Portfolio; from 30 June 2022 the carbon methodology will largely be replaced with the shift to the Paris Aligned Indices, as explained on page 63.

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

We use carbon footprinting to measure the carbon exposure of the Fund and track progress towards these carbon reduction targets. Our 2022 carbon footprint assessment reported that the total Fund's carbon emissions intensity is **49%** lower than our baseline level, and its exposure to potential emissions from reserves is **91%** lower. KPMG provided a limited assurance of these measurements.

Our aim is for our carbon targets to cover as much of our investment portfolio that is relevant or feasible. However, for data and methodological reasons, we do not currently consider bonds, positions which are market neutral over the long term, or investments which have no clear carbon footprint such as life settlements, natural catastrophe insurance, and spectrum. We recognise that best practice continues to evolve. We have started to review our approach to carbon foot-printing and are considering extending our footprint to include some of our other investments as carbon accounting methodologies improve.



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ELEVATE
NZ VENTURE FUND

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

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

BACKGROUND

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

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

The Elevate Fund consists of $259.5 million of Crown capital commitments.

Under its governing legislation, the Elevate Fund does not have a fixed lifetime, but can be wound down once New Zealand venture capital markets are developed and no longer require Government support. When it ultimately winds down, the funds will be returned to the Crown.

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

The Guardians' role is to administer and provide governance oversight of the Elevate Fund and NZGCP as manager to ensure that it is managed in line with best-practice investment management appropriate for New Zealand's venture capital markets, and in a manner that is consistent with: (a) the Ministerial Policy Statement issued under the Venture Capital Fund Act 2019; and (b) avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

Importantly, the commercial aspects of the NZ Super Fund's mandate do not apply (for instance, investing on a prudent, commercial basis or managing and administering the Fund in a manner consistent with maximising returns without undue risk).

ROLES AND RESPONSIBILITIES

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

Guardians	External Manager (NZGCP)	Minister of Finance
• Enter into contract appointing NZGCP to operate the fund-of-funds with terms and conditions that meet the requirements of the legislation. • Monitor the performance of the Elevate Fund and NZGCP, including through a Limited Partner Advisory Committee that reviews significant matters. • 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 Elevate Fund is invested using best-practice investment management appropriate for institutional investment in New Zealand's venture capital markets, subject to the requirements in the Ministerial Policy Statement. • Annual financial reporting for the Elevate Fund, including preparation of Statements of Intent and Performance Expectations. • Preparation of Statement of Investment Policies, Standards and Procedures 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 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. • In addition to its role as the manager of the Elevate Fund, NZGCP has its own separate mandate from the Government to support the development of New Zealand's broader early-stage capital markets. This is a critical role, as the effectiveness of early-stage markets influences the health of the venture capital markets.	• Issue a policy statement outlining the high-level requirements for the Elevate Fund, including directions on what the Guardians must give effect to (how the Elevate 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 Elevate Fund when broader market development objectives have been achieved.

INVESTMENT REPORT – ELEVATE NZ VENTURE FUND (CONTINUED)

"Venture capital investments have an inherently high level of risk. While some growth companies will be highly successful and deliver excellent returns on investment, others will fail. We, along with the Guardians and the managers who invest capital, factor this into our performance expectations when deploying capital."

JAMES PINNER, CHIEF INVESTMENT OFFICER, NZGCP

PROGRESS REPORT

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

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

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

The Elevate Fund has been operating since March 2020. NZGCP has made good progress in deploying capital. As at the end of the 2021/22 financial year, the Elevate Fund had invested into seven underlying funds. It has committed:

	Vintage	NZ$m
Blackbird NZ Fund 2019	2019	23
Blackbird NZ Fund 2022	2022	30
Finistere Aotearoa Fund	2021	16
GD1 Fund 3	2021	45
Movac Fund 5	2020	30
Nuance Fund 1	2021	17
Pacific Channel Fund 2	2020	20

Dawn Aerospace

The Elevate Fund has committed $45 million to GD1 Fund 3, an Auckland-based Venture Capital fund which invests in New Zealand technology companies with 'Global from Day 1' ambitions. One of these companies, Dawn Aerospace, is a New Zealand-registered company with bases in Christchurch and the Netherlands which specialises in sustainable satellite propulsion and suborbital payload delivery spaceplanes. Their Dawn Mk-II Aurora vehicle is designed for multiple flights per day to 100km and below, and importantly is a horizontal take-off vehicle that can use existing infrastructure such as standard landing strips at airports, alongside normal aircrafts. This access to existing infrastructure expands the company's launch capability and speeds up its path to commercialisation. During 2022, Dawn Aerospace completed its first five test flights and took on a number of new ventures in New Zealand and internationally, from testing advanced unmanned aircraft to being selected to supply satellite propulsion to a Spanish in-space transportation services company. It was named Hi-Tech Start-up Company of the Year at the 2020 NZ Hi-Tech awards and Best Emerging Business at the 2021 New Zealand International Business Awards. Elevate's indirect investment assists Dawn Aerospace to grow and innovate in New Zealand and internationally.

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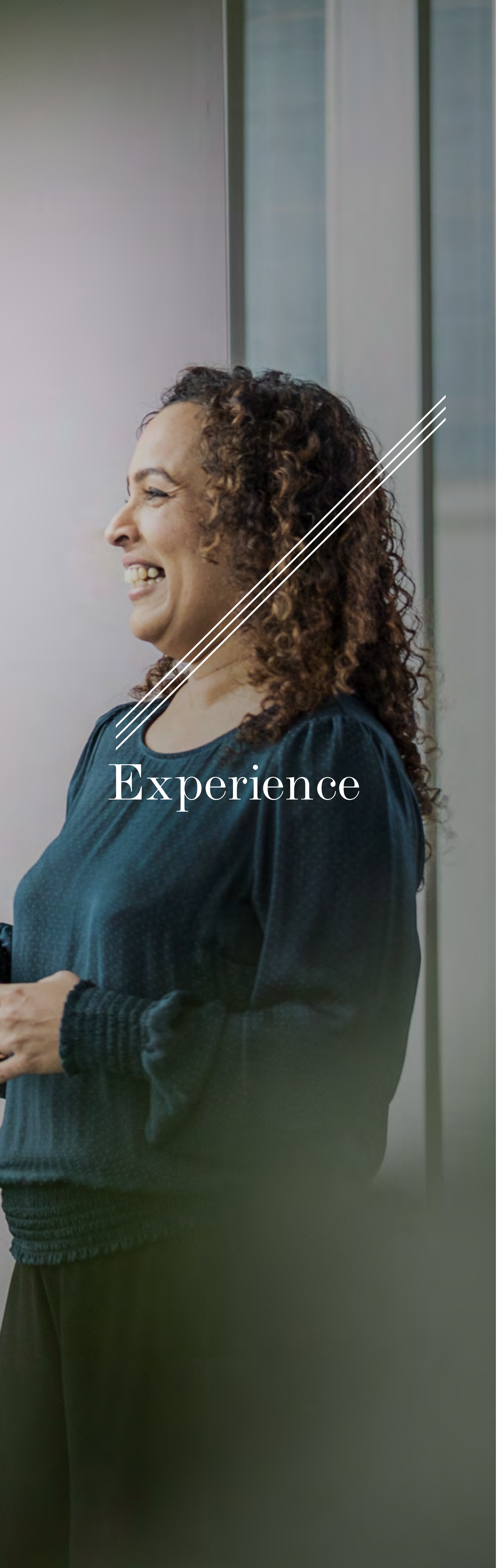
This table sets out a summary of the progress achieved to date.

Financial Statements	Elevate Fund financial statements for the period ended June 2022 are included in the financial section of this Annual Report.
Statement of Intent (SOI)	The Guardians' SOI for the period 1 July 2022 to 30 June 2027 includes a section on the Elevate Fund. It was sent to the Minister of Finance in June 2022 and published on the Guardians' website.
Statement of Performance Expectations (SPE)	The Guardians' SPE for the period 1 July 2022 to 30 June 2023 includes a section on the Elevate Fund. It was sent to the Minister of Finance in June 2022 and published on the Guardians' website.
Statement of Investment Policies, Standards and Procedures (SIPSP)	The Elevate Fund SIPSP is required to be reviewed at least annually. The most recent annual review of the SIPSP was approved by the Board in June 2022. The Chair and Chief Executive report on compliance with the SIPSP in the compliance section of this Annual Report.
Conviction Review	The Guardians assesses the Elevate Fund's externally-appointed investment manager, NZGCP, in accordance with the usual conviction process that we apply to all our external manager relationships. In the past year, NZGCP have continued to address previously identified issues regarding governance, personnel and culture. In the past 12-months a new CEO (Rob Everett) has been appointed and there has been the establishment of a Chief Investment Officer (James Pinner). These personnel changes and the process improvements that followed have resulted in the Guardians' conviction in NZGCP improving.
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**	All seven funds in which the Elevate Fund has invested have a New Zealand connection. Five are domestic funds and two are overseas managers establishing a New Zealand fund.
Capital invested into funds with a New Zealand connection	NZD$181 million has been committed to funds with a New Zealand connection.
Ratio of matching private capital raised by underlying funds	Elevate fund's commitments represent 27% of the capital committed into the underlying funds (NZ$181 million against an aggregate total of NZ$664 million).
Capital invested by underlying funds	As at 30 June 2022, 34% of the NZ$181 million, or NZ$61 million, has been called by the underlying funds. Called capital has been used for a combination of fees and investments in portfolio companies.



Governance

OVERVIEW

Good governance is critical to achieving our long-term Purpose and to maintaining our stakeholders' confidence.

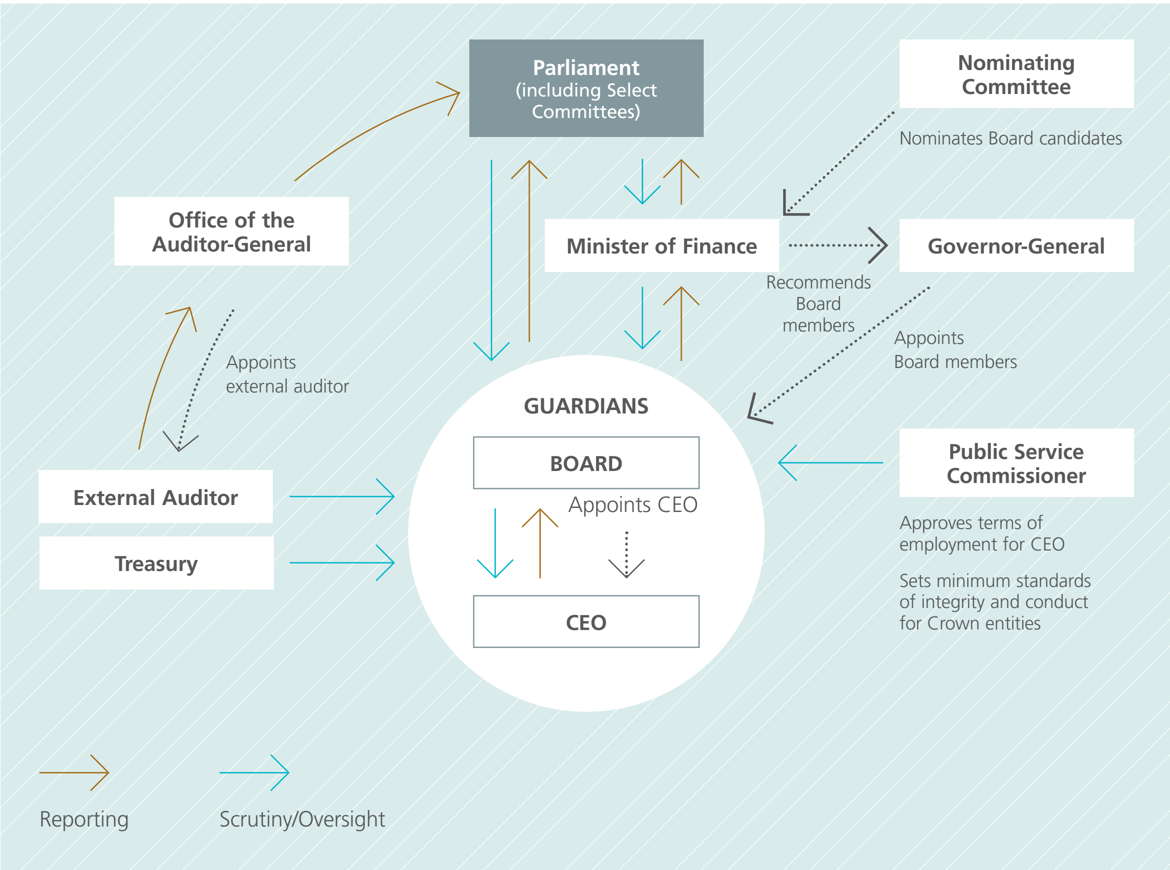
The Guardians is a statutory entity and our governance framework reflects our statutory context, Purpose and the expectations of our key stakeholders, as well as applicable good-practice standards.

STATUTORY CONTEXT

The statutory governance arrangements for the Guardians are set out in the New Zealand Superannuation and Retirement Income Act 2001 (NZ Super Act), the Venture Capital Fund Act 2019 (VCF Act) and the Crown Entities Act 2004. These Acts establish the function and powers of the Guardians, the powers and duties of Board members, and reporting and accountability requirements.

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

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



PURPOSE AND VISION

Clarity on Purpose and Vision is essential to the governance of an organisation. The Guardians has introduced a new strategic framework that includes new Purpose and Vision statements. The new framework was developed following workshops with Board members, the Leadership Team and staff and provides a shared vision of what we are here to do and what we aspire to do (you can read more about the new strategic framework on page 20 – 21).

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The Guardians' governance framework substantially reflects the corporate governance principles outlined in the Financial Market Authority's Corporate Governance Handbook.

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.

(see pages 84 – 85)

2

BOARD COMPOSITION AND PERFORMANCE

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

(see pages 88 – 91)

3

BOARD COMMITTEES

The board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility.

(see pages 94 – 95)

4

REPORTING AND DISCLOSURE

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

(see page 96)

5

REMUNERATION

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

(see page 91)

6

RISK MANAGEMENT

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

(see pages 92 and 101 – 103)

7

AUDITORS

The board should ensure the quality and independence of the external audit process.

(see pages 94 – 96)

8

SHAREHOLDER RELATIONS AND STAKEHOLDER INTERESTS

The board should respect the rights of shareholders, and foster constructive relationships with shareholders and stakeholders. Shareholders should be encouraged to engage with the entity.

(see pages 97 – 99)

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CULTURE AND CONDUCT

One of the Board's key roles is to shape the culture and ethics of the organisation. The Board sets the 'tone from the top' and articulates expectations for ethical conduct in Codes of Conduct established for the Board and for employees and contractors.

Culture

Culture plays a significant role in keeping staff engaged, with implications for financial performance, recruitment, risk management, retention and ethical behaviour. The importance of culture is reflected in our new Vision statement: *An inclusive team creating a better future through investment excellence* and by our values: *We stand strong; We support each other; Team not hero; and Future focused*.

Culture is a core strength at the Guardians but we are aware that good culture declines over time without strong actions to maintain it. To this end, our remuneration and discretionary incentive scheme (see pages 108 – 112) is designed to promote a positive, constructive workplace culture. In addition, the Guardians' organisational culture is regularly tested using culture surveys conducted by an external provider, with the latest survey conducted in February 2022. Survey results provide data against which to measure our long-term effectiveness as an organisation, which you can learn more about on page 32.

Ensuring that culture and values are strongly defined and identified with has been a focus for successive Strategic Plans. To ensure we continue to build on our culture and develop and mature our practices, we identified diversity, equity and inclusion (DE&I) as a key strategic priority for 2021/22. Last year we engaged an external provider to conduct an independent review of our DE&I practices, and have since established a new role, Head of Diversity, Equity and Inclusion, and have appointed Rachael Le Mesurier to this position. More information on our DE&I journey and a Q&A with Rachael can be found on page 36.

Ethical Conduct

The Guardians is a public sector entity and high standards of ethical and professional behaviour are expected from its Board members, employees and contractors. The expected standards of behaviour are articulated in the Codes of Conduct for Board members and for employees and contractors. The Board Code of Conduct incorporates the code of conduct for members of Crown entity boards issued by the Public Service Commissioner in March 2021. The Board Code of Conduct is included in the Board Charter and can be found on our website.

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

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

To instil a culture of ethical behaviour and transparency, there is mandatory training on core topics (including gifts and hospitality, fraud awareness, securities trading, and privacy), and there is a six-monthly attestation process covering compliance with policies and authorities, conflicts of interest, disclosure of gifts and hospitality, health and safety, and securities trading.

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WHISTLEBLOWING

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

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

A confidential Speak-Up line is available for employees, contractors and external parties to report any serious wrongdoing or potential issues they may have experienced or encountered, without any risk of retribution. Whistleblowing complaints will be reported to the CEO and/or Board Chair, as appropriate, and the GM Risk is responsible for the Guardians' whistleblowing process which ensures any allegations are appropriately investigated, documented, reported and responded to.

SECURITIES TRADING PROCEDURE

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

A copy of the Securities Trading Procedure is set out in our Human Resources Policy, which can be found on our website.

SENSITIVE EXPENDITURE

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

CONFLICTS OF INTEREST

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

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

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BOARD ROLE AND RESPONSIBILITIES

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

Division of Responsibilities

While the Board has overall responsibility for the affairs and activities of the Guardians it has delegated authority for the day-to-day management of the Guardians to the Chief Executive and other officers, to be exercised within Board approved parameters. The framework for the delegation of authority is set out in the Guardians' Delegations Policy. A copy of the Delegations Policy is available on our website.

The division of responsibilities between the Board and management means that the Board's focus is on the governance framework, strategic direction, organisational identity (Purpose, Vision and culture) and resources, risk, key stakeholder relationships and accountability reporting, and oversight of management. Management is responsible for implementing strategy (investment and enterprise wide).

KEY MATTERS RESERVED TO THE BOARD INCLUDE:

WHOLE-OF-ORGANISATION

Appointing, reviewing and setting remuneration for the Chief Executive.

—

Approving statutory reporting and accountability documents (Annual Report and financial statements, Statement of Performance Expectations, Statement of Performance and Statement of Intent).

—

Approving the annual budget and strategic plan.

—

Approving the enterprise risk appetite and risk assessment framework.

—

Approving the remuneration structure.

—

Approving organisational policies and delegations framework.

NZ SUPER FUND

Setting the risk and return profile, risk budget and investment constraints for the portfolio.

—

Approving investment policies, beliefs and benchmarks.

—

Approving the responsible investment/sustainable investment framework, exclusion categories and carbon reduction targets.

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BOARD COMPOSITION AND PERFORMANCE

Appointment Process

The process for appointing members of the Guardians' Board (summarised below) has unique features that are designed to promote the independence of Board members and the operational independence of the Guardians. Board members are generally appointed for terms of between three and five years and may be reappointed at the expiry of their term.

NEW ZEALAND GOVERNMENT The Minister of Finance appoints members to an independent Nominating Committee →	Committee must have no fewer than 4 persons with proven skills or relevant work experience that will enable them to identify candidates for appointment.
INDEPENDENT NOMINATING COMMITTEE 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 before recommending candidates.
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.

Board Composition

By statute, the Guardians' Board is required to consist of at least five, but no more than seven, Board members. The Board is led by the Chair, who is appointed by the Minister of Finance. The Board's composition changed during the year with the appointment of David McClatchy for a five year term beginning 1 October 2021, Simon Botherway's term ending in September 2021 and the resignation of Kirsty Mactaggart in February 2022.

Profiles of Board members as at 30 June 2022 are set out on the following pages.

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PRINCIPLES FOR CORPORATE GOVERNANCE (CONTINUED)

CATHERINE DRAYTON
LLB, BCom, FCA
Chair of the Guardians' Board

Appointment: 1 Nov 2018

Term: expires on 31 Oct 2022

Skills and experience:

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

Other roles:

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

Committee membership:

Audit and Employee Policy and Remuneration ex officio

JOHN WILLIAMSON
BA, LLB, LLM
Chair of the Employee Policy and Remuneration Committee

Appointment: 30 May 2016, and reappointed 1 Oct 2020

Term: expires on 30 Sep 2025

Skills and experience:

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

Other roles:

John is Chair of Ritchies Transport Holdings and a former Chair of Hockey New Zealand. Previous directorships include Global Academic Group Holdings, Hellaby Holdings and associated companies.

Committee membership:

Audit and Employee Policy and Remuneration

DOUG PEARCE
BCom, ICD.D
Chair of the Audit Committee

Appointment: 30 May 2016, and reappointed 1 Oct 2020

Term: expires on 30 Sep 2023

Skills and experience:

Doug has extensive experience in funds management and the capital markets. He was the founding Chief Executive Officer and Chief Investment Officer of the British Columbia Investment Management Corporation (bcIMC), one of Canada's largest institutional investors, with over $200 billion in assets under management. He held these positions from 1988 until he retired in 2014 and has over 35 years of experience in the capital markets. Doug lives in Canada.

Other roles:

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

Committee membership:

Audit and Employee Policy and Remuneration

HENK BERKMAN
PhD, MCom

Appointment: 1 Oct 2018

Term: expires on 30 Sep 2022

Skills and experience:

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

Other roles:

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

Committee membership:

Audit

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

Appointment: 1 Oct 2020

Term: expires on 30 Sep 2025

Skills and experience:

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

Other roles:

Rosemary is the Chair of the Commonwealth Bank Group Staff Superannuation Fund and the former Chair of the Federal Government's Safety, Rehabilitation and Compensation Commission, and a Member of the Cambooya Investment Committee.

Committee membership:

Employee Policy and Remuneration

DAVID MCCLATCHY
BCom

Appointment: 1 Oct 2021

Term: expires on 30 Sep 2026

Skills and experience:

A respected business leader and financial markets professional, David has returned to New Zealand following a successful career based in Sydney, Australia. There he served as Group Chief Investment Officer of Insurance Australia Group and Managing Director at IAG Asset Management until 2019, and before this held the role of CEO and Chairman at ING Investment Management in Australia.

Before his move across the Tasman, David spent 16 years with banking and investment management companies in New Zealand. Over the course of his career, David has run and directed multinational investment organisations across New Zealand, Australia and Asia, managing funds for insurance firms, corporates, sovereign wealth funds, superannuation funds, and charities.

Other roles:

David is a director of NZX listed investment companies Kingfish Limited, Barramundi Limited and Marlin Global Limited, as well as Trust Investment Management Limited, a professional services entity supporting charities with governance and investment, and Waipuna Hospice Incorporated, a non-profit palliative care provider. David is a past member of Chartered Accountants Australia and New Zealand.

Committee membership:

Audit

SECTION THREE GOVERNANCE 03

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BOARD SKILLS

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

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

A general description of the skills identified as being necessary for the Guardians' Board is set out in the table below. These skills reflect the Purpose and mandate of the Guardians and the Funds. Not all Board members will or need to possess skills in all areas – it is the strength of the entire Board that matters. Effective teamwork within the Board and between the Board and management is also important. There may also be some areas of expertise that the Board feels comfortable taking external advice on as and when required.

More information about the skills of our Board members can be found earlier in this section.

Corporate governance	To support Board and management accountability, values, transparency and execution of the Fund mandates
High level of financial literacy	To understand complex financial, economic and investment concepts and oversee financial reporting and internal controls
Investments and commercial acumen: financial markets/ commercial expertise/academic	To evaluate the investment strategies and to set the NZ Super Fund's risk and return profile
Leadership experience – especially Chief Executive/ General Manager	To advise the Chief Executive and provide insight and guidance on key areas such as change management, strategy and culture
Risk oversight/management expertise	To oversee the risk management of the Funds and the Guardians
Talent management expertise	To oversee strategies for the attraction, motivation and retention of skilled personnel in the context of long-term investment objectives
Global investment expertise	To provide a global investment perspective and support benchmarking our performance against global strategies

Induction and Development

There is a formal induction programme for each new Board member on appointment, consisting of a series of 'deep dive' sessions, one-to-one sessions with the Leadership Team and comprehensive induction papers. Recognising that training and development are continuing processes, an ongoing development programme for Board members ensures they continue to have the skills and expertise needed to discharge their responsibilities. The topics and calendar for the Board's ongoing development programme are approved by the Board. The ongoing development programme includes arranging for Board members to meet with global peer funds and investment managers and to participate in international peer forums. Engagement with international peer funds and managers and participation at international forums helps ensure that the Board is able to govern in line with best practice. Travel restrictions due to the COVID-19 pandemic disrupted the programme for the 2021/22 financial year but in-person appearances at international forums are set to resume in the second half of 2022.

Board Evaluation

The performance of the Board, its committees, and individual members is evaluated at regular intervals, generally annually for the Board and at least once every two years for its committees. The performance evaluation is conducted either on the basis of a self-evaluation questionnaire or using an external specialist. Evaluations seek to assess both performance to date and fitness for future challenges. The Chair keeps Treasury informed on Board evaluations, including progress on action items. An evaluation using an external specialist is planned for the second half of 2022.

Board Secretariat

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

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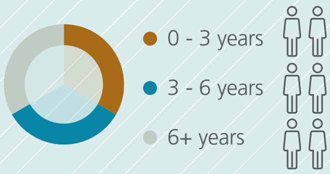
Diversity

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

PROFESSIONAL EXPERIENCE
Academia, consulting, banking, funds management, insurance, sales and marketing, manufacturing, industrial services, business management, investment, operational, mergers and acquisitions

NATIONALITIES
Australia, Canada, New Zealand, and The Netherlands

TENURE



Average tenure: 3.72 years

GENDER
Male 4, Female 2, Non-binary 0

COUNTRY EXPERIENCE
Australia, Canada, New Zealand, Asia, Europe, United Kingdom

AGE RANGE
50 - 70

Board Remuneration

The remuneration of Board members is set by the Minister of Finance operating in accordance with the Fees Framework for Members of Statutory and Other Bodies Appointed by the Crown, and as such is not controlled by the Guardians. The remuneration set for Board members in the 2021/22 financial year was:

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

BOARD MEETINGS AND ACTIVITY

Meetings

During the year, there were six scheduled Board meetings and one special meeting. Additionally several 'deep dive' discussions or strategy sessions have occurred in addition to board meetings throughout the year. Meeting agendas are a mix of forward looking and priority items and regular standing items (such as the dashboard and investment environment reports). The Board also meets with Treasury at least once a year and has an annual strategy day.

Where possible, a 'deep dive' or strategy discussion is scheduled to be held before a Board meeting. 'Deep dive' topics and strategy discussions are based on feedback received from the Board.

Strategy discussion topics during the year included organisational identity (Purpose, Vision and goals), DE&I, incorporating Te Ao Māori into organisational capability, liquidity, derivatives and responsible investment exclusions. Meetings were predominately held via Zoom rather than in person due to COVID-19 pandemic lock-downs and travel restrictions.

Key Board activities

In line with best practice the Board has reviewed and agreed a new strategic framework incorporating a new Purpose, Vision, strategic goals, risks and relationships. The new framework was developed following workshops with Board members, the leadership team and staff to ensure that it provides a shared vision of what we are here to do and what we aspire to do. At the same time the Board approved a new risk appetite statement and risk assessment framework. You can read more about the new strategic framework on pages 20 – 21 and the new risk appetite statement and risk assessment framework on page 101.

The shift from a Responsible Investment approach to a Sustainable Finance Strategy was an ongoing focus for the Board during the year. An important part of this work has been to further improve the ESG profile of the NZ Super Fund portfolio and at its June 2022 meeting the Board approved changing our Reference Portfolio benchmark for global equities to the 'MSCI World Climate Paris Aligned' and the 'MSCI Emerging Markets Climate Paris Aligned' indices. There is more about this work on page 63.

During the year, there was significant engagement by the Board Chair with the Chairs of ACC, the Government Superannuation Fund and the National Provident Fund; with Treasury; and with the Minister of Finance on the development

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of a new Crown Responsible Investment Framework. There is more about this initiative on page 73.

The impact of the COVID-19 pandemic on employee wellbeing and the longer term implications for our working model continues to be a focus for senior management and the Board.

SUMMARY OF MAIN BOARD ACTIVITIES

Compliance and Risk

- Review and approval of a new Risk Appetite Statement and Risk Assessment Framework and Risk Management Policy updates
- Annual review of the Statement of Investment Policies, Standards and Procedures (including the Responsible Investment Framework) for each Fund
- Annual IT Security Strategy Review
- Review of Annual Guardians' Health and Safety Report
- Review of six-monthly Enterprise Risk reports
- Review of Travel and Sensitive Expenditure Policy
- Review of Procurement and Outsourcing Policy

Investment Strategy and Performance

- 5-yearly Liquidity Framework Review
- 5-yearly Risk Budget Review
- Approving a move from responsible investment to sustainable investment and approving the adoption of MSCI Climate Paris Aligned Indices as a portfolio benchmark
- Approving changes to the Proxy System
- Considering structural shifts
- Considering governance and other implications of taking controlling interests in entities (currently not permitted under our legislation)
- Considering the approach taken to portfolio exclusions following the Russian invasion of Ukraine and to implementing New Zealand's sanction regime
- Real estate and infrastructure strategy update
- Annual Responsible Investment Review
- Annual Investment teams' strategies report
- Updates on specific direct investments
- Annual review of investment opportunities
- Considering Total Portfolio and Investment Environment reports

Organisation Strategy

- Approving a new strategic framework
- Review and simplification of the bonus programme
- Government relations
- Reviewing updates including lessons learned on the project to implement a new human resources system
- Reviewing updates on an investment data project
- Annual Custodian review
- Custodian capability review
- Reviewing and approving the Strategic Plan and annual budget and reviewing updates on achievement of strategic activities
- Reviewing the annual Remuneration Summary
- Considering the Annual CEO Performance Review and Remuneration Review
- Approving the 2022-2027 Statement of Intent and 2022/23 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 2022/23
- Annual Cost-Effectiveness Measurement Review

Regular Board Agenda Items

Regular items considered at each scheduled Board meeting are:

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

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

- Reporting against the Board's risk appetite
- Portfolio performance
- Use of active risk
- Performance of the Strategic Tilting programme and Tactical Credit Opportunities Mandate
- Leadership Team, Investment Committee and Risk Committee activity
- Investment activity
- NZ Super Fund and Guardians' financials
- Reporting on derivatives activity and counterparty exposure
- Liquidity
- Human resources
- Stakeholder and external relationships
- Cyber security

Meeting Attendance

The following table shows the attendance of Board members at scheduled Board and Committee meetings during the 2021/22 financial year.

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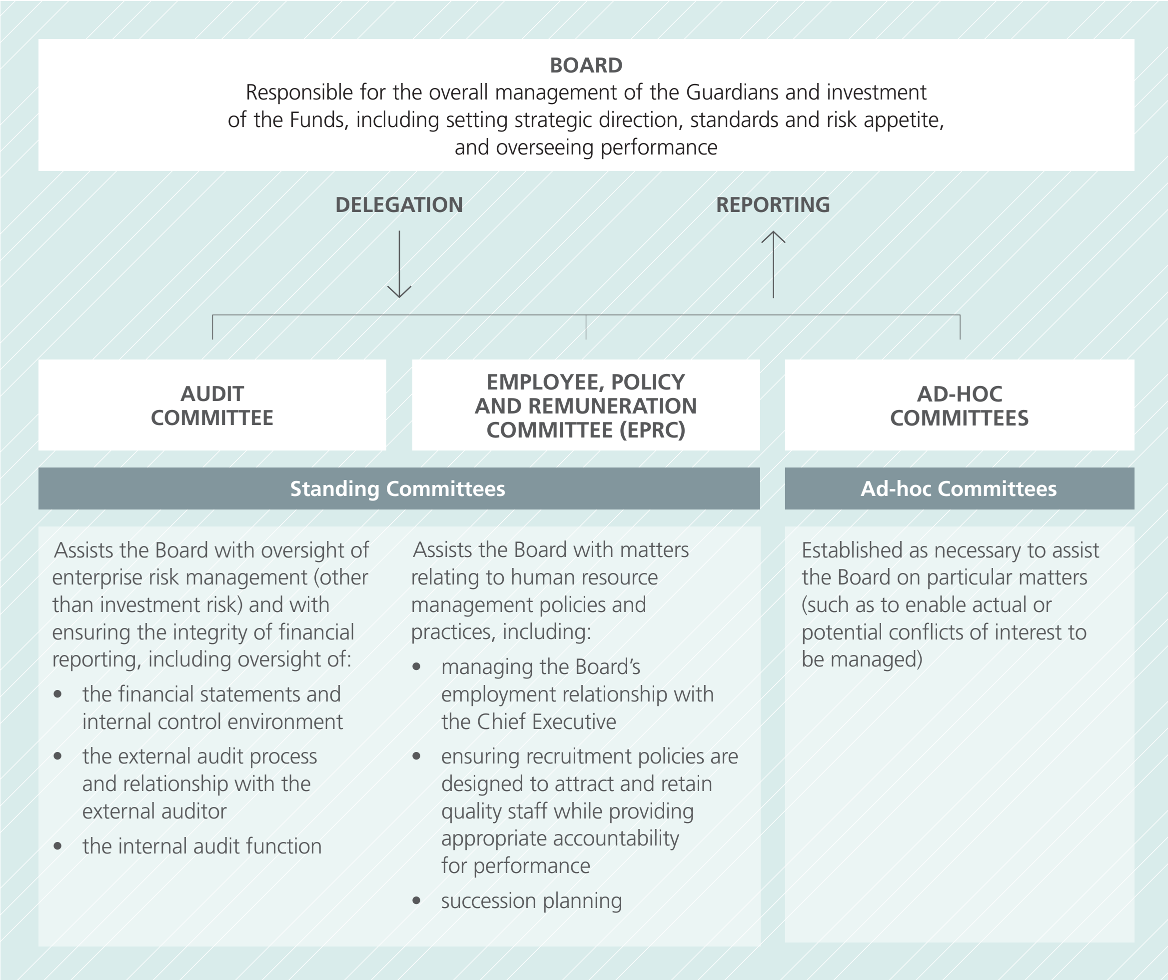
	Board		Audit Committee		EPRC*	
Board member	**Meetings held and eligible to attend as a member**	**Meetings attended**	**Meetings held and eligible to attend as a member**	**Meetings attended**	**Meetings held and eligible to attend as a member**	**Meetings attended**
Catherine Drayton	6	6	4	4	4 (iv)	4
Henk Berkman	6	6	4	4	N/A	N/A
Doug Pearce	6	6	4	4	4	4
John Williamson	6	6	4	4	4	4
Rosemary Vilgan	6	6	1	1	4	4
David McClatchy(i)	4	4	3	3	1 (v)	1
Simon Botherway(ii)	2	2	1	1	N/A	N/A
Kirsty Mactaggart(iii)	4	4	2	2	N/A	N/A

*Employee, Policy and Remuneration Committee.
**All Board members attend the Audit Committee meeting that reviews the financial statements.
(i) David McClatchy joined the Board on 1 October 2021.
(ii) Simon Botherway's term ended on 30 September 2021.
(iii) Kirsty Mactaggart resigned from the Board as at 28 February 2022.
(iv) Catherine Dayton attends EPRC meetings ex officio.
(v) David McClatchy attended an EPRC meeting as observer.

BOARD COMMITTEES AND ACTIVITY

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



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.

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

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

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

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

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Audit Committee Activity

Members	Summary of main matters considered during the year
5 members as at 30 June 2022: • Doug Pearce (Chair) • Catherine Drayton • John Williamson • Henk Berkman • David McClatchy **Meetings** Met 4 times in the 2021/22 financial year **Attendance** See page 93 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-to-one meetings or calls with the Head of Internal Audit. The Committee had a stakeholder session with representatives of the Office of the Auditor-General.	• External auditor letters of undertaking and fees • 6-monthly enterprise risk reports • Valuation working group annual plan and annual report • Annual internal audit plan and annual review of outcomes • Review of the Internal Audit Charter • Review of the Audit Committee Terms of Reference • Annual review of Audit Committee calendar • Annual overviews from Finance and Tax teams • Annual overview of year-end processes • Annual external audit plan and annual external audit report • 6-monthly Compliance Certificates • Audit representation letters • 6-monthly regulatory updates • Annual statutory financial statements for the Guardians, NZ Super Fund and Elevate Fund • Annual Statement of Performance • Annual Tax Compliance and Strategy Update • Annual System and Organisation Control report reviews At each meeting the Committee receives reports from Internal Audit and the General Managers of Risk, Technology, and Strategy and Shared Services and a Dashboard Report covering open audit items, learning opportunities reports, custodial incidents, mandate breaches and tax position updates.

Employee, Policy and Remuneration Committee (EPRC) Activity

Members	Summary of main matters considered during the year
Three members as at 30 June 2022: • John Williamson (EPRC Chair) • Doug Pearce • Rosemary Vilgan Catherine Drayton attends meetings ex officio. **Meetings** Met five times in the 2021/22 financial year (4 scheduled meetings and 1 special meeting). **Attendance** See page 93 for details of meeting attendance by Board members.	• Review and simplification of the bonus programme • 5-yearly role evaluation • Chief Executive Officer succession planning • Chief Executive Officer remuneration • Chief Executive Officer performance review • Strategic activities achievement • Annual performance review and remuneration summary • Annual talent management review • Leadership Team succession planning • People dashboards • Standard employment contract review • Organisational culture survey • Review of the Committee's Terms of Reference • Review of progress on the human resources information system project At each meeting the EPRC receives a report from the General Manager Human Resources.

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PRINCIPLES FOR CORPORATE GOVERNANCE (CONTINUED)

ACCOUNTABILITY REPORTING

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

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

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

The latest Statement of Intent, setting out the strategic outcome and performance measures for the five years from 2022–2027, was published in June 2022. The Annual Statement of Performance Expectations sets out strategic objectives and financial forecasts for the NZ Super Fund for the coming financial year, and was also published in June 2022.

The Guardians' objectives for the 2021/22 financial year are reported against in the Statement of Performance section of this Annual Report.

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

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

The Audit Committee and Board review the Guardians' and each Fund's financial statements. The Chief Executive Officer and the General Manager Strategy and Shared Services state in writing to the Board that the Guardians' and each Fund's financial statements present fairly, in all material respects, the Guardians' and the relevant Fund's financial position and performance, in accordance with relevant accounting standards.

They are also required to sign off on the adequacy of the systems of internal control.

2-5 The Guardians received 22 requests under the Official Information Act 1982 during 2021/22. Copies of our responses, where we consider these to be of material public interest, are available on our website.

AUDITORS

The Guardians does not appoint the external auditor; this is undertaken by New Zealand's Office of the Auditor-General. Typically the audit partner is rotated every six years. Emma Winsloe of EY has been appointed to carry out the external audit of the Guardians and the Funds on the Auditor-General's behalf. This is the first year of a new rotation. Graeme Bennett of EY has been appointed to carry out the external audit of the Elevate Fund and this is his third year.

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

Any non-audit work conducted by the audit firm is disclosed in the financial statements.

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

STAKEHOLDER INTERESTS AND RELATIONSHIPS

Accountability

The Guardians is an autonomous Crown entity that operates at 'double arm's-length' from political stakeholders. This ensures that investment decision-making is undertaken on a prudent, commercial basis. The Guardians' operational independence is balanced by clear accountability to Parliament, through the Minister of Finance, for its performance and the performance of the Funds that it manages.

Key accountability reporting documents are summarised on page 96. Accountability mechanisms also include establishing, publishing and annually reviewing a Statement of Investment Policies, Standards and Procedures for each of the Funds, scrutiny by Parliamentary Select Committees and the Office of the Auditor-General, the obligation to disclose information under the Official Information Act and a five-yearly review by an independent reviewer appointed by the Minister of Finance. Copies of the independent reviews and the Guardians' responses are available on our website.

The Minister of Finance may give directions regarding the Crown's expectations as to the NZ Super Fund's performance, including its expectations regarding risk and return. The Minister may not, however, give any direction that is inconsistent with the duty to invest the Fund on a prudent, commercial basis.

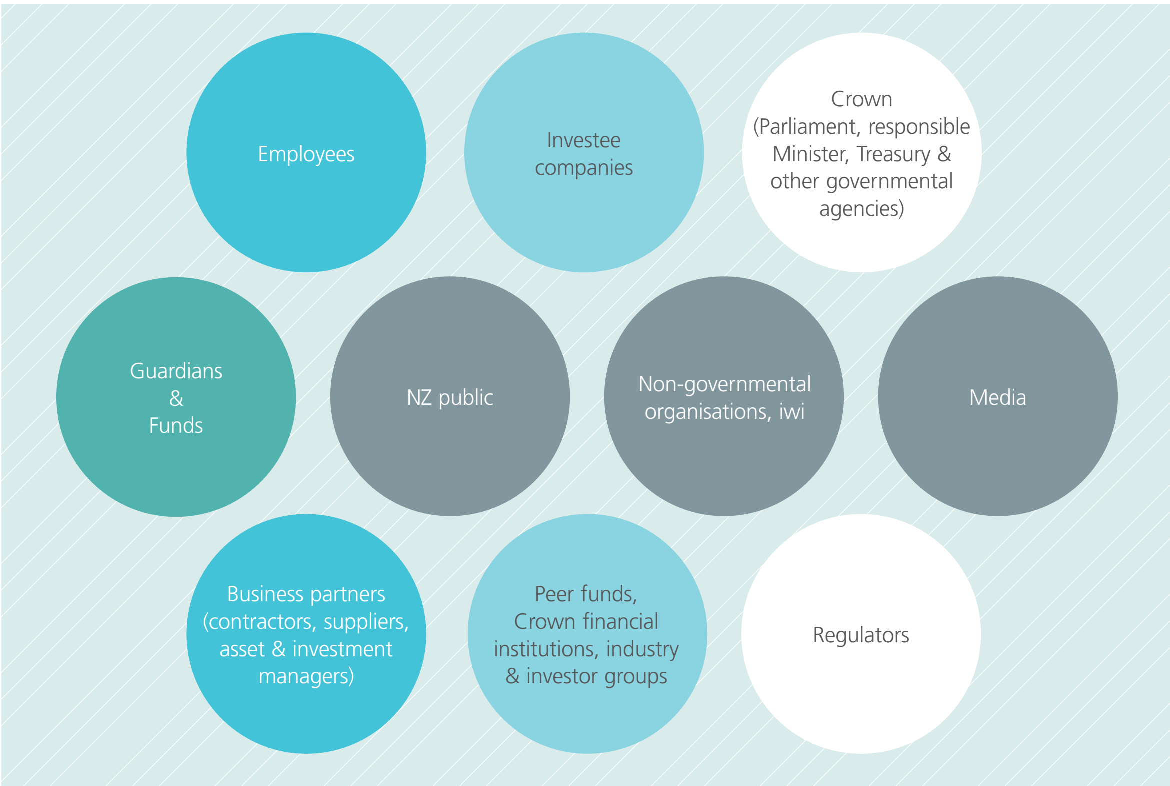
No directions were received in the 2021/22 financial year. We report on our progress in implementing the single direction received to date (May 2009, about our New Zealand investment activities) on page 56 of this Annual Report.

Along with the other New Zealand Crown Financial Institutions, the Guardians received an annual Letter of Expectations for 2021/22 from the Minister of Finance in October 2021. The Guardians also received an enduring Letter of Expectations, in relation to the Crown Responsible Investment Framework, from the Minister of Finance in December 2021. These letters and the Guardians' responses are available on our website.

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

Stakeholder Engagement

We continue to refine our communications strategy to improve stakeholder and public awareness and understanding of the Guardians and the Funds. Key topics raised by stakeholders are presented in our impact assessment on page 22 and our responses to these topics are included in this report.



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PRINCIPLES FOR CORPORATE GOVERNANCE (CONTINUED)

Stakeholder engagement initiatives undertaken during 2021/22 included:

Stakeholder	Why We Engage	Engagement Activity	Strategic Focus/ Goal
Crown	To build a trusting, constructive relationship. The Funds are owned by the Crown and we are accountable to the Minister of Finance and Parliament for the management of the Funds.	Engaging with the Minister on his Annual Letter of Expectations and our annual Statement of Performance Expectations Engaging with the Minister and Treasury over the Crown Responsible Investment Framework Meeting with the Minister to discuss our approach to ethical exclusions, investee company engagement, Taranaki offshore wind and SuperBuild Appearing before the Foreign Affairs, Defence and Trade Committee to discuss ethical investment; and providing supporting information to them Provided written responses to questions from the Finance and Expenditure Select Committee Regular engagement with the Treasury including a series of briefings for new team members Discussions with the Crown Financial Institutions, Ministry of Foreign Affairs and Treasury in relation to the practical application of New Zealand's Russian sanctions	Strategic relationships
Our people	Maintaining and continuing to develop a strong, diverse and inclusive team with a constructive culture is essential to fulfil our Purpose and Vision and effectively embrace ongoing external and internal challenges. A team that has the same focus is greater than the sum of its parts. Together it can harness diversity to tackle complex challenges and maximise opportunities. "Team not hero" is one of our values.	Holding briefing meetings for all staff after each Board meeting Holding Town Hall meetings for staff Getting feedback via a weekly survey using an online tool, as well as two-yearly culture and engagement surveys	Constructive and aligned team and designing our future of work
Peer funds, industry networks and investment groups	To build strategic investment relationships and inform best-practice portfolio management.	Participating in peer fund and industry networks and initiatives e.g. participating in annual meetings of the International Forum of Sovereign Wealth Funds; Association of Superannuation Investors; Standards Board for Alternative Investments; International Corporate Governance Network; Institute of Finance Professionals; One Planet Sovereign Wealth Fund Initiative and various team-level meetings Participating in the annual cost survey of peer funds by CEM Benchmarking Inc Collaborating with, and providing support to, the other New Zealand Crown Financial Institutions	Investment excellence, strategic relationships
Investee companies	To add value, protect our interests, better understand the impacts of investee companies on our portfolio and on society and the environment, and use our leverage, as appropriate, to encourage responsible business conduct.	Participating in the work of the Sustainable Finance Forum including supporting the development of its Stewardship Code Exercising voting rights in publicly listed securities Monitoring and engaging with investee companies that we consider have breached recognised ESG standards	Investment excellence

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Stakeholder	Why We Engage	Engagement Activity	Strategic Focus/ Goal
		Participating in collaborative engagement activities Appointing directors to companies in which we hold a significant stake	
Others	Building trust with stakeholders informs how we go about managing the Funds in a manner consistent with best-practice portfolio management and avoiding prejudice to New Zealand's reputation as a responsible member of the world community. To better understand the impact of our portfolio on society and the environment.	Undertaking market research into public awareness, understanding and perceptions of the NZ Super Fund, in order to inform our recruitment and communications strategies Participating in responsible investment and climate change initiatives and groups such as the Carbon Disclosure Project, Investor Group on Climate Change and UN Principles for Responsible Investment Working with other Crown Financial Institutions to agree a Responsible Investment Framework Supporting and participating in the New Zealand Assembly of Investment Chairs' annual event focused on sustainable investing practices At its request, engaging with the Inter-Parliamentary Alliance on China Representatives of the Office of the Auditor General presented to the Audit Committee	Move from responsible investment to sustainable finance

PRINCIPLES FOR CORPORATE GOVERNANCE (CONTINUED)

Priorities for 2022/23 include:

- Development of the Guardians' 2022-2025 Communication Strategy;
- Reconnecting with international and domestic stakeholders in person, both one-to-one and at peer and networking events;
- Ongoing programme to enhance awareness and understanding of the Guardians among key stakeholders and target audiences.

Our Stakeholders

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

- employees and contractors;
- public of New Zealand;
- suppliers;
- asset and investment managers (for a full list of Managers and Custodians see pages 127 – 131);
- co-investors;
- other Crown Financial Institutions;
- investee companies (and their stakeholders);
- investor groups;
- iwi;
- Māori;
- media;
- non-government organisations (NGOs);
- peer funds;
- prospective employees/recruitment pool;
- regulatory bodies in New Zealand and globally; and
- relevant New Zealand public sector agencies (e.g. Treasury; Ministry of Business, Innovation and Employment; Ministry for the Environment; Reserve Bank of New Zealand; Public Service Commission; Financial Markets Authority; Ministry of Foreign Affairs and Trade; Serious Fraud Office; Inland Revenue; and 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;
- Proactive disclosures;
- Our governance framework and policies;
- How we invest and our approach to responsible investment;
- Risk management;
- Responses to Official Information Act requests where we consider there to be material public interest;
- Detailed historical performance figures for the NZ Super Fund since inception; and
- Copies of media statements, speeches, publications and research papers.

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

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 2021/22, we have contributed to the following initiatives:

- University of Auckland Nicola Crowley Memorial Scholarship for Women in Computer Science;
- CFA Society of New Zealand event: Climate Change analysis in the investment process;
- RIAA Responsible Investment Benchmark Report – New Zealand;
- Mindful Money Making Money a Force For Good – seminars on climate change and modern slavery;
- Auckland University of Technology New Zealand Finance Meeting;
- University of Otago Assembly of Investment Chairs;
- TupuToa Intern programme participation; and
- Contribution to the Toitū Tahua Stewardship Code and funding partnership.

Total sponsorship spend in 2021/22 was $146,304.35 (2020/21: $28,350).

At the Guardians how we respond to risk is fundamental to our success. We believe having great culture, governance, people and processes is critical to managing risk.

Risk sits at the heart of what we do here at the Guardians. We are willing to take risk to achieve our Purpose, and we take investment risk to achieve our mandate. We also manage other complex, enterprise risks.

The Guardians acknowledges that risk events will always happen; our focus is to ensure we have the appropriate mechanisms in place to respond to these events.

The Board is responsible for setting the risk appetite, providing risk governance and oversight and reviewing and approving the Guardians' risk management framework on a regular schedule set out in the Board calendar. The Board reviews the key risks to our strategic goals, priorities and business objectives, that are identified by the Guardians' Leadership Team and executive Risk Committee every six months. A summary of our risks can be found on pages 104 –106.

We have comprehensive 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 (SIPSP) and our Investment Risk Allocation Policy (RAP), all of which are available on our website.

SETTING OUR NEW RISK APPETITE STATEMENT

In February 2022, the Board adopted the Guardians' new Risk Appetite Statement (RAS) and Risk Assessment Framework (RAF). The RAS has been developed in alignment with the Guardians' new Purpose and recognises the Guardians is willing to take risk in order to achieve its Purpose while providing staff with clearer guidance about the Guardians' appetite for enterprise risk.

OUR RISK APPETITE STATEMENT

The Guardians of New Zealand Superannuation has developed into, and has a strong ambition to remain, a world class organisation with a purpose that reflects its intergenerational focus.

In setting out its risk appetite the Board recognises that risk, internal and external, to its business is likely to come from a range of causes. For these risks, how we respond falls into four broad categories: Culture, Governance, People, and Processes.

The Board is willing to take risk to achieve its purpose; it expects the Guardians to continue to use all reasonable measures, without imposing excessive costs or constraints, for its management of the four categories.

Our risk appetite will be determined by the Guardians' purpose and vision, with Investment Risk managed by the adoption of the Reference Portfolio and approved Investment Constraints; and Enterprise Risk is managed by the Risk Assessment Framework.

Our new Risk Appetite Framework makes it clearer that accountability for risk identification and mitigation rests across all parts of the Guardians' team. The Risk Appetite Statement outlines the approach to risk the Guardians will take to achieve the strategic goals of the Guardians and the NZ Super Fund.

It importantly sets out the Board's expectation that the Guardians continues to use all reasonable measures to manage its response to risk, the questions we need to ask in assessing risks and what our core expectations are in managing risk. Our performance against this statement is measured and reported to the Board regularly, with any major breaches being notified on an exception basis.

The Investment Risk Allocation Policy and Risk Appetite Framework are reviewed by the Board on at least a five-yearly basis.

RISK ASSESSMENT FRAMEWORK

The Risk Assessment Framework (RAF) assists us in determining our risk appetite and how we will respond to risks we have identified in the four categories set out in the RAS.

The Risk Assessment Framework:

- Ensures the risk categories are defined;
- Sets out the questions we need to ask ourselves;
- Defines the Guardians' core expectations; and
- Ensures there is appropriate monitoring and reporting of our risk appetite assessments.

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RISK MANAGEMENT

The Board is responsible for providing risk governance and oversight, not for the management of risk. For this, it has developed a process for delegating authority to the CEO and beyond. This ensures that there is accountability for risks within management at the Guardians and that there is a response plan in place to act on risks in a timely manner.

The Board expects that management operates a 'no surprises' approach for risk and also expects that the Leadership Team will seek Board input if it does not have the Board's delegated authority to respond to certain types of risk. The Board has agreed a set of Policies and Procedures that sets out what is reserved to the Board within a general delegation to Guardians' management. The Chief Executive Officer and management team attests that management has complied with these Policies on a semi-annual basis.

Inherent in this delegation is a desire to ensure that day-to-day responsibility for risk management is at the business unit level, where risk is seen as part of the overall business process, and a robust framework of identification, evaluation, monitoring and control exists.

The Board's Audit Committee reviews reports from management, and from internal and external auditors, on the effectiveness of systems for internal control and financial reporting.

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

The RAS, along with our wider approach to managing risk, is set out in schedule 2 of the Guardians' Risk Management Policy and in our Statement of Investment Policies, Standards and Procedures, available on our website www.nzsuperfund.nz. Performance against this statement is measured and reported to the Board on a regular basis.

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CULTURE AND RISK

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

We monitor our culture in regard to risk. In 2022 we included additional questions relating to how the team perceives, behaves and responds to risk in our biennial Culture Survey. This replaced the previous stand-alone risk culture survey which was last done in 2018 as part of a risk culture report conducted by PwC. In 2022 we have engaged PwC again to review our culture as it related to risk. The results of the risk questions in our Culture Survey will be considered as part of the PwC review. More information about our 2022 Culture Survey results can be found on page 32.

RISK REPORTING FRAMEWORK

The Board receives an Enterprise Risk report every six months. This report is derived from the strategic risks and the emerging ones identified by the Guardians' business units and is facilitated by the Enterprise Risk Team and the Risk Committee (a management committee).

Each business unit maintains a risk register that identifies the risks that could impact on its specific objectives and activities, with related controls and action plans. The table below summarises our risk identification and assessment process.

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

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RISK MANAGEMENT (CONTINUED)

RISKS

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

The risks and ratings identified in the latest report to the Board, for June 2022, are set out below.

Definitions of Risk Rating					
Green	Within risk appetite.	Orange	Within risk appetite though the environment scan has identified heightened potential for risk to occur. The risk has been elevated to management, with actions underway to prevent or reduce its impact.	Red	Likely to exceed risk appetite. Event or issue imminent or has occurred. The risk has been elevated to management and urgent actions are underway to bring the risk back within our risk appetite.

Risk Rating	Risk	Controls
Green	**Failure of value-adding strategies or opportunities caused by ill thought out or poorly researched investment strategies**	• 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
Green	**Insufficient liquidity to meet our obligations and maintain our strategies**	• Liquidity Management Framework review • Quantifi model responsible for producing liquidity-related calculations and output • Daily data validation for liquidity and counterparty risk reporting • New product approval process • Portfolio regime-switching simulation model provides output on portfolio flexibility • Portfolio flexibility (PRiSM) dashboard • Liquidity and counterparty creditworthiness • Exposure limit monitoring • Funding and Treasury Group provides oversight of liquidity management • Liquidity stress test • Escalation channel from Investment Committee to Board
Green	**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 our Investment Beliefs
Green	**Climate change related physical and transition risks**	• Climate Change Investment Strategy sign off by Board, including carbon emission reduction targets and method • Application and adherence to the SIPSP • Integration of responsible investment into Investment Framework • Pre-investment due diligence and post-investment integration

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Risk Rating	Risk	Controls
		• Maintain and demonstrate responsible investment leadership and employ strong communications • Stakeholder engagement and education: correspondence, meetings, voting • Benchmarking performance against United Nations Principles of Responsible Investment • Monitoring of portfolio holdings by specialist research providers against ESG best-practice standards • Assess future shareholder action including further emissions reductions • Taskforce on Climate-Related Financial Disclosures (TCFD) reporting sign-off: strategy, targets, metrics • Annual portfolio carbon footprinting • Adherence to statutory requirements
	Staff capability and capacity shortfall See page 107 – 108 for more information on our actions to mitigate this risk.	• 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 • Training for back-up • Stop activity or outsource if necessary
	Incidents of fraudulent activity (including rogue traders, bribery and corruption)	• Key controls relevant to fraud risk were identified and assessed across the following categories: - people - processes - technology and systems - trading activities - legal interactions with managers and suppliers
	Wellness/Culture See page 107 for more information on our actions to mitigate this risk.	• 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 • Key operational roles cover available • Weekly engagement survey • Two-yearly Culture Survey
	Change in key stakeholder support resulting in the failure to successfully execute the Guardians' mandates and achieve our overall Purpose	• Stakeholder Engagement Plan • Ongoing education of stakeholders on the Fund's Purpose and activities • Strong and ongoing relationship with Treasury/Ministry of Finance • Effective 'no surprises' protocol in place • Effective management and response to Five-Year Independent Review • 'Double arm's-length' independence governance structure • Trust and confidence • Early relationships and clearly articulating our Investment Beliefs and independence to stakeholders • Statement of Investment Policies, Standards and Procedures and Internal Frameworks and processes in place • Ongoing public awareness/understanding and stakeholder perception/ relationship research • Anticipating potential governmental intervention and presenting well thought out papers on the implications and options available

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RISK MANAGEMENT (CONTINUED)

Risk Rating	Risk	Controls
	Cyber security event occurs (such as malware, phishing attack or denial of service attack)	• Application whitelisting • Security event monitoring and incident management • Application and operating system patching • Network security controls • Vulnerability management and penetration testing • Malware prevention • Data loss • Restricted admin access and strong authentication • Security awareness and education • IT security governance and assurance
	IT infrastructure or business systems connecting to our network ceases to be fit for purpose See page 107 for more information on our actions to mitigate this risk.	• 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 See page 107 for more information on our actions to mitigate this risk.	• Embedded systems for cross-team input on investment and non-investment deals • Policies and procedures • 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 and contractors • 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 Audit Committee • Six-monthly tax update to the Risk Committee and Audit Committee • External whistleblowing 'Speak Up' service

ADDRESSING ELEVATED RISKS

Staff capability and capacity shortfall

Recruitment and retention challenges are significant across industries here in New Zealand and overseas. While our employee turnover is low compared to the industry, projected turnover and employee growth will place pressure on our internal systems and capacity. In response, this risk has an urgent management focus and several initiatives are underway to reduce the risk, e.g. annual remuneration review and response to market conditions; development of a talent sourcing strategy; development of culture action plans, with a focus on our organisational Purpose; strategic workforce planning, including prioritising roles for recruitment; and a review of flexible working arrangements and the role of the office in the future.

Wellness/Culture

Despite the strength of our 2022 Culture Survey results, the longer-term impact of the COVID-19 pandemic is still not fully understood. To ensure our team's well-being is top of mind, this risk has remained elevated. We are managing this risk by listening and responding to weekly feedback through our employee engagement survey, biennial culture surveys, voluntary working from home and, where possible, enabling our team to work overseas from their 'home' country for up to three months.

IT infrastructure or business systems connecting to our network ceases to be fit for purpose

The IT infrastructure continued to support the team very well with new ways of working and during the ongoing lockdowns. However, there is a need to increase the pace to safely implement enabling technologies. To support in controlling this risk we are: completing ongoing due diligence and monitoring of IT and business system providers; progressing our Modern Workplace Programme and moving to a new document management system; and leveraging external supplier capability to support the management of regular IT updates.

Process failures leading to poor execution

As the Guardians continues to grow, the scale and complexity of projects and programmes continues to increase. This can create difficulties with prioritisation and resource allocation. To mitigate this risk, we are continuing to automate selected processes, accessing additional external consultants to support efficiencies in due diligence processes and have developed an Enterprise Portfolio Management approach.

ONGOING RISK 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. In 2021/22, the Guardians had zero active breaches of compliance with investment mandates, and reported one operational error rated as high risk. This related to potential disclosure of commercially sensitive information.

Performance Against Key Fund Risk Measures

Business risk measures	**2021/22**	**2020/21**	**2019/20**	**2018/19**	**2017/18**
Active breaches of compliance with investment mandates*	0	0	4	1	2
Operational incidents or errors rated as potentially material risk**	1	2	2	0	2

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

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

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

The employment market for professionals with the specialist skill sets we require is highly competitive. We aim to recruit top, diverse talent, and to build and maintain a team of exceptional people who can deliver value in terms of fund performance.

The Guardians is made up of people with significant expertise and experience in investment management and research, portfolio design, risk management, investment operations, finance, human resources, law, IT, data management and communications. Compensation, workplace culture, flexibility and purpose all influence our ability to attract and retain top talent.

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

KEY FACTORS

In structuring remuneration at the Guardians, 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 while looking to align Fund and staff outcomes.

As noted in the Risk Management section (see pages 101 – 107), one of the Guardians' key organisational risks (in fact the only key risk to which a 'red' rating has been applied) is a staff capability and capacity shortfall.

While a range of actions is underway to mitigate this risk (such as strategic workforce planning; reviewing our talent sourcing strategy; appointing additional talent sourcing specialists; and reviewing our flexible work practices), addressing compensation structure and implementation, which were raised as a concern by Willis Towers Watson in their 2019 Independent Review of the Guardians, is key.

Our intent is to remunerate and reward people fairly for their knowledge, skills, alignment to behavioural expectations and contribution in the roles they perform. It is critically important that our remuneration packages are competitive in the specialised, and largely private sector, talent pools from which we recruit. 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.

BASE SALARIES

Employees receive a fixed base salary, which 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, New Zealand's voluntary, work-based retirement savings scheme, up to 8%.

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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 $614,337 in 2021/22 ($529,684 in 2020/21).

DISCRETIONARY INCENTIVE SCHEME

As is standard within the financial services sector, a portion of staff remuneration for permanent employees of the Guardians is at risk and paid on a discretionary basis, based on performance. This is common in the investment sector as a way of incentivising behaviour, aligning personal outcomes with fund outcomes and creating a culture of good performance. At the Guardians, all bonuses are at the discretion of the Board.

For the four year period ended 30 June 2022, over which incentive payments are calculated, Fund performance has been very strong:

- Average excess return was 6.96%, i.e. above the 4.0% maximum
- Average value add was 1.89%, i.e. above the 0.75% maximum

There are two components to the bonus scheme: individual and NZ Super Fund performance, as outlined below.

	Total	Individual Component	Fund Performance Component
Leadership, Investments and Portfolio Completion teams	60%	20%	40%, composed of: • Excess return – 1/3 • Value added – 2/3
Corporate Staff (Corporate Affairs, Human Resources, Internal Audit, Risk, Strategy and Shared Services, and Technology teams)	30%	20%	10%*, composed of: • Excess return –1/3 • Value added – 2/3

* New in 2021/22.
The addition of this 10% component for corporate staff:
- Raises the competitiveness of our employment offering, by increasing the total potential bonus for corporate staff to 30% from 20%;
- Recognises the integral support provided by all employees to our investment activities; and
- Provides these employees with a stronger connection to the Guardians' investment purpose.

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REMUNERATION AND DISCRETIONARY INCENTIVE SCHEME (CONTINUED)

REMUNERATION SUMMARY

Benefit	Purpose and Link to Strategy	Operation
Base Salary	Constructive and aligned team To reflect the responsibilities of the individual role and the individual's level of experience and competence in their role Set at an appropriate level to ensure market competitiveness and mitigate risks of over-reliance on discretionary bonus	Reviewed annually. Each individual has a base salary associated with their position. Positions 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 funds management sector rates. Individual performance is reviewed twice per year, and salary is reviewed annually. Eligibility for a salary review is subject to meeting minimum performance expectations. Employees with a performance rating outcome equivalent to Below Target are not eligible for a salary review.
Individual Bonus Component	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. 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, takes account of feedback from the individual as well as 360-degree input and is calibrated with the Leadership Team. All discretionary bonus payments are contingent on staff having both achieved their individual objectives and having met minimum threshold performance requirements. This is captured in an assessment of performance against a set of expectations agreed in writing between the employee and their manager. Available to all permanent employees; 20% of current actual remuneration.
Fund Performance Bonus Component	Based on NZ Super Fund financial performance outperforming Treasury Bill and Reference Portfolio returns Incentivises whole-of-Fund approach Aligns with our Purpose and our statutory mandate of maximising the NZ Super Fund's returns without undue risk Based on NZ Super Fund performance over rolling four-year periods to encourage a long-term mindset Two measures: • Excess return: 1/3 • Value added: 2/3	Bonus payments are at the Board's discretion. Based on NZ Super Fund performance results that are reviewed by the auditor. Employees with a performance rating outcome equivalent to Below Target are not eligible for a bonus. Available to all permanent employees; 10% of current actual remuneration for corporate staff; and 40% for Leadership, Investments and Portfolio Completion staff.
Other benefits	Constructive and aligned team	Discretionary life, income protection, trauma and health insurance. Available to all permanent employees.

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EXCESS RETURN AND VALUE-ADD MEASURES EXPLAINED

These two measures are based on whole-of-Fund performance over a four-year period. This four-year period is intended to reinforce the NZ Super Fund's long-term objectives, while being realistic about the periods for which staff can reasonably expect to be rewarded for performance. Using these performance measures instead of focusing on individual asset classes or investment portfolios is intentionally designed to reinforce our 'whole-of-portfolio' investment approach.

The **Excess Return** measure, which comprises 1/3 of the total potential Fund performance bonus, 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). This measure reflects whether taxpayers have received value for the money that has been contributed to the Fund. It is paid out in full if the average Fund return over the four-year period exceeds the Treasury Bill return by 4%.

The **Value Add** measure, which comprises 2/3 of the total potential Fund performance bonus, is calculated based on the Fund's actual return, less the Reference Portfolio return. This measure reflects whether the Guardians' active investment strategies have added value to the Fund compared to what a low cost, passive strategy would have achieved. It is paid out in full if the Fund's average return over the four-year period exceeds the Reference Portfolio return by 0.75%. See page 42 for more information on our Reference Portfolio benchmark.

BONUS ACHIEVEMENT FOR THE FOUR YEARS ENDING 30 JUNE 2022

On average, Fund performance over the four years to 30 June 2022 has been very strong, exceeding the levels required for full bonus payment noted above:

- the average excess return over the four years was 6.96%
- the average value add over the four years was 1.89%.

For bonus purposes, Fund returns are calculated using a cumulative average percentage over the four years. All performance figures are calculated after costs, before New Zealand tax.

Fund performance bonus payments to individuals vary according to base remuneration and tenure. *See also Notes 3(a) and 3(b) of the Guardians' financial statements.*

2021/22 INCENTIVE PROGRAMME CHANGES

During 2021/22 we worked to simplify the way we calculate the Fund performance component of the programme, making it easier for candidates and staff to understand, better able to help in attracting and retaining the talent we need to achieve our Purpose, and easier to administer.

In addition to expanding participation in the Fund performance component of the bonus to all permanent staff (see page 109), the changes were to:

1. Shift to a simple, single four-year look-back performance period (previously, this comprised four vintages/interim payments); and
2. Multiply the bonus percentage calculation by the actual remuneration for the current year instead of cumulative average actual remuneration over the four years. As well as simplifying the calculation, this change will enhance the competitiveness of our compensation packages.

For the 2021/22 year, as a transitional measure for those staff who were already covered by the Fund performance component, this component was calculated using both the old and new methodologies, and the higher of the two outcomes has been paid.

Under the old bonus scheme, Fund performance, and consequently payments throughout each four-year vintage, would be volatile. Strong performance would improve the status of a previously underperforming vintage, and could result in a 'catch up' payment. Over the 2019-21 financial years, the Fund earned lower value add results, followed by a very strong value add performance of 7.25% in 2021/22, leading to catch up value add payments for some longer-tenured staff. Catch-up payments are not part of the new bonus scheme, under which average Fund returns will be calculated over a rolling four-year period.

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REMUNERATION AND DISCRETIONARY INCENTIVE SCHEME (CONTINUED)

EQUAL PAY

Our Human Resources Policy makes a specific commitment to achieving the principle of equal pay for equal work (no matter what gender or ethnicity). We monitor this closely and are confident that we are paying equally for work of equal value.

In addition, we measure our gender pay gap annually (the difference between the average earning for women compared with men). This gap is a reflection of the predominance of males in more senior, higher-paying roles at the Guardians. The mean gender pay gap at the Guardians has declined from 20% in 2018 to 17% in 2022, and over the same period the median gap has declined from 29% to 27%. For year-on-year data, please see page 37.

We are addressing the gender pay gap by enhancing our career progression and talent management strategies, together with a focus on diversity, equity and inclusion. This incorporates an increased focus on the centrality of our 'For Purpose' mission, values-based culture and our engagement with te ao Māori as well as gender equitable measures such as a primary carer's lump-sum KiwiSaver payment for those who have returned from parental leave. Reducing the gender pay gap will take time; it continues to be an ongoing focus for us.

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

CHIEF EXECUTIVE OFFICER REMUNERATION

One of the Board's most important decisions is deciding on the appointment and remuneration of the CEO. The Board gives active consideration to the public sector context in making its decision. Under the Crown Entities Act 2004, a recommendation is then passed to the Public Service Commissioner to approve. The discretionary at-risk incentive payment scheme forms part of the existing terms and conditions and the payment is established by factors determined by the Board. The Public Service Commissioner does not approve the level of discretionary at-risk incentive payment.

Process

The Employee Policy and Remuneration Committee (EPRC) (see page 95), based on independent advice from external remuneration specialists, reviews the CEO's remuneration annually and makes recommendations to the Board. As is normal good practice, the Board aims to ensure alignment between the CEO's remuneration and the strategy and performance of the Guardians and its Funds. Details of the CEO's remuneration over the last five years is set out in the table on page 113.

Incentive Achievement

The CEO is eligible for bonus payments up to a maximum of 60% of actual base remuneration under the Guardians' discretionary incentive scheme. The details of this scheme and the rationale behind it are set out on pages 108 – 111.

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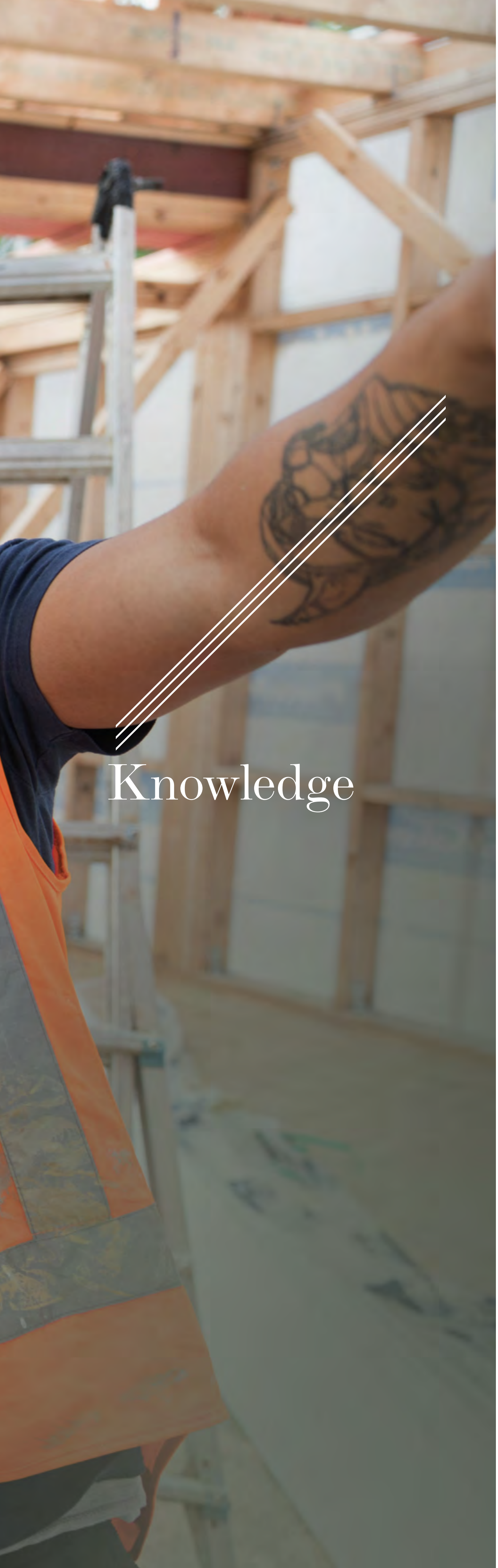
CHIEF EXECUTIVE OFFICER REMUNERATION

Financial Year	2021/22		2020/21		2019/20		2018/19		2017/18[1]	
	$	% achieved	$	% achieved	$	% achieved	$	% achieved	$	% achieved
Contractual Base Remuneration	$724,000	-	$611,000	-	$611,000	–	$600,000	–	$700,400	–
Actual Base Remuneration Payment (A number of factors can mean there is a difference between the contractual and actual base. See footnote 2 for more detail)	$730,982	-	$598,886	–	$638,481	–	$623,525	–	$522,263	–
At Risk – Individual Component	$116,957	16%	$114,021	18%	$119,170	18%	$124,705	20%	N/A	N/A
At Risk – Fund Financial Performance 'Excess Return' on a 4 year moving average[3]	$73,101	10.0% (100% achievement level 13.3%)	$111,718	17.5% (100% achievement level 13.3%)	$57,209	9.2% (100% achievement level 13.3%)	$78,917	13.3% (100% achievement level 13.3%)	N/A	N/A
Over[3]/(under) performance, relative to the 100% achievement level		(3.3%)		4.2%		(4.1%)		–		–
At Risk – Fund Financial Performance 'Value Add' on a 4 year moving average[3]	$369,202	51.0% (100% achievement level 26.7%)	$92,179	14.2% (100% achievement level 26.7%)	$39,993	6.7% (100% achievement level 26.7%)	$153,220	25.9% (100% achievement level 26.7%)	N/A	N/A
Over[3]/(under) performance, relative to the 100% achievement level		24%		(12.5%)		(20.0%)		(0.8%)		N/A
Kiwisaver	$103,219	–	$73,050	–	$68,087	–	$78,429	–	$15,668	–
Benefits (Life, Income Protection, Trauma, and Health Insurance). See footnote 4 for more detail.	$8,201	–	$6,691	–	$5,593	–	$5,114	–	$5,398	–
Total Remuneration	**$1,401,663**	**–**	**$996,545**	**–**	**$928,533**	**–**	**$1,063,910**	**–**	**$543,329**	**–**

1. Figures for 2017/18 are to March 2018, when the previous Guardians' CEO ceased to be an employee (9 months).
2. Actual base salary payments can be lower or higher than contractual base salary depending on a number of factors, including the amount and value of leave taken, or from ceasing employment part way through the financial year. From April 2020, the CEO took a voluntary pay cut of 20% of base salary for six months, this had an impact in the 2019/2020 and 2020/2021 financial years.
3. Cumulative Fund Performance can result in a catch-up performance payment in a subsequent year, if strong performance follows a period of weaker returns. This occurred in 2020/21, in respect of the "Excess Return" component of the scheme (the Fund had a record 29% annual return for the 12 months ended 30 June 2021); and again in 2021/22, in respect of the "Value Add" component, as a result of the Fund's outperformance of the Reference Portfolio benchmark by 7.25% in the 2022 financial year.
4. Benefits include FBT where applicable, but exclude GST.



Operational Report
Ngā Tīpakonga ā-Whakahaere

HIGHLIGHTS FROM INVESTMENT OPERATIONS AND IT

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

In this section, we highlight the achievements of our Operations Group in 2021/22.

MODERN WORKPLACE PROGRAMME

Implementation is underway on a programme to modernise our productivity tools, intranet and document management. The three projects under the programme cover:

- **Modern Tools** – Delivery of Microsoft Teams, Microsoft productivity applications, enabling secure collaboration using a range of modern and up-to-date tools.
- **Modern Intranet** – Redesign and refresh intranet content, migrating it into SharePoint Online and Microsoft Teams, enabling staff to find and share information wherever they are.
- **Modern Docs** – Archiving the current document management system, putting in place a SharePoint Enterprise Content Management and taxonomy to enable co-authoring, storing and finding documents on any device.

CUSTODIAN CAPABILITY REVIEW

In April 2022 the Investment Operations Team completed a review of our custodian, Northern Trust, in which they compared their offering with other potential suppliers to ensure they remain fit for purpose. The process comprised internal consultation and input from an external advisor, peer fund discussions, Request for Information (RFI) responses, and custodian workshops. The decision was made to retain Northern Trust, taking into account that changing custodians would be a significant undertaking; we did not see that other participants' offerings were significantly more advanced than those of Northern Trust; and the Fund receives bespoke support and flexibility from Northern Trust beyond that offered by the others. The Guardians will continue to work with Northern Trust to consider areas of improvement.

INVESTMENT OPERATIONS PROCESS IMPROVEMENT

The team continually seeks ways to improve its processes for greater efficiency. In June, the team successfully implemented a workflow solution in ServiceNow to manage the tasks and work items the team is responsible for. This solution has matured the way the team functions by providing greater transparency of work items across the team, reducing the risk of errors and removing waste from overprocessing.

EXPOSURES AND REBALANCING TOOL PROJECT

In June 2022 we completed a project to develop a new rebalancing tool, which helps to keep investments in line with the Reference Portfolio, and to utilise the underlying exposures data sets that were developed or enhanced during development of this tool. This new relationship tool is now being used by the Portfolio Completion Team.

TECHNOLOGY MANAGEMENT PROGRAMME

A new Technology Management Programme has been implemented to keep our systems up to date, secure and flexible. The programme aims to make it easier for all parts of the business to interact with, build and onboard new technologies, and will provide a framework for the development of tools and technologies which allow for agile, streamlined implementation and configuration of new technologies.

Active projects under this programme are the Cloud Adoption Framework, including sandbox environments to test new technologies, which support our use of data at the Guardians; Identity Access Management (IDAM) to strengthen and streamline access to our systems; onboarding Microsoft Sentinel to strengthen our security monitoring; and moving the end of life Jira and Confluence system to a cloud version.

JIRA AND CONFLUENCE MIGRATION

With our current Jira and Confluence on-premises setup going out of support, we have started a project to migrate to Jira Confluence Cloud. Jira and Confluence are the knowledge base, project tools used by the Data Technology Team to manage and deliver the Investment Data Programme. This is currently in the implementation phase.

ENTERPRISE PROGRAMME MANAGEMENT

As the Guardians has grown in staff numbers and ongoing initiatives, we saw a need for senior management to have greater visibility of new initiatives across teams to allocate resources to where they are most needed. Our IT and Strategic Development teams have worked together to build an understanding of the number of projects we have committed to and have developed a better way to manage projects that require cross-team support. The roadmap the teams have developed moves away from having a large number of individual projects to focusing on managing a small number of major programmes, together with a small number of stand-alone projects outside these programmes. Programme governance approves projects that will have the most business benefit and are aligned with our strategic objectives. In addition, the Business Solutions Group has also set up an Enterprise Programme Management tool to monitor the project portfolio and facilitate reporting.

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

MONITORING FRAMEWORK

We identify and monitor proposed changes to core legal obligations that affect our business and operations. We ensure the changes are appropriately considered when making investment decisions and/or incorporated in business-as-usual processes to ensure compliance. Legislative and regulatory changes of relevance to the Guardians are reported to the Board six-monthly, and discussed at the Risk Committee and the Audit Committee.

SUSTAINABLE FINANCE REGULATION

There is a fast-moving regulatory response to sustainability challenges with sustainable finance as an emerging area of focus. There are a number of initiatives concerning greater requirements for sustainability disclosures, expanded fiduciary duties and roadmaps issued by different sustainable finance bodies in different jurisdictions (including New Zealand). We are monitoring these developments and supporting Toitū Tahua, the New Zealand Centre for Sustainable Finance, as it seeks to produce a Stewardship Code, an initiative to enhance and support existing legal obligations by bringing wide-ranging stewardship expectations of New Zealand investors together in one place.

SANCTIONS COMPLIANCE

Following Russia's invasion of Ukraine in February 2022, New Zealand passed the Russia Sanctions Act and issued a series of sanctions against Russian individuals and entities. We implemented new controls in our investment screening process to comply with these sanctions.

In recent years the United States has also issued sanctions to, for example, prevent investment in certain companies, such as Executive Order 13959. Although the Fund is not subject to United States sanctions, its index provider (MSCI) and certain other suppliers are based in the United States and are therefore required to follow any applicable requirements. These sanctions result in companies being removed from the Fund's investible universe.

SUBMISSIONS

From time to time we make submissions on Government policy, with a focus on issues that are relevant to our investment mandates or directly impact the Guardians. We made the following submissions in the 2021/22 year:

- On the Ministry of Business, Innovation and Employment's discussion document - A Legislative Response to Modern Slavery and Worker Exploitation: Towards freedom, fairness and dignity in operations and supply chains;
- To the External Reporting Board on Aotearoa New Zealand Climate Standard 1 Climate-related Disclosures: Strategy, and Metrics and Targets Consultation Document;
- To the Ministry for the Environment on the Emissions Reduction Plan: 'Te hau mārohi ki anamata - Transitioning to a low-emissions and climate-resilient future';
- To the External Reporting Board on Aotearoa New Zealand Climate Standard 1 Climate-related Disclosures: Governance and Risk Management Consultation Document;
- To the Climate Change Commission on Climate Action for Aotearoa;
- To the New Zealand Infrastructure Commission on the consultation document 'He Tūāpapa ki te Ora, Infrastructure for a Better Future'; and
- To the OECD Centre for Tax Policy and Administration on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy.

Copies of these submissions are available on our website.

COMPLIANCE WITH LAWS AND REGULATIONS

Over the past year there have been no significant instances of non-compliance with laws and regulations, and no fines issued against the Guardians or Funds.

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We are committed to understanding and reducing our impact on the environment.

Today, significant activity is underway around the world as private and public sector organisations and funds seek to reduce or eliminate their carbon emissions. Our own Government's aspiration is for New Zealand to be carbon neutral by 2050.

As a responsible investor, we strive to integrate environmental considerations into our wider activities as an investment manager and hold ourselves, as an organisation, accountable to the same guidelines. The biggest potential impact we can make is in our investment portfolio, which we have committed to transitioning to net zero by 2050. See our 2021/22 Climate Change Report for more information including a carbon footprint of the portfolio as at 30 June 2022.

Our goal for the Guardians as an autonomous Crown entity is to be carbon neutral. We achieve this by reducing our emissions where possible and purchasing offsets for the remaining unavoidable emissions. Our organisational environmental performance falls under the remit of the Health, Safety, Security and Environment (HSSE) Committee, an executive committee made up of Guardians' staff. The Committee aims to improve staff awareness about the environmental impact of our activities and sets targets for minimising this impact.

Measuring Emissions

The measures detailed are the greenhouse gas (GHG) emissions for the corporate operations of the Guardians. They have been calculated in accordance with the guidance provided in ISO 14064-1:2006 for periods 2019/20 and 2020/21 and ISO 14064-1:2018 for 2021/22 and have been verified by Toitū Envirocare. A verification report is available on our website. When evaluating our environmental performance, Toitū Envirocare look at our emissions relative to our staff numbers, net asset value and turnover.

GHG EMISSIONS DATA SUMMARY BY SCOPE (TCO_2e)

	2021/22	2020/21	2019/20	2018/19
Scope 1, category 1	0	0	0	0
Scope 2, category 2	15t	13t	13t	14t
Scope 3, category 3	197t	43t	1604t	1,954t
Scope 3, category 4	1t	N/A	N/A	N/A
Total gross emissions	**213t**	**59t**	**1,617t**	**1,968t**

Direct emissions (scope 1, category 1) – Greenhouse gas emissions from sources that are owned or controlled by the Guardians. We produce no scope 1 emissions.

Indirect emissions (scope 2, category 2) – Greenhouse gas emissions arising from the generation of imported (purchased) electricity or heat consumed by the Guardians.

Indirect emissions (scope 3, category 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.

Indirect emissions (scope 3, category 4) – Greenhouse gas emissions that occur as a consequence of products used by an organisation (i.e. waste to landfill).

GHG Emissions Summary 2013 – 2022

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GHG EMISSIONS BY SOURCE

		2021/22		2020/21		2019/20	
ENERGY SOURCE	MEASURE	QUANTITY	CO_2e	QUANTITY	CO_2e	QUANTITY	CO_2e
Electricity	kWh	137,669	14.73t	126,070	12.79	130,467	12.75t
Electricity distributed transmission and distribution losses**	kWh	137,699	1.20t	N/A	N/A	N/A	N/A
International air travel (long haul)	km	322,657	129.78t	18,724	2.74	3,054,217	1,405.06t
International air travel (short haul)	km	136,295	23.11t	18,772	2.86	795,356	151.60t
Domestic air travel	km	60,352	18.46t	139,776	33.89	160,437	38.90t
Mileage (medium car) 1.6 – 2.0L	km	1,531	0.37t	4,533	1.08	9,027	2.24t
Taxi – cost	$	15,056	1.06t	30,918	2.17	69,883	5.22t
Waste to landfill *	kg	230	0.05t	1,054	0.33	4,037	0.98t
Freight (short and long haul) **	km	127,669	0.13t	N/A	N/A	N/A	N/A
Commuting and working from home**	kg	23,907	23.91t	N/A	N/A	N/A	N/A

* Non-hazardous waste.
** 2021/22 is the first year the Guardians has measured: the carbon impact of commuting and working from home, freight (short and long haul) and electricity distributed transmission and distribution losses.

Our largest source of emissions for the Guardians is related to international travel. With almost no international travel in 2020/21, this source of emissions reduced significantly. Travel recommenced later in the 2021/22 financial year and we have seen increased emissions since 2020/21 as a result.

KEY PERFORMANCE INDICATORS (KPI)

KPI	2021/22	2020/21	2019/20
FTE – Full Time Equivalent Employee	178.2*	163.0**	154.8
Funds under management ($ billions after costs, before NZ tax)	55.7	59.8	44.8
Turnover/revenue ($ millions)	1,054.5	740.3	801.4

* The 2021/22 figure is based on the average full-time equivalent employees from 1 July 2021 to 30 June 2022.
** The 2020/21 figure is based on the total employee headcount as at 30 June 2021.

GHG EMISSIONS PER KPI

	2021/22	2020/21	2019/20
Total gross GHG emissions per FTE - Full Time Equivalent Employee	1.19	0.34	10.44
Total gross GHG emissions per Funds under management ($ billions after costs, before NZ tax)	3.82	0.93	36.07
Total gross GHG emissions per turnover/revenue ($ millions)	0.20	0.08	2.02

SECTION FOUR
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ENVIRONMENTAL PERFORMANCE (CONTINUED)

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 for the aircraft to reach its destination for business class in comparison with economy class.

Our waste-to-landfill figures are calculated based on monthly weight audits by our contracted cleaning company.

Carbon emissions produced during the 2021/22 financial year were impacted significantly by COVID-19-related restrictions, which meant we disposed of less waste, used less electricity in the office and took fewer taxis.

Toitū Certification

This is the fourth consecutive year we have achieved our goal of organisational carbon neutrality and have received Toitū carbonzero certification. To achieve certification, an organisation must measure its operational GHG emissions, develop a carbon reduction plan and offset its unavoidable emissions through high-quality carbon credits. These credits support projects meeting specified standards to store, avoid or reduce GHG emissions. This year we have elected to offset our operational carbon emissions plus 20% of the rolling average of the past five years, effectively becoming carbon negative.

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Reducing Emissions

The 2018/19 financial year has been set as our base year to measure emissions against as it was the year we first became carbonzero certified.

For the 2022/23 financial year we have set the goal of reducing our operational carbon emissions by 10% from our base year relative to our staff numbers, net asset value and turnover. This year the Guardians has added measuring and offsetting emissions arising from commuting and working from home.

Our Carbon Offset

The carbon credits purchased through Toitū Envirocare to offset the past financial year's emissions support the Spraypoint Permanent Forest Sink Initiative, a forest regeneration project in Marlborough, New Zealand and Hinewai Reserve, an ecological restoration project on the Banks Peninsula, New Zealand. The Spraypoint Permanent Forest Sink Initiative is a native forest 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'.

Hinewai Reserve is an ecological restoration project on the Banks Peninsula which occupies 1250 hectares. Initially 109 hectares were purchased by the Maurice White Native Forest Trust in 1987. Since then the trust has greatly enlarged the reserve through the purchase of Ōtānerito Station in 1991 and through several subsequent additions. Since 2016 the trust has also looked after the adjacent 192 hectare Purple Peak Curry Reserve, after its purchase in that year by the New Zealand Native Forest Restoration Trust.

TOITŪ CARBON ZERO ISO 14064-1 ORGANISATION

Statement of Performance
Te Pūrongo Whakahaere Pūtea

This Statement of Performance measures the Guardians' progress against our medium-term strategic focuses and short-term strategic priorities set out in the Guardians' 2019 – 2024, 2020 – 2025 and 2021 – 2026 Statements of Intent and the 2021/22 Statement of Performance Expectations.

The Guardians' function is to manage two mandates: the NZ Super Fund and the Elevate Fund. As the outcome of each mandate is different, we have specific measurements to understand our performance against each.

CHANGES TO THE GUARDIANS' STRATEGIC FRAMEWORK AND WORK PROGRAMMES

In April 2022, our Board approved the Guardians' new strategic framework, setting out what success will look like for the Guardians in the medium-term.

Our new Purpose and Vision set the scene for our new strategic framework, which is summarised on pages 20 – 21. This framework replaces the previous Vision statement and four strategic pillars: Best Portfolio, Building and Maintaining a Great Team, Enterprise Excellence, and Trusted and Respected, which was in place for nine years.

The five work programmes (Investment; Risk Management; Cost Control; Governance; and Organisational Capability) in which we previously measured our performance against our outputs have also been replaced. From 2022/23 we will report against new measurement categories for the Guardians: Governance and Organisational Capability, and for the NZ Super Fund: Investment Performance; Best Practice and Sustainable Finance.

MEASURING OUR PERFORMANCE

In this section, we report on our progress against the work programmes set out in our 2021 – 2026 Statements of Intent. To help our stakeholders to understand which output measures are organisation-focused (Guardians) and which are specific to the NZ Super Fund and the Elevate Fund mandates, we have separated our progress against our output measures into three sections within this Statement of Performance.

GUARDIANS

The Guardians' function is to manage two mandates: the NZ Super Fund and the Elevate Fund.

OUTPUT MEASURES

Work Programme*	Measure	Expected Outcome	Actual Outcome	Further Information
Governance	Independent reviews	Ongoing good reviews in the five-yearly independent review, with our responses published on www.nzsuperfund.nz. By good review we mean that no material concerns about the effective and efficient performance of the Guardians' functions are identified.	N/A for 2021/22. The last independent review completed by Willis Towers Watson was in 2018/19. This review found the Guardians was operating at a global best practice level. The Minister of Finance commissions these reviews on a five-yearly basis. Response is published on our website. The Board reviews progress made in respect of WTW's recommendations on a regular basis. The final update was presented at the June 2022 Board meeting.	See page 75 of our 2018/19 Annual Report and on our website.
Organisational Capability	Developing and maintaining a constructive workplace culture	Achieve the constructive benchmark in the Human Synergistics OEI Survey, which translates to averaging above the 60th percentile for the Constructive Styles, and below the 50th percentile for both sets of Defensive Styles.**	Achieved.	See page 32.

* To be replaced by Measurement Categories from 2022/23.
** Or equivalent ratings in equivalent surveys, bearing in mind that over 10- or 20-year periods our preferred survey methodology may change.

NZ SUPER FUND

The NZ Super Fund's ultimate outcome is to help pre-fund the increasing cost of superannuation in the future. This long-term outcome will begin to be achieved only when the Government starts to withdraw money from the Fund. Our legislation prescribes the level of annual capital contributions to the Fund required from the Government. Treasury is currently forecasting that withdrawals will begin in 2034/35.

Mandate	Outcome	Output	Measurement Category
NZ Super Fund	To help pre-fund the increasing cost of superannuation in the future. In doing this the NZ Super Fund adds to Crown wealth, improves the ability of future governments to pay for superannuation, and ultimately increases intergenerational equity by reducing the tax burden on future New Zealanders.	The Guardians must invest the NZ Super Fund on a prudent, commercial basis, and in doing so, we must manage and administer the NZ Super Fund 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.	Governance Organisational Capability Investment Performance Best Practice Sustainable Finance

Note: Crown funding comes from capital contributions to the NZ Super Fund made by the Government, as well as an appropriation to meet Board costs and audit fees (expenditure during 2021/22 of $475,646 compared with a budget of $728,000). Costs were lower than budgeted in part because of the international and domestic travel restrictions preventing, for example, in-person attendance at Board meetings. All other costs (e.g. manager fees, staff salaries, research costs) are met by the NZ Super Fund, and it is these costs which are the subject of our cost control work programme.

OUTCOME MEASURES

Work Programme[1]	Measure	Expected Outcome 1-year[2]	Actual Outcome 1-year	Expected Outcome 10-years	Actual Outcome 10-years
Investment	Reference Portfolio returns relative to Treasury Bills (per annum)	2.8%	-15.0%	2.8%	7.6%
Investment	Actual Fund returns above Reference Portfolio (per annum, net of costs)	1.0%	7.3%	1.0%	2.7%

1. To be replaced by Measurement Categories from 2022/23.
2. Over the long term we expect the Reference Portfolio to return 6.8% p.a., 2.8% above our long-run 4.0% estimate of Treasury Bill returns. We also expect the Fund to add value, over and above the Reference Portfolio return, of 1% p.a., over the long-term. We define long-term as over rolling 20 year periods. Further information on the Reference Portfolio and Treasury Bill measures are available on pages 41 – 42 and on our website.

Work Programme	Measure	Potential RP Loss 1-year	Actual RP Return 1-year	Potential RP Loss 10-years	Actual RP Return 10-years
Investment	In a 1-in-100 year event, potential Reference Portfolio loss is equal to or worse than:[1]	-30.5%	-14.2%	-5.9%	9.4%

1. 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 2022 approximately -$17.18 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 14 of our 2022 – 2027 Statement of Intent, which is available on our website.

OUTPUT MEASURES

Here we measure our success in delivering the five work programmes through which we manage the NZ Super Fund (Investment; Risk Management; Cost Control; Governance; and Organisational Capability). From 2022/23 onwards, these work programmes will be replaced with new measurement categories (Governance; Organisational Capability; Investment Performance; Best Practice and Sustainable Finance).

Work Programme*	Measure	Expected Outcome	Actual Outcome	Further Information
Cost control**	Cost control	On a rolling five-year basis: median value-adding or better compared to our CEM peer group; with costs below the CEM-calculated cost-benchmark.	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**	Transparency ratings over time	10 out of 10 (100%) in the quarterly rating of Sovereign Wealth Fund transparency published by the Sovereign Wealth Fund Institute; top quartile or higher in other relevant rating mechanisms.	Achieved 10/10 in the SWFI's Transparency Index. No other surveys noted.	Refer to our website and www.swfinstitute.org for more information.
	Best practice operations – annual updating of the Guardians' response, as to the IFSWF 'Santiago Principles'	A self-assessment of the NZ Super Fund's adherence to the Santiago Principles is completed, published on www.nzsuperfund.nz and assured by an independent third party. Top quartile or higher ratings in the Geoeconomica Santiago Compliance Index of sovereign wealth funds' compliance with the Santiago Principles; top quartile or higher ratings in other relevant ratings mechanisms.	Achieved.	Available on our website and the website of the International Forum of Sovereign Wealth Funds at www.ifswf.org.
	Responsible Investment – UNPRI Assessment over time	A or A+ rating for Strategy and Governance in the annual UNPRI assessment. Note: since we set this measure in our SOI, the UNPRI has changed its assessment methodology away from alphabetical grading to a 'five star' rating system and now provides percentage assessment scores against different criteria. We have provided the best equivalent measure here.	For its 2021 assessment the Fund received a five star, 92% rating for Investment and Stewardship Policy.	See page 65, the UNPRI update, for more information.
	Responsible Investment – proxy voting reports	Completed and published on www.nzsuperfund.nz.	Voting data published online via our voting reporting platform.	See our website and the Responsible Investment Report at page 71.
	Responsible Investment – annual Responsible Investment reporting	Report on responsible investment activities and outcomes annually against the six United Nations Principles for Responsible Investment.	Report completed.	See pages 66 – 67.

* To be replaced by Measurement Categories from 2022/23.
** To be replaced by Best Practice measurement from 2022/23.

ELEVATE FUND

The second output of the Guardians is one of governance and oversight of the Elevate Fund, a fund-of-funds programme, managed by New Zealand Growth Capital Partners.

Mandate	Outcome	Output	Measurement
Elevate Fund	To contribute to the sustainability and productivity of the New Zealand economy by increasing the venture capital available to early-stage New Zealand companies. In doing this the Elevate Fund will help young, innovative companies to grow into successful and sustainable businesses, encourage the availability of more venture capital from other sources, and help grow the venture capital ecosystem in New Zealand.	The Guardians oversees the management of the Elevate Fund, to help ensure it is being invested in line with best practice for institutional investment in New Zealand venture capital markets.	Conviction review.

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 Outcome	Further Information
Manager Monitoring – Conviction Review	Successful completion of annual conviction review.	Achieved.	See pages 76 – 79.

In this section, we report on the Guardians' progress against the strategic priorities highlighted in our 2021/22 Statement of Performance Expectations.

These priorities were key to our Strategic Plan for the 2021/22 financial year. In line with our new strategic framework, beginning in 2022 we will report on the success of our short-term strategic priorities against our new strategic goals. Our 2022 – 2027 Statement of Intent outlines our new strategic framework in detail.

As with our output measures, we have separated our strategic priorities to clearly articulate which are organisation-focused and which are in respect of managing the NZ Super Fund.

GUARDIANS

Human Resources System

STATUS: 33% complete. In November 2021, we launched the new Human Resources system, including core Phase 1 modules Recruitment and Onboarding. Following the findings of an external audit, which has resulted in further work being undertaken to embed the Phase 1 modules into the organisation, and resourcing challenges, Phase 2 is now scheduled to commence in July 2023.

WORK PROGRAMME: Organisational Capability

STRATEGIC PLAN OBJECTIVE: Great Team; Enterprise Excellence

See page 34 for more details.

Diversity, Equity and Inclusion (DE&I)

STATUS: 100% complete. In 2021, we commissioned an external review of our current DE&I practices to heighten our awareness and deepen our understanding of DE&I. Following receipt of the report, in November 2021, we set five guiding principles, which will underpin development of the DE&I strategy and roadmap in 2022/23. These principles are to build the Guardians to reflect the communities we serve; promote all aspects of diversity with a particular focus on Māori and Pasifika representation and women in leadership; Te Ao Māori approach is integrated into our approach and ways of working; Leadership accountability and transparency will help drive our DE&I progress; and build our DE&I maturity through bottom-up and top-down support.

WORK PROGRAMME: Organisational Capability

STRATEGIC PLAN OBJECTIVE: Great Team

See pages 33 and 36 for more details.

NZ SUPER FUND

Responsible Investment Strategy

STATUS: 100% complete. Three priority work streams were completed:

- Incorporating sustainable finance into our Statement of Investment Policies, Standards and Procedures.
- A new methodology to deliver measurably improved environmental, social and governance outcomes for the Fund.
- Completion of an impact investment plan focusing on: impact measurement and reporting; scaling up impact investment; influence and knowledge building.

WORK PROGRAMME: Investment

STRATEGIC PLAN OBJECTIVE: Best Portfolio

See pages 62 – 64 for more details.

Investment Data Strategy

STATUS: 60% complete. Progress continues to be made on the three legs of our Investment Data Strategy: Data Technology, Data Services and Data Analytics. Some aspects of the strategy, however, have taken longer due to factors including: additional technical complexity; delays in recruiting key staff; and delays in the delivery of technology platforms required to enable the strategy to be progressed.

- **Data Technology**: risks relating to legacy data presentation software mitigated with key data sets transitioned to new systems. A technology and business transformation partner selected for subsequent data strategy phases and platform delivery work launched to provide the ability to deliver value early and often to the business.
- **Data Services**: function established and work underway to assess and select an appropriate Data Governance tool.
- **Data Analytics**: Head of Data Analytics commenced in March 2022, who is in the initial phase of research and needs analysis, which will feed into the data analytics workplan.

WORK PROGRAMME: Investment

STRATEGIC PLAN OBJECTIVE: Best Portfolio, Enterprise Excellence

See page 61 and 116 for more details.

In this section we set out a complete list of our investment managers and custodians.

The table below includes both those managers appointed by us and those who manage funds in which the NZ Super Fund and the Elevate Fund are invested. It identifies where new managers or custodians have been appointed or terminated over the last 12 months. It also identifies whether managers invest primarily in listed (or highly traded) or unlisted securities.

We disclose the value of the assets each manager manages on behalf of the NZ Super Fund and the Elevate Fund, as at 30 June 2022. We also disclose the value of each investment as a percentage of the total fund. Our internal investment mandates are managed by the Guardians' in-house team of investment professionals.

NZ SUPER FUND

Managers Appointed since 1 July 2021	Year Appointed	Fund Name and Focus Areas	Type	Value of Investment NZD'm	% of Total NZSF (pre-tax)
Copenhagen Infrastructure Partners	2021	Copenhagen Infrastructure Partners Energy Transition Fund I – Energy Infrastructure	Unlisted	0*	0.0%
Fifth Wall	2021	Fifth Wall Early-Stage Climate Technology Fund – Climate Technology	Unlisted	64	0.1%
	2021	Fifth Wall Ventures III SPV XXVIII – Climate Technology Co-investment	Unlisted	56	0.1%
Generation Investment Management	2022	Generation Investment Management Sustainable Solutions Fund IV – Sustainability Solutions	Unlisted	0*	0.0%
StepStone (previously Greenspring)	2021	StepStone VC Secondaries Fund V – Venture Capital	Unlisted	111	0.2%
Slate	2021	Slate European Essential Real Estate Income Fund – European Real Estate	Unlisted	484	0.9%
	2022	Slate North American Essential Real Estate Income Fund – North American Real Estate	Unlisted	0*	0.0%
Stonepeak	2022	Stonepeak Infrastructure Fund IV – infrastructure	Unlisted	62	0.1%
	2022	Stonepeak Fern Investment Partners LP – Infrastructure Co-Investment	Unlisted	105	0.2%
Timberland Investment Group (TIG)	2022	BTF II Fund – Brownfield Timberland assets across Latin America	Unlisted	0*	0.0%

* Several mandates appear as zero value – this is either because the mandates were awaiting funding as at 30 June 2022 or the managers have returned such capital that the residual balance of the mandate is less than $1 million.

Mandates Closed Since 1 July 2021	Year Appointed	Fund Name and Focus Areas	Type
BlackRock Investment Management UK	2013	Segregated mandate – passive global equities	Listed
State Street Global Advisors		Segregated mandate – passive global listed equities (small cap)	Listed

MANAGERS AND CUSTODIANS (CONTINUED)

Incumbent Managers as at 30 June 2022	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-US Fund – buyout, funds-of-funds	Unlisted	4	0.0%
Apollo Global Management LLC	2014	Financial Credit Investment II – US life settlements	Unlisted	189	0.3%
	2017	Financial Credit Investment III – US life settlements	Unlisted	217	0.4%
AQR Capital Management, LLC	2009	CNH Convertible Arbitrage Fund – a diverse convertible arbitrage fund	Listed	236	0.4%
	2018	Segregated mandate – multi-factor investing	Listed	3,364	6.1%
Ascribe Capital	2010	American Securities Opportunity Fund II – distressed credit	Unlisted	7	0.0%
Bain Capital	2013	Bain Capital Credit Managed Account (NZSF), L.P. – distressed credit	Unlisted	137	0.2%
BlackRock Investment Management UK	2016	Global Merger Partners LLC – merger arbitrage	Listed	800	1.4%
	2020	Segregated mandate – fixed interest securities (ex Treasuries)	Listed	4,157	7.5%
Bridgewater Associates	2006	Bridgewater Pure Alpha Fund II, Limited – global macro	Listed	1,237	2.2%
Canyon Capital Advisors	2010	Canyon Distressed Opportunities Fund (Delaware) – distressed credit	Unlisted	0*	0.0%
	2016	Canyon NZ DOF Investing L.P. – distressed credit	Unlisted	292	0.5%
Carlyle	2020	Carlyle FRL, L.P. Insurance run-off	Unlisted	691	1.3%
CBRE Global Investors	2021	Asia Value Partners Fund VI – Development Real Estate	Unlisted	6	0.0%
CIM	2019	N-Data Center Portfolio Co-Investor, LLC – US and Canadian real estate and N-Novva Co Investor LLC – US real estate	Unlisted	237	0.4%
Citadel	2020	Citadel Kensington Global Strategies Fund II – global macro	Listed	248	0.4%
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%
Columbia Capital	2020	Columbia Spectrum IV-A, LP – telecommunication spectrum licences	Unlisted	149	0.3%
Devon Funds Management	2011	Segregated mandate – New Zealand active equities	Listed	186	0.3%
Deutsche Finance International	2021	European Value Add Fund II – Secondary Real Estate	Unlisted	106	0.2%
Direct Capital	2009	Direct Capital Partners IV – New Zealand growth capital	Unlisted	0*	0.0%
	2016	Direct Capital Partners Fund V – New Zealand growth capital	Unlisted	60	0.1%
	2020	TR Group Limited co-investment	Unlisted	24	0.0%

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Incumbent Managers as at 30 June 2022	Year Appointed	Fund Name and Focus Areas	Type	Value of Investment NZD'm	% of Total NZSF (pre-tax)
	2020	Direct Capital Partners Fund VI – New Zealand growth capital	Unlisted	20	0.0%
Elementum Advisers	2010	Segregated mandate – Natural catastrophe reinsurance	Unlisted	537	1.0%
FarmRight	2010	Rural land in New Zealand and Australia	Unlisted	978	1.8%
Global Forest Partners	2007	Global Timber Investors 8 – timber assets in Australia, New Zealand and South America	Unlisted	100	0.2%
	2009 & 2012	AIF Properties – Australian Timber	Unlisted	203	0.4%
	2010	Global Timber Investors 9 – timber assets in New Zealand, Australia, Asia, Africa and South America	Unlisted	41	0.1%
Grain Management	2020	Grain Spectrum Holdings III, LP – telecommunication spectrum licences	Unlisted	127	0.2%
HarbourVest Partners	2006	HarbourVest International Private Equity Partnership V Fund - buyout, funds-of-funds	Unlisted	2	0.0%
Hillwood	2019	US Industrial Club V, LP – Industrial development assets in US	Unlisted	191	0.3%
	2021	US Industrial Club VI, LP – Industrial development assets in US	Unlisted	116	0.2%
H.R.L. Morrison & Co	2006	Global infrastructure mandate, which includes our investment in Retire Australia, Altogether, Longroad Energy and Galileo Green Energy	Listed and Unlisted	1,680	3.0%
	2009	Public Infrastructure Partners Fund - social infrastructure such as educational and healthcare facilities, and student accommodation	Unlisted	125	0.2%
Kohlberg Kravis Roberts (KKR)	2007	KKR Asian Fund – Asian private equity	Unlisted	0*	0.0%
	2008	KKR 2006 Fund – global private equity	Unlisted	3	0.0%
	2014	KKR Energy Income and Growth Fund (EIGF) and private equity flexible mandate in North American natural gas exploration and production, midstream, downstream and/or energy infrastructure and services	Unlisted	122	0.2%
Leadenhall Capital Partners	2013	Natural catastrophe reinsurance	Unlisted	491	0.9%
Mint Asset Management	2015	Segregated mandate – New Zealand active equities	Listed	636	1.2%
Movac	2016	Movac Fund 4 – New Zealand growth capital	Unlisted	30	0.1%
	2020	Movac Fund 5 – New Zealand growth capital	Unlisted	40	0.1%
Neuberger Berman	2018	Neuberger Berman Principal Strategies Merger Fund (NZSF), LP - merger arbitrage	Listed	387	0.7%
Northern Trust	2013	Segregated mandate – passive global equities	Listed	5,461	9.9%
	2015	Segregated mandate – passive emerging markets equities	Listed	600	1.1%
	2018	Segregated mandate – multi-factor investing	Listed	3,531	6.4%

MANAGERS AND CUSTODIANS (CONTINUED)

Incumbent Managers as at 30 June 2022	Year Appointed	Fund Name and Focus Areas	Type	Value of Investment NZD'm	% of Total NZSF (pre-tax)
Pencarrow Private Equity	2011	Pencarrow IV Investment Fund – New Zealand growth capital	Unlisted	4	0.0%
Pioneer Capital Partners	2013	Pioneer Capital Partners Fund II – New Zealand growth capital	Unlisted	16	0.0%
	2016	Pioneer Capital Partners Fund III – New Zealand growth capital	Unlisted	106	0.2%
	2021	Pioneer Capital Partners Fund IV – New Zealand growth capital	Unlisted	141	0.3%
State Street Global Advisors	2009	Segregated mandate – passive global listed equities (large cap)	Listed	7,323	13.3%
		Segregated mandate – passive emerging markets equities	Listed	806	1.5%
Two Sigma	2020	Two Sigma Absolute Return Macro Enhanced Fund, LP – global macro	Listed	153	0.3%
UBS	2021	Segregated mandate – passive global equities	Listed	4,387	7.9%
	2021	Segregated mandate – multi-factor investing	Listed	1,386	2.5%
Waterman Capital	2010	Waterman Fund II – New Zealand growth capital	Unlisted	20	0.0%
Willis Bond & Co	2010	Willis Bond Institutional Partners – private real estate in New Zealand	Unlisted	0[1]	0.0%

* Several mandates appear as zero value – this is either because the mandates were awaiting funding as at 30 June 2022 or the managers have returned such capital that the residual balance of the mandate is less than $1 million.

In addition to the above, certain subsidiary investees of the Guardians have engaged asset managers to oversee the day-to-day operations of certain investments held by those subsidiaries, including the Fund's indirect interests in New Zealand hotels.

ELEVATE FUND

Managers Appointed Since 1 July 2020	Year Appointed	Fund Name and Focus Areas	Type	Value of Investment NZ$'m
New Zealand Growth Capital Partners	2020	New Zealand venture capital	Unlisted	69

Custodian	Role
MASTER CUSTODIAN – NZ SUPER FUND	
Northern Trust	Global Master Custodian
NON-MASTER CUSTODIANS APPOINTED FOR A SPECIFIC PURPOSE – NZ SUPER FUND	
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 NZ Super Fund's securities lending programme
Northern Trust Investments, Inc	Custodian for the NZ Super Fund's securities lending programme

Investment Mandates managed by the Guardians' in-house team of investment professionals include:

- Active NZ Equities
- Beta Implementation and Completion
- Beta Multi Factor
- Cash
- Currency Management
- Direct Arbitrage
- Event-Driven Opportunity
- Global Sovereign & Credit Fixed Income
- Infrastructure Transition Assets
- International Growth Equity
- Life Settlements
- NZ & Overseas Transition Assets
- Opportunistic (NZ and Overseas)
- Passive NZ Equities
- Securities Lending
- Strategic Tilting
- Tactical Credit Opportunities
- US Transition Assets

Financial Statements
Ngā Pūrongo Tahua

Explaining our Financial Statements

PAULA STEED
GENERAL MANAGER STRATEGY AND SHARED SERVICES

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 an autonomous Crown entity that manages two separate investment mandates: the NZ Super Fund and the Elevate Fund. The costs incurred by the Guardians mainly includes employee, employee-related and other non-investment-related expenses. All of these costs are recovered from the two mandates, except for a small appropriation that is funded by Parliament, for Board fees and expenses. As a result the Guardians has a 'zero' net surplus for the year. A breakdown of the expenses recharged to the NZ Super Fund is included in the expense analysis on page 137. The financial statements of the Guardians are prepared in accordance with Public Benefit Entity (PBE) Accounting Standards.

The NZ Super Fund is a pool of assets set aside by the Crown for the purpose of adding to the Crown wealth to improve the ability of future governments to pay for superannuation and reducing the tax burden of the cost of superannuation on future generations of New Zealanders. The financial statements are among the largest and most complex for a New Zealand reporting entity. The financial statements have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). Key elements of these financial statements are discussed on the following pages.

The Elevate Fund was formed in December 2019 with the aim to stimulate a functioning venture capital industry, and make sure that high-growth New Zealand businesses have access to the capital and connections that they need to be successful. The day-to-day management of the Elevate Fund is outsourced to New Zealand Growth Capital Partners (NZGCP), a fellow Crown entity. The financial statements are prepared in accordance with PBE Accounting Standards.

The financial statements for the Guardians are on pages 142 – 168; the NZ Super Fund are on pages 169 – 232; and the Elevate Fund are on pages 235 – 261.

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

Remuneration information is reported on pages 154 – 157 (Note 3(b)). This information should be read alongside the explanation of our remuneration framework on pages 108 - 113.

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NZ Super Fund Five-Year Financial Summary

	2022	2021	2020	2019	2018
	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
Income Statement					
Investment income	1,054,552	740,262	807,059	982,887	828,623
Investment gains/(losses)	(5,133,394)	12,775,611	4,931	1,944,667	3,659,785
Net Operating Income	**(4,078,842)**	**13,515,873**	**811,990**	**2,927,554**	**4,488,408**
Operating expenditure	(278,086)	(130,772)	(132,201)	(109,468)	(106,204)
Profit before income tax expense	**(4,356,928)**	**13,385,101**	**679,789**	**2,818,086**	**4,382,204**
Income tax (expense)/income	758,046	(2,146,656)	(465,250)	(525,166)	(350,787)
Profit/(Loss) after income tax expense	**(3,598,882)**	**11,238,445**	**214,539**	**2,292,920**	**4,031,417**
Balance Sheet					
Cash and cash equivalents	2,370,257	6,579,356	5,723,737	2,357,277	1,238,880
Net cash pledged as collateral/(collateral received)	173,396	(343,758)	(315,691)	351,926	117,670
Net investments	54,519,078	53,070,293	39,486,309	40,242,349	37,943,023
Other assets (Including unsettled sales, PPE & intangible assets)	3,202,306	657,925	583,564	355,835	610,120
Other liabilities (Including unsettled purchases)	(5,077,257)	(669,076)	(1,171,762)	(654,998)	(540,809)
Net assets excluding income tax	**55,187,780**	**59,294,740**	**44,306,157**	**42,652,389**	**39,368,884**
Income tax receivable/(payable)	272,916	(1,887,279)	(257,725)	(302,009)	128,151
Deferred tax asset/(liability)	749,766	(42,866)	(51,128)	(34,286)	(475,301)
Net assets	**56,210,462**	**57,364,595**	**43,997,304**	**42,316,094**	**39,021,734**
Contributed capital	22,382,079	19,962,079	17,842,079	16,382,079	15,382,079
Other reserves	33,828,383	37,402,516	26,155,225	25,934,015	23,639,655
Total equity	**56,210,462**	**57,364,595**	**43,997,304**	**42,316,094**	**39,021,734**

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Understanding the Financial Statements

NZ SUPER FUND

This section explains the key elements of the NZ Super Fund's financial statements and discusses the main financial features of the 2021/22 year.

INCOME STATEMENT

Income

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 interest and dividends; and

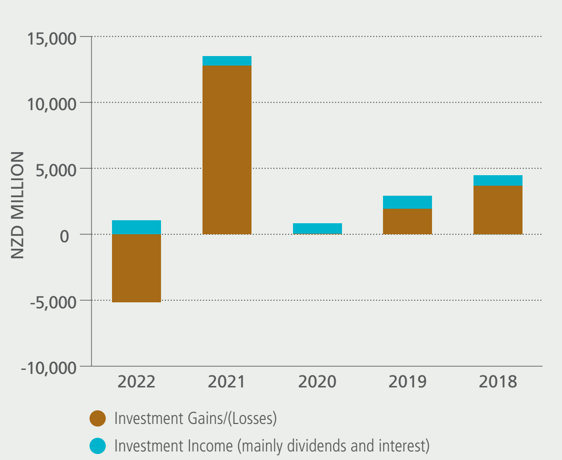
2) Investment gains/(losses) – changes in the fair value of the NZ Super Fund's investments, along with the impact of changes in the value of the New Zealand dollar on investments held in foreign currencies. We expect to see reasonable volatility here given the significant weighting on the performance of global equity markets.

Investment performance is measured against our Reference Portfolio, which is a notional, low-cost, well diversified portfolio. When we undertake investments that depart from the Reference Portfolio, we take on active risk with the expectation of generating active returns above the benchmark of the Reference Portfolio.

In 2021/22 the NZ Super Fund has faced difficult global equity market conditions which have resulted in a net operating loss of $4.1 billion. The losses in our Reference Portfolio positions in passive global equity and fixed income securities have been partially offset by strong performance in some of our active positions. As a result, our Actual Portfolio has significantly outperformed the Reference Portfolio benchmark. Refer to the Investment Report on pages 40 – 45 for more information.

The volatility in net operating income seen by the NZ Super Fund since 2018 is depicted in the following graph.

Investment Income



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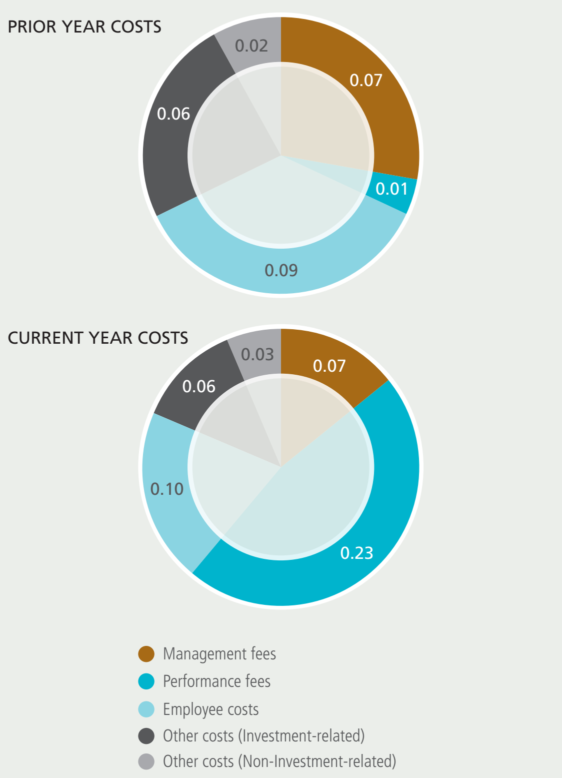
Expenses

The net expected return of an investment (gain or loss after taking account of all expenses) is central to our investment decisions and any decision to either carry out activities with internal resources, or to do so through external partners, is made in the best interest of the NZ Super Fund. As outlined in our Strategic Framework on page 20 – 21, we exercise careful judgement in managing the costs of the NZ Super Fund to align with our goal of sustainable investment, delivering strong returns for all New Zealanders.

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 124).

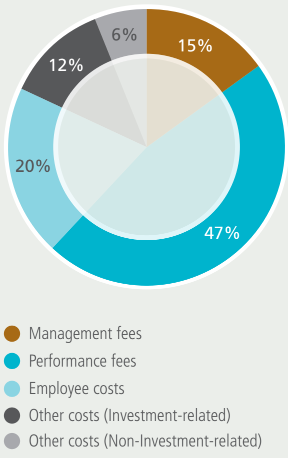
Cost of Managing the Fund as a Percentage of Average Net Assets



In 2021/22 the cost of managing the NZ Super Fund's investments was $278.1 million, a significant increase on total costs of $130.8 million in the prior year. Of the difference of $147.3 million, $124.4 million was the result of increased performance fees in the current year compared to last year. Those higher investment manager performance fees were driven by the strong performance in some of our active positions. For example, we have seen a large increase in value in certain private equity investments. Consequently, as a percentage of average net assets, costs increased from 0.25% in the prior year to 0.49% in the current year. Excluding performance fees, as a percentage of average net assets, expenses were in line with the prior year.

The graph below provides a cost profile breakdown for the current costs demonstrating how much of the total costs were attributed to performance fees, which is explained further below.

Current Year Cost Profile



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MANAGEMENT FEES

$40.7m

WHAT DO THEY PAY FOR?

Payments to external managers to pay for costs they incur for managing committed and invested capital for the NZ Super Fund.

WHY DO WE INCUR THE COST?

We seek exposure to a wide range of asset classes, geographic markets and strategies which requires a diversification of management skills. In some cases it is not possible to provide these specific expertise and economies of scale in-house and we therefore appoint well aligned external managers who demonstrate the required capabilities. They help drive investment performance and deliver attractive returns on our fund investments.

CURRENT AND PRIOR YEAR COSTS

While fees increased from $36.7m to $40.7m in the current year, they remain constant at 0.07% as a percentage of average net assets. Over the past two years we have increased the value of our passive global equities – on a dollar-for-dollar basis which is a relatively inexpensive part of our investment portfolio.

PERFORMANCE FEES

$131.8m

WHAT DO THEY PAY FOR?

Fees paid to external managers for high performance and alignment of interests between the NZ Super Fund and our external managers.

WHY DO WE INCUR THE COST?

This is a form of profit-sharing when returns exceed a predefined percentage hurdle. These fees are only earned by a small number of external managers if they outperform specified benchmarks and can vary considerably year-on-year. We focus on achieving alignment between manager's and our investment goals when negotiating fees and other terms.

CURRENT AND PRIOR YEAR COSTS

The significant increase in this year's performance fees (from $7.4m in 2020/21 to $131.8m in the current year), was largely the result of fees accrued to Morrison & Co in relation to its management of the Fund's investment in Longroad Energy Holdings, LLC. Longroad Energy Holdings, LLC had a significant increase in value following a US$300m investment by MEAG. See the Investment Report at page 59 for more information.

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EMPLOYEE COSTS

$54.8m

WHAT DO THEY PAY FOR?

Salaries, travel costs, training and professional development (reimbursed to the Guardians).

WHY DO WE INCUR THE COST?

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

CURRENT AND PRIOR YEAR COSTS

Costs increased from $44.6m to $54.8m. This was primarily due to an increase in staff numbers from 163 to 188, as a result of increased investment activity and to be able to support business functions. Bonus expense was higher this year, increasing from $10.4m to $14.5m. This was primarily due to the Fund's strong cumulative value add performance, reversing the effect of weaker returns in the preceding years and resulting in a catch-up payment. Changes to the incentive programme (as detailed on pages 108 – 111) and growth in employee numbers also contributed to the increase.

OTHER COSTS

$50.8m

WHAT DO THEY PAY FOR?

Investment-related $34.9m: These costs relate to transaction expenses (legal, financial and tax advisors, consultants, custodian and trading commissions).

Non-Investment-related $15.9m: These costs relate to technology, data services, lease, equipment and other general expenses (reimbursed to the Guardians).

WHY DO WE INCUR THE COST?

Investment-related: Pursuing complex, large investment opportunities in public and private markets requires us to incur due diligence costs as well as compliance costs required to comply with international regulatory and tax regimes.

Non-Investment-related: Day-to-day costs to maintain the general infrastructure and business operations.

CURRENT AND PRIOR YEAR COSTS

Investment-related: These costs have remained constant at 0.06% of average net assets over the past two years.

Non-Investment-related: Cost have increased from $12.2m to $15.9m in the current year and were 0.02% and 0.03% as a percentage of average net assets over the past two years respectively. The increase of $3.7m in the current year was primarily due to the cost of IT projects.

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Indirect Costs

Indirect costs that are incurred by investment vehicles in which the NZ Super Fund holds an interest, e.g. manager fees incurred within managed fund structures, are netted off against returns within investment gains and losses.

Indirect investment management costs, specifically manager and performance fees, for the current year were $49.3 million and $126.3 million respectively. Manager fees increased by $15.3 million from the prior year as a result of higher private equity investments. Performance fees had a significant increase of $117.3 million from the prior year primarily as a result of one manager performing markedly stronger than the benchmark.

This additional cost disclosure is based on unaudited information and derived using a variety of methodologies – such as reporting provided by investment managers; additional enquiries of managers; and our calculations as at the end of the year. In providing this additional information, we seek to provide a full and complete indication of investment management and performance fee costs.

It is important to note that for some of these external asset managers, the pay-out of the current year's fee is capped, with the remainder of the fee being held for possible pay-out in future periods. For those managers, poor performance in the following years might lead to a reduction in the entitlement that is being held. Thus, the amount and timing of the eventual pay-out is uncertain.

Income Tax

Since inception, the NZ Super Fund has paid $9.8 billion in tax to the New Zealand Government making it one of the largest taxpayers in New Zealand. New Zealand tax paid is excluded from the determination of NZ Super Fund's performance as it is considered a return to the Crown.

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

New Zealand tax on foreign equities (excluding most listed Australian equity investments) is calculated notionally under New Zealand's 'Fair Dividend Rate' (FDR) regime. A 'deemed dividend' of 5% per annum is taxable while actual dividends received are not subject to tax.

Income or losses arising from the NZ Super Fund's other investments (e.g. equity derivatives, bonds and cash deposits) are generally subject to 28% New Zealand tax.

The NZ Super Fund is also subject to foreign tax depending on the source of its offshore income.

Tax Governance

The Guardians has a cooperative compliance agreement with the New Zealand Inland Revenue (IRD).

Under this agreement, tax positions taken by the NZ Super Fund on its activities are disclosed to the IRD. This provides us with real-time engagement with the IRD and enhanced certainty around our tax position before the New Zealand tax return is filed.

Tax Rate Volatility

201-1 3-3 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 FDR regime.

The NZ Super Fund generated losses for tax purposes of $2.9 billion during the 2021/22 year, including unutilised imputation credits converted into losses. These losses have been recognised as a deferred tax asset on the balance sheet (refer to Note 7(e)) and will be carried forward to offset taxable income in future periods.

In a year where we have a tax loss, our net tax income (which is reflected as a credit in the income statement of $758 million) is less than 28% of the net operating loss as we are still required to calculate tax on FDR assets (based on a deemed dividend of 5%).

No New Zealand income tax is payable for the 2021/22 year. Foreign withholding taxes of $12.3 million have been paid (excludes underlying taxes paid by the NZ Super Fund's investments).

BALANCE SHEET

The NZ Super Fund's balance sheet (or Statement of Financial Position) shows how much the NZ Super Fund is worth at a particular date. While the year-on-year performance of our balance sheet is important, central to our mission is how much we grow the size of the NZ Super Fund over the longer term.

Since inception the NZ Super Fund has received contributions of $22.4 billion from the Crown and added a gross value of $43.6 billion. As a result of this growth, the NZ Super Fund has paid a total of $9.8 billion of tax back to the Crown, resulting in net value added of $33.8 billion.

Cash and Liquidity

Liquidity management is a key and ongoing focus for the NZ Super Fund, as it is critical to our operations.

Cash and cash equivalents decreased in the current year due to a number of factors including a $2 billion tax payment and increased funding in our private and Global Equity mandates.

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 in a transaction between two parties.

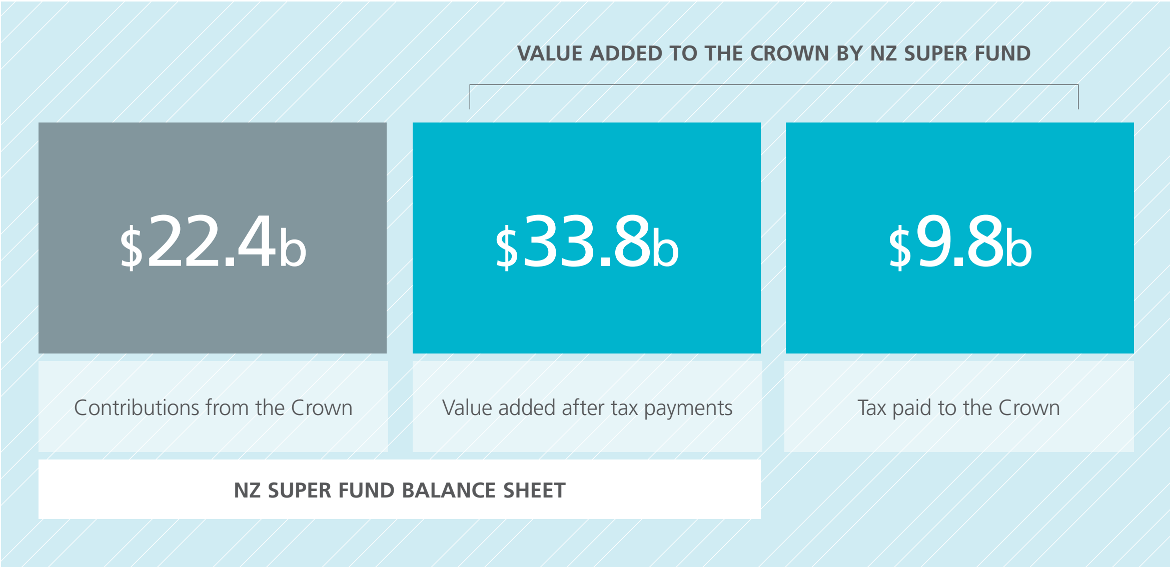
The value derived for approximately 81% of assets measured at fair value is obtained from readily observable market data and are priced daily.

For the remaining assets (approximately 19%), where no observable market data is available, a number of other methods are applied to determine fair value. These valuations represent management's best assessment of fair value based on the most up-to-date information available.

Further information on the techniques for valuing assets and the fair value hierarchy is outlined on pages 184-192 (refer Note 2(a)).

CONTRIBUTIONS

Crown contributions of $2.4 billion were received in the current year, with total Crown contributions of $22.4 billion received since inception. Contributions are received on a monthly basis and are recorded on the balance sheet under equity/ contributed capital.



ELEVATE FUND

This section discusses the main financial features of the Elevate Fund's financial statements for the 2021/2022 financial year.

INCOME STATEMENT

Income

Net operating revenue is the annual revenue generated by the Elevate Fund before expenses have been deducted. Similar to the NZ Super Fund, there are two key components to net operating revenue:

1. Investment income – primarily interest; and
2. Investment gains/(losses) – changes in the fair value of the Elevate Fund's investments (net of external fund manager costs and foreign exchange gains/(losses) for investments held in foreign currencies).

A number of the Elevate Fund's underlying investments were revalued during the year. This has resulted in net fair value losses of $3.0 million, compared with net fair value losses of $2.0 million in the prior year.

Expenses

Total costs for managing the Elevate Fund were $2.8 million in the current year, a decrease of $0.6 million on the prior year. This was primarily due to a decrease in manager fees paid to NZGCP as a result of lower fees and staff costs.

Income Tax

The Elevate Fund is subject to tax in New Zealand on its net income and is therefore included in the cooperative compliance agreement with the IRD. Given the investment profile of the Elevate Fund and the tax exemption from which the Elevate Fund benefits (on gains from New Zealand shares), taxable income is not anticipated.

BALANCE SHEET

Investments

As at 30 June 2022, the Elevate Fund had made commitments of $181 million to seven venture capital funds, up from four in the prior year. Five of these funds are with established managers in the early-stage investment space; the remaining two are first-time fund managers. To date, these funds have called $61.0 million for capital and management fees, of which $43.9 million was called in the current year. The vast majority of the underlying investments in these venture capital investment funds are currently held at cost or latest funding round, which is in line with expectations given the start-up nature of these investments. Net fair value losses of $5.0 million have been recorded on the underlying investments since inception, resulting in total investments of $56.1 million at balance date.

CONTRIBUTIONS

Crown capital contributions of $57.1 million were received in the current year, resulting in total capital contributions of $80.6 million from the Crown since inception. Requests for capital contributions for the Elevate Fund mandate are received and approved by the Guardians prior to submission to Treasury. Capital contributions from the Crown are recorded in public equity in the Elevate Fund's balance sheet.

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STATEMENT OF RESPONSIBILITY

For the year ended 30 June 2022

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 2022 fairly reflect the financial position, operations and cash flows of the Guardians of New Zealand Superannuation and Group.

CATHERINE DRAYTON

CHAIR
30 September 2022

DOUG PEARCE

BOARD MEMBER
30 September 2022

CONSOLIDATED STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

For the year ended 30 June 2022	NOTE	ACTUAL	ACTUAL	BUDGET (UNAUDITED)
		2022	2021	2022
		NZD'000	NZD'000	NZD'000
Revenue	2(a)	71,818	57,769	90,207
Expenses	2(b)	71,818	57,769	90,207
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 2022	NOTE	ACTUAL	ACTUAL	BUDGET (UNAUDITED)
		2022	2021	2022
		NZD'000	NZD'000	NZD'000
ASSETS				
Current assets				
Cash and cash equivalents	4(b)	2,234	2,356	3,774
Receivables from exchange transactions	4(c)	20,324	11,964	15,764
Receivables from non-exchange transactions	4(c)	104	57	-
Prepayments		1,168	732	-
Total current assets		**23,830**	**15,109**	**19,538**
Non-current assets				
Receivables from exchange transactions	4(c)	1,429	2,678	-
Total non-current assets		**1,429**	**2,678**	**-**
Total assets		**25,259**	**17,787**	**19,538**
LIABILITIES				
Current liabilities				
Payables under exchange transactions	4(d)	1,776	1,073	1,544
Employee entitlements	4(e)	21,213	13,109	14,486
Deferred lease incentive	4(f)	86	86	86
Total current liabilities		**23,075**	**14,268**	**16,116**
Non-current liabilities				
Employee entitlements	4(e)	1,429	2,678	2,660
Deferred lease incentive	4(f)	255	341	262
Total non-current liabilities		**1,684**	**3,019**	**2,922**
Total liabilities		**24,759**	**17,287**	**19,038**
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 2022	ACTUAL		
	GENERAL EQUITY RESERVE NZD'000	ACCUMULATED COMPREHENSIVE REVENUE AND EXPENSE NZD'000	TOTAL NZD'000
Balance at 1 July 2020	**500**	**-**	**500**
Total comprehensive revenue and expense for the year	-	-	-
Balance at 30 June 2021	**500**	**-**	**500**
Total comprehensive revenue and expense for the year	-	-	-
Balance at 30 June 2022	**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 2022	NOTE	ACTUAL	ACTUAL	BUDGET (UNAUDITED)
		2022	2021	2022
		NZD'000	NZD'000	NZD'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
Receipts from the Crown		429	445	728
Receipts from the NZ Super Fund		63,695	52,452	83,347
Receipts from the Elevate Fund		500	774	460
Interest received		27	2	4
Goods and services tax		-	-	25
Other receipts		103	109	108
Total cash inflow from operating activities		**64,754**	**53,782**	**84,672**
Cash was applied to:				
Payments to Board members		(385)	(380)	(404)
Payments to suppliers		(18,106)	(14,414)	(35,714)
Payments to employees		(46,291)	(39,089)	(48,455)
Goods and services tax		(94)	(131)	-
Total cash outflow from operating activities		**(64,876)**	**(54,014)**	**(84,573)**
Net cash flows provided by/(used in) operating activities		**(122)**	**(232)**	**99**
Net cash flows provided by investing activities		**-**	**-**	**-**
Net cash flows provided by financing activities		**-**	**-**	**-**
Net increase/(decrease) in cash and cash equivalents		**(122)**	**(232)**	**99**
Cash and cash equivalents at the beginning of the year		2,356	2,588	3,675
Cash and cash equivalents at the end of the year	4(b)	**2,234**	**2,356**	**3,774**

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

For the year ended 30 June 2022	ACTUAL	ACTUAL
	2022	2021
	NZD'000	NZD'000
RECONCILIATION OF SURPLUS/(DEFICIT) FOR THE YEAR TO NET CASH FLOWS PROVIDED BY/(USED IN) OPERATING ACTIVITIES		
Surplus/(Deficit) for the year	-	-
Changes in working capital:		
(Increase)/Decrease in assets:		
Receivables and prepayments	(7,594)	(4,329)
Increase/(Decrease) in liabilities:		
Trade and other payables	7,558	4,182
Deferred lease incentive	(86)	(85)
Net cash flows provided by/(used in) operating activities	**(122)**	**(232)**

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 2022

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

(a) General information

These are the consolidated financial statements of the Guardians of New Zealand Superannuation (Guardians) and its subsidiaries (Group). The Guardians is a Crown entity as defined by the Crown Entities Act 2004. The Guardians is also a public authority in terms of the Income Tax Act 2007 and therefore is exempt from income tax.

The Guardians is domiciled in New Zealand and the address of its principal place of business is set out in the Corporate Directory on page 273.

The consolidated financial statements of the Group for the year ended 30 June 2022 were authorised for issue in accordance with a resolution of the Board of the Guardians of New Zealand Superannuation on 30 September 2022.

(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 Public Benefit Entity Standards (PBE 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 applicable as at 30 June 2021 (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 2022.

The financial statements of subsidiaries are prepared for the same reporting period as the Guardians using consistent accounting policies. In preparing consolidated financial statements, all inter-entity transactions, balances, unrealised gains and losses are eliminated.

(f) Subsidiaries

Subsidiaries are those entities that are controlled by the Guardians under the provisions of PBE IPSAS 35 Consolidated Financial Statements. The Guardians controls an entity when it is exposed to, or has rights to, variable benefits from its involvement with the entity and has the ability to affect the nature or amount of those benefits through its power over the entity. The Guardians control of an entity is reassessed if facts and circumstances indicate that there are changes to one or more of the elements of control.

The Guardians has interests in the following subsidiaries:

NAME	NOTE	BALANCE DATE	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST 2022 %	OWNERSHIP INTEREST 2021 %
New Zealand Superannuation Fund Nominees 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

(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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2022

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

(g) Foreign currency translation

FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the financial statements of the Guardians are measured using the currency of the primary economic environment in which the Guardians operates (the functional currency). The functional currency of the Guardians is New Zealand dollars. It is also the presentation currency.

TRANSACTIONS AND BALANCES

Transactions denominated in foreign currencies are converted to New Zealand dollars using the exchange rates prevailing at the dates of the transactions. Foreign currency monetary assets and liabilities are translated at the exchange rate prevailing at balance date. Where there is a movement in the exchange rate between the date of a foreign currency transaction and balance date, the resulting exchange differences are recognised in the Consolidated Statement of Comprehensive Revenue and Expense.

(h) Goods and services tax (GST)

Revenue, expenses, assets and liabilities are recognised in the financial statements exclusive of GST, with the exception of receivables and payables which are stated inclusive of GST. Where GST is irrecoverable as an input tax, it is recognised as part of the related asset or expense. The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the Consolidated Statement of Financial Position.

(i) Statement of Cash Flows

The following are the definitions of the terms used in the Consolidated Statement of Cash Flows:

Operating activities include all activities other than investing or financing activities. Cash inflows include all receipts from the sale of goods and services, interest and other sources of revenue that support the Group's operating activities. Cash outflows include payments made to employees, suppliers and for taxes and levies, other than income tax.

Investing activities are those activities relating to the acquisition, holding and disposal of current and non-current securities and any other non-current assets.

Financing activities are those activities relating to changes in public equity and debt capital structure of the Group and those activities relating to the cost of servicing the Group's equity capital.

Cash flows are included in the Consolidated Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the IRD, is classified as cash flows from operating activities.

(j) Changes in accounting policies

There have been no changes in accounting policies during the year. All accounting policies are consistent with those applied in the previous financial year.

Certain prior year comparatives have been restated to conform with current year presentation. These classifications have no impact on the overall financial performance, financial position or cash flows of the Guardians for the comparable year.

(k) Standards issued but not yet effective

The following standards have been issued but are not yet effective for the year ended 30 June 2022:

PBE IPSAS 41 FINANCIAL INSTRUMENTS

PBE IPSAS 41 Financial Instruments introduces requirements for the recognition and measurement of financial instruments by Tier 1 and Tier 2 public benefit entities. It supersedes PBE IFRS 9 Financial Instruments, which was issued as an interim standard to mitigate the effect on mixed groups of differences between New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and PBE standards. The standard is effective for reporting periods beginning on or after 1 January 2022. The Board and management do not expect any significant changes as a result of this new standard as the requirements are almost identical to PBE IFRS 9 Financial Instruments.

PBE FRS 48 SERVICE PERFORMANCE REPORTING

PBE FRS 48 Service Performance Reporting introduces requirements for public benefit entities to select and present service performance information. It replaces the service performance reporting requirements of PBE IPSAS 1 Presentation of Financial Statements and is effective for reporting periods beginning on or after 1 January 2022. The Board and management are currently assessing the impact of this new standard on the Guardians Statement of Performance. Some additional disclosures will be required under the new standard but the Board and management do not expect significant changes.

(l) Budget figures

The budget was approved by the Board of the Guardians of New Zealand Superannuation for the year ended 30 June 2022. The budget figures are unaudited.

SECTION 2: FINANCIAL PERFORMANCE

(a) Revenue

	NOTE	ACTUAL 2022 NZD'000	ACTUAL 2021 NZD'000
Revenue from exchange transactions			
Cost reimbursement from the NZ Super Fund	3(a)	70,725	56,730
Cost reimbursement from the Elevate Fund	3(a)	500	500
Other revenue		90	90
Interest income - financial assets at amortised cost		27	2
		71,342	**57,322**
Revenue from non-exchange transactions			
Appropriations from the Crown	3(a)	476	447
		476	**447**
Total revenue		**71,818**	**57,769**

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 2022 NZD'000	ACTUAL 2021 NZD'000
Employee entitlements and other employment-related expenses		
Employee benefits (including salaries, annual leave and long service leave) and other employment-related expenses	36,581	31,125
Employee incentive scheme	14,492	10,404
Employer contributions to KiwiSaver	3,674	3,036
	54,747	**44,565**

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

	NOTE	ACTUAL 2022 NZD'000	ACTUAL 2021 NZD'000
Other expenses			
Travel and accommodation expenses		398	121
IT expenses		9,631	6,904
Operating lease expenses		1,662	1,223
Professional fees		1,447	1,433
Board members' fees	3(a)	385	380
Auditor's remuneration	2(c)	64	51
Other expenses		3,484	3,092
		17,071	**13,204**
Total expenses		**71,818**	**57,769**

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 4 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 2022 NZD'000	ACTUAL 2021 NZD'000
Audit of the Guardians financial statements	64	51
	64	**51**

The auditor of the Group is Emma Winsloe of Ernst & Young, on behalf of the Auditor-General.

The financial statements of the Group's subsidiaries are not separately audited following the July 2013 amendments to the Crown Entities Act 2004 which include removal of the requirement for subsidiaries to prepare and have financial statements audited.

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 2022, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2021: $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 2022 were $476,000 (2021: $447,000). The related party receivable from the Crown as at 30 June 2022 is $104,000 (2021: $57,000).

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 New Zealand Superannuation and Retirement Income Act 2001 (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 2022 was $70,725,000 (2021: $56,730,000). The related party receivable from the NZ Super Fund as at 30 June 2022 is $21,227,000 (2021: $14,197,000).

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 2022 was $500,000 (2021: $500,000). The related party receivable from the Elevate Fund as at 30 June 2022 is $nil (2021: $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 $2,287,000 for the year ended 30 June 2022 (2021: $1,934,000). The related party payable to these entities as at 30 June 2022 is $251,000 (2021: $114,000).

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 8 employees (2021: 7 employees).

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

	ACTUAL 2022 NZD'000	ACTUAL 2021 NZD'000
Leadership team		
Employee benefits (including salaries, annual leave and long service leave)	3,872	3,281
Employee incentive scheme	2,691	2,055
	6,563	**5,336**
Board members' fees		
Board members earned the following fees during the year:		
C Drayton (appointed Chair 1 April 2021, Audit Committee Chair until 1 April 2021)	98	62
C Savage (Chair) (retired 31 March 2021)	-	69
H Berkman	49	47
S Botherway (retired 30 September 2021)	12	47
K Mactaggart (appointed 1 April 2021, resigned 28 February 2022)	32	12
D McClatchy (appointed 1 October 2021)	37	-
S Moir (retired 30 September 2020)	-	10
D Pearce (appointed Audit Committee Chair 1 April 2021)	54	48
R Vilgan (appointed 1 October 2020)	49	37
J Williamson (appointed Employee Policy and Remuneration Committee Chair 1 April 2021)	54	48
	385	**380**

Board remuneration is set by the Minister of Finance in accordance with the Fees Framework for the Members of Statutory and Other Bodies Appointed by the Crown. The Minister of Finance has set the annual base fees for all Board members at $49,000, plus additional annual amounts for the Chair (a further $49,000), Deputy Chair (a further $12,250) and Chairs of the Audit and Employee Policy and Remuneration Committees (a further $4,900). The Board opted for a 20% reduction in Board members' fees for the period 1 April 2020 to 30 September 2020.

Board members' and employees' indemnity and insurance

The Guardians has indemnified Board members and certain employees (and former employees) who have been appointed as directors, nominated by the Guardians, or as other officers of entities in which the Guardians has invested. These indemnities are given, to the maximum extent permitted by the Crown Entities Act 2004, in respect of any liability connected with acts or omissions carried out as a consequence of the role. Each indemnified person is also indemnified in respect of costs incurred by that person in defending or settling any claim or proceeding.

The Guardians has effected Directors and Officers Liability insurance cover in respect of the liability or costs of Board members, employees and external director appointees.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2022

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 108 of the Annual Report.

The total remuneration figures in the following table consist of an employee's gross base salary payable in relation to the current financial year and the proportion of their incentive entitlement that will be paid out after balance date. Figures do not include additional KiwiSaver contributions made by the Guardians. The Guardians matches employee contributions up to 8%.

The employee incentive has both individual performance and financial performance targets of the NZ Super Fund. The financial performance component is based on the preceding four years of returns against thresholds and benchmarks.

TOTAL REMUNERATION AND BENEFITS

		ACTUAL			
BASE REMUNERATION RANGE NZD'000	NUMBER OF EMPLOYEES 2022	NUMBER OF EMPLOYEES 2021	TOTAL REMUNERATION RANGE NZD'000	NUMBER OF EMPLOYEES 2022	NUMBER OF EMPLOYEES 2021
100 - 110	12	13	100 - 110	10	10
110 - 120	6	4	110 - 120	6	7
120 - 130	16	11	120 - 130	10	9
130 - 140	7	11	130 - 140	9	7
140 - 150	4	2	140 - 150	6	7
150 - 160	6	5	150 - 160	9	4
160 - 170	5	4	160 - 170	6	1
170 - 180	8	10	170 - 180	4	5
180 - 190	8	5	180 - 190	4	5
190 - 200	7	5	190 - 200	4	4
200 - 210	2	7	200 - 210	3	6
210 - 220	9	6	210 - 220	4	6
220 - 230	7	8	220 - 230	5	3
230 - 240	5	8	230 - 240	2	3
240 - 250	6	1	240 - 250	2	8
250 - 260	2	2	250 - 260	2	2
260 - 270	4	3	260 - 270	4	7
270 - 280	2	5	270 - 280	5	2
280 - 290	4	2	280 - 290	5	3
290 - 300	3	-	290 - 300	5	1
300 - 310	-	3	300 - 310	5	-
310 - 320	3	1	310 - 320	3	1
320 - 330	1	-	320 - 330	2	4
330 - 340	2	1	330 - 340	2	5
340 - 350	-	1	340 - 350	2	2
350 - 360	1	-	350 - 360	2	5
360 - 370	-	-	360 - 370	2	3
370 - 380	1	2	370 - 380	1	2
380 - 390	-	-	380 - 390	2	1
390 - 400	2	2	390 - 400	1	1
400 - 410	1	1	400 - 410	1	2
410 - 420	-	-	410 - 420	5	1
420 - 430	-	-	420 - 430	3	1

ACTUAL					
BASE REMUNERATION RANGE NZD'000	NUMBER OF EMPLOYEES 2022	NUMBER OF EMPLOYEES 2021	TOTAL REMUNERATION RANGE NZD'000	NUMBER OF EMPLOYEES 2022	NUMBER OF EMPLOYEES 2021
430 - 440	1	1	430 - 440	2	1
440 - 450	-	-	440 - 450	3	-
450 - 460	1	-	450 - 460	-	2
460 - 470	-	-	460 - 470	1	-
480 - 490	-	-	480 - 490	1	-
490 - 500	-	-	490 - 500	2	-
500 - 510	-	-	500 - 510	-	1
510 - 520	-	1	510 - 520	2	-
520 - 530	-	-	520 - 530	1	-
530 - 540	1	-	530 - 540	1	-
540 - 550	-	-	540 - 550	1	-
560 - 570	-	-	560 - 570	-	2
570 - 580	-	-	570 - 580	1	-
580 - 590	-	-	580 - 590	-	2
590 - 600	-	2	590 - 600	-	-
600 - 610	-	-	600 - 610	1	1
610 - 620	-	-	610 - 620	1	-
630 - 640	1	-	630 - 640	1	-
650 - 660	-	-	650 - 660	-	1
660 - 670	-	-	660 - 670	1	-
710 - 720	-	-	710 - 720	1	-
730 - 740	1	-	730 - 740	1	-
760 - 770	-	-	760 - 770	-	1
770 - 780	-	-	770 - 780	1	-
810 - 820	-	-	810 - 820	1	-
910 - 920	-	-	910 - 920	-	2
950 - 960	-	-	950 - 960	1	-
1,130 - 1,140	-	-	1,130 - 1,140	1	-
1,290 - 1,300	-	-	1,290 - 1,300	1	-
	139	**127**		**162**	**141**

During the year ended 30 June 2022, there was one payment made in respect of one individual who was made redundant totalling $61,153 (2021: $nil).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2022

SECTION 4: FINANCIAL POSITION

(a) Financial instruments

		ACTUAL		
2022	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)	2,234		2,234
Receivables from exchange transactions (excluding GST receivable)	4(c)	19,801		19,801
Receivables from non-exchange transactions	4(c)	104		104
		22,139	**-**	**22,139**
Financial liabilities				
Payables under exchange transactions	4(d)		1,776	1,776
		-	**1,776**	**1,776**
2021				
Financial assets				
Cash and cash equivalents	4(b)	2,356		2,356
Receivables from exchange transactions (excluding GST receivable)	4(c)	11,535		11,535
Receivables from non-exchange transactions	4(c)	57		57
		13,948	**-**	**13,948**
Financial liabilities				
Payables under exchange transactions	4(d)		1,073	1,073
		-	**1,073**	**1,073**

Accounting Policy

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The Group is party to financial instruments as part of its normal operations. These financial instruments include cash and cash equivalents, receivables and payables. All financial instruments are recognised in the Consolidated Statement of Financial Position and all revenues and expenses in relation to financial instruments are recognised in the Consolidated Statement of Comprehensive Revenue and Expense.

INITIAL RECOGNITION

Financial assets and financial liabilities are recognised in the Consolidated Statement of Financial Position when the Group becomes a party to the contractual provisions of the financial instrument. They are initially recognised at fair value plus transaction costs that are attributable to the acquisition of the financial asset or financial liability.

The classification of financial assets at initial recognition depends on the Group's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. In making an assessment of the business model for managing a financial asset, the Board and management consider all relevant information.

SUBSEQUENT MEASUREMENT

The Group's financial assets and financial liabilities are subsequently classified into the following categories:

Financial assets at amortised cost

The Group's financial assets are classified at amortised cost if both of the following criteria are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows; and
- The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest.

This category includes cash and cash equivalents and receivables. Subsequent to initial recognition, financial assets at amortised cost are measured at amortised cost using the effective interest method and are subject to impairment. When a financial asset is impaired, impairment losses are recognised in the Consolidated Statement of Comprehensive Revenue and Expense in the period in which they arise.

The Group's financial assets are reclassified when, and only when, the business model for managing those financial assets changes.

Financial liabilities at amortised cost

Financial liabilities at amortised cost are non-derivative financial liabilities. This category includes trade payables and accrued expenses. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

DERECOGNITION

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or when the Group has transferred substantially all of the risks and rewards of ownership. A financial liability is derecognised when the Group's obligation under the liability is discharged, cancelled or has expired.

IMPAIRMENT

The Board and management assess, at each reporting date, whether a financial asset is impaired. The amount of the impairment loss is the difference between the contractual cash flows due in relation to the financial asset and the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate.

Financial assets that are measured at amortised cost and therefore subject to the impairment provisions (the 'expected credit loss model') of PBE IFRS 9 Financial Instruments comprise cash and cash equivalents and receivables.

The risk of impairment loss for cash and cash equivalents is considered immaterial. Disclosures relating to the impairment of receivables are provided in Note 4(c).

OFFSETTING OF FINANCIAL INSTRUMENTS

The Group offsets financial assets and financial liabilities when it has a current legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2022

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 2022 NZD'000	ACTUAL 2021 NZD'000
Current receivables			
Receivables from exchange transactions			
Receivable for reimbursement of the Guardians expenses from the NZ Super Fund	3(a)	19,798	11,519
Receivable for reimbursement of the Guardians expenses from the Elevate Fund	3(a)	-	-
Trade receivables		3	16
GST receivable		523	429
		20,324	**11,964**
Receivables from non-exchange transactions			
Receivable for Crown appropriations	3(a)	104	57
		104	**57**
Non-current receivables			
Receivables from exchange transactions			
Receivable for reimbursement of the Guardians expenses from the NZ Super Fund	3(a)	1,429	2,678
		1,429	**2,678**

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 forecasts 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 2022 NZD'000	ACTUAL 2021 NZD'000
Payables under exchange transactions		
Trade payables	1,390	772
Accrued expenses	386	301
	1,776	**1,073**

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 2022 NZD'000	ACTUAL 2021 NZD'000
Current liabilities		
Accrued salaries (including annual leave and long service leave) - key management personnel	446	336
Accrued salaries (including annual leave and long service leave) - other employees	3,316	2,622
Incentives - key management personnel	2,906	1,792
Incentives - other employees	14,545	8,359
	21,213	**13,109**
Non-current liabilities		
Long service leave - key management personnel	253	104
Long service leave - other employees	1,176	747
Incentives - key management personnel	-	427
Incentives - other employees	-	1,400
	1,429	**2,678**

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. The scheme has two components: achievement of individual performance criteria over the past financial year; and performance of the NZ Super Fund relative to investment benchmarks over the preceding four years. Incentives are calculated and paid annually in arrears. The terms of the incentive scheme were amended in the current year, resulting in the removal of a long-term component, dependent on the future performance of the NZ Super Fund.

Key judgement - long service leave

The key assumptions used in calculating the long service leave liability include the discount rate, the likelihood that the employee will reach the required level of service and the salary inflation factor. Any changes in these assumptions will affect the carrying amount of the liability. Expected future payments are discounted using forward rates derived from the yield curve of New Zealand government bonds. The discount rates used have maturities that match, as closely as possible, the estimated future cash outflows. The likelihood of employees reaching the required level of service has been determined after considering historical staff retention rates. The salary inflation factor has been determined after considering historical salary inflation patterns.

Key judgement - long-term portion of incentives applicable as at 30 June 2021

Calculation of the long-term portion of the incentive liability utilised 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 was the performance of the NZ Super Fund. Where the performance of the NZ Super Fund differed from the assumption used in the calculation of the long-term portion of the incentive liability, this impacted the employee entitlements expense in the Consolidated Statement of Comprehensive Revenue and Expense and the carrying amount of the incentive liability in the Consolidated Statement of Financial Position. The Board and management mitigated 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 4 years.

(g) Public equity

Equity is the Crown's interest in the Group and is measured as the difference between total assets and total liabilities.

As a public benefit entity that is fully funded by Crown appropriations (for budgeted Board and audit costs) and by NZ Super Fund and Elevate Fund reimbursements (for all other operating costs), the Group has no specific liquidity policies, procedures or targets. Operating budgets are set on an annual basis, with an emphasis upon cost control. The Group is not permitted to borrow and ensures a positive cash position at all times through collection of appropriations and reimbursements.

SECTION 5: RISK MANAGEMENT

(a) Risk management

Through its activities, the Group is exposed to various types of risk including market risk, credit risk and liquidity risk. These risks are not considered significant because the Group does not hold significant financial assets or financial liabilities and it is fully funded by Crown appropriations and NZ Super Fund and Elevate Fund reimbursements.

The Board and management of the Guardians are responsible for the management of risk. A separate Risk Committee has been established by management as a risk leadership body to provide leadership on the effectiveness of frameworks and processes at the Guardians.

The Guardians has established risk management policies, procedures and other internal controls to manage the Group's exposure to risk. The framework for managing this risk is set out in its Statement of Investment Policies, Standards and Procedures including its Risk Management Policy.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices. The market risk that the Group is primarily exposed to is interest rate risk.

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market interest rates. The Group's exposure to interest rate risk is limited to movements in New Zealand short-term interest rates in relation to its cash and cash equivalents which are held in short-term floating interest rate accounts. The Board and management ensure the Group receives a fair market return on its cash position but it does not actively monitor exposure to interest rates or interest rate returns.

(c) Credit risk

Credit risk is the risk that a third party will default on its obligation to the Group, causing the Group to incur a loss. The Group is exposed to credit risk arising from its cash and cash equivalents and receivables. The maximum amount of credit risk for each class of financial asset is the carrying amount included in the Consolidated Statement of Financial Position.

The Board and management mitigate the Group's exposure to credit risk by investing cash and cash equivalents with reputable financial institutions with a high credit rating. There is no collateral held as security against its financial instruments.

CONCENTRATIONS OF CREDIT RISK

Cash and cash equivalents is primarily held with Westpac New Zealand Limited which had a credit rating of AA-, obtained from Standard & Poor's as at 30 June 2022 (2021: AA-).

(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities as they fall due. The Group's liquidity framework is designed to ensure that the Group has the ability to generate sufficient cash in a timely manner to meet its financial commitments.

The Board and management mitigate the Group's exposure to liquidity risk by monitoring forecast and actual cash flow requirements and by maintaining a positive cash position from the recovery of all of its expenses from the Crown or the NZ Super Fund or the Elevate Fund.

SECTION 5: RISK MANAGEMENT (CONTINUED)

MATURITY PROFILE OF FINANCIAL ASSETS

Financial assets available to meet financial obligations comprise cash and cash equivalents with no fixed maturity as follows:

	ACTUAL	
2022	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	FINANCIAL ASSETS AT VARIABLE INTEREST RATE
	%	NZD'000
Financial assets		
Cash and cash equivalents	0.59	2,234
		2,234
2021		
Financial assets		
Cash and cash equivalents	0.05	2,356
		2,356

SECTION 6: UNRECOGNISED ITEMS

(a) Commitments and contingencies

OPERATING LEASE COMMITMENTS

The base future minimum amounts payable under non-cancellable operating leases are as follows:

	ACTUAL	ACTUAL
	2022	2021
	NZD'000	NZD'000
Less than 1 year	1,830	1,794
1 to 2 years	1,866	1,830
2 to 5 years	3,743	5,609
Later than 5 years	-	-
Total operating lease commitments	**7,439**	**9,233**

CONTINGENCIES

The Guardians has no contingent liabilities as at 30 June 2022 (2021: $nil).

(b) Events after the reporting date

There were no reportable events subsequent to balance date.

(c) Comparison to budget (unaudited)

	ACTUAL	BUDGET (UNAUDITED)	FAVOURABLE/ (UNFAVOURABLE) VARIANCE
	2022	2022	2022
	NZD'000	NZD'000	NZD'000
Consolidated Statement of Comprehensive Revenue and Expense: total expenses incurred*	71,818	90,207	18,389
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, travel and IT expenses. This was due to recruitment activity being slower than was envisaged in the budget, the impact of the COVID-19 pandemic restricting staff travel and a delay in IT projects.

Building a better working world

Independent Auditor's Report

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

FOR THE YEAR ENDED 30 JUNE 2022

The Auditor-General is the auditor of the Guardians of New Zealand Superannuation and its subsidiaries (the Group). The Auditor-General has appointed me, Emma Winsloe, 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 143 to 165, that comprise the Consolidated Statement of Financial Position as at 30 June 2022, the Consolidated Statement of Comprehensive Revenue and Expenses, Consolidated Statement of Changes in Public Equity and Consolidated Statement of Cash Flows for the year ended on that date and the notes to the financial statements including a summary of significant accounting policies and other explanatory information; and
- the performance information of the Group on pages 122 to 126.

In our opinion:

- the financial statements of the Group on pages 143 to 165:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2022; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards; and
- the performance information on pages 122 to 126:
  - presents fairly, in all material respects, the Group's performance for the year ended 30 June 2022, 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 30 September 2022. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

BASIS FOR OUR OPINION

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

RESPONSIBILITIES OF THE BOARD FOR THE FINANCIAL STATEMENTS AND THE PERFORMANCE INFORMATION

The Board is responsible on behalf of the Group for preparing financial statements and performance information that are fairly presented and comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards. The Board is responsible for such internal control as they determine are necessary to enable them to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board is responsible on behalf of the Group for assessing the Group's ability to continue as a going concern. The Board is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of the Group, or there is no realistic alternative but to do so.

The Board's responsibilities arise from the Crown Entities Act 2004 and the Public Finance Act 1989.

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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 121, 127 to 142, 169, 235, 264 to 273, 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.

In addition to the audit we have carried out other assurance engagements, which are compatible with those independence requirements. Other than the audit and these engagements, we have no relationship with or interests in the Group.

Emma Winsloe
Ernst & Young
On behalf of the Auditor-General
Auckland, New Zealand

STATEMENT OF RESPONSIBILITY

For the year ended 30 June 2022

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 2022 fairly reflect the financial position, operations and cash flows of the New Zealand Superannuation Fund.

CATHERINE DRAYTON

CHAIR
30 September 2022

MATTHEW WHINERAY

CHIEF EXECUTIVE OFFICER
30 September 2022

STATEMENT OF FINANCIAL POSITION

As at 30 June 2022	NOTE	ACTUAL	ACTUAL	BUDGET (UNAUDITED)
		2022	2021	2022
		NZD'000	NZD'000	NZD'000
ASSETS				
Cash and cash equivalents	2(a), 4(a), 4(b)	2,370,257	6,579,356	3,301,696
Cash pledged as collateral	2(a), 4(a), 4(c)	1,207,798	708,219	777,820
Trade and other receivables	2(a), 4(a), 4(d)	3,142,865	623,318	1,192,757
Investments				
Investments - derivative financial instrument assets	2(a), 4(a), 4(e)	1,297,646	856,040	-
Investments - other financial assets	2(a), 4(a), 4(e)	50,678,565	48,075,493	53,382,938
Investments in unconsolidated subsidiaries	2(a), 4(a), 4(e)	6,547,276	5,118,768	5,432,685
		58,523,487	54,050,301	58,815,623
Income tax receivable	2(a)	272,916	-	-
Deferred tax asset	2(a), 7(e)	749,766	-	-
Property, plant and equipment	2(a)	1,741	1,630	4,196
Intangible assets	2(a)	57,700	32,977	28,536
Total assets		**66,326,530**	**61,995,801**	**64,120,628**
LIABILITIES				
Cash collateral received	2(a), 4(a), 4(c)	1,034,402	1,051,977	4,110,771
Trade and other payables	2(a), 4(a), 4(g)	4,977,683	669,076	688,973
Investments - derivative financial instrument liabilities	2(a), 4(a), 4(e)	4,004,410	980,008	-
Income tax payable	2(a)	-	1,887,279	198,598
Provision for performance-based fees	2(a), 5(a)	99,573	-	14,360
Deferred tax liability	2(a), 7(e)	-	42,866	40,082
Total liabilities		**10,116,068**	**4,631,206**	**5,052,784**
Net assets		**56,210,462**	**57,364,595**	**59,067,844**
PUBLIC EQUITY				
Retained surplus		33,775,933	37,374,815	36,662,588
Asset revaluation reserve	6(b)	52,450	27,701	23,176
Contributed capital	6(a)	22,382,079	19,962,079	22,382,080
Total public equity		**56,210,462**	**57,364,595**	**59,067,844**

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 2022	NOTE	ACTUAL	ACTUAL	BUDGET (UNAUDITED)
		2022	2021	2022
		NZD'000	NZD'000	NZD'000
Net operating income/(loss)	7(a)	(4,078,842)	13,515,873	4,348,836
Operating expenditure	7(c)	278,086	130,772	181,172
Profit/(loss) for the year before income tax expense		**(4,356,928)**	**13,385,101**	**4,167,664**
Income tax expense/(income)	7(e)	(758,046)	2,146,656	1,000,278
Profit/(loss) for the year after income tax expense		**(3,598,882)**	**11,238,445**	**3,167,386**
Other comprehensive income - not reclassifiable to profit or loss in subsequent periods				
Gains/(losses) on revaluation of assets		24,749	8,846	-
Tax expense on items of other comprehensive income	7(e)	-	-	-
Other comprehensive income for the year, net of tax		**24,749**	**8,846**	**-**
Total comprehensive income/(loss) for the year		**(3,574,133)**	**11,247,291**	**3,167,386**

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 2022		ACTUAL			
	NOTE	ASSET REVALUATION RESERVE NZD'000	CONTRIBUTED CAPITAL NZD'000	RETAINED SURPLUS NZD'000	TOTAL NZD'000
Balance at 1 July 2020		**18,855**	**17,842,079**	**26,136,370**	**43,997,304**
Profit/(loss) for the year				11,238,445	11,238,445
Other comprehensive income		8,846			8,846
Tax expense on items of other comprehensive income		-			-
Total comprehensive income for the year		8,846	-	11,238,445	11,247,291
Fund capital contributions from the Crown	6(a)		2,120,000		2,120,000
Capital contributions from the Crown in respect of funding the net cost of New Zealand superannuation entitlements	6(a)		16,569,000		16,569,000
Capital withdrawals by the Crown in respect of funding the net cost of New Zealand superannuation entitlements	6(a)		(16,569,000)		(16,569,000)
Balance at 30 June 2021		**27,701**	**19,962,079**	**37,374,815**	**57,364,595**
Profit/(loss) for the year				(3,598,882)	(3,598,882)
Other comprehensive income	6(b)	24,749			24,749
Tax expense on items of other comprehensive income		-			-
Total comprehensive income/(loss) for the year		24,749	-	(3,598,882)	(3,574,133)
Fund capital contributions from the Crown	6(a)		2,420,000		2,420,000
Capital contributions from the Crown in respect of funding the net cost of New Zealand superannuation entitlements	6(a)		17,764,000		17,764,000
Capital withdrawals by the Crown in respect of funding the net cost of New Zealand superannuation entitlements	6(a)		(17,764,000)		(17,764,000)
Balance at 30 June 2022		**52,450**	**22,382,079**	**33,775,933**	**56,210,462**

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 2022	NOTE	ACTUAL	ACTUAL	BUDGET (UNAUDITED)
		2022	2021	2022
		NZD'000	NZD'000	NZD'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
Proceeds from sale of investments		32,247,144	53,280,051	69,109,915
Cash collateral received		13,542,695	24,978,772	-
Dividends received		751,586	473,285	672,997
Interest received		264,179	251,622	162,637
Other income		9,740	6,676	-
Total cash inflow from operating activities		**46,815,344**	**78,990,406**	**69,945,549**
Cash was applied to:				
Purchases of investments		(37,157,345)	(54,491,799)	(72,364,682)
Cash collateral paid		(14,059,849)	(24,950,704)	-
Managers' fees		(50,337)	(33,933)	(36,323)
Payments to suppliers		(84,947)	(83,067)	(139,202)
Income tax paid		(2,194,781)	(527,466)	(2,742,935)
Goods and services tax		(3,373)	(2,754)	-
Total cash outflow from operating activities		**(53,550,632)**	**(80,089,723)**	**(75,283,142)**
Net cash flows provided by/(used in) operating activities	7(f)	**(6,735,288)**	**(1,099,317)**	**(5,337,593)**
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash was provided from:				
Proceeds from sale of property, plant and equipment		2	2	-
Total cash inflow from investing activities		**2**	**2**	**-**
Cash was applied to:				
Purchases of property, plant and equipment		(619)	(440)	(2,521)
Purchases of intangible assets		-	(37)	-
Total cash outflow from investing activities		**(619)**	**(477)**	**(2,521)**
Net cash flows provided by/(used in) investing activities		**(617)**	**(475)**	**(2,521)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash was provided from:				
Fund capital contributions from the Crown		2,420,000	2,120,000	2,420,000
Net cash flows provided by/(used in) financing activities		**2,420,000**	**2,120,000**	**2,420,000**
Net increase/(decrease) in cash and cash equivalents		**(4,315,905)**	**1,020,208**	**(2,920,114)**
Cash and cash equivalents at the beginning of the year		6,579,356	5,723,737	6,221,810
Effects of exchange rate changes on the balance of cash held in foreign currencies		106,806	(164,589)	-
Cash and cash equivalents at the end of the year	2(a), 4(a), 4(b)	**2,370,257**	**6,579,356**	**3,301,696**

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 2022

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 on a prudent, commercial basis, 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 273.

The financial statements of the NZ Super Fund for the year ended 30 June 2022 were authorised for issue in accordance with a resolution of the Board of the Guardians of New Zealand Superannuation on 30 September 2022.

(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 2022. 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));
- Transfers between levels of the fair value hierarchy (Note 2(c)); and
- Recognition of deferred tax asset (Note 7(e)).

COVID-19 PANDEMIC AND OTHER MACRO FACTORS

The COVID-19 pandemic continues to have an impact on the value of certain investments as businesses and governments continue to respond to the outbreak. Additional judgement and valuation uncertainty has also been introduced in the current financial year as a result of rising interest rates and inflationary pressures, increased geopolitical tensions and global supply issues. The longer term direct and indirect impacts of all of these factors on the value of investments remains uncertain.

Refer to Notes 2(a), 2(b) and 2(e) for further disclosures on the impact of the COVID-19 pandemic and other macro factors.

(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 its investments where feasible for the purposes of its financial statements.

Key judgement - assessment as an investment entity

The Board and management reassess the NZ Super Fund's investment entity status on an annual basis, if any of the criteria or characteristics change.

(e) Subsidiaries

Subsidiaries are those entities (including structured entities and other holding vehicles) that are controlled by the NZ Super Fund under the provisions of NZ IFRS 10 Consolidated Financial Statements. The NZ Super Fund controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. The NZ Super Fund's investments are reassessed for the existence of control if facts and circumstances indicate that there are changes to one or more of the elements of control.

Under Section 59 of the Act, the Guardians must use their best endeavours to ensure the NZ Super Fund does not control any other entity, with the exception of Fund Investment Vehicles (FIVs). A FIV is defined as an entity that is formed or controlled by the Guardians for the purpose of holding, facilitating or managing the investments of the NZ Super Fund. A FIV that is controlled by the Guardians is a subsidiary of the NZ Super Fund for accounting purposes. All investment opportunities are diligently evaluated to ensure compliance with all relevant laws.

As outlined in Note 1(b), the NZ Super Fund meets the definition of an investment entity and therefore the Board and management have applied the exemption available under NZ IFRS 10 Consolidated Financial Statements from preparing consolidated financial statements for the NZ Super Fund. As a result, its investments in subsidiaries are not consolidated, but are measured at fair value through profit or loss in accordance with NZ IFRS 9 Financial Instruments and are classified as ‘unconsolidated subsidiaries’ in the Statement of Financial Position.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2022

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	2022 %	2021 %
Bain Capital Credit Managed Account (NZSF) Limited Partnership	(i)	31 March	Cayman Islands	99.9	99.9
BCC Managed Account (NZSF) Holdings Limited Partnership	(i)	31 March	Cayman Islands	99.9	99.9
Canyon NZ-DOF Investing Limited Partnership	(ii)	30 June	Delaware, US	100.0	100.0
Fifth Wall Ventures III SPV XXVIII, Limited Partnership	(i)	31 December	Cayman Islands	99.0	0.0
Global Merger Partners LLC	(ii)	31 December	Delaware, US	99.2	99.0
Global Merger Partners Master Limited	(ii)	31 December	Cayman Islands	73.5	70.0
KKR NZSF Energy Investor Limited Partnership	(i)	31 December	Cayman Islands	100.0	100.0
N-Data Center Portfolio Co-Investor, LLC	(ii)	31 December	Delaware, US	99.9	99.9
N-Novva Co-Investor, LLC	(ii)	31 December	Delaware, US	99.9	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	100.0	84.7
Palgrove Land Holdings Trust	(iii)	30 June	Australia	100.0	93.7
Palgrove Pastoral Co. Pty Limited	(ii)	30 June	Australia	100.0	84.7
NZSF Beachlands Limited	(ii)	30 June	New Zealand	100.0	100.0
Beachlands South GP Limited	(ii)	30 June	New Zealand	73.6	77.5
Beachlands South Limited Partnership	(ii)	30 June	New Zealand	73.6	77.5
NZSF Frontier Investments, Inc.	(ii)	30 June	Delaware, US	100.0	100.0
NZSF Healthcare Investments Limited	(ii)	30 June	New Zealand	100.0	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	100.0
NZ Hotel Holdings Asset GP Limited	(ii)	30 June	New Zealand	80.0	80.0
NZ Hotel 396 Queen Asset GP Limited	(ii)	30 June	New Zealand	80.0	80.0
NZ Hotel Cashel Street Asset GP Limited	(ii)	30 June	New Zealand	80.0	80.0
NZ Hotel Central Lakes Asset GP Limited	(ii)	30 June	New Zealand	80.0	80.0
NZ Hotel CNI Asset GP Limited	(ii)	30 June	New Zealand	80.0	80.0
NZ Hotel Quba Asset GP Limited	(ii)	30 June	New Zealand	80.0	80.0
NZ Hotel Viaduct Asset GP Limited	(ii)	30 June	New Zealand	80.0	0.0
NZ Hotel Wellington Asset GP Limited	(ii)	30 June	New Zealand	80.0	0.0

NAME	NOTE	BALANCE DATE	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST 2022 %	2021 %
NZ Hotel Holdings Asset Limited Partnership	(ii)	30 June	New Zealand	80.0	80.0
NZ Hotel 396 Queen Asset Limited Partnership	(ii)	30 June	New Zealand	80.0	80.0
NZ Hotel Cashel Street Asset Limited Partnership	(ii)	30 June	New Zealand	80.0	80.0
NZ Hotel Central Lakes Asset Limited Partnership	(ii)	30 June	New Zealand	80.0	80.0
NZ Hotel CNI Asset Limited Partnership	(ii)	30 June	New Zealand	80.0	80.0
NZ Hotel Quba Asset Limited Partnership	(ii)	30 June	New Zealand	80.0	80.0
NZ Hotel Viaduct Asset Limited Partnership	(ii)	30 June	New Zealand	80.0	0.0
NZ Hotel Wellington Asset Limited Partnership	(ii)	30 June	New Zealand	80.0	0.0
NZSF Infrastructure Limited	(ii)	30 June	New Zealand	100.0	100.0
NZSF Land Holdings Limited	(ii)	30 June	New Zealand	100.0	100.0
NZSF Hobsonville Investments Limited	(ii)	30 June	New Zealand	100.0	100.0
NZSF Land Development Limited	(ii)	30 June	New Zealand	100.0	0.0
Kaha Ake Head GP Limited	(ii)	30 June	New Zealand	80.0	0.0
KA Feilding Sub GP Limited	(ii)	30 June	New Zealand	80.0	0.0
KA Waimanawa Sub GP Limited	(ii)	30 June	New Zealand	80.0	0.0
KA Woolshed Sub GP Limited	(ii)	30 June	New Zealand	80.0	0.0
Kaha Ake Limited Partnership	(ii)	30 June	New Zealand	80.0	0.0
KA Feilding Limited Partnership	(ii)	30 June	New Zealand	80.0	0.0
KA Waimanawa Limited Partnership	(ii)	30 June	New Zealand	80.0	0.0
KA Woolshed Limited Partnership	(ii)	30 June	New Zealand	80.0	0.0
NZSF Renewables NZ Limited	(ii)	30 June	New Zealand	100.0	0.0
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
NZSF Side Car (Movac) Limited Partnership	(ii)	31 March	New Zealand	100.0	100.0
NZSF Side Car (Pioneer) Limited Partnership	(ii)	31 March	New Zealand	100.0	100.0
NZSF Timber Investments (No 4) Limited	(ii)	30 June	New Zealand	100.0	100.0
NZSF Tui Investments Limited	(ii)	30 June	New Zealand	100.0	100.0
NZSF US Renewables, Inc.	(ii)	31 December	Delaware, US	100.0	100.0
NZSF Variable Co-Investment (Direct Capital) Limited Partnership	(ii)	31 December	New Zealand	100.0	100.0
Stonepeak Fern Investment Partners Limited Partnership	(ii)	31 December	Delaware, US	99.0	0.0

In addition, the NZ Super Fund has 100% ownership interest in 22 Segregated Accounts of Bermudan-domiciled Segregated Account Company Horseshoe Re II Limited (2021: 21 Segregated Accounts) (refer to 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.

SECTION 1: GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) These entities are Fund Investment Vehicles (FIVs) established for the purpose of holding, facilitating and managing investments of the NZ Super Fund.

During the year the NZ Super Fund established the following FIVs:

NZ Hotel Viaduct Asset GP Limited, NZ Hotel Viaduct Asset Limited Partnership, NZ Hotel Wellington Asset GP Limited and NZ Hotel Wellington Asset Limited Partnership were formed during the year for the purpose of acquiring, holding, facilitating and managing the NZ Super Fund's investments in the QT Hotel in Auckland and the Rydges Hotel in Wellington, New Zealand.

NZSF Land Development 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 land development projects in various locations throughout New Zealand.

NZSF Renewables NZ Limited was formed during year for the purpose of holding, facilitating and managing the NZ Super Fund's investment in NZ Offshore Wind Development Limited, a company established with Copenhagen Infrastructure Partners (CIP) for the purpose of developing offshore wind projects in New Zealand.

Stonepeak Fern Investment Partners Limited Partnership was established during the year for the purpose of facilitating co-investments alongside Stonepeak Infrastructure Fund IV Limited Partnership.

(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 2022, 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 NZ Super Fund's investments in subsidiaries have been assessed in light of the control model established under NZ IFRS 10 Consolidated Financial Statements to ensure the correct classification and disclosure of investments in subsidiaries. The NZ Super Fund holds investments in a number of entities that are not considered subsidiaries even though its ownership interest exceeds 50%. The Board and management have concluded that the NZ Super Fund has no unilateral power to direct the relevant activities of these entities and therefore it does not have control of these entities.

(f) Associates

Associates are those entities over which the NZ Super Fund has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the entity, but is not control or joint control over those policies.

The NZ Super Fund has interests in the following associates that are measured at fair value through profit or loss in accordance with NZ IFRS 9 Financial Instruments and classified in the Statement of Financial Position as noted below:

			OWNERSHIP INTEREST	
NAME	BALANCE DATE	COUNTRY OF INCORPORATION	2022 %	2021 %
Fidelity Life Assurance Company Limited	30 June	New Zealand	49.6	41.1
Galileo Green Energy GMBH	31 March	Switzerland	20.0	20.0
Kaingaroa Timberlands Partnership	30 June	New Zealand	42.0	42.0
Kiwi Group Holdings Limited	30 June	New Zealand	25.0	25.0
Sustainable Communities Infrastructure Pty Limited	30 June	Australia	30.0	30.0
Sustainable Communities Infrastructure Trust	30 June	Australia	30.0	30.0

Fidelity Life Assurance Company Limited is a New Zealand-owned specialist life insurance provider for individuals, businesses and employers. During the year, the NZ Super Fund’s interest in Fidelity Life Assurance Company Limited increased from 41.1% to 49.6% following its acquisition of Westpac Life-NZ-Limited from the Westpac Group. The NZ Super Fund's interest in Fidelity Life Assurance Company Limited is classified as private equity.

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 and a shareholder loan to the same entity is classified as fixed income securities.

NZSF Timber Investments (No 4) Limited, an unconsolidated subsidiary of the NZ Super Fund, holds a 42% interest in Kaingaroa Timberlands Partnership. Kaingaroa Timberlands Partnership is a major North Island forestry business. Additionally, NZSF Timber Investments (No 4) Limited holds interest-bearing loans with associated companies of Kaingaroa Timberlands Partnership. The NZ Super Fund's equity interest in NZSF Timber Investments (No 4) Limited is classified under unconsolidated subsidiaries 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 Limited, 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 and a shareholder loan to the same entity is classified as fixed income securities.

Sustainable Communities Infrastructure Pty Limited (the Trustee) and Sustainable Communities Infrastructure Trust were established to acquire shares in Altogether Group Pty Limited and Altogether 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.

On 2 April 2020, the Reserve Bank of New Zealand (RBNZ), under revised Conditions of Registration, banned locally incorporated banks from making distributions to common equity shareholders. On 31 March 2021, the RBNZ eased the distribution restriction by limiting locally incorporated banks ability to pay dividends to a maximum of 50% of the net profit after taxation reported in the bank's most recently completed financial year. As a result of these restrictions, Kiwibank Limited is restricted to the amount of distributions it can make to Kiwi Group Holdings Limited in its capacity as sole shareholder of Kiwibank Limited. This effectively limits Kiwi Group Holdings Limited’s ability to make distributions to its shareholders. On 2 June 2022, the RBNZ removed these restrictions, taking effect from 1 July 2022. As at 30 June 2022, there are no other significant restrictions on the ability of associates to transfer funds, including dividends, to the NZ Super Fund.

Further disclosures on transactions with associates are contained in Note 9(a).

Key judgement - assessment of significant influence

The NZ Super Fund 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. The NZ Super Fund's investments in associates have been assessed in light of the definition of significant influence included in NZ IAS 28 Investments in Associates and Joint Ventures.

(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:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2022

SECTION 1: GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NAME	BALANCE DATE	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST 2022 %	OWNERSHIP INTEREST 2021 %
Datacom Group Limited	31 March	New Zealand	42.9	39.3
Gourmet International Holdings Limited	30 June	New Zealand	27.1	27.1
Hobsonville Development GP Limited	31 March	New Zealand	49.0	49.0
Hobsonville Development Limited Partnership	31 March	New Zealand	49.0	49.0
Longroad Energy Holdings, LLC	31 December	Delaware, US	40.0	40.0
New Ground Living (Hobsonville Point) Limited	31 March	New Zealand	45.0	45.0
NZ Healthcare Investments Limited	31 December	New Zealand	47.9	48.1
APHG NZ Investments Limited	31 December	New Zealand	47.9	48.1
NZ Hotel Holdings Management GP Limited	30 June	New Zealand	50.0	50.0
NZ Hotel 396 Queen Management GP Limited	30 June	New Zealand	50.0	50.0
NZ Hotel Cashel Street Management GP Limited	30 June	New Zealand	50.0	50.0
NZ Hotel Central Lakes Management GP Limited	30 June	New Zealand	50.0	50.0
NZ Hotel CNI Management GP Limited	30 June	New Zealand	50.0	50.0
NZ Hotel Quba Management GP Limited	30 June	New Zealand	50.0	50.0
NZ Hotel Viaduct Management GP Limited	30 June	New Zealand	50.0	0.0
NZ Hotel Wellington Management GP Limited	30 June	New Zealand	50.0	0.0
NZ Hotel Holdings Management Limited Partnership	30 June	New Zealand	50.0	50.0
NZ Hotel 396 Queen Management Limited Partnership	30 June	New Zealand	50.0	50.0
NZ Hotel Cashel Street Management Limited Partnership	30 June	New Zealand	50.0	50.0
NZ Hotel Central Lakes Management Limited Partnership	30 June	New Zealand	50.0	50.0
NZ Hotel CNI Management Limited Partnership	30 June	New Zealand	50.0	50.0
NZ Hotel Quba Management Limited Partnership	30 June	New Zealand	50.0	50.0
NZ Hotel Viaduct Management Limited Partnership	30 June	New Zealand	50.0	0.0
NZ Hotel Wellington Management Limited Partnership	30 June	New Zealand	50.0	0.0
NZ Infra Limited	31 December	New Zealand	50.0	50.0
NZ Offshore Wind Development Limited	30 June	New Zealand	50.0	0.0
Palgrove Management Pty Limited	30 June	Australia	0.0	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.

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.

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.

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.

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.

NZSF Healthcare Investments Limited, an unconsolidated subsidiary of the NZ Super Fund, holds a 47.9% interest in NZ Healthcare Investments Limited, a company formed in partnership with the Ontario Teachers' Pension Plan for the purpose of acquiring the shares in APHG NZ Investments Limited. APHG NZ Investments Limited is New Zealand's largest human and veterinary pathology business. The NZ Super Fund's interest in NZSF Healthcare Investments Limited is classified under unconsolidated subsidiaries.

NZSF Hotel Holdings Limited, an unconsolidated subsidiary of the NZ Super Fund, holds a 50% interest in NZ Hotel Holdings Management GP Limited and NZ Hotel Holdings Management Limited Partnership. These entities were formed to manage the portfolio of hotel assets acquired by the NZ Super Fund. The NZ Super Fund's interest in NZSF Hotel Holdings Limited is classified under unconsolidated subsidiaries.

NZSF Infrastructure Limited, an unconsolidated subsidiary of the NZ Super Fund, holds a 50% interest in NZ Infra Limited, a company established with CDPQ Infra Investissements Inc. for the purpose of designing, building and operating a light rail network in Auckland, New Zealand. As at 30 June 2022, the investment in NZ Infra Limited amounted to $nil value (2021: $nil). The NZ Super Fund's interest in NZSF Infrastructure Limited is classified under unconsolidated subsidiaries.

NZSF Australian Rural Holdings Limited, an unconsolidated subsidiary of the NZ Super Fund, held a 50% interest in Palgrove Management Pty Limited, a company established for the purpose of acting as the employing entity and providing management services to Palgrove Pastoral Co. Pty Limited. This company was sold during the year to FarmRight Asset Management Australia Pty Limited. The NZ Super Fund's interest in NZSF Australian Rural Holdings Limited is classified under unconsolidated subsidiaries.

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.

As at 30 June 2022, 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.

SECTION 1: GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes:

- Restricted activities;
- A narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors;
- Insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and
- Financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks.

The NZ Super Fund is principally involved with structured entities through its investments in private equity investment funds, unconsolidated subsidiaries, collective investment funds, insurance-linked investments, shareholder loans, agency mortgage-backed securities and asset-backed securities that are issued by structured entities. The NZ Super Fund invests in structured entities to assist with the implementation of its overall investment strategy. The NZ Super Fund does not sponsor any structured entities.

Structured entities have the following business activities:

PRIVATE EQUITY INVESTMENT FUNDS AND UNCONSOLIDATED SUBSIDIARIES

Private equity investment funds and unconsolidated subsidiaries provide a mechanism to share exposure with other investors and may take various legal forms (e.g. limited liability companies, limited partnerships, trusts). The NZ Super Fund makes commitments to, and investments in, these legal structures and in return is issued with rights to a proportional stake in their net assets. They have a broad range of investment objectives and are managed by unrelated asset managers who apply various investment strategies to accomplish their respective investment objectives.

COLLECTIVE INVESTMENT FUNDS

Collective investment funds finance their operations by way of subscription, in which case, the NZ Super Fund subscribes and is issued with redeemable shares that entitle it to a proportional stake in the net assets of the investment.

INSURANCE-LINKED INVESTMENTS

The NZ Super Fund invests in catastrophe bonds which are issued by structured entities. Each bond is linked to an insurance event such as a natural disaster. The bonds transfer particular risks from the insurer to the bond holder.

SHAREHOLDER LOANS

The NZ Super Fund may make investments in private equity investment funds or other private equity investments via shareholder loans. The borrower in the arrangement may be a structured entity. Shareholder loans are classified as fixed income securities in the Statement of Financial Position.

AGENCY MORTGAGE-BACKED SECURITIES

Agency mortgage-backed securities are pass-through securities issued by the Federal Home Loan Mortgage Corporation (Freddie Mac), the Federal National Mortgage Association (Fannie Mae), both US-government sponsored enterprises, and the Government National Mortgage Association (Ginnie Mae), a US-government corporation. These securities are traded in the TBA (To Be Announced) market and are mortgage-backed forward, or 'delayed delivery' securities. The securities have standardised 15-year or 30-year maturity dates, however, whilst the terms of the security are agreed up front, the specific mortgages to be delivered to fulfil the security obligation are only allocated just prior to settlement. Agency mortgage-backed securities are classified as fixed income securities in the Statement of Financial Position.

ASSET-BACKED SECURITIES

The NZ Super Fund invests in a variety of asset-backed securities, the majority of which have been senior tranches of debt issued by a structured entity. The debt is usually collateralised by an underlying pool of assets. The asset-backed securities take the form of mortgage-backed securities (collateralised by both commercial and residential mortgages), asset-backed securities (collateralised by consumer loans, small business loans and auto loans), collateralised debt obligations (CDO) and collateralised loan obligations (CLO). Asset-backed securities are classified as fixed income securities in the Statement of Financial Position.

EXCHANGE TRADED FUNDS

The NZ Super Fund subscribes to shares in exchange traded funds. The shares entitle the holder to a proportional stake in the net assets of the exchange traded funds' investments. Exchange traded funds are included in listed global equities and fixed income securities as appropriate.

Key judgement - assessment of investments in structured entities

The Board and management have assessed which of the NZ Super Fund's investments are investments in structured entities. In doing so, the Board and management have considered voting rights and other similar rights afforded to investors as well as any contractual arrangements in place with these investments.

The Board and management have concluded that certain of the NZ Super Fund's investments meet the definition of a structured entity because:

- The voting rights in the investments are not the dominant factor in deciding who controls the investment; and
- The investments have narrow and well-defined objectives to provide investment opportunities to investors.

Further disclosures on structured entities are contained in Notes 3(e) and 7(b).

(i) Property, plant and equipment

RECOGNITION AND MEASUREMENT

All items of property, plant and equipment are initially recognised at cost. Cost includes the value of consideration exchanged and those expenses directly attributable to bring the item to working condition for its intended use.

Subsequent to initial recognition, all items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

DERECOGNITION

An item of property, plant and equipment is derecognised when it is sold or otherwise disposed of or when no future economic benefits are expected to arise from its continued use. Any gain or loss arising on disposal (being the difference between the net disposal proceeds and the carrying amount of the item) is included in the Statement of Comprehensive Income in the year in which the item is disposed of.

IMPAIRMENT

All items of property, plant and equipment are assessed for impairment at each balance date. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated, being the greater of fair value less costs to sell and value in use. Where the carrying amount of an asset is greater than its recoverable amount, the asset is written down to its recoverable amount. The write-down is recognised in the Statement of Comprehensive Income. Where an impairment loss subsequently reverses, the carrying amount of the item is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount which would have been determined had no impairment loss been recognised for the item in prior years. A reversal of an impairment loss is recognised in the Statement of Comprehensive Income immediately.

(j) Foreign currency translation

FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the financial statements of the NZ Super Fund are measured using the currency of the primary economic environment in which the NZ Super Fund operates (the functional currency). The functional currency of the NZ Super Fund is New Zealand dollars. It is also the presentation currency.

TRANSACTIONS AND BALANCES

Transactions denominated in foreign currencies are converted to New Zealand dollars using the exchange rates prevailing at the dates of the transactions. Foreign currency monetary assets and liabilities are translated at the exchange rate prevailing at balance date. Where there is a movement in the exchange rate between the date of a foreign currency transaction and balance date, the resulting exchange differences are recognised in the Statement of Comprehensive Income.

(k) Goods and services tax (GST)

Income, expenditure, assets and liabilities are recognised in the financial statements exclusive of GST, with the exception of receivables and payables which are stated inclusive of GST. Where GST is irrecoverable as an input tax, it is recognised as part of the related asset or expenditure. The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the Statement of Financial Position.

(l) Statement of Cash Flows

The following are the definitions of the terms used in the Statement of Cash Flows:

Operating activities include all activities other than investing or financing activities.

Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and intangible assets.

Financing activities are those activities relating to capital contributions and to payments of superannuation entitlements. As the current funding by the Crown of superannuation entitlements flows directly from the Treasury to the Ministry of Social Development, it is not considered cash flow of the NZ Super Fund and accordingly, is not recorded in the Statement of Cash Flows.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the IRD, is classified as cash flows from operating activities.

(m) Changes in accounting policies

There have been no changes in accounting policies during the year. All accounting policies have been applied consistently throughout these financial statements.

Certain prior year comparatives have been restated to conform with current year presentation. These classifications have no impact on the overall financial performance, financial position or cash flows of the NZ Super Fund for the comparable year.

(n) Standards issued but not yet effective

There are no standards issued but not yet effective that materially impact the NZ Super Fund as at 30 June 2022.

SECTION 2: FAIR VALUE

(a) Fair value measurement

Accounting Policy

The majority of the net assets of the NZ Super Fund are measured at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Management uses valuation techniques for the NZ Super Fund that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within a fair value hierarchy as follows:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets and liabilities. An active market is one where prices are readily available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The fair value of Level 1 assets and liabilities requires little or no judgement.

Level 2 - Valuation techniques that use observable market data. Such techniques include the use of market standard discounting methodologies, option pricing models and other valuation techniques widely used and accepted by market participants.

Level 3 - Valuation techniques that use inputs not based on observable market data. Unobservable inputs are those not readily available in an active market due to illiquidity or complexity of the product. These inputs are generally derived and extrapolated from other relevant market data and calibrated against current market trends and historic transactions. These valuations are calculated using a high degree of management judgement.

Whilst the determination of fair value of investments categorised under Level 3 is subject to careful consideration and consultation with a range of reliable and independent sources, there remains uncertainty about certain judgements and estimates used as a result of the ongoing COVID-19 pandemic, the impact of rising interest rates and inflationary pressures, increased geopolitical tensions and global supply issues.

The level within which an asset or liability is categorised in the fair value hierarchy is determined based on the highest numerical level in the fair value hierarchy 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					
2022	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)				-	2,370,257	2,370,257
Cash pledged as collateral	4(a), 4(c)				-	1,207,798	1,207,798
Trade and other receivables	4(a), 4(d)				-	3,142,865	3,142,865
Investments							
Derivative financial instrument assets:							
Forward foreign exchange contracts	4(e)		662,399		662,399		662,399
Cross currency swaps	4(e)		3,061		3,061		3,061
Longevity contingent swaps	4(e)			16,101	16,101		16,101
Futures contracts	4(e)				-		-
Total return swaps	4(e)		164,591		164,591		164,591
Credit default swaps	4(e)		55,440		55,440		55,440
Interest rate swaps	4(e)		396,054		396,054		396,054
Warrants	4(e)				-		-
Other over-the-counter swaps	4(e)		-		-		-
Total derivative financial instrument assets		-	1,281,545	16,101	1,297,646	-	1,297,646
Other financial assets:							
Listed New Zealand equities	4(a), 4(e)	2,236,675			2,236,675		2,236,675
Listed global equities	4(a), 4(e)	24,388,041	-	6,954	24,394,995		24,394,995
Fixed income securities	4(a), 4(e)		9,209,092	71,702	9,280,794	1,326,470	10,607,264
Collective investment funds	4(a), 4(e)		3,410,263	-	3,410,263		3,410,263
Reverse repurchase agreements	4(a), 4(e)				-	872,173	872,173
Securities on loan under securities lending and similar agreements	4(a), 4(e)	2,591,425	634,933	40	3,226,398		3,226,398
Insurance-linked investments	4(a), 4(e)		531,481		531,481		531,481
Private equity	4(a), 4(e)			5,399,316	5,399,316		5,399,316
Total other financial assets		29,216,141	13,785,769	5,478,012	48,479,922	2,198,643	50,678,565
Investments in unconsolidated subsidiaries	4(a), 4(e)		1,187,411	5,359,865	6,547,276		6,547,276
		29,216,141	16,254,725	10,853,978	56,324,844	2,198,643	58,523,487
Income tax receivable					-	272,916	272,916
Deferred tax asset	7(e)				-	749,766	749,766
Property, plant and equipment					-	1,741	1,741
Intangible assets		57,700			57,700	-	57,700
Total assets		**29,273,841**	**16,254,725**	**10,853,978**	**56,382,544**	**9,943,986**	**66,326,530**

* 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 2022

SECTION 2: FAIR VALUE (CONTINUED)

2022	NOTE	ACTUAL 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)				-	1,034,402	1,034,402
Trade and other payables	4(a), 4(g)				-	4,977,683	4,977,683
Derivative financial instrument liabilities:							
Forward foreign exchange contracts	4(e)		3,378,748		3,378,748		3,378,748
Cross currency swaps	4(e)		24,698		24,698		24,698
Futures contracts	4(e)				-		-
Total return swaps	4(e)		525,461		525,461		525,461
Credit default swaps	4(e)		59,734		59,734		59,734
Interest rate swaps	4(e)		15,769		15,769		15,769
Other over-the-counter swaps	4(e)		-		-		-
Total derivative financial instrument liabilities		-	4,004,410	-	4,004,410	-	4,004,410
Income tax payable					-	-	-
Provision for performance-based fees	5(a)				-	99,573	99,573
Deferred tax liability	7(e)				-	-	-
Total liabilities		**-**	**4,004,410**	**-**	**4,004,410**	**6,111,658**	**10,116,068**

* Assets and liabilities not measured at fair value are carried at amortised cost but their carrying values are a reasonable approximation of fair value.

2021	NOTE	QUOTED MARKET PRICE (LEVEL 1)	VALUATION TECHNIQUE: MARKET-OBSERVABLE INPUTS (LEVEL 2)	VALUATION TECHNIQUE: NON-MARKET OBSERVABLE INPUTS (LEVEL 3)	TOTAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE	ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE*	TOTAL
		ACTUAL					
		NZD'000	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
ASSETS							
Cash and cash equivalents	4(a), 4(b)				-	6,579,356	6,579,356
Cash pledged as collateral	4(a), 4(c)				-	708,219	708,219
Trade and other receivables	4(a), 4(d)				-	623,318	623,318
Investments							
Derivative financial instrument assets:							
Forward foreign exchange contracts	4(e)		424,726		424,726		424,726
Cross currency swaps	4(e)		7,787		7,787		7,787
Longevity contingent swaps	4(e)			25,320	25,320		25,320
Futures contracts	4(e)				-		-
Total return swaps	4(e)		296,027		296,027		296,027
Credit default swaps	4(e)		42,143		42,143		42,143
Interest rate swaps	4(e)		60,037		60,037		60,037
Warrants	4(e)				-		-
Other over-the-counter swaps	4(e)		-		-		-
Total derivative financial instrument assets		-	830,720	25,320	856,040	-	856,040
Other financial assets:							
Listed New Zealand equities	4(a), 4(e)	2,568,642			2,568,642		2,568,642
Listed global equities	4(a), 4(e)	23,934,755	-	9,052	23,943,807		23,943,807
Fixed income securities	4(a), 4(e)		10,431,793	36,760	10,468,553	1,094,276	11,562,829
Collective investment funds	4(a), 4(e)		1,503,268	429	1,503,697		1,503,697
Reverse repurchase agreements	4(a), 4(e)				-	284,079	284,079
Securities on loan under securities lending and similar agreements	4(a), 4(e)	3,351,129	1,023,460	86	4,374,675		4,374,675
Insurance-linked investments	4(a), 4(e)		437,913		437,913		437,913
Private equity	4(a), 4(e)			3,399,851	3,399,851		3,399,851
Total other financial assets		29,854,526	13,396,434	3,446,178	46,697,138	1,378,355	48,075,493
Investments in unconsolidated subsidiaries	4(a), 4(e)		1,070,906	4,047,862	5,118,768		5,118,768
		29,854,526	15,298,060	7,519,360	52,671,946	1,378,355	54,050,301
Income tax receivable					-	-	-
Deferred tax asset	7(e)				-	-	-
Property, plant and equipment					-	1,630	1,630
Intangible assets		32,950			32,950	27	32,977
Total assets		**29,887,476**	**15,298,060**	**7,519,360**	**52,704,896**	**9,290,905**	**61,995,801**

* Assets and liabilities not measured at fair value are carried at amortised cost but their carrying values are a reasonable approximation of fair value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2022

SECTION 2: FAIR VALUE (CONTINUED)

		ACTUAL					
2021	NOTE	QUOTED MARKET PRICE (LEVEL 1)	VALUATION TECHNIQUE: MARKET-OBSERVABLE INPUTS (LEVEL 2)	VALUATION TECHNIQUE: NON-MARKET OBSERVABLE INPUTS (LEVEL 3)	TOTAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE	ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE*	TOTAL
		NZD'000	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
LIABILITIES							
Cash collateral received	4(a), 4(c)				-	1,051,977	1,051,977
Trade and other payables	4(a), 4(g)				-	669,076	669,076
Derivative financial instrument liabilities:							
Forward foreign exchange contracts	4(e)		767,537		767,537		767,537
Cross currency swaps	4(e)		1,394		1,394		1,394
Futures contracts	4(e)				-		-
Total return swaps	4(e)		84,589		84,589		84,589
Credit default swaps	4(e)		62,850		62,850		62,850
Interest rate swaps	4(e)		63,310		63,310		63,310
Other over-the-counter swaps	4(e)		328		328		328
Total derivative financial instrument liabilities		-	980,008	-	980,008	-	980,008
Income tax payable					-	1,887,279	1,887,279
Provision for performance-based fees	5(a)				-	-	-
Deferred tax liability	7(e)				-	42,866	42,866
Total liabilities		**-**	**980,008**	**-**	**980,008**	**3,651,198**	**4,631,206**

* Assets and liabilities not measured at fair value are carried at amortised cost but their carrying values are a reasonable approximation of fair value.

(b) Determination of fair value

The specific valuation techniques and the observability of the inputs used in valuation models for significant product categories are outlined below:

DERIVATIVE FINANCIAL INSTRUMENTS AND FORWARD FOREIGN EXCHANGE CONTRACTS

The fair values of derivative financial instruments and forward foreign exchange contracts are principally determined using valuation techniques with market observable inputs and are classified within Level 2 of the fair value hierarchy. The most frequently applied valuation techniques include forward pricing and swap models using present value calculations. The models incorporate various inputs including foreign exchange spot and forward rates, interest rates, futures prices, default rates, credit spreads, volatility curves and discount rates.

In some instances, the fair values of derivative financial instruments are determined using valuation techniques with non-market observable inputs. These financial instruments include longevity contingent swaps and warrants and are classified within Level 3 of the fair value hierarchy. The fair value of longevity contingent swaps is provided by the counterparty at balance date and is based on the fair value of the underlying basket of contracts. The fair value of warrants is determined using a Black Scholes Option Pricing Model.

LISTED EQUITIES

The fair value of listed equities, including equity exchange traded funds and those on loan under securities lending and similar agreements, is determined based on the last quoted price on the relevant exchange at balance date and are classified within Level 1 of the fair value hierarchy. In some instances, where the market on which the security is traded is not highly liquid (e.g. the security may be listed on an emerging market stock exchange or trading of the security may be temporarily suspended), the price can also be determined using non-binding broker quotes. These securities are classified within Level 3 of the fair value hierarchy.

FIXED INCOME SECURITIES

The fair value of liquid fixed income securities, including fixed income exchange traded funds and those on loan under securities lending and similar agreements, is determined based on either the last quoted bid price or the mid price (depending on the market and region of the securities) provided by a reputable pricing vendor (being a financial data provider such as ICE or Bloomberg) or broker at balance date and are classified within Level 2 of the fair value hierarchy. Where the market for fixed income securities is illiquid, fair value is determined by a reputable pricing vendor who uses models to value the securities. The models incorporate various inputs including loan level data, repayment and default assumptions and benchmark prices for similar securities. These securities are also classified within Level 2 of the fair value hierarchy.

The fair value of unlisted fixed income securities, including fixed and floating rate debt instruments, that form part of an investment into a private equity investment, are valued by a suitably qualified independent valuer who ascribes an enterprise value to the entire private equity investment then apportions that value across the instruments held, including the debt instruments. These securities are classified within Level 3 of the fair value hierarchy.

COLLECTIVE INVESTMENT FUNDS

The fair value of collective investment funds is provided by the investment managers or administrators at balance date. The price is based on the fair value of the underlying net assets or securities of the collective investment fund. Their classification within the fair value hierarchy is determined by the highest numerical level in the fair value hierarchy of the underlying financial instruments.

INSURANCE-LINKED INVESTMENTS

Insurance-linked investments which are catastrophe bonds are valued using prices provided by reputable pricing vendors or brokers at balance date and are classified within Level 2 of the fair value hierarchy.

PRIVATE EQUITY

The fair value of private equity investment funds is provided by the investment managers or administrators at balance date. The price is based on the fair value of the underlying net assets of the private equity investment fund which is determined using a variety of methods, including independent valuations, valuation models based on the price of recent transactions, earnings multiples or discounted cash flows and are classified within Level 3 of the fair value hierarchy. Private equity investments (not invested via a managed fund structure) are valued by reference to either an independent valuation, the price of recent transactions or such alternative valuation as deemed appropriate by the Board and are also classified within Level 3 of the fair value hierarchy.

UNCONSOLIDATED SUBSIDIARIES

The fair value of unconsolidated subsidiaries is based on the fair value of the underlying net assets of the specific investment which can be determined using a variety of methods, including being based on the last quoted bid price provided by a reputable pricing vendor or broker, independent valuations, valuation models based on the price of recent transactions, earnings multiples or discounted cash flows. Unconsolidated subsidiaries are classified accordingly within Levels 2 and 3 of the fair value hierarchy.

INTANGIBLE ASSETS

Allocations of New Zealand Units (NZU's) and/or other carbon credits that the NZ Super Fund owns are recognised at fair value where they have been received, or where the Board and management are reasonably certain they will be received. Where the fair value can be reliably ascertained through the existence of an observable active market, these intangible assets are classified within Level 1 of the fair value hierarchy. Where pricing is obtained from reputable brokers, these intangible assets are classified within Level 2 of the fair value hierarchy.

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, where available, 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 unconsolidated subsidiaries, private equity investments held directly, 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:

UNCONSOLIDATED SUBSIDIARIES AND PRIVATE EQUITY INVESTMENTS HELD DIRECTLY

The fair value of certain unconsolidated subsidiaries and private equity investments held directly, is provided by independent valuers who use models to obtain the fair value of investments. The determination of fair value for these investments is subject to careful consideration and consultation with a range of reliable and independent sources. Under the Board approved Investment Valuation Policy, the Guardians has an internal Valuation Working Group (VWG) that is responsible for reviewing the valuations of these investments at balance date. The VWG reviews the valuation methodologies, practices and policies used in determining fair value and/or reviews the valuations themselves with a view to ensuring that the fair values of these investments at balance date are as accurate as possible. The VWG reports the outcomes of their reviews to the Audit Committee.

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 AND OTHER MACRO FACTORS

Since the fair value of investments categorised within Level 1 or Level 2 of the fair value hierarchy reflect market observable prices or inputs, they are inherently less subjective and their valuation less uncertain than those investments categorised within Level 3 of the fair value hierarchy.

The NZ Super Fund's investments categorised within Level 3 of the fair value hierarchy predominantly consist of private equity investments held directly or via investment funds; unconsolidated subsidiaries and other externally managed investment vehicles. Whilst the determination of fair value in relation to these investments is subject to careful consideration and consultation with a range of reliable and independent sources, the longer term direct and indirect impacts on the valuation of these investment resulting from the ongoing COVID-19 pandemic, the impact of rising interest rates and inflationary pressures, increased geopolitical tensions and global supply issues, remain uncertain. The Board and management continue to monitor and evaluate the appropriateness of specific valuation techniques and the judgements and estimates used when determining the fair value of these assets to assess whether material adjustments might be required to their carrying value.

(c) Transfers between levels in the fair value hierarchy

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Board and management determine whether transfers have occurred between levels in the hierarchy by reassessing categorisation throughout each reporting period.

The following table presents the transfers between fair value hierarchy levels for the year:

2022	ACTUAL LEVEL 1 NZD'000	 LEVEL 2 NZD'000	 LEVEL 3 NZD'000
Transfers between Levels 1, 2 and 3:			
Listed global equities	(15,363)	-	15,363
Private equity	-	-	-

Listed global equities transferred to Level 3 relate to positions that were either de-listed or whose trading was suspended as at 30 June 2022 but were actively traded in the year ended 30 June 2021.

2021	ACTUAL LEVEL 1 NZD'000	 LEVEL 2 NZD'000	 LEVEL 3 NZD'000
Transfers between Levels 1 and 3:			
Listed global equities	357,422	-	-
Private equity	-	-	(357,422)

Private equity transferred to Level 1 listed global equities relates to a company that was privately held as at 30 June 2020 but was subsequently listed in the year ended 30 June 2021.

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 2022 NZD'000	ACTUAL 2021 NZD'000
Opening balance	7,519,360	6,728,257
Unrealised gains/(losses) recognised in net changes in fair value on financial instruments at fair value through profit or loss	1,750,804	851,634
Realised gains/(losses) recognised in net changes in fair value on financial instruments at fair value through profit or loss	70,130	108,369
Purchases	2,078,414	797,204
Sales	(270)	(10,498)
Settlements	(579,823)	(598,184)
Transfers (to)/from other categories	15,363	(357,422)
Closing balance	**10,853,978**	**7,519,360**

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			
2022	NON-MARKET OBSERVABLE INPUT	MOVEMENT	IMPACT ON FAIR VALUE MEASUREMENT	
			INCREASE	DECREASE
		%	NZD'000	NZD'000
Longevity contingent swaps	Discount rate	2	290	(281)
Listed global equities	Share price	25	1,305	(1,305)
Fixed income securities	Yield	12	6,195	(6,195)
Collective investment funds	Unit price	-	-	-
Private equity	(i)	(i)	880,693	(880,693)
Unconsolidated subsidiaries	(i)	(i)	812,065	(812,065)
2021				
Longevity contingent swaps	Discount rate	2	787	(712)
Listed global equities	Share price	20	1,729	(1,729)
Fixed income securities	Yield	12	3,176	(3,176)
Collective investment funds	Unit price	13	54	(54)
Private equity	(i)	(i)	541,958	(541,958)
Unconsolidated subsidiaries	(i)	(i)	624,580	(624,580)

(i) Level 3 financial assets categorised as private equity and unconsolidated subsidiaries provide the NZ Super Fund with exposure to a wide variety of assets across numerous industries and are held either directly or via internally or externally managed investment vehicles. Valuations for these investments are provided directly by independent valuers, or by investment managers or administrators if held via a managed structure. The NZ Super Fund does not always have access to the underlying valuation models to fully disclose sensitivities to specific assumptions.

By their nature, investments in these categories are inherently subjective and exposed to valuation uncertainty, which has increased further both directly and indirectly as a result of the ongoing COVID-19 pandemic, the impact of rising interest rates and inflationary pressures, increased geopolitical tensions and global supply issues. The determination of fair value for these investments is subject to careful consideration and consultation with a range of reliable and independent sources. Under the Board approved Investment Valuation Policy, the Guardians has an internal Valuation Working Group (VWG) that is responsible for reviewing the valuations of these investments at balance date. The VWG reviews the valuation methodologies, practices and policies used in determining fair value and/or reviews the valuations themselves with a view to ensuring that the fair values of these investments at balance date are as accurate as possible. The VWG reports the outcomes of their reviews to the Audit Committee.

The Board and management have assessed that the reasonably likely movement in fair value for these financial assets in a one-year period is: 20% (2021: 20%) for private equity investment funds and other private equity investments; 25% (2021: 25%) for Telecom-Spectrum investments; 16% (2021: 16%) for timber investments; 12% (2021: 12%) for private infrastructure investments; 10% (2021: 10%) for life settlements; 14% (2021: 14%) for property; 13% (2021: 13%) for rural property; and 20% (2021: 20%) for insurance run-off investments, based on internal risk modelling.

SECTION 3: RISK MANAGEMENT

(a) Risk management

Understanding and managing risk is considered a fundamental activity that is central to the management of the NZ Super Fund. While risk is a necessary part of the NZ Super Fund's activities, it must be understood to ensure the risk profile adopted is commensurate with the return objective and time horizon of the NZ Super Fund. Effective risk management is critical to maintaining public and stakeholder confidence in the Guardians as manager of the NZ Super Fund.

The NZ Super Fund's investment activities expose it to various types of risk including investment, strategic, legal, operational and reputational risk. The Board and management of the Guardians are responsible for the management of these risks. Separate Risk and Investment Committees have been established by management as risk leadership bodies to provide support for the management of these risks.

The Guardians has risk management policies, procedures and other internal controls for application by staff, external investment managers and other service providers to manage the NZ Super Fund's exposure to risk. The framework for managing this risk is set out in its Statement of Investment Policies, Standards and Procedures including its Risk Management Policy.

The Board has developed a risk appetite statement outlining its expectations of the level of risk that is appropriate for the NZ Super Fund to take on. This statement can be found at Schedule 2 of the Risk Management Policy which is available on www.nzsuperfund.nz. Performance against this statement is measured and reported to the Board on a regular basis, with any major breaches being notified on an exception basis.

CONCENTRATION OF RISK BY GEOGRAPHY AND INDUSTRY

Concentration of risk exists if a single counterparty, or group of counterparties, is engaged in similar activities, operate within similar geographies, industries, or have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions.

As at 30 June 2022, the NZ Super Fund's investments were concentrated in the following geographical locations and industries. Exposures 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.

SECTION 3: RISK MANAGEMENT (CONTINUED)

	ACTUAL 2022 %	ACTUAL 2021 %
By geography		
New Zealand	15	17
Australia	5	5
North America	50	49
Europe	17	14
Asia	9	13
Other	4	2
	100	**100**
By industry		
Basic materials	5	5
Communications	4	5
Consumer - cyclical	6	7
Consumer - non-cyclical	7	6
Energy	3	1
Financial	15	23
Funds	13	8
Government	9	11
Healthcare	8	8
Industrial	8	8
Real estate	5	2
Technology	12	12
Utilities	3	2
Other	2	2
	100	**100**

(b) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as equity prices, interest rates, foreign exchange rates and credit default swap spreads.

The market risks that the NZ Super Fund is primarily exposed to are:

- Equity price risk, both globally and in New Zealand;
- Foreign currency risk, primarily due to changes in the New Zealand dollar versus the United States dollar; and
- Interest rate risk, primarily due to changes in New Zealand and United States interest rates.

The NZ Super Fund is also exposed to commodity price risk in relation to its forestry and farming investments as well as derivative financial instruments which reference certain agricultural, energy and metals prices.

EQUITY PRICE RISK

Equity price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in equity prices. The NZ Super Fund is exposed to changes in the price of equities listed on both New Zealand and international stock exchanges, as well as derivative financial instruments or unlisted equities where fair value is determined with reference to an equity market index or to comparable transactions in a listed equity market.

Equity price risk is managed through diversification between asset classes and by imposing investment constraints at a total fund level and within individual investment mandates. Limits imposed on external investment managers are detailed within individual investment management agreements. Compliance with investment constraints is reported to the Board and management on a regular basis.

The following table shows the NZ Super Fund's sensitivity to a change in equity prices with all other variables held constant. The percentages used represent the Board's and management's assessment of a reasonably possible change in equity prices, equivalent to one standard deviation, based on internal risk modelling. The increase/(decrease) in profit is calculated after taking into account income tax.

		ACTUAL	
2022	ONE STANDARD DEVIATION	IMPACT ON PROFIT AFTER INCOME TAX EXPENSE AND EQUITY	
		INCREASE	DECREASE
	%	NZD'000	NZD'000
New Zealand equities	18	408,549	(408,549)
Global equities*	16	5,675,584	(5,675,584)
Emerging markets equities	26	1,384,792	(1,384,792)
Unlisted private equities	20	1,122,451	(1,122,451)
2021			
New Zealand equities	18	472,358	(472,358)
Global equities*	16	6,731,184	(6,731,184)
Emerging markets equities	26	1,273,312	(1,273,312)
Unlisted private equities	20	818,518	(818,518)

* The fair value of global equities is obtained from quoted market prices. However, the likelihood of a change in those prices and the size of any change can vary, depending on the type of equity. Therefore, these figures represent a weighted average of the reasonably likely movement in fair value in a one-year period for this category. The Board and management's assessment of the reasonably likely movements within this category are: 16% (2021: 16%) for global large cap equities; 20% (2021: 20%) for global small cap equities; 15% (2021: 15%) for developed markets multi factor equities; and 12% (2021: 12%) for global infrastructure equities, based on internal risk modelling.

FOREIGN CURRENCY RISK

Foreign currency risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in foreign exchange rates. The NZ Super Fund is exposed to foreign currency risk through its investments in offshore assets.

Foreign currency risk is managed by establishing a target hedge ratio for all foreign currency exposures at a total fund level and by specifying bounds within which external investment managers may take on foreign currency exposures within individual investment management agreements. The financial instruments that external investment managers may use, and the creditworthiness of the counterparties, are detailed within those investment management agreements.

Foreign currency exposures are hedged with forward foreign exchange contracts and cross currency swaps with counterparties that have an appropriate minimum credit rating as determined by an international credit rating agency, and appropriate contractual arrangements must be in place between the NZ Super Fund and the counterparty.

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 2022 NZD'000	ACTUAL 2021 NZD'000
Australian Dollars	289,837	(5,871)
Brazilian Real	40,306	8,199
British Pounds	581,946	663,952
Canadian Dollars	(2,003,215)	(394,472)
Chilean Pesos	27,476	20,586
Chinese Yuan	375,012	271,626
Colombian Peso	8,368	6,338
Czech Koruna	1,587	3,915
Danish Kroner	46,039	8,013
Egyptian Pounds	3,146	3,063
European Union Euros	179,495	582,826
Hong Kong Dollars	354,603	(15,846)
Hungarian Forints	7,765	10,385
Indian Rupees	125,995	5,462
Indonesian Rupiahs	19,387	(1,419)
Israeli New Shekels	66,740	61,279
Japanese Yen	1,489,170	1,312,227
Kuwaiti Dinar	45,750	24,953
Malaysian Ringgits	111,962	90,009
Mexican Pesos	9,325	3,616
Norwegian Krone	(11,383)	33,890
Pakistan Rupee	-	919
Philippines Pesos	39,533	30,747
Polish Zloty	30,822	33,963
Qatari Rial	57,823	31,163
Russian Rubles	-	116,530
Saudi Riyal	230,216	137,118
Singaporean Dollars	20,516	(5,232)
South African Rand	28,584	(13,906)
South Korean Won	63,095	745
Swedish Kronor	(35,902)	(6,580)
Swiss Francs	(1,556,801)	(1,038,864)
Taiwanese New Dollars	86,908	(22,715)
Thai Baht	20,122	17,664
Turkish New Lira	15,590	11,688
United Arab Emirates Dirham	70,629	34,845
United States of America Dollars	(2,667,754)	1,525,244
	(1,827,308)	**3,546,060**

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. The increase/(decrease) in profit is calculated after taking into account the standard rate of income tax.

		ACTUAL	
2022	REASONABLE POSSIBLE CHANGE IN RATE	IMPACT ON PROFIT AFTER INCOME TAX EXPENSE AND EQUITY	
		INCREASE	DECREASE
	%	NZD'000	NZD'000
NZD/USD	10	192,078	(192,078)
NZD/EUR	10	(12,924)	12,924
NZD/GBP	10	(41,900)	41,900
NZD/JPY	10	(107,220)	107,220
NZD/CAD	10	144,231	(144,231)
NZD/CHF	10	112,090	(112,090)
NZD/Others	10	(154,789)	154,789
2021			
NZD/USD	10	(109,818)	109,818
NZD/EUR	10	(41,964)	41,964
NZD/GBP	10	(47,805)	47,805
NZD/JPY	10	(94,480)	94,480
NZD/CAD	10	28,402	(28,402)
NZD/CHF	10	74,798	(74,798)
NZD/Others	10	(64,450)	64,450

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market interest rates. The NZ Super Fund is primarily exposed to changes in New Zealand and United States short-term interest rates in relation to its investments in fixed interest securities and cash and cash equivalents.

Interest rate risk is managed by diversification between asset classes and by imposing investment constraints on external investment managers. Interest rate swaps are used to manage exposure to movements in interest rates.

The following table shows the NZ Super Fund's sensitivity to a change in interest rates with all other variables remaining constant. The basis point movement used represents the Board's and management's assessment of a reasonably possible change in interest rates, equivalent to one standard deviation. The increase/(decrease) in profit is calculated after taking into account the standard rate of income tax.

SECTION 3: RISK MANAGEMENT (CONTINUED)

		ACTUAL	
2022	ONE STANDARD DEVIATION	IMPACT ON PROFIT AFTER INCOME TAX EXPENSE AND EQUITY	
		INCREASE	DECREASE
	BASIS POINTS	NZD'000	NZD'000
Fixed income securities and other interest-sensitive financial instruments	50	(95,207)	95,207
2021			
Fixed income securities and other interest-sensitive financial instruments	50	(141,830)	141,830

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, cattle prices and the price of key inputs (e.g. feed and fertiliser). Dairy and cattle 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.

The NZ Super Fund is exposed to financial risk in respect of derivative financial instruments which reference certain agricultural, energy and metals prices. The risk of financial loss is managed by strategically adjusting the NZ Super Fund's exposure in exchange traded futures and by managing margins.

(c) Credit risk

Credit risk is the risk that a third party will default on its obligation to the NZ Super Fund, causing the NZ Super Fund to incur a loss. The NZ Super Fund is exposed to credit risk arising from its cash and cash equivalents, receivables and investments. The maximum amount of credit risk for each class of financial asset is the carrying amount included in the Statement of Financial Position.

Cash and cash equivalents and capital allocated to internally managed investments are governed by the Investment Risk Allocation Policy, the Portfolio Completion and Internally Managed Securities Policy and relevant Internal Investment Mandates. The Board and management mitigate the NZ Super Fund's exposure to credit risk associated with cash and cash equivalents and internally managed investments by applying specific prudential limits to any unhedged exposure to any single investment manager or asset. Investment strategy-specific constraints are also imposed to limit the NZ Super Fund's net unhedged exposure to individual counterparties and clearing houses; and collective unhedged exposure to counterparties with credit ratings of 'BBB' or less.

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. The Board and management mitigate the NZ Superfund's exposure to credit risk associated with externally managed investments by including specific prudential limits in these investment management 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.

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 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, 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 2022 NZD'000	ACTUAL 2021 NZD'000
ANZ Bank New Zealand Limited	138,108	71,955
Bank of America	7,158	40,000
Bank of New Zealand	51,043	69,043
Barclays Bank PLC, London Branch	353	5,612
BNP Paribas, London Branch	11,328	7,609
Citibank N.A., London Branch	57,297	102,876
Citibank N.A., New York Branch	79,325	21,141
Commonwealth Bank of Australia, Sydney Branch	30,757	80,218
Credit Suisse Securities (Europe) Limited	32,115	25,312
D.E. Shaw Galvanic International, Inc.	217	23,596
Deutsche Bank AG	14,873	5,122
Goldman Sachs International	84,486	85,751
Goldman Sachs Financial Markets Pty Limited	51,806	-
The Hong Kong and Shanghai Banking Corporation Limited	-	56,042
JP Morgan Chase Bank N.A.	97,492	67,369
JP Morgan Chase, London Branch	5	-
Morgan Stanley & Co. International PLC	83,159	53,207
Morgan Stanley & Co. International PLC, London Branch	9,226	5,304
Morgan Stanley & Co. International PLC, New York Branch	244,006	21,698
Morgan Stanley & Co. LLC	-	20,894
Morgan Stanley Capital Services LLC	41,117	-
NatWest Markets PLC	9,875	9,995
Societe Generale	167	11,448
UBS AG	565	-
UBS AG, Singapore Branch	143,489	15,993
Westpac Banking Corporation, Wellington Branch	109,679	55,855
	1,297,646	**856,040**

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.

SECTION 3: RISK MANAGEMENT (CONTINUED)

CREDIT QUALITY OF CASH AND CASH EQUIVALENTS AND FIXED INCOME SECURITIES

Cash and cash equivalents are held with bank and financial institution counterparties, which had credit ratings of A to AA as at 30 June 2022 (2021: A to AA).

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 2022 %	ACTUAL 2021 %
AAA/Aaa	34	26
AA/aa	18	29
A/A	23	26
BBB/Baa	10	7
Other credit rating	-	1
Not rated	15	11
	100	**100**

(d) Liquidity risk

Liquidity risk is the risk that the NZ Super Fund will encounter difficulty in meeting the obligations associated with its financial liabilities as they fall due. The NZ Super Fund's liquidity framework is designed to ensure that the NZ Super Fund has the ability to generate sufficient cash in a timely manner to meet its financial commitments.

The Board and management mitigate the NZ Super Fund's 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; and
- Periodic 'stress-tests' of the liquidity framework using theoretical scenarios.

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					
2022	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*	1.43	2,032,643	-	-	-	-	-	337,614
Cash pledged as collateral**	1.29	1,207,798	-	-	-	-	-	-
Fixed income securities***	2.85	-	1,981,591	797,626	2,821,913	2,448,094	1,912,531	645,509
Securities on loan under securities lending and similar agreements	2.44	-	6,669	46,456	212,170	204,654	164,984	-
Reverse repurchase agreements	3.62	-	318,456	-	-	553,717	-	-
		3,240,441	**2,306,716**	**844,082**	**3,034,083**	**3,206,465**	**2,077,515**	**983,123**
2021								
Cash and cash equivalents*	0.15	5,460,826	-	-	-	-	-	1,118,530
Cash pledged as collateral**	0.00	708,219	-	-	-	-	-	-
Fixed income securities***	1.90	-	4,188,924	760,850	1,792,846	2,312,975	1,846,769	660,465
Securities on loan under securities lending and similar agreements	2.64	-	18,397	47,492	333,412	375,815	248,344	-
Reverse repurchase agreements	0.10	-	284,079	-	-	-	-	-
		6,169,045	**4,491,400**	**808,342**	**2,126,258**	**2,688,790**	**2,095,113**	**1,778,995**

* Non-interest bearing cash and cash equivalents is primarily comprised of certain foreign currencies held in custody which earn no interest, have no maturity and are on demand.

** Cash pledged as collateral is held under Credit Support Annexes to ISDA Master Agreements and with futures exchanges. As at 30 June 2021, the rate of interest earned on this cash, whilst variable, was minimal as a result of the low interest rate environment, and consequently a weighted average effective interest rate of 0.00% had been applied.

*** Non-interest bearing fixed income securities are loans to unconsolidated subsidiaries, have no maturity and are repayable on demand.

The maturity profile of derivative financial instruments is disclosed in Note 4(e).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2022

SECTION 3: RISK MANAGEMENT (CONTINUED)

(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			
2022	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	912,258	69,684	981,942	16,867,236
Mortgage-backed securities	325,142	47,785	372,927	7,494,820
Agency mortgage-backed securities	1,028,507	-	1,028,507	N/A**
Shareholder loans	767,762	246,318	1,014,080	3,082,225
Fixed income exchange traded funds	219,956	-	219,956	4,905,818
Collective investment funds	3,410,263	160,836	3,571,099	226,126,983
Listed global equities:				
Equity exchange traded funds	123,930	-	123,930	105,168,436
Insurance-linked investments - catastrophe bonds	531,481	-	531,481	30,591,737
Private equity investment funds	3,353,977	2,741,916	6,095,893	33,257,914
Reverse repurchase agreements	552,996	-	552,996	737,324
Unconsolidated subsidiaries	6,547,276	849,943	7,397,219	7,197,803
	17,773,548	**4,116,482**	**21,890,030**	**435,430,296**
2021				
Fixed income securities:				
Asset-backed securities	756,738	133,945	890,683	14,622,114
Mortgage-backed securities	270,117	25,127	295,244	10,133,634
Agency mortgage-backed securities	644,318	-	644,318	N/A**
Shareholder loans	759,775	-	759,775	2,691,066
Fixed income exchange traded funds	199,979	-	199,979	17,444,551
Collective investment funds	1,503,697	143,112	1,646,809	189,076,533
Listed global equities:				
Equity exchange traded funds	150,575	-	150,575	113,187,787
Insurance-linked investments - catastrophe bonds	437,913	-	437,913	24,571,754
Private equity investment funds	1,721,733	1,380,574	3,102,307	21,301,285
Reverse repurchase agreements	-	-	-	-
Unconsolidated subsidiaries	5,118,768	508,319	5,627,087	5,831,307
	11,563,613	**2,191,077**	**13,754,690**	**398,860,031**

* Including the value of the NZ Super Fund's investment.
** Information is not available as the securities have not yet been issued.

SECTION 4: FINANCIAL ASSETS AND LIABILITIES

(a) Financial instruments

		ACTUAL			
2022	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)		2,370,257		2,370,257
Cash pledged as collateral	4(c)		1,207,798		1,207,798
Trade and other receivables	4(d)		3,142,865		3,142,865
Investments					
Derivative financial instrument assets	4(e)	1,297,646			1,297,646
Other financial assets:					
Listed New Zealand equities	4(e)	2,236,675			2,236,675
Listed global equities	4(e)	24,394,995			24,394,995
Fixed income securities	4(e)	9,280,794	1,326,470		10,607,264
Collective investment funds	4(e)	3,410,263			3,410,263
Reverse repurchase agreements	4(e)		872,173		872,173
Securities on loan under securities lending and similar agreements	4(e)	3,226,398			3,226,398
Insurance-linked investments	4(e)	531,481			531,481
Private equity	4(e)	5,399,316			5,399,316
Total other financial assets		48,479,922	2,198,643	-	50,678,565
Investments in unconsolidated subsidiaries	4(e)	6,547,276			6,547,276
Total financial assets		**56,324,844**	**8,919,563**	**-**	**65,244,407**
Financial liabilities					
Cash collateral received	4(c)			1,034,402	1,034,402
Trade and other payables	4(g)			4,977,683	4,977,683
Investments - derivative financial instrument liabilities	4(e)	4,004,410			4,004,410
Total financial liabilities		**4,004,410**	**-**	**6,012,085**	**10,016,495**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2022

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

		ACTUAL			
2021	NOTE	FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS	FINANCIAL ASSETS AT AMORTISED COST	FINANCIAL LIABILITIES AT AMORTISED COST	TOTAL
		NZD'000	NZD'000	NZD'000	NZD'000
Financial assets					
Cash and cash equivalents	4(b)		6,579,356		6,579,356
Cash pledged as collateral	4(c)		708,219		708,219
Trade and other receivables	4(d)		623,318		623,318
Investments					
Derivative financial instrument assets	4(e)	856,040			856,040
Other financial assets:					
Listed New Zealand equities	4(e)	2,568,642			2,568,642
Listed global equities	4(e)	23,943,807			23,943,807
Fixed income securities	4(e)	10,468,553	1,094,276		11,562,829
Collective investment funds	4(e)	1,503,697			1,503,697
Reverse repurchase agreements	4(e)		284,079		284,079
Securities on loan under securities lending and similar agreements	4(e)	4,374,675			4,374,675
Insurance-linked investments	4(e)	437,913			437,913
Private equity	4(e)	3,399,851			3,399,851
Total other financial assets		46,697,138	1,378,355	-	48,075,493
Investments in unconsolidated subsidiaries	4(e)	5,118,768			5,118,768
Total financial assets		**52,671,946**	**9,289,248**	**-**	**61,961,194**
Financial liabilities					
Cash collateral received	4(c)			1,051,977	1,051,977
Trade and other payables	4(g)			669,076	669,076
Investments - derivative financial instrument liabilities	4(e)	980,008			980,008
Total financial liabilities		**980,008**	**-**	**1,721,053**	**2,701,061**

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 date, i.e. the date on which the NZ Super Fund commits to purchase or sell the financial instrument.

The classification of financial instruments at initial recognition depends on the NZ Super Fund's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. In making an assessment of the business model for managing a financial asset, the Board and management consider all relevant information such as the investment objectives of the NZ Super Fund and how performance is evaluated and reported to the Board and management.

SUBSEQUENT MEASUREMENT

The NZ Super Fund's financial assets and financial liabilities are subsequently classified into the following categories:

- Those to be measured at fair value through profit or loss; and
- Those to be measured at amortised cost.

The NZ Super Fund does not have any financial assets classified as financial assets at fair value through other comprehensive income. The NZ Super Fund classifies all financial assets that are either held for trading and/or managed or evaluated on a fair value basis, as financial assets at fair value through profit or loss.

The NZ Super Fund's financial assets are reclassified when, and only when, the business model for managing those financial assets changes.

Financial assets and financial liabilities at fair value through profit or loss

The following financial assets and financial liabilities are classified at fair value through profit or loss:

- Financial assets, including debt instruments, that do not qualify for measurement at amortised cost;
- Financial assets and financial liabilities that are held for trading; and
- Financial assets for which the NZ Super Fund has not elected to recognise fair value gains and losses through other comprehensive income.

This category includes investments in derivative financial instruments, forward foreign exchange contracts, listed equities, collective investment funds, insurance-linked investments, private equity and unconsolidated subsidiaries among others. These financial assets are either held for trading or are managed and have their performance evaluated on a fair value basis.

The NZ Super Fund does not designate any derivative financial instruments or forward foreign exchange contracts as hedges in a hedging relationship.

Financial assets and financial liabilities at fair value through profit or loss are recognised in the Statement of Financial Position at fair value with changes in fair value being recognised in the Statement of Comprehensive Income in the period in which they arise.

Financial assets at amortised cost

The NZ Super Fund's financial assets are classified at amortised cost if both of the following criteria are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows; and
- The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest.

This category includes cash and cash equivalents, cash pledged as collateral, trade and other receivables, reverse repurchase agreements and some unlisted fixed income securities. Unlisted fixed income securities 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.

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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 fixed income securities 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 2022, cash of $977,508,000 (2021: $395,084,000) 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

Accounting Policy

Cash provided by the NZ Super Fund as security for financial arrangements remains a financial asset of the NZ Super Fund and is recognised as cash pledged as collateral in the Statement of Financial Position, separate from cash and cash equivalents. Cash received by the NZ Super Fund as security for financial arrangements is also recognised as an asset in the Statement of Financial Position, along with a corresponding liability (cash collateral received) to repay the cash collateral when the underlying transaction is terminated.

For non-cash collateral received by the NZ Super Fund, if the NZ Super Fund has the right to sell or re-pledge the collateral, the collateral is recognised accordingly in the Statement of Financial Position. However, if the NZ Super Fund does not have the right to sell or re-pledge the collateral, the collateral is not recognised in the Statement of Financial Position but disclosed in the notes to the financial statements instead.

The NZ Super Fund enters into various derivative financial instruments and securities lending and similar agreements which may require the NZ Super Fund to post or receive collateral as security with counterparties. Where an agreement between counterparties results in one counterparty owing the other, prior to the termination of the agreement, collateral may be exchanged, offsetting some or all of the amount outstanding at that point in time. At the termination of the agreement, should the counterparty that is owing default, the collateral may be applied in order to settle any outstanding liability.

In line with standard industry practice, collateral is provided for derivative transactions in accordance with Credit Support Annexes (CSAs) which may vary from counterparty to counterparty. Settlements of collateral transactions inherently lag behind real-time mark-to-market movements in the related derivative financial instruments; may only be settled once thresholds, as governed by the CSAs, in these mark-to-market movements are achieved; and may be required from one, both or neither of the counterparties involved with the transaction.

CASH PLEDGED AS COLLATERAL

The cash balance pledged as collateral to meet obligations under CSAs for derivative positions is $698,081,000 (2021: $267,192,000). The counterparties are permitted to sell or re-pledge the collateral balances. The pledged assets will be returned to the NZ Super Fund when the underlying transaction is terminated, but in the event of default the counterparty is entitled to apply the collateral in order to settle the outstanding liability.

Cash balances totalling $509,717,000 (2021: $441,027,000) are held in separate bank accounts lodged with the relevant futures exchange. These cash balances have been pledged as collateral for potential margin calls on futures with a fair value of $nil (2021: $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 $713,674,000 (2021: $747,958,000). 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 $320,728,000 (2021: $304,019,000). The NZ Super Fund is permitted to sell or re-pledge the collateral cash balances. At 30 June 2022, cash of $318,456,000 (2021: $284,079,000) had been used to purchase securities under a reverse repurchase agreement. These will be returned to the counterparties of the securities lending and similar agreements once the underlying transactions are terminated, but in the event of default the NZ Super Fund is entitled to apply the collateral in order to settle any liability.

NON-CASH COLLATERAL RECEIVED

The fair value of fixed income securities received as collateral to meet obligations under securities lending and similar agreements is $1,703,066,000 (2021: $2,106,258,000). The fair value of equity securities received as collateral to meet obligations under security lending and similar agreements is $1,024,218,000 (2021: $1,911,753,000). 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 $1,019,589,000 (2021: $261,669,000). The fair value of equity securities received as collateral to meet obligations under a reverse repurchase agreement is $43,419,000 (2021: $31,226,000). 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2022

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(d) Trade and other receivables

	ACTUAL 2022 NZD'000	ACTUAL 2021 NZD'000
Trade receivables	13,504	21,380
Accrued interest	68,672	51,026
Dividends receivable	38,386	26,984
Unsettled sales	3,022,051	523,797
GST receivable	252	131
	3,142,865	**623,318**

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 2022 NZD'000	ACTUAL 2021 NZD'000
Derivative financial instrument assets:		
Forward foreign exchange contracts	662,399	424,726
Cross currency swaps	3,061	7,787
Longevity contingent swaps	16,101	25,320
Futures contracts	-	-
Total return swaps	164,591	296,027
Credit default swaps	55,440	42,143
Interest rate swaps	396,054	60,037
Warrants	-	-
Other over-the-counter swaps	-	-
Total derivative financial instrument assets	1,297,646	856,040
Other financial assets	50,678,565	48,075,493
Investments in unconsolidated subsidiaries	6,547,276	5,118,768
	58,523,487	54,050,301
Derivative financial instrument liabilities:		
Forward foreign exchange contracts	3,378,748	767,537
Cross currency swaps	24,698	1,394
Futures contracts	-	-
Total return swaps	525,461	84,589
Credit default swaps	59,734	62,850
Interest rate swaps	15,769	63,310
Other over-the-counter swaps	-	328
Total derivative financial instrument liabilities	4,004,410	980,008
Net investments	**54,519,077**	**53,070,293**

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

DERIVATIVE FINANCIAL INSTRUMENTS AND FORWARD FOREIGN EXCHANGE CONTRACTS

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 2022, 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. Forward contracts 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 Fund holds warrants at fair value in respect of one (2021: one) of its listed global equities investments, valued at $nil (2021: $nil).

The contract maturities, notional and fair values for all derivative financial instruments are set out below. Fair values presented correspond in total to the net assets and liabilities for each class of derivative financial instrument.

FORWARD FOREIGN EXCHANGE CONTRACTS

	ACTUAL			
	NOTIONAL VALUE - BUY(SELL) FOREIGN CURRENCY	FAIR VALUE	NOTIONAL VALUE - BUY(SELL) FOREIGN CURRENCY	FAIR VALUE
	2022	2022	2021	2021
	NZD'000	NZD'000	NZD'000	NZD'000
Less than 3 months	(45,694,780)	(1,471,709)	(25,198,812)	127,291
3 to 6 months	(12,409,384)	(609,678)	(15,944,755)	(175,463)
6 to 9 months	(5,778,523)	(391,004)	(8,267,045)	(121,266)
9 to 12 months	(9,706,858)	(243,958)	(9,247,461)	(160,679)
1 to 2 years	-	-	(443,237)	(12,694)
	(73,589,545)	**(2,716,349)**	**(59,101,310)**	**(342,811)**

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

2022	FOREIGN CURRENCY BUY/ SELL	ACTUAL NOTIONAL VALUE	FAIR VALUE
		NZD'000	NZD'000
Less than 1 year	NZD/USD	275,432	(22,187)
2 to 5 years	NZD/USD	430,232	448
	AUD/USD	636,204	135
5 to 10 years	NZD/USD	272,726	(33)
		1,614,594	**(21,637)**

2021			
Less than 1 year	NZD/EUR	339,435	419
	NZD/JPY	296,966	(715)
1 to 2 years	NZD/USD	245,081	6,689
		881,482	**6,393**

Where possible, the NZ Super Fund seeks to settle all cross currency swaps on a net basis, otherwise, 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.

LONGEVITY CONTINGENT SWAPS

	ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2022	2022	2021	2021
	NZD'000	NZD'000	NZD'000	NZD'000
Later than 10 years	194,612	16,101	203,220	25,320
	194,612	**16,101**	**203,220**	**25,320**

All longevity contingent swaps are settled net.

FUTURES CONTRACTS

	ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2022	2022	2021	2021
	NZD'000	NZD'000	NZD'000	NZD'000
Equity futures	4,325,240	-	4,362,111	-
Fixed interest futures	3,318,296	-	1,828,260	-
Commodities futures	331,984	-	481,620	-
	7,975,520	**-**	**6,671,991**	**-**

The margin on futures contracts is settled daily.

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

TOTAL RETURN SWAPS

	ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2022	2022	2021	2021
	NZD'000	NZD'000	NZD'000	NZD'000
Total Return Swaps - Equity				
Less than 1 year	9,886,038	(401,174)	18,516,718	218,084
	9,886,038	**(401,174)**	**18,516,718**	**218,084**
Total Return Swaps - Bonds				
Less than 1 year	321,673	40,304	286,225	(8,974)
	321,673	**40,304**	**286,225**	**(8,974)**
Total Return Swaps - Commodities				
Less than 1 year	-	-	84,859	2,328
	-	**-**	**84,859**	**2,328**

All total return swaps are settled net.

CREDIT DEFAULT SWAPS

	ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2022	2022	2021	2021
	NZD'000	NZD'000	NZD'000	NZD'000
Buy protection				
Less than 1 year	321,673	(4,228)	145,976	(2,631)
1 to 2 years	945,718	(14,387)	286,225	(14,111)
2 to 5 years	5,874,765	(791)	7,911,621	(316,827)
5 to 10 years	247,717	(12,512)	228,980	23,224
	7,389,873	**(31,918)**	**8,572,802**	**(310,345)**
Sell protection				
Less than 1 year	276,639	4,283	121,647	2,699
1 to 2 years	839,566	20,463	249,016	14,604
2 to 5 years	10,974,439	(23,581)	5,828,980	277,127
5 to 10 years	8,969,682	26,459	8,462,111	(4,792)
	21,060,326	**27,624**	**14,661,754**	**289,638**

All credit default swaps are settled net.

INTEREST RATE SWAPS

	ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2022	2022	2021	2021
	NZD'000	NZD'000	NZD'000	NZD'000
Less than 1 year	397,000	3,503	245,000	(3,187)
1 to 2 years	239,636	5,114	397,000	(1,892)
2 to 5 years	1,555,368	71,151	520,000	(2,959)
5 to 10 years	444,390	67,291	432,000	8,371
Later than 10 years	2,680,563	233,226	1,373,404	(3,606)
	5,316,957	**380,285**	**2,967,404**	**(3,273)**

All interest rate swaps are settled net.

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

OTHER OVER-THE-COUNTER SWAPS

	ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2022	2022	2021	2021
	NZD'000	NZD'000	NZD'000	NZD'000
Credit default arbitrage swaps				
2 to 5 years	-	-	14,311	(328)
	-	**-**	**14,311**	**(328)**

All other over-the-counter swaps are settled net.

WARRANTS

	ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2022	2022	2021	2021
	NZD'000	NZD'000	NZD'000	NZD'000
2 to 5 years	11,487	-	10,221	-
	11,487	**-**	**10,221**	**-**

MATURITY PROFILE OF DERIVATIVE FINANCIAL INSTRUMENT LIABILITIES

	ACTUAL					
2022	LESS THAN 1 YEAR	1 - 2 YEARS	2 - 5 YEARS	5 - 10 YEARS	10+ YEARS	TOTAL
	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
Net-settled derivative financial instruments	(526,246)	(3)	(60,463)	(12,512)	(1,740)	(600,964)
Gross-settled derivative financial instruments:						
Cash inflow	55,300,143	-	-	1,771	-	55,301,914
Cash outflow	(58,703,320)	-	-	(2,040)	-	(58,705,360)
	(3,929,423)	**(3)**	**(60,463)**	**(12,781)**	**(1,740)**	**(4,004,410)**
2021						
Net-settled derivative financial instruments	(87,791)	(3,457)	(57,625)	(16,005)	(46,198)	(211,076)
Gross-settled derivative financial instruments:						
Cash inflow	39,771,468	443,237	-	-	-	40,214,705
Cash outflow	(40,527,705)	(455,932)	-	-	-	(40,983,637)
	(844,028)	**(16,152)**	**(57,625)**	**(16,005)**	**(46,198)**	**(980,008)**

SECURITIES LENDING AND SIMILAR AGREEMENTS

Accounting Policy

Securities lending transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the Statement of Financial Position if the risks and rewards of ownership are also transferred. Collateral advanced by the borrower in the form of readily marketable securities (non-cash) is held in escrow by a third party agent. Recourse of those securities is only available in the event of default of the borrower and, because of this, the non-cash collateral is not recognised in the Statement of Financial Position. Collateral advanced by the borrower in the form of cash is recognised as an asset in the Statement of Financial Position, along with a corresponding obligation to repay the cash collateral to the borrower, once the securities have been returned.

Securities purchased under reverse repurchase agreements to resell at a specified future date are not recognised in the Statement of Financial Position. The consideration paid, including accrued interest, is recorded separately in the Statement of Financial Position as an investment, reflecting the transaction's economic substance as a loan by the NZ Super Fund. The difference between the purchase and resale prices is recorded in interest income and is accrued over the life of the agreement using the effective interest rate.

The NZ Super Fund enters into agreements to lend global equities and fixed income securities to other market participants in return for a fee, with an obligation that the securities are returned at the termination of the agreement. These market participants may then use the loaned securities to enter into other contractual agreements themselves, however the NZ Super Fund retains all risks and rewards in relation to the securities throughout this period. Collateral is received from the borrowers of these securities for the period of the agreement.

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(f) Offsetting financial assets and financial liabilities

Accounting Policy

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 the 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.

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 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		
2022	GROSS AMOUNTS	GROSS AMOUNTS SET-OFF IN THE STATEMENT OF FINANCIAL POSITION	NET AMOUNTS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	FINANCIAL INSTRUMENTS	CASH COLLATERAL	NET AMOUNT
	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
Financial assets						
Derivative financial instrument assets	1,434,385	136,739	1,297,646	-	713,674	583,972
Reverse repurchase agreements*	872,173	-	872,173	1,063,008	-	(190,835)
Securities on loan under securities lending and similar agreements*	3,226,398	-	3,226,398	2,727,284	320,728	178,386
Financial liabilities						
Derivative financial instrument liabilities	(4,141,149)	(136,739)	(4,004,410)	-	(698,081)	(3,306,329)
2021						
Financial assets						
Derivative financial instrument assets	1,173,623	317,583	856,040	-	747,958	108,082
Reverse repurchase agreements*	284,079	-	284,079	292,895	-	(8,816)
Securities on loan under securities lending and similar agreements*	4,374,675	-	4,374,675	4,018,011	304,019	52,645
Financial liabilities						
Derivative financial instrument liabilities	(1,297,591)	(317,583)	(980,008)	-	(267,192)	(712,816)

* 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2022

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(g) Trade and other payables

	ACTUAL 2022 NZD'000	ACTUAL 2021 NZD'000
Accrued expenses	43,947	37,302
Unsettled purchases	4,912,509	617,577
Amounts owed for reimbursement of the Guardians' expenses	21,227	14,197
	4,977,683	**669,076**
Represented by:		
Current	4,976,254	666,398
Non-current	1,429	2,678
	4,977,683	**669,076**

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 2022 NZD'000	ACTUAL 2021 NZD'000
Financial assets		
Investments - derivative financial instrument assets	464,071	134,105
Investments - other financial assets	14,505,147	10,978,188
	14,969,218	**11,112,293**
Financial liabilities		
Trade and other payables	1,429	2,678
Investments - derivative financial instrument liabilities	74,987	135,980
	76,416	**138,658**
Net financial assets	**14,892,802**	**10,973,635**

SECTION 5: NON-FINANCIAL ASSETS AND LIABILITIES

(a) Provision for performance-based fees

	ACTUAL 2022 NZD'000	ACTUAL 2021 NZD'000
Opening balance	-	-
New provision during the year	128,955	7,394
Unused provision released during the year	-	-
Current portion transferred to accrued expenses	(29,382)	(7,394)
Closing balance	**99,573**	**-**

Accounting Policy

A provision is recognised in the Statement of Financial Position when the NZ Super Fund has a present obligation arising as a result of a past event, it is probable that cash will be paid to settle the obligation and the amount can be estimated reliably. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at balance date, taking into consideration the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Where some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

A provision is recognised by the NZ Super Fund for performance-based fees payable to external investment managers where it is uncertain how much cash will be required to settle a liability and therefore an estimate is required. Performance-based fees are payable to certain external investment managers based on the performance of the assets under their management over and above an agreed benchmark. For some of these external investment managers, the pay-out of the current year's fee is capped, with the remainder of the fee being held by the NZ Super Fund for possible pay-out in future periods. For those managers, poor performance in the following years may lead to a reduction in the entitlement that is being held. Thus, the amount and timing of the eventual pay-out is uncertain.

SECTION 6: MANAGEMENT OF FUND CAPITAL AND RESERVES

(a) Fund capital

PURPOSE

Fund capital, which comprises investments and all other assets of the NZ Super Fund less any liabilities, is the property of the Crown. The NZ Super Fund's purpose is to build a portfolio of assets to help reduce the impact of providing retirement income, in the form of New Zealand superannuation, to an ageing population.

CAPITAL CONTRIBUTIONS

The Crown is required to make capital contributions to the NZ Super Fund in accordance with Sections 42 to 44 of the New Zealand Superannuation and Retirement Income Act 2001 (Act). These capital contributions are made by the Crown for investment purposes based on a percentage of Gross Domestic Product (GDP). Under Section 44 of the Act, the Crown is entitled to contribute lesser amounts than calculated using the formula under Section 43 of the Act. Fund capital contributions are recorded in the Statement of Changes in Public Equity.

CAPITAL WITHDRAWALS

Under Section 47 of the Act, if the required annual capital contribution is less than zero, the Minister of Finance may require a capital withdrawal to be made from the NZ Super Fund up to that amount and paid into a Crown bank account. Capital withdrawals are projected to commence from 2034/35 under current Treasury modelling.

SUPERANNUATION ENTITLEMENTS

Under Section 45 of the Act, the Minister of Finance must ensure that sufficient money is transferred into the NZ Super Fund in each financial year to meet the net cost of the superannuation entitlements that are payable out of the NZ Super Fund during that year. This requirement is additional to and separate from the obligation to make annual capital contributions. The Treasury, through the New Zealand Debt Management Office, has facilitated funding for these superannuation entitlements from the Minister of Finance to the Ministry of Social Development on behalf of the NZ Super Fund. The Guardians has no control over these transfers, with The Treasury acting as agent for the NZ Super Fund. Transfers for superannuation entitlements are recorded in the Statement of Changes in Public Equity.

MANAGEMENT OF FUND CAPITAL

The NZ Super Fund is a profit-oriented entity, managed by the Guardians. The Guardians' mandate is to invest the NZ Super Fund on a prudent, commercial basis and, in doing so, ensure that the NZ Super Fund is managed and administered in a manner consistent with best-practice portfolio management, maximising return without undue risk to the NZ Super Fund as a whole, and avoiding prejudice to New Zealand's reputation as a responsible member of the world community. The contributions from the Crown to the NZ Super Fund are invested in accordance with its Statement of Investment Policies, Standards and Procedures, which is available at www.nzsuperfund.nz.

(b) Reserves

ASSET REVALUATION RESERVE

The asset revaluation reserve is used to record increases and decreases in the fair value of intangible assets.

SECTION 7: FINANCIAL PERFORMANCE

(a) Income

	ACTUAL 2022 NZD'000	ACTUAL 2021 NZD'000
Net operating income		
Interest income	281,825	252,373
Dividend income	762,987	481,299
Net changes in fair value on financial instruments at fair value through profit or loss	(4,989,598)	12,654,991
Net foreign exchange gains/(losses)	(143,796)	120,620
Other income	9,740	6,590
	(4,078,842)	**13,515,873**
Interest income		
Interest income - financial instruments at fair value through profit or loss	235,031	225,243
Interest income - financial assets at amortised cost	46,794	27,130
	281,825	**252,373**

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 measured at amortised cost, interest income is recognised as the interest accrues using the effective interest method, which allocates interest at a constant rate of return over the expected life of the financial instrument based on the estimated future cash flows.

DIVIDEND INCOME

Dividend income is recognised when the shareholder's rights to receive payment has been established, normally the ex-dividend date. Where the NZ Super Fund has elected to receive dividends in the form of additional shares rather than cash, the amount of the cash dividend foregone is recognised as income. Any excess in the value of shares received over the amount of cash dividend foregone is recognised as a gain in the Statement of Comprehensive Income.

SECTION 7: FINANCIAL PERFORMANCE (CONTINUED)

(b) Income received and fair value gains and losses recognised from interests in unconsolidated structured entities

The following table summarises income received and fair value gains and losses on financial instruments at fair value through profit or loss recognised in the Statement of Comprehensive Income from interests in unconsolidated structured entities:

	ACTUAL				
2022	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	19,455	-	6,627	(9,504)	16,578
Mortgage-backed securities	6,818	-	87,766	(97,693)	(3,109)
Agency mortgage-backed securities	12,707	-	3,787	(77,383)	(60,889)
Shareholder loans	3,292	-	-	-	3,292
Fixed income exchange traded funds	6,332	-	413	(3,696)	3,049
Collective investment funds	329	-	371,618	(20,845)	351,102
Listed global equities:					
Equity exchange traded funds	-	4,665	-	(44,369)	(39,704)
Insurance-linked investments - catastrophe bonds	35,755	-	4,493	(22,341)	17,907
Private equity investment funds	-	36,244	356,293	(50,832)	341,705
Reverse repurchase agreements	721	-	-	-	721
Unconsolidated subsidiaries	-	21,764	1,359,725	(232,097)	1,149,392
2021					
Fixed income securities:					
Asset-backed securities	25,007	-	15,143	(6,231)	33,919
Mortgage-backed securities	11,506	-	19,112	(3,504)	27,114
Agency mortgage-backed securities	8,668	-	4,600	(17,248)	(3,980)
Shareholder loans	1,208	-	-	-	1,208
Fixed income exchange traded funds	4,858	-	4,829	-	9,687
Collective investment funds	475	-	128,874	(1,129)	128,220
Listed global equities:					
Equity exchange traded funds	-	1,039	7,459	-	8,498
Insurance-linked investments - catastrophe bonds	19,288	-	12,245	(10,871)	20,662
Private equity investment funds	-	14,332	234,931	(45,007)	204,256
Reverse repurchase agreements	-	-	-	-	-
Unconsolidated subsidiaries	-	4,343	650,251	(17,898)	636,696

(c) Operating expenditure

	ACTUAL 2022 NZD'000	ACTUAL 2021 NZD'000
Reimbursement of Guardians' expenses	70,725	56,730
Managers' fees - base	40,688	36,710
Managers' fees - performance	131,798	7,394
Custody fees	6,404	6,560
Depreciation	555	512
Amortisation	27	173
Loss on disposal of property, plant and equipment	2	-
Auditor's remuneration	646	540
Professional advisors	9,349	5,534
Trade expenses	9,594	7,634
Other expenses	8,298	8,985
	278,086	**130,772**

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.

Leasehold improvements relate to office premises leased by the Guardians at 21 Queen Street, Auckland. The Guardians is the legal party to the lease, however all lease expenses are reimbursed by the NZ Super Fund. The Guardians is able to appropriate funds from the Crown to cover certain expenses, however these do not extend to property, plant and equipment. As a result, the NZ Super Fund directly meets the cost of all leasehold improvements and accordingly, these assets are reflected in the financial statements of the NZ Super Fund

(d) Auditor's remuneration

	ACTUAL 2022 NZD'000	ACTUAL 2021 NZD'000
Audit of the NZ Super Fund's financial statements	616	492
Audit of the NZ Super Fund's unconsolidated subsidiaries met by the NZ Super Fund	9	28
Other fees paid to auditor	21	20
	646	**540**

The auditor of the NZ Super Fund is Emma Winsloe of Ernst & Young, on behalf of the Auditor-General.

SECTION 7: FINANCIAL PERFORMANCE (CONTINUED)

Under Section 59B of the New Zealand Superannuation and Retirement Income Act 2001 (Act) Fund Investment Vehicles (FIVs) are not required to prepare and have financial statements audited. During the year, $9,000 was paid in respect of the voluntary audit of one unconsolidated subsidiary for the year ended 30 June 2021.

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/(income) included in the Statement of Comprehensive Income is analysed as follows:

	ACTUAL 2022 NZD'000	ACTUAL 2021 NZD'000
Components of income tax expense/(income)		
Current tax expense:		
Current period	13,493	2,194,348
Prior period adjustment	21,093	(39,430)
Total current tax expense	**34,586**	**2,154,918**
Deferred tax expense:		
Current period	(792,632)	(8,320)
Prior period adjustment	-	58
Total deferred tax expense/(income)	**(792,632)**	**(8,262)**
Income tax expense/(income)	**(758,046)**	**2,146,656**
Reconciliation of income tax expense and accounting profit/(loss) for the year		
Profit/(loss) for the year before income tax expense	(4,356,928)	13,385,101
Income tax expense/(income) calculated at 28%	(1,219,940)	3,747,828
Fair Dividend Rate*	652,663	(1,279,492)
Dividend imputation credits	(17,108)	(12,161)
Portfolio Investment Entities (PIE) Regime	40,598	(266,893)
Controlled Foreign Companies (CFC) Regime	(247,731)	(4,720)
Prior period adjustment	21,093	(39,372)
Other items	12,379	1,466
Income tax expense/(income)	**(758,046)**	**2,146,656**

* The NZ Super Fund applies the 'Fair Dividend Rate' (FDR) to all equity investments excluding New Zealand equities and certain Australian equities listed on the Australian Stock Exchange (ASX). The investments subject to FDR are taxed on 5% of their market value. Gains, losses and dividends on these investments are not subject to any further tax.

The Guardians has a Co-operative Compliance Agreement with the Inland Revenue Department (IRD). Under this agreement, tax positions undertaken on NZ Super Fund activities, including the tax treatment of new investments, are disclosed to the IRD before the tax return is filed.

The table below sets out the deferred tax (liability)/asset recognised in the Statement of Financial Position, together with movements during the year:

	ACTUAL		
	RECOGNISED 2021	(CHARGED)/ CREDITED TO PROFIT OR LOSS	RECOGNISED 2022
	NZD'000	NZD'000	NZD'000
Net deferred tax asset/(liability) comprises temporary differences attributable to:			
Losses available for offsetting against future taxable income	-	810,103	810,103
Controlled foreign companies	(41,937)	(18,986)	(60,923)
Tax credits receivable	-	2,298	2,298
Other items	(929)	(783)	(1,712)
Total deferred tax asset/(liability)	**(42,866)**	**792,632**	**749,766**

Accounting Policy

In accordance with Section HR 4B of the Income Tax Act 2007, income derived by the NZ Super Fund is subject to New Zealand tax determined using the rules applying to companies. 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.

Key judgement - recognition of deferred tax asset

The recognition of a deferred tax asset has been assessed in accordance with the probability that sufficient taxable profits will be available in the future to utilise unused tax credits and unused tax losses. The NZ Super Fund has a long history of taxable profit since inception. Although the tax position is volatile and difficult to predict, we have no reason to believe that taxable profits will not continue to be generated in the coming years in order for the deferred tax asset to be fully utilised.

SECTION 7: FINANCIAL PERFORMANCE (CONTINUED)

(f) Reconciliation of profit/(loss) for the year to net cash flows from operating activities

The following is a reconciliation of profit/(loss) for the year to cash provided by operating activities as per the Statement of Cash Flows.

	ACTUAL 2022 NZD'000	ACTUAL 2021 NZD'000
Profit/(loss) for the year after income tax expense/(income)	(3,598,882)	11,238,445
Add/(Deduct) non-cash items:		
Depreciation and amortisation	582	685
Net changes in fair value on financial instruments at fair value through profit or loss	4,989,598	(12,654,991)
Net foreign exchange (gains)/losses	143,796	(120,620)
Increase/(Decrease) in deferred tax liability	(792,632)	(8,262)
Other non-cash items	21,064	(4,691)
Add items classified as investing activities:		
Loss on disposal of property, plant and equipment	2	-
Changes in working capital:		
(Increase)/Decrease in assets:		
Trade and other receivables	(2,519,546)	(65,940)
Increase/(Decrease) in liabilities:		
Trade and other payables	4,308,605	(502,686)
Provisions	99,573	-
Increase/(Decrease) in current tax	(2,160,195)	1,629,554
Add/(Deduct) changes in net assets and liabilities related to operating cash flows not included in net profit:		
Unsettled sales	2,498,254	42,695
Unsettled purchases	(4,294,780)	532,929
Add/(Deduct) net operating cash flows not included in net profit*	(5,430,727)	(1,186,435)
Net cash provided by/(used in) operating activities	**(6,735,288)**	**(1,099,317)**

* 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 2022 (2021: $nil).

CAPITAL COMMITMENTS

At 30 June 2022, the NZ Super Fund had outstanding commitments to private equity investment funds and collective investment funds (excluding those classified as unconsolidated subsidiaries) totalling $2,333,637,000 (2021: $1,003,384,000), of which $721,000 has been called but not yet paid (2021: $745,000). 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 $690,163,000 for follow on capital (2021: $520,302,000). 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 2022, the NZ Super Fund had outstanding commitments under loan agreements (excluding those to unconsolidated subsidiaries) totalling $271,517,000 (2021: $159,072,000). 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 (2021: $nil).

(b) Events after the reporting date

On 22 August 2022, the Crown published an announcement regarding the future ownership structure of Kiwi Group Holdings Limited. The announcement confirmed that, conditional on receiving regulatory approval from the RBNZ, the shares in Kiwi Group Holdings Limited currently held by the Accident Compensation Corporation, New Zealand Post Limited and the NZ Super Fund's wholly owned subsidiary, NZSF Tui Investments Limited, are expected to be acquired by a new company, Kiwi Group Capital, yet to be incorporated. The Crown's accepted offer for NZSF Tui Investments Limited's 25% shareholding in Kiwi Group Holdings Limited totalled $527,000,000. There were no other reportable events subsequent to balance date.

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 2022 was $70,725,000 (2021: $56,730,000). The related party payable to the Guardians as at 30 June 2022 is $21,227,000 (2021: $14,197,000).

SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Subsidiaries

The NZ Super Fund's interests in unconsolidated subsidiaries are set out in Note 1(e). During the year, sixteen (2021: four) new unconsolidated subsidiaries were established for the purpose of holding, facilitating and managing its investments, as outlined in Note 1(e). Holding these investments via unconsolidated subsidiaries, rather than holding them directly, provides the NZ Super Fund with greater flexibility in terms of future investment decisions.

Transactions entered into with unconsolidated subsidiaries during the year are as follows:

	ACTUAL 2022 NZD'000	ACTUAL 2021 NZD'000
Dividend income	21,764	7,307
Other income	1,926	192
Expenses paid by the NZ Super Fund on behalf of unconsolidated subsidiaries	9	28
Interest on loans made to unconsolidated subsidiaries	3,292	1,208
Drawdown of loans	131,054	22,236
Repayment of loans	118,377	105,944

The NZ Super Fund has made the following financial commitments to unconsolidated subsidiaries:

			ACTUAL			
	NOTE	COMMITMENT EXPIRY DATE	TOTAL COMMITMENT	OUTSTANDING COMMITMENT	TOTAL COMMITMENT	OUTSTANDING COMMITMENT
			2022	2022	2021	2021
			NZD'000	NZD'000	NZD'000	NZD'000
Bain Capital Credit Managed Account (NZSF) Limited Partnership	(i)	30 June 2020	260,625	120,291	263,062	98,800
Canyon NZ-DOF Investing Limited Partnership	(ii)	1 Nov 2023	402,090	213,108	357,782	143,113
KA Waimanawa Limited Partnership	(ii)	29 Oct 2024	22,895	18,358	-	-
KKR NZSF Energy Investor Limited Partnership	(iii)	12 Feb 2019	402,090	231,811	357,782	206,266
N-Data Center Portfolio Co-Investor, LLC	(ii)	No expiry date	134,157	20,325	119,732	23,501
N-Novva Co-Investor, LLC	(ii)	No expiry date	228,744	95,613	42,414	185
NZSF Beachlands Limited	(iv)	No expiry date	5,696	1,046	-	-
NZSF Hobsonville Investments Limited	(v)	No expiry date	49,169	9,491	49,169	9,491
NZSF Horticulture Investments Limited	(v)	31 Dec 2022	5,000	-	-	-
NZSF Land Development Limited	(ii)	5 Oct 2023	240,000	227,960	-	-
NZSF Land Holdings Limited	(v)	No expiry date	11,745	129	11,745	129
NZSF Renewables NZ Limited	(iv)	30 Jun 2023	1,969	1,969	-	-
NZSF US Renewables, Inc.*	(ii)	No expiry date	138,309	3,217	123,068	-
NZSF Side Car (Movac) Limited Partnership	(i)	2 Nov 2021	25,000	2,298	25,000	4,446
NZSF Side Car (Pioneer) Limited Partnership	(i)	2 Dec 2021	60,000	8,263	60,000	14,501
NZSF Variable Co-Investment (Direct Capital) Limited Partnership	(ii)	14 Dec 2022	50,000	5,762	50,000	7,887
Stonepeak Fern Investment Partners LP	(ii)	6 Jan 2034	241,254	136,620	-	-
			2,278,743	**1,096,261**	**1,459,754**	**508,319**

* 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 $180,885,000 (equivalent to USD 112,466,000) (2021: $184,302,000) of which NZSF US Renewables, Inc.'s share is $90,443,000 (equivalent to USD 56,233,000) (2021: $92,151,000).

(i) 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.

(ii) The unconsolidated subsidiary can call on this financial commitment by giving not less than 10 business days' notice.

(iii) The contracted investment period has expired. The unconsolidated subsidiary can call for 'follow on capital' under restricted conditions to support the administration of the unconsolidated subsidiary and for existing investments. These restrictions limit the contractually available outstanding commitment stated above to $59,917,000 (2021: $53,315,000).

(iv) The unconsolidated subsidiary can call on this financial commitment by giving not less than 20 business days' notice.

(v) The unconsolidated subsidiary can call on this financial commitment by giving not less than 5 business days' notice.

SECTION 9: OTHER INFORMATION (CONTINUED)

The NZ Super Fund has made the following loans to unconsolidated subsidiaries:

	NOTE	ACTUAL 2022 NZD'000	ACTUAL 2021 NZD'000
NZSF Rural Land Limited	(i)	44,799	41,196
NZSF Southland Farms Limited	(i)	56,462	54,977
NZSF Waikato Farms Limited	(i)	15,054	16,369
NZSF Canterbury Farms Limited	(i)	92,924	6,050
KA Waimanawa Limited Partnership	(ii)	4,890	-
NZSF Australian Rural Holdings Trust	(iii)	84,653	74,397
Palgrove Holdings Pty Limited	(iv)	22,027	24,913
Palgrove Land Holdings Trust	(v)	5,682	-
NZSF Horticulture Investments Limited	(vi)	5,000	-
NZSF Land Development Limited	(i)	12,040	-
NZSF Tui Investments Limited	(i)	13,791	37,099
NZSF Timber Investments (No 4) Limited	(i)	410,439	504,250
		767,761	**759,251**

(i) Interest free, repayable on demand.

(ii) Interest bearing, repayable by 29 October 2024.

(iii) Interest bearing. $73,723k is repayable by 14 August 2027 and $10,930k is repayable by 31 March 2025.

(iv) Interest bearing. $12,959k is repayable by 14 August 2027 and $9,068k is repayable by 31 March 2025.

(v) Interest bearing, repayable by 30 June 2026.

(vi) Interest bearing, repayable by 31 December 2022.

The loans to unconsolidated subsidiaries are classified as fixed income securities in the Statement of Financial Position.

Associates

The NZ Super Fund's interests in associates are set out in Note 1(f). Transactions entered into with associates during the year are as follows:

	ACTUAL 2022 NZD'000	ACTUAL 2021 NZD'000
Interest income	38	26
Other income	317	-

The NZ Super Fund has made the following financial commitments to associates:

			ACTUAL			
	NOTE	COMMITMENT EXPIRY DATE	TOTAL COMMITMENT	OUTSTANDING COMMITMENT	TOTAL COMMITMENT	OUTSTANDING COMMITMENT
			2022	2022	2021	2021
			NZD'000	NZD'000	NZD'000	NZD'000
Sustainable Communities Infrastructure Trust	(i)	No expiry date	10,285	3,650	9,992	6,769
			10,285	**3,650**	**9,992**	**6,769**

(i) The associate can call on this financial commitment by giving not less than 10 business days' notice.

The NZ Super Fund has the following loans to associates:

	NOTE	ACTUAL	ACTUAL
		2022	2021
		NZD'000	NZD'000
Galileo Green Energy GmbH	(i)	10,387	3,656
		10,387	**3,656**

(i) Interest bearing, repayable by 4 February 2040.

SECTION 9: OTHER INFORMATION (CONTINUED)

Joint ventures

The NZ Super Fund's interests in joint ventures are set out in Note 1(g). Transactions entered into with joint ventures during the year are as follows:

	ACTUAL	ACTUAL
	2022	2021
	NZD'000	NZD'000
Dividend income	5,811	4,489
Other income	345	289

The NZ Super Fund has made the following financial commitments to joint ventures:

			ACTUAL			
	NOTE	COMMITMENT EXPIRY DATE	TOTAL COMMITMENT	OUTSTANDING COMMITMENT	TOTAL COMMITMENT	OUTSTANDING COMMITMENT
			2022	2022	2021	2021
			NZD'000	NZD'000	NZD'000	NZD'000
RA (Holdings) 2014 Pty Limited	(i)	31 March 2022	-	-	10,744	10,744
Datacom Group Limited	(ii)	No expiry date	-	-	18,888	18,888
			-	**-**	**29,632**	**29,632**

(i) The joint venture can call on this financial commitment under a mutually agreed notice period.

(ii) The acquisition of a further $18,888,000 of shares in Datacom Group Limited was completed in September 2021.

OTHER GOVERNMENT-RELATED ENTITIES

At balance date, the NZ Super Fund held fixed income securities issued by the New Zealand Government valued at $32,990,000 (2021: $33,241,000). Interest income earned from these investments during the year was $1,169,000 (2021: $1,771,000).

At balance date, the NZ Super Fund held inflation-indexed securities issued by the New Zealand Government valued at $122,386,000 (2021: $124,637,000). Income earned from these investments during the year was $2,299,000 (2021: $2,352,000).

At balance date, the NZ Super Fund held fixed income securities issued by Housing New Zealand Limited valued at $191,841,000 (2021: $128,417,000). Interest income earned from these investments during the year was $4,230,000 (2021: $3,743,000).

At balance date, the NZ Super Fund held 27,862,000 (2021: 31,668,000) shares in Meridian Energy Limited, valued at $130,392,000 (2021: $168,790,000). Dividend income earned during the year from holdings in this entity amounted to $4,960,000 (2021: $4,232,000).

At balance date, the NZ Super Fund held 10,858,000 (2021: 15,134,000) shares in Mercury NZ Limited, valued at $61,346,000 (2021: $100,946,000). Dividend income earned during the year from holdings in this entity amounted to $2,304,000 (2021: $2,450,000).

At balance date, the NZ Super Fund held, through its subsidiary NZSF Tui Investments Limited, 227,789,000 (2021: 227,789,000) ordinary shares and 61,750,000 (2021: 61,750,000) redeemable preference shares in Kiwi Group Holdings Limited. The total cost of these investments was $316,271,000 (2021: $316,271,000). Dividend income earned during the year from holdings in this entity amounted to $23,308,000 (2021: $5,558,000).

(b) Comparison to budget (unaudited)

During the year ended 30 June 2022 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 NEW ZEALAND SUPERANNUATION FUND'S FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2022

The Auditor-General is the auditor of New Zealand Superannuation Fund (the Fund). The Auditor-General has appointed me, Emma Winsloe, 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 170 to 232, that comprise the statement of financial position as at 30 June 2022, 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 170 to 232:

- present fairly, in all material respects:
  - its financial position as at 30 June 2022; 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 30 September 2022. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of the Guardians of New Zealand Superannuation (the Guardians) and our responsibilities relating to the financial statements, we comment on other information, and we explain our independence.

BASIS FOR OUR OPINION

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

RESPONSIBILITIES OF THE GUARDIANS FOR THE FINANCIAL STATEMENTS

The Guardians are responsible on behalf of the Fund for preparing financial statements that are fairly presented and comply with generally accepted accounting practice in New Zealand in accordance with NZ IFRS and IFRS.

The Guardians are responsible for such internal control as they determine is necessary to enable them to prepare financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Guardians are responsible on behalf of the Fund for assessing the Fund's ability to continue as a going concern. The Guardians are also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the Fund or to cease operations, or there is no realistic alternative but to do so.

The Guardians' responsibilities arise from the New Zealand Superannuation and Retirement Income Act 2001.

RESPONSIBILITIES OF THE AUDITOR FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements.

For the budget information reported in the financial statements, our procedures were limited to checking that the information agreed to the Fund's Statement of Performance Expectations for the period 1 July 2021 to 30 June 2022.

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 121, 127 to 142, 169, 235, 264 to 273, 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.

In addition to the audit we have carried out agreed-upon procedures engagements for one of the Fund's subsidiaries, which are compatible with those independence requirements. We also act as auditor of some of the Fund's investment vehicle subsidiaries. Other than the audit and these engagements, we have no relationship with or interests in the Fund, or any of its subsidiaries.

Emma Winsloe

Emma Winsloe
Ernst & Young
On behalf of the Auditor-General
Auckland, New Zealand

STATEMENT OF RESPONSIBILITY

For the year ended 30 June 2022

The Board and management of the Guardians of New Zealand Superannuation accept responsibility for the preparation of the annual financial statements of the Elevate NZ Venture Fund and Group and the judgements used in them.

The Board and management of the Guardians of New Zealand Superannuation accept responsibility for establishing and maintaining a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of financial and non-financial reporting of the Elevate NZ Venture Fund and Group.

In the opinion of the Board and management of the Guardians of New Zealand Superannuation, the annual financial statements for the year ended 30 June 2022 fairly reflect the financial position, operations and cash flows of the Elevate NZ Venture Fund and Group.

CATHERINE DRAYTON

CHAIR
30 September 2022

MATTHEW WHINERAY

CHIEF EXECUTIVE OFFICER
30 September 2022

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022	NOTE	ACTUAL	ACTUAL
		2022	2021
		NZD'000	NZD'000
ASSETS			
Current assets			
Cash and cash equivalents	2(a), 4(a), 4(b)	13,223	2,761
Receivables	2(a), 4(a), 4(c)	11	2,275
Total current assets		**13,234**	**5,036**
Non-current assets			
Investments	2(a), 4(a), 4(d)	56,070	12,849
Total non-current assets		**56,070**	**12,849**
Total assets		**69,304**	**17,885**
LIABILITIES			
Current liabilities			
Trade and other payables	2(a), 4(a), 4(e)	663	724
Total current liabilities		**663**	**724**
Total liabilities		**663**	**724**
Net assets/(liabilities)		**68,641**	**17,161**
PUBLIC EQUITY			
Accumulated comprehensive revenue and expense		(11,911)	(6,244)
Contributed capital	5(a)	80,552	23,405
Total public equity		**68,641**	**17,161**

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

For the year end 30 June 2022	NOTE	ACTUAL	ACTUAL
		2022	2021
		NZD'000	NZD'000
Net operating revenue	6(a)	(2,866)	(1,930)
Expenses	6(c)	2,801	3,402
Surplus/(Deficit) for the year before income tax expense		**(5,667)**	**(5,332)**
Income tax expense	6(e)	-	-
Surplus/(Deficit) for the year after income tax expense		**(5,667)**	**(5,332)**
Other comprehensive revenue and expense		-	-
Total comprehensive revenue and expense for the year		**(5,667)**	**(5,332)**

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 2022		ACTUAL		
	NOTE	CONTRIBUTED CAPITAL NZD'000	ACCUMULATED COMPREHENSIVE REVENUE AND EXPENSE NZD'000	TOTAL NZD'000
Balance at 1 July 2020		**-**	**(912)**	**(912)**
Total comprehensive revenue and expense for the period			(5,332)	(5,332)
Capital contributions from the Crown	5(a)	23,405		23,405
Balance at 30 June 2021		**23,405**	**(6,244)**	**17,161**
Total comprehensive revenue and expense for the year			(5,667)	(5,667)
Capital contributions from the Crown	5(a)	57,147		57,147
Balance at 30 June 2022		**80,552**	**(11,911)**	**68,641**

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 2022	NOTE	ACTUAL 2022 NZD'000	ACTUAL 2021 NZD'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Interest received		132	24
Total cash inflow from operating activities		**132**	**24**
Cash was applied to:			
Purchases of investments		(43,944)	(17,078)
Managers' fees		(2,331)	(2,795)
Reimbursement of Guardians' expenses		(500)	(774)
Payments to suppliers		(42)	(21)
Total cash outflow from operating activities		**(46,817)**	**(20,668)**
Net cash flows provided by/(used in) operating activities		**(46,685)**	**(20,644)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from:			
Capital contributions from the Crown		57,147	23,405
Net cash flows provided by/(used in) financing activities		**57,147**	**23,405**
Net increase/(decrease) in cash and cash equivalents		**10,462**	**2,761**
Cash and cash equivalents at the beginning of the year		2,761	-
Cash and cash equivalents at the end of the year	2(a), 4(a), 4(b)	**13,223**	**2,761**

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

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 30 June 2022	ACTUAL 2022 NZD'000	ACTUAL 2021 NZD'000
RECONCILIATION OF SURPLUS/(DEFICIT) FOR THE YEAR TO NET CASH FLOWS PROVIDED BY/(USED IN) OPERATING ACTIVITIES		
Surplus/(Deficit) for the year	(5,667)	(5,332)
Add/(Deduct) non-cash items:		
Net changes in fair value on financial instruments at fair value through surplus or deficit	2,998	1,975
Net foreign exchange (gains)/losses	-	(21)
Changes in working capital:		
(Increase)/Decrease in assets:		
Receivables excluding investment prepayments	(11)	96
Increase/(Decrease) in liabilities:		
Trade and other payables	(61)	(284)
Add/(Deduct) net operating cash flows not included in net deficit*	(43,944)	(17,078)
Net cash provided by/(used in) operating activities	**(46,685)**	**(20,644)**

* Net operating cash flows not included in net deficit comprises the cash flows arising from the purchase of investments.

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

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

(a) General information

These are the consolidated financial statements of the Elevate NZ Venture Fund (Elevate Fund) and its subsidiary (Group). The Elevate Fund is a venture capital fund established under Section 8 of the Venture Capital Fund Act 2019 (Act) on 13 December 2019.

The purpose of the Elevate Fund is to contribute to a sustainable and productive economy by increasing the venture capital available to New Zealand entities and by developing New Zealand's venture capital markets to function more effectively.

The Elevate Fund is managed and administered by the Guardians of New Zealand Superannuation (Guardians). The Guardians was established as a Crown entity by Section 48 of the New Zealand Superannuation and Retirement Income Act 2001 and became operative from 30 August 2002. The Guardians is expected to invest the Elevate Fund in New Zealand's venture capital markets using best-practice investment management that is appropriate for institutional investment in those markets and in doing so, the Guardians must manage and administer the Elevate Fund in a manner consistent with avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

The Elevate Fund invests via its wholly owned subsidiary, the Elevate NZ Venture Fund Limited Partnership. The General Partner of the limited partnership is Elevate NZ Venture Fund GP Limited, a wholly owned subsidiary of New Zealand Growth Capital Partners (NZGCP). The General Partner is responsible for the management, operation and administration of the limited partnership.

The Elevate Fund is domiciled in New Zealand and the address of its principal place of business is set out in the Corporate Directory on page 273.

The consolidated financial statements of the Group for the year ended 30 June 2022 were authorised for issue in accordance with a resolution of the Board of the Guardians of New Zealand Superannuation on 30 September 2022.

(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 Public Benefit Entity Standards (PBE Standards).

(c) Basis of preparation

The financial statements have been prepared on a historical cost basis, except where modified by the measurement of financial assets at fair value.

The financial statements are presented in New Zealand dollars. All values are rounded to the nearest thousand dollars (NZD'000) unless stated otherwise.

Accounting policies are selected and applied in a manner that ensures the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring the substance of the underlying transactions or other events is reported. Accounting policies relating to specific financial statement items are set out in the relevant notes to the financial statements. Accounting policies that materially affect the financial statements as a whole are set out below.

(d) Significant judgements and estimates

The preparation of the Group's financial statements requires the Board and management to make judgements and use estimates that affect the reported amounts of revenue, expenses, assets, liabilities and the accompanying disclosures. Uncertainty about these judgements and estimates could result in outcomes that require a material adjustment to the carrying amounts of assets and liabilities in future periods. The judgements and estimates used in respect of the Group are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances. The 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 of control (Note 1(f));
- Assessment of investments in structured entities (Note 1(g)); and
- Determination of fair value (Note 2(b)).

COVID-19 PANDEMIC AND OTHER MACRO FACTORS

The COVID-19 pandemic continues to have an impact on the value of certain investments as businesses and governments continue to respond to the outbreak. Additional judgement and valuation uncertainty has also been introduced in the current financial year as a result of rising interest rates and inflationary pressures, increased geopolitical tensions and global supply issues. The longer term direct and indirect impacts of all of these factors on the value of investments remains uncertain.

Refer to Notes 2(a), 2(b), and 2(d) for further disclosures on the impact of the COVID-19 pandemic and other macro factors.

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

(e) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Elevate Fund and its subsidiary as at 30 June 2022.

The financial statements of the subsidiary are prepared for the same reporting period as the Elevate Fund using consistent accounting policies. In preparing consolidated financial statements, all inter-entity transactions, balances, unrealised gains and losses are eliminated.

(f) Subsidiaries

Subsidiaries are those entities that are controlled by the Elevate Fund under the provisions of PBE IPSAS 35 Consolidated Financial Statements. The Elevate Fund controls an entity when it is exposed to, or has rights to, variable benefits from its involvement with the entity and has the ability to affect the nature or amount of those benefits through its power over the entity. The Elevate Fund's control of an entity is reassessed if facts and circumstances indicate that there are changes to one or more of the elements of control.

Under Section 25 of the Act, all or any of the investments of the Elevate Fund may be held in a Venture Capital Fund Investment Vehicle (VIV) that is formed or controlled by the Guardians for the purposes of holding, facilitating, or managing investments of the Elevate Fund. A VIV that is controlled by the Guardians is a subsidiary of the Elevate Fund for accounting purposes.

The Elevate Fund has an interest in the following subsidiary:

				OWNERSHIP INTEREST	
			COUNTRY OF	2022	2021
NAME	NOTE	BALANCE DATE	INCORPORATION	%	%
Elevate NZ Venture Fund Limited Partnership	(i)	30 June	New Zealand	100.0	100.0

(i) Elevate NZ Venture Fund Limited Partnership is a Venture Capital Fund Investment Vehicle (VIV) established for the purpose of holding, facilitating and managing investments of the Elevate Fund.

Key judgement - assessment of control

The Elevate Fund's investment in its subsidiary has been assessed in light of the control model established under PBE IPSAS 35 Consolidated Financial Statements to ensure the correct classification and disclosure of its investment in the subsidiary.

(g) Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes:

- Restricted activities;
- A narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors;
- Insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and
- Financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks.

The Group is principally involved with structured entities through its investments in venture capital investment funds. The Group invests in structured entities to assist with the implementation of its overall investment strategy. The Group does not sponsor any structured entities.

VENTURE CAPITAL INVESTMENT FUNDS

Venture capital investment funds provide a mechanism to share exposure with other investors and may take various legal forms (e.g. limited liability companies, limited partnerships). The Group makes commitments to, and investments in, these legal structures and in return is issued with rights to a proportional stake in their net assets. They have a broad range of investment objectives and are managed by unrelated asset managers who apply various investment strategies to accomplish their respective investment objectives.

Key judgement - assessment of investments in structured entities

The Board and management have assessed which of the Group's investments are investments in structured entities. In doing so, the Board and management have considered voting rights and other similar rights afforded to investors as well as any contractual arrangements in place with these investments.

The Board and management have concluded that certain of the Group's investments meet the definition of a structured entity because:

- The voting rights in the investments are not the dominant factor in deciding who controls the investment; and
- The investments have narrow and well-defined objectives to provide investment opportunities to investors.

Further disclosures on structured entities are contained in Notes 3(e) and 6(b).

(h) Foreign currency translation

FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the Group operates (the functional currency). The functional currency of the Group is New Zealand dollars. It is also the presentation currency.

TRANSACTIONS AND BALANCES

Transactions denominated in foreign currencies are converted to New Zealand dollars using the exchange rates prevailing at the dates of the transactions. Foreign currency monetary assets and liabilities are translated at the exchange rate prevailing at balance date. Where there is a movement in the exchange rate between the date of a foreign currency transaction and balance date, the resulting exchange differences are recognised in the Consolidated Statement of Comprehensive Revenue and Expense.

(i) Goods and services tax (GST)

The Elevate NZ Venture Fund Limited Partnership is registered for GST. The limited partnership invests in venture capital investment funds that, in turn, have a mix of GST taxable and exempt supplies. Consequently, the Elevate NZ Venture Fund Limited Partnership must apportion GST on expenses. Revenue, expenses, assets and liabilities are recognised in the financial statements exclusive of GST, with the exception of receivables and payables which are stated inclusive of GST. Where GST is irrecoverable as an input tax, it is recognised as part of the related asset or expense. The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the Consolidated Statement of Financial Position.

(j) Statement of Cash Flows

The following are the definitions of the terms used in the Consolidated Statement of Cash Flows:

Operating activities include all activities other than financing activities.

Financing activities are those activities relating to changes in public equity and debt capital structure of the Group and those activities relating to the cost of servicing the Group's equity capital.

Cash flows are included in the Consolidated Statement of Cash Flows on a gross basis. The GST component of cash flows arising from financing activities, which is recoverable from, or payable to, the IRD, is classified as cash flows from operating activities.

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

(k) Changes in accounting policies

There have been no changes in accounting policies during the year. All accounting policies are consistent with those applied in the previous financial year.

(l) Standards issued but not yet effective

The following standards have been issued but are not yet effective for the year ended 30 June 2022:

PBE IPSAS 41 FINANCIAL INSTRUMENTS

PBE IPSAS 41 Financial Instruments introduces requirements for the recognition and measurement of financial instruments by Tier 1 and Tier 2 public benefit entities. It supersedes PBE IFRS 9 Financial Instruments, which was issued as an interim standard to mitigate the effect on mixed groups of differences between New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and PBE standards. The standard is effective for reporting periods beginning on or after 1 January 2022. The Board and management do not expect any significant changes as a result of this new standard as the requirements are almost identical to PBE IFRS 9 Financial Instruments.

PBE FRS 48 SERVICE PERFORMANCE REPORTING

PBE FRS 48 Service Performance Reporting introduces requirements for public benefit entities to select and present service performance information. It replaces the service performance reporting requirements of PBE IPSAS 1 Presentation of Financial Statements and is effective for reporting periods beginning on or after 1 January 2022. The Board and management are currently assessing the impact of this new standard on the Elevate Fund's Statement of Performance. Some additional disclosures will be required under the new standard but the Board and management do not expect significant changes.

SECTION 2: FAIR VALUE

(a) Fair value measurement

Accounting Policy

The majority of the Group's investments are measured at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Management uses valuation techniques for the Group that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within a fair value hierarchy as follows:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets and liabilities. An active market is one where prices are readily available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The fair value of Level 1 assets and liabilities requires little or no judgement.

Level 2 - Valuation techniques that use observable market data. Such techniques include the use of market standard discounting methodologies, option pricing models and other valuation techniques widely used and accepted by market participants.

Level 3 - Valuation techniques that use inputs not based on observable market data. Unobservable inputs are those not readily available in an active market due to illiquidity or complexity of the product. These inputs are generally derived and extrapolated from other relevant market data and calibrated against current market trends and historic transactions. These valuations are calculated using a high degree of management judgement.

Whilst the determination of fair value of investments categorised under Level 3 is subject to careful consideration and consultation with a range of reliable and independent sources, there remains uncertainty about certain judgements and estimates used as a result of both the direct and indirect impacts of the ongoing COVID-19 pandemic, the impact of rising interest rates and inflationary pressures, increased geopolitical tensions and global supply issues.

The level within which an asset or liability is categorised in the fair value hierarchy is determined based on the highest numerical level in the fair value hierarchy that is significant to the fair value measurement as a whole.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2022

SECTION 2: FAIR VALUE (CONTINUED)

The fair value of the Group's assets and liabilities are categorised as follows:

		ACTUAL					
2022	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)				-	13,223	13,223
Receivables	4(a), 4(c)				-	11	11
Investments							
Venture capital investment funds	4(a), 4(d)			56,070	56,070		56,070
Total investments		-	-	56,070	56,070	-	56,070
Total assets		**-**	**-**	**56,070**	**56,070**	**13,234**	**69,304**
LIABILITIES							
Trade and other payables	4(a), 4(e)				-	663	663
Total liabilities		**-**	**-**	**-**	**-**	**663**	**663**
2021							
ASSETS							
Cash and cash equivalents	4(a), 4(b)				-	2,761	2,761
Receivables	4(a), 4(c)				-	2,275	2,275
Investments							
Venture capital investment funds	4(a), 4(d)			12,849	12,849		12,849
Total investments		-	-	12,849	12,849	-	12,849
Total assets		**-**	**-**	**12,849**	**12,849**	**5,036**	**17,885**
LIABILITIES							
Trade and other payables	4(a), 4(e)				-	724	724
Total liabilities		**-**	**-**	**-**	**-**	**724**	**724**

* Assets and liabilities not measured at fair value are carried at amortised cost but their carrying values are a reasonable approximation of fair value.

(b) Determination of fair value

The specific valuation techniques and the observability of the inputs used in valuation models are outlined below:

VENTURE CAPITAL INVESTMENT FUNDS

The International Private Equity and Venture Capital Valuation Guidelines (IPEV) have been accepted as the industry standard valuation guidelines, are based on the principle of fair value and are reviewed following any relevant changes in accounting standards or market practices. The IPEV guidelines set out principles for investors to determine fair value for their investments and have been adopted by the Group.

In line with the IPEV guidelines, the Group adopts the fair value of venture capital investment funds as provided by the investment managers or administrators at balance date. Prices are based on the fair value of the underlying net assets of the venture capital investment funds which are determined using a variety of methods, including independent valuations, valuation models based on the price of recent transactions, earnings multiples or discounted cash flows and are classified within Level 3 of the fair value hierarchy.

The Group has access to the valuation processes and methodologies adopted by external fund managers through positions on Limited Partnership Advisory Panels (LPACs) with each venture capital investment fund and through ongoing conviction reviews of those managers. Valuations provided are also considered alongside any other available evidence before being adopted.

Key judgement - determination of fair value

Where the fair value of assets and liabilities cannot be measured based on quoted prices in active markets, fair value is determined using valuation techniques with market observable inputs from third parties such as brokers or pricing vendors. For assets that have no quoted price (which consist of investments in venture capital investment funds) the determination of fair value requires significant judgement. Fair value for these assets is determined as follows:

VENTURE CAPITAL INVESTMENT FUNDS WHERE FAIR VALUE IS PROVIDED BY INVESTMENT MANAGERS OR ADMINISTRATORS

The fair value of venture capital investment funds is provided by the investment managers or administrators at balance date. Depending on the nature of the underlying instruments, investment managers and administrators may use observable market prices, their own models or they may engage independent valuers who use models to obtain the fair value of investments. The Board and management may also directly appoint independent valuers to obtain the fair value of certain investments where this information is unable to be provided by an investment manager or administrator or where an investment is directly managed by the Group.

VALUATION UNCERTAINTY DUE TO THE COVID-19 PANDEMIC AND OTHER MACRO FACTORS

Since the fair value of investments categorised within Level 1 or Level 2 of the fair value hierarchy reflect market observable prices or inputs, they are inherently less subjective and their valuation less uncertain than those investments categorised within Level 3 of the fair value hierarchy.

All investments made by the Group are categorised within Level 3 of the fair value hierarchy and these investments, by their nature, are inherently more subjective and therefore more exposed to valuation uncertainty as at 30 June 2022.

Whilst the determination of fair value in relation to these investments is subject to careful consideration and consultation with a range of reliable and independent sources, the longer term direct and indirect impacts on the valuation of these investments resulting from the ongoing COVID-19 pandemic, the impact of rising interest rates and inflationary pressures, increased geopolitical tensions and global supply issues, remain uncertain. The Board and management continue to monitor and evaluate the appropriateness of specific valuation techniques and the judgements and estimates used when determining the fair value of these assets to assess whether material adjustments might be required to their carrying value.

Reporting from investment managers regarding externally managed investment vehicles has also been scrutinised to ensure the impact of the ongoing COVID-19 pandemic has been adequately considered and reflected in the valuation of the investments under their stewardship.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2022

SECTION 2: FAIR VALUE (CONTINUED)

(c) Reconciliation of fair value measurement under Level 3 hierarchy

The following table provides a reconciliation of movements in the fair value of financial assets categorised within Level 3 of the fair value hierarchy:

	ACTUAL 2022 NZD'000	ACTUAL 2021 NZD'000
Opening balance	12,849	-
Purchases (excluding investment prepayments)	46,219	14,803
Unrealised gains/(losses) recognised in net changes in fair value on financial instruments at fair value through surplus or deficit	(2,998)	(1,954)
Closing balance	**56,070**	**12,849**

(d) Fair value sensitivity

The following table shows the Group's sensitivity of fair value measurement to likely changes in non-market observable inputs (where appropriate, to one standard deviation) for financial assets categorised within Level 3 of the fair value hierarchy:

	ACTUAL			
2022	NON-MARKET OBSERVABLE INPUT	MOVEMENT	IMPACT ON FAIR VALUE MEASUREMENT	
			INCREASE	DECREASE
		%	NZD'000	NZD'000
Venture capital investment funds	(i)	35	19,625	(19,625)
2021				
Venture capital investment funds	(i)	25	3,212	(3,212)

(i) Level 3 financial assets categorised as venture capital investment funds provide the Group with exposure to a variety of assets across numerous industries and are held via externally managed investment vehicles. Valuations for these investments are provided directly by independent valuers, or by investment managers or administrators if held via a managed structure. The Group does not always have access to the underlying valuation models to fully disclose sensitivities to specific assumptions.

By their nature, investments in this category are inherently subjective and exposed to valuation uncertainty, which has increased further both directly and indirectly as a result of the ongoing COVID-19 pandemic, the impact of rising interest rates and inflationary pressures, increased geopolitical tensions and global supply issues. The determination of fair value for these investments is subject to careful consideration and consultation with a range of reliable and independent sources. Refer to Note 2(b) for further disclosure on the determination of fair value.

The Board and management have assessed that the reasonably likely movement in fair value for these financial assets in a one-year period is 30%-40% (2021: 20%-30%) for venture capital investment funds, based on internal risk modelling.

Valuations for these investments are provided directly by investment managers. The Group does not always have access to the underlying valuation models to fully disclose sensitivity assumptions. All investments are unlisted early-stage growth companies which inherently imposes significant risks and returns and are most likely illiquid assets.

SECTION 3: RISK MANAGEMENT

(a) Risk management

Understanding and managing risk is considered a fundamental activity that is central to the management of the Elevate Fund. While risk is a necessary part of the Elevate Fund's activities, it must be understood to ensure the risk profile adopted is commensurate with the objective of the Elevate Fund. Effective risk management is critical to maintaining public and stakeholder confidence in the Guardians as manager of the Elevate Fund.

The Group's investment activities expose it to various types of risk including market risk, credit risk and liquidity risk. The Board and management of the Guardians are responsible for the management of these risks. A separate Risk Committee has been established by management as a risk leadership body to provide 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 Group's exposure to risk. The framework for managing this risk is set out in its Statement of Investment Policies, Standards and Procedures.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as equity prices, interest rates and foreign exchange rates. The market risks that the Elevate Fund is primarily exposed to are equity price risk, foreign currency 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 Group invests through venture capital investment funds into unlisted early-stage growth companies. Unlisted investments are generally not publicly traded. As there may be no open market to establish an independent value for certain unlisted investments, there can be no assurance that a determination of fair value for an unlisted investment will be obtainable in the market, or that there will be a market for the unlisted investment. Refer to Note 2(b) for further disclosure on the determination of fair value.

FOREIGN CURRENCY RISK

Foreign currency risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in foreign exchange rates. The Group is exposed to foreign currency risk through its investment in offshore assets made via venture capital investment funds, which are managed by investment managers. These investments are denominated in United States dollars.

Foreign currency risk is not currently actively managed by the Group given the limited foreign currency exposure at balance date.

As at 30 June 2022, if there were a 10% movement in the New Zealand dollar against the United States dollar, with all other variables remaining constant, the Group's surplus/(deficit) for the year would have been $313,000 (2021: $151,000) higher/lower. A 10% movement represents the Board's and management's assessment of a reasonably possible change in the value of the New Zealand dollar relative to the United States dollar 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. The Group's exposure to interest rate risk is limited to movements in short-term interest rates in relation to cash and cash equivalents which are held in short-term floating interest rate accounts. Requests for capital contributions from the Crown are made as and when required to minimise cash holdings in the Group. The Board and management ensure the Group receives a fair market return on its cash position but do not actively monitor exposure to interest rates or interest rate returns and considers the risk immaterial.

SECTION 3: RISK MANAGEMENT (CONTINUED)

(c) Credit risk

Credit risk is the risk that a third party will default on its obligation to the Group, causing the Group to incur a loss. The Group is exposed to credit risk arising from its cash and cash equivalents, receivables and investments. The maximum amount of credit risk for each class of financial asset is the carrying amount included in the Consolidated Statement of Financial Position.

The Board and management mitigate the Group's exposure to credit risk by investing cash and cash equivalents with reputable financial institutions with a high credit rating.

The Board and management mitigate the Group's exposure to credit risk associated with its investments by applying specific prudential limits to any exposure to any single investment manager. The use of, and capital allocated to, external investment managers is governed by the Group's investment policies. Each external investment manager relationship is governed by an investment management agreement which outlines the key terms and conditions of the appointment. External investment managers are monitored individually on an on-going basis.

CONCENTRATIONS OF CREDIT RISK

Concentration of credit risk exists if a single counterparty, or group of counterparties, is engaged in similar activities, operate within similar geographies, industries, or have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions.

Cash and cash equivalents is primarily held with ASB Bank Limited which had a credit rating of AA-, obtained from Standard & Poor's as at 30 June 2022 (2021: AA-).

The following tables analyse the Group's concentration of credit risk by geographical and industrial distribution.

	ACTUAL 2022 %	ACTUAL 2021 %
By geography		
New Zealand	100	100
	100	**100**
By industry		
Venture capital investment funds	100	100
	100	**100**

In accordance with the requirements of the Act and the associated Policy Statement, the Elevate Fund must be invested wholly or substantially in funds with a New Zealand connection, and those funds must invest wholly or substantially in New Zealand entities. As at 30 June 2022, the Elevate Fund was in compliance with this requirement.

(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities as they fall due. The Group's liquidity framework is designed to ensure that the Group has the ability to access sufficient cash in a timely manner to meet its financial commitments.

In addition, the Guardians has entered into an Uncalled Capital Contribution Agreement with the Crown under which the Crown makes available capital in accordance with Section 13 of the Act. The Guardians may request a capital contribution under the terms of this agreement and apply this capital to make payments for any purpose as permitted under Section 12 of the Act, which includes payment for any obligation directly related to the operation of the Elevate Fund.

(e) Risks associated with structured entities

The following table summarises the carrying values recognised in the Consolidated Statement of Financial Position of the Group's investments in structured entities, as well as the maximum exposure to loss. The maximum exposure to loss is contingent in nature and may arise as a result of the provision of funding commitments (which are common with venture capital investment funds).

The value of the assets of the structured entities themselves have been provided as an indicator of their size, relative to the size of the Group's interest in these entities. These values represent the most current available information.

	ACTUAL			
	MAXIMUM EXPOSURE TO LOSS			
2022	CARRYING VALUE OF INVESTMENTS	UNDRAWN COMMITMENTS	TOTAL INVESTMENTS AND UNDRAWN COMMITMENTS	ASSETS OF THE STRUCTURED ENTITY*
	NZD'000	NZD'000	NZD'000	NZD'000
Venture capital investment funds	56,070	119,288	175,358	259,769
	56,070	**119,288**	**175,358**	**259,769**
2021				
Venture capital investment funds	12,849	72,288	85,137	60,573
	12,849	**72,288**	**85,137**	**60,573**

* Including the value of the Group's investment.

SECTION SIX

06

FINANCIAL STATEMENTS – ELEVATE NZ VENTURE FUND AND GROUP

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2022

SECTION 4: FINANCIAL ASSETS AND LIABILITIES

(a) Financial instruments

		ACTUAL			
2022	NOTE	FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH SURPLUS OR DEFICIT	FINANCIAL ASSETS AT AMORTISED COST	FINANCIAL LIABILITIES AT AMORTISED COST	TOTAL
		NZD'000	NZD'000	NZD'000	NZD'000
Financial assets					
Cash and cash equivalents	4(b)		13,223		13,223
Receivables	4(c)		11		11
Investments					
Venture capital investment funds	4(d)	56,070			56,070
Total financial assets		**56,070**	**13,234**	**-**	**69,304**
Financial liabilities					
Trade and other payables	4(e)			663	663
Total financial liabilities		**-**	**-**	**663**	**663**
2021					
Financial assets					
Cash and cash equivalents	4(b)		2,761		2,761
Receivables	4(c)		2,275		2,275
Investments					
Venture capital investment funds	4(d)	12,849			12,849
Total financial assets		**12,849**	**5,036**	**-**	**17,885**
Financial liabilities					
Trade and other payables	4(e)			724	724
Total financial liabilities		**-**	**-**	**724**	**724**

Accounting Policy

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The Group is party to financial instruments as part of its normal operations. These financial instruments include cash and cash equivalents, receivables, investments and payables. All financial instruments are recognised in the Consolidated Statement of Financial Position and all revenues and expenses in relation to financial instruments are recognised in the Consolidated Statement of Comprehensive Revenue and Expense.

INITIAL RECOGNITION

Financial assets and financial liabilities are recognised in the Consolidated Statement of Financial Position when the Group becomes a party to the contractual provisions of the financial instrument. They are initially recognised at fair value plus, in the case of financial assets and financial liabilities not recorded at fair value through surplus or deficit, transaction costs that are attributable to the acquisition of the financial asset or financial liability. Transaction costs of financial assets carried at fair value through surplus or deficit are expensed in the Consolidated Statement of Comprehensive Revenue and Expense.

Purchases or sales of financial instruments are recognised on the trade date i.e. the date on which the Group commits to purchase or sell the financial instrument.

The classification of financial assets at initial recognition depends on the Group's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. In making an assessment of the business model for managing a financial asset, the Board and management consider all relevant information such as the investment objectives of the Group and how performance is evaluated and reported to the Board and management.

SUBSEQUENT MEASUREMENT

The Group's financial assets and financial liabilities are subsequently classified into the following categories:

- Those to be measured at fair value through surplus or deficit; and
- Those to be measured at amortised cost.

The Group's financial assets are reclassified when, and only when, the business model for managing those financial assets changes.

Financial assets at fair value through surplus or deficit

The following financial assets are classified at fair value through surplus or deficit:

- Financial assets that do not qualify for measurement at amortised cost; and
- Financial assets for which the Group has not elected to recognise fair value gains and losses through other comprehensive revenue and expense.

This category includes investments. These financial assets are managed and have their performance evaluated on a fair value basis.

Financial assets at fair value through surplus or deficit are recognised in the Consolidated Statement of Financial Position at fair value with changes in fair value being recognised in the Consolidated Statement of Comprehensive Revenue and Expense in the period in which they arise.

Financial assets at amortised cost

The Group's financial assets are classified at amortised cost if both of the following criteria are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows; and
- The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest.

This category includes cash and cash equivalents and receivables. Subsequent to initial recognition, financial assets at amortised cost are measured at amortised cost using the effective interest method and are subject to impairment. When a financial asset is impaired, impairment losses are recognised in the Consolidated Statement of Comprehensive Revenue and Expense in the period in which they arise.

Financial liabilities at amortised cost

Financial liabilities at amortised cost are non-derivative financial liabilities. This category includes trade payables and accrued expenses. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

DERECOGNITION

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or when the Group has transferred substantially all of the risks and rewards of ownership. A financial liability is derecognised when the Group's obligation under the liability is discharged, cancelled or has expired.

IMPAIRMENT

The Board and management assess, at each reporting date, whether a financial asset is impaired. The amount of the impairment loss is the difference between the contractual cash flows due in relation to the financial asset and the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate.

Financial assets that are measured at amortised cost and therefore subject to the impairment provisions (the 'expected credit loss model') of PBE IFRS 9 Financial Instruments comprise cash and cash equivalents and receivables.

The risk of impairment loss for cash and cash equivalents is considered immaterial. Disclosures relating to the impairment of receivables are provided in Note 4(c).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2022

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group offsets financial assets and financial liabilities when it has a current legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis.

(b) Cash and cash equivalents

Accounting Policy

Cash and cash equivalents includes cash on hand, cash held in bank accounts, demand deposits and other highly liquid investments with original maturities of three months or less, which have an insignificant risk of change in fair value.

(c) Receivables

	ACTUAL 2022 NZD'000	ACTUAL 2021 NZD'000
Receivables from exchange transactions		
Investment prepayments	-	2,275
Other	11	-
	11	**2,275**

Accounting Policy

Receivables are initially recognised at fair value which is equal to the amount of consideration that is unconditional. The Group holds receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost less impairment losses using the effective interest method.

The Board and management have applied a simplified approach for calculating expected credit losses (ECLs) on receivables under PBE IFRS 9 Financial Instruments. As a result, the Board and management do not track changes in credit risk, but instead, recognise impairment losses based on lifetime ECLs at each reporting date. The Group's approach to ECLs reflects a probability-weighted outcome using reasonable and supportable information that is available without undue cost or effort at reporting date about past events, current conditions and forecast of future economic conditions.

Investment prepayments in the prior year relates to a capital call that was paid to one of the Group's venture capital investment funds prior to the due date.

(d) Investments

	ACTUAL 2022 NZD'000	ACTUAL 2021 NZD'000
Blackbird New Zealand 2019 Limited Partnership	14,036	5,430
Blackbird New Zealand 2022 Limited Partnership	996	-
Finistere Aotearoa Fund Limited Partnership	3,131	1,514
GD1 Fund 3 Limited Partnership	9,028	-
Movac Fund 5 Limited Partnership	17,759	3,444
Nuance Connected Capital 1 Limited Partnership	6,113	-
Pacific Channel Fund II Limited Partnership	5,007	2,461
	56,070	**12,849**

The Group invests in early-stage growth companies via holdings in externally managed venture capital investment funds. The fair value of these funds is provided by the investment managers or administrators at balance date. Prices are based on the fair value of the underlying net assets of the venture capital investment fund.

Further disclosures on the valuation of venture capital investment funds are contained in Note 2(b).

(e) Payables

	ACTUAL 2022 NZD'000	ACTUAL 2021 NZD'000
Payables under exchange transactions		
Trade payables	645	712
Accrued expenses	18	12
	663	**724**

Accounting Policy

Short-term trade and other payables are initially recognised at fair value, then subsequently at amortised cost. As a result of their short-term nature, the carrying amount of trade and other payables held at amortised cost approximates fair value.

Trade and other payables represent amounts due to third parties in the normal course of business and to the Guardians for the reimbursement of expenses. Trade payables are non-interest bearing and are normally settled within 30-day credit terms. The Group has risk management policies in place to ensure that all payables are paid within the credit time frame.

SECTION 5: MANAGEMENT OF FUND CAPITAL AND RESERVES

(a) Fund capital

PURPOSE

Fund capital, which comprises investments and all other assets of the Elevate Fund less any liabilities, is the property of the Crown. The Elevate Fund's purpose is to contribute to a sustainable and productive economy by increasing the venture capital available to New Zealand entities and by developing New Zealand's venture capital markets to function more effectively so that over time:

- More venture capital becomes available to New Zealand entities from sources other than the Elevate Fund;
- New Zealand entities that receive venture capital become more likely to grow into successful and sustainable businesses; and
- Those markets become self-sustaining (including through more investment from New Zealand investors).

CAPITAL CONTRIBUTIONS

The Crown may pay any money into the Elevate Fund in accordance with Section 13 of the Venture Capital Fund Act 2019 (Act). These contributions are made by the Crown for investment purposes and for other payments specifically permitted under Section 12 of the Act. The Guardians is responsible for investing capital contributions in New Zealand's venture capital markets.

The Guardians has entered into an Uncalled Capital Contribution Agreement with the Crown under which these capital contributions are made available. Under this agreement, the Guardians may request a capital contribution, with at least 10 business days notice, to apply towards the capital commitments of the Elevate NZ Venture Fund Limited Partnership or to payments permitted under Section 12 of the Act. These payments include amounts due for managers' fees and other obligations directly related to the operation of the Elevate Fund. As at 30 June 2022, the Crown's commitment under this agreement amounted to $259,500,000 (2021: $259,500,000).

The amount of capital contributions requested and received into the Elevate Fund for the year ending 30 June 2022 was $57,147,000 (2021: $23,405,000). Capital contributions are recorded in the Consolidated Statement of Changes in Public Equity.

MANAGEMENT OF FUND CAPITAL

The Elevate Fund is a public benefit entity, managed by the Guardians. The Guardians must invest the Elevate Fund in New Zealand's venture capital markets using best-practice investment management that is appropriate for institutional investment in those markets. The Guardians must manage and administer the Elevate Fund in a manner consistent with the Policy Statement set out on www.beehive.govt.nz and avoiding prejudice to New Zealand's reputation as a responsible member of the world community. The contributions from the Crown to the Elevate Fund are invested in accordance with its Statement of Investment Policies, Standards and Procedures, which is available at www.nzsuperfund.nz. The Elevate Fund invests via its wholly owned subsidiary, the Elevate NZ Venture Fund Limited Partnership. The General Partner of the limited partnership is Elevate NZ Venture Fund GP Limited, a wholly owned subsidiary of New Zealand Growth Capital Partners (NZGCP). The General Partner is responsible for the management, operation and administration of the limited partnership.

SECTION 6: FINANCIAL PERFORMANCE

(a) Revenue

	NOTE	ACTUAL	ACTUAL
		2022	2021
		NZD'000	NZD'000
Net operating revenue from exchange transactions			
Interest income		132	24
Net changes in fair value on financial instruments at fair value through surplus or deficit	6(b)	(2,998)	(1,975)
Net foreign exchange gains/(losses)		-	21
		(2,866)	**(1,930)**
Interest income			
Interest income - financial assets at amortised cost		132	24
		132	**24**

Accounting Policy

Revenue is recognised when it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

REVENUE FROM EXCHANGE TRANSACTIONS

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Interest income

Interest income comprises interest on financial instruments measured at amortised cost.

For financial assets at amortised cost, interest income is recognised as the interest accrues, using the effective interest method, which allocates interest at a constant rate of return over the expected life of the financial instrument based on the estimated future cash flows.

(b) Income received and fair value gains and losses recognised from interests in structured entities

The following table summarises income received and fair value gains and losses on financial instruments held at fair value through surplus or deficit recognised in the Consolidated Statement of Comprehensive Revenue and Expense from interests in structured entities:

		ACTUAL	
2022	FAIR VALUE GAINS	FAIR VALUE LOSSES	TOTAL
	NZD'000	NZD'000	NZD'000
Venture capital investment funds	4,796	(7,794)	(2,998)
2021			
Venture capital investment funds	165	(2,140)	(1,975)

SECTION 6: FINANCIAL PERFORMANCE (CONTINUED)

(c) Expenses

	ACTUAL 2022 NZD'000	ACTUAL 2021 NZD'000
Managers' fees	2,264	2,876
Reimbursement of Guardians' expenses	500	500
Auditor's remuneration	37	26
	2,801	**3,402**

(d) Auditor's remuneration

	ACTUAL 2022 NZD'000	ACTUAL 2021 NZD'000
Audit of the Group's financial statements	37	26
	37	**26**

The auditor of the Group is Graeme Bennett of Ernst & Young, on behalf of the Auditor-General.

(e) Income tax

The income tax expense included in the Consolidated Statement of Comprehensive Revenue and Expense is analysed as follows:

	ACTUAL 2022 NZD'000	ACTUAL 2021 NZD'000
Reconciliation of income tax expense and accounting surplus/(deficit) for the year		
Surplus/(Deficit) for the year before income tax expense	(5,667)	(5,332)
Income tax expense/(income) calculated at 28%	1,587	1,493
Unused tax losses not recognised as deferred taxation	(1,592)	(1,500)
Temporary differences	5	7
Income tax expense	-	-

Accounting Policy

In accordance with Section HR 4B of the Income Tax Act 2007, income derived and expenditure incurred by the Crown in activities relating to the Group are determined as if the amounts were being derived or incurred by a company and are therefore subject to New Zealand tax. The income tax expense recognised in the Consolidated Statement of Comprehensive Revenue and Expense comprises current and deferred tax and is based on accounting surplus/(deficit), adjusted for permanent differences between accounting and tax rules. Income tax relating to items of other comprehensive revenue and expense is recognised in other comprehensive revenue and expense.

Current tax is the expected tax payable to or receivable from the taxation authorities based on the taxable income or loss for the year and any adjustment in respect of prior years. It is calculated using tax rates and tax laws that have been enacted or substantively enacted at balance date.

Deferred tax is recognised in respect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the tax bases of assets and liabilities at balance date.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses only to the extent that it is probable that sufficient taxable surplus will be available to utilise the deductible temporary differences, the carry forward of unused tax credits and unused tax losses. The carrying amount of deferred tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable surplus will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at balance date.

Deferred tax assets and liabilities are offset when a legally enforceable right to set-off exists, the deferred tax balances relate to income taxes levied by the same taxation authority and the Group intends to settle on a net basis.

SECTION 7: UNRECOGNISED ITEMS

(a) Commitments and contingencies

CAPITAL COMMITMENTS

At 30 June 2022, the Group had outstanding commitments to venture capital investment funds (excluding investment prepayments), totalling $119,288,000 (2021: $72,288,000), of which $1,333,000 has been called but not yet paid (2021: $549,000).

CONTINGENCIES

The Group has no contingent liabilities at 30 June 2022 (2021: $nil).

(b) Events after the reporting date

On 14 July 2022, the Elevate NZ Venture Fund Limited Partnership, the wholly owned subsidiary of the Elevate Fund, made a commitment of $15,000,000 to Hillfarrance Venture Fund Limited Partnership, a venture capital investment fund.

SECTION 8: OTHER INFORMATION

(a) Related party transactions

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions. The definition includes subsidiaries.

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 2022, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2021: $nil).

PARENT ENTITY

The Elevate Fund is managed and administered by the Guardians which is a wholly owned entity of the Crown. Both the Guardians and the Crown prepare financial statements that are available to the public.

The Guardians pays expenses relating to the Elevate Fund, as it is entitled to do under the Act. These expenses are reimbursed by the Elevate Fund. The amount of reimbursement to the Guardians for the year ended 30 June 2022 was $500,000 (2021: $500,000). The related party payable to the Guardians as at 30 June 2022 is $nil (2021: $nil).

SUBSIDIARY

Details of the Elevate Fund's interest in its subsidiary are disclosed in Note 1(f). There were no transactions entered into with its subsidiary during the year.

OTHER GOVERNMENT-RELATED ENTITIES

The General Partner of the Elevate NZ Venture Fund Limited Partnership is Elevate NZ Venture Fund GP Limited, which is a wholly owned subsidiary of New Zealand Growth Capital Partners Limited, a Crown entity. Transactions entered into with Elevate NZ Venture Fund GP Limited during the period are as follows:

	ACTUAL 2022 NZD'000	ACTUAL 2021 NZD'000
Managers' fees	2,264	2,876
Payables	645	712

In conducting its activities, the Group is also required to pay various taxes and levies (such as GST) to the Crown and entities related to the Crown. The payment of these taxes and levies is based on the standard terms and conditions that apply to all tax and levy payers.

Building a better working world

Independent Auditor's Report

TO THE READERS OF ELEVATE NZ VENTURE FUND GROUP'S FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2022

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 236 to 261, that comprise the consolidated statement of financial position as at 30 June 2022, the consolidated statement of comprehensive revenue and expense, consolidated statement of changes in public equity and consolidated statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion the financial statements of the Group on pages 236 to 261:

- present fairly, in all material respects:
  - its financial position as at 30 June 2022; and
  - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards.

Our audit was completed on 30 September 2022. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of the Guardians of New Zealand Superannuation (the Guardians) and our responsibilities relating to the financial statements, we comment on other information, and we explain our independence.

BASIS FOR OUR OPINION

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

RESPONSIBILITIES OF THE GUARDIANS FOR THE FINANCIAL STATEMENTS

The Guardians are responsible on behalf of the Group for preparing financial statements that are fairly presented and comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards.

The Guardians are responsible for such internal control as they determine are necessary to enable them to prepare financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Guardians are responsible on behalf of the Group for assessing the Group's ability to continue as a going concern. The Guardians is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the Group, or to cease operations, or there is no realistic alternative but to do so.

The Group's responsibilities arise from the Venture Capital Fund Act 2019.

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RESPONSIBILITIES OF THE AUDITOR FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements.

We did not evaluate the security and controls over the electronic publication of the financial statements.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Guardians.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Guardians and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Guardians regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

OTHER INFORMATION

The Guardians is responsible for the other information. The other information comprises the information included on pages 1 to 121, 127 to 142, 169, 235, 264 to 273, 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

Appendix
He Āpitihanga

COMPLIANCE STATEMENTS

SIPSP COMPLIANCE

The Guardians' Statement of Investment Policies, Standards and Procedures (SIPSP) for both the NZ Super Fund and the Elevate NZ Venture Fund are published on our website www.nzsuperfund.nz. On behalf of the Board and management of the Guardians of New Zealand Superannuation, we hereby certify that, to the best of our knowledge, the SIPSPs have been complied with during the 2021/22 financial year.

CATHERINE DRAYTON, CHAIR

MATT WHINERAY, CEO

PRESENTATION OF THE ANNUAL REPORT

We are pleased to provide this Annual Report of the Guardians of New Zealand Superannuation for the year ended 30 June 2022.

CATHERINE DRAYTON, CHAIR

DOUG PEARCE, CHAIR - AUDIT COMMITTEE

GLOSSARY

Access point	The actual investment the Guardians makes to gain exposure to a desired risk (e.g. buying a listed equity). Access points are our way of exploiting opportunities, themes, stress test outcomes and manager skill. The access point can be passive, active, synthetic or funded, directly (internally) or externally managed.
Active return	Any return differential between the Actual Portfolio and the Reference Portfolio. In the context of an investment, the positive return we hope to earn for taking on active risk. Same as 'Value-add'.
Active risk	Any deviation in risk in the Actual Portfolio relative to the Reference Portfolio. Active risk is a relative risk concept. The active risk in the portfolio is dominated by activities in our value-adding strategies. Note that the Actual Portfolio can have the same total or absolute risk as the Reference Portfolio but still have active risk. Technically active risk is expressed as the expected standard deviation of the active returns.
Active strategies	Value-add strategies.
Actual Portfolio	The Fund's portfolio at any point in time reflecting all the positions arising from our value-adding strategies as well as drift. Conceptually, the Actual Portfolio equals the Reference Portfolio (cash plus risk premiums) plus drift plus active risk.
Arbitrage	The simultaneous purchase and sale of an asset in order to profit from a difference in the price.
Asset class	An asset class is a group of securities or assets that share common risk and return characteristics.
Basis point	One-hundredth of a percentage point.
Belief	Our stated view on some aspect of financial markets and investing. It a result of mixed judgement and evidence.
Benchmark	A standard against which the performance of a security, index or investor can be measured.
Beta	The sensitivity of a security or asset class to the market or Reference Portfolio.
BMO	Bank of Montreal – our responsible investment engagement service provider.
Capability	Management's ability to execute a value-add strategy. Incorporates depth and breadth of experience, risk management abilities etc.
Capital	A corpus of funds that can be invested to generate economic value.
Cash	Generally taken to mean a very short-term investment earning interest from a highly rated bank or an equivalent bank bill.
CEM	CEM Global Benchmarking - a provider of benchmarking services and peer comparisons.
Collateralisation	The primary means of managing credit exposure among our counterparties. It represents monies or securities that are posted between us and counterparties to mirror unrealised profit and loss on our open derivatives positions.
Commodities	Tangible products, such as metals, crude oil or grain.
Compensation	Return for taking on risk. Often, the compensation is the risk premium, or excess return over cash, that the investment offers.
Control effectiveness assessment	An assessment that supports the identification of reliable evidence that our key controls are operating effectively, and that either individually, or in conjunction with other measures, the controls in place adequately manage the causes and impacts identified for each of our top risks.
Conviction	A measure of the degree of confidence we have in an active manager's investment skill. The Guardians' approach to rating an active manager. Applicable to both public and private market managers. The conviction rating is a quantitative overall score based on the scores of a number of individual, largely qualitative, factors.
Cost-asset ratio	Operating expenses ÷ average assets over the period.
Counterparty	A counterparty describes a legal entity that presents an exposure to financial risk. The Guardians' counterparties are typically banks.
Crown entity	An organisation that forms part of New Zealand's state sector, as established under the Crown Entities Act 2004. Crown entities are legal entities in their own right. A decision to assign a government activity

GLOSSARY (CONTINUED)

	or function to a Crown entity indicates that the function should be carried out at 'arm's-length' from the Government. The Crown entity's Board directs the entity's day-to-day operations.
Currency management	The Reference Portfolio's foreign currency exposures are 100% hedged to the New Zealand dollar. This means that we receive the actual return of the assets we are invested in without the currency fluctuations adding or detracting from performance. Occasionally we 'step away' from 100% hedging in order to, for example, take advantage of temporary price dislocations and add value to the Fund.
Cybersecurity	Technologies, processes and practices that are designed to protect networks, computers, programmes and data from attack, damage or unauthorised access.
Derivative	A financial instrument that derives its value from the value of underlying entities such as an asset, index or interest rate - it has no intrinsic value in itself. The derivative itself is merely a contract between two or more parties, the value of which at any one time is determined by fluctuations in the value of the underlying asset. Derivatives can be used to manage risk, reduce cost and enhance returns.
Direct	A direct activity is a financial market transaction undertaken by the Guardians' management.
Diversification	The potential improvement in a portfolio's Sharpe ratio that arises from introducing assets into the portfolio that behave differently from the assets in the Reference Portfolio. Introducing any new asset or asset class into the portfolio will have a diversification benefit. The more diversified a portfolio, the more difficult it is to achieve further diversification gains.
DM	Developed Markets.
Double arm's-length	The Guardians is an autonomous Crown entity, meaning it is legally separate from the Crown and operates at 'double arm's-length'. The first arm of independence is that the Government does not decide the pool of candidates for the Board of the Guardians (candidates are identified by an independent Nominating Committee). The second arm of independence is that investment decisions are made by the Board and management of the Guardians.
EM	Emerging Markets.
Employee Value Proposition	The offering that is received by employees in return for their performance at the workplace.
Endowment	A characteristic of the Fund that provides the Guardians with a natural advantage or edge over the typical investor.
Equilibrium	The long-term or steady state. Generally expressed in the context of long-term average expected risks and returns.
Equities	More commonly known as shares or stocks. Securities that signify ownership in a corporation and represents a claim on part of the corporation's assets and earnings.
ESG	Environmental, Social and Governance.
Exposures	The amount of money that an investor has invested in a particular asset.
Externally managed	An investment managed by an appointed external manager.
Factors	Factor investing is an investment strategy that takes passive market capitalisation-weighted indices and constructs an alternative index that is weighted toward companies possessing certain characteristics. It is expected that these characteristics or 'factors' will deliver superior risk-adjusted returns for investors, above those of a purely passive index, over the long-term.
Fair value	The amount paid in a transaction between participants if an asset is sold in the open market.
Fixed income	Assets providing income to investors via a fixed periodic payment. In the context of the Reference Portfolio, fixed income is a very well-diversified set of exposures, including sovereign bonds, investment grade credit, agency debt, high yield bonds and emerging market debt. Inflation-linked securities are also included though an element of the income is variable because it is linked to future inflation out-turns.
Foreign exchange	The Fund's exposure to non-NZ$ cash rates. In our Reference Portfolio, there is no foreign exchange exposure as all non-NZ$ denominated assets (i.e., foreign funded assets) are hedged back to NZ$. Hedging back to NZ$ essentially replaces foreign cash returns with NZ$ cash returns. Foreign exchange in the Fund's context refers to a basket of the major foreign currencies.
Fund-of-funds model	A pooled investment fund that invests in other types of funds.

Fund Investment Vehicle (FIV)	An entity formed or controlled by the Guardians for the purpose of holding, facilitating or managing investments in the Fund.
Futures	A financial contract obligating the buyer to purchase an asset (or the seller to sell an asset), such as a physical commodity or a financial instrument, at a predetermined future date and price.
Global Financial Crisis (GFC)	The worldwide economic downturn from 2007-08. The crisis started with a subprime mortgage lending crisis in 2007 and expanded into a global banking crisis with the failure of investment bank Lehman Brothers in September 2008.
Global Reporting Initiative (GRI)	An international independent organisation that helps businesses, governments and other organisations to understand and communicate the impact of business on critical sustainability issues.
Global Macro	A market neutral strategy that produces return by skilfully exploiting inefficiencies within and across a broad range of liquid markets. The key source of return within this opportunity is manager skill.
Growth assets	In the Reference Portfolio, growth assets comprise equities and REITs. Some private market assets are also growth assets, e.g. private equity. Over the long-term and on average, the largest share of returns accruing to investments in growth assets derive from underlying exposures to real economic growth.
Hurdle	The minimum expected return required from a proposed investment to compensate the Fund for the inherent risks, fees and other costs (such as taxes) of that investment.
Illiquid	The inability to buy or sell an investment in a timely manner with minimal transaction costs.
Initial margin	Collateral exchanged between parties to protect against the potential future exposure of changes in the mark-to-market value of a derivatives transaction during the time it takes to close out and replace the position in the event the other party defaults.
Institutional Investor	An institutional investor is an organisation that invests money on behalf of other people. Institutional investors include banks, credit unions, insurance companies, sovereign wealth funds, hedge funds, REITs, investment advisors, endowments, and mutual funds.
Internalisation	To bring management in-house.
Internal Investment Mandate (IIM)	The policy governing the management of an internal mandate falling under an active strategy.
Investment	An allocation of risk capital to a specific manager or activity. Could include an individual investment undertaken by our internal management under an Internal Investment Mandate (IIM).
Iwi	Meaning ‘peoples’. Iwi is often translated as a tribe. Iwi forms the largest social units within Māori culture.
Liquidity	The degree to which an asset or security can be quickly bought or sold in the market without affecting the asset's price.
Long	A long or long position is an investment strategy where an entity buys a security, currency or derivative with the expectation that it will rise in value.
Mandate	An official order or commission to do something.
Mark-to-market	A measure of the fair value of accounts that can change over time, such as assets and liabilities. Mark-to-market aims to provide a realistic appraisal of an institution’s or company’s current financial situation. The accounting act of recording the price or value of a security, portfolio or account to reflect its current market value rather than its book value.
Market index	An aggregate value produced by combining several stocks or other investment vehicles together and expressing their total values against a base value from a specific date. Market indices are intended to represent an entire stock market and thus track the market’s changes over time.
Market mispricing	Market mispricing causes a divergence between the market price of a security and the fundamental value of that security.
Market neutral strategy	Generally refers to hedge fund investments where the hedge fund has no systematic loading onto market risk, i.e. returns are independent of general market movements.
Market risk	Is the non-diversifiable risk associated with exposure to a broad mix of asset classes. The risk in the market portfolio. In the context of the Fund, this also refers to the risk in an investment that is correlated with the Reference Portfolio or some investable public market benchmark or asset class.

GLOSSARY (CONTINUED)

Merger arbitrage	Involves simultaneously purchasing and selling the stocks of two merging companies to take advantage of the difference in price of those stocks pre-merger.
Mezzanine loan	A financial security or a layer of capital that ranks between debt provided by creditors (like banks) and the equity provided by shareholders. Debt claims therefore have first claim on the capital of a business, with the mezzanine loans paid thereafter. These loans are usually convertible to equity under defined circumstances.
NAV	Net Asset Value.
Net return	Returns over and above the Treasury Bill return – the Government's cost of debt.
Net zero economy	Net zero emissions refers to an overall balance between greenhouse gas emissions produced and greenhouse gas emissions taken out of the atmosphere. The New Zealand Government has set a target of becoming a net zero emissions economy by 2050.
Opportunity	A feature of the investment environment that is conducive to generating positive risk-adjusted active returns.
OTC	An over-the-counter financial instrument (securities, derivatives, stocks) traded in some context other than on a formal exchange. The phrase 'over the counter' (OTC) can be used to refer to financial instruments that trade via a dealer network as opposed to a centralised exchange.
Passive management	Passive management, or 'index-tracking', is a style of investment management through which a fund's portfolio mirrors a selected market index. Stocks move in and out of the portfolio according to index inclusion rather than through an active investment decision.
Physical	An investment that is funded with cash to the full notional amount of the investment.
Portfolio	A portfolio can be thought of as a pie that is divided into pieces of varying sizes, representing a variety of asset classes and/or types of investments to achieve an appropriate risk-return portfolio allocation.
Portfolio completion	A value-adding strategy that seeks to access and manage the Fund's portfolio exposure to equities and bonds. It does this by rebalancing (see 'Rebalancing' below) the Fund to our desired Reference Portfolio weightings and managing the currency overlay and liquidity risk in the most effective manner possible.
Portfolio construction	The allocation of risk in a portfolio. Generally applied to active management, portfolio construction embraces the broad allocation of risk capital to various value-add strategies, as well as the specific allocations of risk capital to individual investments.
Private equity	Private placement of capital with defined ownership rights (i.e. claims to the profits generated by the business).
Private markets	Investments not traded on a public exchange or market.
Public markets	Investments comprising: 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 (NZ$) plus a set of risk premiums or excess returns that also sum to 100%.
Real Estate Investment Trust (REIT)	A company that owns, operates, or finances income-generating real estate.

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 to tolerate should a downside risk materialise.
Risk budget	Articulates the average amount of active risk that is expected to be allocated to an opportunity or group of opportunities referred to as risk budget baskets. Risk budgets aggregate to the total active risk budget. Risk budgeting is a stage of the risk allocation process.
Risk premium	The return in excess of cash earned by investors as compensation for taking passive exposure to the market or an asset class. Risk premium and excess return can be used interchangeably.
Risk profile	A risk profile is an evaluation of an investor's willingness and ability to take risks. A risk profile is important for determining the investment asset allocation for a portfolio.
Santiago Principles	A set of principles and practices generally accepted by the member institutions of the International Forum of Sovereign Wealth Funds as amounting to a basic code of good practice for sovereign wealth funds.
Securities lending	Loaning a stock, derivative or other security to an investor or a firm.
Sharpe ratio	A characterisation of how well the return of an investment compensates the investor for the risk taken.
Short	A short or short position is an investment strategy where an entity sells a security, currency or derivative with the view of buying back the same amount of the relevant instrument at a lower price.
Side-car investment	Occurs where one investor allows a second investor to control where and how to invest the capital.
SIPSP	Statement of Investment Policies, Statements and Procedures.
Skill	Active investment expertise. The ability to generate active returns.
Sovereign bond	A debt security issued by a national government.
Sovereign Wealth Fund	Pools of money derived from a country's reserves, which are set aside for investment purposes that will benefit the country's economy and citizens.
Strategic Tilting	Tilting is a value-adding strategy where the mix of the Fund's market or currency exposures relative to the Reference Portfolio is changed to increase exposure to undervalued asset classes.
Sustainable Development Goals (SDGs)	A collection of 17 global goals designed to be a 'blueprint to achieve a better and more sustainable future for all'. The SDGs were set in 2015 by the United Nations General Assembly and are intended to be achieved by the year 2030.
Swap	A derivative in which two parties agree to exchange one stream of cash flows against another.
Synthetic	Obtaining exposures using derivatives. Generally does not require funding.
Taskforce on Climate-related Financial Disclosures (TCFD)	The TCFD was created by the Financial Stability Board to help identify the information needed by investors, lenders 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.
Theme	Long-term influences on the economy and capital markets that are expected to be relatively immune to business cycle and other short-term influences. An enduring characteristic or feature of the global economic or financial environment.
Tilt	Changes in the mix of the Fund's market or currency exposures relative to the Reference Portfolio (other than through drift or the proxies). Tilting is a value-add strategy.
Total risk	Generally referring to the Fund's total or absolute risk.

GLOSSARY (CONTINUED)

Treasury Bill	Debt instruments issued by the government that mature in less than one year; the yield on these measures the cost of running a budget deficit.
UNPRI	United Nations Principles for Responsible Investment.
Value-add	See 'Active returns'. In performance reporting, the difference between the actual return and the Reference Portfolio return, net of the costs of obtaining passive exposures.
Value-adding strategies	Board approved strategies that define the objectives and parameters for taking on active risk. Also referred to as active strategies or just strategies.
Variation margin	Collateral exchanged between parties to protect against current exposures caused by changes in the mark-to-market value of a derivatives transaction.
Venture capital	Money provided to fund early-stage businesses with perceived long-term growth potential.
Volatility	The amount of uncertainty or risk about the size of changes in a security's value.

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On behalf of the Auditor-General
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Britomart
Auckland 1010

BANKERS

Guardians of New Zealand Superannuation
Westpac New Zealand Limited

New Zealand Superannuation Fund
Westpac New Zealand Limited

Elevate NZ Venture Fund
ASB Bank Limited

GLOBAL CUSTODIAN

The Northern Trust Corporation
50 Bank Street
Canary Wharf
London E14 5NT
United Kingdom

insightcreative.co.nz NZS370

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