

# Direct & Externally Managed Investment Policy

## Kaupapa Here mō te Haumitanga Horipū, Haumitanga Rāwaho Hoki

This policy sets out the principles we follow when making investments to capture active returns carried out by the Direct and External Investments and Partnerships Teams, whether those investments be made directly, through or alongside managers or via collective investment vehicles. Specific guidelines for applying these principles are contained in a separate Direct & Externally Managed Investments Policies Procedure manual.



Policy Owner: Chief Investment Officer





## 1. Purpose and Scope

- 1.1 This policy sets out the general principles to be followed when undertaking investments to capture **active returns** undertaken by the Direct and External Investments and Partnerships Teams on behalf of the Guardians and/or its mandates. It also sets out a reporting framework for these investments.
- 1.2 The policy is part of the Guardians' investment framework that is designed to meet the legislative requirement that the New Zealand Superannuation Fund (the Fund) be invested on a prudent, commercial basis and managed and administered in a manner consistent with best practice portfolio management; maximizing return without undue risk to the Fund as a whole; and avoiding prejudice to New Zealand's reputation as a responsible member of the world community.
- 1.3 The policy is also guided by the Fund's purpose – sustainable investment delivering strong returns for all New Zealanders.
- 1.4 The Guardians are also responsible for investing the Elevate NZ Venture Fund (the Elevate Fund) using best-practice portfolio investment management that is appropriate for institutional investment in New Zealand's venture capital markets. The Elevate Fund is structured as a fund-of-funds, and the Guardians appoint an external manager which has responsibility for the investment and management of individual investments. Section 3.3 of this Policy sets out the principles to be followed by the Guardians in respect of the ongoing conviction monitoring and oversight of the manager of the Elevate Fund.

## 2. Definitions

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

## 3. Policy

- 3.1 **Choosing how to invest:** Our legislative mandate, our purpose, the particular advantages we have because of who we are as an investor and our beliefs all guide how and where we invest. We can invest directly, through or alongside **managers** or via **collective investment vehicles**. The decision as to which of these investment paths we take will depend on the availability of **access points** for a given **opportunity**; relative risk-adjusted expected **value add** net of fees; alignment of interest; liquidity; and management and governance capability.
- 3.2 **New Zealand investment directive (2009):** We have been given a government directive to actively identify and consider investments in New Zealand, subject to remaining commercially prudent in our investment activities. Those investments can be made directly or through or alongside external investment managers or via collective investment vehicles.
- 3.3 **Frameworks:** We will maintain and adhere to frameworks that incorporate the following principles:
  - 3.3.1 **Investment case evaluation:** Our investment case evaluation consists of demonstrating the fit of the proposed or existing investment with our **Investment Strategy**; identifying the reasons why we see an investment



opportunity to capture active returns; identifying the best access point, including where relevant, a comprehensive manager search and selection process; capability requirements; governance arrangements and exit options.

- 3.3.2 **New investment implementation:** Our new investment implementation process ensures that legal, operational, sustainable investment, reputational, finance, governance and tax issues relating to either the manager or the investment vehicle have been identified and managed appropriately.
- 3.3.3 **Investment monitoring and management:** Our investment monitoring and management includes maintaining a view on relative attractiveness; tracking performance; maintaining a view on the planned strategy and forecast financial performance, including a buy/hold/sell analysis; maintaining a view on the operational competency and efficiency of the investee entity or investment manager; and maintaining a view on the environmental and social impact and performance on relevant health and safety metrics. In the case of a manager for the Elevate Fund we will also monitor suitability in the context of the Elevate Fund's purpose.
- 3.3.4 **Conviction:** In the case of external managers we regularly monitor our conviction in those managers by using our own and other's assessment of capability, culture and alignment. We also look explicitly at managers' environmental, social and governance capabilities as a part of a broader assessment of manager suitability for the Guardians.
- 3.3.5 **Investment manager fee evaluation:** For the Fund, in evaluating manager fees we ensure the terms of every investment are appropriate for the investment being considered on an ongoing basis. For the Elevate Fund, we will provide for fees in the first instance on a cost-recovery basis in the limited partnership arrangements with manager of the Elevate Fund.
- 3.3.6 **Director appointments:** Appointments can either be external or a member of the Guardians' staff. The choice will depend on the requirements of the role, which will typically include consideration for location, industry expertise, technical expertise and diversity; the alignment with the Guardians culture and investment approach; and the general pros and cons of having an internal versus an external director.

#### 4. Procedures, Standards and Related Policies

- 4.1 We will establish, maintain and adhere to procedures that incorporate the principles set out in this Policy and that are appropriate to the Fund or the Elevate Fund and consistent with the relevant statutory investment mandate.
- 4.2 For details of all the frameworks referred to in Section 3 of this policy and guidance on their application staff should refer to the associated Direct & Externally Managed Investments Procedures & Standards located on the Guardians' intranet.

#### 5. Reporting

- 5.1 The reporting framework for this Policy is set out in Schedule 1.



## 6. Policy Approval and Review

- 6.1 This policy was reviewed by the Board on 23 February 2023 and approved on 12 April 2023. This policy and procedures will be reviewed every five years as part of the cycle for reviewing Guardians policies and procedures. The next review will be in 2028.

## 7. Delegations

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



## Schedule 1: Reporting Framework

### General

Report	Accountability	Reporting frequency required and to whom	Minimum information required
Performance of the investment portfolios	CEO/CIO	Performance Reporting Annually to IC and Board	<ul style="list-style-type: none"> <li>• Amount invested</li> <li>• Performance past year to date, and since inception</li> <li>• Aggregate performance by opportunity</li> </ul>
		Opportunity Report Annually to the IC and Board	
		Total Portfolio Reporting via dashboard to the Board	
		Commentary as relevant in CEO and CIO report to each Board meeting	
Adverse event notification	CIO and iHeads	Immediately to Head of Communications (who will assess and report to Board as appropriate); and reported to subsequent IC and Board meeting	<ul style="list-style-type: none"> <li>• Event</li> <li>• Cause</li> <li>• Proposed action/response</li> </ul>
Policy breaches	Head of Risk	Immediately to RC, IC and Board.	<ul style="list-style-type: none"> <li>• Details of breach and remedial action taken</li> </ul>
Annual Strategy Review	iHeads	Investment Teams Strategy Report to the Investment Committee and Board	<ul style="list-style-type: none"> <li>• Strategy and resourcing of each Investment Team</li> </ul>



**Direct Investments**

Report	Accountability	Reporting frequency required and to whom	Minimum information required
New Investments and Divestments (>\$100M or less than \$100M if the new investment or divestment is of material reputational or interest to the Board)	CIO	To IC and Board via dashboard or under the no surprises protocol for information	<ul style="list-style-type: none"> <li>• Summary of investment</li> </ul>
Reference check on external directors for investee companies	CIO	To Board prior to appointment	<ul style="list-style-type: none"> <li>• Name</li> <li>• Background and experience</li> </ul>
Director appointments and resignations	CIO	Six monthly to the IC and Board as well as under the no surprises protocol	<ul style="list-style-type: none"> <li>• Name</li> <li>• Background and experience (external appointments)</li> <li>• Reference checking completed (for external appointments where required)</li> <li>• Reason (for resignation)</li> <li>• Any planned action (for resignation)</li> </ul>
Material changes to terms of existing investments	CIO	To subsequent IC and Board meetings	<ul style="list-style-type: none"> <li>• Change</li> <li>• Reason</li> <li>• Any impact on original investment case</li> </ul>
Health & Safety Reporting	CIO and Head of Direct Investments	Six monthly to the Board (Timber & Rural) Annually to the Board (all other direct NZ investments)	<ul style="list-style-type: none"> <li>• Loss time incident frequency rates and relevant benchmarks</li> <li>• Governance assessment</li> </ul>



**Externally Managed Investments**

<b>Report</b>	<b>Accountability</b>	<b>Reporting Frequency required and to whom</b>	<b>Minimum Information required</b>
First time commitments to Collective Investment Vehicles (CIV)	CIO	Reported to subsequent IC and Board meetings.	<ul style="list-style-type: none"> <li>• CIV name;</li> <li>• Amount committed;</li> <li>• Relevant strategy or sub-strategy.</li> </ul>
Manager appointment	CIO	Reported to Board six monthly and under no surprises protocol.	<ul style="list-style-type: none"> <li>• Manager name;</li> <li>• Relevant opportunity</li> </ul>
Manager performance	Head of relevant access point team	Annually to the Investment Committee	<ul style="list-style-type: none"> <li>• Amount invested or committed per manager</li> <li>• Performance year to date and since inception.</li> <li>• Aggregate performance by strategy together with performance attribution.</li> </ul>
Material manager non-compliance	CIO	Reported to subsequent RC and Audit & Risk Committee meetings.	<ul style="list-style-type: none"> <li>• Details of non-compliance;</li> <li>• Remedial action taken.</li> </ul>
Manager terminations	CIO	Reported to subsequent IC and six monthly to Board and under no surprises protocol.	<ul style="list-style-type: none"> <li>• Name;</li> <li>• Relevant opportunity;</li> <li>• Reason.</li> </ul>
Disposal of entire interests in CIVs	CIO	Reported to subsequent IC and six monthly to Board and under no surprises protocol.	<ul style="list-style-type: none"> <li>• CIV name;</li> <li>• Amount disposed;</li> <li>• Relevant opportunity;</li> <li>• Reason.</li> </ul>
Manager conviction assessments	Head of EIP	Reported at least once a year to either 1) CIO and GM Strategy and Shared Services or 2) the Investment Committee.	<ul style="list-style-type: none"> <li>• Schedule of managers</li> <li>• Latest conviction</li> </ul>
Material changes to CIV or Investment Management Agreement (IMA)	CIO	Reported to subsequent IC and Board meetings	<ul style="list-style-type: none"> <li>• Relevant details</li> </ul>
Non-material changes to CIV or IMA	Head of EIP	Reported to the Chief Investment Officer	<ul style="list-style-type: none"> <li>• Relevant details</li> </ul>
Appointment to represent GNZS on committee, board or similar body of CIV	CIO	Report to the next regular meeting of the IC following decision. 6 monthly reporting to the Board of all external committees or bodies on which the Guardians is represented and under the no surprises protocol	<ul style="list-style-type: none"> <li>• Relevant details</li> </ul>