



**STATEMENT OF INVESTMENT POLICIES,
STANDARDS AND PROCEDURES**

20 JUNE 2024

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1 Introduction

1.1 Purpose

This Statement of Investment Policies, Standards and Procedures (Statement) establishes the framework set by the Guardians of New Zealand Superannuation (Guardians) for the governance and investment of the New Zealand Superannuation Fund (Fund) by providing a clear statement of the investment policies, standards and procedures that must be adhered to in investing the Fund.

In establishing and adhering to the policies, standards and procedures, Guardians must exercise its expert judgement. Guardians operates independently of the government and utilises its substantial experience, training, and expertise in the management of financial investments in its role.

1.2 Legislative Requirements

Section 37 of the New Zealand Superannuation and Retirement Income Act 2001 (Act) establishes the Fund.

Section 40 of the Act provides that the Fund is the property of the Crown.

Section 48 of the Act and s 7 of the Crown Entities Act 2004 establishes the Guardians of New Zealand Superannuation as an Autonomous Crown Entity.

Section 51 of the Act makes it a function of the Guardians to manage and administer the Fund in accordance with the Act.

Section 58(2) of the Act requires the Guardians to:

“invest the Fund on a prudent, commercial basis and, in doing so, must manage and administer the Fund in a manner consistent with –

- (a) best-practice portfolio management; and
- (b) maximising return without undue risk to the Fund as a whole; and
- (c) avoiding prejudice to New Zealand’s reputation as a responsible member of the world community.”

Section 60 of the Act requires that:

- (1) “The Guardians must establish, and adhere to, investment policies, standards and procedures for the Fund that are consistent with its duty to invest the Fund on a prudent, commercial basis, in accordance with Section 58; and
- (2) The Guardians must review those investment policies, standards and procedures for the Fund at least annually.”

Section 61 of the Act requires that:

“A statement of investment policies, standards and procedures must cover (but is not limited to) –

- (a) the classes of investments in which the Fund is to be invested and the selection criteria for investments within those classes; and
- (b) the determination of benchmarks or standards against which the performance of the Fund as a whole, and classes of investments and individual investments will be assessed; and
- (c) standards for reporting the investment performance of the Fund; and
- (d) ethical investment, including policies, standards or procedures for avoiding prejudice to New Zealand’s reputation as a responsible member of the world community; and
- (e) the balance between risk and return in the overall Fund’s portfolio; and
- (f) the fund management structure; and
- (fa) the governance framework for the implementation and operation of Fund investment vehicles referred to in section 59A; and
- (g) the use of options, futures, and other derivative financial instruments; and
- (h) the management of credit, liquidity, operational, currency, market, and other financial risks; and
- (i) the retention, exercise or delegation of voting rights acquired through investments; and
- (j) the method of, and basis for, valuation of investments that are not regularly traded at a public exchange; and
- (k) prohibited or restricted investments or any investment constraints or limits.”

1.3 New Zealand Directive

As an Autonomous Crown Entity, Guardians operates on a statutorily independent basis. The Act provides for the Government to give directions regarding the Fund's performance and the Guardians must have regard to it.

Section 64 of the Act states that:

- (1) "The Minister may, after consultation with the Guardians, give directions to the Guardians regarding the Government's expectations as to the Fund's performance, including the Government's expectations as to risk and return.
- (2) Despite anything to the contrary in the Crown Entities Act 2004, the Minister –
 - (a) must not give a direction that is inconsistent with the Guardians' duty to invest the Fund on a prudent, commercial basis, in accordance with section 58; and
 - (b) must not give a direction to the Guardians in respect of the Fund except in accordance with this section.
- (3) The Guardians must notify the Minister of how the entity proposes to have regard to any direction.
- (4) The Guardian's annual report must include a statement of how the entity is having regard, or has had regard, during the year to any Ministerial directions given under this section."

On 14 May 2009 the Guardians received a letter from the Minister of Finance containing the following direction:

"The Government believes that it is in the national interest for the Fund to have significant investments in New Zealand. Consequently, pursuant to section 64 of the [Act], I direct the Guardians to note that it is the Government's expectation, in relation to the Fund's performance, that opportunities that would enable the Guardians to increase the allocation of New Zealand assets in the Fund should be appropriately identified and considered by the Guardians."

On 2 June 2009 we provided a detailed response to the Minister outlining broad areas of investment opportunities that we were exploring in New Zealand. We concluded by saying:

"We will have regard for your directive by:

- Actively considering those investment opportunities in New Zealand that offer prospective terms and conditions that meet the criteria under section 58(2) of the Act, and;
- Seeking to identify methods of assessing and managing investments in the areas of opportunity outlined [in our letter]."

A full copy of both the Minister's directive and our response can be found on our website.

1.4 Investment Policies

The Guardians' investment and operational practices are governed by a suite of policies and the Sustainable Investment Framework. Incorporated in to this Statement are the following policies:

- *Investment Risk Allocation Policy*, which broadly covers the classes of investments that we invest in, the value adding strategies we use, and the investment constraints we apply.
- *Direct & Externally Managed Investment Policy*, which covers how we invest with external investment managers, co-invest alongside managers and invest directly into investments.
- *Portfolio Completion and Internally Managed Securities Policy*, which covers how we ensure the Fund meets our desired risk allocations and the related management of internal investment mandates.
- *Risk Management Policy*, which covers how we manage operational risks for the Guardians.
- *Procurement and Outsourcing Policy*, which covers how we manage procurement and outsourcing.
- *Delegations Policy*, which covers how authorities are delegated from the Board to the Chief Executive Officer and to management.
- *Derivatives Policy*, which covers how we and our managers use derivatives in our management of the Fund.
- *Investment Valuation Policy*, which covers how we measure the fair value of all Fund investments.

For the most part the matters described in s 61 of the Act (see 1.2 above) are covered in one or more of those policies or their related procedures. This Statement refers readers to the relevant section of the applicable policies or procedures. Usually the policies contain further policies or standards beyond what is required by s 61. In some instances the particular matter required to be covered by s 61 does not fit with one of the policies described in this section. In that case the relevant matter is covered in this Statement.

This document refers to the Policies, Standards and Procedures we abide by when investing. Our Investment Beliefs and our approach to investing is explained on the How we Invest section in www.nzsuperfund.co.nz.

Procedures are referenced to the relevant policy specified in this Statement.

1.5 Interpretation

To assist with the interpretation of this Statement and the policies referred to above, we have a comprehensive Glossary of Terms, which defines all technical and investment terms used. A copy of the Glossary can be found on our website.

1.6 Review

This document is effective 20 June 2024 and supersedes all previous versions. It will be subject to at least annual review and amendment as our strategy for managing the Fund evolves. A history of the evolution of this document can be found in section 12.

Only the Board of the Guardians can approve material changes to this Statement.

2 Asset Classes and Selection Criteria

Section 61(a) – the classes of investments in which the Fund is to be invested and the selection criteria for investments within those classes

The Fund has two broad classes of investments: 1) the asset classes that comprise the Reference Portfolio and 2) opportunities to add value to the Reference Portfolio.

2.1 Policy

2.1.1 Policy statements relating to classes of investments can be found in section 6 (Asset Classes and Benchmarks) and section 8 (Value Adding Strategies and Opportunities) of the *Investment Risk Allocation Policy*.

2.1.2 Selection of assets within approved classes of investments is at the discretion of the Fund's investment managers (whether internal or external) subject to any constraints that we may place upon them.

2.1.3 Policy statements relating to selection of assets for internal investment management can be found in the *Portfolio Completion and Internally Managed Securities Policy*, the *Direct & Externally Managed Investment Policy* and the *Sustainable Investment Framework*.

2.1.4 Policy statements relating to selection of assets for external investment managers can be found in the *Direct & Externally Managed Investments Policy*.

2.2 Standards

2.2.1 Standards relating to the selection of investments can be found in Schedule 4 (Process for Opportunity Evaluation, Risk Budgeting and Fund-wide Liquidity Management) of the *Investment Risk Allocation Policy*.

2.3 Procedures

2.3.1 Procedures relating to classes of investments and the selection criteria for investments within those classes are referenced to the Policies specified above.

3 Benchmarks

Section 61(b) – the determination of benchmarks or standards against which the performance of the Fund as a whole, and classes of investments, and individual investments will be assessed

Benchmarks are a tool against which to measure the effectiveness of investment strategy either at a whole of Fund level, at an investment class or strategy level, or at the mandate level.

The general principle of benchmarks at an investment class or mandate level is they should be replicable – that is, it should be possible to create a portfolio of securities which mirrors (or at least very closely resembles) that used within the benchmark.

For some asset classes replicable benchmarks that are representative of the exposures of a given mandate may not exist, in which case performance may be measured against other measures such as the return on Treasury bills.

3.1 Policy

- 3.1.1 The benchmarks we use for the Fund as a whole will measure the value added by the Fund relative to a risk-free alternative and the value added by the Fund relative to a low-cost passive implementation of the Fund (the Reference Portfolio).
- 3.1.2 Policy statements relating to the Fund's Reference Portfolio benchmarks can be found in section 7 (Reference Portfolio) of the *Investment Risk Allocation Policy*.
- 3.1.3 Policy statements relating to the Fund's value-adding investments can be found in section 6 (Asset Classes & Benchmarks) of the *Investment Risk Allocation Policy*.
- 3.1.4 The benchmarks we use to judge the performance of individual classes of investment must be broadly representative of that class, or where a representative benchmark is not available, of a suitably risk adjusted alternative.
- 3.1.5 The benchmarks we use to judge the performance of individual mandates (whether internal or external) must either be the benchmark for the investment class within which that mandate is managed or (as the case may be) broadly representative of the universe of investments from which the manager selects investments for the mandate or a suitably risk adjusted alternative. In a limited number of cases, some internal mandates have benchmarks that represent funding costs or have no benchmarks.

3.2 Standards

3.2.1 The performance benchmarks we use for the Fund as a whole are to exceed over rolling 20-year periods:

- The New Zealand Treasury Bill return; and
- The return for the Reference Portfolio, being the weighted average return of the Reference Portfolio's constituent asset class benchmarks.

3.2.2 The performance benchmarks we use for classes of investments can be found in Schedule 2 (Asset Classes and Benchmarks) of the *Investment Risk Allocation Policy*.

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

3.3 Procedures

3.3.1 Procedures relating to performance benchmarks are referenced to the Policies specified above.

4 Reporting Standards

Section 61(c) – standards for reporting the investment performance of the Fund

Comprehensive reporting is critical for two reasons:

- it enables the Guardians to assess the reasons behind the performance of access points, opportunities, value add strategies and the Fund as a whole; and
- it enables the Fund's stakeholders to be fully informed of the activities of the Fund either through regular updates to the Fund's website or through the formal statutory reporting documents.

4.1 Policy

4.1.1 Policy statements relating to reporting on the performance of the Reference Portfolio, the performance of value adding strategies, compliance with the capital and risk constraints, and use of the Fund's risk budget can be found in section 12 (Reporting) of the *Investment Risk Allocation Policy*.

4.1.2 Policy statements relating to reporting on the performance of externally managed and direct investments can be found in section 5 (Reporting) of the *Direct & Externally Managed Investment Policy*.

4.1.3 Policy statements relating to reporting on the performance of internal investment mandates can be found in section 13 (Reporting) of the *Portfolio Completion and Internally Managed Securities Policy*.

4.1.4 Policy statements relating to external reporting for the Fund can be found in section 3 of the *Communications and Engagement Policy*.

4.2 Standards

- 4.2.1 Standards relating to reporting on the performance of the Reference Portfolio, the performance of value adding strategies, compliance with the capital and risk constraints, and use of the Fund's risk budget can be found in Schedule 8 (Reporting Framework) of the *Investment Risk Allocation Policy*.
- 4.2.2 Standards relating to reporting on the performance of externally managed and direct investments can be found in Schedule 1 (Reporting Framework) of the *Direct & Externally Managed Investment Policy*.
- 4.2.3 Standards relating to reporting on the performance of internal investment mandates can be found in Schedule 9 (Reporting and Accountability Framework) of the *Portfolio Completion and Internally Managed Securities Policy*.
- 4.2.4 Standards relating to external reporting on the performance of the Fund can be found in the *Communications & Engagement Procedures (Disclosure Procedures)* referred to in section 4 of the *Communications and Engagement Policy*.

4.3 Procedures

- 4.3.1 Procedures relating to reporting are referenced to the Policies specified above.

5 Sustainable Investment

Section 61(d) – ethical investment, including policies, standards, or procedures for avoiding prejudice to New Zealand’s reputation as a responsible member of the world community

Section 61(i) – the retention, exercise or delegation of voting rights acquired through investments

Background

The Act states that we must invest the Fund on a prudent, commercial basis and, in doing so, must manage and administer the Fund in a manner consistent with:

- Best-practice portfolio management; and
- 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.

Our policy, standards and procedures for sustainable investment are consistent with meeting this mandate and also address matters that are required by sections 61(d) and (i) of the Act.

Sustainable investment is understood internationally to include integrating environmental, social and governance (ESG) considerations, including climate change, into investment management.

When we refer to the term "sustainable investment" we see it as encompassing ethical investment as required under section 61(d). Our approach to sustainable investment is intended to be consistent with managing and administering the Fund in a manner consistent with avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

This section of the Statement also addresses aspects of section 61(i) regarding the retention, exercise and delegation of voting rights. Section 8 of this Statement directly addresses other aspects required by section 61(i).

One of our investment beliefs (referred to in section 1.4 of the Statement) is that environmental, social and governance considerations, including climate change, are fundamental to long-term risk and return.

We have a sustainable finance strategy with the goal of incorporating sustainability considerations into investment decision-making and supporting the development of a sustainable financial system within the context of our legislative purpose and mandate.

Our Sustainable Investment Framework covers procedures and elements we consider in applying judgement needed to implement our sustainable investment policy, including meeting the obligations under sections 58(2), 61(d) and (i) of the Act.

Our Sustainable Investment Framework can be found on our website.

Sustainable investment actions include ESG integration, engagement, voting and exclusion from the Fund. We invest across a wide range of asset classes and regions. With such a breadth of investments we need to prioritise the issues and companies we focus on. There will be, from time to time, holdings in the Fund that need special consideration under our Sustainable Investment Framework including with respect to exclusion and engagement.

5.1 Policy

5.1.1 We are committed to integrating sustainable investment considerations into our investment decision making process.

5.1.2 We believe that applying sustainable investment best practice supports managing and administering the Fund in a manner consistent with avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

5.1.3 We are committed to developing and integrating a strategy in support of our sustainable finance goal within the context of our legislative purpose and mandate (sustainable finance strategy).

5.1.4 We will apply standards and procedures that focus on:

- Meeting relevant obligations under the Act;
- Our investment belief that "environmental, social and governance considerations including climate change are fundamental to long-term risk and return";
- Supporting our sustainable finance goals including our climate change investment strategy;
- Integrating environmental, social and governance considerations into our investment decisions and processes, including investment allocation, selection and post-investment management;
- Effective engagement with the external investment managers and advisors we use and the companies we invest in;
- Exercising our voting rights in investee companies;
- Considering investments which deliver positive, social and/or environmental impacts in addition to the required financial return;
- Maintaining a robust analytical and decision-making process in responding to investee companies breaching standards contained in our SI Framework including decisions to exclude or engage with companies; and
- Benchmarking our performance against the UN-supported Principles for Responsible Investment.

5.1.5 We have developed our Sustainable Investment Framework to cover procedures and factors that we consider in applying the judgement needed to implement our sustainable investment policy when investing the Fund including meeting our obligations under sections 58(2), 61(d) and (i) of the Act.

5.1.6 A policy statement relating to the constraint on investing in securities excluded by application of our Sustainable Investment Framework can be found in section 11 (Investment Constraints) of the *Investment Risk Allocation Policy*.

5.1.7 Where we participate in securities lending, we will retain the right to recall shares to vote and the right to withhold shares from lending, in order to exercise our voting rights on those securities.

5.1.8 From time to time we may participate in class actions against investee companies. The decision to participate involves a range of considerations including (a) whether the Fund suffered a loss/disadvantage and the materiality of the loss/disadvantage, (b) the severity of the issue or the conduct of the company, (c) the cost versus benefit of pursuing the action, and (d) whether it is in the Fund's best interests to participate.

5.2 Standards

5.2.1 We refer to international standards for guidance on best practice.

5.2.2 We are committed to the UN-supported Principles for Responsible Investment (PRI). The principles promote sustainable finance, the integration of ESG issues into investment analysis and active ownership of assets. The PRI is a globally recognised standard, which we use for guidance on best practice in sustainable investment and to benchmark our own performance.

5.2.3 Our voting policies are guided by national and international standards of good corporate governance, including on shareholder voting rights. International standards include the International Corporate Governance Network Guidelines, and the G20/OECD Principles of Corporate Governance. For New Zealand listed companies we endorse the New Zealand Corporate Governance Forum Guidelines, the NZX Corporate Governance Code and the New Zealand Stewardship Code.

5.3 Procedures

5.3.1 Procedures relating to sustainable investment are contained or referenced in the Sustainable Investment Framework.

5.3.2 Sustainable investment is integrated into the investment activities of the Fund through the application of the Sustainable Investment Framework by the Guardians' investment professionals.

6 Balance Between Risk and Return

Section 61(e) – the balance between risk and return in the overall Fund portfolio

Section 58(2)(b) of the Act requires the Fund to be invested in a manner consistent with “maximising return without undue risk to the Fund as a whole”.

In general the investment strategy adopted by the Fund, and in particular the Reference Portfolio, will have a dominant influence on the returns generated. The Reference Portfolio specifies the broad mix between growth and income assets for the Fund which the Guardians believe best meets their statutory obligations. The Actual Portfolio of the Fund is the sum of:

- Reference Portfolio exposures; plus
- asset/investment exposures obtained through the Active Return Strategies; plus
- adjustments to Reference Portfolio exposures to accommodate the asset/investment market exposures described above.

The extent to which we can deviate from the risk exposures inherent in the Reference Portfolio is established by setting risk and capital constraints and an expectation of the average active risk as expressed by the Total Active Risk Budget.

6.1 Policy

- 6.1.1 Policy statements relating to the balance between risk and return in the Fund can be found in sections 7 (Reference Portfolio), 8 (Value Adding Strategies and Opportunities) and 10 (Investment Constraints) of the Investment Risk Allocation Policy and section 6 (Portfolio Completion) of the *Portfolio Completion and Internally Managed Securities Policy*.

6.2 Standards

- 6.2.1 Standards relating to the balance between risk and return in the Fund can be found in Schedules 3 (Reference Portfolio), 4 (Processes for Opportunity Evaluation, Risk Budgeting and Fund-wide Liquidity Management), 5 (Value Adding Strategies & Opportunities), 7 (Constraints) and 10A (Risk Budget) of the *Investment Risk Allocation Policy* and Schedule 2 (Portfolio Completion Frameworks) of the *Portfolio Completion and Internally Managed Securities Policy*.

6.3 Procedures

- 6.3.1 Procedures relating to the balance between risk and return in the Fund are referenced to the policies specified above.

7 Fund Management Structure

Section 61(f) – the Fund management structure

We manage the Fund using a mixture of internal staff and external investment managers, custodians, suppliers and advisers to manage assets, provide advice on investment strategy, and administer the assets in the Fund.

The decision of whether to manage activities internally or outsource them to a third party is a complex one and must take into account a variety of factors including, but not limited to:

- Our ability to identify and contract with third parties with appropriate capability;
- Our ability to attract suitably skilled staff to undertake the role;
- The relative costs and resource intensity of undertaking the activity internally versus externally;
- The degree to which the third party's interests can be aligned with our interests.

To manage the Fund effectively we may use a range of specialist third-party agents including: custodians; prime brokers; portfolio completion agents; and securities lending agents.

7.1 Policy

- 7.1.1 Whether the preferred access is direct or via a manager will depend upon which offers the best risk adjusted returns, whether there is or can be sufficient internal capacity and skill to successfully implement and manage, and where there is the best alignment of interest.
- 7.1.2 We will continually monitor the use of external suppliers versus internal provision of services as part of an ongoing review of our business model.
- 7.1.3 A Master Custodian will be used to provide safe keeping of assets and trade settlement services.
- 7.1.4 Policy statements relating to delegations of authority can be found in the *Delegations Policy*.
- 7.1.5 Policy statements relating to the selection, appointment and ongoing monitoring of external investment managers can be found in section 3 of the *Direct & Externally Managed Investment Policy*.
- 7.1.6 Policy statements relating to the assessment, implementation and monitoring of direct investments in assets when external managers are not used and the investment is not a Financial Market Transaction governed by the Portfolio Completion and Internally

Managed Securities Policy can be found in section 3 of *the Direct & Externally Managed Investment Policy*.

- 7.1.7 Policy statements relating to the selection and appointment of the Master Custodian¹, suppliers and external advisers can be found in sections 7 (Procurement) and 8 (Outsourcing) of the *Procurement and Outsourcing Policy*.
- 7.1.8 Policy statements relating to the selection and appointment of non-master custodians¹, prime brokers, securities lending agents² (other than Securities Lending Investment Managers) and portfolio completion agents can be found in section 9 (Counterparty, Portfolio Completion Agent and Non-Master Custodian Selection and Exposure Management) of the *Portfolio Completion and Internally Managed Securities Policy*.

7.2 Standards

- 7.2.1 The quality, cost and degree of alignment of interests of an outsourced alternative provide the benchmarks against which opportunities to undertake roles internally will be judged.
- 7.2.2 Standards relating to delegations of authority can be found in the *Delegations Policy*.
- 7.2.3 Standards relating to the selection, appointment and ongoing monitoring of external investment managers can be found in - the *Direct & Externally Managed Investment Policy Procedures as referenced in section 3 of the Direct -& Externally Managed Investment Policy*.
- 7.2.4 Standards relating to the assessment, implementation and monitoring of direct investments in assets when external managers are not used and the investment is not a Financial Market Transaction governed by the *Portfolio Completion and Internally Managed Securities Policy* can be found in the *Direct & Externally Managed Investment Policy Procedures as referenced in section 3 of the Direct & Externally Managed Investment Policy*.
- 7.2.5 Standards relating to the selection and appointment of the Master Custodian, suppliers and external advisers can be found in Schedules 2 (Procurement Framework) and 3 (Outsourcing Framework) of the *Procurement and Outsourcing Policy*.
- 7.2.6 Standards relating to the selection and appointment of custodians, prime brokers, securities lending agents (other than Securities Lending Investment Managers) and portfolio completion agents can be found in Schedule 6 (Counterparty Selection and

¹ Note that if we also use the custodian as a cash deposit institution then it is, for that activity, a Counterparty and the policies and standards applying to counterparties, as set out in the *Portfolio Completion and Internally Managed Securities Policy*, will also apply to it.

² Note this applies only if the securities lending agent is appointed to act without discretionary authority. If given a discretionary mandate then they will be a Securities Lending Investment Manager and the policies and standards in the *Direct & Externally Managed Investment Policy* will apply.

Exposure Management and Minimum Requirements for PCAs and Non-Master Custodians) of the *Portfolio Completion and Internally Managed Securities Policy*.

7.3 Procedures

7.3.1 Procedures relating to the Fund management structure are referenced to the policies specified above.

7A Governance framework for controlled entities

Section 61(fa) - the governance framework for the implementation and operation of all entities that are controlled by the Guardians or that are formed by the Guardians for the purpose of holding, facilitating, or managing the investments of the Fund

We may:

- control an entity as a Fund investment (a **control investment**); and
- form or control an entity for the purpose of holding, facilitating, or managing the investments of the Fund (a **holding vehicle**).

Control investments can in turn comprise:

- controlled direct investments made by the Guardians (**controlled direct investments**);
- controlled externally-managed investments with an external investment manager in place, such as managed funds, co-investment entities, feeder funds and separately managed accounts (**controlled managed investments**).

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

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

We exercise independent judgment in undertaking any controlled direct investments in line with our operational independence in relation to investment decisions (as provided for in section 64(2) of the Act).

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

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

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

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

7A.1 Policy

- 7A.1.1 Controlled direct investments will operate in such a way that they are separate, stand-alone entities from the Guardians and from other Fund investments.
- 7A.1.2 Controlled direct investments will typically be held by holding entities in order to: (i) minimise the risk of loss/liability to the Fund or Guardians and/or (ii) optimise structural and other efficiencies in respect of the investment.
- 7A.1.3 Controlled direct investments will have operational independence. The role of the Guardians (or a holding vehicle, as applicable) with respect to a controlled direct investment is that of an investor. Responsibility and accountability for the operations and performance of a controlled direct investment will rest with its board and management (or equivalent). The Guardians will not undertake the management of the business of the controlled direct investment.
- 7A.1.4 The board of the Guardians has overall ownership of the Guardians' decision-making framework in respect of controlled investments. This includes setting parameters for which decisions about controlled investments are (i) reserved to the Board, or (ii) delegated to management.
- 7A.1.5 A Fund investment, and any related arrangements, do not result in the Official Information Act applying to any entity. However, that Act will apply to the Guardians and the Guardians will ensure that the Guardians has the information about controlled investments necessary for the Guardians to manage and administer the Fund in accordance with its mandate (and the Guardians' role as outlined at paragraph 7A1.3 above). Policy statements relating to the Official Information Act are found in the *Communications and Engagement Policy*.

7A.2 Standards

- 7A.2.1 Standards relating to the application of the Official Information Act can be found in Schedule 4 (Responding to Official Information Act requests) of the *Communications and Engagement Policy*.
- 7A.2.2 Standards relating to the selection and implementation of controlled investments are set out in the Investment Risk Allocation Policy and Direct & Externally Managed Investment Policy Procedures.
- 7A.2.4 Standards relating to the valuation of controlled investments can be found in the Investment Valuation Policy Procedures.

7A.3 Procedures

- 7A.3.1 Procedures relating to the selection and implementation of controlled investments are set out in the Investment Risk Allocation Policy, Direct & Externally Managed Investment Policy Procedures, Sustainable Investment Framework and Delegations Policy.

7A.3.2 Procedures relating to the appointment of directors to controlled direct investments can be found in the Delegations Policy and Direct & Externally Managed Investment Policy Procedures.

7A.3.3 Procedures relating to the valuation of controlled investments can be found in the Investment Valuation Policy Procedures.

7A.3.4 Procedures for monitoring the operation of controlled investments can be found in the Direct & Externally Managed Investment Policy Procedures.

7A.4 Policies, Procedures and standards only apply to the Fund

7A.4.1 The policy, standards and procedures applicable to the Fund are not intended to apply to controlled investments, recognising that they have operational independence and that the role of the Guardians (or holding vehicle, as applicable) is limited to that of an investor.

8 Derivatives, short selling and securities lending

Section 61(g) – the use of options, futures, and other derivative financial instruments

In accordance with Section 50 of the Act, we have sought and received the Minister's approval to use derivatives and other specific instruments subject to certain conditions.

The Minister of Finance's current expectation is that we have the appropriate level of knowledge, skill, transparency and controls in place when we use derivatives, in order to ensure that negative financial or reputational outcomes do not impact the Crown.

Our assessment of the appropriate level of knowledge, skill, transparency and control in the use of derivatives will include:

- the objectives of the investment mandates,
- the overall risk profile of the investment mandates,
- the markets in which the investment mandates will be investing,
- the investment style to be employed,
- the experience, qualifications and skills available within the external investment managers and internal teams to use derivatives,
- the quality of internal controls/risk management procedures relevant to the use of derivatives,
- the characteristics of the specific derivative market – liquidity, quality of counterparty and availability of valuations and legal structure and the overall cost of establishing and maintaining a derivative position vs. a suitable equivalent cash security alternative, and
- reporting derivative usage including risk associated with their use together with expected returns.

We, and our appointed investment managers and portfolio completion agents, may enter into derivatives transactions on behalf of the Fund.

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

There is a variety of purposes for which it may be appropriate for the Fund to invest using derivatives. These include risk, liquidity and counterparty management, transactional efficiency, and value adding investment strategies.

Derivatives can be a useful risk management tool by helping the Guardians to obtain desired exposures for the Fund. Derivatives that are highly liquid can also be useful, by helping to mitigate the risk of the Fund not having sufficient liquidity to meet its payment obligations.

Short selling of physical securities is a means by which we, or an investment manager, can take advantage of a view that the price of a security will fall. As its

name implies short selling involves selling a security that we don't own. We do that by first borrowing the security from a securities lender. When we borrow we will be required to provide collateral in the form of cash or some other security. We pay a fee for borrowing securities. Short selling may also be used to hedge a long exposure.

When we lend securities we may lend them to short sellers, usually through a securities lending agent: in return the borrower (short seller) provides collateral for the period they borrow for. We receive a fee for lending the securities.

8.1 Policy

- 8.1.1 Policy statements relating to the use of derivatives by the Guardians and its managers are found in sections 4 (Scope) and 6 (Use of Derivatives) of the *Derivatives Policy*. Policy statements relating to short selling by the Guardians and its managers are found in Section 12 (Short Selling) of the *Portfolio Completion and Internally Managed Securities Policy*.
- 8.1.2 Policy statements covering the risks inherent in derivative use and the policy framework for managing those risks are set out in section 4 (Scope) of the *Derivatives Policy*.
- 8.1.3 Policy statements relating to Ministerial Consents and Expectations regarding the use of derivatives are set out in section 6 (Use of Derivatives) of the *Derivatives Policy*.
- 8.1.4 We may short sell physical securities to enhance the returns of the Fund, or to offset or otherwise manage certain exposures. Short selling will only be done after full consideration of the related risks, including the credit quality of the lender of the securities.
- 8.1.5 We will provide the amount and type of collateral consistent with market requirements. Collateral shall be required to be held by the prime broker or lender in a manner designed to safeguard it, to the extent possible, from the interests of other creditors of the lender. The short sale securities (borrowed securities) and the collateral shall be marked to market daily so that exposures may be monitored.
- 8.1.6 We may permit external investment managers to short sell securities where we are satisfied the investment manager has the necessary controls in place to ensure prudent use of that ability and such use is consistent with the investment guidelines given to the investment manager.
- 8.1.7 We will not engage in or permit 'naked' short selling of physical securities, so will borrow securities to 'cover' a short sale of physical securities.
- 8.1.8 We may loan securities where we are satisfied with the credit quality of the counterparty who borrows the securities and that we are appropriately collateralised for the securities lent and the fee received is fair compensation for the use of our securities and the operational complexity involved.
- 8.1.9 We will apply our Sustainable Investment approach and framework on withholding or recalls for voting purposes. Policy statements relating to securities lending are found

in Section 11 ([Securities Lending](#)) of the *Portfolio Completion and Internally Managed Securities Policy*.

- 8.1.10 We may permit our external investment managers to loan securities where we are satisfied that the external investment manager has appropriate standards to evaluate the credit quality of the counterparty who borrows the securities and to ensure that we are appropriately collateralised for the securities lent. We will apply our Sustainable Investment approach and framework on withholding or recalls for voting purposes.

8.2 Standards

- 8.2.1 Standards relating to the maintenance of appropriate standards to evaluate our competency and that of external investment managers to use derivatives as part of investment management can be found in Schedules 4 and 4A (Standards & framework for managing derivative Investment and non-Investment Risk) of the *Derivatives Policy*.
- 8.2.2 Standards relating to delegations of authority can be found in the *Delegations Policy*.
- 8.2.3 Standards relating to short selling can be found in Schedule 12 (Short Selling) of the *Portfolio Completion and Internally Managed Securities Policy*.
- 8.2.4 Standards relating to reporting of Derivative use and exposure are out in Schedule 3 (Reporting Framework) of the *Derivatives Policy*.
- 8.2.5 Standards relating to the maintenance of appropriate standards to evaluate credit quality of the counterparty who borrows securities, approved markets for lending, approved collateral and margin requirements as well as reporting on securities lending programme are outlined in the Securities Lending Internal Investment Mandate.

8.3 Procedures

- 8.3.1 We may authorise Securities Lending Investment Managers to manage any or all components of the programme's administration, cash collateral reinvestment and risk management.
- 8.3.2 If we lend securities we will retain our rights to withhold or recall shares to exercise our voting rights. We will maintain guidance on when to withhold or recall shares. We will work with our securities lending agents to encourage good practice standards by borrowers including not borrowing for the primary purpose of voting.

9 Risk Management

Section 61(h) – the management of credit, liquidity, operational, currency, market, and other financial risks

Managing the Fund involves accepting and managing a wide variety of risks. Our approach to risk management involves the Board, Guardians' staff, and external partners.

9.1 Policy

- 9.1.1 Policy statements relating to the management of financial (including credit, liquidity, currency and market) risks can be found in sections 7 (Reference Portfolio), 9 (Proxies), and 10 (Investment Constraints) of the *Investment Risk Allocation Policy*, sections 6 (Portfolio Completion), 7 (Internal Investment Mandates), 8 (Product Approval) and 9 (Counterparty, Portfolio Completion Agent and Non-Master Custodian Selection and Exposure Management) of the *Portfolio Completion and Internally Managed Securities Policy* and sections 4 (Scope) and 6 (Use of Derivatives) of the *Derivatives Policy*.
- 9.1.2 Policy statements relating to the management of operational risks can be found in section 10 (Direct Transaction Management) of the *Portfolio Completion and Internally Managed Securities Policy*, and section 3 (of the *Risk Management Policy*. and sections 3.3.2 (New Investment Implementation) and 3.3.3 (Monitoring) of the *Direct and Externally Managed Investments Policy*.

9.2 Standards

- 9.2.1 Standards relating to the management of financial (including credit, liquidity, currency and market) risks can be found in Schedules 3 (Reference Portfolio), 6A (Proxy System), and 7 (Constraints) of the *Investment Risk Allocation Policy* and Schedules 2 (Portfolio Completion Frameworks), 5A (Approved Products), 6 (Counterparty Selection and Exposure Management and Minimum Requirements for PCAs and Non-Master Custodians) of the *Portfolio Completion and Internally Managed Securities Policy* and Schedule 4 and 4A (Standards and framework for managing derivative investment and Non-investment Risk) of the *Derivatives Policy*.
- 9.2.2 Standards relating to the management of operational risks can be found in Schedule 7 (Authorised Dealers and Dealing Controls) of the *Portfolio Completion and Internally Managed Securities Policy*, and the schedules of the *Risk Management Policy* and the [Direct & Externally Managed Investment Policy Procedures as referenced in sections 3.3.2, 3.3.3 and 3.3.4 of the Direct & Externally Managed Investment Policy](#).

9.3 Procedures

- 9.3.1 Procedures relating to risk management are referenced to the policies specified above.

10 Valuation of Unlisted Assets

Section 61(j) – the method of, and basis for, valuation of investments that are not regularly traded at a public exchange

Many of the investments of the Fund are regularly traded on recognised exchanges and can be valued accordingly. Where they are not traded on recognised exchanges, the objective is to value those assets at fair value wherever possible.

10.1 Policy

10.1.1 Policy statements relating to the method and frequency of the valuation of all investments of the Fund can be found in section 3 of the *Investment Valuation Policy*.

10.2 Standards

10.2.1 Standards relating to the valuation of Fund investments can be found in Schedules 1 (Valuation Methodology) and 2 (Frequency of Valuations) of the *Investment Valuation Policy*.

10.2.2 Standards relating to reporting to the Board on valuation matters are found in Schedule 3 (Reporting Framework) of the *Investment Valuation Policy*.

10.3 Procedures

10.3.1 Procedures relating to the valuation of unlisted assets are referenced to the Policy specified above.

11 Investment Constraints

Section 61(k) – prohibited or restricted investments or any investment constraints or limits

The Act does not proscribe investment in any particular asset or class of assets. Prohibitions and constraints are therefore imposed by the Guardians' policy and can be categorised as follows:

- capital or risk constraints that limit the variance of the Actual Portfolio from the Reference Portfolio
- investments that are prohibited by virtue of the Fund's Sustainable Investment policies (see section 5); and
- the constraints within individual investment mandates.

11.1 Policy

11.1.1 Policy statements relating to investment constraints used to manage risk within the Fund can be found in section 10 (Investment Constraints) of the *Investment Risk Allocation Policy*.

11.1.2 Policy statements relating to investment constraints used to manage risk within individual investment mandates directly managed by the Guardians can be found within section 7 (Internal Investment Mandates) of the *Portfolio Completion and Internally Managed Securities Policy*.

11.1.3 We will set investment constraints used to manage risk within individual investment mandates managed externally as appropriate on a case by case basis.

11.1.4 Policy statements relating to investment constraints arising from application of the Guardians' Sustainable Investment framework can be found in section 5 of this document and section 10 (Investment Constraints) of the *Investment Risk Allocation Policy*.

11.2 Standards

11.2.1 Standards relating to investment constraints used to manage risk within the Fund can be found in Schedule 7 (Constraints) of the *Investment Risk Allocation Policy*.

11.2.2 Standards relating to investment constraints used to manage risk within individual investment mandates directly managed by the Guardians can be found within Schedule 7 (Constraints) of the *Investment Risk Allocation Policy* and Schedules, 5A

(Approved Products), and 6A (Counterparty Exposure Limits and Calculation) of the *Portfolio Completion and Internally Managed Securities Policy*.

11.2.3 Standards relating to investment constraints arising from application of the Guardians' Sustainable Investment policies are referred to at section 5.2 of this Statement.

11.3 Procedures

11.3.1 Procedures relating to investment constraints are referenced to the policies specified above.

12 Version Control

This is the twenty eighth version of this Statement of Investment Policies, Standards and Procedures. The history of the evolution of this Statement is as follows:

Version	Approved by Board	Change from Preceding Version
1	13 October 2003	Interim policy
2	10 November 2003	Derivatives section revised
3	29 March 2004	Ethical and voting policies revised
4	28 June 2004	Review of format to ensure consistency across each section
5	2 May 2006	Updated for revised Strategic Asset Allocation and other developments
6	19 June 2006	Minor changes throughout. Revised Investment Beliefs
7	31 July 2006	Revised Derivatives section and minor changes to section 12
8	11 September 2006	Revised section 6 (ethical investment) and section 11 (voting rights)
9	31 May 2007	Revised throughout. Voting & Ethical Investment combined into Responsible Investment. Securities Lending section added
10	31 May 2008	Revised throughout. Updated revised Strategic Asset Allocation and other developments
11	20 October 2008	Two revised benchmarks in section 4.3 and modification to wording of section 3.2.5
12	9 December 2008	Addition of section 3.2.3 on strategic tilting and some minor changes elsewhere to reflect strategic tilting. Section 3.2.4 on currency hedging updated for 10% target. Addition to section 3.2.5 to clarify rebalancing process.
13	9 February 2009	Revised treatment of hybrid securities in the asset class definitions in section 3.4, modification of wording in sections 3.3 and 3.4, and clarification added to section 9.2 on derivative exposures.
14	23 June 2009	Revised throughout for internal investment mandates. Introduction of cash as an asset class and concepts of duration and credit spread. Revised wording for investment beliefs in 2.2 and use of derivatives for liquidity and counterparty management purposes in 9.
15	7 July 2010	Revised throughout for Reference Portfolio concept and 2010 reference portfolio review. Revised wording for investment beliefs in 2.2 and changed approach to currency hedging.
16	1 July 2011	Comprehensive structural review to link to underlying policies.
17	12 June 2012	Minor revisions to sections 5 and 10.
18	18 June 2013	Modest changes to sections 5, 7 and 10.
19	19 June 2014	Changes in light of the Risk Budget to sections 4, 6 and 11 and other modest changes to sections 7, 8 and 10.
20	17 June 2015	Changes in light of the approval of a standalone Derivatives Policy and Valuation Policy in 2015. Changes in light of replacement of the "How we Invest" document with internal procedures.
21	17 June 2015	Changes in light of the requirements relating to the governance of Fund Investment Vehicles.
22	21 June 2016	Minor revisions to sections 2, 5, 7 and 9.
23	6 April 2017	Revisions to sections 5 and 8 for the Securities Lending programme.
24	19 June 2018	Annual Review
25	20 June 2019	Annual Review

26	24 June 2020	Annual Review
27	24 June 2021	Annual Review
28	22 June 2022	Annual Review
29	22 June 2023	Annual Review
30	20 June 2024	Annual Review