

# Portfolio Completion and Internally Managed Securities Policy

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## Document Handling:

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## Document History:

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1	1 July 2011		Board	Final
Note this version supersedes all earlier draft versions (#152368)				
2	5 July 2011	Change to Schedule 5A		Draft
3	25 Sept 2012	Annual review.	Board	Final
3A	17 Jan 2013	Minor reference updates.		Final
3B	12 Feb 2013	Update Aust. Banks Direct Exposure % In Schedule 6A.	Board	Final
3C	29 July 2013	Include Counterparty Monitoring.	Board	Final
3D	20 September 2013	Include NZ Equities, Cash and Active Collateral mandates in Schedule 4 & 5.	CEO	Final
3E	13 Feb 2014	Change to Schedule 5A and Responsibilities section.	CEO	Final
4	17 Sep 2014	Two Yearly Review.	Board	Final
4A	5 Dec 2014	Minor updates.	Board	Final
4B	2 Feb 2015	Change to Schedule 1 for reporting frequency of the NZ Active Equities internally managed mandate.	CEO	Final
4C	29 Apr 2015	Update to Schedule 7: Authorised Dealers and Dealing Controls to reflect staff change.	CEO	Final
4D	28 June 2015	Updates to Schedule 5A (Approved Products), Schedule 4 (Approved Internal Investment Mandates), and Schedule 10 (Legislative Compliance).	CEO	Final
4E	24 August 2015	Update to Schedule 4 to add the new passive NZ equities as an IIM, and remove the Inflation Global Inflation Linked Bonds IIM.	CEO	Final
5	16 Dec 2015	Consequential changes light of the changes under the New Zealand Superannuation Retirement and Income Amendment Act 2015.	Board	Final
6	26 Jan 2016	Update to Schedule 3.	Board	Final
7	20 Sep 2016	Two Yearly Review.	Board	Final
7A	18 Oct 2016	Inclusion of IIM#21 Dividend Derivatives, and update to reflect changes in reporting frequency for material changes to policies.	CEO	Final

7B	8 Dec 2016	Update to Schedule 10 (Legislative Compliance)	CEO	Final
7C	23 Jan 2017	Update to reflect minor changes to IIMs, and the addition of the Dividend Derivatives IIM	CEO	Final
7D	24 Feb 2017	Update to Schedule 1 (Responsibilities)	CEO	Final
7E	9 Mar 2017	Update to Schedule 4 Approved Internal Investment Mandates (IIMs); remove Sections S2.8 and S2.81	CEO	Final
8	6 April 2017	Inclusion of new Section 11, and revisions to Schedule 1, Schedule 4 and minor consequential changes for the securities lending programme. Update to Schedule 7 (Authorised dealers and Dealing Controls)	Board	Final
8A	16 May 2017	Update to Schedule 5A (Approved Products)	Head of Risk	Final
8B	25 May 2018	Update to Schedule 7 (Authorised Dealers)	CEO	Final
8C	28 June 2018	Updates to statutory references for changes in legislation	CEO	Final
8D	15 Jan 2019	Update to Schedule 5A (Approved Products)	CEO	Final
9	27 Feb 2019	Updates to multiple sections to include Short Selling.	Board	Final
9A	6 Mar 2019	Updates to Schedules 5A (Approved Products) and 11 (Minimum Liquidity Requirement)	CEO	Final
10	20 Jun 2019	Two Yearly Review (2019).	Board	Final
10A	28 Aug 2019	Update to Schedule 1 (Responsibilities)	CEO	Final
11	7 Jan 2020	Update to Schedule 5A (Approved Products), Schedule 6 (Counterparty Selection and Exposure Management and Minimum Requirements for PCAs and Non-Master Custodians), and Schedule 11 (Minimum Liquidity Requirement)	Board	Final
11A	15 Jan 2020	Update to Schedule 4 (Approved Internal Investment Mandates (IIMs))	CEO	Final
11B	29 Jan 2020	Update to Schedule 7 (Authorised Dealers and Dealing Controls)	CEO	Final
11C	25 Mar 2020	Update to Schedule 1 (Responsibilities) and Schedule 7 (Authorised Dealers and Dealing Controls)	CEO	Final
11D	4 May 2020	Update to Schedule 7 (Authorised Dealers and Dealing Controls)	CEO	Final
11E	3 Jun 2020	Update to Schedule 6B (Counterparty Creditworthiness Monitor)	CEO	Final
12	24 Jun 2020	Update to Schedule 8 (Counterparty Selection and Exposure Management)	Board	Final
13	24 Sep 2020	Update to Schedule 1 (Responsibilities) and Schedule 9 (Reporting and Accountability Framework)	Board	Final
13A	25 Jan 2021	Update to Schedule 4 (Approved Internal Investment Mandates (IIMs))	CEO	Final
13B	4 Mar 2021	Inclusion of IIM#26 (Tactical Credit Opportunities) and termination of IIM#17 (Active Collateral)	CEO	Final
13C	24 May 2021	Update to Schedule 7 (Authorised Dealers and Dealing Controls)	CEO	Final
14	24 Jun 2021	Updates to Schedule 1 (Responsibilities), Schedule 7 (Authorised Dealers and Dealing Controls), and Schedule 12 (Short Selling).	Board	Final
15	13 Oct 2021	Updates to Background and Schedules 2, 5A, 5B, 6, 6A, 6B, 11, and 12	Board / CEO	Final

15A	1 March 2022	Update to Schedule 7 (Authorised Dealers and Dealing Controls)	CEO	Final
15B	26 April 2022	Update to Schedule 7 (Authorised Dealers and Dealing Controls) to reflect the cessation of phone recordings	CEO	Final
15C	28 June 2022	Update to Schedule 7 (Authorised Dealers and Dealing Controls)	CEO	Final
15D	21 July 2022	Updates to Schedule 1 (Responsibilities), Schedule 4 (Approved Internal Investment Mandates) and Schedule 10 (Legislative Compliance)	CEO	Final
15E	30 August 2022	Update to Schedule 1 (Responsibilities), Schedule 4 (Approved Internal Investment Mandates)	CEO	Final
16	6 November 2023	Update to Schedule 7 (Authorised Dealers and Dealing Controls)	CEO	Final
17	23 November 2023	Update to Schedule 4 (Approved Internal Investment Mandates)	CEO	Final
18	24 November 2023	Update to Schedule 7 (Authorised Dealers and Dealing Controls)	CEO	Final
19	1 March 2024	Update to Schedule 1 (Responsibilities) following retirement of Strategic Tilting Policy on 22 February 2024. Addition of responsibilities transferred from IIM#7	CEO	Final
20	22 April 2024	Update to Schedule 5B: Minimum Liquidity Requirement (MLR) and Potential Future Exposure (PFE) multipliers	CEO	Final
21	6 May 2024	Update to Schedule 4 (Approved Internal Investment Mandates)	CEO	Final
22	19 July 2024	Updated to Schedule 7 (Authorised Dealers and Dealing Controls)	CEO	Final

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## **1. Background**

- 1.1** We have established a Reference Portfolio which specifies weights for various market exposures that may be obtained at low-cost on a passive basis.
- 1.2** In the Actual Portfolio of the Fund we seek to add value to the Reference Portfolio in three ways:
- by temporarily adjusting (tilting) the Fund's market exposures in response to changes in expected returns (Strategic Tilting).
  - through accessing return premia (whether market or skill based) not available in the Reference Portfolio (Capturing Active Returns).
  - by gaining access to the desired risk exposures, rebalancing the Fund, and managing liquidity risk in the most cost effective manner possible (Portfolio Completion).
- 1.3** The Fund's asset allocation process contains a mechanism to adjust target Reference Portfolio exposures depending on the actual market exposures held by the Fund at a given point in time. This mechanism uses specified Proxies to adjust for an exposure to other Investments not represented in the Reference Portfolio (as outlined in the Investment Risk Allocation Policy, section 9). The Fund's overall target portfolio for rebalancing purposes is referred to as the Rebalancing Target.
- 1.4** In this context and for the purposes of this policy, Portfolio Completion and Internally Managed Securities is the activity by which the Fund is "completed" to the Rebalancing Target by:
- Implementing and maintaining Strategic Tilting;
  - managing the Fund's foreign currency hedge exposure;
  - managing internal investment mandates;
  - obtaining Rebalancing Target exposures; and
  - managing the funding, rebalancing and liquidity management process.
- 1.5** Portfolio Completion is any investment activity that results in Financial Markets Transactions that are controlled directly by the Guardians.
- 1.5.1** All related activities are Portfolio Completion activities, even if the execution of the Financial Market Transactions, or some other aspect of the transaction process, is undertaken by a Portfolio Completion Agent. A Portfolio Completion Agent (PCA) is any third party appointed to assist with the Portfolio Completion process, such as a transition manager or foreign currency execution agent.
- 1.5.2** Portfolio Completion activities also include the decision to fund, or withdraw funds from, a Manager of a portfolio of securities that represent Reference Portfolio exposure and that are mandated by the Guardians to be passively managed.

## **2. Objective**

- 2.1** To implement effective controls and frameworks to ensure that all aspects of our Portfolio Completion and Internally managed securities activity are effectively managed and in compliance with our governance and legislative requirements.

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### 3. Definitions

3.1 To aid with interpretation of this policy we have a Glossary of Investment Terms, which defines all investment and technical terms used in our policy documents. References to other documents are italicised.

### 4. Scope

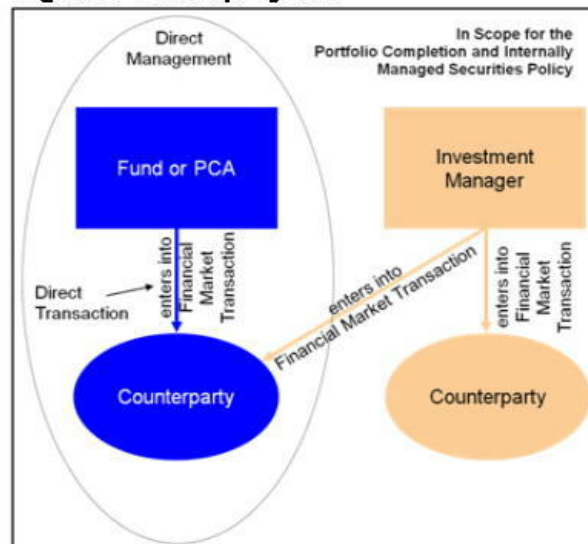
4.1 This policy covers the following activities:

- Implementing and maintaining Strategic Tilting;
- Managing the Fund foreign currency hedge exposure;
- Managing Internal Investment Mandates;
- Obtaining Rebalancing Target exposures by funding an investment manager or by using Derivatives contracts; and
- Managing the funding, rebalancing and liquidity management process.
- Funding Passive Managers

4.2 This policy covers the credit risk associated with Counterparties, but does not cover the broader credit risks that the Guardians may also face. For example, the credit risk to the Issuer of a debt Security is out of scope for this policy if that issuer is not also a Counterparty to a Financial Market Transaction with the Fund.

4.3 Counterparty credit risk associated with Portfolio Completion is subject to exposure limits. Counterparty risk associated with the investment activity undertaken by external investment managers is also out of scope for this policy

**Figure 1: Counterparty Risk**



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#### 4.4 This policy does not cover:

- The selection and monitoring of external active managers and the decision as to which of our external managers to fund, which is governed by the Externally Managed Investments Policy.
- The decision to fund a Manager that is not a Manager of a portfolio of passively managed Reference Portfolio exposure. However, once a decision has been made about which external manager to fund, funding of the manager is a Portfolio Completion activity, as it is integral to the funding, rebalancing and liquidity management process.
- Direct investment that does not result in a Financial Market Transaction. If such direct investment involves a Collective Investment Vehicle (CIV) or a Fund Investment Vehicle (FIV), it is governed by either the Externally Managed Investments Policy or Direct Investments Policy. Otherwise such direct investment is governed by the Direct Investments Policy.
- The appointment and management of the Master Custodian (other than in respect of the monitoring of Counterparty exposures). This key outsourcing relationship is governed by the Procurement and Outsourcing Policy.
- Derivative use and reporting; this is covered in the Derivatives Policy.

#### 5. Delegations and Authorities

5.1 The Delegations Policy governs the delegations and authorities that apply in all policy documents. In the event of any discrepancy between this policy and the Delegations Policy the Delegations Policy will prevail.

5.2 Details of authorities with regard to confirmation and settlement of Direct Transactions, as well as the physical transfer of funds to investment managers, investments and direct investments, are set out in the Proper Instruction Process.

5.3 The Board has reserved certain matters either to itself, a committee of the Board or the Chief Executive. All other matters are delegated to the Chief Executive who may sub-delegate them to Guardians' staff. All delegates and sub-delegates must exercise their authorities in compliance with the general conditions of delegation and sub-delegation set out in Schedule 2 of the Delegations Policy.

5.4 There are certain responsibilities inherent under this policy. Those responsibilities, and the person responsible for them, are outlined in Schedule 1.

#### 6. Portfolio Completion

Portfolio Completion decisions generally move portfolio exposures closer to Rebalancing Target weights. The concurrent consideration of liquidity and other factors makes the overall Portfolio Completion decision a complex judgment. There is no simple mechanical formula that drives this decision.
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6.1 We will maintain and adhere to a Fund rebalancing framework that focuses on the following:

- Maintaining within acceptable divergences the Rebalancing Target weights that are measured in risk terms.

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- The inputs used for risk thresholds must be the assumptions used to model expected risk for the Fund's Risk Budget.
  - A formal rebalancing review must be made at least monthly.

6.2 We will maintain and adhere to a liquidity management framework that ensures the Fund has sufficient liquidity to meet potential payment obligations that may arise at short notice.

6.3 An outline of these Portfolio Completion frameworks must be maintained in Schedule 2.

6.4 The thresholds for Portfolio Rebalancing must be contained in the Investment Risk Allocation Policy, Schedule 7.

## 7. Internal Investment Mandates

Various value adding opportunities may be managed internally. These opportunities may be for Portfolio Completion or for active return and will be held through investment mandates whose rules will be structured to reflect the nature of the risks and the objectives of the mandates.
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7.1 We will maintain and adhere to the use of an Internal Investment Mandate (IIM) to govern the internal management of any assets covered by this policy, subject to the following requirements:

- Internal management of any asset or asset class must be consistent with a Board approved strategy or decision.
- A New Investment Implementation Framework must be completed and signed by authorised representatives of all business units impacted by the new mandate before an IIM can be activated.

7.2 The terms of an IIM must be consistent with this policy. All IIMs must document at a minimum:

- the mandate objective;
- the mandate name and mandate type;
- the benchmark (if any);
- mandate guidelines;
- use Approved Products as agreed in this Policy;
- risk limits;
- prudential limits (such as investment, exposure or term limits, or other investment restrictions); and
- reporting and valuation requirements.

7.3 All new IIMs, and any subsequent variations, must be approved in accordance with the Delegations Policy.

7.4 A list of all approved IIMs must be maintained in Schedule 4. The table must also contain the purpose for which the IIM is established and any special conditions attached to them. It must also specify the Board Approved Value-add Strategy or decision to which each IIM relates.



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## 8. Product Approval

We are required to seek the prior approval of the Minister of Finance if we intend to "hold any financial instrument that places or may place a contingent liability on the Guardians, the Fund or the Crown". In accordance with that provision, we have sought and received the Minister's approval to use derivatives and other specific instruments subject to certain conditions.

We only use a new product once we have identified and assessed the risks of implementation and appropriate methods of valuation, and put in place processes to ensure effective management. If the new product is a derivative it must also comply with section 8 (Derivatives) of our *Statement of Investment Policies, Standards and Procedures*.

Our product approval process includes approval of purposes for the Product and any conditions of approval, as well as the establishment of any applicable Potential Future Exposure (PFE) multiplier used to measure Counterparty exposure that results from the use of the Product.

- 8.1 We will maintain and adhere to a new Product approval framework that focuses on ensuring that the risks of using any new Product have been fully considered before that Product is used for the first time.
- 8.2 The new Product approval framework must be maintained in Schedule 5.
- 8.3 A list of Approved Products together with any applicable PFE and MLR multipliers and any conditions of approval must be maintained in Schedule 5A and Schedule 5B.
- 8.4 All proposals to invest in, or transact in, a new Product must be approved in accordance with the Delegations Policy.

## 9. Counterparty, Portfolio Completion Agent and Non-Master Custodian Selection and Exposure Management

Counterparties are selected (and retained) after an assessment of their credit quality and their competence with respect to an Approved Product. Counterparties are continuously monitored under the creditworthiness framework: falling below set standards will lead to suspension of trading with that Counterparty. Portfolio Completion Agents and counterparties who we trade with on a delivery versus payment basis are not monitored under the creditworthiness framework as there is no credit risk arising from those relationships.

In addition to Counterparties we select directly we also have exposure to Counterparties that are used by our external managers. If we have appointed the manager under an Investment Management Agreement we can put limits on the manager's use of Counterparties through that agreement. If we have purchased an interest in a Collective Investment Vehicle managed by the manager we cannot impose any such limits. In this latter case, where possible, we monitor the Counterparty exposure and where significant credit concentrations are observed, can take action to lower our direct Counterparty limits or use derivatives to lower credit exposure.

From time to time we make use of third party agents to undertake Portfolio Completion, we refer to these as Portfolio Completion Agents (PCAs). At times we also appoint custodians to hold the Fund's assets in the context of a particular Product (Non-Master Custodians). Often these Non-Master Custodians will also be Counterparties in respect of cash assets.

Exposure management covers the credit risk associated with counterparties. Counterparty credit risk is one of the many investment risks the Fund is exposed to when making investment choices. Counterparty risk cannot be avoided and is managed and mitigated in a manner that best allows us to achieve our investment mandate. The aim is to balance potential loss from counterparty failure against the investment requirements of the Fund.

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- 9.1 We will maintain and adhere to a Counterparty, Portfolio Completion Agent and Non-Master Custodian selection and monitoring framework that focuses on the following:
- Selection criteria;
  - Legal documentation;
  - Continual credit exposure monitoring and management; and
  - An annual review process
- 9.2 An outline of that framework must be maintained in Schedule 6.
- 9.3 We will set limits on Direct Exposure to Counterparties. Those limits must include at a minimum
- maximum total Direct Exposure to any Counterparty based upon credit rating
  - minimum credit Ratings for OTC Derivative Counterparties and Short Selling Counterparties;
  - maximum Collateral Threshold Limits and Minimum Transfer Amounts for OTC Derivative Counterparties;
  - maximum total exposure to Counterparties below A- / A3;
  - maximum Direct Exposure for NZ / Australian banks
  - maximum exposure to Master Custodian;
  - special conditions applying to any Counterparty or class of Counterparties.
- 9.4 We will set limits on Direct Exposure to Central Clearing Parties (CCP) based upon whether they are Qualified CCP's as determined by the relevant regulator of the CCP. An outline of that framework must be maintained in Schedule 6A.
- 9.5 A table of the current approved limits must be maintained in Schedule 6A. A Counterparty Creditworthiness Monitor must be maintained in Schedule 6B.
- 9.6 All decisions to appoint a Counterparty or a Non-Master Custodian must be in accordance with the Delegations Policy Appointment of a Counterparty or Non-Master Custodian is not governed by the Procurement and Outsourcing Policy.
- 9.7 All decisions to appoint a Portfolio Completion Agent must be in accordance with the Delegations Policy

## 10. Direct Transaction Management

Our organisational structure ensures that no one individual can carry out key functions around the dealing, processing and settlement of Direct Transactions. It does this by establishing a clear segregation of duties between:

- approval, orders and execution;
- verification, confirmation and instructions regarding settlement;
- physical settlement, reconciliation, reporting and accounting; and
- monitoring, including pre- and post-trade compliance

Our *Proper Instruction Process* outlines the control processes around the management of all instructions, which include Direct Transactions. The *Proper Instruction Process* covers:

- execution;
- confirmation; and
- settlement, including the operating of bank accounts.

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- 10.1 We will maintain and adhere to a framework that clearly establishes responsibilities and authorities with regard to Portfolio Completion in such a way as to ensure segregation of duties is consistent with best-practice.
  - 10.2 A Direct Transaction must be undertaken by an Authorised Dealer.
  - 10.3 A list of Authorised Dealers and the framework for dealing controls must be maintained in Schedule 7.

## 11. **Securities Lending**

The Board approved the creation of a securities lending programme on 21 June 2016 (Programme) to generate additional net revenue for the Fund.

The objectives of the Programme are to use a conservative management approach to generate income primarily from fees from lending above that already generated from securities within the portfolios without interfering with overall portfolio strategy whilst ensuring protection of principal.

The programme will take into consideration (a) credit risk, (b) market and liquidity risk, (c) operational risk, (d) voting rights and (e) expected return on investment.

- 11.1 We will maintain and adhere to a Securities Lending Investment Constraints / Limitations framework that focuses on ensuring that the risks of operating a securities lending programme are fully considered before a lending programme can be started and continue to be managed throughout the life of the programme
- 11.2 The Securities Lending Constraints / Limitations must be maintained in the Securities Lending Internal Investment Mandate which shall include:
  - 11.2.1 limits on the lending programme;
  - 11.2.2 approved markets for equities and fixed income lending;
  - 11.2.3 approved eligible collateral;
  - 11.2.4 approved collateral margins and;
  - 11.2.5 approved Principal Borrowers.
- 11.3 All proposals to appoint a Securities Lending Investment Manager must be approved in accordance with the Delegations Policy.
- 11.4 One or more financial institutions may be selected to act as Securities Lending Investment Manager for the programme. The selected parties must demonstrate experience with comparable engagements, experienced staff, an A or better credit rating, the ability to generate securities lending revenue, and a competitive proposed fee and revenue sharing arrangement.
- 11.5 Indemnities: After consideration by the Investment Committee, the General Manager Portfolio Completion will determine the level of agent indemnification based on a cost/benefit analysis.
- 11.6 Voting: We may withhold or recall securities from lending for voting purposes as outlined in Section 5 of the SIPSP (Responsible Investment) and the Responsible Investment Framework.

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## **12. Short Selling**

Short selling is the sale of a physical security that is not owned by the seller, or that the seller has borrowed.

We may short sell any publicly traded security to enhance expected returns or to offset or manage certain exposures, provided however, that short selling will only be done after full consideration of the related risks

Risks inherent in short selling are summarised in Schedule 12 together with the policy framework for managing those risks.

- 12.1 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.
- 12.2 We may permit internal use of short selling where we are satisfied the activity has the necessary controls in place to ensure prudent use and such use is consistent with the investment guidelines in the relevant internal investment mandate.
- 12.3 Except where we are short selling to hedge a long exposure, we will borrow securities to 'cover' a short sale of physical securities.
- 12.4 When we borrow securities for short selling, 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.

## **13. Reporting**

- 13.1 We must report to the Board on the following matters:
- Deviation from the normal Rebalancing Thresholds;
  - Counterparty downgraded below Investment Grade status;
  - Breach of Counterparty exposure limits;
  - Counterparty creditworthiness and usage reporting;
  - Internal Investment Mandates.
- 13.2 An outline of the current reporting framework, including any reporting to internal management committees, must be maintained in Schedule 9.
- 13.3 We will report proposed material changes to the following schedules to the Board for their approval:
- Schedule 6: Counterparty Exposure Limits and Calculation and Non- Master Custodian Minimum Requirements
  - Schedule 9: Reporting and Accountability Framework
  - Schedule 12: Short Selling

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13.4 We must report to the Board, for their information, material changes to the following schedules:

- Schedule 1: Responsibilities
- Schedule 2: Portfolio Completion
- Schedule 4: Approved Internal Investment Mandates (IIMs)
- Schedule 5: Approved Products
- Schedule 6B: Counterparty Creditworthiness Monitor (CCM)
- Schedule 7: Authorised Dealers and Dealing Controls
- Schedule 10: Legislative Compliance Framework
- Schedule 11: Liquidity by Assets

#### 14. Legislative Compliance

We have a legislative compliance framework to ensure that we comply with our legislative obligations. In each of our policies we list specific legislation that might impact on the activities covered by that policy. The list is not always exhaustive as often the law is specific to a particular aspect of the activity or jurisdiction in which the activity occurs.

14.1 We will ensure that all our activities under this policy comply with our legislative obligations and give effect to our legislative compliance framework.

14.2 A list of legislation that potentially impacts on the activities under this policy must be maintained in Schedule 10.

#### Control Section

Approved this 25<sup>th</sup> day of September 2012 and amended 29 July 2013, 17 September 2014, 20 September 2016, 6 April 2017, 24 November 2017, 27 February 2019, 20 June 2019, 7 January 2020, 24 June 2020, 24 September 2020, 24 June 2021 and 13 October 2021

GM Portfolio  
Completion

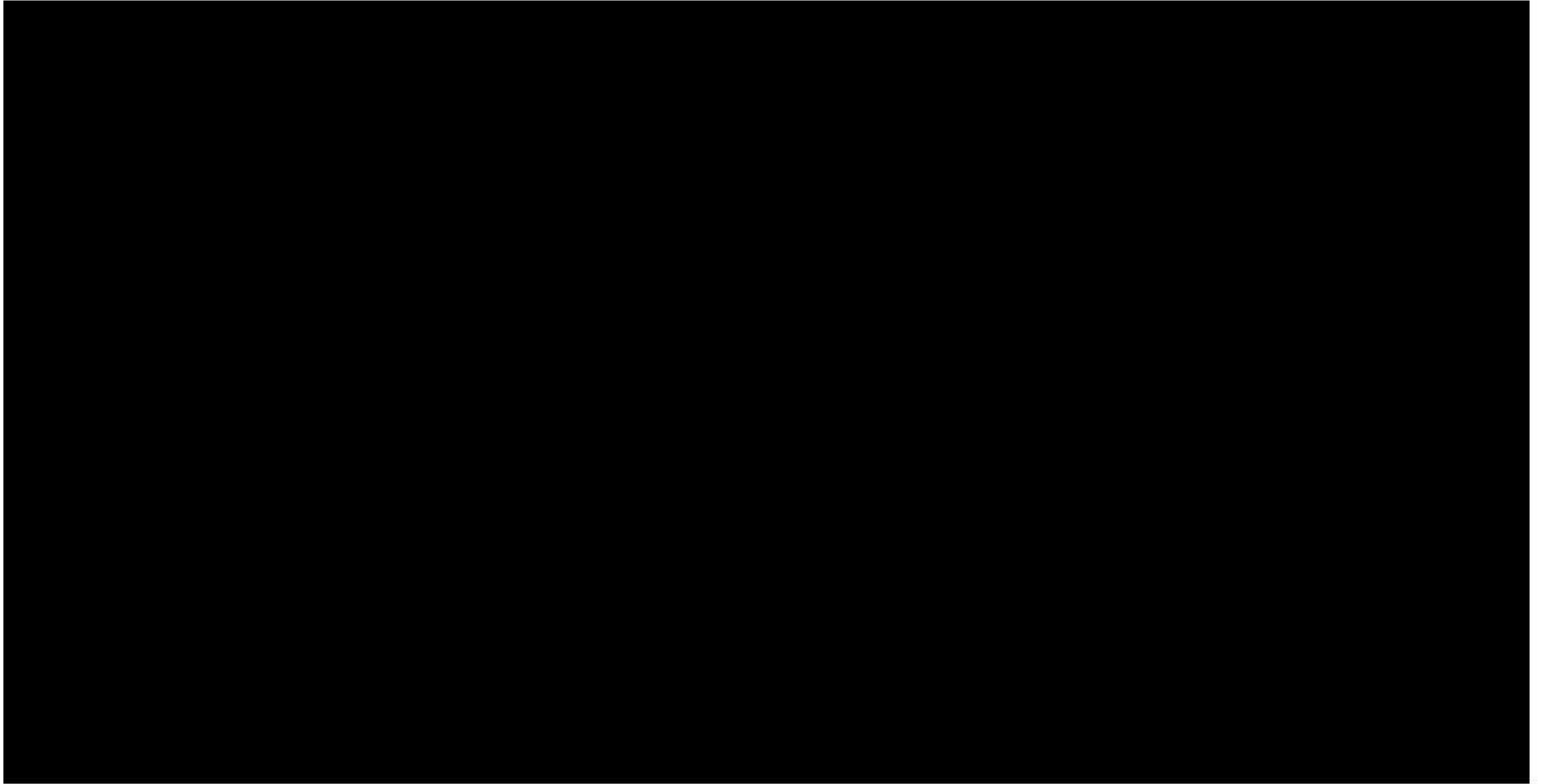
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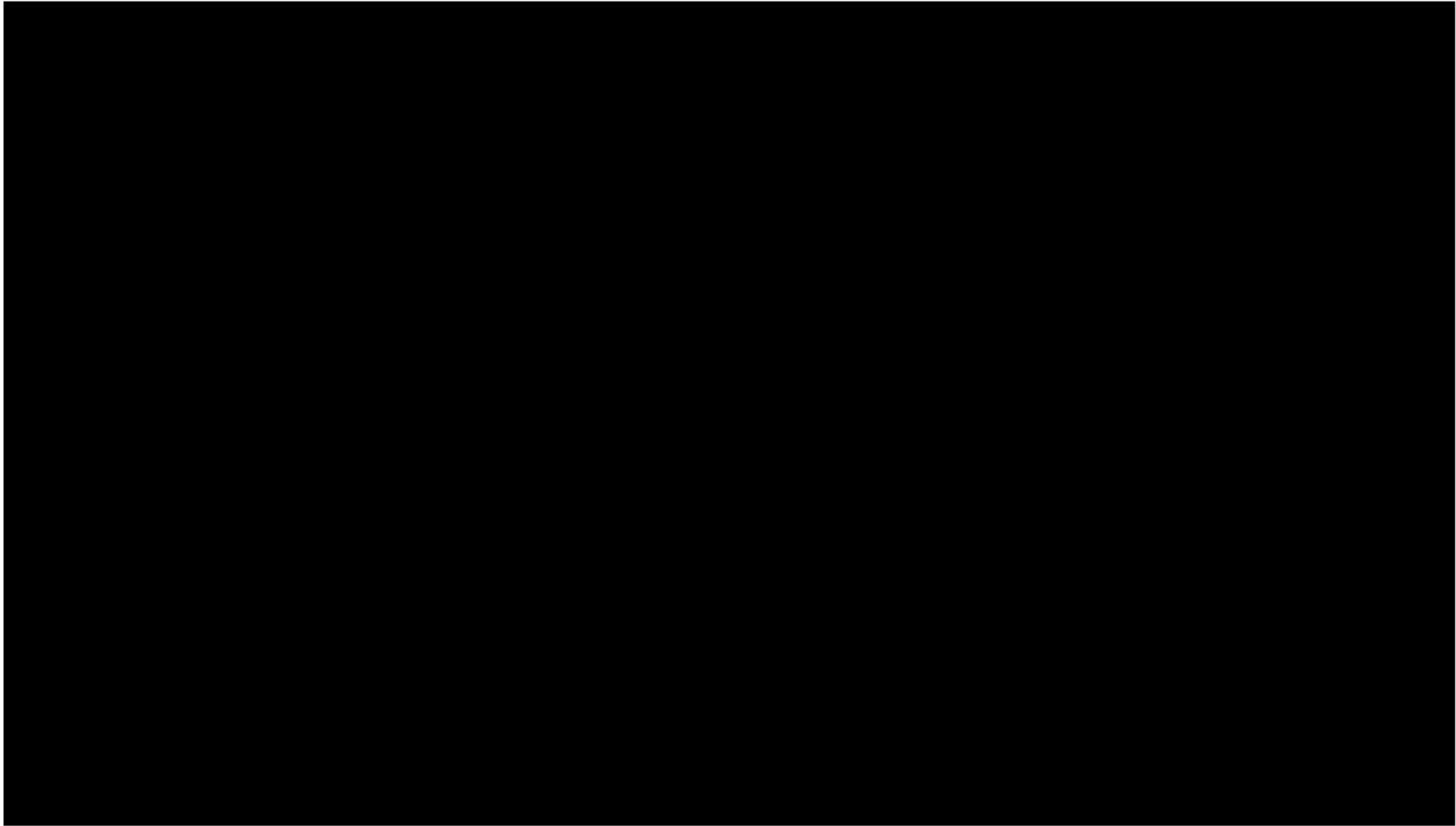
Chief Executive  
Officer

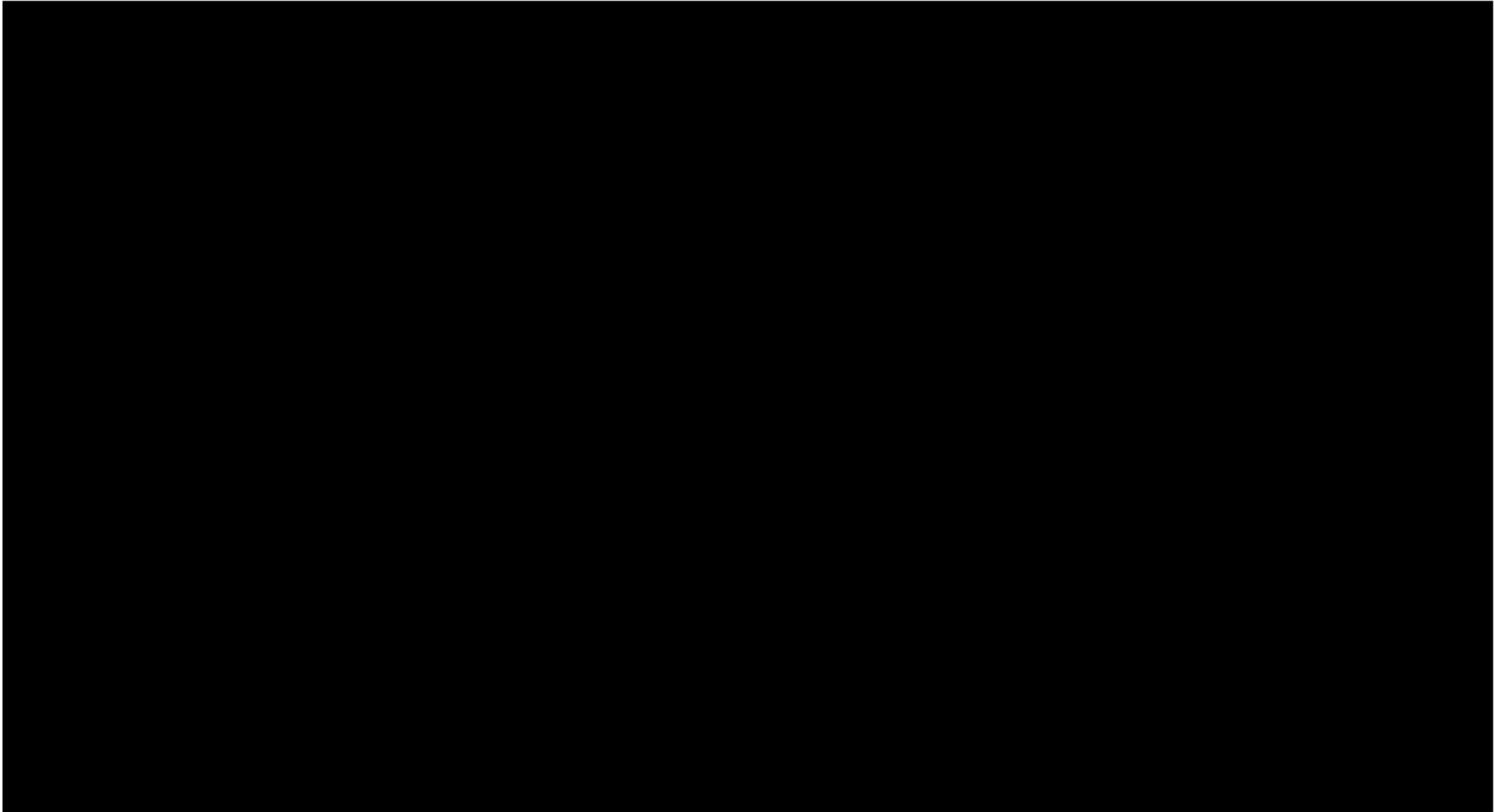
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Board Chairperson

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## **Schedule 2: Portfolio Completion Frameworks**

### **Fund Rebalancing Framework**

- S2.1** The objective of rebalancing decisions is to track the Fund's Rebalancing Target. We calculate this in two steps.
- The starting point is the reference weights in the Reference Portfolio.
  - Actual Private Market holdings are then added and their respective Public Market Proxies are removed to give the Rebalancing Target Pre-Tilting.
- S2.2** Our rebalancing decisions then focus upon reducing differences between Actual Portfolio weights and those of the Rebalancing Target.
- S2.3** At any point in time the Actual Portfolio weights, including those to foreign currency exposure, will deviate from the Rebalancing Target weights. For example, different returns for the various asset classes cause the asset class weights to vary over time. Given transaction costs associated with rebalancing the Actual Portfolio back towards target weights, attempting to maintain precise allocations is not desirable.
- S2.4** Rebalancing can be undertaken by, for example, selling overweight asset classes to fund underweight asset classes, the use of available liquidity, or the use of Derivatives.
- S2.5** We measure acceptable divergences from Rebalancing Target weights in terms of risk. Except as set out in clause S2.6, we undertake rebalancing transactions back towards the target weights if the risk based tolerance thresholds set out in Schedule 7 of the Investment Risk Allocation Policy are exceeded (for example as a result of market movements or if account balances or other forms of liquidity are used to meet payment obligations).
- S2.5.1** The inputs we use for risk thresholds are the assumptions used to model expected risk for the Fund's Risk Budget.
- S2.5.2** Divergences from the Rebalancing Target are best measured in terms of risk, rather than by absolute amounts such as a percentage of the portfolio. This is because deviations from the rebalancing target of volatile asset classes are more significant than similar deviations of lower risk assets. Further, many asset returns are not independent, and deviations in different asset classes may partly offset across the wider portfolio.
- S2.6** In exceptional circumstances we can temporarily deviate from the Fund's normal rebalancing thresholds. These include when liquidity is needed unexpectedly urgently, or when access to the appropriate market exposure is either unavailable or poses a temporary excessive transaction cost. Such deviations are generally for no longer than four weeks. We immediately notify the Board if we make a deviation of this nature and seek their approval if a deviation is to last longer than four weeks.
- S2.7** We make a formal rebalancing decision at least monthly. We recalculate the risk measures before and after each rebalancing decision. During periods of unusual market volatility, where we suspect that the Fund's risk measures might have moved

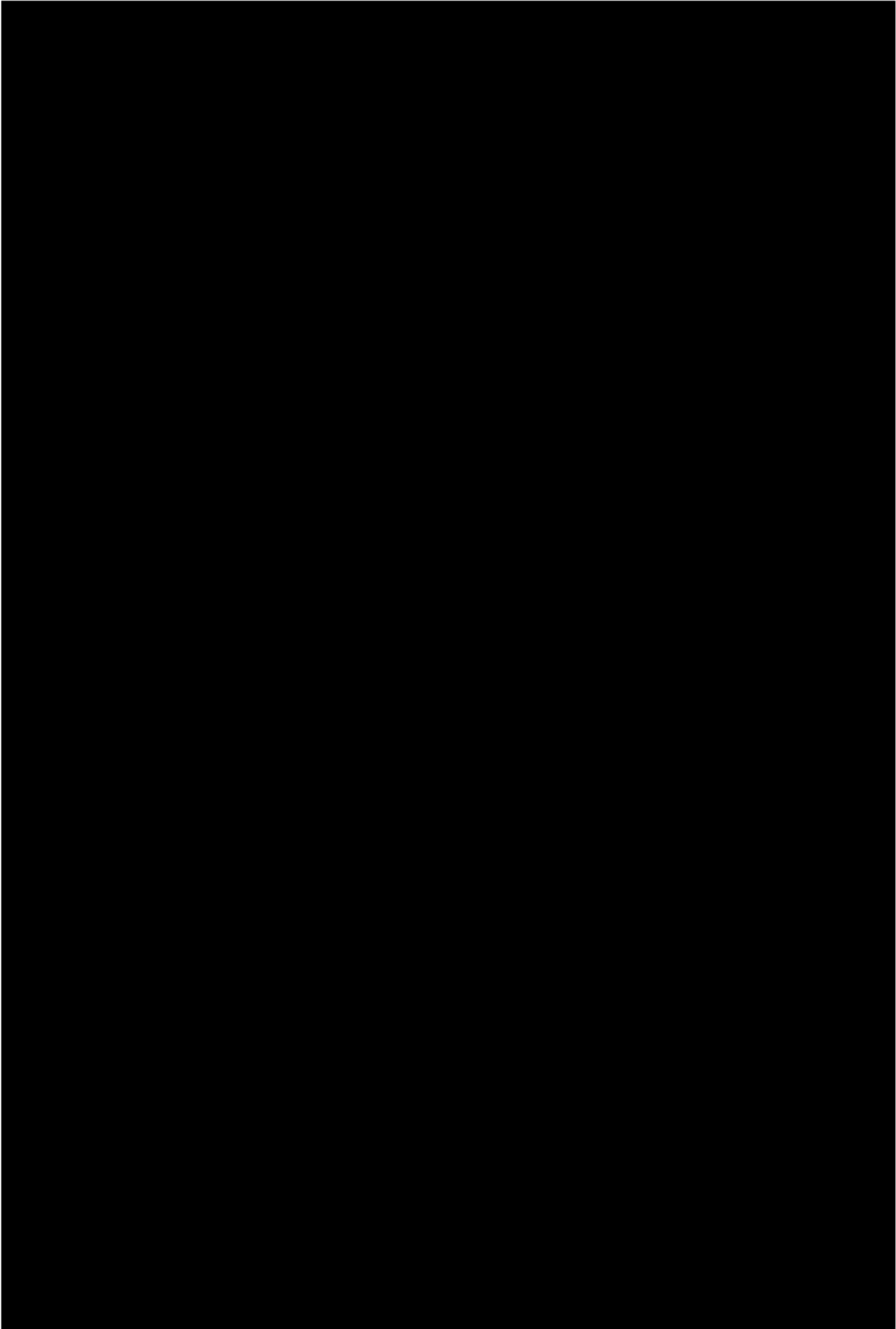
beyond the allowable thresholds given in Schedule 7 of the Investment Risk Allocation Policy, we initiate an intra-cycle rebalancing review.

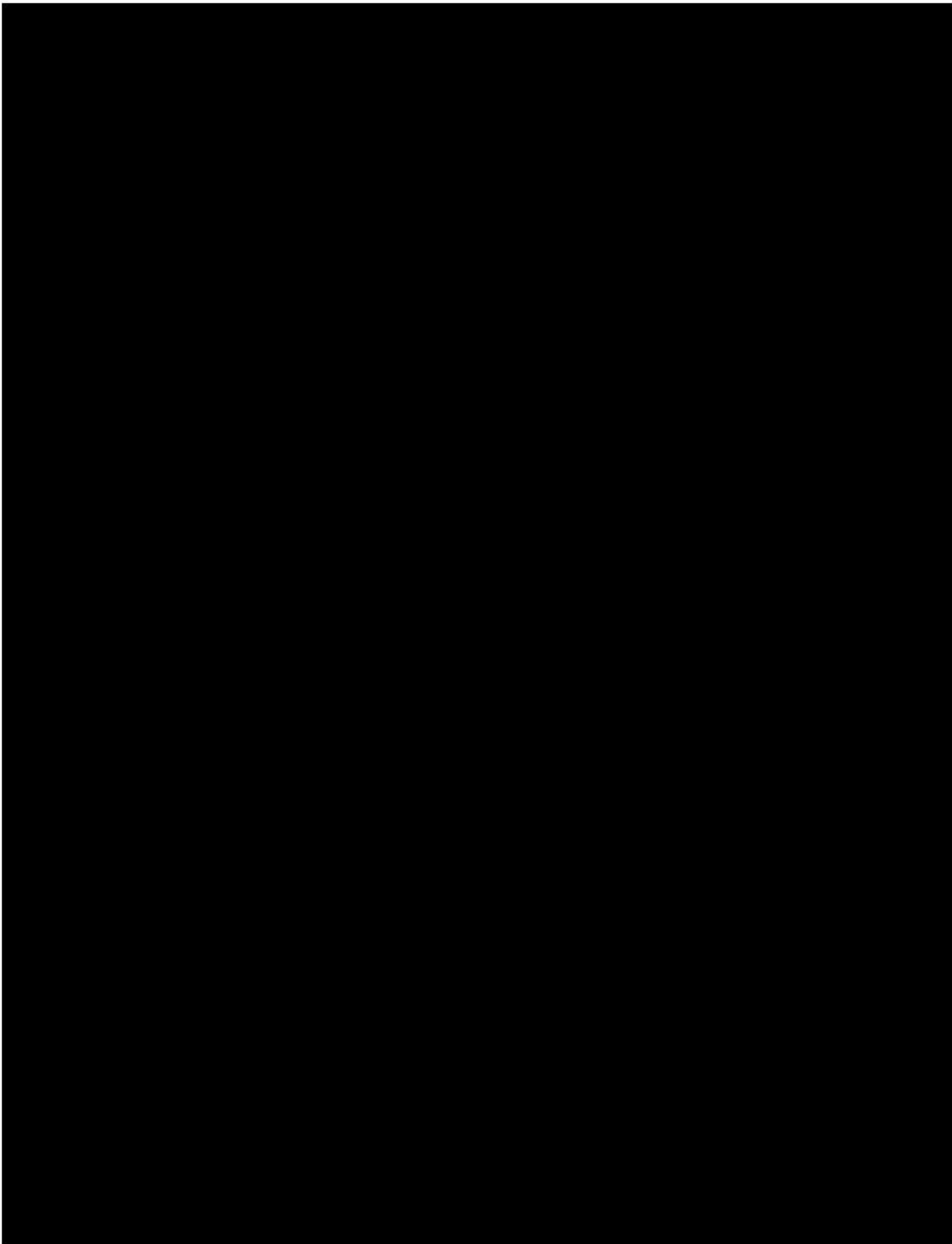
### **Foreign Currency Exposure Management Framework**

- S2.8** We assign a Target Hedge Ratio to all foreign currencies held by the Fund. Except where currency hedging is managed by an external investment manager (i.e. where the manager has been given a hedged benchmark) rebalancing to that Target Hedge Ratio is governed by a currency hedging IIM. The Target Hedge Ratio will be maintained in the Currency Hedging Internal Investment Mandate.
- S2.9** We can employ major currency proxies to hedge exposure to minor foreign currencies, except that we don't substitute other currencies for the New Zealand dollar leg of a currency hedging transaction.

### **Funding Framework**

- S2.10** The funding of an investment is a Portfolio Completion activity which will have liquidity and rebalancing implications.
- S2.10.1** We can fund external managers either in cash or *in specie* directly or via a Portfolio Completion Agent, whichever we think will lead to the lowest overall implementation costs.
- S2.11** The decision to fund, or withdraw funds from, an investment which represents passive Reference Portfolio exposure is also a Portfolio Completion activity.
- S2.11.1** The decision to rebalance or raise liquidity from an investment which represents an active listed cash equity or fixed income exposure is also a Portfolio Completion activity.





### **Schedule 3: Thresholds for Portfolio Rebalancing**

***This schedule has been left deliberately blank. The thresholds for portfolio rebalancing are contained in the Investment Risk Allocation Policy.***

**Schedule 4: Approved Internal Investment Mandates (IIMs)**

IIM #	IIM Name	Purpose	Responsibility	Special Conditions	Relevant Board or Investment Committee Approved Strategy/Decision
4	Collateral Assets	<p>The aim of the Collateral Assets is to hold assets that can be used as liquid collateral for the purpose of meeting obligations related to the Fund's exposure to derivatives. The objective is to enhance the return achieved on holding liquid collateral while maintaining liquidity and minimising counterparty risk.</p> <p><b>REPLACED BY IIM# 12</b></p>		<p>The securities held must be eligible for delivery as collateral to counterparties. They may also be used for repurchase agreements.</p>	<p>Liquidity and collateral management Approved 11 May 2009</p>
2	US Transitional Assets #	<p>The objective of the Mandate is to transition assets formerly held in the SFT Collective Investment Fund (SFT) into cash as efficiently as possible, minimising the cost of selling those assets.</p>	GM Portfolio Completion	No new assets may be purchased.	<p>Transition management of securities received in the in-kind transfer from the SFT Approved 11 May 2009</p>
3	Passive NZ Equities	<p>The objective of the Passive NZ Equity Mandate is to facilitate completion of Rebalancing Target weights for the NZ Equity asset class. The Mandate is intended to passively track the Benchmark index, subject to implementation efficiency and minimising market impact.</p> <p><b>REINSTATED MANDATE REPLACED BY IIM# 18</b></p>	GM Portfolio Completion		<p>Project House Approved 22 June 2009 Approved by IC 9 July 2015</p>
4	NZ and Overseas Transition Assets	<p>The objective of the Mandate is to facilitate the transfer or outright sale of varying NZ securities from time to time.</p>	GM Portfolio Completion		<p>Project House Approved 22 June 2009</p>

IIM #	IIM Name	Purpose	Responsibility	Special Conditions	Relevant Board or Investment Committee Approved Strategy/Decision
5	Cash	The objective of the Passive NZ Cash mandate is to efficiently invest the Fund's NZ dollar liquidity in cash and/or cash-like instruments. <b>REPLACED BY IIM# 12</b>			Project House Approved 22 June 2009
6	Passive Currency Overlay	The objective of the passive currency overlay is to minimise forward foreign exchange transaction costs and manage liquidity demands on the Fund. <b>REPLACED BY IIM #13</b>		Authorised Dealers may adjust the maturity dates of the orders passed and existing transactions.	Terms of the NZDMO pricing agreement Approved 10 November 2003 Terms of the overlay calculation mandate Approved 20 December 2004
7	Strategic Tilting	The objective of the Strategic Tilting mandate is to enhance Fund returns.	Chief Investment Officer	The use of derivatives to obtain a new exposure must be approved by the IC in accordance with the Direct Management Policy.	Strategic Tilting Approved 8 and 9 December 2008, and 09 March 2017



IIM #	IIM Name	Purpose	Responsibility	Special Conditions	Relevant Board or Investment Committee Approved Strategy/Decision
8	Beta Implementation & Completion	<p>The objective of the Portfolio Completion Mandate is to implement and "complete" the Fund's exposures to the Reference Portfolio targets by:</p> <ul style="list-style-type: none"> <li>obtaining target Reference Portfolio exposures using either passive external managers or any approved product in schedule 5A of the Portfolio Completion Internally Managed Securities Policy where their use is consistent with the objective of the mandate</li> <li>oversight and funding instructions of the external investment managers</li> <li>and managing the funding/defunding and rebalancing and associated liquidity management process arising from completing the portfolio.</li> </ul>	GM Portfolio Completion	The use of Approved Products to obtain a new exposure must be approved by GM of Portfolio Completion in accordance with the Portfolio Completion and Internally Managed Securities Policy.	Use of derivatives for the purpose of obtaining market exposures Approved 8 and 9 December 2008
9	Life Settlements	<p><del>The objective of the Life Settlements Mandate is to gain exposure to a broadly diversified portfolio of life insurance policies or lives.</del></p> <p><b>TERMINATED 6/5/2024</b></p>	Chief Investment Officer	<del>The Chief Investments Officer will determine the best structure, balancing the trade-offs between investment size, diversification across underlying policies, liquidity of the product and the risks taken on by the Fund.</del>	Approved 9 February 2009
10	Tax Investments	<del>The objective of the Tax Investments mandate is to earn returns on short-term cash holdings over and above returns available from money market</del>			<del>The Board approved on 23 March 2009 the ARC recommendation that the use of tax pooling be recommended</del>

IIM #	IIM Name	Purpose	Responsibility	Special Conditions	Relevant Board or Investment Committee Approved Strategy/Decision
		<del>instruments by participating in Tax Pooling accounts.</del> <b>REPLACED BY IIM#12</b>			
11	Direct Arbitrage Strategies	The objective of the Direct Arbitrage Strategies mandate is to take advantage of market dislocations from time to time and to earn profits for the Fund.	GM Portfolio Completion	Investment Committee must approve each individual Strategy and they must be reported to the Board.	Approved 22 June 2009.
12	Liquidity Pool Assets	<del>The objective of is to have sufficient available liquidity to comply with the objectives of the Guardians' framework for liquidity management</del> <b>REPLACED BY IIM#16 and #17</b>	GM Portfolio Completion		Approved 22 June 2009 Replaces IIM #1, #5 and #10
13	Currency Hedging	The objective of the currency hedging mandate is to establish and manage currency hedges that in aggregate achieve the net unhedged foreign currency exposure established by the Rebalancing Target.	GM Portfolio Completion		Portfolio completion is a necessary function of the Guardians.
14	Global Inflation Linked Bonds	<del>The objective of the mandate is to complete the Reference Portfolio target for the Inflation-linked bonds.</del> <b>TERMINATED 21/8/15</b>	GM Portfolio Completion		Subset of IIM #8 Terminated as per IC circular 20/8/15 as this is no longer a Ref Port exposure
15	Volatility	<del>The objective of the Volatility mandate is to take advantage of mis-pricing of volatility</del> <b>TERMINATED 25/01/2021</b>	GM Portfolio Completion	<del>Board has only approved equities. Currency and interest rate variance and volatility swaps require Board approval</del>	<del>Volatility Strategy Approved 6 December 2011</del>
16	Cash	The Cash Mandate has the objective of managing cash assets for the Fund.	GM Portfolio Completion		Replaces IIM #12, The strategies of the replaced mandate were approved by the Board in June 2009
17	Active Collateral	<del>The Active Collateral Mandate is to generate active return by actively seeking investment opportunities, subject to the prudential and risk</del>	GM Portfolio Completion		Replaces IIM #12, The strategies of the replaced mandate were

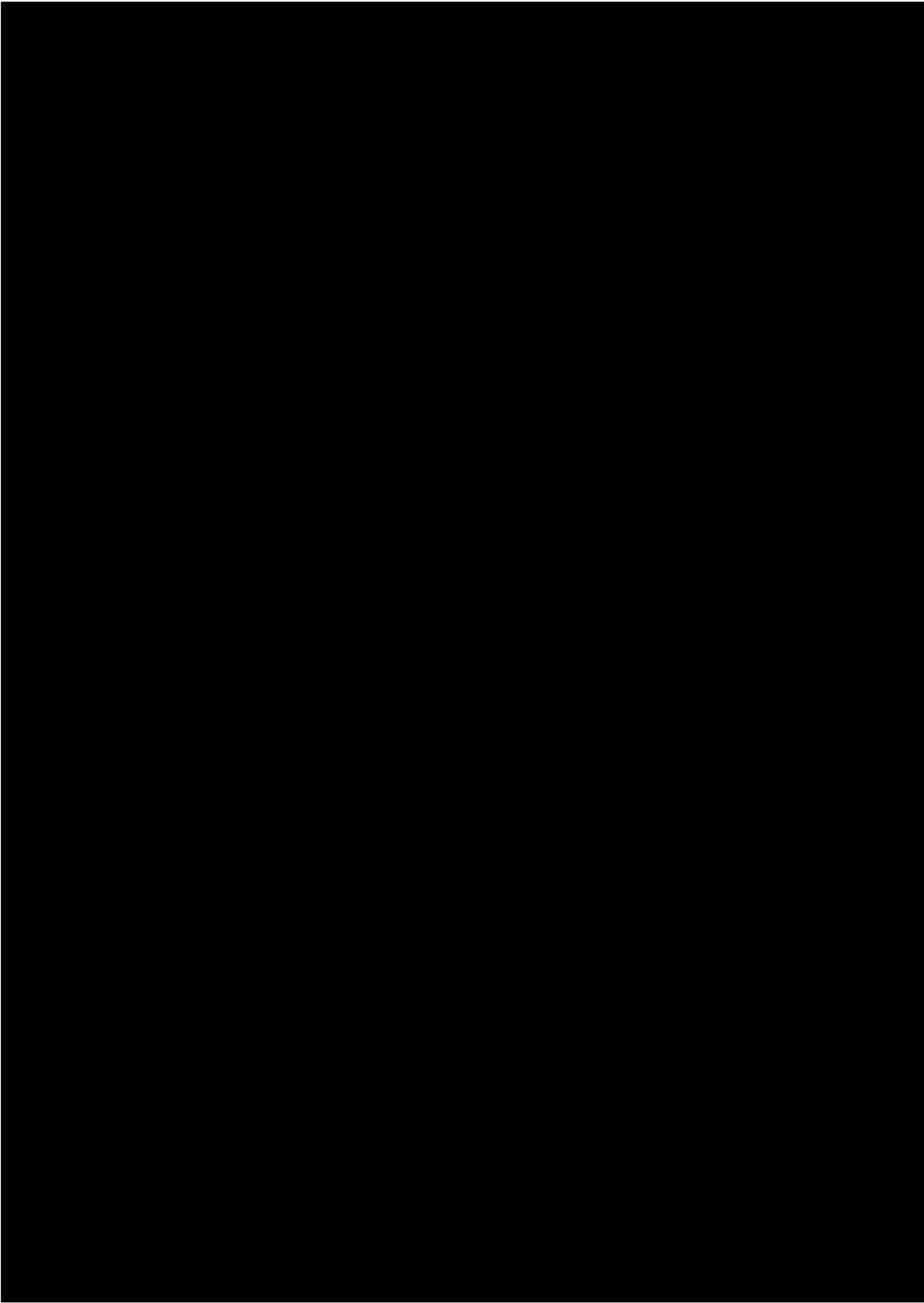
IIM #	IIM Name	Purpose	Responsibility	Special Conditions	Relevant Board or Investment Committee Approved Strategy/Decision
		limits set out in this mandate with regard for the required liquidity needs at the Fund level. <b>REPLACED BY IIM#28</b>			approved by the Board in June 2008
18	NZ Active Equities (see also IIM#27)	The objective of this mandate is to outperform the NZX50 Index by actively seeking investment opportunities	Chief Investment Officer		Board approved business case 6 December 2011 Replaces IIM 3
19	Emerging Markets Opportunity	<del>The objective of this mandate is to increase exposure to Emerging Markets equities.</del> <b>TERMINATED 21/07/2022</b>	GM Portfolio Completion		<del>Capture active returns is a Board approved strategy.</del> <del>Investment Committed approved the mandate on 10 July 2014</del>
20	Event Driven Opportunity	The objective of the mandate is to exploit inefficiencies or temporary imbalances in financial markets.	Chief Investment Officer & GM Portfolio Completion	All proposed transactions for this mandate must be approved by at least two of the Chief Investment Officer, GM Portfolio Completion or CEO. Approvals must be made by at least two separate persons. Additional reporting obligations as detailed in Schedule 1 of the mandate.	Capture active returns is a Board approved strategy. Mandate noted by the Board by email on 22 June 2015 Investment Committed approved the mandate on 19 June 2014
21	Dividend Derivatives	<del>The objective is to make active return by buying attractively priced derivatives due to a structural imbalance in the dividend derivatives curve.</del> <b>TERMINATED 20/08/2021</b>	GM Portfolio Completion		<del>Capture active returns is a Board approved strategy.</del> <del>Investment Committed approved the mandate on 13 October 2016</del>
22	Securities Lending	The objective of the Securities Lending mandate is to generate income primarily from fees by lending the Fund's securities. The Mandate will take a conservative approach to securities lending with a focus on maintaining principal and liquidity of the Fund's securities.	GM Portfolio Completion		Board approved 28 June 2016 Investment Committed approved the mandate on 8 December 2016

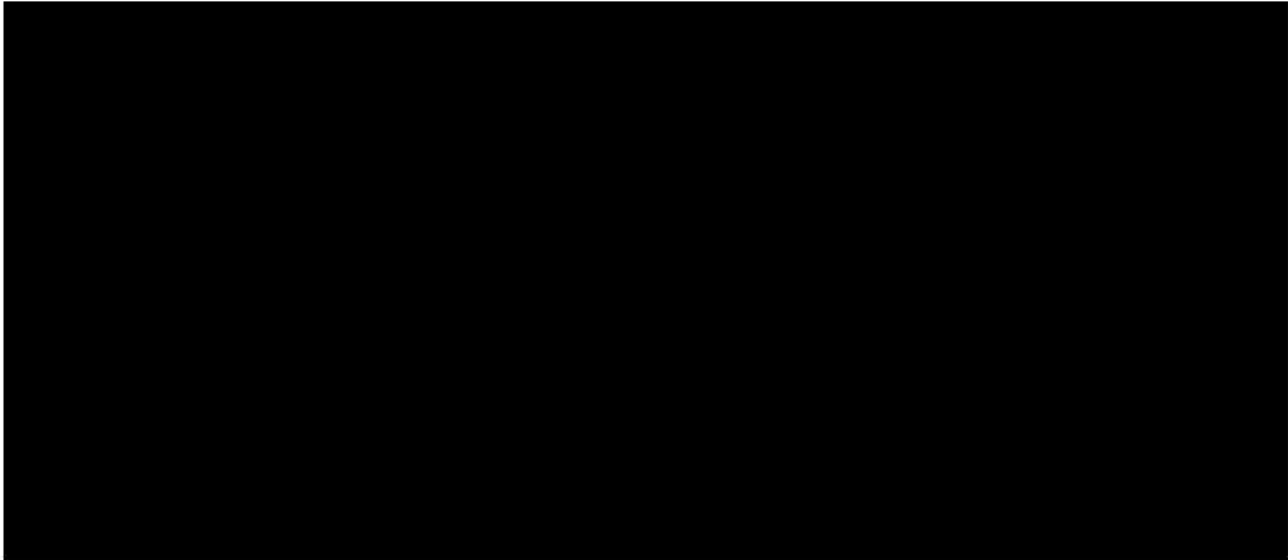
IIM #	IIM Name	Purpose	Responsibility	Special Conditions	Relevant Board or Investment Committee Approved Strategy/Decision
23	Opportunistic Volatility	The aim of the Opportunistic Volatility Mandate is to take advantage of volatility market dislocations that present favorable risk return profiles.	GM Portfolio Completion		Capture active returns is a Board approved strategy. Investment Committee approved the mandate on 25 October 2018
24	Global Sovereign Fixed Income	The objective of the mandate is to facilitate completion of the Reference Portfolio targets for the Sovereign Fixed Income asset class	GM Portfolio Completion	-	Portfolio Completion is a Board approved strategy. Investment Committee approved the mandate on 12 December 2019
25	Robeco Multi-Factor Index	The objective of the mandate is to synthetically replicate the Robeco Global Developed BMI Low Carbon Multifactor Equity (Custom) Index	GM Portfolio Completion		Capture active returns is a Board approved strategy.
26	Tactical Credit Opportunities	The Tactical Credit Opportunities Mandate ("TCO Mandate") is an active return strategy. The objective of the TCO Mandate is to generate active returns by taking advantage of the Fund's endowments and actively seeking investment opportunities, subject to the prudential and risk limits set out in the mandate.	GM Portfolio Completion		Replaces IIM #17, The strategies of the replaced mandate were approved by the Board in June 2008. Mandate approved by the Investment Committee 23 Sept 2020 & 18 Feb 2021
27	NZ Active Equities – Machine Learning (see also IIM#16)	The objective of this mandate is to outperform the NZX50 Index by use of an AI Machine Learning strategy	Chief Investment Officer		Within the NZ Active Equities Opportunity and as endorsed by the Investment Committee on 26 May 2022 and approved by the CEO on 30 August 2022
28	Global Developed Markets Equities	The objective of the mandate is to facilitate completion of the Reference Portfolio targets for the Global Developed Markets Equity asset class. The mandate is expected to closely match the benchmark index with respect to sector and country weights subject to implementation efficiency, transaction costs and exclusions.	GM Portfolio Completion		Portfolio Completion is a Board approved strategy. Investment Committee approved the mandate on 5 October 2023

**Approved by Chief Executive on 17 September 2014, and updated on 25 June 2015 and 24 August 2015, 20 September 2016, 14 October 2016, 23 January 2017, 9 March 2017, 6 April 2017, 20 June 2019, 15 January 2020, 25 January 2021, 4 March 2021, 20 August 2021, 21 July 2022, 30 August 2022, 23 November 2023, and 6 May 2024**

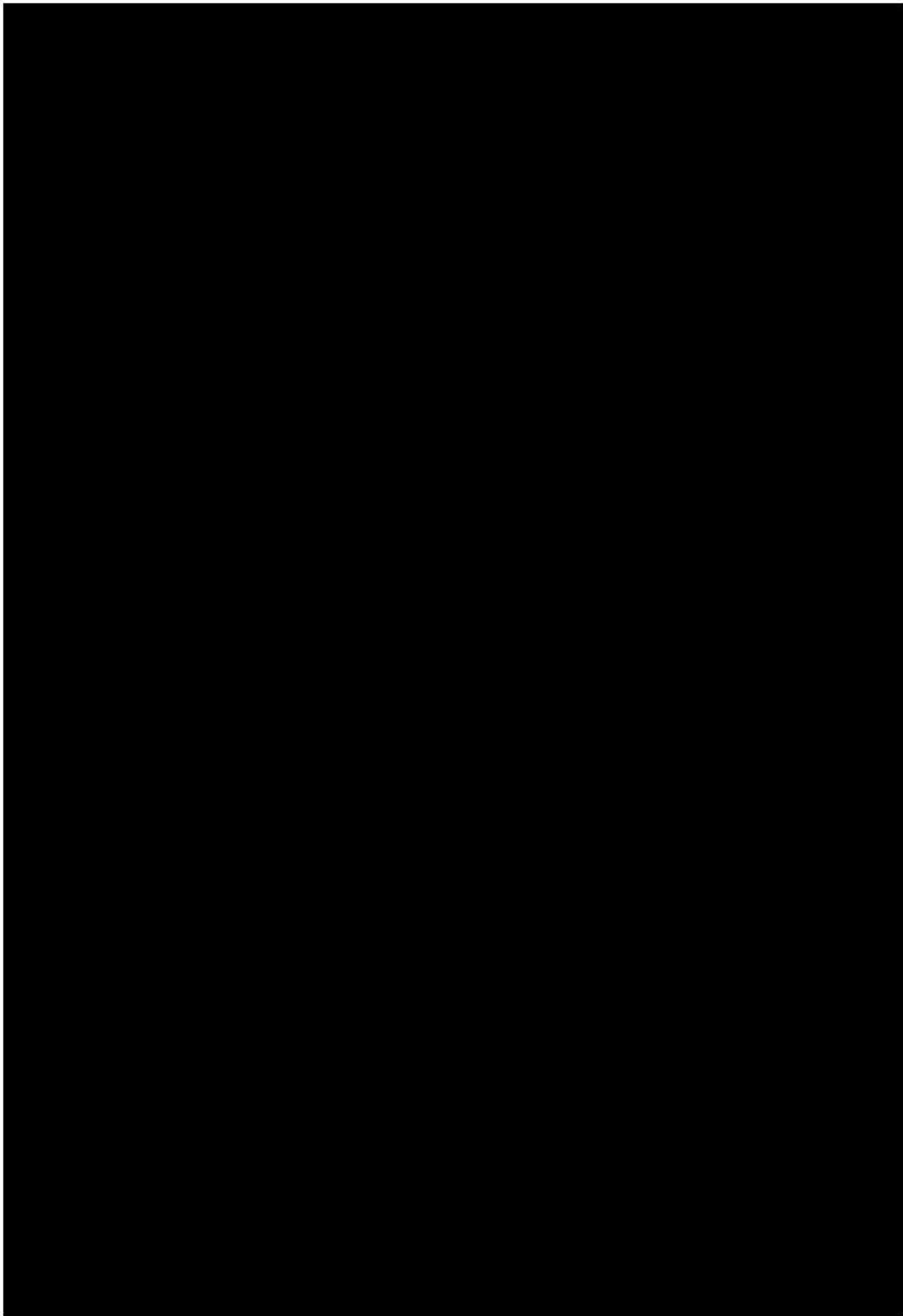
## **Schedule 5: New Product Approval Framework**

- S5.1** The due diligence process for product evaluation consists of four (not necessarily sequential) parts.
1. Fact finding.
  2. Quantitative and qualitative analysis of the product.
  3. Analysis for portfolio completion.
  4. Written recommendation.
- S5.2** The Head of Risk acts as quality control by probing the quality of due diligence undertaken and depth of the Lead Analyst's or Portfolio Manager's understanding of the proposed New Product.
- S5.3** The implementation or execution of a New Product operates under the following key principles:
1. We initiate New Product approvals in accordance with the Delegations Policy.
  2. We have clear New Product ownership where the Lead Analyst or Portfolio Manager responsible for the execution and ongoing management of a New Product must outline clear performance expectations to enable the execution to occur in a timely fashion.
  3. We will adhere to our established due diligence protocols:
    - The Operational Risk Assessment (ORA) process is the document of record that summarises the non-investment due diligence for a New Product
    - The final sign off on a New Product to permit use is in accordance with the *Delegations Policy*.
  4. Where an existing Approved Product is used for a new purpose we will run a truncated version of the ORA process to ensure that the multiple points of analysis are considered as necessary.











## **Schedule 6: Counterparty Selection and Exposure Management and Minimum Requirements for PCAs and Non-Master Custodians**

### *Counterparty Selection and Exposure Management*

- S6.1** Before approving a counterparty we consider the following three criteria:
- Credit ratings, if applicable (OTC derivative counterparties will require a minimum of an Investment Grade Rating, or, if not rated, fully collateralise the exposure);
  - Credit default swap pricing and probabilities of default; and
  - Competence in providing pricing for the Approved Product it is selected for.
- S6.2** We do not enter into a Direct Transaction with an Approved Counterparty until an acceptable contract with that Counterparty is in place.
- S6.2.1** The International Swap Derivatives Association Master Agreement (ISDA) is the acceptable standard for all OTC Derivative transactions. Long form confirmations may be used in special circumstances subject to the approval of the General Manager Portfolio Completion and General Counsel. The Global Master Repurchase Agreement (GMRA) is the acceptable standard for all repo transactions and the Global Master Securities Lending Agreement (GMSLA) is the acceptable standard for all securities lending and short selling transactions.
- S6.2.2** We use the most recent version available for all new ISDA and GMRA/GMSLA.
- S6.2.3** With the exception of the New Zealand Debt Management Office (NZDMO), we ensure that all ISDAs for OTC Derivatives are accompanied by a Credit Support Annex (CSA).
- S6.3** We monitor Counterparties:
- 6.3.1** Continuously for credit quality changes under a Counterparty Creditworthiness Monitor (CCM). Under the CCM, we track a range of datasets including credit ratings, CDS prices, equity prices and volatility, and a statistically calculated probability of default. Rules are applied to the datasets to determine a traffic light style CCM result for each counterparty. The CCM is attached as Schedule 6B to this Policy.
- 6.3.2** Annually we review Counterparties and Portfolio Completion Agents (PCA) under a formal review framework.
- S6.4** Where a Counterparty has a Rating from both Standard & Poor's and Moody's Investor Services, and these Ratings do not reflect an equivalent credit quality, we use the lower Rating.
- S6.5** We ensure that the method by which exposure to a Counterparty as a result of Direct Transactions is aggregated to give an estimate of Direct Exposure is clearly set out alongside specified Counterparty limits.
- S6.5.1** The method by which Direct Exposure is calculated is set out in Table 6.2 of Schedule 6A.

- S6.5.2** Direct Exposures are monitored against limits both at a Counterparty set and Dealing Entity level. A Counterparty set is defined as a list of entities with who we have contracts (ISDA/CSA/GMRA) and who share the same parent. For each Counterparty Group, we use the limits defined by the ratings of the main Dealing Entity in each Counterparty Group (as agreed by the Funding and Treasury Group).
- S6.5.2a** Where the Dealing Entity is guaranteed, and where the Dealing Entity is unrated by the Credit Rating Agencies, we will use the limit defined by the ratings of the guarantor.
- S6.6** Total Counterparty Exposure is the sum of Direct Exposure to a Counterparty plus exposure generated by activity that is not Direct Management, i.e. via the positions and exposures held in externally managed portfolios.
- S6.7** Total Counterparty Exposure is not subject to any policy limit but (to the degree that external manager reporting allows) we measure, monitor and report it for all Counterparties to Direct Transactions.
- S6.8** If a Counterparty is downgraded below Investment Grade, we eliminate the Fund's exposure in respect of all current Direct Transactions with that Counterparty as soon as is practicable. We immediately notify the Board of any such downgrade. The exception to this is where the transactions are fully collateralised / funded.
- S6.9** Where Counterparty exposure exceeds any of the limits in Schedule 6A, we report the measures taken to return the Counterparty to within limits to the Investment Committee at the next scheduled meeting.
- S6.10** A Counterparty in breach of a limit in Schedule 6A can be maintained provided the breach is approved in accordance with the Delegations Policy. The rationale for any decision to maintain the excess exposure, is reported to the Investment Committee and the Board at the next scheduled meetings for each.
- S6.11** If a breach has occurred because of the default of a Counterparty, we immediately report the default event to the Board. The CEO approves the strategy for managing and recovering from a defaulting Counterparty we report it to the Board at the next scheduled meeting.

***Non-Master Custodians Selection and Appointment***

- S6.12** Before approving a Non-Master Custodian we consider:
- the nature and extent of the role of the Non-Master Custodian in the context of a Product or Investment;
  - the regulations governing the Non-Master Custodian and its status in the relevant regulated financial markets;
  - whether or not the Non-Master Custodian is a Related Party to any other parties involved in the Product or Investment.
  - where relevant the criteria relevant to Counterparties.
- S6.13** We do not enter into a Direct Transaction with an Approved Non-Master Custodian until an acceptable contract with that Non-Market Custodian is in place.

**S6.13.1 . The acceptable form of all new contracts will be managed through the Operational Risk Assessment (ORA) process as per the Risk Management Policy.**

**S6.14 A Non-Master Custodian shall only be approved where:**

**S6.14.1 It is not a Related Party to any other parties to the Approved Product or Investment.**

**S6.14.2 The role of the Non-Master Custodian is limited to a specific activity related to an Approved Product or Investment.**

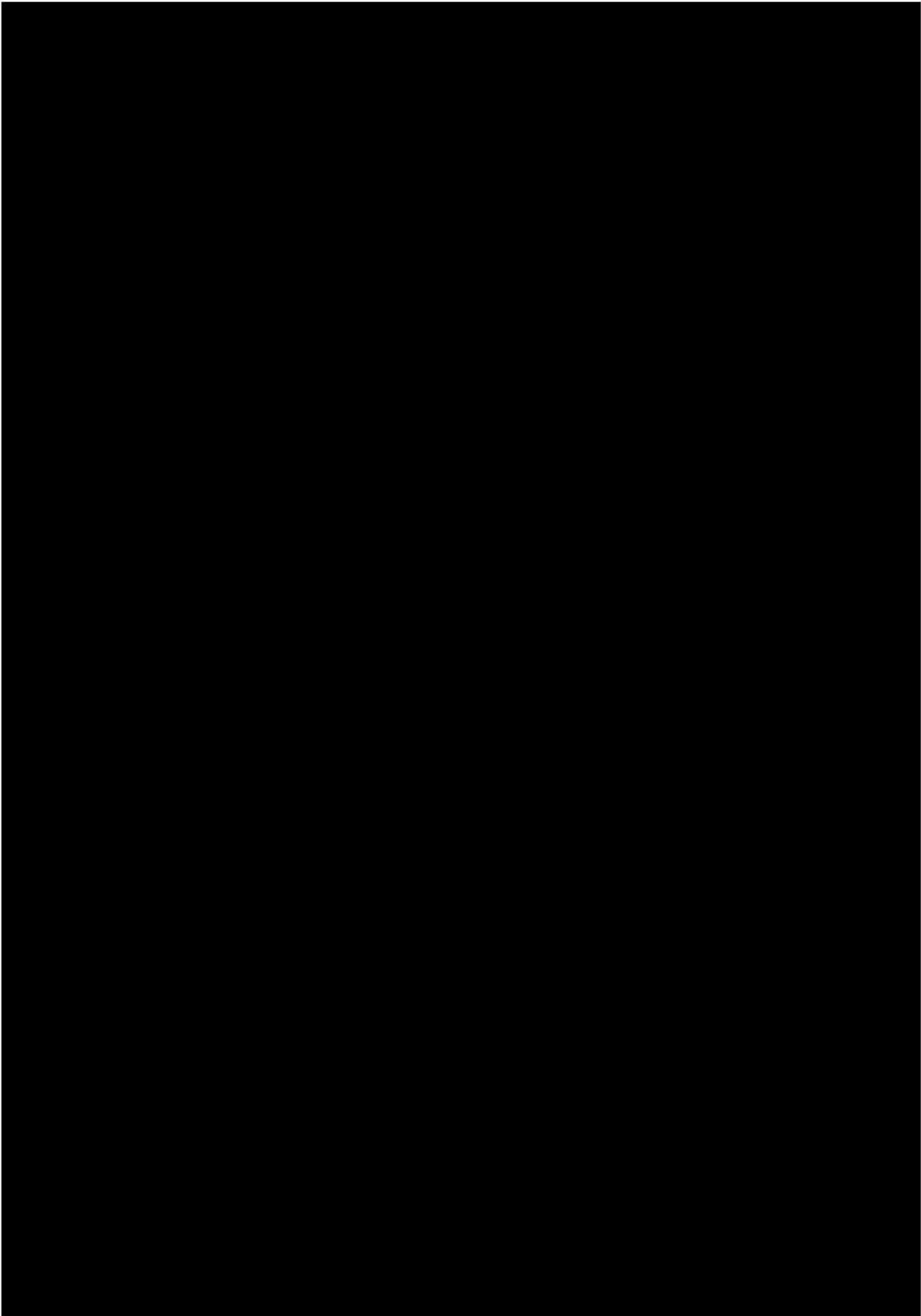
***Portfolio Completion Agents (PCA) Selection and Appointment***

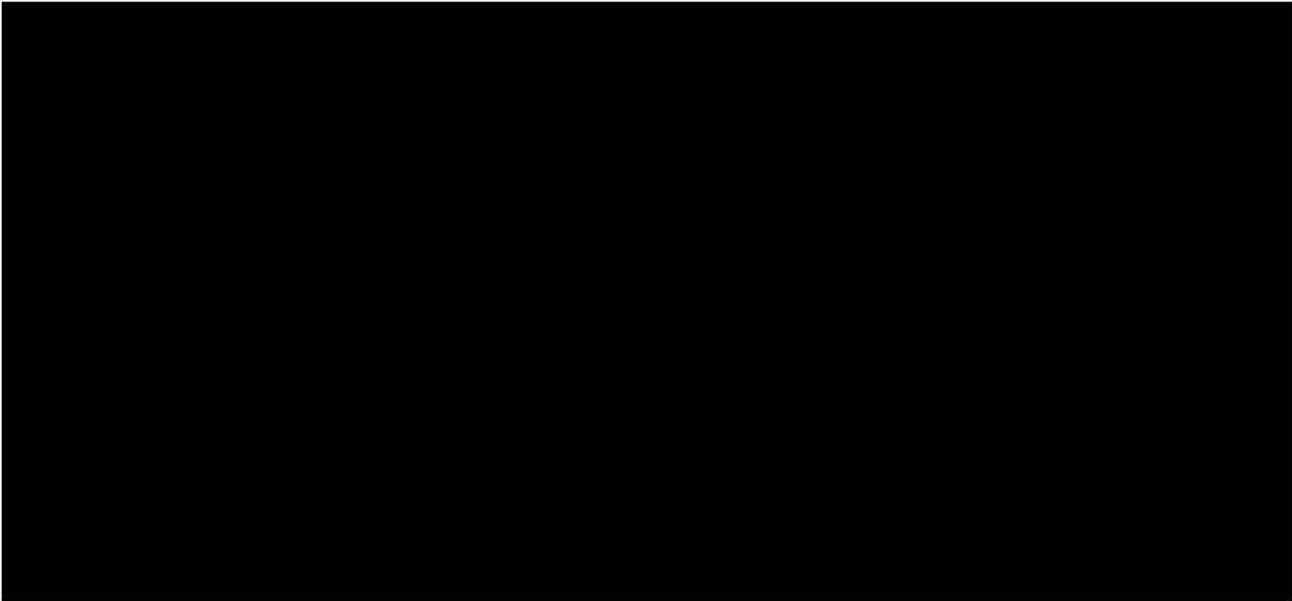
**S6.15 Before approving a PCA we consider:**

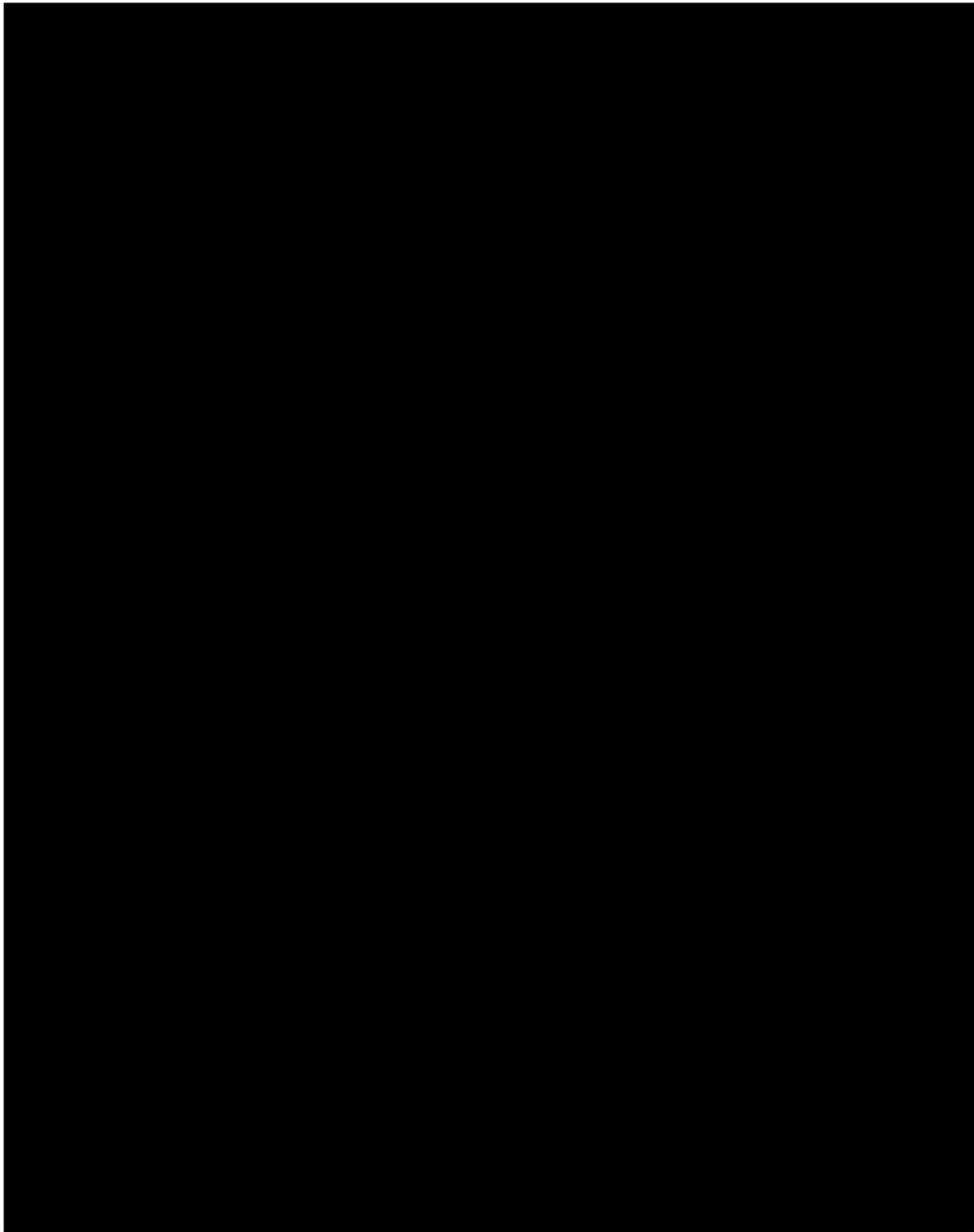
- **the nature and extent of the activity undertaken for Portfolio Completion;**
- **where relevant, the criteria relevant to Counterparties; and**
- **what performance standards and reporting requirements that we will require.**

**S6.16 The activity undertaken by a PCA, and the terms of that agreement, must be consistent with this policy.**

**S6.17 The appointment of a PCA must be reviewed by the IC at least every two years from the date of appointment, and the services re-tendered if required.**

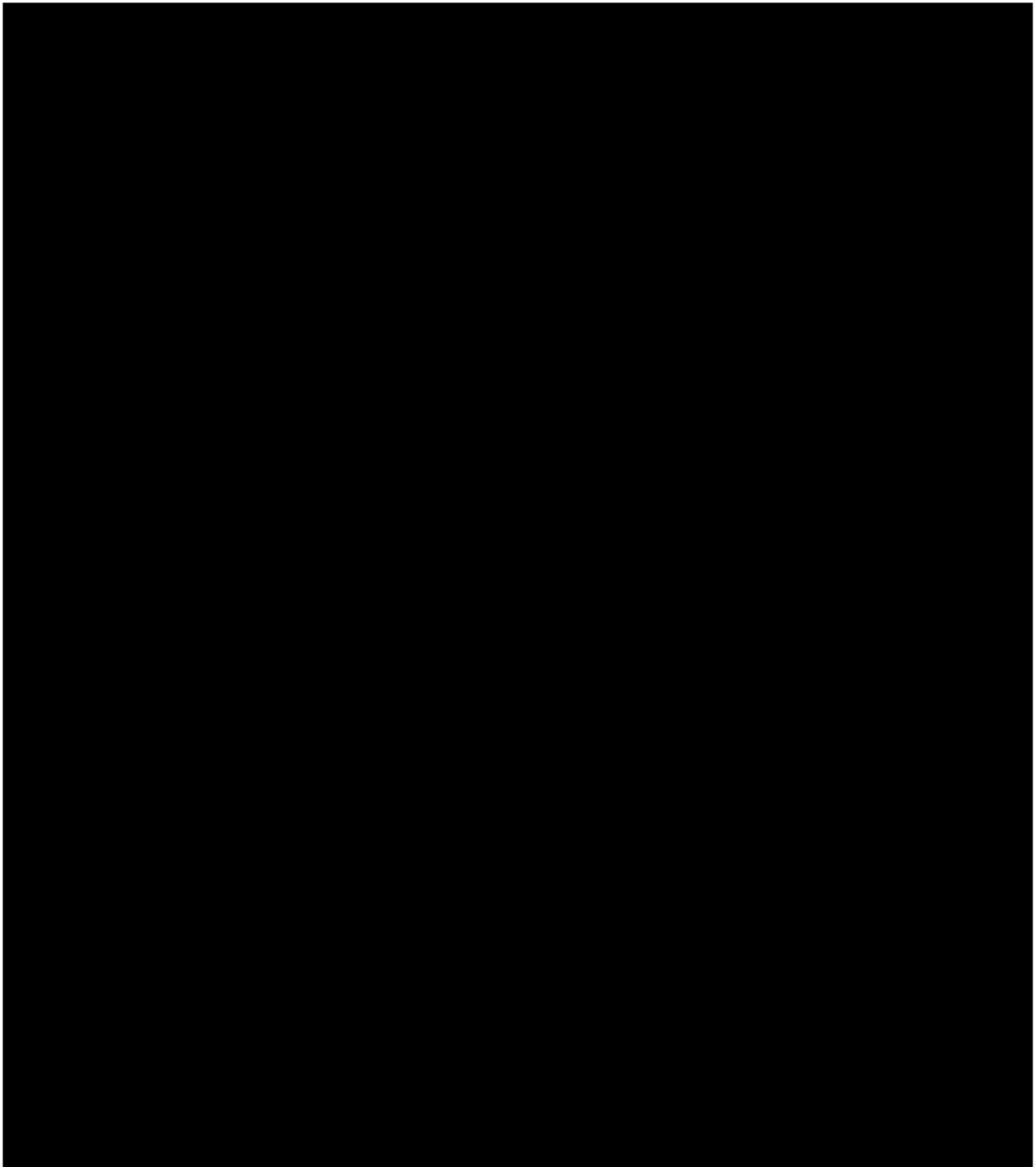


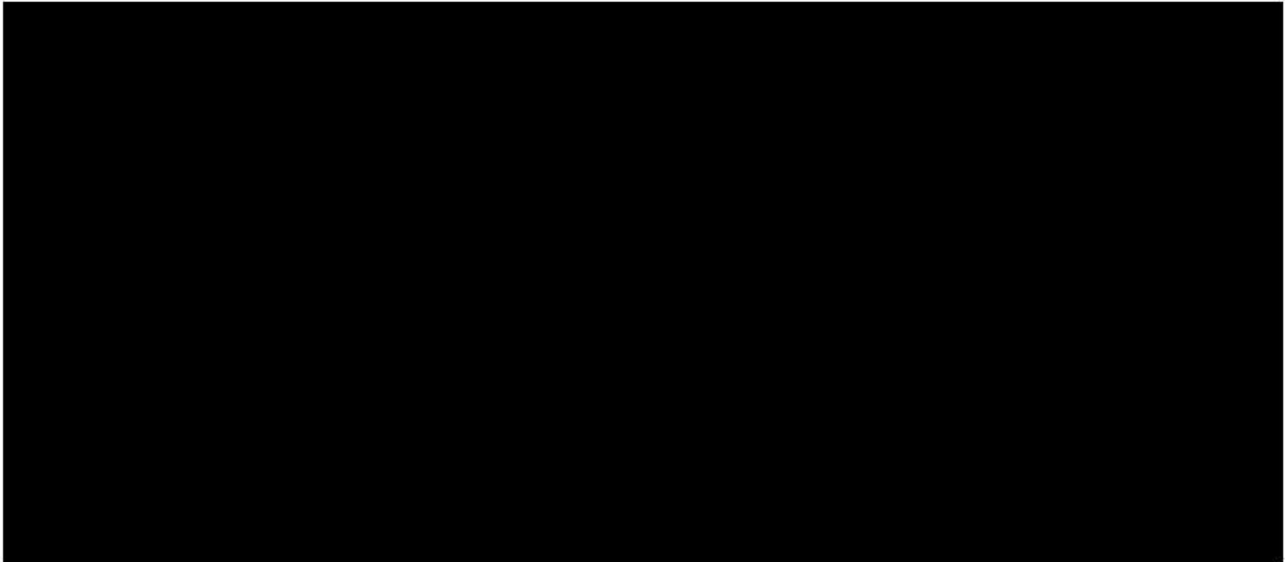


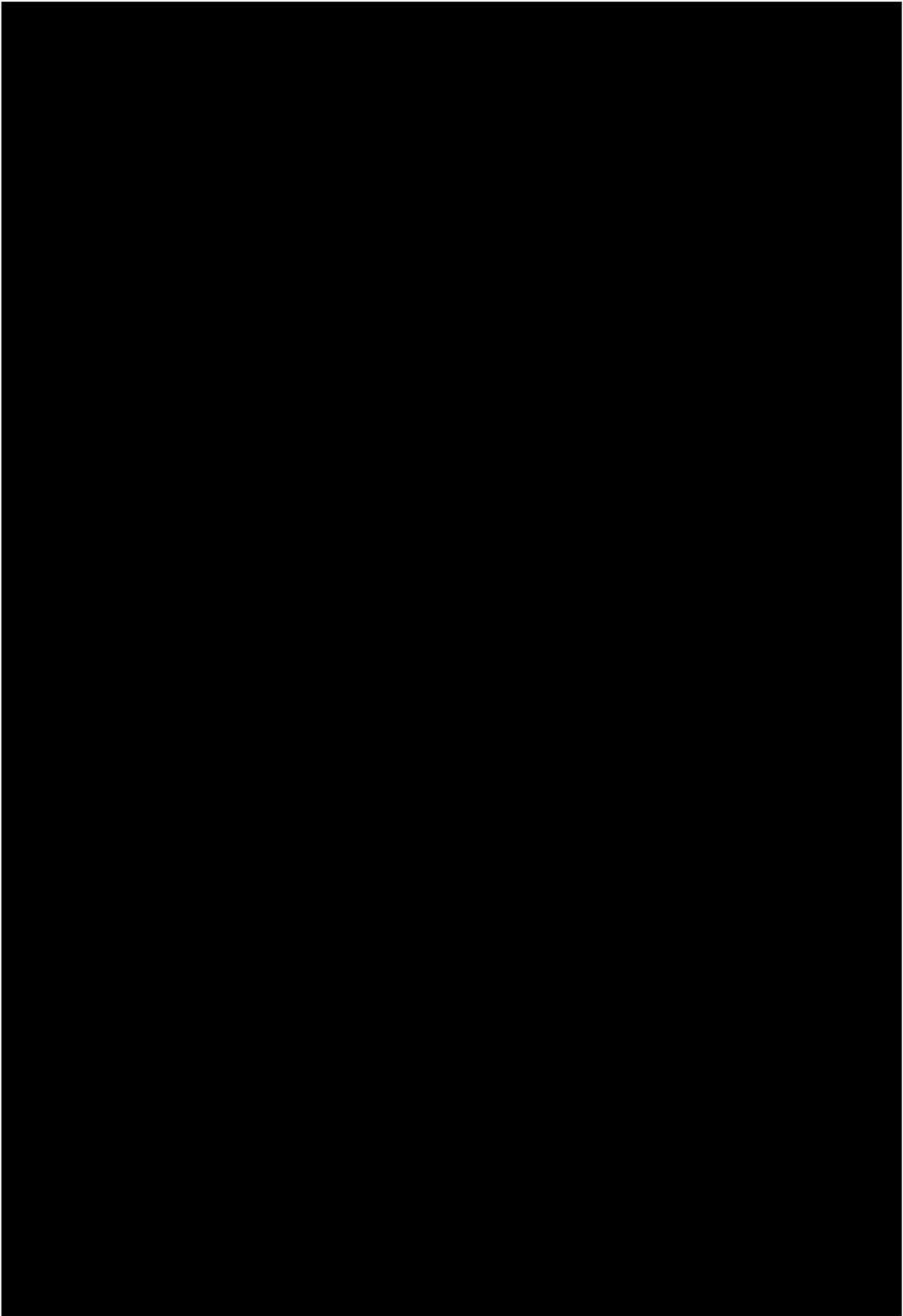


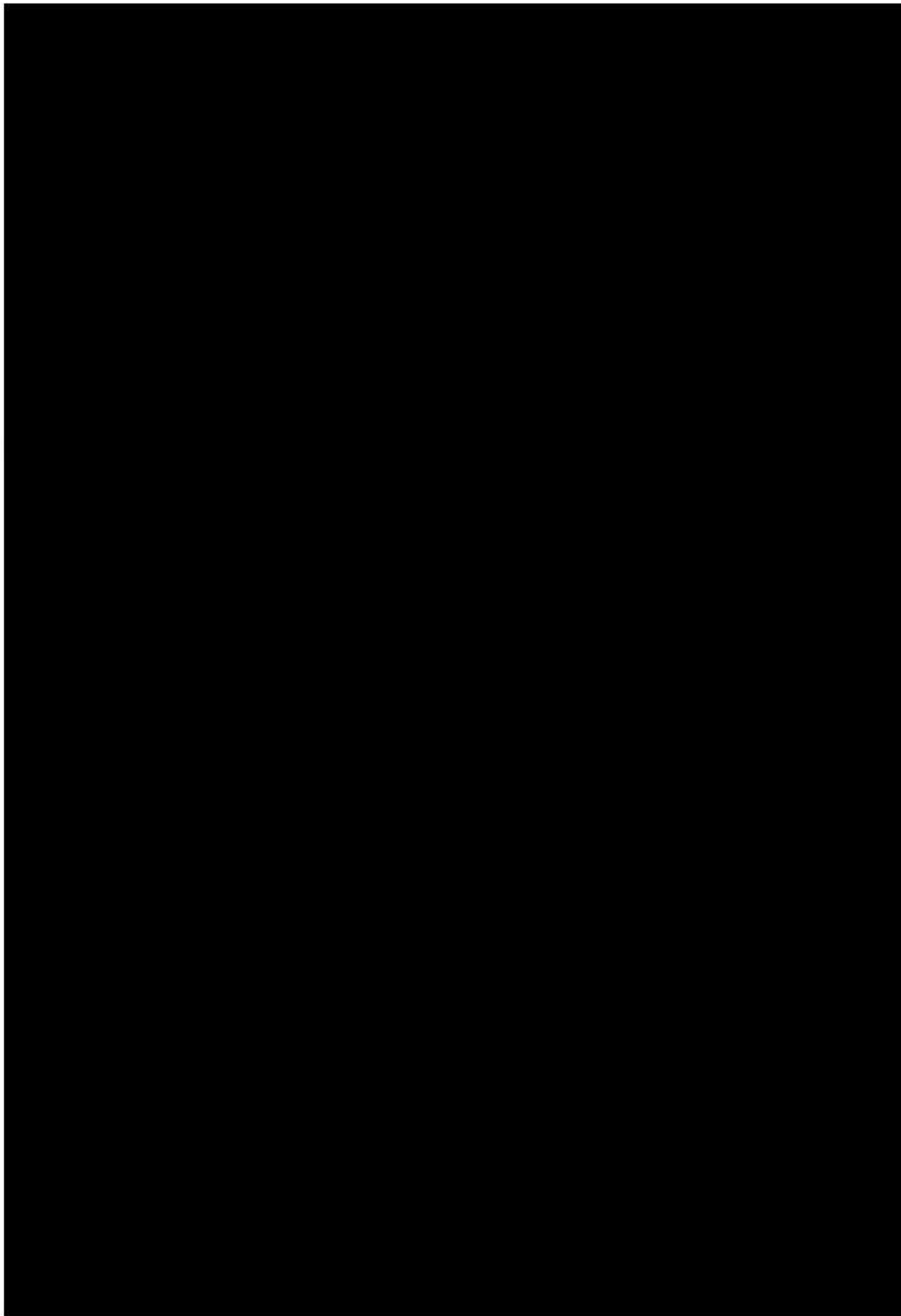
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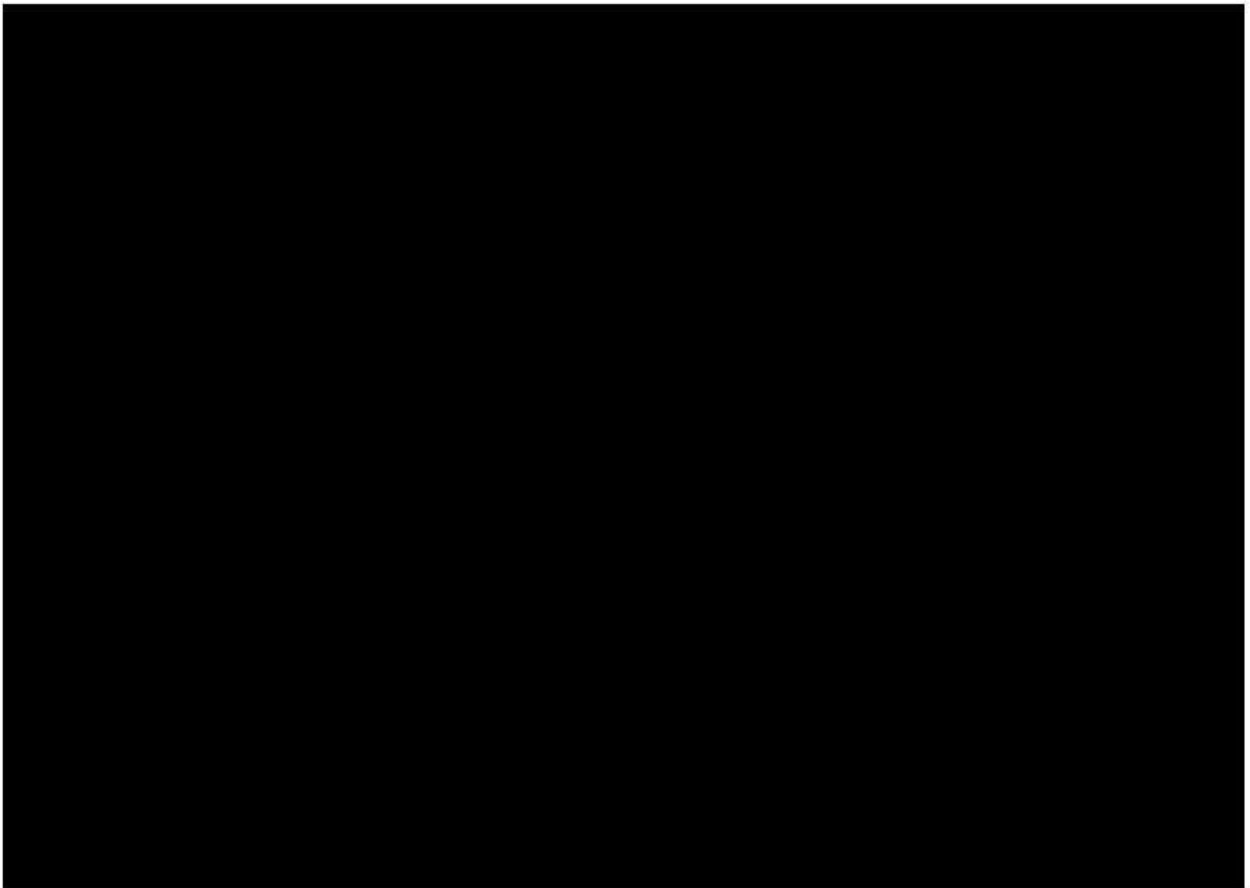


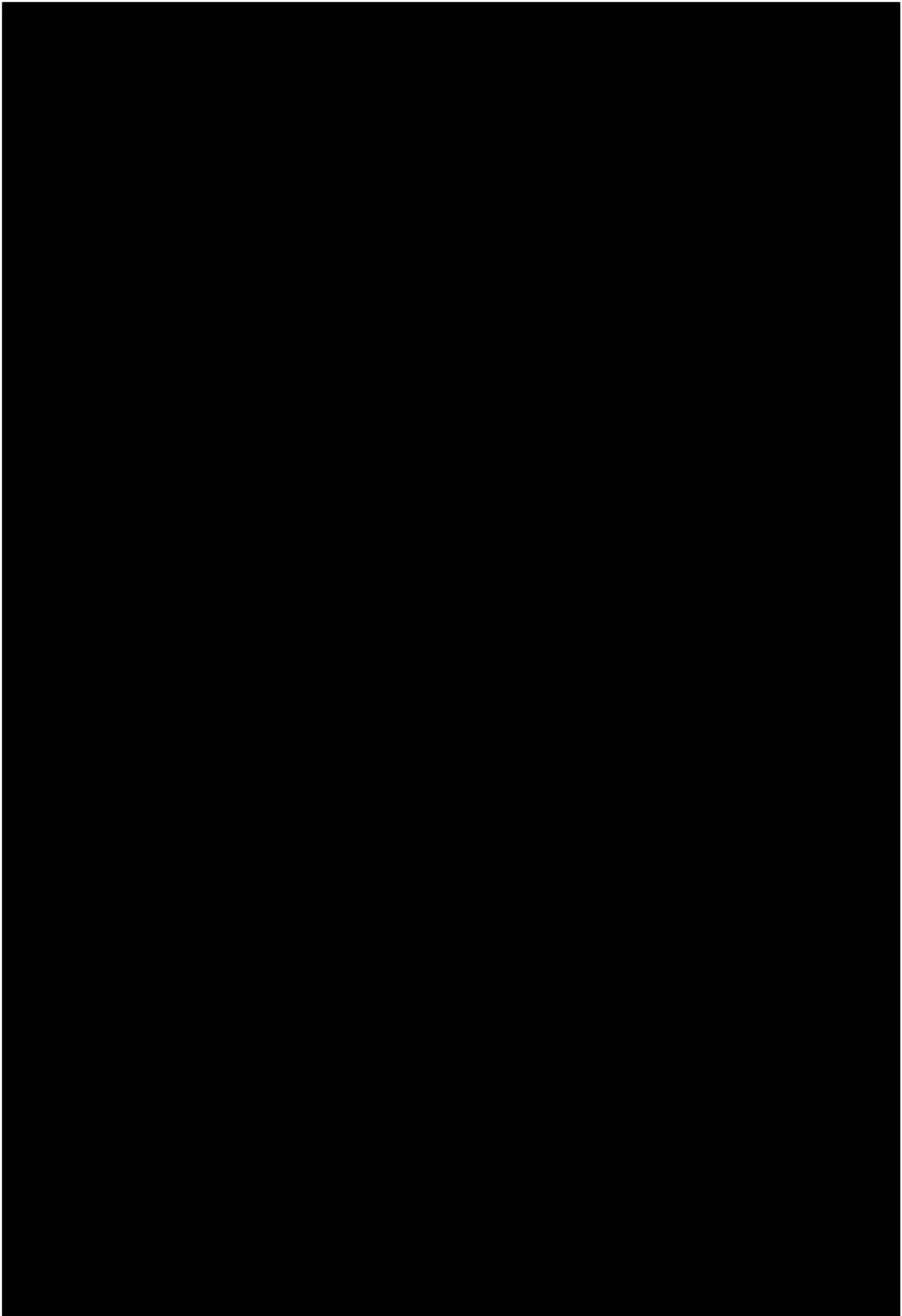


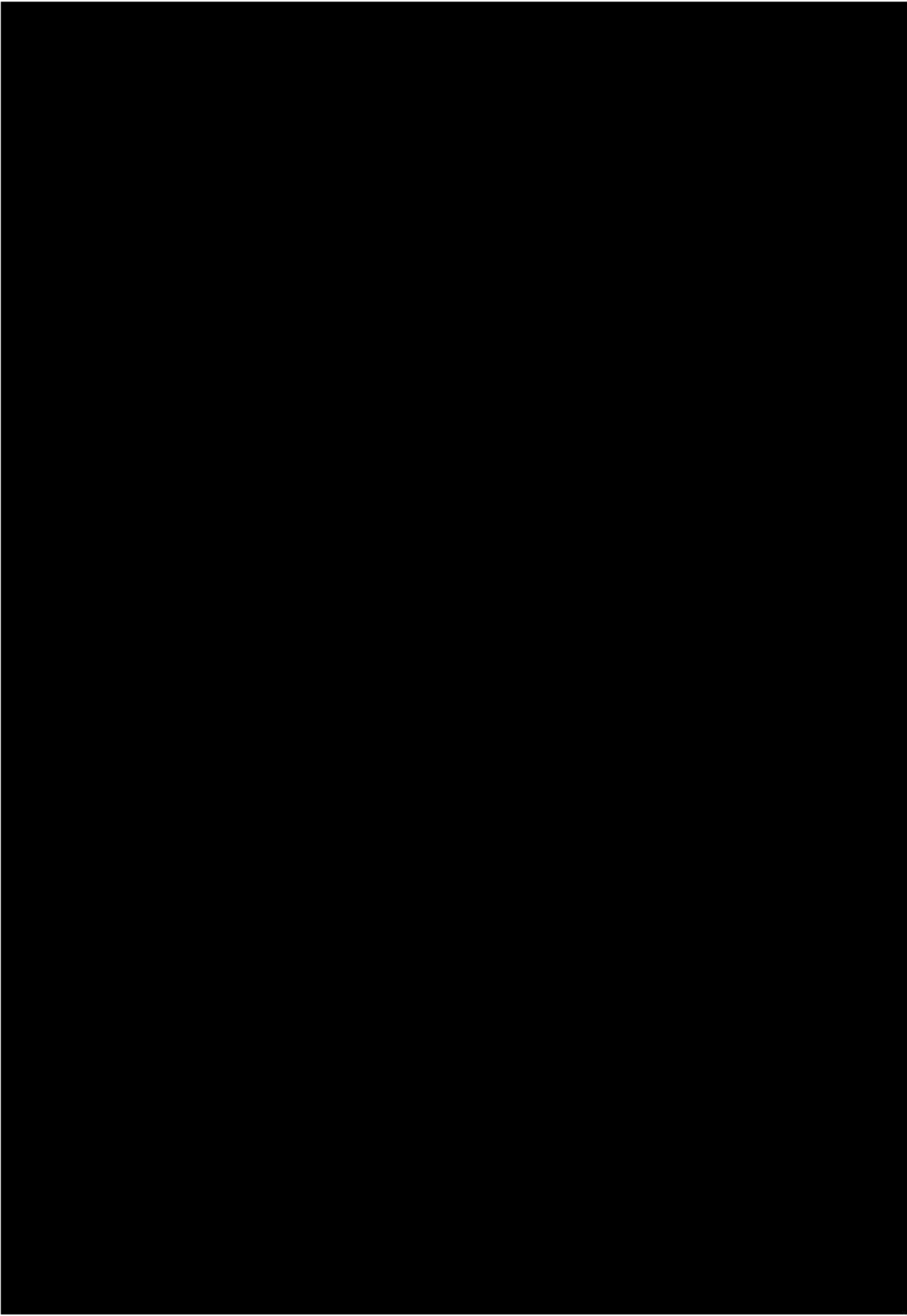


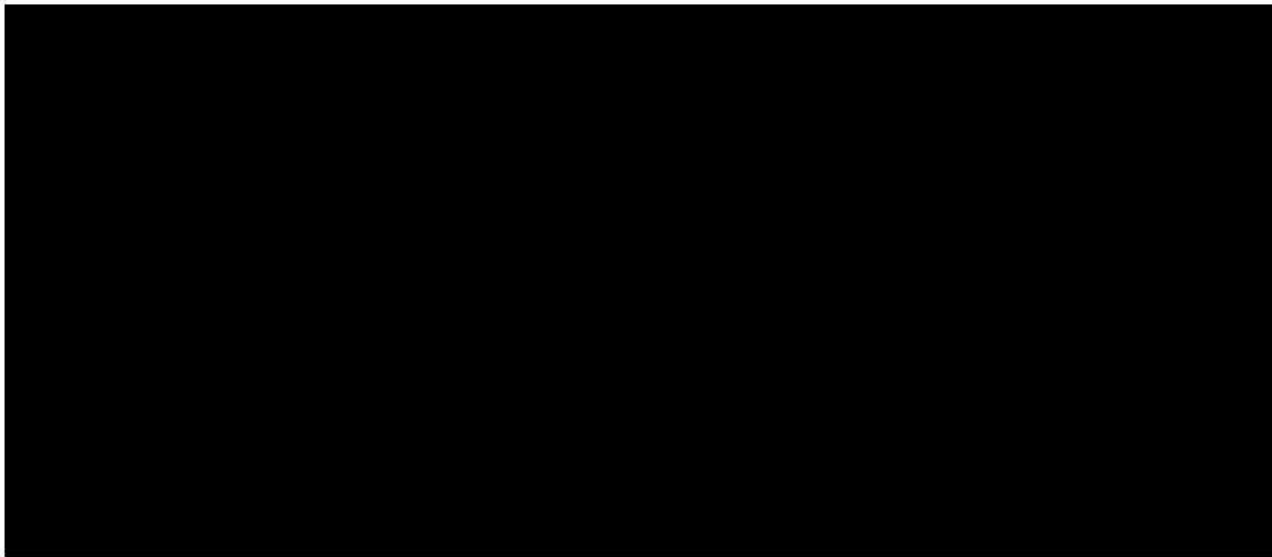














**Schedule 8: Description of Funding, Rebalancing and Liquidity Decision Process**

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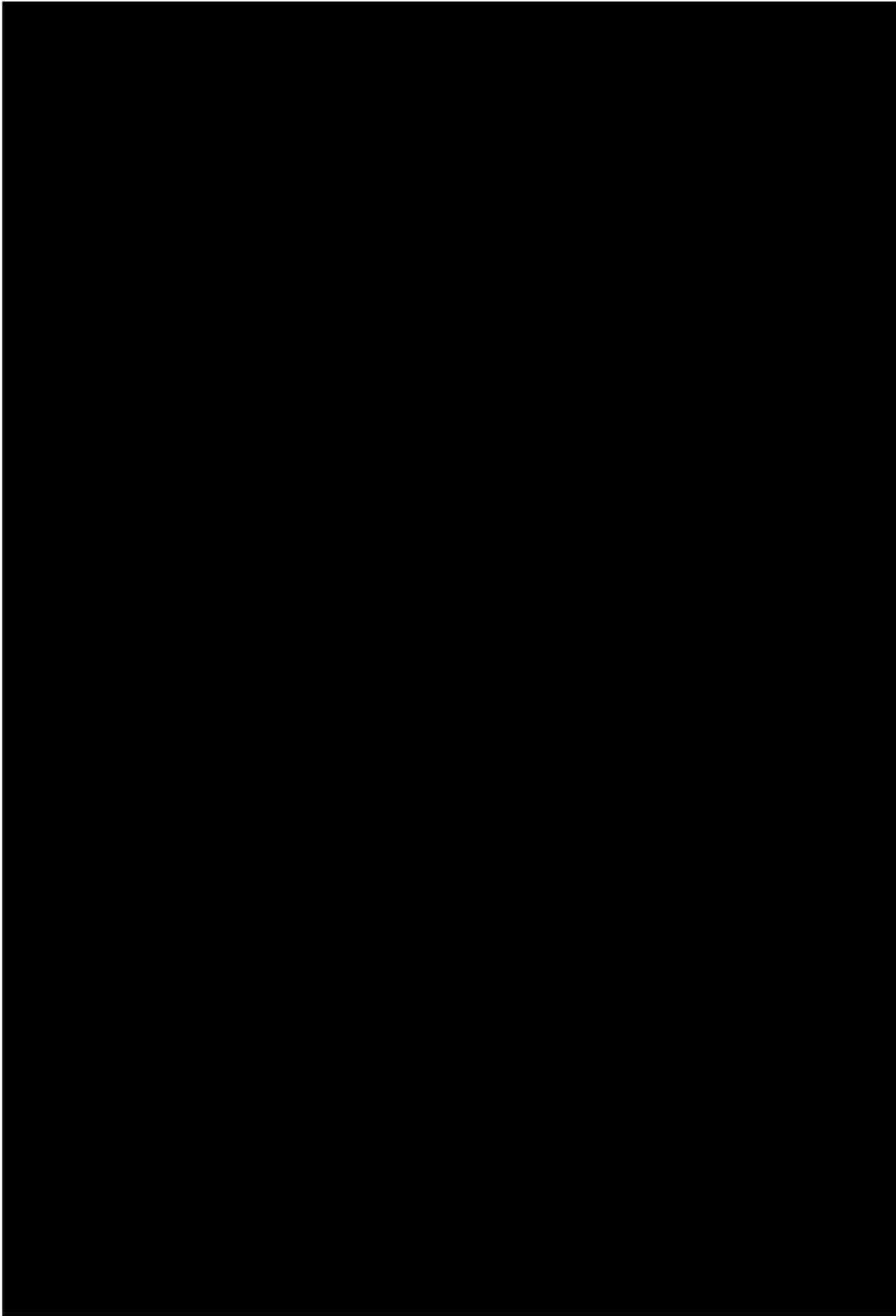
**Approved by Chief Executive on 25 September 2012.**

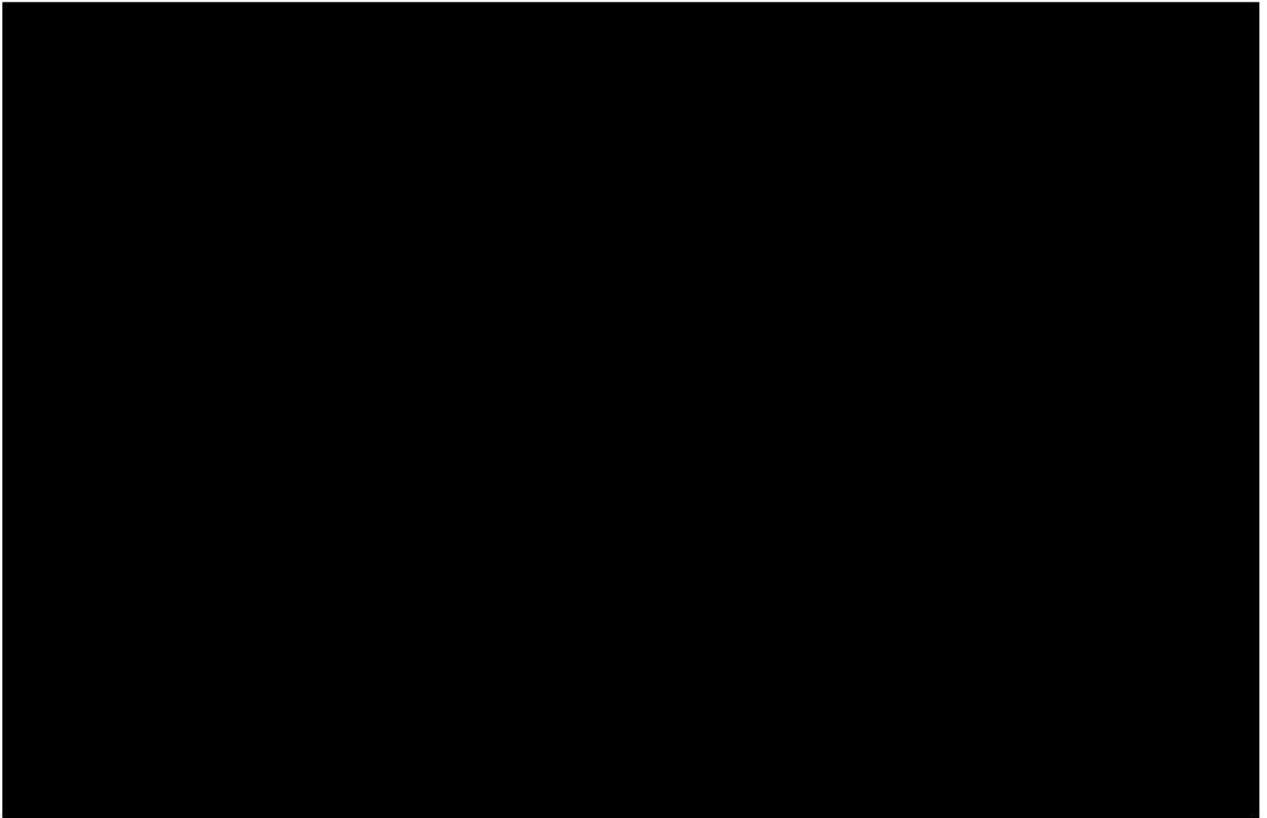
## Schedule 9: Reporting and Accountability Framework

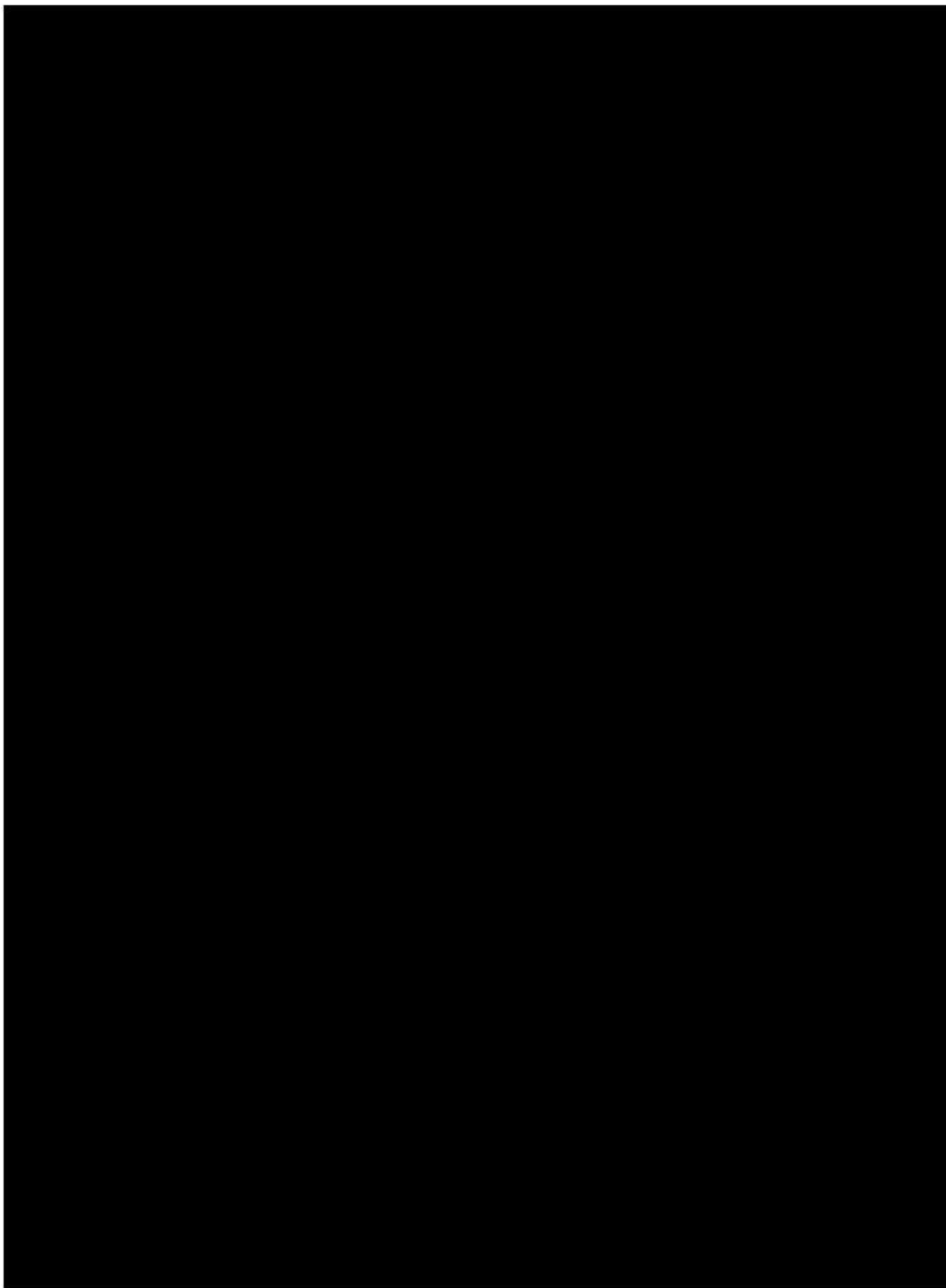
Report	Frequency required and by whom	Minimum Information required	Accountability
Deviation from the normal Rebalancing Thresholds	Immediately to Risk Committee, Investment Committee and Board	<ul style="list-style-type: none"> <li>Reason;</li> <li>Timeframe for deviation.</li> </ul>	GMPC
Appointment of Non-Master Custodian	To Board six monthly and under no surprises protocol	<ul style="list-style-type: none"> <li>Relevant details</li> </ul>	GMO
Appoint or terminate Counterparty or PCA	To subsequent Investment Committee	<ul style="list-style-type: none"> <li>Relevant details</li> </ul>	H of Risk
Appointment of Securities Lending Investment Manager	To Board at the next Board meeting and under no surprises protocol	<ul style="list-style-type: none"> <li>Relevant details</li> </ul>	GMPC
Review of Securities Lending Investment Managers	Semi-annually to the Investment Committee and Board as part of the PC Access Point Review	<ul style="list-style-type: none"> <li>Portfolio utilisation</li> <li>Manager Compliance</li> <li>Revenue vs. revenue expectations</li> <li>Statistics on recalls and recall failures</li> </ul>	H of PC
Materially alter terms of appointment of Counterparty or PCA	To subsequent Investment Committee	<ul style="list-style-type: none"> <li>Relevant details</li> </ul>	H of Risk
Counterparty downgraded below Investment Grade status	Immediately to Investment Committee and Board	<ul style="list-style-type: none"> <li>Who, exposure, and time to exit existing positions;</li> <li>Estimated total counterparty exposure if in default;</li> <li>Plan for recovery if default has occurred.</li> </ul>	H of Risk
Breach of Counterparty exposure limits	To subsequent Investment Committee and Board.	<ul style="list-style-type: none"> <li>Counterparty</li> <li>measures taken to return exposure to within limits</li> <li>rationale if breach to be maintained.</li> </ul>	H of Risk
Counterparty creditworthiness and usage reporting	Quarterly to Board	<ul style="list-style-type: none"> <li>Quarterly</li> <li>Direct Exposures;</li> <li>Estimated Total Exposures;</li> <li>Credit rating changes;</li> <li>Details of ongoing recovery plans.</li> </ul>	H of Risk
	Annually to Investment Committee	<ul style="list-style-type: none"> <li>Annually</li> <li>Annual counterparty &amp; PCA review</li> </ul>	GMPC
New Approved Product	To subsequent Investment Committee	<ul style="list-style-type: none"> <li>Details</li> </ul>	H of Risk

Report	Frequency required and by whom	Minimum Information required	Accountability
Authorised Dealers	To subsequent Investment Committee	<ul style="list-style-type: none"> <li>• Details</li> </ul>	GMPC
New Internal Investment Mandate	To subsequent Investment Committee	<ul style="list-style-type: none"> <li>• Relevant details</li> </ul>	GMPC
Fund Liquidity (LRA, MLR)	To the Investment Committee monthly and Board quarterly.	<ul style="list-style-type: none"> <li>• Relevant Details</li> </ul>	H of Risk
Portfolio Completion Access Point Review	Annually to Investment Committee and Board.	<ul style="list-style-type: none"> <li>• Details of performance and investment activity;</li> <li>• New mandates.</li> </ul>	GMPC
Breach of this policy	<p>If material: immediately to Investment Committee, Risk Committee and Audit &amp; Risk Committee</p> <p>Otherwise: to subsequent Investment Committee, Risk Committee and Audit &amp; Risk Committee meetings</p>	<ul style="list-style-type: none"> <li>• Relevant details</li> <li>• Remedial actions taken</li> </ul>	GMPC
Review liquidity assumptions	To the Investment Committee and Board every 5 years	<ul style="list-style-type: none"> <li>• Details of change and reasons for change.</li> </ul>	H of Risk
Material changes to Schedules of this policy	as part of the annual SIPSP review to the Risk Committee and Board meetings and under the no surprises protocol.	<ul style="list-style-type: none"> <li>• Details of change and reasons for change.</li> </ul>	GMPC
Reporting on short selling of physical securities use in Internal Investment mandates	Quarterly to the Investment Committee, Board.	<ul style="list-style-type: none"> <li>• Gross and net short selling exposure</li> <li>• Gross and net short selling exposure – by type, quarterly change, by Value Add strategy</li> </ul>	H of Risk
Review Counterparties and Portfolio Completion Agents (PCA)	Annually to the Investment Committee		GMPC

**Approved by Board on 17 June 2015 as amended 20 September 2016, 8 December 2016, 6 April 2017, 24 November 2017, 20 June 2019, and 24 September 2020.**







## Schedule 12: Short Selling

Short selling is the sale of a security that is not owned by the seller, or that the seller has borrowed. Risks inherent in short selling are summarised below together with the policy framework for managing those risks:

<i>Risk</i>	<i>Definition</i>	<i>Where is this risk addressed?</i>	<i>Comments</i>
Legal & regulatory (1)	Risk that we operate outside of our consents to undertake an activity and / or regulatory changes impacting such consents.	Risk Management Policy Schedule 12. Legal & Regulatory risk Operational Risk Assessment process	When undertaking any activity under this policy, legislative considerations must be taken into account and complied with.  Policy requires monitoring of changes to regulations and legislation.  An Operational Risk Assessment (ORA) process will identify any legal issues related to short selling.  When required, we will take legal advice on the requirements and restrictions that apply to short selling, in each of the relevant jurisdictions in which we will engage in short selling transactions. The legal considerations will be examined further in the ORA process.
Legal & regulatory (2)	Inadequate legal documentation which could result in exposure different from that expected or returns different to those expected	<u>Internal Investment Mandates (PCIMS)</u>  Counterparties (Section 9), Schedules 6, 6A, 6B;  Internal Investment Mandates (Section 7, 8, Schedule 4);  Product Approval (Section 8, Schedule 5, 5A);	We ensure we have market standard documentation for short selling transactions.  We only use approved counterparties and ensure collateral exchange processes are used.  Internal Investment mandates set the objectives, prudential and risk limits of the mandate.  We will only enter short selling on publicly traded equities, bonds and ETF's.
		Investment Manager (EMI)  New investment implementation (Section 9, Schedule 5),  Active Investment Decision Framework (Schedule 3)	New manager appointments go through the diligence of a new investment implementation  Active Investment Decision Framework (Schedule 3)
Counterparty	Short selling is a transaction supported by a securities borrowing requirement from a counterparty  There is a risk that a counterparty with whom we borrow securities fails to perform contractual obligations and / or defaults.	<u>Internal Investment Mandates (PCIMS)</u>  Counterparties (Section 9), Schedules 6, 6A, 6B	We will only short sell with Approved Counterparties.  Counterparties are selected (and retained) after an assessment of their credit quality and their competence with respect to an Approved Product. Counterparties are continuously monitored under the creditworthiness framework falling below set standards will lead to suspension of trading with that Counterparty. We set limits and monitor our Direct Exposure to counterparties. All short sales must be executed with Approved Counterparties in an agreed contractual format.  We monitor counterparty risk via the Counterparty Creditworthiness Monitor and Limits reporting

		<p>Investment Manager (EMI)</p> <p>Investment Manager Search &amp; Selection (section 7), New investment implementation (Section 9, Schedule 5), Monitoring and Conviction (Section 10, Schedule 3)</p>	<p>We maintain and adhere to a new Investment Implementation (and termination) process that ensures that legal, operational, responsible investment, reputational, finance or, tax, issues relating to either the manager or the investment have been identified and managed appropriately. As part of our ongoing operational due diligence, periodic reviews will be designed to ensure the counterparty risks are well managed by the manager and are consistent with expectations and the Investment Management Agreement.</p>
Market	<p>Risk that may result when market conditions develop differently than expected or when there are mismatches between actual market exposure and the market exposure from the short selling activity.</p>	<p><u>Internal Investment Mandates (PCIMS)</u></p> <p>Internal Investment Mandates (Section 7, Schedule 4)</p>	<p>Each Internal Investment Mandate (IIM) governs the internal management of assets and requires the effective market exposure of assets (including any short selling) in each IIM to be monitored on a regular basis. In deciding how to implement short selling we will consider the duration of the position and the ability to maintain the short position if the market gaps.</p>
		<p>Investment Manager (EMI)</p> <p>Section 11 Monitoring; Schedule 3: Conviction and Monitoring Framework</p>	<p>After partnering with an investment manager we monitor and report performance and manager conviction on a periodic basis. There are three different types of monitoring:</p> <ol style="list-style-type: none"> <li>1. Through investment monitoring we evaluate both investment risk and returns and the manager's investment competency.</li> <li>2. Through compliance monitoring we ensure that managers are adhering to the investment guidelines for each investment.</li> <li>3. Through operational due diligence monitoring we review a manager's operational competency and effectiveness.</li> </ol>
		<p>Investment Risk Allocation Policy</p> <p>Investment Constraints (Section 10, Schedule 7)</p>	<p>We establish capital and risk constraints as appropriate to manage investment risk within the Fund. All capital and risk constraints must be detailed in either the Internal Investment mandate, investment management agreement.</p>
Complexity	<p>A short sold position may behave differently than expected because of the failure to identify and assess the risks associated with the short selling.</p>	<p><u>Internal Investment Mandates (PCIMS)</u></p> <p>Product Approval (Section 8, Schedule 5, 5A)</p>	<p>Complexity risk is mitigated through the identification and assessment of risks associated with the use of short selling as part of the Operational Risk Assessment (ORA) process. We only use short selling once we have identified and assessed the risks of implementation and appropriate methods of valuation, and put in place processes to ensure effective management.</p> <p>We will measure and include as part of Counterparty exposure any over collateralization from short selling.</p>



		<p>Investment Manager (EMI)</p> <p>Schedule 3: Active Investment Decision Framework. Section 9;</p> <p>Schedule 5: New Investment Implementation Framework</p>	<p>As part of the Investment manager selection, the Investment Management Agreement will include provisions relating to the prudential limits, investment objectives, assets (including short selling) which can be held; and in the case of short selling, the purposes for which short selling may be used, the limits of short selling use and reporting requirements</p>
Liquidity	<p>Risk that a particular short sold position may not be able to be, or cannot be easily, unwound or offset at or near the previous market price because of inadequate market depth or because of disruptions in the market place. Risk that there is a large collateral payment required for a short sold position.</p>	<p><u>Internal Investment Mandates (PCIMS)</u></p> <p>Minimum Liquidity Requirements (MLR) and Potential Futures Exposure (PFE) Multipliers (Schedule 5B)</p> <p>Liquidity by Assets (Schedule 11)</p>	<p>The Liquidity Management Framework sets Minimum Liquidity Requirement to manage daily collateral calls that will arise from use of short selling. We will monitor Fund wide liquidity via the Portfolio Flexibility Framework and the Minimum Liquidity Requirement.</p>
		<p>Investment Manager (EMI)</p> <p>New Investment Implementation (Section 9, Schedule 5)</p>	<p>For externally managed investments, liquidity will be managed by the external manager and will be subject to diligence at implementation</p> <p>We will maintain and adhere to a new investment implementation (and termination) process that ensures that legal, operational, responsible investment, reputational, finance or, tax, issues relating to either the manager or the investment have been identified and managed appropriately.</p> <p>As part of the investment manager selection process, an assessment of liquidity risk in respect of short selling use will be conducted.</p>
Valuation	<p>Risk that an accurate and timely market value of a short sold position cannot be obtained which results in delays or errors in valuations and incorrect or incomplete posting of collateral supporting derivative positions.</p>	<p>Investment Valuation Policy</p> <p>Valuation methodology and frequency categories (Section 2, 3, 7)</p>	<p>Short selling will only be performed on listed securities where there are observable market prices. Any short sold positions are valued in accordance to our valuation framework</p> <p>Minimum standards are set for reporting exposures to ensure that market to market valuations are agreed and collateral exchanged under the Credit Support Agreements.</p>
Operational	<p>Risk of loss from inadequate or failed internal processes,</p>	<p><u>Internal Investment Mandates (PCIMS)</u></p>	<p>Only Authorised Dealers are permitted to enter into short selling transactions for Internal Investment Mandates. The Guardians ensures that all staff responsible for reviewing investment managers and</p>

	people and systems or from external factors.	Authorised Dealers and Dealing Controls (Section 7, 10,)	<p>managing investment mandates are appropriately qualified and experienced. Staff must be supervised as appropriate to their areas of responsibility.</p> <p>All trades will be recorded in an order management system. Appropriate internal controls must be in place between front, middle and back office. All transactions must be settled by the Custodian.</p>
		<p>Investment Manager (EMI)</p> <p>Section 9; Schedule 3: Conviction and Monitoring Framework, Schedule 5: New Investment Implementation Framework</p>	<p>We will maintain and adhere to an investment manager search and selection framework that focuses on using our own and others' judgment, and systematic and other objective sources and tools, to assess any potential manager in terms of their:</p> <ul style="list-style-type: none"> <li>• Competence to execute on the specific opportunity we employ them to access, including appropriate use of short selling where such use is necessary to implement the investment opportunity</li> </ul> <p>Where a manager's mandate allows the use of short selling we will (at appointment and on an ongoing basis), review to ensure there is effective management and oversight of short selling, including:</p> <ul style="list-style-type: none"> <li>• Applicable short selling documentation and investment guidelines;</li> <li>• Operational procedures for control and monitoring short selling activity; and</li> <li>• Staffing resources and capability.</li> </ul>
		<p>Risk Management Policy</p> <p>Proper Instruction framework (Schedule 3A, 3B) and Fraud Risk Management Framework (Schedule 7)</p>	<p>Sets control environment regarding payments including collateral movements arising from internal investment mandate activity.</p>

**Key:**

EMI : Externally Managed Investments Policy

PCIMS: Portfolio Completion and Internally Managed Securities Policy

**Approved by Board on 24 November 2017, 24 June 2021 and 23 September 2021**