

# STATEMENT OF INTENT

FOR THE PERIOD COMMENCING  
01 JULY 2016 TO 30 JUNE 2021  
GUARDIANS OF NEW ZEALAND  
SUPERANNUATION



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# 1. Foreword from the Board Chair

I am pleased to present the Guardians of New Zealand Superannuation's 2016-2021 Statement of Intent (SOI).

This is my first Statement of Intent (SOI) as Chair of the Guardians of New Zealand Superannuation. In succeeding Gavin Walker as Chair, I have been conscious of the need for continuity and of the importance of preserving the long-term focus of the Guardians and the Fund. We remain focused on our purpose, to maximise the Fund's returns over the long-term, without undue risk, so as to reduce New Zealanders' future tax burden.

This SOI, based on the Guardians' new five-year, Board-agreed Strategic Plan (2016 – 2021), reflects that long-term view and is consistent with previous SOIs. A separate Statement of Performance Expectations document supplements this SOI.

The Guardians' governance, people and systems are well-placed to continue to manage the Fund in line with global best practice. We look forward to the next five years with a sense of confidence.

Since investing began in 2003, the Fund has returned 9.44% p.a. and is, as the following table shows, ahead of its long-term performance benchmarks. These benchmarks are explained later in this document.

In keeping with its long-term investing horizon and certain liquidity, the Fund is heavily weighted towards growth assets, and acts as a contrarian, counter-cyclical, investor when appropriate opportunities arise. This means investment performance can and will be volatile in the short and medium terms.

In the event that the Fund does sustain mark-to-market losses at various points in time, it is critical that stakeholders understand we remain committed to growth-oriented investment strategies that will maximise the Fund's returns over the long term. Periods of market volatility, when asset prices are declining and the majority of investors are encouraged to exit their growth and illiquid assets, often offer the best investment opportunities.



CATHERINE SAVAGE, CHAIR



Catherine Savage, Chair

FUND PERFORMANCE AS AT 31 MARCH 2016 <sup>1</sup>	LAST FIVE YEARS	LAST TEN YEARS	SINCE INCEPTION (SEPTEMBER 2003)
Actual Returns	12.00%	7.79%	9.44%
Reference Portfolio Return	9.13%	6.33%	8.20%
Estimated \$ earned over and above Reference Portfolio	\$3,804m	\$4,040m	\$4,101m
90-day Treasury Bill return	2.71%	4.08%	4.46%
90-day Treasury Bill return + 2.7%	5.24%	6.59%	6.93%
Estimated \$ earned over and above 90-day Treasury Bill return	\$10,876m	\$10,366m	\$12,708m

1. As at 31 March 2016. Figures are unaudited and are quoted after costs and before NZ tax. The Guardians consider New Zealand tax paid as a return to the Crown.

## 2. Introduction to the Guardians and Fund

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The New Zealand Superannuation Fund and the Guardians of New Zealand Superannuation were established to help prefund the future cost of universal superannuation, thereby bridging the cost gap between today's taxpayers and future generations.

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Over the next few decades, the New Zealand population will age significantly. Proportionally, there will be fewer taxpayers of working age to support those people receiving the pension.

These demographic changes mean that future generations face a much higher tax burden than that carried by today's taxpayers, in order to keep funding universal superannuation payments.

These projections have significant implications for future Governments' ability to fund other vital areas such as health, welfare, education and law enforcement.

### HOW DOES THE FUND RESPOND TO NEW ZEALAND'S AGEING POPULATION?

To help reduce the burden on future generations, the New Zealand Superannuation and Retirement Income Act 2001 (the Act) established:

- the New Zealand Superannuation Fund (the Fund), a pool of assets on the Crown's balance sheet; and
- the Guardians of New Zealand Superannuation (the Guardians), a Crown entity charged with managing the Fund.

Between 2003 and 2009, the Government contributed NZD\$14.88 billion to the Fund. Contributions are scheduled to restart once core Crown net debt is 20% of GDP, currently forecast in 2020/21. From around 2032/33, the Government will begin to withdraw money from the Fund to help pay for New Zealand Superannuation. The Fund is expected to peak in size in the 2080s.

Together, the Fund and Guardians exist to 'smooth' the tax burden arising from the higher future cost of New Zealand Superannuation between generations of New Zealanders.

### HOW DO WE REFLECT THIS CONTEXT IN OUR STATEMENT OF INTENT?

We think of it this way:

1. The Fund is a special-purpose savings vehicle giving certainty that some of the future cost of New Zealand Superannuation is covered. Over the long term, the Fund is also expected to add to Crown wealth by earning more for the Government in investment returns than the Government would save in debt servicing. The Fund therefore adds to Crown wealth, improves the ability of future Governments to meet increased superannuation commitments and ultimately reduces the tax burden on future New Zealand taxpayers of the cost of superannuation. That is the Fund's long-term outcome, which we have framed for shorter-term measurement in our Outcome Framework on page 7.
2. Our Act requires us to manage the Fund in a commercial, prudent fashion, comprising:
  - best-practice portfolio management;
  - maximising return without undue risk to the Fund as a whole; and
  - avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

In our Statement of Intent we frame our output simply as 'managing the Fund'. This is also captured in the Outcome Framework on page 7.

### LONG-TERM PURPOSE

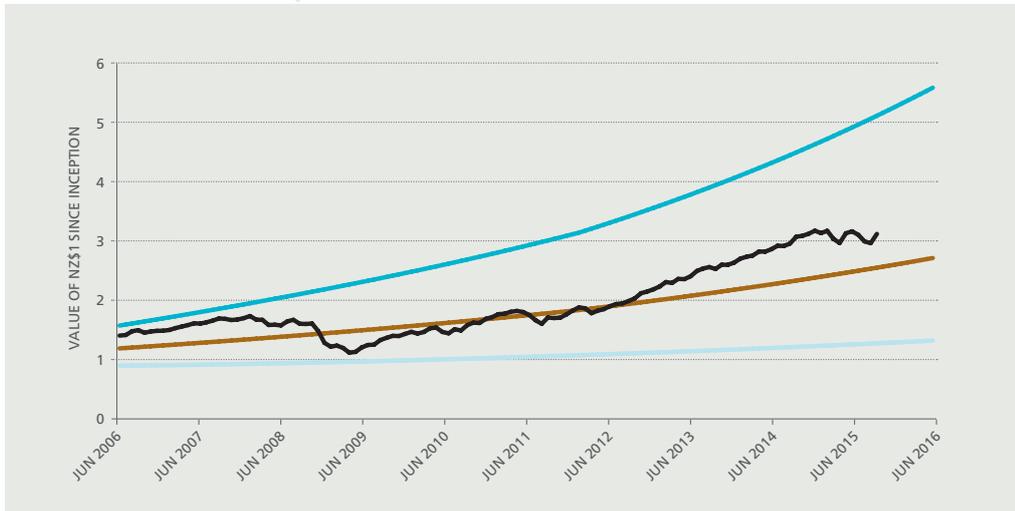
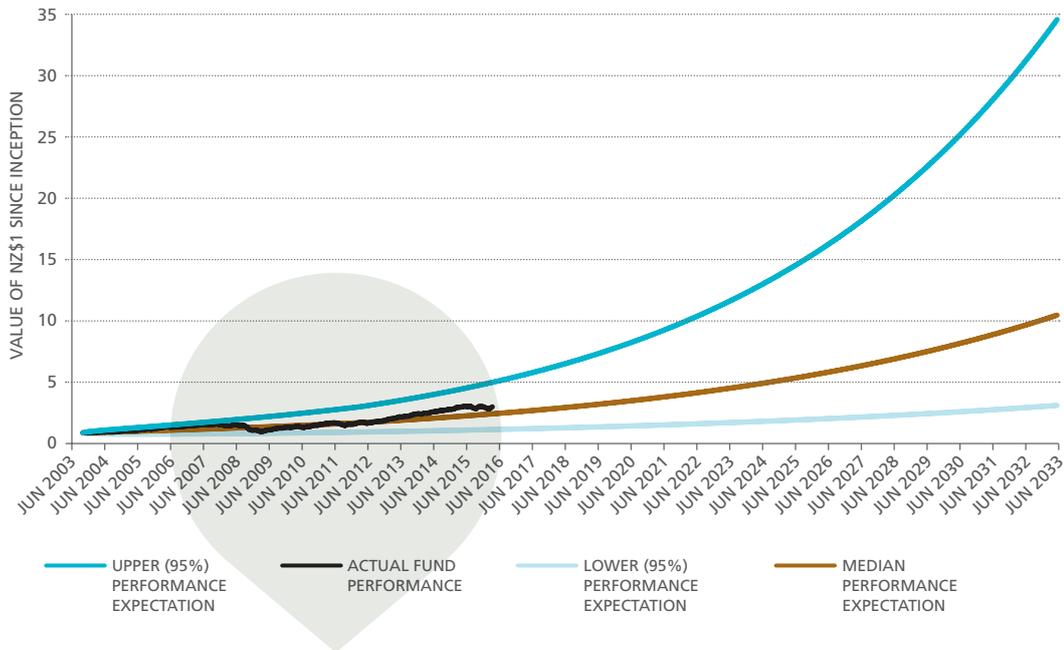
This graph plots actual and estimated Fund performance relative to our expectation that the Fund will outperform the risk-free rate of return (as measured by 90-day Treasury Bills) by 2.7% p.a. averaged over rolling 20 year periods. It shows expected returns through to 2033, when the first withdrawals are projected to take place.

Upper, median and lower performance expectations, within a 95% confidence level, are shown. For the period the Fund has been invested, these expectations

are based on the actual risk-free rate of return. For future periods, our projections are based on the current risk-free rate of return.

As well as demonstrating that the Fund is still in its early days relative to its long-term purpose, the graph illustrates how, because of its weighting to growth assets, the Fund can experience large short-term movements. These shifts must be seen in the context of the long-term purpose of the Fund.

### ACTUAL AND ESTIMATED FUTURE PERFORMANCE TO 2033



## WHAT OTHER CONTEXTUAL CONSIDERATIONS ARE IMPORTANT?

Firstly, in the 2009 Budget the Government decided to suspend contributions to the Fund until the Crown operating balance returns to a level of surplus that is considered sufficient to resume contributions. At present the Treasury estimates this will be in the 2020/21 fiscal year.

Secondly, the Fund's activities and profile in New Zealand are important for a number of reasons. We have a Directive from the Minister of Finance requiring us to actively identify and consider opportunities to increase the allocation of New Zealand assets in the Fund, subject to our mandated duty to invest on a commercial, prudent basis. From an investment perspective, we see New Zealand as a market we should have an advantage in; and it is an important part of our search for new opportunities. From an organisational perspective, it also makes sense to work closely with other Crown Financial Institutions. We also see a significant benefit in ensuring our key domestic stakeholders have easy access to information about our activities, investment processes and Fund performance.

Thirdly, we place a high priority on responsible investment, consistent with our mandate to adopt best practice portfolio management and avoid prejudice to New Zealand's reputation as a responsible member of the world community. We believe environmental, social and governance factors are material to long-term financial performance. It is therefore important that our investment strategies take relevant regulatory, market, reputational and operational risks and opportunities into account.

Environmental, social and governance considerations are integrated into investment decisions and our voting and engagement programme encourages companies to apply good stewardship in these areas.

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### Want to know more?

If you are interested in further information about the reason why the Guardians and the Fund exist, more on the ageing population issue and how the Guardians and Fund are designed to respond to it, you can find it on our website [www.nzsuperfund.co.nz](http://www.nzsuperfund.co.nz)

## 3. Strategic Direction

The Guardians' 2016-2021 Strategic Plan was approved by the Board on 14 April 2016. As noted in the Chair's Foreword, this new five-year Plan refines the Fund's most recent strategic plans. The Plan sets out what success will look like for the Fund in the medium term, and includes details of key activities to be undertaken in the 2016/17 year.

The Plan contains four strategic objectives: 'best portfolio'; 'strong external relationships'; 'building and maintaining a great team'; and 'efficiency, scalability & innovation'.

### BEST PORTFOLIO

Best Portfolio refers to the suite of activities that are aimed at ensuring the most cost-effective and fit for purpose portfolio.

By cost-effective we mean that we pay minimum cost for pure market exposure and only pay more if we have a high level of confidence of value being added. It also means we have an efficient business model and understand the optimal trade-off between internal and external service delivery.

Fit for purpose means that the portfolio will maximise the Fund's return net of costs without undue risk and according to responsible investment principles. Our approach to responsible investment is outlined in the Guardians' Responsible Investment Framework, available on [www.nzsuperfund.co.nz](http://www.nzsuperfund.co.nz).

### What does success look like in 2021?

- Single top-down view across a wide range of opportunities
- Greater internal capabilities in identifying opportunities
- Structured and consistent opportunistic investing
- Broad assessment of access points (e.g. investment managers)
- Systematic monitoring of strategies and managers
- Fully implemented investment strategies that:
  - Add value (net of costs) to the Reference Portfolio
  - Improve the Sharpe ratio
  - Maximise cost efficiency and effectiveness

### WHAT IS THE SHARPE RATIO?

All of our investments are aimed at improving what is known as the 'Sharpe Ratio' of the Fund. The Sharpe Ratio, a measure of risk-adjusted returns, is calculated as follows:

$$\frac{(\text{Reference Portfolio Return} + \text{Active Return}) - \text{Cash}}{\text{Risk}}$$

**Reference Portfolio Return** is the return of financial assets such as equities and bonds.

**Active Return** is the additional return the Fund earns by investing outside of the Reference Portfolio and so is calculated as the difference between the Reference Portfolio and the Fund's actual investment portfolio.

**Cash** is the return available on a 'risk-free' investment. It is netted off the total return in calculating the Sharpe Ratio.

**Risk** is defined as the level of risk collectively brought into the Fund by the sum of all investment activity in the actual portfolio. It is measured by the volatility (standard deviation) of returns.

As per the formula above, improving the Sharpe Ratio requires an increase in returns without a commensurate increase in risk. So, each active investment we undertake must raise the sum of the top line, or reduce the sum of the bottom line, or both.

## **STRONG EXTERNAL RELATIONSHIPS**

For a small, geographically isolated fund like ours, partnerships and engagement with peers and stakeholders offer a range of strategic benefits.

The benefits of nurturing our relationships in New Zealand include wider stakeholder knowledge of and support of the Fund's activities and purpose. Globally, these relationships aid in establishing, maintaining, and benchmarking against, international best practice.

### **What does success look like in 2021?**

- Active membership and leadership of influential global forums
- Regular exchange of best practice and wider benchmarking
- Co-ordinated programme of engagement and collaboration with international and domestic parties

## **BUILDING AND MAINTAINING A GREAT TEAM**

Achieving our long-term purpose will require strong leadership; a shared understanding among staff of our mission and values; and talented, committed people with access to quality data, systems and tools.

In particular, being able to attract, retain and develop high calibre people in what is a global, highly competitive market is vital to the performance of the Fund.

We aim to embed the Guardians' vision, values and culture as a meaningful part of the business; translate business strategies into clear role requirements, accountabilities and competencies; and drive productivity and business performance through compensation, performance management and leadership and coaching programmes.

As a Crown entity, the Guardians is committed to being a good employer. This includes offering equal employment opportunities (EEO) to prospective and existing staff, and recognising the employment aims of Māori, ethnic minorities, women and people with disabilities. We believe that being a good employer will help us achieve our long-term business goals.

To us, being a good employer means that our people enjoy and feel safe in their workplace; trust the processes and procedures around their professional development, recognition, promotion and exit; and are enthused and professionally satisfied by their roles.

### **What does success look like in 2021?**

- Strong leadership, culture and values
- Focus on talent development and retention

## **EFFICIENCY, SCALABILITY & INNOVATION**

The Guardians' Target Operating Model sets out how we will continue to build agile and scalable systems.

We seek to implement best practice investment and operational processes and workflows, and to have a high degree of transparency over our organisation and activities.

We actively seek opportunities to measurably improve our investment practices. We benchmark ourselves globally.

### **What does success look like in 2021?**

- Frameworks and processes are embedded and guide efficient operations by managing uncertainties and simplifying decisions
- These frameworks and processes are also scalable and flexible to accommodate new initiatives and products

## 4. Outcome Framework

The Fund's ultimate outcome is to reduce the tax burden on future New Zealand taxpayers arising from the cost of New Zealand Superannuation.

This is a long-term outcome, the results of which will not begin to be realised until around 2032/33, when withdrawals from the Fund is projected to begin. In the short and medium-term, we focus on facilitating this outcome by investing the Fund on a commercial, prudent basis and in a manner consistent with:

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

Our single output is managing the Fund. This involves business-as-usual work programmes covering:

- investment;
- cost control;
- risk management;
- governance; and
- organisational capability.

Under each work programme we have identified relevant Strategic Plan objectives and linked activities to focus and prioritise our efforts over the next five years.

Successfully implementing the Strategic Plan-aligned activities will help achieve our ultimate goal: to maximise the Fund's return over the long term, without undue risk, so as to reduce future New Zealanders' tax burden. It is important to understand that achieving this outcome is not a simple success/fail equation. We aim to beat our performance outcome expectations by as much as possible.

### 2016–21 STRATEGIC OBJECTIVES AND ACTIVITIES:

- Annual Statement of Performance Expectations

### WORK PROGRAMMES – ACTIVITIES/OUTPUT:

- Investment
- Cost control
- Risk management
- Governance
- Organisational Capability

### OUTPUT:

- Managing the Fund

### GUARDIANS' AND FUND EXPECTATIONS:

- Maximising return without undue risk, to reduce the tax burden on future New Zealand taxpayers of the cost of New Zealand Superannuation as measured, over rolling 20 year periods, by beating:
  - the 90-day Treasury Bill rate by at least 2.7% p.a.;
  - the Fund's Reference Portfolio or passive benchmark.

## 5. Measuring our Performance

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This section sets out a range of measures for the Fund's financial performance and for each of the work programmes listed above. We will report on progress against each measure in the Statement of Performance in our Annual Reports, depending on the time period of the goal.

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### 5.1 EXPLANATION OF PERFORMANCE MEASURES

#### 5.1.1 Outcome measures – progress towards our ultimate goal

##### *Long-term context*

On current Treasury projections the Government will not begin capital withdrawals from the Fund until 2032/33, and the Fund will not peak in size until the 2080s – more than 60 years from now.

Setting targets in a five-year Statement of Intent for such a long-term outcome presents a challenge.

However, the Fund has now been invested since September 2003, and there is considerable interest in its progress. This Statement of Intent sets out short, medium and long-term performance measures against which New Zealanders can track the Fund's progress.

These one, 10 and 20 year period performance measures are specific and quantitative. We will report on performance against each measure in the Statement of Performance contained within the relevant period's Annual Report. These measures relate to the Fund's performance and its volatility over time.

##### *90-day Treasury Bills measure*

It is the Guardians' expectation, given our mandate and hence portfolio construction, that the Fund will return at least the 90-day Treasury Bill rate + 2.7% p.a. over any 20-year moving average period. This expectation is based on the long-run equilibrium return assumption for each asset class within the Fund.

It is important to understand that the 90-day Treasury Bill rate + 2.7% is not a target to be hit precisely – rather, it is a long-term performance expectation that we aim to exceed by as much as possible.

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

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

Over time, the Fund is expected to earn more for the Government in investment returns than it would save in debt servicing i.e. the Fund is expected to add to Crown wealth, enhancing the ability of future governments to meet increased superannuation costs.

##### *Reference Portfolio measure*

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

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

In our actual portfolio, we also include 'active' investment strategies – such as investing in alternative assets (e.g. timber, private equity) – in an effort to enhance the Fund's long-term performance. These activities bring a higher expected return and/or offer diversification benefits for the Fund, albeit with more complexity and cost.

These active investment strategies are consistent with our statutory duty regarding best practice portfolio management, and are based on our investment beliefs and competitive advantages.

The Reference Portfolio (or passive benchmark) is therefore a very clear and 'pure' way for the Guardians to:

- estimate the Fund's expected returns;
- benchmark active (value-add) investment returns and costs; and
- be clear on the 'hurdles' for active investments.

The Reference Portfolio is not 'set and forget', and its asset class and risk-return composition can change over time, for example, if:

- assumptions about the long-term risk-return attributes of asset classes change; or
- aspects of the Fund's purpose or endowments (e.g. our long-term horizon) change; or
- market developments mean that a narrower or wider set of representative market exposures can be accessed passively and at a low cost.

The Reference Portfolio is therefore reviewed on a periodic basis and at a minimum every five years.

#### *Volatility measure – potential Reference Portfolio loss in a 1-in-100 year event*

Financial market returns are inherently volatile, moving up and down over time as they are regularly re-priced.

In any given period actual returns will fall somewhere within a wide range of possible returns. Over longer horizons, however, the underlying economic drivers tend to determine returns.

All investors must therefore consider the trade-off between market price risk and economic return, factoring in considerations such as their particular investment timeframe and the potential need to convert assets quickly into cash (liquidity needs).

Accordingly, in establishing the Reference Portfolio, the Guardians' Board weighs up expected returns against the risks (such as equity risk and short-term price volatility) that come with different combinations of assets. The resulting combination of risk and return is that which the Board thinks best meets the Guardians' statutory obligation to maximise returns without undue risk to the Fund as a whole. As outlined above, the Board has settled on a Reference Portfolio with an 80:20 split between growth and fixed income assets.

In order to measure the market price risk carried by the Reference Portfolio, we estimate the lowest percentile expected return within different time periods. By this we mean the amount of value the Fund could lose in a 1-in-100 year event (or, to put it another way, there is a 1% chance of the Fund losing this amount of value or more within the specified time period). If losses of this magnitude were to happen more often than expected, then either a rarer-than expected event has occurred or we have taken more risk than we assumed.

When we add assets to the Fund's portfolio beyond what is in the Reference Portfolio, we fund those investments by selling 'proxies' – an equivalent mixture of equities and bonds that reflect the risk characteristics of the assets we are adding. In this way, the overall risk of the Fund's actual portfolio (before our tilting positions) is maintained at approximately the same level as the Reference Portfolio.

### **WHAT IS 'PASSIVE' INVESTMENT?**

Passive management or 'index tracking' is a style of investment management through which a fund's portfolio mirrors a market index. Stocks move in and out of the portfolio according to their market capitalisation rather than through active investment decisions.

### **WHAT IS 'ACTIVE' INVESTMENT?**

Active investment management is where a fund's manager attempts to beat the market through various investing strategies and buying/selling decisions. Active managers rely on analytic research, forecasts and their own judgement and experience in making investment decisions. Active investment strategies are more complex and expensive to implement than passive management.

Predicting short-term financial market returns with useful accuracy over shorter periods is difficult. Making predictions with absolute confidence for a one-year period is impossible. We therefore employ our equilibrium expectations of the Reference Portfolio as the basis for the expected outcomes in the Statement of Intent.

		1-YEAR	10-YEAR	20-YEAR
WHERE REPORTED		STATEMENT OF PERFORMANCE, 2017 ANNUAL REPORT	STATEMENT OF PERFORMANCE, 2026 ANNUAL REPORT	STATEMENT OF PERFORMANCE, 2036 ANNUAL REPORT
MEASURE	<b>Reference Portfolio Returns above 90-day Treasury Bills (per annum)</b> expected outcome	2.7% p.a.	2.7% p.a.	2.7% p.a.
	<b>Actual Fund Returns above Reference Portfolio (per annum, net of costs)</b> expected outcome	1.0% p.a.	1.0% p.a.	1.0% p.a.
	<b>In a 1-in-100 year event, potential Reference Portfolio loss</b> expected outcome	≥ -25.2% p.a.	≥ -1.9% p.a.	≥ -1.2% p.a.

### Want to know more?

Further detail about how we measure the Fund's performance, the internal and external influences on our management of the Fund, and detailed historical performance figures (updated monthly), can be found on [www.nzsuperfund.co.nz](http://www.nzsuperfund.co.nz).

### 5.1.2 Output measures – managing the Fund

In this section we set out how we will measure our success in delivering the five work programmes through which we manage the Fund (investment, cost control, risk, governance and organisational capability) over one, 10 and 20 year periods.

Where possible we look to obtain assessments of our performance from independent third parties and global experts in fund benchmarking.

For specific activities we expect to achieve on an annual basis, see the relevant Statement of Performance Expectations.

We report on our performance against these measures in the Statement of Performance in our Annual Report.

#### *Investment Work Programme*

We measure the delivery of the investment work programme via the outcome measures on page 10.

#### *Cost Control Work Programme*

Cost control is central to the achievement of our mission to maximise returns without undue risk. Striking the right balance between minimising cost and implementing investment strategies that will add the most risk-adjusted value to the Fund over the long term is critical to achieving our mission.

	1-YEAR	10-YEAR	20-YEAR
WHERE REPORTED	STATEMENT OF PERFORMANCE, 2017 ANNUAL REPORT	STATEMENT OF PERFORMANCE, 2026 ANNUAL REPORT	STATEMENT OF PERFORMANCE, 2036 ANNUAL REPORT
MEASURE	<b>Costs relative to peers in CEM Benchmark's investment management cost survey*</b>		
	We participate in one of the most widely used and comprehensive financial benchmarking available globally – the annual value-add and cost benchmarking survey by CEM Benchmarking Inc. (CEM). CEM assesses the cost and return performance of the Fund against more than 270 funds from around the world, focusing on 18 that are of a similar size. The results of each CEM survey are published in our Annual Report and on <a href="http://www.nzsuperfund.co.nz">www.nzsuperfund.co.nz</a> . Relevant activities are reported in each year's Statement of Performance Expectations.		
	<ul style="list-style-type: none"> <li>• expected outcome</li> </ul> On a rolling five-year basis: median value-adding or better against our CEM peer group and positive net-value-add; below the cost-benchmark. This rating provides an independent benchmark of whether we have struck a good balance between minimising costs and successfully implementing value-adding investment strategies. Succeeding in this area will result in better long-term investment returns for the Fund.		

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

*Risk Management Work Programme*

On page 2 we explained how the Act requires that the Guardians undertake best-practice portfolio management, maximise returns without undue risk to the Fund as a whole, and avoid prejudice to New Zealand's reputation as a responsible member of the world community.

In order to help meet these requirements we have adopted:

- an organisational approach of being as transparent as commercially possible about our investment process and our organisation in general;
- a commitment to exercising best practice portfolio management and to benchmarking ourselves globally; and
- a strong focus on responsible investment and the management of environmental, social and governance risks.

	1-YEAR	10-YEAR	20-YEAR	
WHERE REPORTED	STATEMENT OF PERFORMANCE, 2017 ANNUAL REPORT	STATEMENT OF PERFORMANCE, 2026 ANNUAL REPORT	STATEMENT OF PERFORMANCE, 2036 ANNUAL REPORT	
<b>MEASURE</b>	<b>In a 1-in-100 year event, potential Reference Portfolio loss</b>	As per Outcome Measure – see page 9 for a full explanation.		
	• expected outcome	≥ -25.2% p.a.	≥ -1.9% p.a.	≥ -1.2% p.a.
	<b>Transparency ratings over time</b>	We strive to be as transparent as commercially possible about our management of the Fund, how the Fund is performing, and our organisation in general. Transparency is a central compliance requirement for the Guardians, given our obligations under the Crown Entities Act, Official Information Act and other New Zealand legislation, together with the legislated requirement under our own Act to avoid prejudice to New Zealand's reputation as a responsible member of the world community. It is also critical to maintaining organisational credibility and stakeholder confidence in the Guardians and Fund. We therefore aim to keep our stakeholders as informed as possible about what we do and why we do it.		
	• expected outcome	10 out of 10 (100%) in the quarterly rating of Sovereign Wealth Fund transparency published by the Sovereign Wealth Fund Institute; top-quartile or higher ratings in order relevant rating mechanisms. Ratings published on <a href="http://www.nzsuperfund.co.nz">www.nzsuperfund.co.nz</a> .*		
	To achieve a rating of 10/10 in the Sovereign Wealth Fund Institute Transparency Index, a Fund makes a range of information about its operations and performance publicly available, including: <ul style="list-style-type: none"> <li>• history including reason for creation, origins of wealth and Government ownership structure;</li> <li>• up-to-date, independently audited, annual reports;</li> <li>• ownership percentage of company holdings, and geographic locations of holdings;</li> <li>• total portfolio market value, returns and management compensation;</li> <li>• guidelines in reference to ethical standards, investment policies and enforcer of guidelines;</li> <li>• clear strategies and objectives;</li> <li>• subsidiaries and contact information, if applicable;</li> <li>• external managers, if applicable.</li> </ul>			
	<b>Best practice operations – annual updating of the Fund's response to the 'Santiago Principles'</b> New Zealand is a member country of the International Forum of Sovereign Wealth Funds (IFSWF), a voluntary group of sovereign wealth funds established under the auspices of the International Monetary Fund. The IFSWF's goals are for sovereign wealth funds to: <ul style="list-style-type: none"> <li>• help maintain a stable global financial system and free flow of capital and investment;</li> <li>• comply with all applicable regulatory and disclosure requirements in the countries in which they invest;</li> <li>• invest on the basis of economic and financial risk and return-related considerations; and</li> <li>• have in place a transparent and sound governance structure that provides for adequate operational controls, risk management, and accountability.</li> </ul> The Santiago Principles are a set of 24 voluntary IFSWF guidelines that assign best practices for the operations of sovereign wealth funds. The principles recognise that it is important for sovereign wealth funds to demonstrate to their home countries, to the countries in which they are invested and to the international financial markets in general that they are properly established and that their investments are made on a purely economic basis. The Santiago Principles monitor three important areas of operational practice for sovereign wealth funds – legal framework, institutional framework and governance framework, along with investment policies and risk management. <p>Members of the IFSWF are required to undertake a regular review of their implementation of the Principles as a whole.</p>			

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

	1-YEAR	10-YEAR	20-YEAR
WHERE REPORTED	STATEMENT OF PERFORMANCE, 2017 ANNUAL REPORT	STATEMENT OF PERFORMANCE, 2026 ANNUAL REPORT	STATEMENT OF PERFORMANCE, 2036 ANNUAL REPORT
MEASURE	<ul style="list-style-type: none"> <li>• expected outcome</li> </ul>	A self-assessment of the Guardians' and Fund's adherence to the Santiago Principles is completed, published on <a href="http://www.nzsuperfund.co.nz">www.nzsuperfund.co.nz</a> and assured by an independent third party. Top-quartile or higher ratings in the Geoeconomica Santiago Compliance Index of sovereign wealth funds' compliance with the Santiago Principles; top quartile or higher ratings in other relevant rating mechanisms.	
	<b>Responsible investment – UNPRI Assessment over time*</b>	<p>Effective management of responsible investment issues is central to the Guardians' ability to manage both investment and reputation risk, and therefore to achieving our goal of maximising returns without undue risk. We believe environmental, social and governance factors can improve the long-term financial performance of a company. For this reason we actively manage the long-term risks and opportunities that environmental, social and governance issues present to the Fund.</p> <p>We measure our performance in this area through annual United Nations Principles for Responsible Investment (UNPRI) assessments. The UNPRI is the international standard for best practice in responsible investment. Signatories are required to report on how they apply the principles. The assessment processes provide a measure of how effectively each fund is carrying out the principles.</p> <p>We remain committed to maintaining the Fund's global best practice and domestic leadership position in responsible investment practice. In recent years, investors around the world have begun to place a much higher emphasis on responsible investment and the effective management of environmental, social and governance risks.</p>	
	<ul style="list-style-type: none"> <li>• expected outcome</li> </ul>	A or A+ rating for Strategy and Governance.	
	<b>Responsible investment – Proxy voting reports</b>	<p>Voting rights are important for maintaining shareholder oversight of directors, boards and company policies. They are therefore central to our practice of responsible investment and to meeting our obligations under our governing legislation in relation to best practice portfolio management and managing risk. We exercise our voting rights globally across the Fund's segregated equity portfolio.</p> <p>Consistent with our commitment to transparency, we publish our proxy voting reports on <a href="http://www.nzsuperfund.co.nz">www.nzsuperfund.co.nz</a> on a six monthly basis.</p>	
	<ul style="list-style-type: none"> <li>• expected outcome</li> </ul>	Completed and published for both six month periods on <a href="http://www.nzsuperfund.co.nz">www.nzsuperfund.co.nz</a> .	
	<b>Responsible investment – annual Responsible Investment reporting</b>	Report annually on the Guardians' performance and activities against the UNPRI's six principles for responsible investment. These Principles are: Integration, Ownership, Disclosure (Company Reporting), Best practice, Collaboration and Communication. Reporting against the Principles is a structured way of providing transparency over our responsible investment activities and outcomes.	
<ul style="list-style-type: none"> <li>• expected outcome</li> </ul>	Report on responsible investment activities and outcomes annually against the six United Nations Principles of Responsible Investment.		

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

### Governance Work Programme

HORIZON	1-YEAR	10-YEAR	20-YEAR
WHERE REPORTED	STATEMENT OF PERFORMANCE, 2017 ANNUAL REPORT	STATEMENT OF PERFORMANCE, 2026 ANNUAL REPORT	STATEMENT OF PERFORMANCE, 2036 ANNUAL REPORT
MEASURE	<b>Independent reviews</b>  Our Act requires that an independent review of how effectively and efficiently the Guardians are performing their function is carried out every five years. The Minister of Finance sets the terms of reference for the review, which is conducted by an independent person appointed by the Minister. The report is then presented to Parliament.  The Fund has had three such reviews since inception; all are published on <a href="http://www.nzsuperfund.co.nz">www.nzsuperfund.co.nz</a> .  The next review is due to be published in 2019/2020.		
	<ul style="list-style-type: none"> <li>• expected outcome</li> </ul>	N/A for this timeframe	On-going good reviews with the reviews and our responses published on <a href="http://www.nzsuperfund.co.nz">www.nzsuperfund.co.nz</a>  By good review we mean that no material concerns about the effective and efficient performance of the Guardians' functions are identified.

### Organisational Capability Work Programme

Workplace culture is a significant and important challenge for the financial services industry globally. At the Guardians, we strive for a positive workplace culture, understanding its impact on financial performance, recruitment, retention and ethical behaviour.

A constructive culture assists our efforts to gain a competitive advantage over other investors by building and retaining a great team. Equally, high-quality leadership, strong engagement and a 'whole of Fund' culture are critical to ensuring we are making the best possible investment decisions across the organisation.

This especially important as the Guardians grow. We place a strong emphasis on creating a strong and collaborative working culture.

HORIZON	1-YEAR	10-YEAR	20-YEAR
WHERE REPORTED	STATEMENT OF PERFORMANCE, 2017 ANNUAL REPORT	STATEMENT OF PERFORMANCE, 2026 ANNUAL REPORT	STATEMENT OF PERFORMANCE, 2036 ANNUAL REPORT
MEASURE	<b>Developing and maintaining a constructive workplace culture</b>  Culture plays a significant role in keeping staff engaged, with implications for financial performance, recruitment, retention and ethical behaviour.		
	<ul style="list-style-type: none"> <li>• expected outcome</li> </ul>	Achieve the constructive benchmark in at least 2 of the 4 constructive styles in the biennial Human Synergistics OEI/OCI surveys.*  Achieve an overall staff engagement score in the upper quartile of the global benchmark in the biennial CEB Engagement Survey.*	

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

## 6. Transparency and Reporting to the Minister

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We strive to be as transparent as commercially possible about our management of the Fund, how the Fund performs and our organisation in general. Our stakeholders, including the Minister of Finance, and any other interested party, can easily access a wealth of current, detailed information on [www.nzsuperfund.co.nz](http://www.nzsuperfund.co.nz).

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This information includes monthly performance and portfolio reports; detailed historical performance figures for the Fund since inception; copies of our media statements along with speeches and presentations given by Guardians staff.

A range of formal reporting mechanisms are also in place. A Parliamentary Select Committee, usually the Commerce Committee, reviews the Guardians' and Fund's financial statements annually. Committee reports and evidence presented by the Guardians as part of the review process are available on [www.parliament.govt.nz](http://www.parliament.govt.nz).

As a Crown entity we are subject to the Official Information Act 1982 and to other Parliamentary scrutiny requirements such as Parliamentary Questions.

In addition the Guardians provide a quarterly report on the progress of the Guardians and the Fund to the Minister of Finance. This sets out the performance of the Fund and key investment and other operational developments during the preceding quarter.

Section 64 of our Act states that the Minister may, after consulting with us, give directions regarding the Government's expectations as to the Fund's performance, including the Government's expectations as to risk and return. Such a direction cannot be inconsistent with our statutory duty to invest the Fund on a prudent, commercial basis.

As part of the 2009 Budget we received a direction from the Minister on investing in New Zealand. The wording of the direction and our response to it are on [www.nzsuperfund.co.nz](http://www.nzsuperfund.co.nz). Each year, we include information on our performance in relation to the direction in our Annual Report.

In common with other Crown entities we also receive from the Minister an annual Letter of Expectations, setting out the Minister's general requirements for the Guardians for the coming year.

A copy of the December 2015 letter and our response can be found on [www.nzsuperfund.co.nz](http://www.nzsuperfund.co.nz).

## 7. Acquisitions

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We have no intention in respect of the activities of the Guardians to acquire interests in companies, trusts or partnerships for the benefit of the Guardians. We do, however, undertake such acquisitions as manager and administrator of the Fund, and those interests become the property of the Fund.

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Other than the Guardians' ability to control Fund Investment Vehicles in line with Section 59 A of the New Zealand Superannuation and Retirement Income Act 2001, the Guardians' Board must use its best endeavours to ensure that the Fund does not have control of entities (for example a company). This requirements is set out more fully in section 59 of the Act. Consequently, the investment guidelines we have in place with external managers and our other internal policies and procedures contain controls that ensure compliance with this requirement.

**SIGNED ON BEHALF OF THE BOARD:**



CATHERINE SAVAGE, CHAIR



PIP DUNPHY, CHAIR AUDIT COMMITTEE





[WWW.NZSUPERFUND.CO.NZ](http://WWW.NZSUPERFUND.CO.NZ)