Statement of Intent
Tauākī Whānga

For the period commencing 01 July 2020 to 30 June 2025

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Guardians of New Zealand Superannuation

NZSUPERFUND
Te Kaitiaki Tahua Penihana Kaumātua o Aotearoa

ELEVATE
NZ VENTURE FUND

Foreword from the Board Chair

He Kupu Whakataki nā te Toihau o te Poari

E manawarū ana ahau ki te tāpae i te Tauākī Whāinga a ngā Kaitiaki o te Penihana Kaumātua o Aotearoa mō te tau 2020 ki te tau 2025.

Hei tuatahitanga, ka whakamārama Te Tauākī Whāinga a ngā Kaitiaki (SOI) i ana whāinga whai rautaki me ngā hinonga ka tutuki i roto i te wā āhua roa tonu e hāngai ana ki ngā tahua e rua: ki te Tahua Penihana Kaumātua o Aotearoa me te Tahua Hinonga o Mairanga Aotearoa, arā, ko te tahua hou hei whāngai hinonga mōrea.

I te tau 2019 nā te ture i whakamanatia ai e te Pāremata i whakatū tētahi tahua whāngai hinonga mōrea, hei whakahaere mā ngā Kaitiaki i raro i tētahi whakahau hou, e motuhake ana te whakahaeretia ōna i te Tahua Penihana Kaumātua o Aotearoa.

E 300 miriona tāra te taumata o te pūtea ka tukuna ki te Tahua Hinonga o Mairanga Aotearoa i roto i ngā tau e rima, ka tiria hei tahua taurite mā ngā kamupene ka whiwhi haumitanga mā tētahi tauira e whāngaihia ai te tahua-ki te-tahua. Ko te tikanga o tēnei, ka whakahaeretia te tahua ake e Ngā Hoa Pātui ka Whakatupu Haupū Rawa ki Aotearoa, māna e tuku ngā pūtea ki ngā kaiwhakahaere tahua hei tuku anō mā rātou ki ngā kamupene ka whiwhi haumitanga, kia taurite ki te haumitanga ka whāngaihia e te rāngai tūmataiti.

Ko te wāhi ki ngā Kaitiaki i te tahua whāngai hinonga mōrea, ko te hāpai i te mana hautūtanga me te arataki i ngā mahi a ngā Ngā Hoa Pātui ka Whakatupu Haupū Rawa ki Aotearoa e whāia ai e rātou ngā taumata o te whakahaere haumitanga i runga i ngā tikanga whaihua katoa, i te horopaki o te haumi a ngā rōpū whakahaere ki ngā tahua whāngai hinonga mōrea.

Ko te take matua i whakatūria ai te tahua whāngai hinonga mōrea, ko te whai wāhi atu ki tētahi ōhanga e ora tautini ana, e whaihua ana anō hoki, i te tīmatanga, mā te whakanui ake i ngā pūtea whāngai hinonga mōrea e wātea ana ki ngā kamupene māhuri o Aotearoa, otirā, ko ērā kua neke ki tua o te pae o te kamupene pihinga, o te kamupene whai haumitanga tūmataiti rānei ki ngā tahua whāngai hinonga mōrea o te Taumata A me te Taumata B.

I am pleased to present the Guardians of New Zealand Superannuation's 2020 – 2025 Statement of Intent.

For the first time, the Guardians' Statement of Intent (SOI) will cover its strategic intentions and medium-term undertakings with respect to two funds: the NZ Super Fund and Elevate NZ Venture Fund, the new venture capital fund.

In 2019 legislation passed by Parliament established a venture capital fund, to be administered by the Guardians under a new mandate, run separately from the NZ Super Fund.

Up to $300 million will be contributed to the Elevate NZ Venture Fund over five years, to be rolled out as matching capital to investee companies through a fund-of-funds model. This means that the fund itself is managed by New Zealand Growth Capital Partners, which will allocate funds to fund managers, who in turn will deploy it to investee companies to match private sector investment.

The Guardians' role in the venture capital fund is to provide governance and oversight in respect of New Zealand Growth Capital Partners to ensure that it employs best practice investment management standards, in the context of institutional investment in venture capital.

The primary purpose of establishing the venture capital fund is to contribute to a sustainable and productive economy, initially by increasing the venture capital available to early-stage New Zealand companies, in particular those that have moved beyond the start-up or angel investor stage to Series A and B venture capital.

The long-term objective of the policy is to help young, innovative companies to grow into successful and sustainable businesses, encourage the availability of more venture capital from other sources, and to develop the early stage ecosystem in New Zealand.

The principal mandate of the Guardians, which is managing the NZ Super Fund to maximise return over the long-term without undue risk, remains unchanged.

Ko te whāinga pae tawhiti o te kaupapa here, ko te āwhina i ngā kamupene māhuri e auaha ana kia tupu hei pakihi angitu, hei pakihi hoki ka ora tautini; ko te akiaki kia nui ake ngā tahua whāngai hinonga mōrea e wātea ana i ētahi atu puna; ko te whakawhanake hoki i te kōtuinga pakihi māhuri i Aotearoa.

Kāore e rerekē ake te whakahau matua ki ngā Kaitiaki, arā, ko tāna he whakahaere i te Tahua Penihana Kaumātua o Aotearoa kia nui rawa atu ngā hua haumi ka hoki mai, i roto i ngā tau roa, me te kore i noho mōrearea noa.

Hei āwhina i ō mātou hunga whai pānga kia mārama ki te rerekētanga i waenga i ngā tahua e rua, kua wehea e mātou tēnei tuhinga kia rua ōna wāhanga. E whakaata ana tēnei i ngā putanga rerekē o ngā tahua e rua me ngā inenga ka whakamahia hei arotake i te whaihua o ngā mahi a ngā Kaitiaki ki te whakatutuki i aua putanga. E āpitihia ana ki tēnei Tauākī Whāinga (SOI) tētahi tuhinga motuhake, ko te Tauākī o te Whaihua e Matapaetia ana.

E rite pai ana te mana hautū, ngā tāngata me ngā pūnaha o roto i ngā Kaitiaki ki te whakahaere i ngā tahua e rua kia hāngai ki ngā tikanga whaihua katoa o te ao, i te horopaki o ngā wāhi tauhokohoko e haumitia ana. Ki tā mātou titiro, e whakaatu ana te whakahau hou i te whakapono ki tō mātou tohungatanga me ō mātou wheako hei kaihaumi ā-whakahaere, ā, e ngākau titikaha nei mātou kia angitu te whakatutukihanga o taua whakahau.

Mai i te tīmatanga o ana haumitanga i te tau 2003, ko te huamoni kua hoki mai ki te Tahua Penihana Kaumātua o Aotearoa, ko te 8.89% i te tau, ā, kei runga ake tēnei i ōna paeraro mō ngā mahi whaihua i roto i ngā tau roa, e kitea ana i te ripanga e whai ake nei. E whakamāramatia ana aua paeraro i te whiore o tēnei pukapuka.

E ū tonu ana te Poari o ngā Kaitiaki ki te whakatutuki i ngā whakahau ki a ia. Ka rere tonu ā mātou rautaki haumi ki te pae tawhiti, ō mātou whakaaro ki te mana hautūtanga e arataki ana i ō te ao, me te ū ki te pūataata o ngā whakahaere, i a mātou ka whai ki te whakaea i tō mātou haepapa ki te kāwanatanga me ngā tāngata katoa o Aotearoa.

To help our stakeholders understand the difference between the two funds, we have separated this document into two sections. This reflects the differing outcomes of the two funds, as well as the measures used to assess the Guardians' performance in delivering on those outcomes. A separate Statement of Performance Expectations document supplements this SOI.

The Guardians' governance, people and systems are well-placed to manage both funds in line with global best-practice, in the context of the markets in which they are invested. We see the new mandate as a vote of confidence in our expertise and track record as an institutional investor, and are committed to its success.

Since investing began in 2003, the NZ Super Fund has returned 8.89% p.a. and is, as the following table shows, ahead of its long-term performance benchmarks. These benchmarks are explained later in this document.

The Guardians' Board remains committed to achieving its mandates. Our long-term investment strategies, world leading approach to governance and commitment to transparency will continue as we work to fulfil our responsibility to the government and to New Zealanders.

CATHERINE SAVAGE, CHAIR

APRIL 2020

NZ Super Fund performance as at 31 March 2020	Since inception (Sept 2003)	Last ten years	Last five years
Actual Returns	8.89%	10.46%	5.94%
Reference Portfolio Return	7.61%	8.07%	4.34%
Estimated $ earned over and above Reference Portfolio	$7.066 billion	$7.883 billion	$2.746 billion
90-day Treasury Bill return	3.78%	2.29%	1.89%
90-day Treasury Bill return + 2.8%	6.58%	5.09%	4.69%
Estimated $ earned over and above 90-day Treasury Bill return	$20.593 billion	$20.957 billion	$6.433 billion

Part 1:
NZ Super Fund

01

Introduction

He Kupu Whakataki

New Zealand's population is ageing. Over the next few decades, there will be proportionally fewer taxpayers of working age to support those people receiving national superannuation. These demographic changes mean that future generations face a much higher tax burden than that carried by today's taxpayers.

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 NZ SUPER FUND FIT IN?

To help reduce the burden on future generations, the New Zealand Superannuation and Retirement Income Act 2001 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 NZD14.88 billion to the Fund. Contributions were suspended in 2009 and restarted in December 2017. Full funding as per the formula in the Act is projected to commence from 2022.

The Government is expected to begin its capital withdrawals from the Fund in 2035 (with sustained withdrawals to begin in 2053). At the peak of its size in 2071, the Government's capital withdrawals from the Fund, as well as the Fund's tax payments, are expected to cover 20.5% of the total cost of New Zealand superannuation.

HOW DO WE REFLECT THIS IN OUR STATEMENT OF INTENT?

We think of it this way:

1. The NZ Super Fund is a special-purpose savings vehicle that partially covers the future cost of New Zealand Superannuation. Over the long-term, the NZ Super 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 NZ Super 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 generations of New Zealanders. This is the NZ Super Fund's long-term outcome, which we have framed for shorter-term measurement in our Outcome Framework on page 9.
2. The New Zealand Superannuation and Retirement Income Act 2001 requires us to manage the NZ Super Fund in a commercial, prudent fashion, comprising:
   - best-practice portfolio management;
   - maximising return without undue risk; and
   - avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

In this Statement of Intent we frame our output as simply 'managing the funds'. This is captured in the Outcome Framework on page 9.

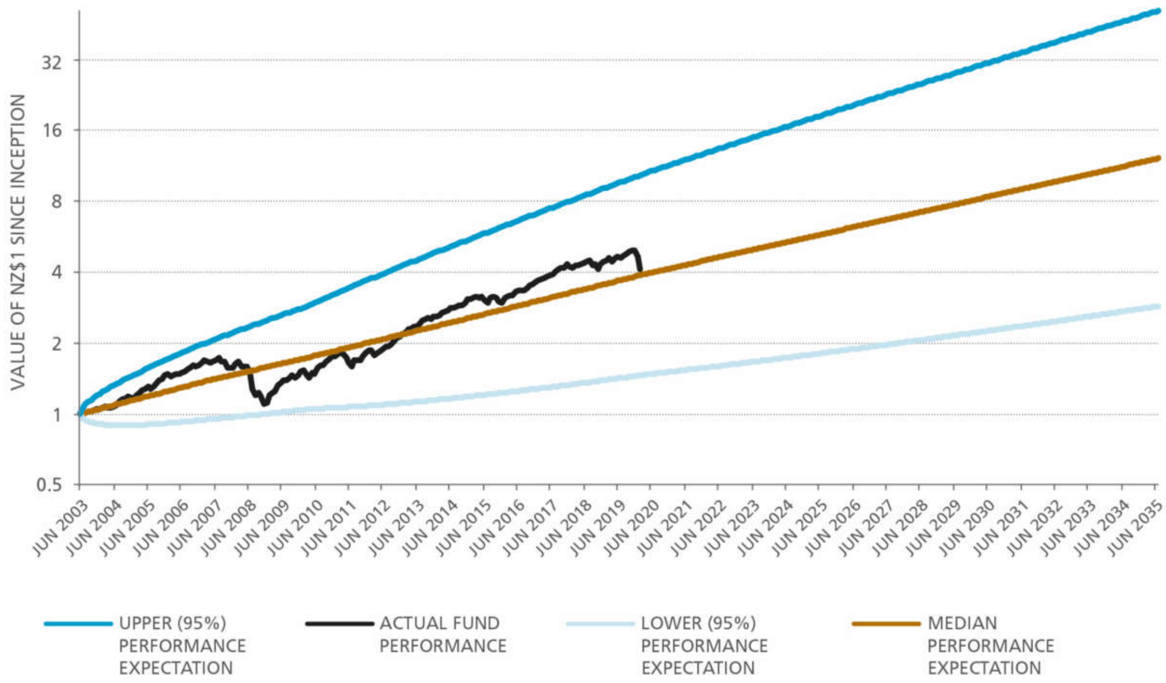
LONG-TERM PURPOSE

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 2.8% p.a. averaged over rolling 20 year periods. It shows expected returns through to 2035, when the first withdrawals are expected 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.

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 FUND PERFORMANCE TO 2035



WHAT OTHER CONTEXTUAL CONSIDERATIONS ARE IMPORTANT?

The Guardians' activities and profile in New Zealand are important for a number of reasons. In 2009 we received 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 NZ Super 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.

We also 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.

Strategic Direction

Te Ahunga Rautaki

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.nz.

What does success look like in 2025?

- Single top-down view across a range of opportunities
- Greater internal capability in identifying opportunities
- Structured and consistent opportunistic investing
- Broad assessment of access points
- Institutionalised systematic monitoring of strategies and managers
- Best practice governance, responsible investment, enterprise risk management (investment and non-investment), data and information management
- Fully implemented investment strategies that add value (net of costs) to the Reference Portfolio, improve the Sharpe ratio and maximise cost efficiency and effectiveness
- Best practice governance, responsible investment, enterprise risk management (investment and noninvestment), data and information management
- Integration of environmental, social and governance factors into investment decisions

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 for the Guardians’ activities and purpose. Globally, these relationships aid in establishing, maintaining and benchmarking against international best practice.

What does success look like in 2025?

- 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
- A peer engagement programme that provides access to investment opportunities
- Better understanding of and support for the Fund's purpose and activities

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.

To ensure our organisational health and capability 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.

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.

All staff are employed on individual contracts and are able to be involved in the development of our good employer and EEO programmes. They also have the opportunity to provide input into our Human Resources Policy and approach.

We believe 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 development, recognition, promotion and exit; and are enthused and professionally satisfied by their roles.

What does success look like in 2025?

- Strong leadership throughout the Guardians
- Culture and values strongly defined and identified with
- Focus on talent development and staff retention
- Diversity and inclusiveness policies firmly embedded

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 2025?

- 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

Outcome Framework

Te Anga Putanga

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 2035, when withdrawals from the NZ Super Fund are 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 output is managing the NZ Super 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 us to achieve our goal: to maximise the NZ Super 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. This is why we have such a strong emphasis on innovation and benchmarking against global practice.

2020 – 25 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 2.8% p.a.;
  - the Fund's Reference Portfolio or passive benchmark.

Measuring our Performance

Te Ine i ngā Mahi

EXPLANANATION OF PERFORMANCE MEASURES

Outcome measures - progress towards our ultimate goal

Long-term context

On current Treasury projections the Government will not begin capital withdrawals from the NZ Super Fund until 2035, and the Fund will not peak in size until the 2070s - some 50 years from now.

Setting targets in a five-year Statement of Intent for the long-term outcome of the NZ Super Fund 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 performance measures relate to the Fund's performance and its volatility over time. They are specific and quantitative. We will report on performance against each measure in the Statement of Performance section of the Annual Report.

90-day Treasury Bills measure

It is our expectation, given our mandate and hence portfolio construction, that the Fund will return at least the 90-day Treasury Bill rate + 2.8% 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 + 2.8% 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 prefer to work to an expectation rather than a target so as 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, thereby 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 NZ Super 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. We invest actively in an effort to enhance our long-term performance: these activities bring a higher expected return and/or offer diversification benefits for the Fund, albeit with more complexity and cost. They 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 NZ Super 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', as its asset classes and risk-return composition can change over time, for example, if:

- assumptions about 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. The Reference Portfolio was reviewed this year (in 2020, with its inception in 2010), with implementation to be completed by June 2020. The review included a stocktake of our investment beliefs as well as the costs of operating the Reference Portfolio, the latter being a yardstick for the value we add.

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. 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.

Horizon	1-Year	10-Year	20-Year
Where reported	Guardians' Statement of Performance, 2021 Annual Report	Guardians' Statement of Performance, 2030 Annual Report	Guardians' Statement of Performance, 2040 Annual Report
Reference Portfolio returns above 90-day Treasury Bills (per annum)			
Expected outcome	2.8% p.a.	2.8% p.a.	2.8% p.a.
Actual Fund returns above Reference Portfolio (per annum, net of costs)			
Expected outcome	1.0% p.a.	1.0% p.a.	1.0% p.a.
In a 1-in-100 year event, potential Reference Portfolio loss is equal to or worse than:			
Expected outcome	-30.5% p.a.	-5.9% p.a.	-1.7% p.a.

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 section of the Annual Report.

Investment Work Programme

We measure the delivery of the investment work programme via the outcome measures recorded above.

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.

Horizon	1-Year	10-Year	20-Year
Where reported	Guardians' Statement of Performance, 2021 Annual Report	Guardians' Statement of Performance, 2030 Annual Report	Guardians' Statement of Performance, 2040 Annual Report
Cost measure	We participate in one of the most widely used and comprehensive financial benchmarking services 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 19 that are of a similar size. The results of each CEM survey are published in our Annual Report and on www.nzsuperfund.nz. Relevant activities are reported in each year's Statement of Performance Expectations.		
Expected outcome	On a rolling five-year basis: median value-adding or better compared to our CEM peer group; with costs below the CEM-calculated cost-benchmark. 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.		

Risk Management Work Programme

On page 4 we explained how the Act requires that the Guardians undertake best-practice portfolio management, maximise returns without undue risk, and avoid prejudice to New Zealand's reputation as a responsible member of the world community.

In order to help meet those requirements we have adopted:

- a commitment to being as transparent as commercially possible about our investment process and 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.

Horizon	1-Year	10-Year	20-Year
Where reported	Guardians' Statement of Performance, 2021 Annual Report	Guardians' Statement of Performance, 2030 Annual Report	Guardians' Statement of Performance, 2040 Annual Report
In a 1-in-100 year event, potential Reference Portfolio loss is equal to or greater than:	As per Outcome Measure – see page 11 for a full explanation.		
Expected outcome	-30.5%	-5.9% p.a.	-1.7% p.a.
Transparency ratings over time	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, the 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 how 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 in other relevant rating mechanisms. Ratings published on www.nzsuperfund.nz.* 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: • history, including reason for creation, origins of wealth and government ownership structure; • up-to-date, independently audited annual reports; • ownership percentage of company holdings, and geographic locations of holdings; • total portfolio market value, returns and management compensation; • guidelines in reference to ethical standards, investment policies and enforcer of guidelines; • clear strategies and objectives; • subsidiaries and contact information, if applicable; • external managers, if applicable.		
Best practice operations – annual updating of the Guardians' response to the 'Santiago Principles'	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: • help maintain a stable global financial system and free flow of capital and investment; • comply with all applicable regulatory and disclosure requirements in the countries in which they invest; • invest on the basis of economic and financial risk and return-related considerations; and • have in place a transparent and sound governance structure that provides for adequate operational controls, risk management, and accountability. 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		

Horizon	1-Year	10-Year	20-Year
	made on a purely economic basis. The Santiago Principles monitor three important areas of operational practice for sovereign wealth funds - the legal framework, the institutional framework, and the governance framework, along with investment policies and risk management. Members of the IFSWF are required to undertake a regular review of their implementation of the Principles as a whole.		
Expected outcome	A self-assessment of the Guardians' and Fund's adherence to the Santiago Principles is completed, published on www.nzsuperfund.nz and assured by an independent third party. Top quartile or higher ratings in the Geoeconomica Santiago Compliance Index of sovereign wealth funds' compliance with the Santiago Principles; top quartile or higher ratings in other relevant ratings mechanisms.		
Responsible Investment – UNPRI Assessment over time*	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 that environmental, social and governance considerations, including climate change, are fundamental to long-term risk and return. For this reason we actively manage the long-term risks and opportunities that environmental, social and governance issues present to the Fund. 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. We remain committed to maintaining the Fund's global best practice and regional leadership position in responsible investment practice. In recent years, investors in New Zealand and around the world have begun to place a much higher emphasis on responsible investment and effective management of environmental, social and governance risks.		
Expected outcome	A or A+ rating for Strategy and Governance in the annual UNPRI assessment.		
Responsible Investment – proxy voting reports	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. Consistent with our commitment to transparency, we publish our proxy voting reports on www.nzsuperfund.nz on an ongoing basis.		
Expected outcome	Completed and published on www.nzsuperfund.nz.		
Responsible Investment – annual Responsible Investment reporting	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.		
Expected outcome	Report on responsible investment activities and outcomes annually against the six United Nations Principles for 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	Guardians' Statement of Performance, 2021 Annual Report	Guardians' Statement of Performance, 2030 Annual Report	Guardians' Statement of Performance, 2040 Annual Report
Independent reviews	Our Act requires that an independent review of how effectively and efficiently the Guardians is performing its 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 body appointed by the Minister. The report is then presented to Parliament. The Guardians has had three reviews since inception; all are published on www.nzsuperfund.nz.		
Expected outcome	Ongoing good reviews in the 5-yearly independent review, with our responses published on www.nzsuperfund.nz. By good review we mean that no material concerns about the effective and efficient performance of the Guardians' functions are identified.		

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.

A positive workplace 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 is especially important as the Guardians grow. Therefore, we place a strong emphasis on creating a constructive and collaborative working culture.

Horizon	1-Year	10-Year	20-Year
Where reported	Guardians' Statement of Performance, 2021 Annual Report	Guardians' Statement of Performance, 2030 Annual Report	Guardians' Statement of Performance, 2040 Annual Report
Developing and maintaining a constructive workplace culture	Culture plays a significant role in keeping staff engaged, with implications for financial performance, recruitment, retention and ethical behaviour.		
Expected outcome	Achieve the constructive benchmark in at least 2 of the 4 constructive styles in the periodic Human Synergistics OEI/OCI Surveys.*		

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

Part 2:
Elevate NZ Venture Fund

02

Introduction

He Kupu Whakataki

The Venture Capital Fund Act 2019 (VCF Act) established the Elevate NZ Venture Fund, which is designed to increase the amount of venture capital available to New Zealand entities over time and, in so doing, develop New Zealand's venture capital markets.

The Elevate NZ Venture Fund is entirely separate to the NZ Super Fund. As anticipated in the legislation, the Guardians has appointed New Zealand Growth Capital Partners as the external manager for the fund, using a fund-of-funds model.

The Elevate NZ Venture Fund will consist of at least $240 million of initial contributions redirected from the NZ Super Fund. The Government expects to make further contributions, such that total contributions to the fund to be up to $300 million over time.

It is expected to take around five years to commit the fund's capital to underlying funds, which will in turn deploy their funds over their investment periods. The fund will receive capital returns as investments are gradually exited. Some of this capital may be recycled to support existing investments and new fund vintages. The fund may be unwound in the future where the Government follows a specified process and determines that adequate capital is available to New Zealand's venture capital market from other sources. This is not expected to occur until a minimum of 15 years from commencement.

The Elevate NZ Venture Fund was created to increase the venture capital available to New Zealand entities and, by doing this, develop New Zealand's early stage capital markets so that they function more effectively. Over time, it is expected that more venture capital will become available to New Zealand entities from sources other than the fund, and New Zealand entities that receive venture capital will become more likely to grow into successful and sustainable businesses and the early-stage ecosystem will develop. This is the Elevate NZ Venture Fund's long-term outcome.

The VCF Act requires us to invest the Elevate NZ Venture Fund in New Zealand's venture capital markets using best-practice investment management that is appropriate for institutional investment in those markets. We must also manage the fund in a manner consistent with:

- the Ministerial Policy Statement which sets out critical parameters as to how the venture capital fund must be managed and invested, and
- avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

The Policy Statement is a critical document, because it is intended to result in achievement of the policy purpose and will directly influence the financial performance of the Elevate NZ Venture Fund.

The parameters contained in the Policy Statement have been set with the intention that if the Guardians manages and administers the fund in accordance with them, and where necessary the Government successfully implements of range of ancillary measures to support the further development of New Zealand's venture capital markets, the purpose described above is expected to be achieved.

In this Statement of Intent we frame our output as simply 'managing the funds.' This is also captured in the Outcome Framework on page 9.

Strategic Direction

Te Ahunga Rautaki

The Guardians' role in relation to the Elevate NZ Venture Fund is one of governance and oversight.

The VCF Act required the Guardians to appoint New Zealand Growth Capital Partners as the external manager using a fund-of-funds model.

New Zealand Growth Capital Partners is responsible for selecting, and allocating capital to, fund managers to match private sector investment and to make other investments (e.g. co-investments).

These underlying fund managers will in turn deploy capital to investee entities. Our role is to ensure that New Zealand Growth Capital Partners manages the fund of funds to best practice standards in the context of institutional investment in venture capital markets and in accordance with the Policy Statement.

The Guardians has significant experience in working with external managers, as we use external managers to manage substantial investments for the NZ Super Fund. The Guardians' External Investments and Partnerships Team manage a portfolio of more than $6 billion through external managers.

We ensure a best practice approach through the terms and conditions set out in the management agreement agreed with the external manager. We monitor the performance of external managers through regular reviews. We have a structured approach to reviewing our conviction in managers. We assess conviction based on:

- The viability, structure and focus of the manager;
- People capabilities of the manager;
- Strength of processes, policies and compliance with the Statement of Investment Policies and Procedures;
- Risk awareness and management;
- The consistency of investment activity with the purpose of the opportunity; and
- Performance.

Where a manager does not meet our conviction standard, we work to ensure that improvements are made and that standards are met over time. Ultimately, if standards are not met, we have the right to terminate the contract with the manager.

Outcome Framework

Te Anga Putanga

The outcome of the Elevate NZ Venture Fund is its contribution to a sustainable and productive New Zealand economy.

This is to be achieved through:

- Increased venture capital available to New Zealand entities
- More self-sustaining venture capital markets
- Successful and sustainable New Zealand businesses.

The Guardians is responsible for managing and administering the Elevate NZ Venture Fund, according to the high level policy directions provided in the Policy Statement, and using best-practice investment management that is appropriate for institutional investment in those markets. Managing the venture capital fund in this manner is our output.

We will deliver on the new mandate by:

- Appointing New Zealand Growth Capital Partners as the external fund manager for the fund;
- Ensuring the management agreement with the external manager reflects best practice in the context of institutional investment in New Zealand's venture capital markets and the capital allocation requirement contained in the Ministerial Policy Statement;
- Ensuring that information reporting requirements relating to the flow of capital are covered in the management agreement;
- Monitoring and managing the performance of New Zealand Growth Capital Partners; and
- Ensuring compliance with the Statement of Investment Policies, Standards and Procedures.

INPUTS:

- Up to NZD300 million capital contributed over five years
- Institutional capability
- Governance and oversight

OUTPUT:

- Appointment of an external manager
- Managing the Venture Capital Fund through a fund-of-funds model
- Best practice standards supported in management agreement
- Allocation of capital by the external manager to funds that attract matching private capital
- Funds deployed to New Zealand entities

IMPACTS:

- Increased venture capital available to New Zealand entities
- More self-sustaining venture capital markets
- New Zealand entities that grow into successful and sustainable businesses

OUTCOME:

- Contribution to a sustainable and productive New Zealand economy

Measuring our Performance

Te Ine i ngā Mahi

Under the VCF Act the Guardians must invest the Elevate NZ Venture Fund using best-practice investment management that is appropriate for institutional investment in those markets.

The appointment of New Zealand Growth Capital Partners as the external funds manager was required by the VCF Act. The Management Agreement negotiated reflects best practice in the context of institutional investment in venture capital markets. As required in the legislation, the agreement was reviewed by the Minister of Finance before it was signed.

Horizon	1-Year	10-Year	20-Year
Where reported	Guardians' Statement of Performance, 2021 Annual Report	Guardians' Statement of Performance, 2030 Annual Report	Guardians' Statement of Performance, 2040 Annual Report
Manager Monitoring – Conviction Review	The Elevate NZ Venture Fund is a fund-of-funds programme, managed on behalf of the Guardians by an external investment manager: New Zealand Growth Capital Partners. It is our responsibility to monitor their performance in line with the best practice approach we have developed to manage relationships with other local and international investment managers, as applicable to the New Zealand venture capital market. We evaluate our managers by means of a conviction review. Our conviction means our confidence in a manager's competence to execute on an investment opportunity and the general quality and fit of the organisation. Key inputs include the manager's performance, governance and overall conduct.		
Expected outcome	Successful completion of annual conviction review.		

Part 3:
Legal Disclosures

03

Transparency and Reporting to the Minister

Te Noho Tuwhera me te Tuku Pūrongo ki te Minita

Our stakeholders, including the Minister of Finance, as well as any other interested parties, can access a wealth of current and historical information on www.nzsuperfund.nz.

This information includes detailed historical performance figures for the NZ Super 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, the Finance and Expenditure Committee, reviews the Guardians' and Funds' financial disclosures annually.

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

In addition, the Guardians provides a quarterly report on the progress of the Guardians and the Funds to the Minister of Finance. This sets out the performance of the NZ Super Fund and the Elevate NZ Venture Fund, as well as key investment and other operational developments during the preceding quarter.

In common with other Crown entities, we also receive from the Minister an annual Letter of Expectations. The letter sets out the Minister's expectations for the Guardians for the coming year.

Acquisitions

Ngā Hokonga Mai

In respect of the activities of the Guardians, we have no intention 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.

Other than the Guardians' ability to control Fund Investment Vehicles in line with section 59A 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 requirement 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.

www.nzsuperfund.nz