

**ITEM 12(B) ANNUAL REVIEW OF RESPECTIVE STATEMENTS OF INVESTMENT POLICIES, STANDARDS AND PROCEDURES AND ALL POLICIES**

**Paper type:** For Approval Privacy 9(2)(a)

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**1. Purpose**

1.1 The purpose of this paper is for the Board to:

- **note** that the New Zealand Superannuation Fund Statement of Investment Policies, Standards and Procedures (**NZSF SIPSP**) has been reviewed;
- **note** that the Venture Capital Fund New Zealand Superannuation Fund Statement of Investment Policies, Standards and Procedures (**VCF SIPSP**) has been reviewed;
- **note** that the Responsible Investment Framework (**RI Framework**) which forms part of the NZSF SIPSP and the VCF SIPSP, has been reviewed;
- **note** that an annual review of all Guardians current policies has been undertaken and confirmation has been provided by respective Policy Owners;
- **approve** the proposed changes to the NZSF SIPSP, the RI Framework, and the VCF SIPSP;
- **note** that as no part of the NZSF SIPSP or the VCF SIPSP has been materially altered Ministerial consultation will not be required as per the condition to the section 50 consent;
- **note** that there has been no material changes to policies over the last 12 months outside of formal reviews.

**2. Background**

2.1 The NZSF SIPSP and VCF SIPSP are enduring umbrella documents that link to more detailed policies and standards found in other policy documents. The *NZ Superannuation and Retirement Income Act 2001 (Act)* requires that we have a SIPSP and review it at least annually, and likewise the *Venture Capital Fund Act 2019* also requires that we have a VCF SIPSP and review it at least annually. If any part of the SIPSP has been materially altered following the review, then we are required to consult with the Minister of Finance as a condition to the approvals that the Minister has given under the Section 50 of the Act (to enable the NZ Super Fund to enter into derivatives and certain other transactions). This enables the Minister to consider whether the approvals granted are still appropriate in the light of the changes.

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2.2 As part of the annual NZSF SIPSP and VCF SIPSP review, the policies underlying the SIPSPs (namely our investment related policies) have been reviewed by their owners and they have confirmed that the relevant policies, standards and procedures, have been reviewed and are:

- a) fit for purpose; and
- b) are consistent with the statutory investment mandate for the relevant Fund. They have also confirmed they are not aware of any material non-compliance issues.

2.3 Similar annual confirmations have been given for the Guardians' people and operations policies (Communications Policy, the Travel & Sensitive Expenditure Policy, the Diversity & Inclusiveness Policy and the Human Resources Policy (Operational Policies)).

### 3. Proposed changes to NZSF SIPSP and RI Framework

3.1 The table below reviews the NZSF SIPSP section by section and identifies changes (additions in red, ~~strikethrough~~ for deletions - *corrections of typo's and minor grammatical improvements have not been included and where applicable the change cell in the table has been left blank*). A full marked up version of the NZSF SIPSP is available for *optional reading only* (SD# [3406504](#)).

3.2 The majority of the changes in the table relate to the Responsible Investment section. The main changes to the section have been to include references to our move to a sustainable investment strategy, to improve readability and to reflect changes made to the RI Framework. The RI Framework has been updated to a more formal format that sets out procedures in a clearer fashion. The key differences between the previous Powerpoint RI Framework document and the new RI Framework document are summarised in Appendix 2. A full version of the new RI Framework is available here for review: (SD# [3400619](#)).

3.3 The proposed changes in the NZSF SIPSP are consistent with our risk appetite and purpose and vision. We do not consider that the proposed changes have a material impact on the NZSF SIPSP from a risk or control perspective. As a result, the proposed changes do not constitute material changes that require consultation with the Minister of Finance. The Minister of Finance in any event is fully aware of our transition to a sustainable finance approach to investment.

Section		Change required	Reason for Change
1	Introduction		
2	Asset Classes and Selection Criteria		
3	Benchmarks	Clause 3.2.1 'The performance benchmarks we use for the Fund as a whole are <del>to exceed over rolling 20-year periods</del> :	Minor change for clarification that the rolling 20 year horizon applies to both benchmarks.

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Section		Change required	Reason for Change
		<ul style="list-style-type: none"> <li>• <del>To exceed the compound New Zealand Treasury Bill return over rolling 20 year periods;</del> and</li> <li>• <del>To exceed the benchmark return for the Reference Portfolio, being the weighted average return of the Reference Portfolio's constituent asset class benchmarks.</del></li> </ul>	
4	Reporting Standards		
5	Responsible Investment	<p><i>New paragraph 1:</i></p> <p><del>Our Act states that we must invest the Fund on a prudent, commercial basis and, in doing so, must manage and administer the Fund in a manner consistent with:</del></p> <ul style="list-style-type: none"> <li>- <del>Best practice portfolio management;</del> and</li> <li>- <del>Maximising return without undue risk to the Fund as a whole;</del> and</li> <li>- <del>Avoiding prejudice to New Zealand's reputation as a responsible member of the world community.</del></li> </ul> <p><i>New paragraph 2:</i></p> <p><del>Our policy on responsible investment is consistent with meeting this mandate and also addresses matters that our Act requires to be covered in our SIPSP.</del></p> <p><i>Paragraph 3:</i></p> <p>Responsible investment has become the predominant framework for what was known as "ethical investment" at the time the Act was passed. Responsible investment is understood internationally to involve <del>integrating considering and giving effect to</del> environmental, social and governance (ESG) considerations, <del>including climate change,</del> into investment management. When we refer to the term "Responsible Investment" we see it as encompassing ethical investment. Our own approach to Responsible Investment is also intended to <del>be consistent with s 61(d) to</del> ensure the Fund is managed and administered in a manner consistent with avoiding prejudice to New Zealand's reputation as a responsible member of the world community.</p> <p><i>New paragraph 6:</i></p>	<p>The NZSF investment mandate has been set out in full in this new paragraph to assist the reader because it is referred to in this section</p> <p>Makes the statutory context for having responsible investment policies more explicit</p> <p>Clarification "giving effect to" is not a widely understood term</p> <p>Refers to the shift to a sustainable investment strategy and a policy</p>

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Section	Change required	Reason for Change
	<p>We consider sustainable finance to be emerging best practice and consistent with our mandate. We have a goal to incorporate sustainability considerations into investment decision-making and to support the development of a sustainable financial system within the context of our legislative purpose. We are developing a sustainable finance strategy to support these goals which will be integrated into the Statement and Responsible Investment Framework as work progresses.</p> <p><i>New paragraph 7:</i></p> <p>The Responsible Investment Framework also supports the implementation of the Climate Change Investment Strategy.</p> <p><i>New paragraph 8:</i></p> <p>We use internationally recognized responsible investment principles as our standard for addressing environmental, social and governance considerations, including exercising voting rights.</p> <p><i>Paragraph 9: (deleted entirely)</i></p> <p><del>We believe that adherence to responsible best practice supports managing and administering the Fund in a manner consistent with avoiding prejudice to New Zealand's reputation as a responsible member of the world community.</del></p> <p><i>Paragraph 10:</i></p> <p>We have developed our Responsible Investment Framework (RI-Framework) to cover procedures, <del>including the integration of RI considerations into our investment process,</del> and factors that we consider in applying the judgement needed to implement our responsible investment policy when investing the Fund including meeting our obligations under sections 58(2), 61(d) and (f) of our Act.</p> <p><i>Paragraph 11:</i></p> <p>Our RI Responsible Investment Framework can be found on our website.</p> <p><i>Paragraph 12:</i></p>	<p>statement on the development of a sustainable finance strategy has been added as 5.1.3</p> <p>This statement was previously made within paragraph 12; moved to stand alone for better visibility</p> <p>We have taken out specific reference to the UN Global Compact as a standard that we use. Instead paragraph 8 has been added to state that we will use internationally recognized responsible investment principles as our standard for addressing environmental, social and governance considerations, including exercising voting rights</p> <p>The statement in Paragraph 9 has been moved to 5.1</p> <p>Clarification – Responsible Investment is not the only concern for investing the Fund</p> <p>Minor change to improve readability</p> <p>Widely accepted e.g. PRI, OECD, institutional investors cannot address every ESG issue or concern with</p>

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	<p><del>RI Responsible Investment</del> actions include Investment Integration, engagement, voting and exclusion from the Fund. We invest across a wide range of asset classes and regions. With such a breadth of investments <del>we need to prioritise the issues and companies we focus on.</del> There will be, from time to time, holdings in the Fund that need special consideration under our <del>RI Responsible Investment</del> Framework including with respect to exclusion and engagement. <del>The RI Framework supports the implementation of the climate change investment strategy (CCIS).</del></p> <p><i>5.1 Policy</i></p> <p><b>5.1.1</b> We are committed to integrating consideration of <del>RI Responsible Investment</del> issues into our investment decision making process.</p> <p><b>5.1.2</b> We believe that applying responsible investment best practice supports managing and administering the Fund in a manner consistent with avoiding prejudice to New Zealand's reputation as a responsible member of the world community.</p> <p><b>5.1.3</b> We are committed to developing and integrating a sustainable finance strategy in support of our sustainable finance goals within the context of our legislative purpose.</p> <p><b>5.1.4</b> (7<sup>th</sup> bullet point) Considering investments which provide <del>positive ESG benefits in addition to the required financial return</del> deliver positive social and/or environmental impacts in addition to the required financial return.</p> <p><b>5.1.5</b> We have developed our Responsible Investment Framework to cover procedures and factors that we consider in applying the judgement needed to implement our responsible investment policy when investing the Fund including meeting our obligations under sections 58(2), 61(d) and (l) of our Act.</p> <p><b>5.1.6</b> A policy statement relating to the constraint on investing in securities excluded by application of our <del>RI Responsible Investment</del> Framework can be found in</p>	<p>regards to companies they hold shares in</p> <p>Including Sustainable Finance and current stage in our shift from RI to Sustainable Finance.</p> <p>Changes updating language used and incorporating our commitment to develop and integrate our sustainable finance strategy.</p>

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Section	Change required	Reason for Change
	<p>section 11 (Investment Constraints) of the <i>Investment Risk Allocation Policy</i>.</p> <p><del>5.2.2 We use globally recognized standards in two main ways: 1) for guidance on best practice in RI for investors and to benchmark our own performance (eg UNPRI); and 2) guidance on ESG best practice for companies which we use to asset our RI analysis (eg UN Global Compact).</del></p> <p><del>5.2.35.2.2 We are committed to the UN-supported Principles for Responsible Investment (PRI). The principles promote integration of ESG issues into investment analysis and asset ownership. We use the PRI, a globally recognized standard, for guidance on best practice in Responsible Investment and to benchmark our own performance.</del></p> <p><del>5.2.45.2.3 Our voting decisions take into account national and international standards of good corporate governance, including shareholder voting rights. International standards include the International Corporate Governance Network Guidelines and the G20/OECD Principles of Corporate Governance. For New Zealand listed companies we endorse the New Zealand Corporate Governance Forum Guidelines and the NZX Corporate Governance Code. We have adopted the UN Global Compact principles as a benchmark for expected standards of corporate behavior. The UN Global Compact asks companies to embrace, support, and enact within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption measures.</del></p> <p><del>5.2.5 Our voting decisions take into account national and international standards of good corporate governance. International standards include the International Corporate Governance Network Guidelines and the G20/OECD Principles of Corporate Governance. For New Zealand listed companies we endorse the New Zealand Corporate Governance</del></p>	

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Section		Change required	Reason for Change
		<p><del>Guidelines published by the New Zealand Corporate Governance Forum.</del></p> <p>5.3.1 RI is integrated into investment of the Fund through the <del>RI Responsible Investment Framework</del> and the application of it by the Investment staff of the Guardians.</p> <p>5.3.2 Procedures relating to <del>RI Responsible Investment</del> are contained or referenced in the <del>RI Responsible Investment Framework</del>.</p>	
6	Balance Between Risk and Return	<p>In general the Investment strategy adopted by the Fund, and in particular the Reference Portfolio, will have a dominant influence on the returns generated. The Reference Portfolio specifies the broad equilibrium mix between growth and income assets for the Fund which the Guardians believe best meets their statutory obligations. The Actual Portfolio of the Fund is the sum of:</p> <ul style="list-style-type: none"> <li>• Reference Portfolio exposures; plus</li> <li>• asset/investment exposures obtained through the Active Return Strategies; plus</li> <li>• adjustments to Reference Portfolio exposures to accommodate the asset/investment market exposures described above.; <del>plus</del></li> <li>• <del>Strategic Tilting exposures;</del></li> </ul>	<p>Change to how we summarise the Actual Portfolio in the opening box, second paragraph, by deleting reference to Strategic Tilting as a stand-alone item as it is an Active Return Strategy and is already captured by the second bullet point</p>
7	Fund Management Structure	No changes	
7A	Governance framework for Fund investment vehicles		
8	Derivatives, Short Selling and Securities Lending	No changes	
9	Risk Management		
10	Valuation of Unlisted Assets	No change	

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Section		Change required	Reason for Change
11	Investment Constraints	No change	

#### 4. Proposed changes to VCF SIPSP

- 4.1 There has only been one proposed change to the VCF SIPSP, which is minor. The change is:

Clause 8.2.5 (referring to the UN backed Principles for Responsible Investment) is deleted entirely as there are a range of standards so selecting one is no longer as relevant as it was. In addition, corporate standards are simply a monitoring and analysis tool and belongs in the procedures section. Moved to RI Framework.

- 4.2 A full marked up version of the VCF SIPSP is available for *optional reading* only (SD#[3389254](#)).

#### 5. Advised Future Changes to Policies

- 5.1 As a heads up, there are a number of policy changes on the horizon. Certain anticipated future changes to NZSF SIPSP and VCF SIPSP-related Policies and to our Operational Policies have been advised and are tabled in Appendix 1.

#### 6. Other Recent Policy Changes and the Control Environment

- 6.1 The Board receives an annual summary of material policy changes approved by the CEO and/or Board during that period as part of the SIPSP review. These are policy changes that have been requested outside of a formal review. There have been no material policy changes during this 12 month period so there is nothing to report to the Board this year.

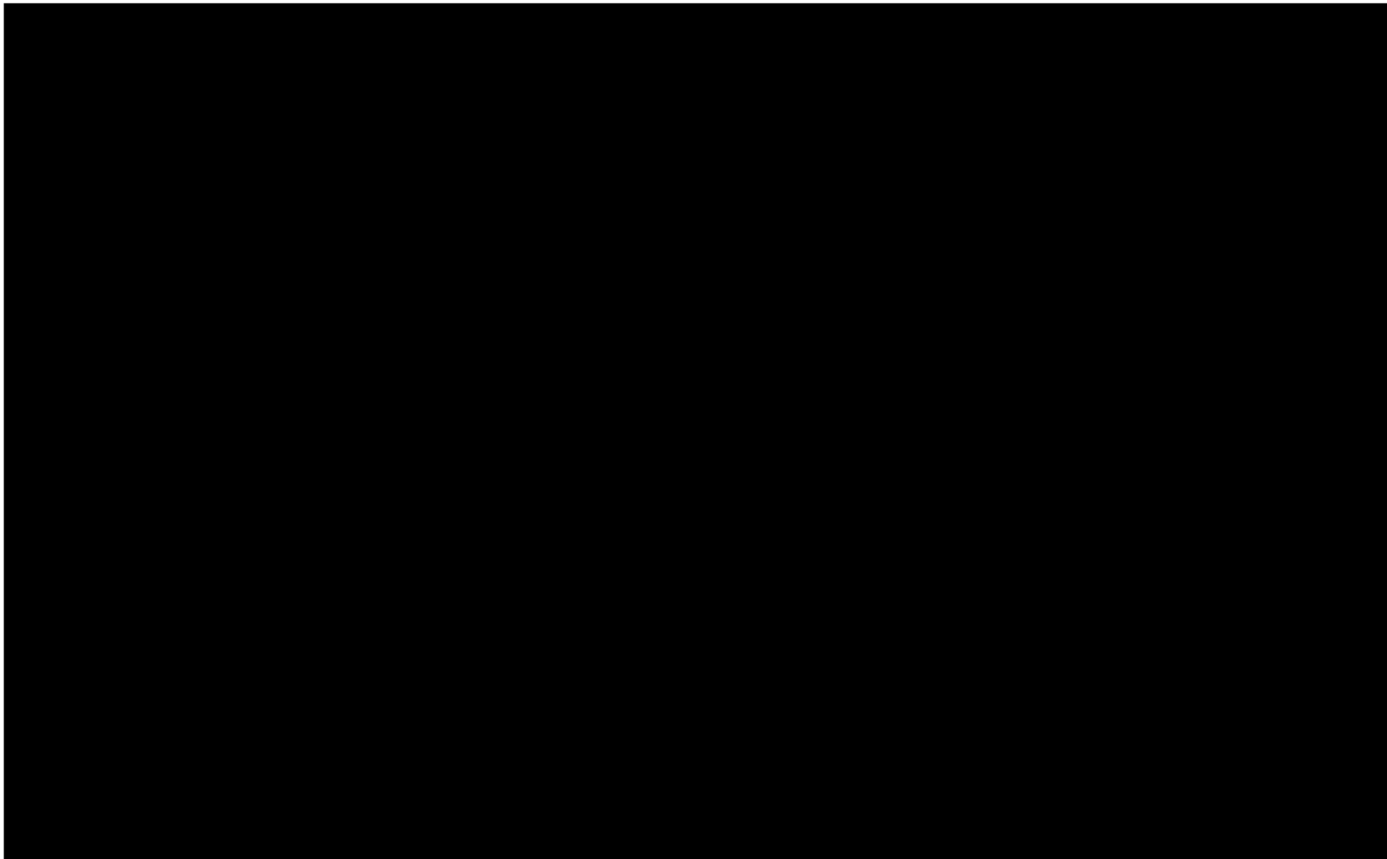
#### Recommendations:

##### ***We recommend that the Board:***

- **note** that the NZSF SIPSP, the RI Framework and the VCF SIPSP have been reviewed;
- **approve** the changes to the NZSF SIPSP, the RI Framework and the VCF SIPSP (or advise changes);
- **note** that the changes to the NZSF SIPSP are not material and do not require consultation with the Minister as per the condition to the section 50 consent;
- **note** that there has been no material changes to policies over the last 12 months outside of formal reviews.
- **note** that the respective policies underlying the NZSF SIPSP and VCF SIPSP have been reviewed by their owners and confirmation provided by each of the owners.
- **note** that the Operational Policies have been reviewed by their owners and confirmation provided by each of the owners.

**Appendix 1: Advised Future Changes to Policies**

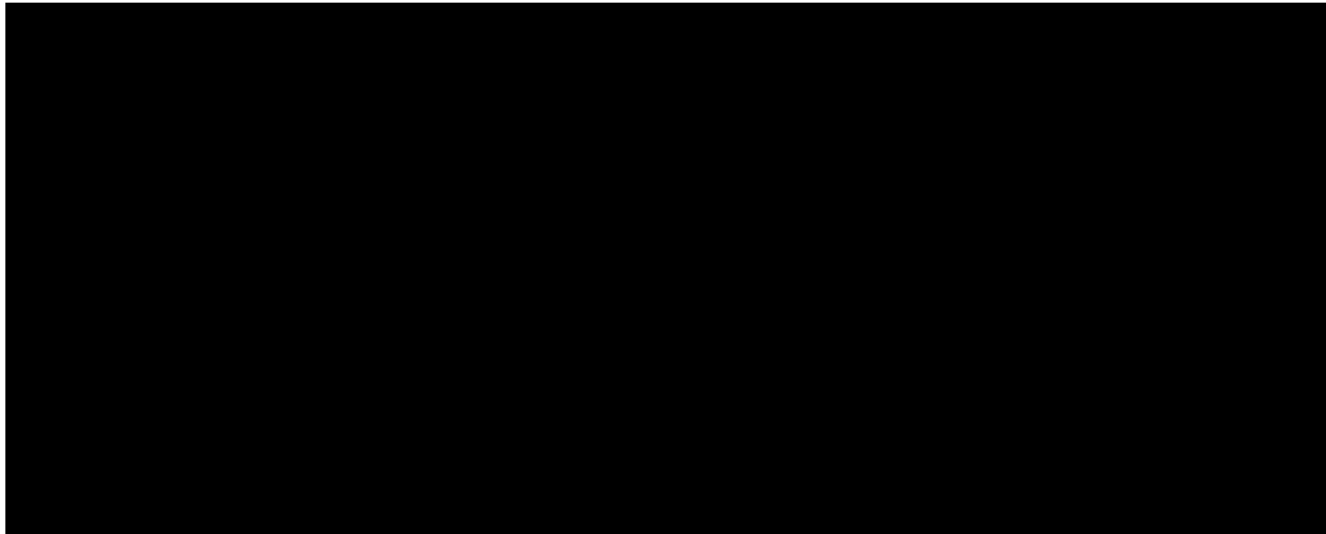
Anticipated future changes to NZSF SIPSP and VCF SIPSP-related Policies:



Out of Scope

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Anticipated future changes to our Operational Policies:



Out of scope

Anticipated future changes to Policies (where applicable) to update for our new Purpose, Vision and Strategic Framework, retiring the old Vision "A great team building the best portfolio".

**Appendix 2**

**Responsible Investment Framework**

**Key differences between current PowerPoint (PPT) version and new Word version**

<b>Change</b>	<b>Reason for change</b>
Inclusion of more commentary around sustainable finance considerations in new version	Incorporating our commitment to develop and integrate our sustainable finance strategy
No diagrams used in new version. PPT version has diagrams on slides 5, 6, 7, 11 and 18	The previous PPT version was very detailed and repetitive and was also carrying out a communications function. The new version has now been re-framed as a policy document that can stand alone on our external website and the diagrams aren't required for the purposes of the policy
On Integration, slide 12 of the PPT broke down the aspects of investments that have positive returns in addition to financial returns. This break down is not contained in the new word version	Impact Investment plan being developed as part the RI Compass programme so some of the detail in the previous PPT version is absorbed into this work.
Active Ownership was covered separately in the PPT (slide 13) The importance of active ownership (slide 13) is not explained in the new version (this is was important for the communications activity)	This is now addressed under the umbrellas of voting, engagement and monitoring The content that was in slide 13 has been simplified into Clause 1.3.5 of the new word version. It has detail that can change frequently. The new version makes a simple statement that we need to focus our efforts in this regard. Slide 13 was also intended to carry out a communications function.
Corporate disclosure, best practice and collaboration were separately addressed in the PPT (slides 19, 20 and 21) but aren't separately addressed in the new word version.	These concepts are now covered throughout the new word version, as and where relevant.