

## **Guardians of New Zealand Superannuation**

### **2018 Self-assessment of implementation of Santiago Principles**

The Santiago Principles are an initiative of the International Forum of Sovereign Wealth Funds (IFSWF) of which New Zealand is a member country. The IFSWF comprises 30 International Monetary Fund member countries with Sovereign Wealth Funds (SWF). The Principles recognise that it is important for SWFs 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 an economic and financial basis. The last of the 24 Santiago Principles requires IFSWF member SWFs to undertake a process of regular review of their implementation of the Principles as a whole. This document represents our compliance with this requirement. For further information, and previous copies of this review, see our website at <https://www.nzsuperfund.co.nz/performance/best-practice>

## The Santiago Principles

### GAPP 1

**The legal framework for the SWF should be sound and support its effective operation and the achievement of its stated objective(s).**

- **GAPP 1.1 Subprinciple** The legal framework for the SWF should ensure the legal soundness of the SWF and its transactions.
- **GAPP 1.2 Subprinciple** The key features of the SWF's legal basis and structure, as well as the legal relationship between the SWF and the other state bodies, should be publicly disclosed.

### Response

The legal framework and structure for the Guardians of New Zealand Superannuation ('Guardians', 'we', 'our') and the New Zealand Superannuation Fund ('Fund') are clearly and publicly disclosed in the New Zealand Superannuation and Retirement Income Act 2001 ('Act'). The Act is available in full [online](#).

The Fund has a specific purpose, as outlined in our response to GAPP 2. The assets of the Fund are in the name of the Guardians as the Crown entity that manages and administers the Fund. The Fund is a pool of assets on the Crown balance sheet and is to be used for making payments of New Zealand Superannuation to New Zealanders in the future.

As a Crown entity, the Guardians is subject to the Crown Entities Act 2004, an umbrella Act covering all New Zealand Crown entities that operates alongside individual entities' empowering Acts. The Crown Entities Act prevails over entities' Acts in the event of any conflict, unless the entity's Act expressly provides otherwise. The Crown Entities Act is available in full [online](#). Further information about the Crown Entities Act is available on the State Services Commission's [website](#).

An explanation of the Guardians' operational independence from the New Zealand Government, our governance arrangements and responsibilities is available in the [Governance](#) section of our website. They are also explained in detail in our [Annual Reports](#).

Our legislative mandate gives us considerable freedom to invest the Fund how we see fit. There are, however, some important constraints and restrictions in place. These are detailed on our website at [Constraints](#).

### GAPP 2

**The policy purpose of the SWF should be clearly defined and publicly disclosed**

### Response

The purpose of the Fund is to reduce the burden on future taxpayers of the cost of New Zealand Superannuation – a public pension currently paid to all New Zealanders over the age of 65. The Guardians invests Government contributions – and returns generated from these investments – in New Zealand and internationally, in order to grow the size of the Fund over the long term. This intergenerational purpose is explained in the [Purpose and Mandate](#) section of our website.

As at 30 June 2018, the Government had contributed \$15.38 billion to the Fund. Contributions from the Government began in 2003, and were suspended between 2009 and 2017. In December 2017 contributions resumed, with \$7.7 billion in contributions planned between then and 30 June 2022. From 2022/23 annual capital contributions (or withdrawals) will be calculated as per the legislated formula in Section 43 of the Act.

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From around 2035/36, the Government will begin to withdraw money from the Fund to help pay for New Zealand Superannuation. Sustained withdrawals are not forecast until the 2050s. The Fund is expected to continue to grow until it peaks in size as a proportion of GDP in the 2070s.

Comprehensive explanations of the purpose of the Fund, the differences between the Fund and the Guardians, and details of the Guardians' strategic objectives, are provided in the [Statements of Intent, Statements of Performance Expectation](#) and [Annual Reports for the Guardians and the Fund](#).

### GAPP 3

**Where the SWF's activities have significant direct domestic macroeconomic implications, those activities should be closely coordinated with the domestic fiscal and monetary authorities, so as to ensure consistency with the overall macroeconomic policies.**

### Response

The size of the Fund and the returns generated by the Fund have no *direct* domestic macroeconomic implications for New Zealand from year to year. (See also GAPP 4 for key dates relating to flows into and out of the Fund.) The Fund does, however, constitute a substantial and growing proportion of the assets on the Crown's balance sheet. These assets are intended to fund a portion of the Government's future New Zealand Superannuation expenses. As such, the Government sets overall fiscal policy *for the medium-term* by adopting a comprehensive perspective on the various components of the Crown's balance sheet.

The Guardians provides monthly financial data to The Treasury, which contributes to Treasury's production of the Government's accounts and economic data.

Meanwhile, the Fund's investment decisions and other activities are commercially-oriented, and made independently of the stance of prevailing fiscal and monetary policy.

### GAPP 4

**There should be clear and publicly disclosed policies, rules, procedures, or arrangements in relation to the SWF's general approach to funding, withdrawal, and spending operations.**

- **GAPP 4.1 Subprinciple** The source of SWF funding should be publicly disclosed.
- **GAPP 4.2 Subprinciple** The general approach to withdrawals from the SWF and spending on behalf of the government should be publicly disclosed.

### Response

The funding for the Fund comes from capital contributions made by the Government and returns on the Fund's investments. Our Act sets out the formula for calculating the precise level of capital contribution required from the Government each year and the model used to calculate the contribution is publicly available on the New Zealand Treasury website: <https://treasury.govt.nz/publications/information-release/new-zealand-superannuation-fund-contribution-rate-model>. (The Treasury is the Government's lead adviser on economic, financial and regulatory policy, and is one of three central agencies jointly responsible for providing leadership, coordination and monitoring across the entire public sector. It is responsible for monitoring the New Zealand Superannuation Fund). Treasury is required to include the amount of the required capital contribution for each financial year in the Budget Economic and Fiscal Update for that year. If the Government contributes less than the amount required by the Act's formula, it is required to publicly explain the reasons for doing so.

Contributions to the Fund resumed in December 2017 after an eight year suspension period. The impact of the suspension of contributions on the Fund is detailed at: <https://www.nzsuperfund.co.nz/nz-super-fund-explained-purpose-and-mandate/contributions->

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[suspension](#). In its December 2017 Half Year Economic and Fiscal Update the Government committed to contributing \$7.7 billion to the end of fiscal year 2022, with capital contributions from 2022/2023 resuming as per the contribution formula set out in our Act.

Withdrawals are not permitted before 2020 and are only permitted up to the amount implied by the contribution formula. Withdrawals are currently forecast to begin in or about financial year 2035/36. Withdrawals may only be used to pay for New Zealand Superannuation and our Act precludes the Government from directing the Guardians to invest the Fund in Government securities (which would amount to a tacit withdrawal).

### GAPP 5

**The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or as otherwise required, for inclusion where appropriate in macroeconomic data sets.**

#### Response

Data on Fund performance and holdings is supplied direct to The Treasury on a monthly basis for incorporation into New Zealand's Crown Accounts, which are published on the New Zealand Treasury website.

Monthly Fund portfolio and performance reports are distributed to the Minister of Finance and the New Zealand Treasury, and are made publicly available on the Fund's website at: <https://www.nzsuperfund.co.nz/publications/monthly-reports>. The website also includes detailed historical performance figures for the Fund, including explanations of key benchmarks, at <https://www.nzsuperfund.co.nz/performance/investment>.

### GAPP 6

**The governance framework for the SWF should be sound and establish a clear and effective division of roles and responsibilities in order to facilitate accountability and operational independence in the management of the SWF to pursue its objectives.**

#### Response

The [New Zealand Superannuation and Retirement Income Act 2001](#) establishes clear operational independence for the Guardians in its management of the Fund and establishes standards of public accountability.

As an autonomous Crown entity, the Guardians is legally separate from the Crown. This means that, although we are still accountable to the Government, we have operational independence regarding investment decisions, with explicit commercial objectives. The Minister of Finance's powers of direction are limited to giving directions regarding the Government's expectations as to Fund performance which must not be inconsistent with the Guardians' statutory investment objective.

The management of the Fund is overseen by an independent Board. Board members are required to have substantial expertise in investment management and are appointed by the Governor General on the recommendation of the Minister of Finance. The Minister's recommendation follows nominations from an independent nominating committee and consultation with representatives of other political parties in Parliament. Essentially, this means that the Guardians operates at 'double-arm's-length' from the Government.

The Guardians' Board Charter and [Delegations Policy](#) provide for clear separation, within the constraints of our enabling legislation, of governance (the Board) and management (the Executive) responsibilities. The accountability relationships between the Guardians, its Board

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members and its responsible Minister (on behalf of the Government) are set out in the [Crown Entities Act 2004](#) and the Act.

### GAPP 7

**The owner should set the objectives of the SWF, appoint the members of its governing body(ies) in accordance with clearly defined procedures, and exercise oversight over the SWF's operations.**

### Response

The investment objectives for the Fund are embodied in the legislation that created the Fund. Under the Act, the Guardians must invest the Fund on a prudent, commercial basis and, in doing so, must manage and administer the Fund in a manner consistent with:

- best practice portfolio management;
- 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.

Procedures for appointing Board members are set out in the Act and are published on the Fund's website at <https://www.nzsuperfund.co.nz/nz-super-fund-explained/governance> (See also GAPP 6 as to procedures for ensuring that Board members are independent and suitably qualified).

Provisions for public accountability, including independent reviews at least five-yearly, are set out in the Act, the [Crown Entities Act 2004](#), [Public Audit Act 2001](#) and [Public Finance Act 1989](#).

Copies of the three independent reviews to date are available on our website at: <https://www.nzsuperfund.co.nz/publications/papers-reports-reviews/37>.

The Guardians is required to establish, publish, and adhere to, investment policies, standards and procedures that are consistent with its investment mandate. This provides a basis by which the public can judge the Board's management of the Fund. The Board and Chief Executive must annually certify whether these investment policies, standards and procedures have been complied with.

The Guardians is required to present a range of reports to its responsible Minister and Parliament to facilitate oversight and accountability. It makes a Quarterly Report to the Minister of Finance; reports to Parliament and the public through its Annual Report (including audited financial statements and a Statement of Performance), annual Statement of Performance Expectations and three-yearly Statement of Intent; and is subject to an annual review by a Parliamentary Select Committee. The Guardians must also report to the Minister of Finance on request.

The Minister of Finance writes an annual "Letter of Expectations" to the Guardians. The letter of expectation is a formal but not legislative tool that provides an opportunity for the Minister to consider and set out in a timely manner his or her expectations of the Guardians over the coming year. The Guardians' Board to consider the Minister's expectations in the course of developing the Guardians' Statement of Intent and annual Statement of Performance Expectations. These letters and the Guardians' responses are published on our [website](#).

The Guardians is subject to ongoing monitoring from The Treasury as well as regular reviews from auditors on behalf of the Government.

### GAPP 8

**The governing body(ies) should act in the best interests of the SWF, and have a clear mandate and adequate authority and competency to carry out its functions.**

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### Response

The Guardians is the governing body for the Fund and its sole purpose is to manage and administer the Fund in accordance with an explicit statutory mandate (see GAPP 7 above). The Guardians' Board has full power under the Act to establish the Fund's management infrastructure. The roles and responsibilities of the Board and its Committees are set out in statute and in the Board Charter which is published on our website. These responsibilities include a requirement for Board members to act in the best interests of the Guardians.

The procedures for appointing Board members are set out in the Act (see GAPP 6 and 7). Board members are required to have substantial experience, training, and expertise in the management of financial investments so the Board has the necessary competency to carry out its functions. The Guardians has an ongoing focus on the capabilities needed to deliver our desired investment style and strategies and has a discretionary incentive scheme to promote the Guardians' objectives.

Under the Act, Board members hold office for five years or any shorter period stated in the notice of appointment. The Governor-General may, on the advice of the Minister, remove a member from office for a reason that in the Minister's opinion justifies the removal. The Governor-General removes a member by sending written notice to the member and a copy to the entity.

As noted above in our response to GAPP 7, an independent review of how effectively and efficiently the Guardians is performing is undertaken at least every five years. Copies of the reviews undertaken to date, most recently over 2014/15, are available on our website: <https://www.nzsuperfund.co.nz/publications/papers-reports-reviews/37>.

### GAPP 9

**The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.**

### Response

The Guardians' Board Charter and [Delegations Policy](#) provides for clear separation, within the constraints of our enabling legislation, of governance (the Board) and management (the Executive) responsibilities. Responsibility for individual investment decisions and operational decisions has been delegated by the Board to management. Management are required to operate within a policy framework approved by the Board. As noted in GAPP 6, the Guardians operates at 'double arm's length' from the Crown.

### GAPP 10

**The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.**

### Response

Accountability is established in our Act, the Crown Entities Act, the Public Finance Act and the Public Audit Act which are available publicly (see links under GAPPs 1 and 7). The Guardians are accountable to the Minister of Finance and are required to produce a range of reporting documents including a Statement of Intent, an annual Statement of Performance Expectations and an Annual Report with audited financial statements and a Statement of Performance, all of which are public (and are tabled in Parliament – see GAPP 2 and GAPP 7). The Guardians also report quarterly to the Minister of Finance. The Minister is accountable to Parliament.

The Guardians are required to establish, and adhere to, a [Statement of Investment Policies, Standards, and Procedures](#) (SIPSP) which is published on our website. The SIPSP is reviewed

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annually and the Board and Chief Executive must certify annually whether or not the SIPSP has been complied with. The Guardians are also required to publicly disclose information under the Official Information Act 1982, unless there are statutory grounds for withholding the information.

Board members have statutory duties and are accountable to the Minister of Finance for the performance of those duties. Management are accountable to the Board.

The Guardians' performance must be periodically reviewed by an independent person appointed by the Minister of Finance (see GAPP 7). The objective of the review is to assess how effectively and efficiently the Guardians are performing their functions. The review report must be presented to Parliament and copies of the reports are published on our website.

Our Board Charter and [Delegations Policy](#) clearly set out accountabilities between Board and Management.

### GAPP 11

**An annual report and accompanying financial statements on the SWF's operations and performance should be prepared in a timely fashion and in accordance with recognized international or national accounting standards in a consistent manner.**

### Response

We publish an [Annual Report](#) for the Guardians and Fund annually to a deadline set by statute. The Report includes two sets of financial statements – one for the Fund, and one for the Guardians. The Fund's statements comply with the International Financial Reporting Standards. The Guardians' statements comply with the New Zealand Public Benefit Entity Accounting Standards.

The Guardians also produces a Global Reporting Initiative index within its Annual Reports.

### GAPP 12

**The SWF's operations and financial statements should be audited annually in accordance with recognized international or national auditing standards in a consistent manner.**

### Response

As noted in our response to GAPP11, the Annual Report includes two sets of financial statements – one for the Fund, and one for the Guardians. The Fund's statements comply with the International Financial Reporting Standards. The Guardians' statements comply with the New Zealand Public Benefit Entity Accounting Standards. The auditor of the financial statements is the Office of the Auditor-General acting through its agent. The current auditor is Graeme Bennett of Ernst & Young.

Unaudited prospective financial statements are published in our Statements of Performance Expectations. Both our Annual Reports and Statements of Performance Expectations are tabled in Parliament and published on the Fund's website (see GAPP 2).

The Guardians' internal audit process is independent of operational management and reports direct to the Chair of the Audit Committee. The process is regularly reviewed by the Guardians' Audit Committee and internal audit reports are presented to each meeting of the Committee.

### GAPP 13

**Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management, and staff.**

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### Response

The Board of the Guardians has adopted a [Board Charter](#) (which includes a Board Code of Conduct), and the Guardians' [Human Resources Policy](#) includes an Employee Code of Conduct. The Codes of Conduct set out the Guardians' expectations for appropriate ethical and professional behaviour by Board members and staff on various matters including conflicts of interest, political participation, gifts and hospitality, and confidential information. The Guardians' policy framework also includes policies on [Procurement and Outsourcing](#), [Communications](#) and [Travel & Sensitive Expenditure](#).

All staff members have job descriptions which set out a requirement for the individual to take responsibility for compliance with all Guardians' policies and procedures. Staff are required to attest six-monthly to compliance with their delegations and responsibilities under the Guardians' policies.

The Employee Code of Conduct includes a Securities Trading Procedure about which staff receive regular training and communications. Staff are required to make a quarterly personal trading declaration and to seek pre-approval for trades in listed and certain other securities.

A register of potential and actual conflicts of interests for Board members and staff is maintained. Details of these conflicts are disclosed publicly as part of the Guardians' annual Parliamentary Select Committee Review, available on our [website](#). Registers of gifts and hospitality are also maintained and published on our [website](#). Analyses of gifts and hospitality received over time are prepared for the Leadership team and staff are regularly reminded of their disclosure obligations.

All permanent staff are required to undertake psychometric testing as part of the Guardians' recruitment process.

A structured induction process for new Board members and staff is in place, and staff regularly receive refresher training on topics such as fraud awareness, cyber-security, ethics and health and safety requirements.

Post-induction, the Guardians ensures that staff members maintain their professional competence through a structured programme under which each team member has an individual development plan which focuses on their ability to perform their duties in their current role and on maintaining and developing skill sets that are needed to ensure the Guardians is operating in line with global best practice. The Guardians also supports continuing professional development for specific functions (as required, for example, by the CFA Institute, NZ Law Society and Chartered Accountants ANZ).

Individual development plans and associated training decisions are aligned with the Guardians' strategic plan. This process is supported through development discussions at all levels of management with key information being shared with the Employee Policy and Remuneration Committee of the Board.

The percentage of operating expenditure that is spent on training is disclosed in the Annual Report.

Biographies including professional qualifications of Board members are detailed on our website in the [Governance](#) section. Biographies including professional qualifications of the Guardians' Leadership Team, Investment Committee and Risk Committee are detailed on our website in the [Management](#) section.

Professional memberships of the Guardians and staff, which frequently involve member codes of conduct or similar membership requirements, are disclosed as part of the Guardians' annual Select Committee Review, available on our [website](#).



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Data on staff members' academic qualifications is disclosed annually in the Guardians' [Annual Reports](#).

Adequate legal protection is provided for Board members and staff acting in the good-faith conduct of their official duties through indemnification and insurance as well as statutory immunity from civil liability.

Copies of all Guardians' policies are published on the Fund's website at: <https://www.nzsuperfund.co.nz/publications/policies>.

### GAPP 14

**Dealing with third parties for the purpose of the SWF's operational management should be based on economic and financial grounds, and follow clear rules and procedures.**

#### Response

All dealings with third parties (e.g. commercial fund managers, custodians and external services providers) are based on economic and financial grounds. The Guardians has a number of internal policies setting out how we interact with third parties. Relevant policies include [Externally Managed Investments](#) and [Procurement & Outsourcing and the Code of Conduct in the Human Resources Policy](#).

### GAPP 15

**SWF operations and activities in host countries should be conducted in compliance with all applicable regulatory and disclosure requirements of the countries in which they operate.**

#### Response

The Guardians does not conduct day-to-day operations or activities in foreign countries. Local legal and tax advice is obtained when the Fund itself is making investments in overseas entities to ensure compliance with local laws. Through third-party sources, the Guardians actively monitor legislative developments in jurisdictions in which the Fund itself makes/manages investments.

### GAPP 16

**The governance framework and objectives, as well as the manner in which the SWF's management is operationally independent from the owner, should be publicly disclosed.**

#### Response

Information on our governance framework, objectives, how we invest and our operational independence from the New Zealand Government is set out in our enabling legislation and published on the Fund's website and within our Annual Report and Statement of Intent. Links to the legislation, the controls on and independence of the Board, and to our Annual Reports, Statements of Intent and Statements of Performance Expectations are provided in responses to preceding GAPPs.

### GAPP 17

**Relevant financial information regarding the SWF should be publicly disclosed to demonstrate its economic and financial orientation, so as to contribute to stability in international financial markets and enhance trust in recipient countries.**

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### Response

Audited financial accounts are published in our Annual Report and unaudited prospective financial statements in our Statement of Performance Expectation. These are public documents and links to them have been provided under preceding GAPPs.

Our website includes detailed information on [Fund performance](#), including explanations of our two investment performance benchmarks:

- passive Reference Portfolio benchmark – against which we measure the value added to the Fund by the Guardians' active investment strategies; and
- Treasury Bills - a measure of the cost to the Government of contributing capital to the Fund, instead of using the money to pay back debt.

We provide a breakdown of the drivers of value add annually, in our Annual Reports, along with an overview of portfolio activity during the year.

Our monthly reports include performance information since inception, and over the last one, three, five and ten year periods. They also include a breakdown by asset class and geography of the Fund's portfolio and the top 10 equity holdings (NZ and global) by value.

A list of the Fund's equity holdings is also published annually. These lists are available at: <https://www.nzsuperfund.co.nz/publications/annual-equity-listings>.

### GAPP 18

**The SWF's investment policy should be clear and consistent with its defined objectives, risk tolerance, and investment strategy, as set by the owner or the governing body(ies), and be based on sound portfolio management principles.**

- **GAPP 18.1 Subprinciple** The investment policy should guide the SWF's financial risk exposures and the possible use of leverage.
- **GAPP 18.2 Subprinciple** The investment policy should address the extent to which internal and/or external investment managers are used, the range of their activities and authority, and the process by which they are selected and their performance monitored.
- **GAPP 18.3 Subprinciple** A description of the investment policy of the SWF should be publicly disclosed.

### Response

Our legislation requires us to establish and adhere to a Statement of Investment Policies, Standards and Practices (SIPSP) that is consistent with the statutory objective of investing the Fund on a prudent, commercial basis. The SIPSP is reviewed annually and is publicly available at: <https://www.nzsuperfund.co.nz/publications/policies>.

This link also provides access to the various policies that sit beneath the SIPSP and are referred to within it. The matters covered by the SIPSP include: the classes of investments in which the Fund is to be invested and the selection criteria for investments within those classes; the determination of benchmarks against which the performance of the Fund as a whole, and classes of investments and individual investments will be assessed; the balance between risk and return in the overall Fund portfolio; and the use of derivatives. Our Investment Risk Allocation Policy (which is publicly available at the above link) includes out the investment constraints (risk appetite) set by the Board. Our governing legislation does not permit borrowing in respect of the Fund except with the consent of the Minister of Finance.

Our Externally Managed Investments Policy covers how we invest with external managers, including whether an external manager will be appointed, manager selection, monitoring and reporting. Our Portfolio Completion and Internally Managed Securities Policy covers our use of internal mandates. These policies are publicly available at the above link.

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We have also published to our website a series of white papers and informational videos, explaining various aspects of our investment process (including our Reference Portfolio, diversification, selection of asset managers, and our view of long-term investing). The in-depth commentary and videos on how we invest are [here](#) and the White Papers (and other disclosures) are [here](#).

### GAPP 19

**The SWF's investment decisions should aim to maximise risk-adjusted financial returns in a manner consistent with its investment policy, and based on economic and financial grounds.**

- **GAPP 19.1 Subprinciple** If investment decisions are subject to other than economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed.
- **GAPP 19.2 Subprinciple** The management of an SWF's assets should be consistent with what is generally accepted as sound asset management principles.

### Response

Our legislative mandate requires us to invest the New Zealand Superannuation Fund (Fund) on a prudent, commercial basis and, in doing so, to manage and administer the Fund in a manner consistent with:

- a) Best-practice **portfolio** management;
- b) Maximising **return** without undue **risk** to the Fund as a whole; and
- c) Avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

Within that mandate we have a commitment to Responsible Investment. This is based on our belief that environmental, social and governance factors are material to long-term returns. We have also adopted a climate change investment strategy with the goal of making the Fund more resilient to climate-related risk. Information about this strategy can be found [here](#):

<https://www.nzsuperfund.nz/how-we-invest-balancing-risk-and-return-climate-change/climate-change-strategy>,

We have published a number of documents which set out how we invest, including how we incorporate Responsible Investment within our overall approach.

Our Statement of Investment Policies, Standards and Practices (SIPSP) is available [here](#). Our Responsible Investment Framework is available [here](#).

An overview of our Responsible Investment approach is explained in a video [here](#).

We are a founding signatory to the United Nations Principles for Responsible Investment and our regional and global leadership position in implementing the standards is discussed [here](#) and [here](#).

A white paper on 'Why we believe responsible investment pays off' is available [here](#).

In 2009 we received a direction on New Zealand investment from the Minister of Finance. The direction notes that "it is the Government's expectation, in relation to Fund performance, that opportunities that would enable the Guardians to increase the allocation of New Zealand assets in the Fund should be appropriately identified and considered by the Guardians." The direction is not considered to be inconsistent with the Guardians' duty to invest the Fund on a prudent, commercial basis, and the directive remains subject to that duty. In the seven years since the direction was issued the value of the Fund's New Zealand investments has risen from NZD2.4b to NZD6.0b.

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A requirement to manage the Fund in a manner consistent with best practice portfolio management is explicitly included in the Guardians' statutory investment mandate. The overall assessment of an independent review of the Guardians by Promontory Financial Group in 2014 was "that the Guardians run a very professional operation. The Board is strong and the quality of professional staff is impressive, especially for a small market such as New Zealand. The Guardians' approach to investing the Fund is intellectually sophisticated, consistent, and disciplined. The Guardians have implemented appropriate investment strategies, as well as sound systems and controls to manage risk and reduce costs. Perhaps most importantly, the Guardians have added substantial value above their benchmark to the Fund. The Guardians have joined a minority of global professional fund managers who have delivered returns in excess of widely-used benchmarks over a sustained period of time. The full report is available [here](#).

### GAPP 20

**The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.**

#### Response

The Guardians is an autonomous Crown entity, legally separate from the Crown with an independent board. Our governance framework is designed to ensure that we operate at arms' length from the Government (for example, Board members are required to have substantial expertise in investment management and are selected by an independent nominating committee). Consequently, we do not have privileged access to market sensitive information from the Government, or seek to have the Government intervene on our behalf in competing with private entities. Our code of conduct for staff and the Board requires that information only be used for proper purposes.

### GAPP 21

**SWFs view shareholder ownership rights as a fundamental element of their equity investments' value. If an SWF chooses to exercise its ownership rights, it should do so in a manner that is consistent with its investment policy and protects the financial value of its investments. The SWF should publicly disclose its general approach to voting securities of listed entities, including the key factors guiding its exercise of ownership rights.**

#### Response

Exercise of ownership rights is covered in our Statement of Investment Policies, Standards and Procedures, which is published on the Fund's website (see link under GAPP 19 which also discussed our approach with reference to our Responsible Investment Framework).

We regard voting rights as 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.

Details of our proxy voting and company engagement activity, and our exclusion decisions, are published regularly on our website [here](#).

### GAPP 22

**The SWF should have a framework that identifies, assesses, and manages the risks of its operations.**

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- **GAPP 22.1 Subprinciple** The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function.
- **GAPP 22.2 Subprinciple** The general approach to the SWF's risk management framework should be publicly disclosed.

### Response

We discuss our general approach to risk management [here](#) and have published our Risk Management Policy (which deals with non-investment risk) to our website [here](#). This Policy includes the Board's Risk Appetite Statement which sets out the Board's investment risk and business risk constraints and a Risk Assessment Framework. The Board receives regular reporting against these constraints and on enterprise risks. The Audit Committee receives regular reporting on the internal audit function.

Our Investment Risk Allocation Policy is published [here](#).

Our Annual Reports also include a dedicated section on Risk Management (within Governance).

The Guardians' performance is periodically reviewed by an independent person appointed by the Minister of Finance.

## GAPP 23

**The assets and investment performance (absolute and relative to benchmarks, if any) of the SWF should be measured and reported to the owner according to clearly defined principles or standards.**

### Response

Our overall investment performance is measured by the Fund's custodian, Northern Trust. The Statement of Investment Policies, Standards and Procedures sets out the standards for performance reporting, and our Investment Valuation Policy establishes the approach taken to measure the fair value of all assets held by the Fund.

On an annual basis, we report:

- absolute performance of the Fund relative to both our passive Reference Portfolio benchmark and to our long-term performance expectation of New Zealand Treasury Bills plus 2.7% p.a. over time;
- the value added to the Fund by active management strategies including the use of investment managers, unlisted assets, strategic tilting and portfolio completion activities;
- all of our holdings in listed equities;
- the external managers we have engaged (and terminated); the strategies and asset classes relevant to each; and the value of the assets each manager is managing on behalf of the Fund as at 30 June; and
- our return expectations for the next financial year.

Our Annual Reports contain the first four reports. Our annual Statement of Performance Expectation contains the final report. Links to both documents are provided in our responses to previous GAPPs.

In our Statements of Intent we set out our equilibrium expectations of the Reference Portfolio as the basis for expected Fund returns over 1, 10 and 20 year periods.

On a quarterly basis we report to the New Zealand Minister of Finance, and to The Treasury:

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- absolute performance of the Fund relative to the reference portfolio and to New Zealand Treasury Bills;
- the value added to the Fund by active management including a breakdown of the drivers of value add;
- notable investment activities; and
- other contextual and operational activity of note.

Quarterly reports provided to Treasury also include a detailed breakdown of performance by asset class.

On a monthly basis we report on our website and to the Minister of Finance and The Treasury:

- Fund size;
- our economic exposures, by asset class, but prior to any Strategic Tilting; and by geography;
- the returns of the Fund relative to New Zealand Treasury Bills and to the Reference Portfolio;
- our 10 largest domestic and 10 largest international equity holdings; and
- substantial security holdings.

These monthly reports can be found at: <https://www.nzsuperfund.co.nz/publications/monthly-reports>.

### GAPP 24

**A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.**

### Response

We self-assess our implementation of the Santiago Principles at least biennially. This is the seventh such self-assessment since September 2009. Copies of each such self-assessment are available [here](#). We note external reviews of our implementation of the Santiago Principles have generally been positive. Copies of these reviews are available through the same link. Since 2016 we have also engaged EY to provide an independent limited assurance report on our self-assessment. EY's report is also available on our website.