STATEMENT OF INTENT

FOR THE PERIOD COMMENCING 1 JULY 2014 TO 30 JUNE 2019

Guardians of New Zealand Superannuation

WORKING FOR
THE FUTURE OF ALL
NEW ZEALANDERS

NZSUPERFUND
Te Kaitiaki Tāhua Penihana Kaumatua ō Aotearoa

Contents

1. Foreword from the Board Chair

I am pleased to present the Guardians of New Zealand Superannuation's 2014-2019 Statement of Intent (SOI).

GAVIN WALKER
CHAIR

This is the Guardians' first SOI under amendments to the Crown Entities Act that come into force on 1 July 2014, and is supplemented by a separate document, an Annual Statement of Performance Expectations. The SOI is, however, based on the fourth year of an established, five year Board-agreed Strategic Plan, and therefore has a high degree of continuity with previous SOIs.

We look forward to the next five years and beyond with a sense of confidence, based on the fact we have the governance, people and systems to manage the Fund in line with global best practice.

Since investing began in 2003, the Fund has returned 9.49% p.a. and is, as the following table shows, ahead of its long-term performance benchmarks. These benchmarks are explained later in this document.

FUND PERFORMANCE AS AT 31 MARCH 2014[1]	LAST FIVE YEARS	LAST TEN YEARS	SINCE INCEPTION (SEPTEMBER 2003)
Actual Returns	18.24%	9.44%	9.49%
Reference Portfolio Return	15.91%	8.40%	8.51%
Estimated $ earned over and above Reference Portfolio	2.4b	2.3b	2.3b
Treasury Bill return	2.58%	4.73%	4.76%
Treasury Bill return + 2.5%	5.08%	7.24%	7.26%
Estimated $ earned over and above Treasury Bill return	12.9b	8.6b	8.7b

In the event that the Fund does sustain mark-to-market losses at various points in time, it is critical to our long-term success that stakeholders understand that the Guardians remains committed to a stable risk appetite that best ensures the success of our long-term investment strategies. Often the best investment opportunities arise when asset prices are declining and the majority of investors are encouraged to exit their growth and illiquid assets.

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

GAVIN WALKER, CHAIR

1 As at 31 March 2014. Figures are unaudited and are quoted after costs and before NZ tax. The Guardians consider New Zealand tax paid as a return to the Crown.

2. Introduction to the Guardians and Fund

The New Zealand Superannuation Fund and the Guardians of New Zealand Superannuation were established by an Act of Parliament to reduce the tax burden on future New Zealand taxpayers of the cost of New Zealand Superannuation.

Over the next few decades, the New Zealand population will age significantly. Statistics New Zealand predicts that the population aged 65 years and over will surpass one million by the late 2020s, compared with 550,000 in 2009. The 65+ age group will also grow as a proportion of New Zealand's total population, increasing from 13% in 2009 to more than 20% by the late 2020s. By the late 2050s, one in every four New Zealanders will be 65 years or older.

This means New Zealand will have:

- more people of retirement age, as a proportion of the population, than ever before; and
- fewer 'working-age' people whose productivity can be tapped, through taxation, to fund the greater cost of retirement income.

These projections have significant implications for future Governments' ability to fund other vital areas such as health, welfare, education and law enforcement. This information is therefore relevant for all New Zealanders, now and in the future.

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

The NZ Superannuation and Retirement Income Act 2001 (the Act) established:

- the Fund, as a pool of assets on the Government's balance sheet; and
- the Guardians, as a Crown entity charged with managing the Fund.

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

The tax smoothing occurs through the Government making contributions to the Fund. At a future date – currently in the 2029/30 financial year – the Government will begin to withdraw money from the Fund to help to meet the cost, at that time, of New Zealand Superannuation.

Saving now for this future cost is called 'pre-funding' New Zealand Superannuation. Pre-funding means that future Governments do not have to seek as much from future New Zealand taxpayers (or from other sources, such as debt) to meet the increasing cost of New Zealand Superannuation.

This is reflected in our Mission statement: "Maximise the Fund's return over the long term, without undue risk, so as to reduce future New Zealanders' tax burden."

We believe this statement frames the purpose of the Guardians and Fund in a way that is meaningful to all New Zealanders.

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

We think of it this way:

1 The Fund is a special-purpose savings vehicle giving certainty that some of the future cost of New Zealand Superannuation is covered. The Fund is also expected to add to Crown wealth over the long term by earning more for the Government in investment returns than the Government would save in debt servicing. By doing this the Fund adds to Crown wealth, improves the ability of future Governments to meet increased superannuation commitments and ultimately reduces the tax burden on future New Zealand taxpayers of the cost of superannuation. That is the Fund's long-term outcome, and we discuss how we have framed it for shorter-term measurement in our Outcome Framework on page 7.

2 Our Act requires us to manage the Fund in a commercial, prudent fashion, comprising:

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

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

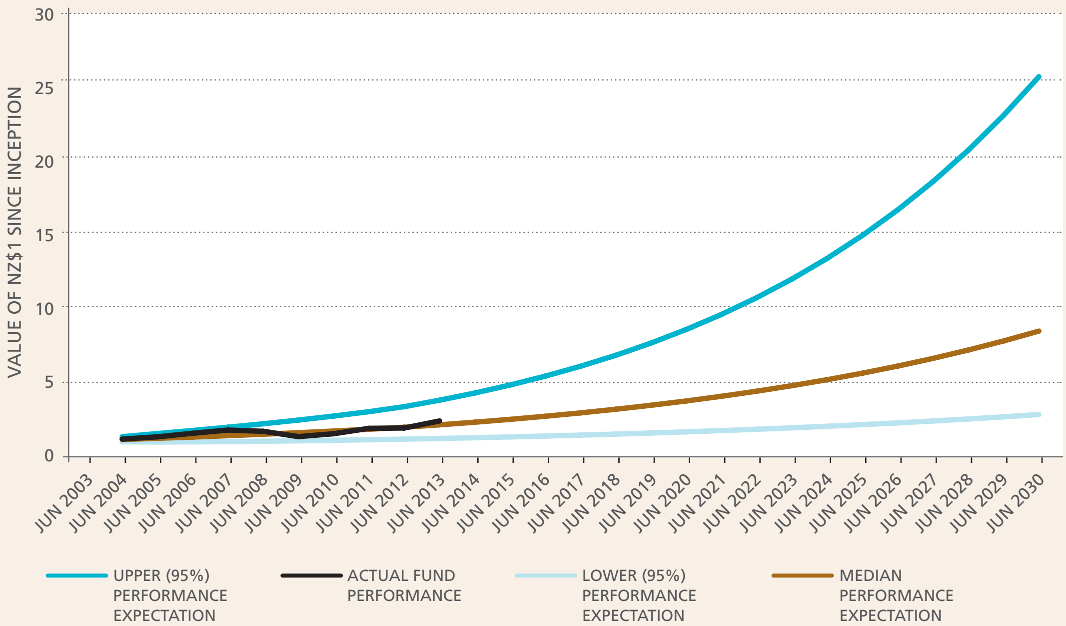
LONG-TERM PURPOSE

This graph plots actual and estimated Fund performance relative to our expectation that the Fund should outperform the risk-free rate of return (as measured by 90-day Treasury Bills) by 2.5% p.a. averaged over rolling 20 year periods. It shows expected returns through to 2030, when the first withdrawals are projected to take place.

Upper, median and lower performance expectations, within a 95% confidence level, are shown. For the period the Fund has been invested, these expectations are based on the actual risk-free rate of return. For future periods, our projections are based on the current risk-free rate of return.

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

ACTUAL AND ESTIMATED FUTURE PERFORMANCE TO 2030



WHAT OTHER CONTEXTUAL CONSIDERATIONS ARE IMPORTANT?

Firstly, in the 2009 Budget the Government decided to suspend contributions to the Fund until the Crown operating balance returns to a level of surplus that is sufficient to resume contributions. At present the Treasury estimates this will be in the 2019/20 fiscal year.

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

We also see a significant benefit in ensuring our key domestic stakeholders have easy access to information about our activities, investment processes and Fund performance.

Thirdly, we place a high priority on responsible investment, consistent with our mandate to adopt best practice portfolio management and avoid prejudice to New Zealand's reputation as a responsible member of the world community. We believe environmental, social and governance factors can impact 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 active voting and engagement programme encourages companies to apply good stewardship in these areas.

Want to know more?

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

3. Strategic Direction

The Guardians' 2014-2019 Strategic Plan was approved by the Board on 8 April 2014. As noted in the Chairman's Foreword, this Plan is the fourth year of an established five-year plan. The Plan sets out what success will look like for the Fund in the medium term, and includes details of key activities to be undertaken in the 2014/15 year.
The Plan contains four strategic objectives: 'best portfolio'; 'collaboration with peers'; 'building and maintaining a great plan'; and 'efficiency, scalability & innovation'.

BEST PORTFOLIO

Best Portfolio means the most cost-effective and fit for purpose.

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

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

What does success look like in 2019?

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

WHAT IS THE SHARPE RATIO?

All of our added-value investment aims to improve what is known as the Sharpe Ratio of the Fund. The Sharpe Ratio of the Fund is:

$$\frac{\textbf{Total Return (- cash)}}{\textbf{Risk}}$$

'Total Return' is a combination of Excess Return and Active Return

Excess Return = the return premium earned on financial assets such as equities and property over and above what would be possible to earn investing in cash (a 'risk-free' investment). This is the contribution of the Reference Portfolio and is why cash is netted off.

Active Return = the additional return earned by investing outside of the Reference Portfolio. This is the contribution of our value-adding strategies and is, collectively, the difference between the Reference Portfolio and our actual investment portfolio.

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

The formula above makes clear that if the risk denominator is high, returns must be higher.

So each active investment we undertake must raise the sum of the top line, reduce the sum of the bottom line, or both.

COLLABORATION WITH PEERS

For a small, geographically isolated fund like ours, collaboration with peers across the world offers a range of strategic benefits. Building relationships with leading global peers has therefore been a key strategy since we started, and continues to be important.

The benefits of collaboration include leveraging these relationships to secure global and local opportunities for co-investment; exchange of best practice and knowledge; and cooperation in areas of joint interest, such as responsible investment.

What does success look like in 2019?

- Systematic programme of co-investments with peers
- Regular exchange of best practice and wider benchmarking
- Active membership and leadership of influential global forums

BUILDING AND MAINTAINING A GREAT TEAM

Giving effect to our Statement of Intent will require strong leadership; a shared understanding among staff of our purpose and values; and talented, committed people with access to quality data, systems and tools.

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

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

As a Crown entity, the Guardians is committed to being a good employer. This includes offering equal employment opportunities (EEO) to prospective and existing staff, and recognising the employment aims of Maori, ethnic minorities, women and people with disabilities. We believe that being a good employer will help us achieve our long-term business goals. To us, being a good employer means that our people enjoy and feel safe in their workplace; trust the processes and procedures around their development, recognition, promotion and exit; and are enthused and professionally satisfied by their roles.

What does success look like in 2019?

- Best practice across governance, enterprise risk management, and IT
- Strong leadership, strong culture and values, focus on talent development and retention

EFFICIENCY, SCALABILITY & INNOVATION

The Guardians' Target Operating Model sets out how we will continue to build operations and technology capabilities that are agile and scalable.

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 2019?

- Frameworks and processes are embedded and guide efficient operations by managing uncertainties and simplifying decisions
- High degree of transparency over our organisation and activities
- These frameworks and processes are also scalable and flexible to accommodate new initiatives and products

4. Outcome Framework

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

This is a long-term outcome, the results of which will not begin to be realised until around 2029/30, when withdrawals from the Fund will begin. In the short- and medium-term, we focus on facilitating this outcome by investing the Fund on a commercial, prudent basis and in a manner consistent with:

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

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

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

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

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

2014-19 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 2.5% p.a.;
  - the Fund's Reference Portfolio or passive benchmark.

5. Measuring our Performance

This section sets out a range of measures for the Fund's financial performance and for each of the work programmes listed above. We will report on progress against each measure in a Statement of Performance in our Annual Reports from 2015 onward, depending on the time period of the goal.

5.1 EXPLANATION OF PERFORMANCE MEASURES

5.1.1 Outcome measures – progress towards our ultimate goal

Long-term context

On current Treasury projections the Government will not begin capital withdrawals from the Fund until 2029/30, and the Fund will not peak in size until the 2080s – some 70 years from now.

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

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

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

Treasury Bills measure

It is the Guardians' expectation, given our mandate and hence portfolio construction, that the Fund will return at least the Treasury Bill rate + 2.5% 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 Treasury Bill rate + 2.5% is not a target to be hit precisely – rather, it is a long-term performance expectation that we aim to exceed by as much as possible.

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

Treasury Bills, which are wholesale debt securities issued by the Crown, are an appropriate measure of the Fund's performance. This is because they both proxy the 'opportunity cost' to the Government of contributing capital to the Fund, instead of using the money to retire debt, and are seen as the most risk-free asset. Over time, the Fund is expected to earn more for the Government in investment returns than it would save in debt servicing i.e. the Fund is expected to add to Crown wealth, enhancing the ability of future governments to meet increased superannuation costs.

Reference Portfolio measure

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

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

In our actual portfolio, we also include 'active' investment strategies – such as investing in alternative assets (e.g. timber, private equity) – in an effort to enhance 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.

These active investment strategies (such as strategic tilting and investing in private and/or illiquid assets) are consistent with our statutory duty regarding best practice portfolio management, and are based on our investment beliefs and competitive advantages.

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

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

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

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

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

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

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

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

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

Accordingly, in establishing the Reference Portfolio, the Guardians' Board weighs up expected returns against the risks (such as equity risk and short-term price volatility) that come with different combinations of assets. The resulting combination of risk and return is that which the Board thinks best meets the Guardians' statutory obligation to

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.

maximise returns without undue risk to the Fund as a whole. As outlined above, the Board has settled on a Reference Portfolio with an 80:20 split between growth and fixed income assets.

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

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

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

		1-YEAR	10-YEAR	20-YEAR
	WHERE REPORTED	STATEMENT OF PERFORMANCE, 2015 ANNUAL REPORT	STATEMENT OF PERFORMANCE, 2024 ANNUAL REPORT	STATEMENT OF PERFORMANCE, 2034 ANNUAL REPORT
MEASURE	**Reference Portfolio Returns above Treasury Bills (per annum)** expected outcome	2.5% p.a.	2.5% p.a.	2.5% 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 expected outcome	≥ -31% p.a.	≥ -4% p.a.	≥ -3% p.a.

Want to know more?

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

5.1.2 Output measures – managing the Fund

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

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

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

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

Investment Work Programme

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

Cost Control Work Programme

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

		1-YEAR	10-YEAR	20-YEAR
	WHERE REPORTED	STATEMENT OF PERFORMANCE, 2015 ANNUAL REPORT	STATEMENT OF PERFORMANCE, 2024 ANNUAL REPORT	STATEMENT OF PERFORMANCE, 2034 ANNUAL REPORT
MEASURE	**Costs relative to peers in CEM Benchmark's investment management cost survey**	We participate in the most widely used and comprehensive financial benchmarking available globally – the annual cost structure benchmarking survey by CEM Benchmarking Inc. (CEM). CEM assesses the cost structure of the Fund against more than 300 funds from around the world, focusing on 20 with similar risk profiles that also use active management strategies. The results of each CEM survey are published in our Annual Report and on www.nzsuperfund.co.nz. Relevant activities are reported in each year's Statement of Performance Expectations.		
	• expected outcome	A rating of 'median cost, median-value-adding' or better. 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 2 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 these requirements we have adopted:

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

		1-YEAR	10-YEAR	20-YEAR
	WHERE REPORTED	STATEMENT OF PERFORMANCE, 2015 ANNUAL REPORT	STATEMENT OF PERFORMANCE, 2024 ANNUAL REPORT	STATEMENT OF PERFORMANCE, 2034 ANNUAL REPORT
MEASURE	**In a 1-in-100 year event, potential Reference Portfolio loss**	As per Outcome Measure – see page 9 for a full explanation.		
	• expected outcome	≥ -31% p.a.	≥ -4% p.a.	≥ -3% 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, Official Information Act and other New Zealand legislation, together with the legislated requirement under our own Act to avoid prejudice to New Zealand's reputation as a responsible member of the world community. It is also critical to maintaining organisational credibility and stakeholder confidence in the Guardians and Fund. We therefore aim to keep our stakeholders as informed as possible about what we do and why we do it.		
	• expected outcome	10 out of 10 (100%) in the quarterly rating of Sovereign Wealth Fund transparency published by the Sovereign Wealth Fund Institute; top-quartile or higher ratings in order relevant rating mechanisms. Ratings published on www.nzsuperfund.co.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 Fund's 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 made on a purely economic basis. The Santiago Principles monitor three important areas of operational practice for sovereign wealth funds – legal framework, institutional framework and governance framework, along with investment policies and risk management. Members of the IFSWF are required to undertake a regular review of their implementation of the Principles as a whole.		
	• expected outcome	Self-assessment of compliance with the Santiago Principles is completed and published on www.nzsuperfund.co.nz. Top-quartile or higher ratings in the Geoeconomica Santiago Compliance Index of sovereign wealth funds' compliance with the Santiago Principles; top quartile or higher ratings in other relevant rating mechanisms.		

MEASURE		1-YEAR	10-YEAR	20-YEAR
	WHERE REPORTED	STATEMENT OF PERFORMANCE, 2015 ANNUAL REPORT	STATEMENT OF PERFORMANCE, 2024 ANNUAL REPORT	STATEMENT OF PERFORMANCE, 2034 ANNUAL REPORT
	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 environmental, social and governance factors can improve the long-term financial performance of a company. For this reason we actively manage the long-term risks and opportunities that environmental, social and governance issues present to the Fund. 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 relative to other signatories. The top quartile ratings that the Fund has achieved under the UNPRI assessments in past years indicate that we are managing responsible investment issues and risks to a high, internationally-benchmarked standard. We remain committed to maintaining the Fund's global best practice and domestic leadership position in responsible investment practice. In recent years, investors around the world have begun to place a much higher emphasis on responsible investment and the effective management of environmental, social and governance risks. Maintaining this position will require constant improvement on our part. In the 2013/14 year, the Guardians participated in a pilot of a new UNPRI new assessment approach. Because the results of this exercise are not yet public, we are currently unable to set performance targets for future assessments. When it is possible to do so, we will include these targets in our Annual Statement of Performance Expectations.		
	• expected outcome	Measure to be set following completion of pilot	Measure to be set following completion of pilot	Measure to be set following completion of pilot
	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.co.nz on a six monthly basis.		
	• expected outcome	Completed and published for both six month periods on www.nzsuperfund.co.nz.		
	Responsible investment – annual Responsible Investment report	Within each year's Annual Report we publish a specific report on our responsible investment activities. This report provides a high degree of transparency and detail over our engagement programme, exclusion decisions, collaborations with other investors and internal process improvements.		
	• expected outcome	Published as a stand-alone section in each Annual Report for the Guardians and Fund.		

Governance Work Programme

	HORIZON	1-YEAR	10-YEAR	20-YEAR
	WHERE REPORTED	STATEMENT OF PERFORMANCE, 2015 ANNUAL REPORT	STATEMENT OF PERFORMANCE, 2024 ANNUAL REPORT	STATEMENT OF PERFORMANCE, 2034 ANNUAL REPORT
MEASURE	**Independent reviews**	Our Act requires that an independent review of how effectively and efficiently the Guardians are performing their function is carried out every five years. The Minister of Finance sets the terms of reference for the review, which is conducted by an independent person appointed by the Minister. The report is then presented to Parliament. The Fund has had two such reviews since inception; both are published on www.nzsuperfund.co.nz. The next review is due to be published in 2014/15.		
	• expected outcome	Good review and our response published on www.nzsuperfund.co.nz By good review we mean that no material concerns about the effective and efficient performance of the Guardians' functions are identified.	On-going good reviews with the reviews and our responses published on www.nzsuperfund.co.nz	On-going good reviews with the reviews and our responses published on www.nzsuperfund.co.nz

Organisational Capability Work Programme

Managing the Fund, in a small country remote from the world's major financial markets and talent pools, presents the Guardians with some unique challenges. Being able to attract, retain and develop high calibre people is vital to our purpose of maximising the Fund's returns without undue risk. The global investment market is highly competitive and we can only find and enter into the best investment strategies if we have capable and experienced staff and can get the best out of their collective talent. We therefore place a high priority on attracting first-class candidates, retaining our top performers, building the capacity of our team and ensuring staff members' priorities are aligned with our organisational strategy. We also place a strong emphasis on creating a strong and collaborative working culture.

	HORIZON	1-YEAR	10-YEAR	20-YEAR
	WHERE REPORTED	STATEMENT OF PERFORMANCE, 2015 ANNUAL REPORT	STATEMENT OF PERFORMANCE, 2024 ANNUAL REPORT	STATEMENT OF PERFORMANCE, 2034 ANNUAL REPORT
MEASURE	**Key person risks identified and covered**	This measure is an indicator of how well we attract and retain the best people; and related to this, our ability to mitigate any potential loss of knowledge and expertise should key staff depart.		
	• expected outcome	Board approval received for our assessment of key person risk and our plans to mitigate that risk. 3-6 month cover in place for all critical roles and key people.		
	Individual incentive plan targets achieved	Each staff member is assigned individual incentive plan targets to work towards, including desirable behaviours and the achievement of key projects. Targets are closely linked to organisational strategy, objectives and values, and are therefore a measure of the extent to which our people are contributing to the Fund achieving its purpose.		
	• expected outcome	Staff members achieve their individual incentive plan targets, with the average % achieved and trends from year-to-year reported in each year's Statement of Performance. Any key Strategic Plan activities for the financial year that are not achieved as planned are also reported in the Statement of Performance.		

6. Transparency and Reporting to the Minister

We strive to be as transparent as commercially possible about our management of the Fund, how the Fund performs and our organisation in general. Our stakeholders, including the Minister of Finance, and any other interested party, can easily access a wealth of current, detailed information on our website.

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

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

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

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

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

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

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

A copy of the March 2014 letter and our response can be found on www.nzsuperfund.co.nz.

7. Acquisitions

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

The Guardians must use its best endeavours to ensure that the Fund does not have control of entities (for example a company). This requirements is set out more fully in section 59 of the New Zealand Superannuation and Retirement Income Act 2001. 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.CO.NZ