

# Direct & Externally Managed Investment Procedures

This procedures manual sets out the specific guidelines used by Guardians management to enable the effective implementation of the principles contained in the Direct & Externally Managed Investment Policy **Kaupapa Here mō te Haumitanga Horipū, Haumitanga Rāwaho Hoki**



Procedures Owner: Chief Investment Officer  
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## 1 Background

This procedures manual sets out the specific guidelines used by Guardians management to enable the effective implementation of the principles contained in the Direct & Externally Managed Investment Policy *Kaupapa Here mō te Haumitanga Horipū, Haumitanga Rāwaho Hoki* (the **Policy**). This covers both Fund investments and the Elevate Fund.

## 2 Definitions

There is a standalone Glossary of Terms, located on the intranet which defines all investment and technical terms used in our policies and procedures. In this procedure the first instance of any such defined term is highlighted in **bold**. References to other documents are *italicised*.

## 3 Frameworks

The Guardians maintain and adhere to frameworks detailed in this procedures manual that cross refer to the principles outlined in the Policy.

### 3.1 Investment case evaluation:

***Policy Statement (Section 3.3.1):*** *Our investment case evaluation consists of demonstrating the fit of the proposed or existing investment with our **Investment Strategy**; identifying the reasons why we see an investment opportunity to capture active returns; identifying the best access point, including where relevant, a comprehensive manager search and selection process; capability requirements; governance arrangements and exit options.*

#### **Part A (Fund)**

For all new investments (or divestments) we undertake quantitative analysis or an **Investment Case Evaluation** of how much the investment would improve the Fund's portfolio. That analysis aims to reveal the major investment parameters including:

- the best **Access Point**;
- the expected return of the investment;
- the expected risks of the investment;
- the expected costs associated with the investment;
- the investment's fit with the rest of the portfolio;
- the appropriate amount to allocate to the investment;
- internal capability and management approach along with any required governance models; and
- options for exit.

We compare all investments on an unlevered, risk-adjusted, net-of-costs basis.

We compare the expected net return from the investment with what we could expect if we simply kept the funds in the Reference Portfolio on a risk-matched basis. We do this by determining the hurdle required rate of return which compensates us for the risk we are introducing into the portfolio, including penalties for illiquidity and costs. The hurdle is the

minimum or break-even return needed to ensure that the portfolio would be improved by making the investment.

The expected return analysis should consider the long-term expected return. It should also highlight key assumptions and other potential outcomes. Our commercial judgement about expected future returns should be based on a wide range of quantitative and qualitative evidence, including internal and external research wherever possible. We try to ensure that the assumptions behind the expected return analysis are consistent with the other assumptions in our Investment Case Evaluation, for instance our own views on the expected return from the **Reference Portfolio**.

Our risk analysis should set out the likely profile of the future returns to the investment and how the investment is likely to behave under differing conditions. It is important to test how sensitive the investment case is to different assumptions about the business or market environment. Consideration should also be given to non-investment risks. Costs should also be analysed under different scenarios and should incorporate all non-recoverable costs including fees and foreign taxation<sup>1</sup>.

In building the **Actual Portfolio** we identify a number of Opportunities which we expect to add value. Risk budgets, which are expressed as an average through time, are assigned to these opportunities based on their expected return and risk and the confidence with which those expectations are held. The relative attractiveness of Opportunities may vary through time. The amount of active risk allocated to each **Opportunity** and investment is based on the recommendations of the relevant **Risk Target Teams** and the relevant **Access Point Teams**, respectively.

The appropriate desired risk allocation to the Opportunity is the responsibility of the relevant Risk Target Team. The allocation to a specific investment within an Opportunity is the responsibility of the Access Point Teams and will depend on a range of factors including:

- (a) our view on the relative attractiveness of the investment versus the range of possible Access Points or sub-sectors within the relevant Opportunity;
- (b) the expected risk adjusted return;
- (c) our degree of confidence around the investment case;
- (d) its similarity to other investments in the portfolio;
- (e) the minimum size required to achieve the appropriate level of diversification; and
- (f) our prudential limits, including single asset limits.

For more information see the *Investment Risk Allocation Policy*.

For most new investments we will apply the Fund's New Investment Implementation Process. This will also apply to material changes and exits (See: Section 3.2 below for more detail; and the **NIGEL** (New Investments Implementation Group) page on Supercharged for more information including the operational risk assessment process).

A written recommendation to the relevant person with delegated authority to approve the investment is required as part of the investment approval process. This will usually be contained in the **Investment Screen** document and the **Investment Memorandum**. In certain instances the investment recommendation is required to be considered by the IC prior to implementation (refer to the *Investment Risk Allocation Policy*).

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<sup>1</sup> The Fund's performance is measured on a post-foreign tax, pre-NZ tax basis.

The **Lead Investment Professional (LIP)** is responsible for delivery of the Investment Case Evaluation which is captured for approval purposes in an Investment Screen document. The investment recommendation and reporting framework is captured in the Investment Screen, which comprises three main parts:

- Part 1: Pre-transaction, the major investment parameters are to be completed in the designated sections of the **First Screen**. This includes:
  - a summary of any due diligence to date, including details of the due diligence or contractual issues that need consideration;
  - commentary from Finance, Tax, Sustainable Investment, Legal, Communications, Investment Operations, Operational Due Diligence, Operational Compliance and other non-investment functions on their preliminary assessment of the risk and complexity of the transaction. The First Screen is usually prepared by these contributing functions prior to accessing any due diligence material and prior to a due diligence budget being approved. It is based on the initial proposed structure (which may change based on legal, finance or tax input once due diligence gets underway). First Screen entries represent preliminary views of the issues that may be associated with an investment, any early red flags and the work required to make an informed assessment.
- Part 2: Once a First Screen paper is developed for a new investment, the relevant person with delegated authority can agree the investment in principle, approve an indicative budget for confirmatory due diligence, and give certainty that the investment can proceed to final approval stage provided the confirmatory due diligence and commercial negotiations support this outcome. The final approval stage should not require a review of the established parameters, unless there is a material change. Changes to the investment recommendation after the First Screen is approved and after confirmatory due diligence and all other key risks identified in the operational risk assessments carried out by the NIGEL are completed are captured in the **Final Screen** together with an Investment Memorandum that outlines the key terms and conditions of the deal and any other important information about the deal that was not captured in the First Screen. The Final Screen and the Investment Memorandum are discussed with the relevant person with delegated authority. See section 3.2` below for more detail.
- Part 3: Post-transaction execution, a **Completion Note** is required to be prepared for any project that:
  - an Investment Screen is prepared for; or
  - is required by the NIGEL Chair. Examples include where the allocation of meaningful resources of the NIGEL group or the project has unique or complex features.

The LIP is responsible for populating the Completion Note section of the Investment Screen with input from the relevant NIGEL project team members and sharing it with the NIGEL Chair. The Completion Note section reflects on the final transaction expenses, key lessons learnt and collates details of the key transaction files so we have an investment record contained within a single document. See section 2.3 below for more detail.

From time to time Opportunities will arise under circumstances which preclude the full process from being followed. In these cases it will be acceptable to proceed provided that the

deviation from the normal process is clearly identified and the risks arising from that deviation are identified and approved by the relevant person with delegated authority for that project. For example, for direct follow-on investments, an abridged form of the Investment Screen is typically used. It is the responsibility of the relevant person with delegated authority to determine the appropriate level of due diligence. In any event, the decision maker can request more information before endorsing or rejecting a recommendation.

The Investment Screen template is owned by the Chief Investment Officer and is maintained over time by nominated members of the Investment Team with input from the wider team as required. The Investment Screen template is available on the Intranet (#3023862).

**Manager Co-investments**

A Manager Co-investment is an investment we make in an individual asset/company that is managed by an incumbent manager, either alongside a current fund investment or within an pre-existing co-investment structure.

In broad terms, Co-investments can be more “passive” or “active” in nature depending on the characteristics of the deal. The table below shows typical characteristics of a “passive” and “active” transaction, although often Co-investments can also comprise a blend of these features.

For Active Co-investments our standard investment evaluation and diligence processes apply (as described above and further throughout this document). Refer to our **Co-investment Guidelines** on the internet for more detail on the investment evaluation process we follow for Passive Co-investments.

	Passive Co-investment	Active Co-investment
<b>Description</b>	<ul style="list-style-type: none"> <li>• Manager-led (typically through a limited partnership agreement)</li> <li>• No governance and limited information rights</li> <li>• Retain discretion over decision to invest</li> </ul>	<ul style="list-style-type: none"> <li>• Manager-led</li> <li>• Direct shareholder of the target company</li> <li>• Potentially governance rights</li> <li>• Potentially co-underwrite or co-bid</li> </ul>
<b>Characteristics</b>	<ul style="list-style-type: none"> <li>• Low touch investment and monitoring</li> <li>• Relatively easy programme to start</li> <li>• Some insights on sectors, businesses and fund managers</li> <li>• Low (or no) management fees and carry</li> <li>• Transaction and structuring fees</li> </ul>	<ul style="list-style-type: none"> <li>• Earlier involvement on co-investments</li> <li>• Greater influence for example board seats, veto and consent rights</li> <li>• Can bring greater reputational risks</li> <li>• Greater insights on sectors, businesses and fund managers</li> <li>• Pro-rata share of bid/transaction costs</li> <li>• Greater cheque sizes, potentially very large</li> </ul>
<b>Manager Role</b>	<ul style="list-style-type: none"> <li>• Reliance on Manager for investment due diligence, structuring and ongoing asset management</li> </ul>	<ul style="list-style-type: none"> <li>• Some reliance on Manager for investment due diligence, structuring and ongoing asset management</li> </ul>

	<ul style="list-style-type: none"> <li>No direct privity of contract or rights vis-à-vis the target company or asset</li> </ul>	<ul style="list-style-type: none"> <li>Potentially a more direct relationship with the target company or asset</li> </ul>
<b>Structure &amp; Terms</b>	<ul style="list-style-type: none"> <li>Club of co-investors invest in an aggregator vehicle which invests in the target company or asset</li> <li>Replicate main fund terms or set up dedicated fund-of-one to invest in the target company or asset (or aggregator)</li> <li>Could require different documentation due to different structure, jurisdiction or terms but areas such as Sustainable Investment, Operational DD should remain consistent</li> </ul>	<ul style="list-style-type: none"> <li>Governed by constitutional documents and shareholder arrangements at the target/target holdco level</li> <li><b>Investment Management Agreement (IMA)</b> or fund-of-one set up with the Manager</li> <li>Could require bespoke documentation and structuring</li> </ul>
<b>Resource</b>	<ul style="list-style-type: none"> <li>Low</li> </ul>	<ul style="list-style-type: none"> <li>Medium</li> </ul>
<b>Team</b>	<ul style="list-style-type: none"> <li>EIP + Direct (Rural + Timber)</li> </ul>	<ul style="list-style-type: none"> <li>EIP + Direct (all Opportunities)</li> </ul>
<b>Timing</b>	<ul style="list-style-type: none"> <li>Up to 15 Days</li> </ul>	<ul style="list-style-type: none"> <li>More than 15 Days</li> </ul>

### **Part B (Elevate Fund)**

A written recommendation to appoint a manager of the Elevate Fund is presented to the IC (as required) ahead of approval by the person with delegated authority.

The presentation to the IC will include a summary of due diligence to date. This will highlight the analysis carried out and will include the key commercial terms upon which a manager will be engaged. The presentation will also highlight any due diligence or contractual issues that remain unresolved.

## 3.2 New Investment Implementation:

***Policy Statement (Section 3.3.2):*** *Our new investment implementation process ensures that legal, operational, sustainable investment, reputational, finance, governance and tax issues relating to either the manager or the investment vehicle have been identified and managed appropriately.*

Our New Investment Implementation Process operates under the following key principles:

1. We initiate new investment implementations under clear authority:
  - With approval by the relevant person with delegated authority (having regard to any IC recommendation – Schedule 10B of the *Investment Risk Allocation Policy* sets the threshold for when the IC should consider the investment)
2. We have clear ownership of new initiatives:
  - The LIP is responsible for the execution of a new investment and the project management of each new investment project. This includes facilitating regular project team meetings including the relevant NIGEL team members and outlining clear performance expectations to enable the delivery of input from the relevant NIGEL team members. When setting the timetable and performance expectations for each investment project, the LIP must consult and have regard to:
    - the NIGEL pipeline; and
    - other external factors such as the lead time as specified by our Custodian (e.g. account opening takes 10 business days).
  - The LIP is also responsible for the ongoing monitoring and management of investments – see Section 3.3 below.
3. We seek and welcome multiple points of analysis:
  - Each business unit of the Guardians that may be affected by a new investment will have the earliest possible chance to scrutinise and provide comment on that investment before that investment is submitted to the person with delegated authority for approval. To this end, the NIGEL members carry out an operational risk assessment by analysing the risks and determine which risks need to be highlighted for, or escalated to the person with authority or the IC (as applicable).
  - This will be achieved primarily via the NIGEL and the Investment Screen as outlined in Section 3.1 above.
  - External advisors or consultants will be engaged (as appropriate) to assist in the implementation of new investments.
4. We must be commercial and opportune:
  - LIPs must listen to any feedback on a proposal but are ultimately responsible for the commercial terms recommended to the person with delegated authority.



Recommendations should capture and highlight the key areas of debate within the project team.

- Investment support teams must contribute to the NIGEL and ensure they facilitate investment activities as best they can within the clear performance expectations set.
- Where a support team strongly disagrees with the LIP's commercial judgement, it should make these concerns clear in the Investment Screen and refer the matter to the IC (if appropriate) or the person with delegated authority.

5. We will adhere to our established due diligence protocols:

- The Investment Screen is the document of record that summarises (along with key investment parameters) the operational risk assessment, material change or the exit of an investment (if required).
- The relevant person with delegated authority gives the final approval of the Investment Screen (also referred to as the Final Screen) to permit funding.
- The RC monitors the matters and themes identified as part of the New Investment Implementation Process (as captured in the respective Investment Screens).

6. We will learn from new investment implementations/exits:

- This is documented in Part 3: The 'Completion Note' section of the Investment Screen detailed in section 3.1 above.

### 3.3 Investment monitoring and management:

**Policy Statement (Section 3.3.3):** *Our investment monitoring and management includes maintaining a view on relative attractiveness; tracking performance; maintaining a view on the planned strategy and forecast financial performance, including a buy/hold/sell analysis; maintaining a view on the operational competency and efficiency of the investee entity or investment manager; and maintaining a view on the environmental and social impact and performance on relevant health and safety metrics. In the case of a manager for the Elevate Fund we will also monitor suitability in the context of the Elevate Fund's purpose.*

We manage each investment for performance and risks in order to ascertain whether it is operating according to our expectations and to inform future investment decisions.

#### **Derivative Use**

Derivative use will be in accordance with the *Derivatives Policy*.

#### **Performance Monitoring**

The IC will monitor the strategy and investment performance on an annual basis. Investment performance reporting includes, where appropriate, the investment risk of each position relative to our expectations for the investment at the time of the original investment.

The appropriate timeframe over which to measure the performance of a particular manager, co-investment or direct investment will depend on the type of investment being managed. Generally, in the case of co-investments or direct unlisted investments, annual external valuations will be undertaken in accordance with the *Investment Valuation Policy* and direct investments are officially reviewed once or twice annually.

For every Manager we appoint, the relevant legal agreements will contain specific reporting requirements. Where appropriate, and where possible, we will negotiate additional reporting requirements in a side-letter.

#### **Investment Management and Monitoring**

We assign an LIP for each mandate or investee company. The LIP has responsibility for the overall relationship with the Manager of the mandate or investee entity and in some circumstances may also be appointed as a director of the investee entity or a member of the Limited Partner Advisor Committee (LPAC).

The LIP maintains a regular dialogue with the relevant contact points from each investment mandate for monitoring purposes. If the LIP is an appointed director or sits on an LPAC, this contact is primarily through the board or LPAC, however, contact can also be more informal. For investment entities where the LIP is not an appointed director, contact is made at least six monthly with board members so a formal written assessment of the entity can be made. For manager appointments quarterly **Conviction** assessments are performed (see Section 3.4 for more detail).

The LIP is also responsible for making judgements as to whether over time an investment remains consistent with the investment objectives of the Fund and informs any buy/hold/sell analysis.

## **Adverse Event Reporting**

We aim to ensure that our investee companies and investment managers self-report if there has been a material adverse change to their circumstances and to provide for self-reporting requirements in the relevant IMA, side letter or shareholders' agreement. Self-reporting requirements include but are not limited to:

### *Direct Access:*

- CEO appointment or removal;
- Proposed merger or acquisition activity;
- Any investigation by any governmental or regulatory agency or any self-regulating organisation;
- A qualified audit opinion;
- Any issue including Environmental, Social and Governance (ESG) issues that may cause legal or reputational impact; and
- Acts or omissions likely to cause material financial loss.

### *Externally Managed Access:*

- Quality of investment personnel;
- Departure or hiring of any key investment personnel;
- Material changes in the ownership structure of the manager;
- Integrity of investment process;
- Operational competency;
- Risk management process of the investment manager;
- Any investigation by any governmental or regulatory agency or any self-regulating organisation;
- A qualified audit opinion; and
- Acts or omissions likely to cause material financial loss.

If we identify any issue that may have a reputational impact on the Guardians, the Fund or the Elevate Fund we report it immediately to the Head of Communications. If there is a potential breach of law we report it immediately to the General Counsel.

## **Manager Compliance monitoring**

Where possible, our Custodian assists with monitoring those Managers appointed under an IMA for compliance with the prescribed investment guidelines. The Custodian reports on active and passive breaches of those guidelines to us and the Manager. The Custodian also provides us regular reports that enable us to:

- monitor the effective exposures and cash position with each Manager; and
- reconcile mandate values and cash flows with each Manager.

It is the responsibility of the Guardians to ensure adequate compliance monitoring processes are in place. In some situations our Custodian will assist with the process but it is the Guardians' responsibility to monitor all Managers to ensure that they do not hold any investment that we have expressly directed them not to hold.

The LIP is responsible for ensuring a process is in place and responsibilities are allocated for monitoring the requirements of the investment mandate. As part of this process, responsibilities for monitoring requirements must be clearly allocated.

We report summaries of active and passive breaches to the **Audit Committee** at each meeting.

### **Operational Monitoring**

To ensure a Manager or investee company's continuing operational capability, we aim to meet with them at a frequency determined by the Operational Due Diligence team's view of investment strategy, manager capability and operational risk.

This review includes updating our written assessment of the Manager or our Operational Due Diligence team may request Managers to complete biannual operational due diligence questionnaires.

In addition, as part of the monitoring process, we typically require Managers to make the following documents available either on a monthly, quarterly or annual basis as set out in the IMAs, constitutional documentation for **CIVs** or other applicable documents:

- Risk Management Certificate;
- External audit report (if completed);
- Industry standard (e.g. SOC 1 type II report) internal controls review (if available);
- Any licence they are required to hold (upon its renewal or amendment);
- Amended policy documents and compliance manuals (if they have made substantive changes to those policies); and
- Insurance certificates.

In the case of CIVs, we are sometimes not able to access all of these documents.

Where a Manager's mandate allows the use of derivatives, we undertake an assessment to determine which specific types of derivatives should be allowed (based on a risk assessment and the investment guideline) and the appropriate limits on their use.

Where a Manager's mandate, or a commingled vehicle, allows the use of derivatives we will (at appointment and on an ongoing basis) review to ensure there is effective management and oversight of derivative usage including:

- Applicable derivative documentation and investment guidelines;
- Operational procedures for control and monitoring derivative activity; and
- Staffing resources and capability.

For more information see the *Operational Due Diligence Process Overview* document and *Operational Due Diligence* on the Intranet<sup>2</sup>.

### **Receipt, Recording and Distribution of Manager reporting**

The underlying investment documentation will usually specify where information should be directed. It is the responsibility of the LIP to ensure that the Manager has the correct email addresses for sending these forms of communication. We streamline the provision of information to the email addresses as set out in Schedule 2. This allows incoming reports to be logged and made available for review by the LIP and the relevant functional teams.

It is the responsibility of the Risk team to monitor for the receipt of notice of adverse events and, as soon as practical, to bring it to the attention of the relevant LIP.

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<sup>2</sup> Document links: [#2063856](#) and [#2745021](#).

## **IC Oversight**

In addition to the duties of the IC when implementing new investments as set out in Section 3.2 above, the IC will review strategy, investment activity and performance by the Access Point Teams (i.e. External Investments and Partnerships, Direct Investments and Portfolio Completion) annually through the Opportunity Report and Total Portfolio Report. The IC will also separately review the investment activity for the Elevate Fund as reported by External Investments and Partnerships annually. Access Point Teams also present an Investment Team Strategy Report for discussion, which outlines the business strategies of each team that makes up the Investment teams. In particular, the report covers the vision of each team and how it connects to the Guardian's strategic framework; the key priorities for each team and the key risks to achieve those priorities.

For governance purposes the IC also receives semi-annual reporting on all new investments and/or divestments that have been made outside of IC delegations. As well as the size and nature of the investment, this reporting also includes the cumulative size of the Fund's exposure to the relevant asset or Manager following the most recent investment/divestment.

### 3.4 Conviction:

***Policy Statement (Section 3.3.4):*** *In the case of external managers we regularly monitor our conviction in those managers by using our own and other's assessment of capability, culture and alignment. We also look explicitly at managers' environmental, social and governance capabilities as a part of a broader assessment of manager suitability for the Guardians.*

We evaluate Managers (initially and then on an ongoing basis) in four ways:

1. **'Conviction Assessment'** – outlines our confidence in the Manager's competence to execute an Opportunity on our behalf and in the general quality and 'fit' of the institution;
2. Sustainable Investment assessment – involves reviewing the Manager's approach and capability with regards to Environmental (including climate change), Social and Governance matters;
3. Operational Due Diligence (Ops DD) – involves the review of the Manager's regulatory, operational, organisational and financial processes and procedures (including enterprise risk) and background checks on key individuals; and
4. Compliance Monitoring of the Manager's adherence to the investment arrangements.

Each evaluation is done by separate teams with different reporting lines.

- The Operational Due Diligence and Sustainable Investment teams have their own ratings but an investment can proceed even if these ratings are unfavourable. In saying that, Operational Due Diligence and Sustainable Investment ratings are fed into the Conviction rating as they significantly inform our confidence in a Manager. It is unlikely that we would gain conviction in a manager with both an unfavourable Sustainable Investment and Operational Due Diligence rating.
- If a Manager does not pass these reviews, this is noted via the Final Screen process and in the relevant Operational Due Diligence and SI reports. If the investment proceeds, Operational Due Diligence and Sustainable Investment will work with the Manager to attempt to resolve the areas of concern. Once invested, if Operational Due Diligence or Sustainable Investment have concerns, we act on them immediately (including via termination if appropriate).
- The Operational Compliance team acts, typically with the Custodian and the relevant Access Point Teams, to resolve compliance breaches with the Manager. Where breaches are material they may have Conviction implications.

#### Why have Conviction?

1. It provides a framework for monitoring a Manager's competence to execute on one or more specific Opportunities on our behalf;
2. It is a discipline forcing us to evaluate our Managers at least annually (or immediately if there is a serious issue); and
3. It provides part of an internal record of our reasons for deciding which third parties should, and should not, manage New Zealand taxpayers' funds and for regularly re-assessing whether they remain fit and competent to do so.

## **When do we have Conviction?**

Whenever we have an investment that is governed by the Policy, a conviction review needs to be prepared. A conviction score needs to be in place before we make such an investment with a Manager and it needs to be maintained **as long as we** have such an investment with that Manager.

## **How does Conviction work?**

'Conviction'-based monitoring maintains, or raises questions about, our confidence in a Manager's competence to execute on the specific Opportunity we have appointed them to access. Key inputs to this are the manager's performance (over periods relevant to the Opportunity they are accessing), their overall conduct and the extent to which they are meeting any knowledge transfer expectations that we have of them.

The LIP maintains regular contact with each Manager to monitor that Manager's on-going management and maintain our conviction assessment. At a minimum the LIP (or their delegate) meets with each of their assigned Managers each calendar year (preferably in the Manager's office). The LIP updates their written conviction assessment of the Manager at least annually, though in practise this typically happens quarterly.

Conviction reviews are reviewed for consistency during conviction calibration sessions and approved by the Directors of EIP or the Head of Direct Investments (as appropriate). The CIO and GM Risk also receive quarterly reporting on changes to conviction scores.

## **Factors and Assessment**

In forming conviction for an active manager we consider eight factors, shown in the table below. For passive managers, we exclude 'People Capabilities' and 'Opportunity Consistency' as those factors are less applicable.

For the Elevate Fund we apply the same eight factors shown in the table below, except that for 'Performance' we consider both pure financial performance and performance against metrics that are in place that enable us to monitor execution against the Elevate government-mandated objectives (i.e. one of which is New Zealand venture capital market development).

	Factor	Assessment
Hygiene Factors	Viability	Is the manager stable and secure?
	Trust	Can we believe what the manager says?
	Structure and Focus	Are the fees and terms in line with our interests?
Competence Factors	Risk Awareness & Management	Can the manger identify, assess and manage risk?
	People Capabilities	Do they have the right team for the mandate?
	Process Capabilities	Do they correctly source & execute investments?
Outcome Factors	Opportunity Consistency	Does they clearly understand the opportunity?
	Performance	Do returns meet our thresholds?

## Scoring

Each factor is considered separately and scored on a four point scale:

1. Red (very low)
2. Orange (low)
3. Green (acceptable)
4. Green Plus (leading)

The scores for each factor determines the overall conviction score, according to the range shown in the table below.

Flags	Score	Impact	Action
Green / green+ flags	80-100%	Excellent	Normal monitoring
All green flags	70-79%	Good	Normal monitoring
One or two orange flags	60-69%	Threshold	Higher than normal monitoring, depending on reason for orange flag High touch if issue is something that can be resolved through intervention. Regular if more structural (e.g. if due to non-Target Operating Model compliant structure)
Three (or more) orange flags; or One (or more) red flags	59% or Below	Sub threshold	Terminate or recommend to IC why we should retain



### 3.5 Investment manager fee evaluation:

***Policy Statement (Section 3.3.5):*** For the Fund, in evaluating manager fees we ensure the terms of every investment are appropriate for the investment being considered on an ongoing basis. For the Elevate Fund, we will provide for fees in the first instance on a cost-recovery basis in the limited partnership arrangements with manager of the Elevate Fund.

We consider a number of elements, including:

- The standard terms of the specific Opportunity;
- The standard terms of similar Opportunities in the same universe;
- The expected level of risk of the strategy;
- The expected return of the investment gross and net of fees;
- The size of our expected investment;
- The appropriate hurdle/benchmark for the Opportunity;
- The expected duration of our investment;
- The marked to market valuation on an investment versus its cash-flows; and
- The optionality of an incentive fee (if one is included).

For passive manager appointments we prefer not to pay an incentive fee.

For **Value adding** investments in listed markets we prefer:

- **Incentive fee** arrangements where an appropriate hurdle/benchmark is in place;
- To pay fees as a percentage of performance in excess of a benchmark rather than a percentage of total return after performance exceeds a benchmark;
- That incentive fee arrangements have a high-water mark. That is once an investment begins to underperform, that underperformance must be made up before any positive performance fees are paid out;
- To retain at least 50% of any active value add, after paying fees to the manager
- Lower base fees and higher incentive rates for the same investment, conditional on a suitable hurdle/benchmark, all else being equal; and
- As long a period as possible to measure performance fees.

For Value-add strategies in unlisted markets we generally have the same set of preferences as with public markets with the following provisos:

- We prefer to have incentive fees paid by reference to the performance of the entire mandate, as opposed to on a deal by deal basis (i.e. European waterfall as opposed to American waterfall);
- We prefer base and incentive fees paid by reference to the equity committed or invested within an investment, not the gross asset value; and
- If incentive fees are to be paid on valuation rather than realisation we prefer long deferral periods before payment to accommodate volatility in asset valuations.

The LIP is responsible for completing an annual reconciliation of manager fees.

**3.6 Director Appointments:**

***Policy Statement (Section 3.3.6):*** Appointments can either be external or a member of the Guardians’ staff. The choice will depend on the requirements of the role, which will typically include consideration for location, industry expertise, technical expertise and diversity; the alignment with the Guardians’ culture and investment approach; and the general pros and cons of having an internal versus an external director.

The LIP provides a rationale for the recommendation to appoint an external director or an employee director to an investee company. This includes (as appropriate):

- The requirements of the business and its board, including to ensure a suitably diverse range of perspectives on that board;
- Industry expertise or ability to fill a skill-base gap in the board of the investee entity;
- Our expectations of the director with regards to strategy and definition of success;
- The proposed director’s alignment with the Guardians’ culture and investment approach;
- The pros and cons of an internal vs external director; and
- Mitigation of any potential conflict of interest.

We follow a similar (but simplified) process for the appointment of directors to **Fund Investment Vehicles** that are holding vehicles.

The appointment of any directors must be carried out in accordance with the *Delegations Policy*.

The Guardians’ Board must be consulted as a reference check ahead of the appointment of any external director. Details of these requirements are set out in Schedule 1 of the Policy. For Board reference checks the following template should be used to ensure consistency:

Reference Check – External Director for Investee Company

Investee Company	
Name	
Background and Experience	
Full Board	

Employee directors accepting appointment to the board of an investee company need to have a clear understanding of corporate governance, the capability and experience to act as a governor. This includes:

- The duties owed to the investee company and its shareholders, as well as the responsibility to the Guardians;
- The relationship between the board of the investee company and its management;
- The processes and controls around information flows between the director and Guardians, including separation of investment management from governance; and
- An understanding of applicable laws.

The Guardians requires investee companies to provide an appropriate indemnity, and to arrange Directors & Officers (D&O) insurance cover, for all its representative directors. In addition, the Guardians provides an indemnity and D&O insurance for its employee directors.

The Guardians' representatives on investee boards should ensure that the investee company reviews the scope and amount of D&O insurance held by the investee company at least 3-yearly with its insurance broker.

The following points should be considered by the LIP in any director appointment paper submitted to the Chief Investment Officer for approval

- **Reasons for appointing a director including**
  - Who to appoint (considerations e.g. nature and stage of the business, strategic objectives, complexity of governance role and board/shareholder dynamics, skills needed, capacity of team and employee/external, requirements to achieve diversity on the board)
  - Alternatives considered, including appointing a board observer only
- **Setting Directors up for success**
  - Minimum training/qualifications (Institute of Directors)
  - Ongoing support available within Guardians and externally such as “Director Day” events, mentoring, etc.
- **Special considerations for offshore directorships**
  - Risk profile of jurisdiction
  - Availability of D&O insurance for staff
  - Tax considerations (for the Fund as well as personally for the director)
- **Insurance & Indemnity Considerations**
  - Portfolio company and Guardians' indemnity availability
  - Availability and cost impact on Guardians' D&O insurance
- **Monitoring/review process**
  - Bi-annual performance check in between Guardians and appointed director. Consider feedback from board Chair, board reviews (e.g. Propero), etc
  - Succession planning
- **Communication of appointments**
  - The strategy for managing communications on board appointments. The default position is that portfolio companies manage communications around their board appointments

### 3.7 Responsibilities

There are certain responsibilities inherent under the Policy and these procedures. Those responsibilities, and the person responsible for them, are outlined in Schedule 1.

**Schedule 1A: Responsibilities –Direct Investments**

<p><b>CIO will:</b></p>	<ul style="list-style-type: none"> <li>• ensure the Policy is reviewed at least five yearly</li> <li>• ensure these procedures are kept current and relevant to the activities being undertaken</li> <li>• Send the Board a reference check for external directors for investee companies prior to appointment (including name and background and experience)</li> <li>• report on director appointments and resignations at least six monthly to the IC and Board and under the no surprises protocol. Minimum information requirements being             <ul style="list-style-type: none"> <li>• Name</li> <li>• Background and experience (external appointments)</li> <li>• Reference checking completed (for external appointments where required)</li> <li>• Reason (for resignation)</li> <li>• Any planned action (for resignation)</li> </ul> </li> <li>• report New Investments and Divestments (&gt;\$100M or less than \$100M if the new investment or divestment is of material reputational or interest to the Board) to the IC and Board via dashboard or under the no surprises protocol for information</li> <li>• report material changes to terms of existing investments to the subsequent IC and Board meetings</li> </ul>
<p><b>CIO or Head of Direct Investments or a Director, Direct Investments will:</b></p>	<ul style="list-style-type: none"> <li>• provide approval of the Investment Screen (First Screen and Final Screen as appropriate) pursuant to the Delegations Policy.</li> <li>• decide whether deviation from the full due diligence process is warranted or any other deviations from the New Investment Implementation Process (relevant person with delegated authority to approve the investment)</li> <li>• Head of Direct to report on Direct Investment decisions outside IC, to the IC six monthly</li> <li>• Provide Health and Safety reporting to the Board as follows:             <ul style="list-style-type: none"> <li>• Six monthly to the Board (Timber &amp; Rural) - Loss time incident frequency rates and relevant benchmarks</li> <li>• Annually to the Board (all other direct NZ investments) - Governance assessment</li> </ul> </li> </ul>
<p><b>Lead Investment Professional will:</b></p>	<ul style="list-style-type: none"> <li>• be responsible for the execution and ongoing management and monitoring of a new investment</li> <li>• undertake post implementation review of new Opportunities as appropriate</li> <li>• meet with appointed directors at least six monthly</li> </ul>

## Schedule 1B: Responsibilities - Externally Managed Investments

<p><b>CIO will:</b></p>	<ul style="list-style-type: none"> <li>• report first time commitments to CIVs and manager appointments to subsequent IC and Board meetings</li> <li>• report material changes to the <b>VCF Policy Statement</b><sup>3</sup> (including proposed changes requiring Board approval) to subsequent IC and Board of the Guardians' meetings</li> <li>• report disposal of entire interests in CIVs and manager terminations to subsequent IC and Board meetings</li> <li>• report material changes to IMAs and agreements governing CIVs to subsequent IC and Board meetings</li> <li>• report appointment to represent the Guardians on a committee, board or similar body of a CIV six monthly and under the no surprises protocol to subsequent RC and Board meetings</li> </ul>
<p><b>CIO or Head of External Investments and Partnerships (EIP) or a Director, EIP or a Director, Real Estate (RE) (for RE deals only) will:</b></p>	<ul style="list-style-type: none"> <li>• provide approval of a new investment under the Investment Screen process (First Screen and Final Screen as appropriate) pursuant to the Delegations Policy.</li> <li>• decide whether deviation from the full due diligence process is warranted or any other deviations from the New Investment Implementation Process (relevant person with delegated authority to approve the investment)</li> </ul>
<p><b>Chair of the IC will:</b></p>	<ul style="list-style-type: none"> <li>• ensure the IC considers all proposals to appoint or terminate a Manager or invest in or dispose of an interest in a CIV for the Fund where they are required to be endorsed by the IC</li> <li>• ensure the IC considers all proposals to appoint or terminate a Manager or invest in or dispose of interest in a CIV for the VCF</li> <li>• ensure the IC considers all recommendations not to terminate any Manager or dispose of any interest in a CIV where the relevant Manager is rated as sub threshold under the Conviction and Monitoring Framework</li> <li>• oversee monitoring of manager conviction reviews that are sub-threshold</li> </ul>
<p><b>Chair of the RC will:</b></p>	<ul style="list-style-type: none"> <li>• provide oversight of the New Investment Implementation Process.</li> </ul>
<p><b>Lead Investment Professionals will:</b></p>	<ul style="list-style-type: none"> <li>• be responsible for the execution and ongoing management and monitoring of an investment</li> <li>• undertake post implementation review of new Opportunities and investments as appropriate.</li> <li>• maintain overall relationship with Managers</li> <li>• meet with Managers (preferably in their offices) and update conviction review of Managers, both at least annually, or as otherwise agreed with the CIO or Head of External Investments and Partnerships</li> <li>• be responsible for annual reconciliation of Manager fees</li> <li>• ensure a process is in place and responsibilities are allocated for monitoring the requirements of Managers' investment mandates</li> </ul>
<p><b>All Investment &amp; Portfolio Risk &amp; Compliance staff will:</b></p>	<ul style="list-style-type: none"> <li>• report any identified adverse issues at a Manager immediately to the Head of External Investments and Partnerships and the CIO</li> </ul>

<sup>3</sup> The Venture Capital Fund (VCF) was established under the **VCF Act**. The VCF was formally launched as Elevate NZ Venture Fund in 2020.

<p><b>Head of External Investments &amp; Partnerships</b> will:</p>	<ul style="list-style-type: none"> <li>• ensure the following sections of these procedures are kept current: <ul style="list-style-type: none"> <li>- section 2.2(A) "Investment Case Evaluation"</li> <li>- section 2.4 "Conviction"</li> <li>- section 2.5 "Investment Manager Fee Evaluation"</li> </ul> </li> <li>• be responsible for: <ul style="list-style-type: none"> <li>- reporting on the External Investments and Partnerships strategy as part of the annual Investment Teams Strategy report to the IC and Board of the Guardians; and</li> <li>- reporting on the External Investments and Partnerships investment activity as part of the annual Opportunities Report to the IC and Board of the Guardians</li> <li>- Report on EIP investment decisions outside IC, to the IC six monthly</li> </ul> </li> </ul>
<p><b>Director, EIP</b></p>	<ul style="list-style-type: none"> <li>• approve conviction reviews</li> <li>• report manager conviction assessments at least once a year (but ideally quarterly) to either CIO and GM Risk and to report to the CIO and GM Risk quarterly on any changes to conviction scores</li> </ul>

**Schedule 1C: General Responsibilities**

<p><b>CIO will:</b></p>	<p>Report to the Board on the Performance of the investment portfolios (in conjunction with the CEO) including:</p> <ul style="list-style-type: none"> <li>• Performance Reporting Annually to IC and Board</li> <li>• Opportunity Report Annually to the IC and Board</li> <li>• Total Portfolio Reporting via dashboard to the Board</li> <li>• Commentary as relevant in CEO and CIO report to each Board meeting</li> </ul>
<p><b>CIO and iHeads will :</b></p>	<p>Report adverse events immediately to Head of Communications (who will assess and report to Board as appropriate); and reported to subsequent IC and Board meeting (details to include Event, Cause and Proposed Action/Response).</p>
<p><b>Head of Risk will:</b></p>	<p>Report policy breaches immediately to the RC, IC and Board (including details of breach and remedial action taken)</p>
<p><b>Chair of the NIGEL will:</b></p>	<ul style="list-style-type: none"> <li>• in conjunction with the NIGEL, carry out the overall assessment of the risks and which risks need to be escalated to the IC/authorising person</li> <li>• inform the RC of the risks it has identified for the IC/authorising person to consider by sending the RC copies of the completed Investment Screen and so that the RC can monitor the matters and themes identified as part of the New Investment Implementation Process</li> <li>• where necessary/desirable, seek input from the RC to form a view on assessing a particular risk</li> <li>• ensure Section 3.2 "New Investment Implementation" of these procedures is kept current</li> </ul>

**Schedule 2: Receipt, recording and distribution of manager reporting**

<a href="mailto:Compliance@nzsuperfund.co.nz">Compliance@nzsuperfund.co.nz</a>	<a href="mailto:LPAdmin@nzsuperfund.co.nz">LPAdmin@nzsuperfund.co.nz</a>	Operations@nzsuperfund.co.nz
Compliance certificates	<ul style="list-style-type: none"> <li>• Financial statements</li> <li>• Valuations</li> <li>• Quarterly reporting</li> <li>• Depreciation /allowances</li> <li>• Tax information</li> <li>• Capital call notices</li> <li>• Capital account statements</li> <li>• Cash distribution notices (revenue or capital)</li> <li>• Legal documents (and any other correspondence governing an IMA or CIV documentation).</li> <li>• Insurance certificates of currency</li> <li>• SOC reports (if any)</li> <li>• Policy changes</li> </ul>	<ul style="list-style-type: none"> <li>• Pre-investment for private or direct / co-investments / commingled investments:               <ul style="list-style-type: none"> <li>○ Bank account details for standard settlement instructions (SSIs)</li> </ul> </li> <li>• Post investment for <u>commingled investments only</u><sup>4</sup>:               <ul style="list-style-type: none"> <li>○ Platform details</li> <li>○ Statements</li> <li>○ Valuations</li> </ul> </li> </ul>

<sup>4</sup> Investment Operations carry out additional internal checks for commingled investments and NT do some of their own additional checks as well.