

# Self-assessment of implementation of Santiago Principles

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2014

The Santiago Principles are an initiative of the International Forum of Sovereign Wealth Funds (IFSFW) of which New Zealand is a member country. The IFSWF comprises 26 International Monetary Fund member countries with Sovereign Wealth Funds (SWF). The Principles recognise that it is important for SWFs to demonstrate to their home countries, to the countries in which they are invested and to the international financial markets in general that they are properly established and that their investments are made on an economic and financial basis. The last of the 24 Santiago Principles requires IFSWF member SWFs to undertake a process of regular review of their implementation of the Principles as a whole. This document represents our compliance with this requirement. For further information, and previous copies of this review, see our website at <http://www.nzsuperfund.co.nz/index.asp?pageID=2145902303>

## The Santiago Principles

### GAPP 1

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

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

### Response

The legal framework and structure for the Guardians of New Zealand Superannuation ('Guardians', 'we', 'our') and the New Zealand Superannuation Fund ('Fund') are clearly and publicly disclosed in the New Zealand Superannuation and Retirement Income Act 2001 ('Act'). The full wording of the Act is available [here](#) and detail on our Independence from the New Zealand Government, our governance arrangements and the Guardians' responsibilities are available [here](#).

### GAPP 2

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

### Response

The purpose of the Fund is to reduce the tax burden on future taxpayers of the cost of New Zealand Superannuation. This intergenerational purpose is set out [here](#) and how the Fund specifically responds to the policy challenge of New Zealand's ageing population is explained [here](#). The purpose of the Guardians is to manage and administer the Fund. Both are expanded on in more detail in our Statements of Intent and Annual Reports. Statements of Intent are available [here](#) and Annual Reports [here](#).

### GAPP 3

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

### Response

This GAPP is not applicable as the Fund has no significant direct domestic macroeconomic implications.

## The Santiago Principles

### GAPP 4

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

o **GAPP 4.1 Subprinciple** The source of SWF funding should be publicly disclosed.

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

#### Response

The funding formula for the Fund is publicly disclosed on the Fund's website and on the website of the New Zealand Treasury <http://www.treasury.govt.nz/government/assets/nzsf/contributionratemodel> Under current Government projections, contributions made subject to the formula will resume in 2020 and withdrawals will begin in or about 2030.

### GAPP 5

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

#### Response

Performance data is reported monthly, publicly via the Fund's website [here](#), and directly to the New Zealand Treasury for incorporation within the Crown Accounts (which are published on the Treasury website). Additionally, the New Zealand Treasury produces quarterly performance assessment reports of the Fund which are available on its website [here](#).

### GAPP 6

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

#### Response

The New Zealand Superannuation and Retirement Income Act 2001 establishes clear operational independence for the Guardians and establishes standards of public accountability. It is available [here](#). Additionally the Guardians have a Delegations Policy that provides for clear separation, within the constraints of our enabling legislation, of governance (the Board) and management (the Executive) responsibilities. The Delegations Policy is available on our website [here](#).

## The Santiago Principles

### GAPP 7

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

#### Response

The objectives are set by statute as: managing in a prudent commercial basis in a manner consistent with:

- Best practice portfolio management;
- Maximizing return without undue risk;
- Avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

Procedures for appointing Board members are set out in the Act and are published on the Fund's website [here](#). Provisions for public accountability, including independent reviews at least five-yearly, are set out in the Act. Copies of all such reviews are published on our website [here](#).

### GAPP 8

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

#### Response

The Guardians sole purpose is to manage and administer the Fund and we have all the legal powers necessary to do so. The mandate is clear as set out above in response to GAPP 7. The Guardians have an ongoing focus on the capabilities needed to deliver our desired investment style and strategies. We report on this annually in our Statements of Intent and Annual Reports, referred to under GAPP 2.

### GAPP 9

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

#### Response

The Guardians have a Delegations Policy that provides for clear separation, within the constraints of our enabling legislation, of governance (the Board) and management (the Executive) responsibilities. A link to the policy is provided under GAPP 6.

## The Santiago Principles

### GAPP 10

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

#### Response

Accountability is established in our Act, which is available publicly (see links under GAPP 1). The Guardians are required to produce an Annual Statement of Intent and an Annual Report, both of which are public (and are tabled in Parliament – see GAPP 2). The Guardians also report quarterly to the Minister of Finance.

Our Delegations Policy clearly sets out accountabilities between Board and Management and a link to it is provided under GAPP 6.

### GAPP 11

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

#### Response

Our International Financial Reporting Standards-compliant and audited Annual Report is prepared annually, according to a deadline set by statute, and is available publicly on the Fund's website (see under GAPP 2). The Guardians also produce a Global Reporting Index overlay for our Annual Report, which is available via the same link.

### GAPP 12

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

#### Response

Financial statements in our Annual Report and Statement of Intent are annually audited in compliance with IFRS and with requirements specific to our organisation. Both are tabled in Parliament and published on the Fund's website (see GAPP 2).

## The Santiago Principles

### GAPP 13

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

#### Response

The Guardians have adopted a Board Charter and Employee Code of Conduct both of which are published on the Fund's website. The Charter is [here](#) and Code of Conduct is within our Human Resources Policy [here](#).

### GAPP 14

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

#### Response

All third-party dealings are based on economic and financial grounds. The Guardians have a variety of internal policies dealing with how they interact with third parties. These include policies relating to communication, procurement and outsourcing, and travel and sensitive expenditure (copies of which are available on our website [here](#)).

### GAPP 15

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

#### Response

The Guardians have no direct operations or activities in foreign countries. Through third-party sources, the Guardians actively monitor legislative developments in jurisdictions in which the Fund holds significant investments.

### GAPP 16

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

## The Santiago Principles

### GAPP 16 Response

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

### GAPP 17

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

### Response

Audited financial accounts are published in our Annual Report and Statement of Intent. Both are public and links to them have been provided under preceding GAPPs.

Fund size and absolute and relative returns are published on the Fund's website [here](#) and updated monthly.

### GAPP 18

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

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

### Response

Our Statement of Investment Policies, Standards and Practices (SIPSP) is available on the Fund's website [here](#). That link also provides access to the various policies that sit beneath the SIPSP and are referred to within it. We also produce a document describing how we invest, which is specifically designed to assist interested observers to understand more about why we exist, why we invest the way that we do, and our progress at meeting our objective. The document – *How We Invest* – is available on our website [here](#)

## The Santiago Principles

### GAPP 19

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

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

### Response

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

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

Within that mandate we have a commitment to Responsible Investment. This is based on our belief that sound governance and management of Environmental, Social and Governance risks leads to better long-term investment performance.

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

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

Our Responsible Investment Framework is available [here](#).

An overview of our investment approach, How We Invest, is available [here](#).

### GAPP 20

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

### Response

By virtue of our independence from the Government we have no access to privileged Government information.



## The Santiago Principles

### GAPP 21

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

#### Response

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

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

### GAPP 22

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

- o *GAPP 22.1 Subprinciple* The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function.

- o *GAPP 22.2 Subprinciple* The general approach to the SWF's risk management framework should be publicly disclosed.

#### Response

We discuss our general approach to risk management [here](#) and have published our Risk Management Policy (which deals with non-investment risk) to our website [here](#).

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

### GAPP 23

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

## The Santiago Principles

### GAPP 23 Response

On an annual basis, we report:

- absolute performance of the Fund relative to both our low-cost reference portfolio and to our performance reference point of New Zealand Treasury Bills plus 2.5% p.a. over time
- the value added to the Fund by classes of active management including the use of investment managers, unlisted assets, strategic tilting and portfolio completion activities
- all of our holdings in listed equities
- the external managers we have engaged (and terminated) and the strategies and asset classes relevant to each
- our expectations of risk and return for each financial year, and each five-year period on a forward-looking basis

The first four pieces of information are contained within our Annual Reports. The final piece is within our Statements of Intent. Links to both documents are provided in our responses to previous GAPPs.

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

- absolute performance of the Fund relative to the reference portfolio and to New Zealand Treasury Bills
- the value added to the Fund by active management
- the economic exposures in the Fund
- New Zealand economic exposures and New Zealand investment activity generally
- Other investment or operational activity of note

On a monthly basis (available [here](#) ) we report:

- our economic exposures, by asset class, but prior to any Strategic Tilting
- the returns of the Fund relative to New Zealand Treasury Bills
- our 10 largest domestic and international equity holdings
- the five largest movements in our equity holdings

### GAPP 24

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

### Response

We self-assess our implementation of the Santiago Principles at least biennially. This is the fifth such self-assessment since September 2009. Copies of

## The Santiago Principles

each such self-assessment are available [here](#). We note external reviews of our implementation of the Santiago Principles have generally been positive. Copies of these reviews are available through the same link.