

GUARDIANS OF
NEW ZEALAND
SUPERANNUATION



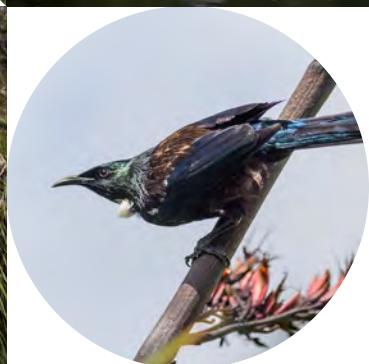
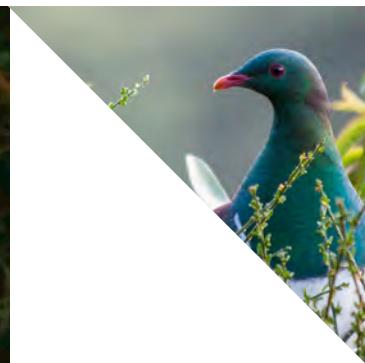
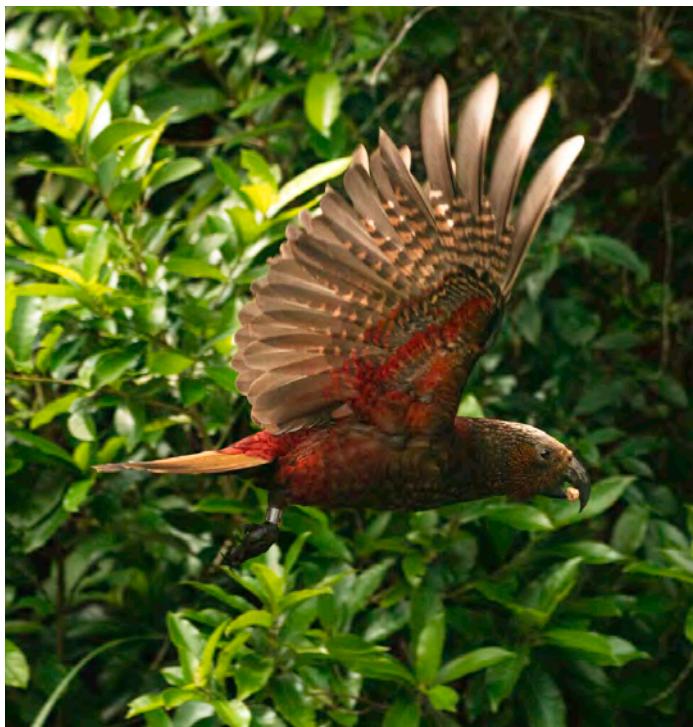
ANNUAL
REPORT
2023

THE **WISDOM** OF DIVERSITY



E koekoe te tūī, e ketekete te kākā, e kūkū te kererū

The tūī chatters, the kākā cackles, the kererū coos*



This whakataukī (proverb) reminds us of the true value of diversity.

The many birds of our native bush have different ways of communicating, different plumage and different ways of life, which all come together to create harmony and a vibrant thriving bush. Diversity is intrinsic in every healthy interdependent ecosystem, from strong and resilient investment portfolios through to high-performing and sustainable workplaces.



Diversification is a wise investment strategy and an even wiser approach to growing an organisation's capability and healthy culture.

We believe in fostering an inclusive workforce that reflects the variety of skills, experiences, perspectives and backgrounds of the communities we serve. After all, our purpose is sustainable investment delivering strong returns for all New Zealanders.

OUR PURPOSE:

**Sustainable investment delivering
strong returns for all New Zealanders**

**Kia toitū te haumi hei hua mā ngā
tāngata katoa o Aotearoa**

OUR VISION:

**An inclusive team creating a better
future through investment excellence**

**Mā te kotahi ā-kapa, mā te kounga
ā-haumi, ka tino eke ki tua**

2022/23 MAJOR ACHIEVEMENTS:

- Launched our first Rautaki Kanorau: Diversity, Equity and Inclusion Strategy.
- Completed the refresh of our Responsible Investment (RI) Compass strategy and continued to shift the NZ Super Fund towards a sustainable finance approach.
- Built data analytics capability and reviewed and re-scope our investment data programme.
- Started our shift to a new and improved document management system and intranet.

PRIORITIES FOR 2023/24:

- Design the Guardians of the Future, including reviewing our investment strategy and how the organisation best supports it to ensure scalability and a platform for growth for the future.
- Progress our investment data initiatives, including building our data analytics capability.
- Continue to deliver improved collaboration and communication tools, including shifting to a new and improved document management system and intranet.
- Mature our organisational diversity, equity and inclusion; and our integration and understanding of te Ao Māori.
- Implement Oracle HCM integrated cloud solution.

NZ SUPER FUND SIZE

\$65.40b

(EXCLUDING NZ TAX)



2022/23 RETURN

11.87%

(AFTER COSTS, BEFORE NZ TAX)



VALUE ADDED IN 2022/23

-\$102m

(VS REFERENCE PORTFOLIO BENCHMARK, AFTER COSTS)



VALUE ADDED OVER TREASURY BILLS SINCE INCEPTION (SEPTEMBER 2003)

\$41.59b

(AFTER COSTS)



VALUE ADDED OVER REFERENCE PORTFOLIO SINCE INCEPTION (SEPTEMBER 2003)

\$15.12b

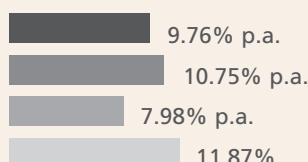
(AFTER COSTS)

NZ SUPER FUND RETURNS

As at 30 June 2023

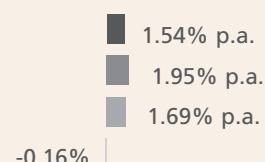
ACTUAL FUND RETURN

(after costs, before NZ tax)



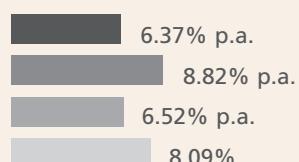
VALUE ADDED BY THE GUARDIANS

(compared to passive Reference Portfolio benchmark)



RETURN OVER TREASURY BILLS

(returns over and above the Treasury Bill return – the Government's marginal cost of debt)


● Since inception (September 2003)

● 10 years

● 5 years

● 1 year

201-1



HOW TO READ THIS REPORT

This Annual Report has been prepared in accordance with the 2021 Global Reporting Initiative (GRI) Standards. It describes the performance of the New Zealand Superannuation Fund ('NZ Super Fund' or 'the Fund'), the Elevate NZ Venture Fund ('Elevate'), and the Guardians of New Zealand Superannuation ('Guardians'), the autonomous Crown entity that manages the funds, over the 2022/23 financial year.

The Overview of the Guardians section includes a performance summary, who we are and what we do, key achievements, our future priorities and Statement of Performance. For more detail, the remainder of the report details important aspects of the Guardians and its funds: investment performance and activities, sustainable investment, governance and the financial statements.

An overview of the report, and supplementary information, are available on our website. The supplementary information includes a Climate Change Report against the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD), a GRI Index and a list of the NZ Super Fund's portfolio holdings as at 30 June 2023.

Previous Annual Reports are available on our website.

We welcome feedback to help us improve our reporting. Comments can be directed via email to enquiries@nzsuperfund.co.nz.

01

OVERVIEW OF THE GUARDIANS

This section provides high-level information on the purpose and mandate of the Guardians and its funds. It also features our Statement of Performance and provides detail on our people-related initiatives.

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GOVERNANCE

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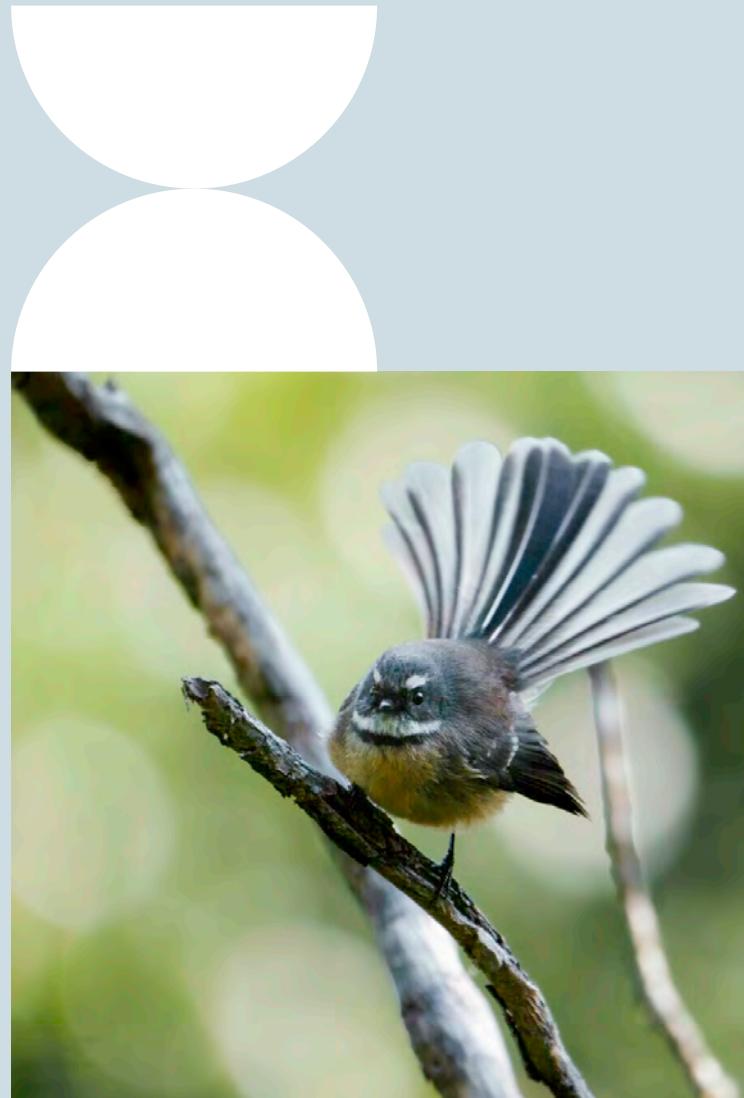
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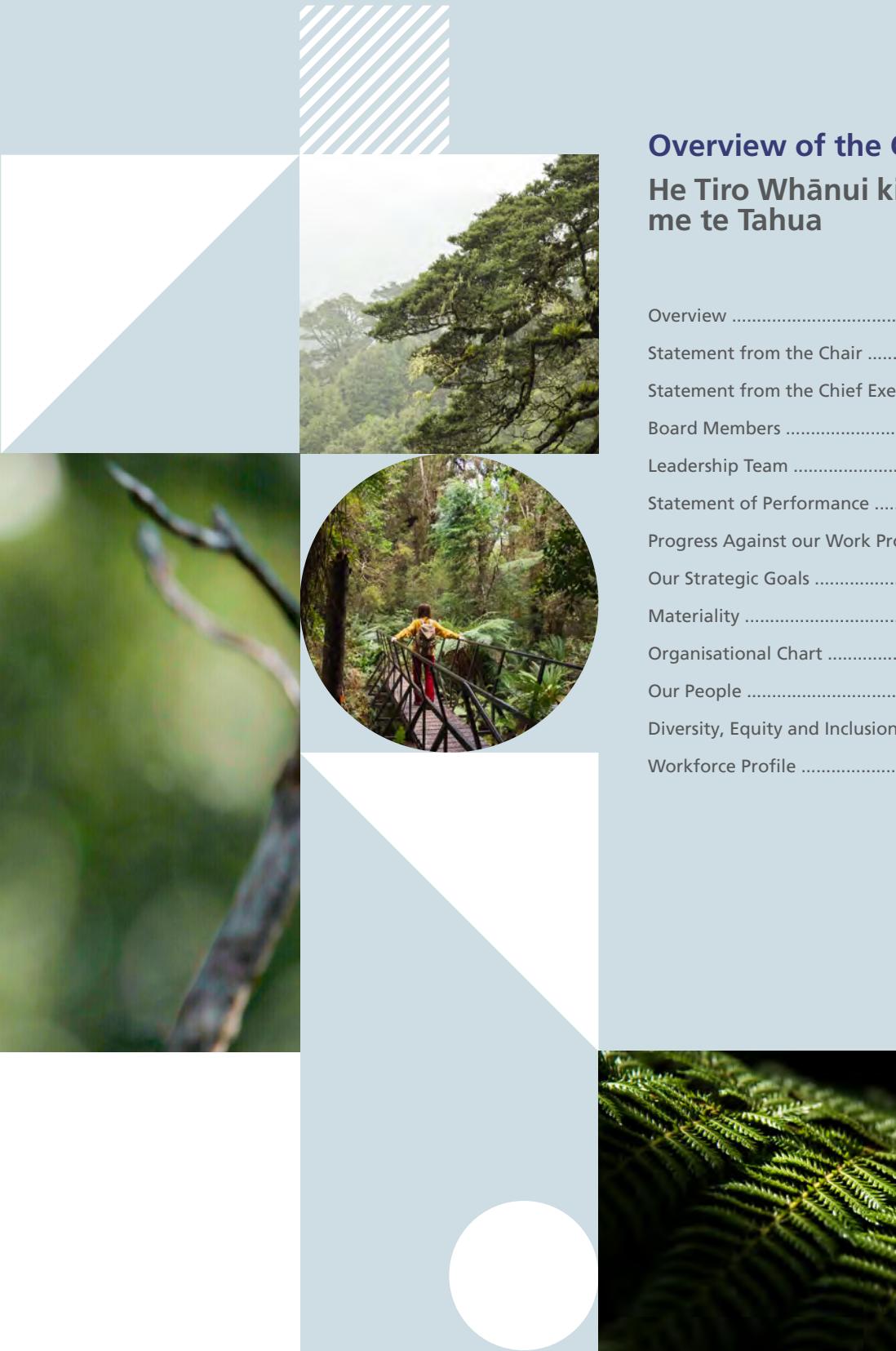
APPENDIX

Where possible, we have tried to avoid the use of industry-specific words and language. In some cases, however, in the interest of brevity and clarity, these words are unavoidable. Industry terms are explained in our Glossary. This section also provides our compliance statements and Good Employer Reporting.	
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**FEATURED NATIVE
BIRDS IN THIS
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Kākā.....	Inside front cover
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Overview of the Guardians

He Tiro Whānui ki ngā Kaitiaki me te Tahua

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OVERVIEW

Our mandates

The Guardians is responsible for managing two mandates: the New Zealand Superannuation Fund and the Elevate NZ Venture Fund.

The Guardians of New Zealand Superannuation was established by the New Zealand Superannuation and Retirement Income Act 2001 (the Act). At the time, the Guardians' sole function was to manage the New Zealand Superannuation Fund. In 2019, the Government gave the Guardians a second mandate, the Elevate NZ Venture Fund.

NZ SUPER FUND

New Zealand Superannuation (NZ Super) is the government pension paid to New Zealanders aged 65 and over. Universal NZ Super is a key reason why New Zealand has low rates of poverty among over-65s. Currently, the Government pays for NZ Super through taxes paid by today's taxpayers. But New Zealand has an ageing population: each year, the proportion of New Zealanders who are over 65 and receiving NZ Super increases, and the proportion of taxpayers decreases.

In 2022, the Government made payments to over-65s of around \$18 billion. Over the next 10 years, that's expected to roughly double. This demographic pressure is the reason the Government created the NZ Super Fund. It's a way for the Government to save now, in order to give future governments more room in their accounts to maintain NZ Super payments in the future. To date, the government has contributed \$24.9 billion to the NZ Super Fund and the NZ Super Fund has paid \$9.5 billion in tax to the Crown. Contributions are intended to continue until the mid-2030s, at which time the Government will start drawing down from the NZ Super Fund to help fund NZ Super.

By the mid-2070s, when the NZ Super Fund is projected to be at its peak as a percentage of GDP, withdrawals and tax payments combined will cover approximately 18% of the total annual net cost of superannuation. Most importantly, the Fund will meet the majority of the incremental cost increase caused by this demographic pressure, reducing the need to raise taxes or reduce other spending to maintain NZ Super. The Fund, therefore, has a smoothing effect – improving the ability of future governments to pay for NZ Super.

As set out in the Act, it is our job to invest the NZ Super Fund on a prudent, commercial 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.

The NZ Super Fund's performance is set out in further detail on pages 34-45.

ELEVATE

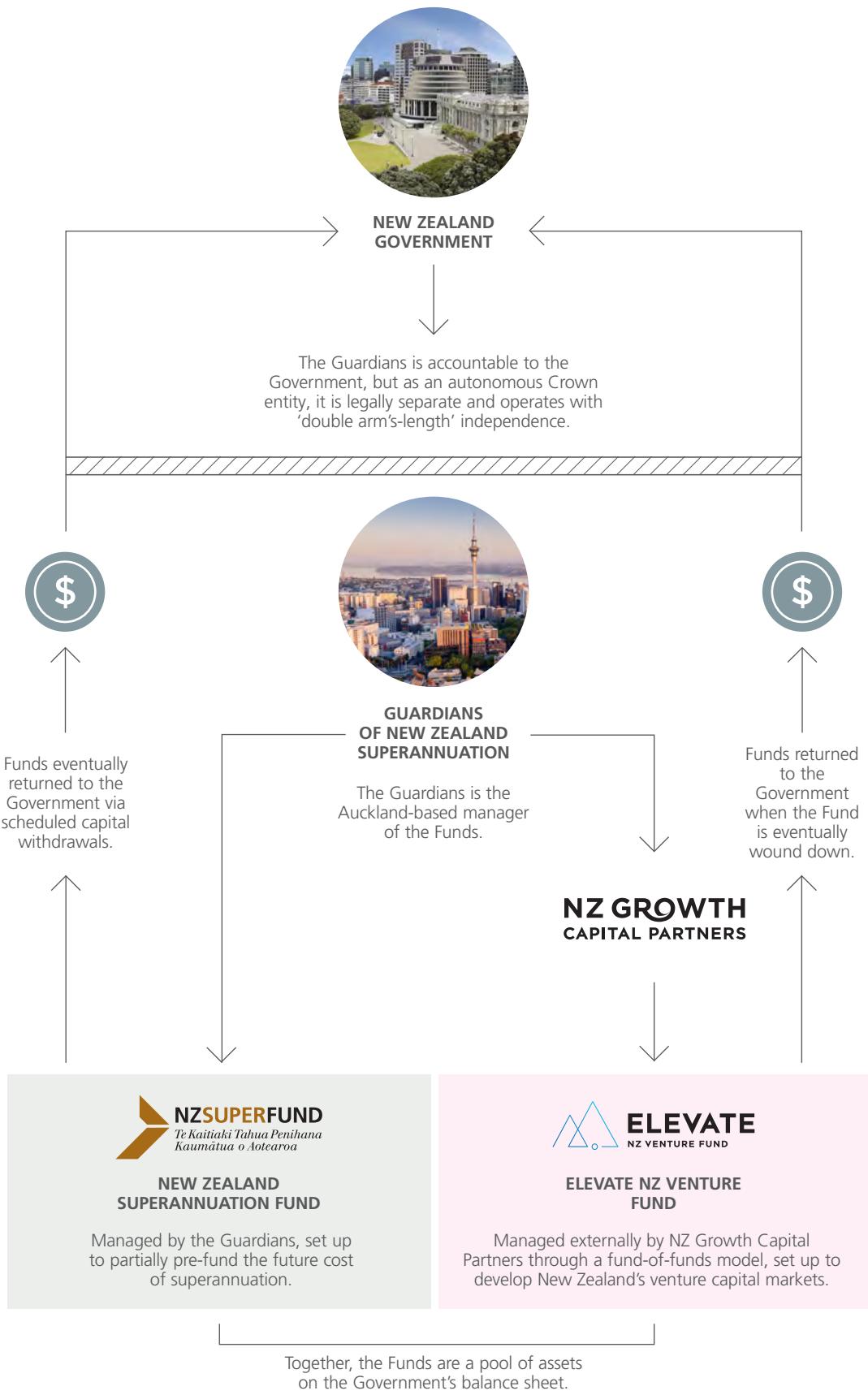
The Elevate NZ Venture Fund, which was established by the Venture Capital Fund Act 2019, is a government initiative aimed at growing more innovative industries in New Zealand. It aims to attract private sector investors to the domestic venture capital market to grow innovative, knowledge-intensive businesses. This is an important step towards future-proofing the New Zealand economy in a time of rapid technological change. Elevate is designed to support investments into New Zealand companies that have moved beyond the start-up, or "angel" investor stage, and need capital for further development.

The Government believes that there is a gap in these early-stage capital markets in New Zealand, leading to many innovative young companies heading offshore for capital. Elevate supports early-stage companies and encourages private investors into the domestic venture capital market by providing matching capital. The aim is to develop the early-stage capital ecosystem in New Zealand, growing new venture capital managers and supporting innovation in the economy.

The Government tasked the Guardians with overall responsibility for Elevate because of our experience as an institutional investor. Elevate is a fund-of-funds programme and is managed on behalf of the Guardians by New Zealand Growth Capital Partners Limited (NZGCP) (formerly the NZ Venture Investment Fund). Our role is to govern and oversee NZGCP to ensure best-practice investment management in the context of venture capital markets in New Zealand. Under the Venture Capital Fund Act 2019, we must manage and administer Elevate in a manner consistent with:

- A policy statement released by the Government on 19 December 2019; and
- Avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

Elevate's performance is set out in further detail on pages 62-65.



STATEMENT FROM THE CHAIR
TE TAUĀKĪ A TE TOIHAU



CATHERINE DRAYTON
 CHAIR

Tēnā koutou,

I tū tonu te mōrearea ā-mākete i kitea rā i te tau pūtea o tērā tau i te tau 2022/23. I ākina e te maha o ngā āhuatanga e rite ana i kitea rā e mātou kotahi tau ki muri: ko te aumou o te pikuingo o ngā utu ahakoa te pikuingo o ngā pāpātanga huamoni, ko te wehi i te auheke ohaoha, ko te rere tonu hoki o ngā pāngā o te urutomo a Rūhia ki Ūkareina.

I kaha te piki mai anō o ngā tūtanga ā-ao i te haurua tuarua o te tau, ā, i noho tēnei kaha haeretanga hei tūāpapa mō tētahi hua tino pai mō ngā Kaitiaki. I hoki mai ki te Tahua te tapeke more o te 11.9% mō te tau. I pāi noa ake te whai hua o te paeraro o te Paerewa Tūāpapa tēnā i tō tērā tau. I memeha te kaha o te whai hua i ētahi o ā mātou haumi mōrea nui, otirā, i tā mātou Rautaki Honga e whakahaeheria ana i roto tonu i te whakahaeheria, nā te ngoikore ake o te whai hua i ētahi atu haumitanga, arā, kāore i eke te whai hua o te Paerewa Tūāpapa mō te tau ina whakatauritea ki te kaha noa ake o te whai hua o tērā tau. Ka whakatauritea te -\$102m o te korenga i eke ki tā mātou whāinga pae-tawhiti o te 1.0% i te tau, kia whai hua ake te tū me te hua o te 1.5% i te tau kua tutuki kē mai anō i te tīmatanga.

I te tekau tau kua hori, kua whakaputaina e te Tahua Penihana Kaumātua tētahi hua haumi ā-tau, 10.8%, nei tōna nui, kei tua tērā o te paeraro o te Paerewa Tūāpapa, ā, nā reira i \$9.9 piriona ai te nui ake o te uara tāpiri i whakaputaina ai ki ngā tāngata o Aotearoa. I te 30 o Hune, 2023, ko te \$65.4 billion piriona te nui o te Tahua Penihana Kaumātua, ā, e matapaetia ana ka eke ki tua o te \$110 piriona hei te taenga ki te mutunga o tēnei tekau tau.

I angitu tā mātou kōkiri i ētahi take mātāmua ā-rautaki i te roanga o te tau, ko ētahi o aua take, ko te whakaurunga o tā mātou Rautaki Tahua Toitū ki tā mātou tukanga haumi me ā mātou tikanga haumi; ko te tīmatanga o te whakatinanatanga o tā mātou Mahere Haumi ā-Pāngā; ko te kōkiritanga o te kaupapa o te raraunga ā-haumitanga ka noho hei tūāpapa mō tō mātou kaha ki te panoni i tō mātou nui hei ngā tau kei te heke mai; ko te kōkiri hoki i tā mātou rautaki mō te kanorautanga, mō te tōkeke me te whai wāhitanga.

Tēnā koutou,

The market volatility that was a feature of the previous financial year continued during the 2022/23 year. It was driven by many of the same factors we noted a year ago: persistent inflation despite rising interest rates, fears of a recession, and the ongoing effects of Russia's invasion of Ukraine.

Global equities bounced back strongly during the second half of the year, and this recovery underpinned a solid result for the Guardians. The Fund earned a total after-costs return of 11.9% for 2022/23. The Reference Portfolio benchmark performed much better than last year. Strong performance from some of our active investments, in particular our internally-managed Strategic Tilting Strategy, was offset by weaker performance in others; this means we underperformed the Reference Portfolio for the year, compared with last year's substantial outperformance. The -\$102m of underperformance compares with our long-run target of 1.0% p.a. of outperformance and our achieved result since inception of 1.5% p.a.

Over the past 10 years, the NZ Super Fund has generated an annualised return of 10.8%, outperforming the Reference Portfolio benchmark and generating added value for New Zealanders of \$9.9 billion. As at 30 June 2023, the NZ Super Fund stood at \$65.4 billion (before tax), and is projected to reach more than \$110 billion by the end of this decade.

We successfully progressed a number of strategic priorities over the year, including integrating our Sustainable Finance Strategy into our investment process and practices; commencing the implementation of our Impact Investment Plan; progressing the investment data initiative which will be foundational to our future scalability; and advancing our Diversity, Equity and Inclusion Strategy.

He maha ngā kaupapa whakaihihi kua rere, ko tētahi o ērā ko tā mātou mahi e rere tonu ana i te taha o Copenhagen Infrastructure Partners (CIP) ki te tūhura i te pitomata kei roto i te pūngao hau ki tai e whānui rawa atu ana mō Aotearoa.

Hei māngai mō te Poari whānui, e rere nei ngā mihi poroporoaki ki a Rosemary Vilgan i rihaina rā i a Mei, me ngā mihi whakatau i a Fiona Oliver, i kopoua ai ki te Poari i a Āperira. E rere ana anō hoki ngā mihi i te kopounga anō o Doug Pearce tae atu ki a Hepetema 2024. Ka noho te mātauranga ā-whakahaere me tana mātanga i ngā take ā-ao hei pūkenga whai hua mō te Poari i a mātou ka anga whakamua ki te kopounga o tētahi Tumu Whakarae i tēnei tau me ētahi mema hou e rua mō te Poari hei te tau 2024.

E rere atu nei āku mihi ki te Poari me te tīma whānui o ngā Kaitiaki i tā rātou ū ki ā rātou mahi i te roanga o te tau. Ko te mahi tahi a ā mātou kaimahi e titikaha nei, e whai pūkenga nui nei, te tūāpapa o te angitu o ngā Kaitiaki i ngā whakahaeretanga i te Tahua Penihana Kaumātua. Ka whai rātou i ngā tikanga whai hua katoa e whāia ana e te ao mō te taha whakahaere, e taunakihia ana i roto i te mihi tonu mai a te ao e pā ana ki ngā whakatutukihanga, ki te toitū me te whakapūrongo i ngā haumitanga.

Ki konei kōrerohia ai te wehenga o tā mātou Tumu Whakarae, o Matt Whineray, ka wehe nei i a mātou hei te mutunga o te tau. Kua whai wāhi a Matt ki ngā Kaitiaki mai anō i te tau 2008, kua tū hei Tumu Whakarae mai i te tau 2018. Inā kē te nui o ngā hua kua puta i a Matt i te roanga o aua tau tekau mā rima, otirā, i tana tū hei kaiārahi i ngā tau whakapātaritari o te mate urutā. Ka mahue mai ko te mōhiotanga ki tana ū kia eke ngā Kaitiaki ki te taumata i te ao whānui, ki tana whai i te tika hei painga mō te tangata, ki tana whakauru hoki i te haumitanga toitū ki tā mātou whāinga ā-whakahaere me ngā rautaki haumi. Tēnei te ngākau te whakamānawa atu nei i a Matt i tana kaiārahitanga me tana mātau, ā, ko te tūmanako ka whai painga katoa ia i ngā tau kei te heke mai. E whakatauira ana te tohua o Te Tahua Penihana Kaumātua o Aotearoa e Global SWF hei kaihaumi whai hua katoa i ngā tau tekau kua hori i te mahi rawe a te tīma o ngā Kaitiaki nā Matt tonu i ārahi.

E anga whakamua ana mātou ki te rerenga tonutanga o te angitu me te whanaketanga i ngā Kaitiaki hei te tau 2023/24, i raro i te maru o tētahi Tumu Whakarae hou.

Hei konā mai
Nā Catherine Drayton

We have a number of exciting projects underway, not least our ongoing work in partnership with Copenhagen Infrastructure Partners (CIP) to explore the potential for large-scale offshore wind energy for New Zealand.

On behalf of the entire Board, I would like to thank Rosemary Vilgan, who resigned in May, and welcome Fiona Oliver, who was appointed to the Board in March. I would also like to acknowledge the reappointment of Doug Pearce until September 2024. Doug's institutional knowledge and global expertise will be a valuable asset for the Board as we anticipate the appointments of a new Chief Executive this year and two new Board members in 2024.

This brings me to the departure of our Chief Executive, Matt Whineray, who will leave us at the end of the year. Matt has been with the Guardians since 2008, serving as Chief Executive since 2018. Matt's contribution throughout his 15 years, and especially his leadership during what has been a particularly challenging pandemic period, has been immense. His legacy will be his commitment to making the Guardians world-class, to doing the right thing by our people and to incorporating sustainable investment into our organisational purpose and investment strategies. It is with great gratitude that we thank Matt and wish him all the best for the future. He will be missed for his leadership, and his unassailable commitment to our Vision, our Purpose and our Values. The NZ Super Fund being named by Global SWF as the best-performing investor over the last 10 years is a testament to the great work of the Guardians' team that he has led.

We look forward to continued success and progress at the Guardians in 2023/24, under the stewardship of a new Chief Executive.

Hei konā mai
Nā Catherine Drayton

**STATEMENT FROM THE CHIEF EXECUTIVE
TE TAUĀKĪ A TE TUMU WHAKARAE**



MATT WHINERAY
CHIEF EXECUTIVE

Tēnā koutou,

Ka mutu taku whai wāhi ki ngā Kaitiaki hei te whiore o tēnei tau, kua neke atu i te tekau mā rima tau taku noho ki tēnei tīma rawe. I a tātou ka kainamu atu ki te mutunga o te tau 2023, ka eke te Tahua Penihana Kaumātua o Aotearoa ki tōna tau rua tekau mai i te tīmatanga o tana haumi pūtea. E ngākau whakapuke nei ki taku whai wāhi ki te whakapapa o ngā Kaitiaki, ko au tētahi o te kāhui hoa o te tīma me tētahi o ngā mema o te Poari kua mahi tahi ki te whakatutuki i tā mātou whāinga: Kote haumi toitū e nui ai ngā hua haumi ka hoki mai mō ngā tāngata katoa o Aotearoa.

Kua wātea au i tēnei Pūrongo ā-Tau ki te huritao i ngā whakatutukihanga o tēnei tau, tae atu ki ngā mea kua tutuki i ngā tau e rua tekau kua hori.

Mai i taku taenga ki ngā Kaitiaki i te tau 2008, kua āta mātaki au i ngā mahi a ngā tahua taurite huri i te ao. Kua mākohakoha tā rātou tuku mai i te mātauranga me ngā rautaki i āwhina rā i a mātou kia ōrite ai tā mātou whai i ngā tikanga whai hua katoa o te ao e tere whanake ana, i te whakahaere huinga haumitanga. Mai i te wā i tīmata ai taku toro haere i aua aropā kua roa ake e tū ana, kua āritarita ki te wā e taea ai e tātou te tīmata ki te pūrongo i a tātou hua haumi e rere ana i ngā tau e 20 - koia tētahi inenga e maharatia nei e mātou he inenga matua hei tohu i te angitu o tētahi tahua mauroa. I a Hepetema o tēnei tau, ka taea e tātou te whakataurite atu ki taua inenga rā. Ehara i te mea kāore ngā hua wā-poto e whakahirahira ana ki te arorukihanga o te whanaketanga. Heoi, kāore e pērā rawa ana te whai take o ngā inenga wā-poto, tēnā i tō ngā inenga wā roa ake hei whakawā i te hāngai o a mātou mahi ki tā mātou whāinga.

I taku noho ki ngā Kaitiaki, kua nui ngā akoranga e pā ana ki ngā tikanga o te whai rawa ā-ao. Kua ākona te hiranga matua o te hautūtanga hei tūāpapa mō te angitu ā-haumitanga. Mātua rā, ko te mana motuhake o te whakatau me te māramatanga e pā ana ki te tangata e kawe ana i te haepapa o te whakatau, waihōki te kaha ki te ine i te angitu o aua whakatau i roto i te wā me te ako i muri i te putanga o ngā hua, pai mai, kino mai. I rave te mahi a Tā Michael Cullen, kua riro ki tua o te ārai, hei whakaū i te mana motuhaketanga ā-arumoni ki te hanganga ā-hautūtanga o te Tahua - i tuhia rā e ia kaiarotake o waho i ngā Kaitiaki i roto i ngā tau.

Tēnā koutou,

I will finish up with the Guardians later this year after more than 15 years as part of this great team. As we approach the end of 2023, the NZ Super Fund will mark 20 years since it began investing. I am very proud to be part of the whakapapa of the Guardians, one of the many team-mates and Board members who have worked at the Guardians to achieve our Purpose: Sustainable investment delivering strong returns for all New Zealanders.

I have an opportunity in this Annual Report to reflect on what we have achieved this year, as well as what we have achieved over the past 20 years.

Since I arrived at the Guardians in 2008, I have been a keen observer of the activities of our peer funds around the world. They have been generous in sharing their knowledge and approaches. Since I began visiting those more-established peers, I have been looking forward to the point at which we too could start reporting our 20-year rolling returns – a metric that we consider a key measure of the success of a long-term fund. As of September this year, we will be able to report against that metric. This is not to say that shorter-term returns are not important for monitoring progress, but short-term measures are less useful in assessing our performance than their long-term counterparts.

In my time at the Guardians, I have learnt a great deal about the art and science of global asset ownership. I have learnt the critical importance of governance as a foundation for investment success. Independent decision-making, combined with clarity about who is responsible for which decision, is paramount, as is being able to measure the success of those decisions through time. The late Sir Michael Cullen did a great job of embedding that commercial independence into the Fund's governance architecture – as noted by successive external reviewers of the Guardians.

Kua ako au i te hiranga o te whakatakoto i ō mātou whakapono ā-haumitanga me ā mātou pūtea matua hei kaihaumi - he aha ngā painga ā-whakataetae kei a tātou? E torutoru ana, engari e hiranga ana. Waiwai ana te whakahāngaitanga o tā mātou rautaki haumi e whai hua katoa ai aua pūtea matua ki tō mātou angitu mauroa. Ka mate hoki mātou i ngā rītaha ā-whanonga o ērā atu i te mākete; ka whai mātou kia mārama pū aua āhuatanga, ā, ka whakarite i a mātou anō kia puta te ihu i ērā.

Kua ako hoki au, he mea tino nui te whai kia rerekē ngā purutanga haumitanga mōrea nui me te mōreareatanga i te mākete. Māna te kore ka hē i ngā mākete. Me āta whakatau te rahi o ā mātou rautaki haumi kia puta ai te ihu o te whakahaere ahakoa ka hinga ērā haumitanga.

Ko ngā tūraru nui katoa e rua hei kaihaumī wā-roa, ko te wetekanga o te tautoko a ō mātou hunga whai pānga me te pau o te pūtea wātea. I ngā tau e 20 kua hori, kua whai hua tā mātou haumi tonu ahakoa ngā auheke nui o te mākete, me te āta whakahaere i ngā pūtea wātea e taea ai te whai wāhi atu ki ngā haumitanga ka puta. Kua tuwhera, kua pūataata hoki mātou ki ō mātou hunga whai pānga e whai pārongo ai rātou e pūmau ai tō rātou whakapono mai ki a mātou. E mōhio nei mātou he mahi mutunga kore mā mātou katoa te whakahaerenga o aua tūraru e rua, me ngā āhuatanga katoa ka tau ki ō mātou aroaro.

Me hūmārie ka tika - wai ka hua, wai ka tohu? Ko ngā mākete i kitea rā mai i te timatanga o te haumi a te Tahuā tētahi noa iho o ngā putanga e hia nei tērā tonu ka puta i ngā āhuatanga o te tau 2003. Ko te toharite o te pakeketanga o tō mātou tīma, ko te 41; kāore anō mātou kia mate ki te haumi i te mauroa o ngā auhekenga ā-ōhanga i ngā mākete, i te ūhangā ā-ao rānei, i tētahi ao rānei e teitei ana, e mauroa ana hoki te pikinga o ngā utu, engari kua haumi pūtea mātou i tētahi tairaru ā-ahumoni i pā ki te ao whānui, i te mate urutā me te pakanga. I ia rā he wero hou ka ara ake. Me hūmārie mātou i te putanga o ngā momo tūraru whānui me ngā putanga tērā tonu ka pā. E whai wāhi ana ki tēnei, te take waiwai o te huringa āhuarangi me ngā tūraru e hāngai ana, e pā ana ki te kanorau koiora me te tūkinotanga ā-taiao.

I whakaritea te Tahuā hei whakangāwari i te utu e piki haere nei o te penihana kaumātua whānui. Nā konei, he pae tino tawhiti tō te Tahuā. Me te aha, e aro nui ana mātou ki te uara o ngā rawa i te roanga o te wā tino roa, e aro nui ana mātou ki te pānga o ā mātou haumitanga ki ngā putanga ā-taiao me ngā putanga ā-hapori ka puta i te wā roa, nā te mea ka whai pānga ērā ki ngā hua wā-roa ka hoki mai i ngā haumitanga. He tūāpapa waiwai tonu tēnei nō tā mātou rautaki e toitū ai te ahumoni, ā, e ngākau whakapuke nei au i tā tātou tū hei kaiārahi i ēnei āhuatanga.

Nāwai i tīma paku me tētahi tauira nō waho, kua tupu ki tōna taumata o tua o te haurua o ā mātou rawa me te nuinga o ā mātou tūraru mōrea nui e whakahaerehia ana e mātou tonu. E tutuki ai tēnei, me whai pūkenga, me manaaki hoki te tīma, tētahi i tētahi, ā, me ū ki te whai i te kairangitanga ā-haumitanga. E poho kererū ana au i whai wāhi au ki te tīma kua tū hei kaitiaki mō te Tahuā ā mohoa nei, i muri i te 20 tau o te haumitanga. E rere ana aku mihi ki te tīma o ngā Kaitiaki i tā rātou ū ki ngā mahi hei whakatutuki i tā mātou whāinga - nā tēnei tīma rawe e tutuki nei ngā mahi. E titikaha nei aku whakaaro ki te noho tonu a te tīma hei kaitiaki mō te pūtea a Aotearoa i ngā tekau tau e haere ake nei.

Hei konā mai
Nā Matt Whineray

I have learnt the importance of being clear in our investment beliefs and our endowments as an investor, asking what competitive advantages do we have? They are few, but important. We suffer the same behavioural biases as everyone else in the market; we try to be explicit about those and set ourselves up to weather them. Aligning our investment strategy to make the most of those endowments is equally critical.

I've also learnt that it's critical to diversify both active investment positions and market exposures. Being wrong is inevitable in markets. Investment strategies must be sized so that, if they fail, they're survivable.

The two biggest risks for us as a long-term investor are losing the support of our stakeholders, and running out of liquidity. Over the past 20 years, we have continued to invest positively in the face of significant market turmoil, managing our liquidity carefully and being open and transparent with our stakeholders so they have the information they need to enable their trust and confidence in us to be retained.

Humility is fundamental – the future is not ours to know. The markets we have seen since the Fund began investing are just one draw of the cards from an infinite number of possibilities that existed in 2003. Our team members have an average age of 41; we haven't had to invest through sustained downturns in markets or the global economy, or in a world where inflation is high and persistent. Every day brings new challenges. We need to be humble in the face of the wide range of risks and potential outcomes. This includes, critically, climate change and related risks in terms of biodiversity and environmental degradation.

The Fund is designed to smooth out the rising cost of universal superannuation. This means the Fund has a very long time horizon. As a result, we care about the value of assets over the very long term; we care about the impact of those investments on long-term environmental and social outcomes, because those, in turn, will have an impact on our long-term returns. This is a critical underpinning of our approach to sustainable finance, and I am proud of the leadership we have shown in this space.

Beginning from a small team and an outsourced model, we have evolved to the point where more than half of our exposure and most of our active risk is managed in-house. To do this, we need a capable and inclusive team committed to investment excellence. I am proud to have been part of the team that has served as kaitiaki (Guardians) of the Fund up until this first waypoint, 20 years of investing. I am confident that the team will continue to be careful stewards of New Zealand's pūtea (wealth) in the decades to come.

Hei konā mai
Nā Matt Whineray

BOARD MEMBERS

DOUG
PEARCECATHERINE
DRAYTONJOHN
WILLIAMSONHENK
BERKMANFIONA
OLIVERDAVID
MCCLATCHY**DOUG PEARCE**

BCom, ICD.D

CHAIR OF THE AUDIT COMMITTEE
APPOINTED TO THE GUARDIANS'
BOARD IN 2016*Committee:*
Audit (Chair)**CATHERINE DRAYTON**

LLB, BCom, CFIInstD, FCA

CHAIR OF THE GUARDIANS' BOARD
APPOINTED TO THE GUARDIANS'
BOARD IN 2018*Committees:*
Employee Policy and
Remuneration and Audit**JOHN WILLIAMSON**

BA, LLB, LLM, CMInstD

**CHAIR OF THE EMPLOYEE POLICY
AND REMUNERATION COMMITTEE**
APPOINTED TO THE GUARDIANS'
BOARD IN 2016*Committee:*
Employee Policy and
Remuneration (Chair)**HENK BERKMAN**

PhD, MCom

APPOINTED TO THE GUARDIANS'
BOARD IN 2018*Committee:*
Audit**FIONA OLIVER**

LLB, BA, CFIInstD

APPOINTED TO THE GUARDIANS'
BOARD IN 2023*Committees:*
Audit and Employee Policy
and Remuneration**DAVID MCCLATCHY**

BCom

APPOINTED TO THE GUARDIANS'
BOARD IN 2021*Committee:*
Audit**CHANGES TO THE BOARD**

The Board's composition changed during the year with the appointment of Fiona Oliver on 24 March 2023 for a term ending on 30 September 2027, and the resignation of Rosemary Vilgan in May 2023.

For full bios of our Board members, see pages 84 – 85.

LEADERSHIP TEAM



MARK FENNELL — GEORGE CROSBY — PAULA STEED — MATT WHINERAY — MIKA AUSTIN — DAVID SARA — CRISTINA BILLETT — STEPHEN GILMORE

MARK FENNELL

MSocSci (Hons), DipAcc,
CA, CTP

GM RISK

Areas of responsibility:
Enterprise risk, records
management, portfolio
risk, data services,
operational compliance.

PAULA STEED

BCA, CA

**GM STRATEGY AND
SHARED SERVICES**

Areas of responsibility:
Investment operations,
financial control, financial
reporting, tax, external
audit process and
corporate strategy.

MIKA AUSTIN

BA, LLB

GM HUMAN RESOURCES

Areas of responsibility:
People and performance,
culture, administration.

CRISTINA BILLETT

LLB (Hons)

GM CORPORATE AFFAIRS

Areas of responsibility:
Board secretariat,
communications, legal.

GEORGE CROSBY

BCom, LLB

**GM PORTFOLIO
COMPLETION**

Areas of responsibility:
Treasury operations,
including passive exposure,
currency overlay, liquidity
management and
portfolio rebalancing,
portfolio investments.

MATT WHINERAY

BCom, LLB (Hons)

CHIEF EXECUTIVE OFFICER

Areas of responsibility:
General management of
the Guardians under
delegation from the
Board.

DAVID SARA

BMS (Hons), MBS (Dist)

GM TECHNOLOGY

Areas of responsibility:
Business solutions, cloud
operations, service desk,
data technology, cyber
security.

STEPHEN GILMORE

BCom, MCom, CA

**CHIEF INVESTMENT
OFFICER**

Areas of responsibility:
Asset allocation, strategic
tilting, data analytics,
sustainable investment,
external investments and
partnerships, direct
investment.



For bios of our Leadership Team, visit:
www.nzsuperfund.nz/nz-super-fund-explained-management/leadership-team

STATEMENT OF PERFORMANCE

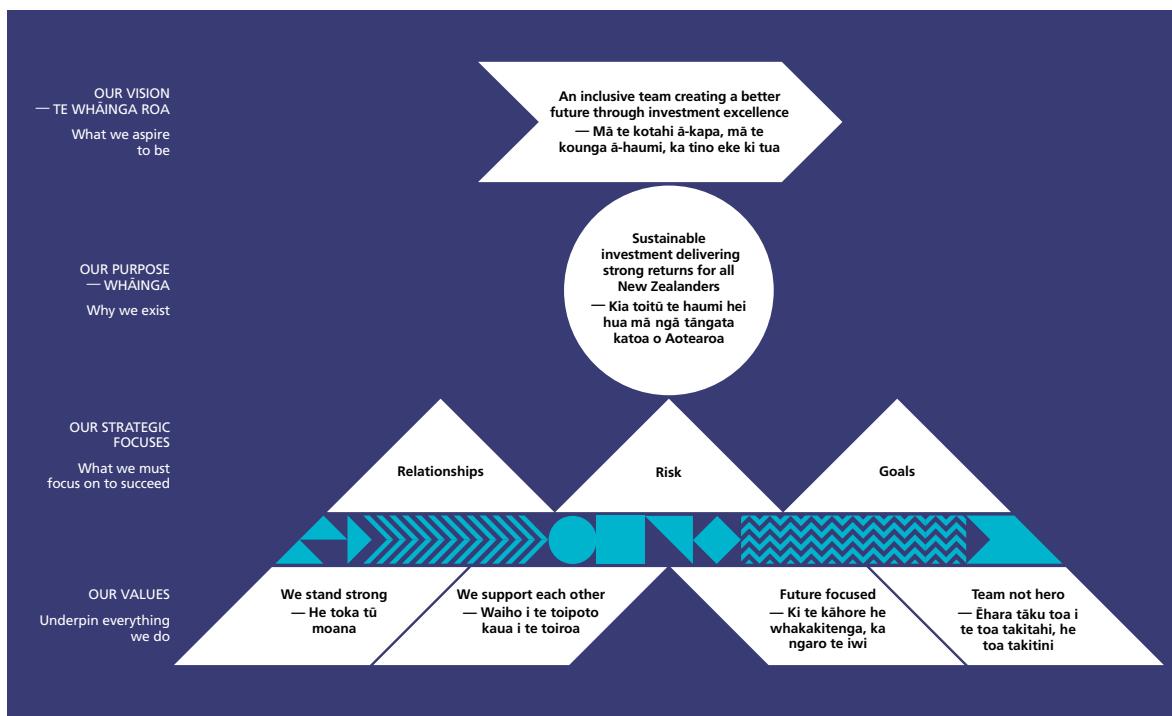
Statement of Performance

The Guardians' function is to manage two mandates: the New Zealand Superannuation Fund (NZ Super Fund) and the Elevate NZ Venture Capital Fund (Elevate).

GUARDIANS AND NZ SUPER FUND

The Guardians has an important role to invest the NZ Super Fund on behalf of the Government, which is vital to help pay for the increasing cost of universal superannuation entitlements in the future. We need to make choices for how we best fulfil this role, both in terms of how we invest and in how we support investments. Our founding legislation and strategic framework help guide these choices.

Our strategic framework outlines how our Purpose and Vision will be delivered and reinforces what we must focus on to succeed.



Relationships: In addition to the Crown, Parliament and the Minister of Finance, we build and manage relationships with a wide range of stakeholders. How we manage our key relationships is outlined on pages 93-94.

Risk: Taking risks is an integral part of what we do as an investor. Understanding and managing them helps us ensure the risks taken are appropriate for the returns anticipated. We use all reasonable measures, without imposing excessive costs or constraints, to manage risks and maximise outcomes. How we manage risk is outlined on pages 95-97.

Goals: We have strategic goals that provide us with a medium-term focus to build the capabilities and capacity required to deliver our Purpose and Vision. Aspects of these goals are things that we already do that we need to keep doing. Others are things that need to evolve as the Guardians matures and the NZ Super Fund increases in size, or that we need to target to reflect the changing environment around us. Our strategic goals are outlined on page 24.

ELEVATE

We have a governance and oversight role in relation to Elevate, helping to ensure it is being invested in line with best practice for institutional investment in New Zealand venture capital markets. As was anticipated in the Venture Capital Fund Act 2019, we appointed New Zealand Growth Capital Partners Limited (NZGCP) as the external manager for Elevate. Our Investment Report for Elevate is on pages 62-65.

As the outcome of each mandate is different, we have specific measures to understand our performance against each. These measures, and our performance against them, are outlined within this Statement of Performance.

THE ULTIMATE GOAL

PURPOSE

Sustainable investment delivering strong returns for all New Zealanders

VISION

AN INCLUSIVE TEAM CREATING A BETTER FUTURE
THROUGH INVESTMENT EXCELLENCE

STRATEGIC FOCUSES

RELATIONSHIPS

RISK

GOALS

MEASURES

Governance

Organisational Capability

Investment Performance

Best Practice

Sustainable Finance

OUTPUTS

NZ Super Fund

The Guardians must invest the NZ Super Fund on a prudent, commercial basis, and in doing so, we must manage and administer the NZ Super Fund in a manner consistent with:

- Best-practice portfolio management;
- Maximising returns 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.

Elevate

The Guardians oversees the management of Elevate, to help ensure it is being invested in line with best practice for institutional investment in New Zealand venture capital markets.

ULTIMATE GOALS

NZ Super Fund

Help pre-fund the increasing cost of superannuation in the future.

Elevate

Contribute to the sustainability and productivity of the New Zealand economy.

STATEMENT OF PERFORMANCE

MEASURING OUR PERFORMANCE

Here we report on the Guardians' progress against the medium- and short-term performance measures set out in the Guardians' 2022 – 2027 Statement of Intent and the 2022/23 Statement of Performance Expectations. To help our stakeholders to understand which measures are focused on the Guardians as an organisation, and which are specific to the NZ Super Fund and Elevate mandates, we have separated our progress against our measures into three sections: Guardians, NZ Super Fund and Elevate.

	Guardians	NZ Super Fund	Elevate
Measures	<ul style="list-style-type: none"> • Governance • Organisational capability 	<ul style="list-style-type: none"> • Investment performance • Best practice • Sustainable finance 	<ul style="list-style-type: none"> • Conviction review

Crown funding comes from capital contributions to the NZ Super Fund made by the Government, as well as an appropriation to meet Board costs and audit fees (expenditure during 2022/23 of \$547,841 compared with a budget of \$728,000). All other costs (e.g. manager fees, staff salaries, research costs) are met by the NZ Super Fund, and it is these costs which are the subject of our Best Practice work programme.

GUARDIANS

GOVERNANCE

Sound governance is at the heart of how we manage our mandates and is critical to maintaining stakeholder and public confidence in the Guardians. As an autonomous Crown entity, the Guardians is legally separate from the Crown. This means that, although we are still accountable to the Minister of Finance and Parliament, we have operational independence regarding investment decisions and are overseen by an independent board.

The New Zealand Superannuation and Retirement Income Act requires that an independent review of how effectively and efficiently the Guardians is performing its 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 body appointed by the Minister. The report is presented to Parliament.

Measure	Expected outcome	Actual outcome
Independent reviews See page 75 of our 2018/19 Annual Report and on our website.	Ongoing good reviews in the five-yearly independent review, with the report and our responses published on www.nzsuperfund.nz . By good review we mean that no material concerns about the effective and efficient performance of the Guardians' functions are identified.	The last independent review was completed by Willis Towers Watson in 2019. This review found the Guardians was operating at a global best practice level. The Board reviews progress made in respect of Willis Towers Watson's recommendations on a regular basis. The last update was presented at the June 2022 Board meeting. The next independent review will be conducted in 2024.

ORGANISATIONAL CAPABILITY

Workplace culture is an important challenge for the financial services industry globally. We strive for a positive workplace culture and behavioural norms that support our values. A great culture assists us to gain a competitive advantage over other investors by building and retaining a great team. Equally, high-quality leadership, strong engagement and a "whole-of-Fund" culture are critical to ensuring we are making the best possible investment decisions across the organisation. A quantitative Culture Survey is conducted every two years by Human Synergistics. More information on our culture can be found on page 27.

Measure	Expected outcome	Actual outcome
Developing and maintaining a constructive workplace culture	Achieve the constructive benchmark in the Human Synergistics Organisational Effectiveness Inventory (OEI) Survey, which translates to averaging above the 60th percentile for Constructive Styles, and below the 50th percentile for Defensive Styles.	The last Culture Survey was conducted in 2022. The results demonstrated a constructive culture with minimal evidence of passive/defensive or aggressive/defensive styles and which had improved notwithstanding the impact of the COVID-19 pandemic. The next Culture Survey will be conducted in 2024.

NZ SUPER FUND

INVESTMENT PERFORMANCE

We use three quantitative measures against which to measure the investment performance of the NZ Super Fund.

Reference Portfolio returns relative to Treasury Bills (expected market risk premium per annum)

Because of the difficulty of predicting short-term financial market returns, we use long-run equilibrium estimates of how the Reference Portfolio will perform relative to a "risk free" investment in Treasury Bills, a measure of the Government's cost of debt. Over any 20-year moving average period, we estimate the risk free rate will be 4.0% and that the Reference Portfolio, by earning a premium for taking market risk, will exceed this by 2.8% p.a. (assuming costs of 0.23% to run it). This is the expected outcome shown in the table below.

If we are successful in achieving this measure, we will have delivered more benefits to taxpayers than could have been achieved by the Government simply paying down debt. We will be able to report on our first 20-year moving average figures in next year's Annual Report.

We outline this measure in further detail on pages 34-45 of our Performance Report.

Horizon	Expected market risk premium p.a.	Actual outcome 2023	Actual outcome 2022
1 year		8.25%	-15.01%
5 years	2.8%	4.83%	4.93%
10 years		6.86%	7.61%
Since inception		4.82%	4.65%

Actual Fund returns above Reference Portfolio (expected value add per annum)

We expect the NZ Super Fund will outperform its Reference Portfolio by, on average over time, 1% per annum. The Reference Portfolio is a simple portfolio of passive, low-cost, listed investments suited to the NZ Super Fund's long-term investment horizon and risk profile which has an 80:20 split between growth and fixed-income investments. A proportion of the NZ Super Fund is invested in line with the Reference Portfolio but we also make investments outside of the Reference Portfolio, into active investments. These active investments are expected to deliver a higher expected return than the Reference Portfolio. This performance measure is a way of evaluating how successful we have been in undertaking these active investments to add value over and above what the Reference Portfolio would deliver.

Horizon	Expected value add p.a.	Actual outcome 2023	Actual outcome 2022
1 year		-0.16%	7.25%
5 years	1.0%	1.69%	2.11%
10 years		1.95%	2.65%
Since inception		1.54%	1.63%

More information on the NZ Super Fund's active investment strategies can be found on pages 34-45.

STATEMENT OF PERFORMANCE (CONTINUED)**Portfolio volatility in a 1-in-100-year event**

Financial market returns are inherently volatile. Over short time frames a wide range of returns are possible – very high and very low. However, over longer horizons, underlying economic drivers tend to determine returns. In considering how much risk to take, we consider trade-offs around these time frames and the potential need to convert assets quickly into cash. To measure how much risk is being carried by the Reference Portfolio, we estimate what the worst outcome could potentially be among 100 random samples, over different time periods. If losses of this magnitude were to happen more often than expected, then either a rarer-than-expected event has occurred, or the Reference Portfolio was carrying more risk than we understood.

Over the following time-horizons, the estimated amount the Reference Portfolio could lose in a 1-in-100-year event is:

- **1 year:** -30.5%
- **5 years:** -11.5%
- **10 years:** -5.9%

Our actual Reference Portfolio Returns are outlined in the table below.

Horizon	Actual Reference Portfolio Return 2023	Actual Reference Portfolio Return 2022
1 year	12.03%	-14.24%
5 years	6.29%	5.98%
10 years	8.80%	9.41%

BEST PRACTICE

We have four measures relating to best-practice operations for a sovereign wealth fund and/or institutional investor against which to measure the performance of the NZ Super Fund.

Measure	Expected outcome	Actual outcome 2023	Actual outcome 2022
Annual updating of the Guardians' response, as to the IFSWF 'Santiago Principles'	An annual self-assessment of the NZ Super Fund's adherence to the International Forum of Sovereign Wealth Funds (IFSWF) 'Santiago Principles' is completed, published on www.nzsuperfund.nz and assured by an independent third party. We expect to achieve top quartile or higher ratings in the Geoeconomica Santiago Compliance Index of sovereign wealth funds' compliance with the Santiago Principles and top quartile or higher in other relevant ratings mechanisms.	Achieved.	Achieved.
Cost control	On a rolling five-year basis we expect to achieve a rating of median value-adding or better compared to our CEM peer group, with costs below the CEM-calculated cost-benchmark.	Cost (5 year) – Achieved. Value-Add (5 year) – Achieved.	Cost (5 year) – Achieved. Value-Add (5 year) – Achieved.
Transparency ratings	We expect to achieve 10/10 in the quarterly rating of Sovereign Wealth Fund transparency published by the Sovereign Wealth Fund Institute and top quartile or higher in other relevant rating mechanisms.	Achieved. Following the publication of our 2022 Annual Report, the transparency of the NZ Super Fund on cost, governance, performance and responsible investing was independently assessed by CEM Benchmarking using a proprietary, 190-question framework from the Global Pension Transparency Benchmark. The results are covered on page 93.	Achieved.

Measure	Expected outcome	Actual outcome
UNPRI assessment, Principles and voting reports	<p>We expect to achieve an A or A+ rating for Strategy and Governance in the United Nations Principles for Responsible Investment (UNPRI) assessment. Note: since we set this measure in our Statement of Intent (SOI), the UNPRI has changed its assessment methodology from an alphabetical grading to a 'five star' rating system and now provides percentage assessment scores against different criteria. We consider a five-star rating to be equivalent to A or A+.</p> <p>UNPRI assessments have usually been conducted annually, for the previous calendar year. However, due to changes to the assessment process (as outlined on page 69), the UNPRI opted not to conduct an assessment in 2022.</p>	<p>Our most recent result (released in 2021 for the 2020 calendar year) found the Fund received a five-star, 92% rating for our Investment and Stewardship Policy.</p> <p>The next UNPRI result, covering the 2022/23 year, will be available in 2024.</p>
	Report on NZ Super Fund activities and outcomes annually against the six UNPRI Principles.	Principles report completed.
	Proxy voting reports completed and published on www.nzsuperfund.nz .	Voting data published online via our voting reporting platform.

SUSTAINABLE FINANCE

The NZ Super Fund has two measures relating to climate change as part of a shift to a sustainable finance approach. The measures reflect the NZ Super Fund's Climate Change Investment Strategy, which was developed in 2016. As part of this strategy, we have set two carbon reduction targets – to reduce the intensity of the NZ Super Fund's portfolio by 40% by 2025; and to reduce fossil fuel reserves by 80% by 2025.

In 2021, the Guardians also made a commitment for the NZ Super Fund to achieve net zero carbon emissions by 2050. Under the Net Zero Asset Owners Commitment, the Guardians has pledged to decarbonise the NZ Super Fund by increasing investment in climate solutions, setting interim targets, and undertaking advocacy and engagement in line with net zero goals. To learn more about our approach to climate change, see page 74 or read our 2023 Climate Change Report available on our website.

Measure	Expected outcome	Actual outcome
Climate change investment strategy – carbon reduction targets	<p>Publication of an annual Climate Change Report, including a third-party assured carbon footprint showing progress made against the NZ Super Fund's 2025 carbon reduction targets.</p> <p>Our 2023 Climate Change Report and Carbon Footprint are available on our website.</p>	Achieved. 2023 marks the first year we are reporting against this measure in our Statement of Performance and therefore we do not have comparative information to provide.
Commitment to net zero by 2050	<p>Publication of an annual Climate Change Report, including Climate Action Plan and detailing progress towards net zero in line with the Government's 2021 Crown Financial Institutions Responsible Investment Framework.</p> <p>Our 2023 Climate Change Report and Carbon Footprint are available on our website.</p>	Achieved. 2023 marks the first year we are reporting against this measure in our Statement of Performance and therefore we do not have comparative information to provide.

ELEVATE

We monitor NZGCP's performance in line with the best practice approach we have developed to manage relationships with other local and international investment managers, as applicable to the New Zealand venture capital market. We evaluate our managers by means of a conviction review. Our conviction means our confidence in a manager's competence to execute on an investment opportunity and the general quality and fit of the organisation. Key inputs include the manager's performance, governance and overall conduct. For an update on progress of the Elevate mandate, see pages 62-65.

Measure	Expected outcome	Actual outcome 2023	Actual outcome 2022
Manager monitoring – conviction review	Successful completion of annual conviction review.	Achieved.	Achieved.

PROGRESS AGAINST OUR WORK PROGRAMMES

Progress against our 2022/23 work programmes

The following work programmes were key to our Strategic Plan for 2022/23. They relate to the strategic focuses of Relationships, Risk and Goals and are intended to better equip the organisation to meet its purpose.

GUARDIANS

1. Continue to develop our Diversity, Equity and Inclusion (DEI) maturity, including our understanding and integration of te Ao Māori.

We commissioned an external review of our DEI practices in 2021 to heighten our awareness and deepen our understanding of DEI at the Guardians. The review served as a current-state assessment and the starting point for the creation of a longer-term Guardians' DEI Strategy. Included in this Strategy is a te Ao Māori work stream that aims to guide our understanding and integration of te Ao Māori across the Guardians.

We reached an important milestone during the current year, finalising and launching our 2022 - 2027 Rautaki Kanorau: Diversity, Equity and Inclusion Strategy. The Strategy builds on our earlier work and is the result

of discussions with over 150 staff on what we saw as being important in a DEI Strategy. It includes: our definitions of DEI; how we approach equity and systems thinking; what relevance the DEI Strategy should have; and what changes we wish to see. The Strategy, which includes a range of DEI performance metrics, is publicly available on our website.

Our engagement with te Ao Māori is grounded in acknowledging Te Tiriti o Waitangi (The Treaty of Waitangi) and building a workplace that attracts, respects, develops and supports Māori colleagues to feel included and to flourish. Workshops were held with staff during the year to discuss what this could look like.

Our approach to DEI and our understanding and integration of te Ao Māori will continue to develop and mature in the years to come.

STATUS: On schedule

ALIGNMENT WITH STRATEGIC FOCUSES:

- Vision** – The DEI vision: “We are a truly inclusive team providing industry leadership in DEI and authentic partnerships in our engagement with te Ao Māori” aligns with the Guardians’ vision: “An inclusive team creating a better future through investment excellence”
- Goals** – Design our future of work; Investment excellence; Constructive and aligned team
- Relationships** – Iwi relationships for investment initiatives; Government relationships and expectations; Relationships with existing staff and talent pools
- Risks** – Wellness/Culture; Staff capability and capacity

2. Identify and assess opportunities around the changing nature of work, the workforce and the workplace. Deliver improved collaboration and communication tools.

This multi-year work programme covers a number of projects relating to the work we do, our workforce and our workplace. In 2022/23 we set out to make progress on four key activities:

- Implementing a refreshed Information Management Framework, including assessing our existing systems for compliance with our Public Records obligations
- Establishing a new ‘content management’ system in SharePoint and retiring the existing document management system

- Refreshing our intranet and migrating it to SharePoint Online
- Introducing Microsoft Teams and related apps to facilitate collaboration, co-author, store and locate documents on any device.

Good progress was made on all the key activities with particular milestones including the completion of the Information Management Framework; the roll-out of Microsoft Teams and related applications across the business and the successful piloting of the new content management system.

We expect to complete the remaining work, including launching the new intranet and completing the roll-out of the content management system, in 2023/24.

STATUS: On schedule

ALIGNMENT WITH STRATEGIC FOCUSES:

- Goals** – Design our future of work; Increase capability and capacity in data and technology; Constructive and aligned team
- Risks** – Wellness/Culture; Staff capability and capacity

3. Complete the delivery of the Cloud Human Resources System.

This multi-year, three-phase project is to implement a digital solution to streamline our human resources processes and data. Cloud-based Oracle HCM has been selected as the solution. Phase 1 of the project was delivered by November 2021, setting up core human resources data; establishing security settings; integrating talent search, recruitment and onboarding into the system; and integrating payroll and leave management.

Following the completion of phase 1, in order to embed the first two modules across the business and implement the recommendations of

a PWC audit of the project, and in light of ongoing resourcing and implementation challenges, phases 2 and 3 of the project were deferred until the 2022/23 financial year. In May 2022, a further decision was made to suspend the project for the remainder of the calendar year, other than work to close out the remaining actions from the PWC audit (all of which have now been resolved). Due to the heavy enterprise programme load in 2022/23, the commencement of phase 2 has been further deferred until 2023/24 to allow other programmes of work to be prioritised through to completion.

STATUS: Deferred until 2023/24

ALIGNMENT WITH STRATEGIC FOCUSES:

- **Goals** – Design our future of work; Investment excellence; Increase capability and capacity in data and technology; Constructive and aligned team
- **Risks** – Staff capability and capacity; Fit-for-purpose IT systems

NZ SUPER FUND

4. Integrate sustainable finance into the investment process.

We have now completed the final phase of our Responsible Investment (RI) Compass strategy reset and from 2023/24 will treat the integration of sustainable finance into the investment process as an ongoing business-as-usual activity.

The year saw us embed and monitor the performance of the MSCI World Climate Paris Aligned Index and the MSCI EM Climate Paris Aligned Index as benchmarks for our passive Reference Portfolio exposure to global equities. We also made key decisions on how to improve the environmental, social and governance

(ESG) profile of the factors mandates, which make up approximately 20% of the Fund's portfolio.

We incorporated the Crown Financial Institution (CFI) Responsible Investment Framework into our Sustainable Finance Strategy and progressed our RI Compass Communications Strategy, including aligning our 2022/23 Annual Report with the revised Global Reporting Initiative (GRI) Standards (see GRI Index on our website).

We have completed the development of our Impact Investment Framework and are using this to measure and monitor our exposure to impact investments.

STATUS: Completed on schedule and transitioned to business-as-usual

ALIGNMENT WITH STRATEGIC FOCUSES:

- **Goals** – Investment Excellence
- **Relationships** – Critical contributor to relationship with government and other CFIs
- **Risks** – Climate change risks; Government stakeholder risk; Delivering value-add risk

5. Establish a new data platform and build data analytics.

This initiative, which aims to help us make better investment decisions, more quickly; improve productivity; and mitigate technology risk, is an important one for the organisation. Data is critical in our business, creating a foundation of intelligence for our investment decisions. We have therefore established a multi-year initiative, the Investment Data Analytics Programme (IDAP), to enhance our data capability. Over the year, we have made steady progress in establishing and strengthening our Data teams, growing our capabilities and embracing new tools and analytics across the business. Alongside this growth, there have also been challenges with IDAP due to the

project's size, scale and complexity. As such, we paused elements of the IDAP for a period during the year to undertake a review of progress, lessons learnt and changes required. This review led to refined objectives, quantified benefits, a change in our delivery team structure and the setting of a revised budget and scope. We are therefore not as advanced in building our data technology and data services functions as initially forecast; however, we believe we now have a strong platform for progressing these activities over the next financial year. Our improved programme has a well-defined scope, detailed delivery structure and timeline, and a change management plan. While we are clear on the programme's near-term objectives and long-term vision, it remains a significant undertaking and

as a result some uncertainty remains over its medium-term ordering and timing. We will continue to refine this during the 2023/24 financial year. Next year, we expect to see delivery of system upgrades, new and enhanced data sets, additional tools and process improvements. We are targeting completion of the project in April 2026.

STATUS: Behind schedule

ALIGNMENT WITH STRATEGIC FOCUSES:

- **Goals** – Investment excellence; Increase capability and capacity in data and technology; Increase our risk maturity
- **Risks** – Fit-for-purpose IT systems; Risk of making poor decisions due to insufficient systems and tools

OUR STRATEGIC GOALS

Our goals are where we place particular emphasis. We are focused on maintaining organisational health and laying the foundations for the future.

Goal	Description
Supporting and delivering investment excellence*	The people, processes and technology that support and enable investment are fit for the future, supporting and enabling operationally excellent, effective and efficient investment and support functions.
Move from responsible investment to sustainable finance	The environmental, social and governance (ESG) context is evolving rapidly, with changing stakeholder expectations. While responsible investment focuses on the ESG risks in investments, sustainable finance also considers the impact of investments on the environment and society, which is critical to us as a long-term investor. We will move to a sustainable finance approach and support the development of sustainable financial systems.
Increase our risk maturity	Embed deep maturity about the different types of risks we manage, including our ability to identify and take appropriate risk to achieve our purpose.
Increase capability and capacity in data and technology	We will be expert at using data and technology to operate efficiently, and to support our investment processes and decision making. Decisions about data and technology will be business-led and balance the need for security, stability and reliability with increased data analytics, information management and collaboration capabilities across the team.
Design the Guardians of the Future**	There is a shared roadmap for the future, which leverages what has made us successful in the past. Clearly articulate how we will continue to pursue our Purpose and Vision in the future and ensure scalability and a platform for growth as we design the organisation to deliver this.
Constructive and aligned team	Maintaining and continuing to develop a strong, diverse and inclusive team with a constructive culture is essential to fulfil our Purpose and Vision and embrace ongoing external and internal challenges effectively. A team that has the same focus is greater than the sum of its parts. Together it can harness diversity to tackle complex challenges and maximise opportunities. "Team not hero" is one of our values.

* In 2023, we updated this goal from "Investment excellence" to "Supporting and delivering investment excellence".

** In 2023, we updated this goal from "Design our future of work" to "Design the Guardians of the Future".

MATERIALITY

Considering the impacts of our activities is fundamental to delivering our Purpose.

In this Annual Report, as well as reporting on financial performance, we report on topics that represent our most significant impact* on the environment, economy and people.

In our reporting we follow the Global Reporting Initiative (GRI) standards, including the assessment of material issues. The GRI standards are designed to allow organisations to report on the impacts of their activities in a structured way that is transparent to stakeholders and other interested parties. In this context, impacts can be direct, indirect or linked to an organisation's activities. We have direct control over the Guardians' own activities and impact as an organisation. These include areas such as health and safety, office recycling arrangements, energy efficiency and monitoring our carbon emissions, including travel. We manage these through our relevant organisational policies and processes.

As the manager of the NZ Super Fund and Elevate, the Guardians' main impact on the environment, economy and people (sustainability impact) is through the provision of capital to other economic sectors within the boundary of the statutory context for the Guardians and the Funds. Key elements of our statutory context are that the Guardians is required to invest and manage the NZ Super Fund in accordance with a statutory investment mandate and that the NZ Super Fund was established with a single policy objective, which was to partially pre-fund New Zealand Superannuation (NZ Super) to make it easier for future governments to meet the costs of NZ Super even as the number of those in the 65-plus age bracket increases as a proportion of the population.

Stakeholder engagement relevant to our sustainability mandate included:

- Reviewing findings from an independent assessment of the transparency of our public reporting across cost, governance, performance, and responsible investing (see page 93 for further details);
- Analysing stakeholder perception research into emerging trends and stakeholder expectations in relation to responsible investment and ESG matters relevant to the requirements of our statutory investment mandate;
- Discussing with Treasury (the central Government agency that monitors our performance on behalf of the Minister of Finance) our approach to reporting;
- Identifying issues of significant media and stakeholder importance during the year;
- Reviewing feedback from a panel of reporting experts;
- Assessing previous qualitative stakeholder research into current and future expectations of the Guardians, with a focus on responsible investment; and
- Holding internal discussions across teams to explore the Guardians' actual and potential negative and positive impacts, with input and review by the Senior Leadership Team and Board. This includes our work on moving our responsible investment approach to a sustainable

investment approach, including consideration of how we expect best practice to evolve.

PRIORITISING OUR IMPACTS FOR REPORTING

We have prioritised impacts which are:

- A direct outcome of our purpose and reflected as part of our enabling legislation;
- Key to maintaining stakeholder and business relationship support, understood through regular stakeholder feedback;
- Where we can directly influence the scale and severity of such impacts (whether maximising or mitigating).

Given the size of the NZ Super Fund relative to Elevate, our most material topics are focused on the NZ Super Fund.

STRONG RETURNS

The NZ Super Fund's investment returns are our most material topic. If we are successful, over the long term, in maximising the Fund's returns without undue risk, we will:

- Help future governments afford the cost of providing universal superannuation; and
- Reduce the tax burden for future taxpayers; and thereby
- Improve the financial well-being of all New Zealanders.

Read our Investment Reports (pages 34-61) for further information on how we are managing these impacts.

ALLOCATION OF CAPITAL

Consistent with the policy purpose and statutory investment mandate for the NZ Super Fund, and our organisational purpose of "sustainable investment delivering strong returns for all New Zealanders", we have a Sustainable Finance Strategy with the goal of incorporating sustainability considerations into investment decision-making and supporting the development of a sustainable financial system. This strategy is in line with the expectations of the New Zealand Government, our key stakeholder, expressed through annual letters of expectation for the Guardians and other Crown financial institutions.

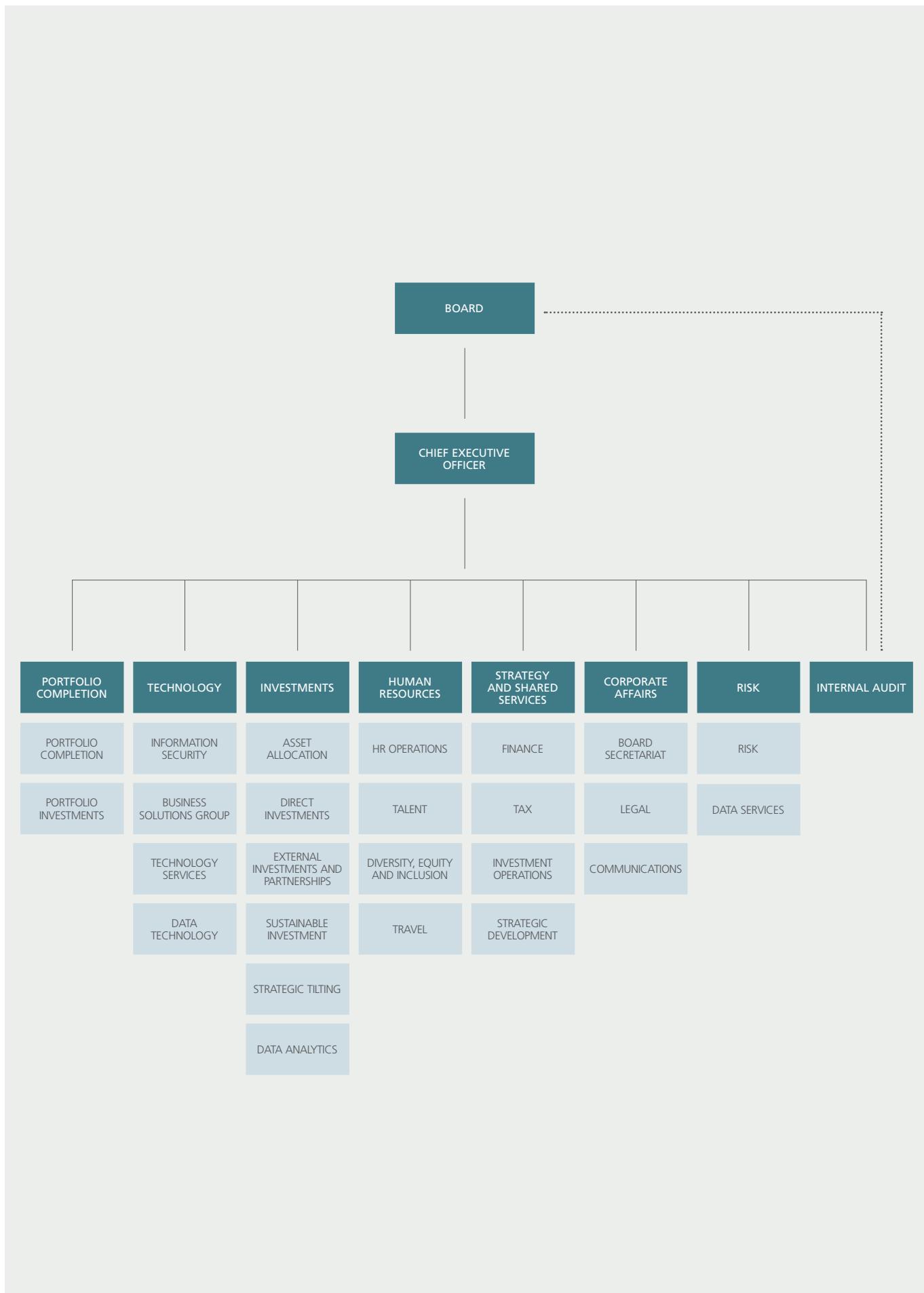
We believe the most significant sustainability impact we can make is through:

1. Investing to support the net-zero transition;
2. Directing capital away from high-emitting companies towards more sustainable alternatives;
3. Integrating environmental, social and governance considerations into our investment decisions and processes, including allocation, selection and post-investment management; and
4. Improving, through engagement, the human rights and health and safety policies and practices of companies we invest in.

Read our Sustainable Investment Report (pages 66-77) for further information on how we are managing these impacts.

* The Guardians has its own definition of impact in the context of impact investment (see the Sustainable Investment Report on pages 68 and 69). This is different from the way the term 'impact' is used by the GRI.

ORGANISATIONAL CHART



OUR PEOPLE

Our people are fundamental to our success.

Our values underpin everything we do. They are critical in guiding how we operate as a team and as an investor. Our values have been aligned with whakataukī (proverbs) that bring them to full relevance for us.



OUR CULTURE

Culture is a high priority for the Guardians, as we place a strong emphasis on creating a high-performing, inclusive and constructive environment for our team members. Every two years (beginning in 2011), we measure our culture through a team-wide Culture Survey, using the Human Synergistics Organisational Culture Inventory (OCI) and Organisational Effectiveness Inventory (OEI) tools. These tools help us understand our culture by measuring to what extent Guardians' staff are expected or implicitly required to demonstrate a variety of behavioural styles, and by identifying the impact of the current operating culture.

Our last Culture Survey was conducted in 2022, and the results showcase a constructive culture with minimal evidence of aggressive/defensive or passive/defensive styles. To learn more about our 2022 Culture Survey result, see page 32 of our 2021/22 Annual Report.

We look forward to reporting on the results of our next Culture Survey, which will be conducted in 2024.

OUR PEOPLE STRATEGY

In September 2022 we launched our Rautaki Tāngata (People Strategy). Underpinned by our values, the Rautaki Tāngata supports us as the core resource at the Guardians to drive progress towards achievement of our Purpose, Vision and work programmes as set out in the Guardians' Strategic Plan. It is underpinned by six strategic pillars, covering the full spectrum of people-related activity at the Guardians.

Beneath each pillar is a suite of annual and multi-year activity that will drive progress. We are now progressing an annual refresh of our Rautaki Tāngata to ensure we build on our positive momentum and plan our resources and focus for the year ahead.



OUR PEOPLE (CONTINUED)

RECRUITMENT

Ensuring we attract and retain top talent at the Guardians is an ongoing priority. This year we set into motion our Talent Sourcing Roadmap, aimed at setting up the Guardians for future success, improving our talent pipelines and aligning with our Rautaki Kanorau (Diversity, Equity and Inclusion Strategy) principles.

In 2022/23 we made 55 appointments. This included:

- 36 new hires (19 female, 17 male); and
- 19 internal placements* (promotions and job transfers).

As at 30 June, the Guardians' headcount is 216 people, up from 190 at the same time last year. The increase has been driven by the creation and staffing of the Data Analytics team; additional headcount in the External Investments and Partnerships team and the Business Solutions Group; and the filling of a number of vacant roles as the recruitment market became more favourable for employers.

LEARNING AND DEVELOPMENT

We provide a wide range of learning and development opportunities at the Guardians, including job rotation opportunities, secondments, centrally coordinated and funded courses (including LinkedIn Learning) available to all employees, and manager budgets to fund unique individual training and development needs.

In 2022/23 we launched a new campaign, "Take Charge of Your Career", to further encourage our employees to reflect on their career aspirations, development gaps and learning goals, and to engage with our Individual Development Planning process. Alongside this we launched two leadership development programmes: a People Leader programme, and Leader of Leaders programme. These initiatives provide education on Guardians' specific managerial processes and seven leadership development priorities, thereby creating a common language of 'what great leadership looks like' at the Guardians.

Over the year, we offered our team 29 unique centrally-funded courses with a total of 46 courses held (some training topics run more than once). We also host an annual schedule of mandatory training (average of 2.5 hours per year) which must be completed by all staff and contractors (98.8% completion rate in 2022/23). All permanent staff must complete mandatory training to be eligible for the discretionary bonus scheme.

HEALTH AND SAFETY

Our Human Resources Policy sets out our commitment to provide a safe and healthy working environment for all employees and visitors. We strive to:

- Reduce and, where possible, eliminate hazards;
- Educate employees on health and safety issues;
- Prevent injury to people at work; and
- Comply with the requirements of the Health and Safety at Work Act 2015.

With our people being mainly office and home based, the Guardians has a relatively low-risk physical environment, although potential hazards include overseas travel, gradual process injury and stress. We manage our key risk areas constantly and provide a comprehensive programme of support services to staff.

The Health, Safety, Security and Environment (HSSE) Committee comprises staff from across the business and advises the Leadership Team on the prevention of, and response to, HSSE-related risks across the organisation. The Committee aims to promote a culture that identifies and mitigates unsafe situations and behaviours before they can impact people, the environment and the Guardians' reputation. The Committee meets every two months, and reports to the Board annually. In 2022/23 the Committee's focus was on advising the wider team on health and safety improvements across the Guardians (e.g. removing frosted glass from reception for better visibility; developing a new health and safety checklist for travel); and improving our operational environmental performance. Learn more about our environmental performance on pages 75-77.

Other Guardians' health, safety and wellness activities include:

- Annual health and safety training
- Fully funded life, health, trauma and income continuance insurance
- Fully funded workstation assessments
- Height-adjustable desks
- Fully funded healthy heart checks
- Access to corporate subscription to mindfulness app
- Fully funded flu vaccinations and flexible work for COVID-19 vaccination
- Provision of emergency kits to comply with Civil Defence and Emergency Management recommendations
- Access to counselling via independent Employee Assistance Programme providers
- Regular Occupational Health Nurse visits.

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* Excluding six non-permanent job rotations.

Five Guiding DEI Principles


 1

We build the Guardians to reflect the communities we serve as we believe it is the right thing to do to enable better outcomes and decision-making.

2

We promote all aspects of diversity including ethnic diversity, and we have a particular focus on Māori and Pasifika, and women in leadership.

3

A te Ao Māori approach is integrated into our approach and ways of working.

4

Leadership accountability and transparency will help drive our DEI progress.

5

We will build our DEI maturity through bottom-up and top-down support.



E KOEKOE TE TŪ, E KETEKETE TE KĀKĀ, E KŪKŪ TE KERERŪ

The tū chatters, the kākā cackles, the kererū coos



This whakataukī reminds us of the true value of diversity. The many birds of our bush have different sounds, different plumage, different ways of flying and feeding. Diversity is intrinsic to a healthy ecosystem, as it is for a healthy workplace and indeed for our world.

Credit to Dr Hinemoa Elder - Aroha



We have a long-standing organisational commitment to Diversity, Equity and Inclusion (DEI). We believe it is the right thing to do to reflect the communities we serve and will help us to achieve our strategic goal of supporting and delivering investment excellence. A more diverse and truly inclusive team inspires, challenges, excites and motivates us to create a better future for all Aotearoa New Zealand.

The Guardians undertook a review of our DEI maturity in 2021 and, as a result, the Leadership Team and Board agreed five guiding DEI Principles which include a focus on understanding and integrating te Ao Māori – the world of Māori. These principles have provided the central pou (pillars) in the development of our first Rautaki Kanorau (DEI Strategy), which was launched in June 2023.

This strategy provides us a direction, with equity-focused actions, which will help us progress the Guardians' Te Whāinga Roa (Vision) of an inclusive team creating a better future through investment excellence.

It builds on the lessons from the DEI maturity review and DEI best practice and is a result of multiple discussions with over 150 staff, who provided more than 300 inputs on what they saw as important in a DEI strategy. We are proud that our DEI Strategy has been built, in the main, by the employees of the Guardians. Our DEI Strategy 2022-2027 and Annual Pay Gap Action Plan are available on our website.



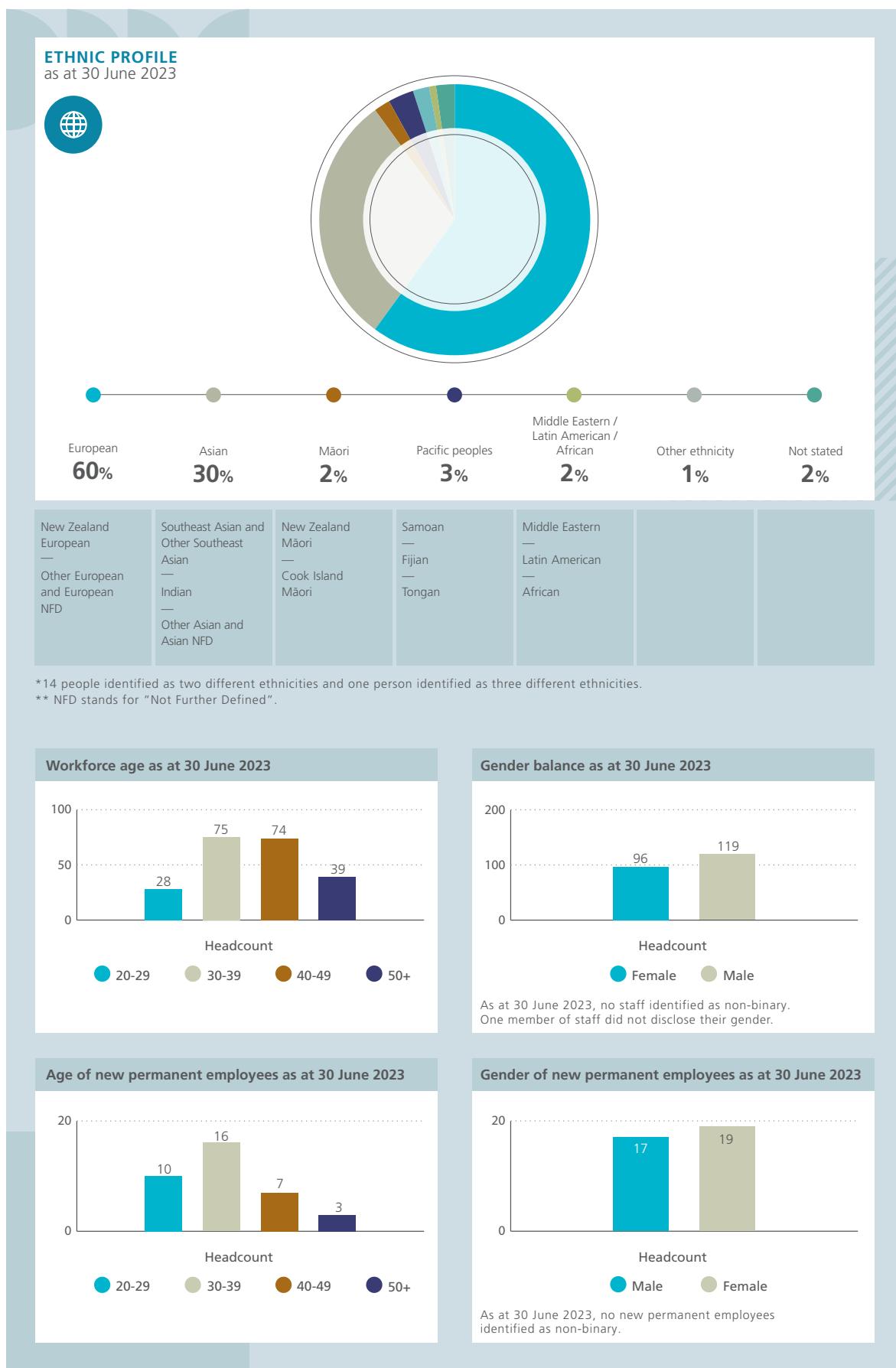
WORKFORCE PROFILE

Components	2023	2022	2021	2020	2019
Our workforce					
Full-Time Equivalent (FTE) employees	213.3	188.5	160.8	154.8	139.1
Full-time (FTE)	97%	98%	96%	96%	96%
Part-time (FTE)	3%	2%	4%	4%	4%
Employees reporting disabilities	0%	0%	0%	0%	0%
People (headcount)	216	190	163	157	141
Female representation					
Female staff members	96 (45%)	84 (44%)	74 (45%)	68 (43%)	55 (39%)
Female Board members	2 (33%)	2 (33%)	3 (43%)	2 (29%)	2 (29%)
Female Leadership Team members and direct reports to CEO	3 (38%)	3 (38%)	2 (29%)	2 (29%)	2 (29%)
Female Heads of Teams	9 (39%)	7 (33%)	6 (33%)	6 (33%)	6 (35%)
Female Investment Professionals	29 (37%)	24 (36%)	18 (31%)	16 (29%)	12 (22%)
Turnover*					
Turnover – all staff	6.7%	9.5%	6.1%	3.9%	6.3%
Turnover – male (of male FTE)	6.4%	8.6%	10.2%	5.7%	5.9%
Turnover – female (of female FTE)	7.0%	10.8%	1.1%	1.5%	6.9%
Educational qualifications					
% of staff with a postgraduate tertiary qualification	49%	48%	50%	50%	52%
% of staff with an undergraduate tertiary qualification	89%	87%	90%	90%	90%
Investment in staff training as a % of total Guardians' operating expenditure	1.3%**	0.8%	0.9%	0.9%	1.2%
Return to Work and Retention after Parental Leave (as primary carer)***					
Return to work – male	100%	67%	100%	100%	100%
Return to work – female	100%	100%	100%	75%	100%
Retention as at 30 June after returning during the year – male	100%	100%	100%	67%	None taken
Retention as at 30 June after returning during the year – female	80%	100%	83%	100%	100%

* We define turnover as voluntary turnover.

** Investment in staff training has increased as more development opportunities have become available, following the lifting of COVID-19 restrictions.

*** All employees are eligible to take leave from work to care for their new child, subject to meeting the requirements of the Parental Leave and Employment Protection Act 1987.



In memory of our esteemed Head of Data Technology, **Tim Cooper**



In memory of our esteemed Head of Data Technology, Tim Cooper, who tragically passed away in February 2023, we wish to convey a deeper appreciation of his profound contributions, which extend beyond the conventional. During his impactful seven-year tenure with the Guardians, Tim emerged as a true visionary leader, leaving an indelible mark on our organisation.

Tim's leadership was distinguished by his relentless pursuit of innovation and his unwavering commitment to fostering collaboration. He ardently championed modern work methodologies and technology practices, aligning them with the Guardians' overarching Purpose. In his characteristic style, he used his fondness for PowerPoint animations to bring clarity, dynamism and humour to convey his messages. Be it ChatGPT or trying out Discord, Tim just enjoyed trying new things and always emphasised the value of making mistakes.

Tim's most endearing quality was his exceptional kindness and genuine care for his colleagues. He was not merely a leader but also a supportive friend, a confidant who extended his guidance and warmth beyond the boundaries of the Data Technology team, permeating the entire organisation.

Tim's true investment was in nurturing a robust and cohesive team. He sowed the seeds of what would later become the Investment Data and Analytics Programme (IDAP). Tim's steadfast dedication to the vision of "Empowering the Guardians to make the best investment decisions based on reliable information" continues to serve Data Technology today.

Tim's memory remains etched in our hearts, a source of inspiration and motivation as we carry forward his vision. We pay tribute to a leader who lives on through the enduring impact of his work, the strength of the team he cultivated, and the vision he instilled within IDAP. Tim, you are deeply missed and forever cherished.

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Investing for the future

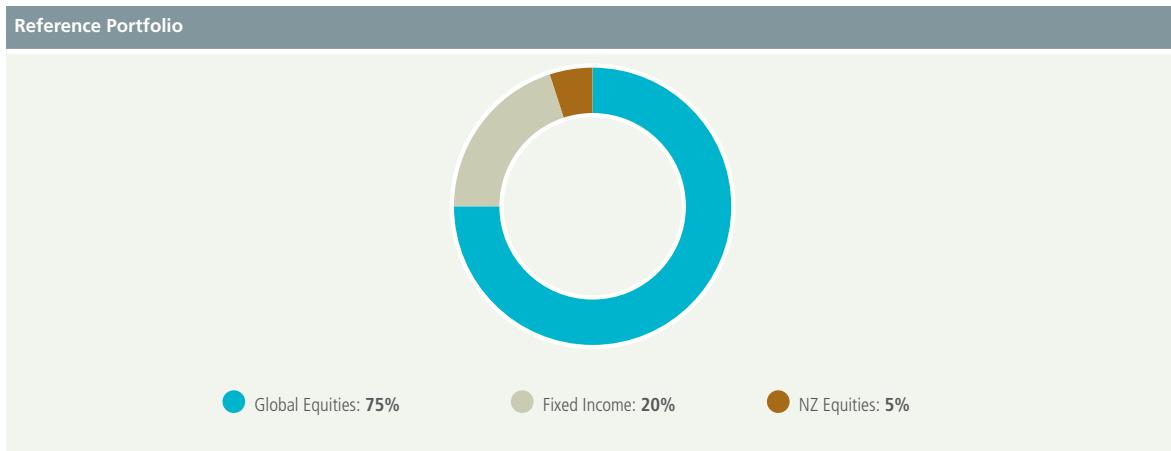
OUR BENCHMARKS

Actual returns, after costs and before tax, of 11.9% saw the total value of the NZ Super Fund rise by \$9.7 billion during the 2022/23 financial year to end the year at \$65.4 billion. This represents an excess return for the year of 8.1% over the cost to the Government of contributing to the Fund, as measured by the return on **Treasury Bills**, which was 3.8%.

In dollar terms, during its life to date the Fund has generated \$41.6 billion more in investment returns than the Government would have saved in interest had it opted to pay down debt rather than invest in the Fund; \$4.7 billion of this was generated during the past 12 months.

Outperforming the Government's cost of funding is one of the two key benchmarks we use to measure our success. The other is the return generated by our Actual Portfolio compared to our **Reference Portfolio**, a shadow or notional portfolio of passive, low-cost, liquid investments suited to our long-term investment horizon.

We have chosen a Reference Portfolio made up of 80% equities (or shares) and 20% bonds, with foreign currency exposures 100% hedged to the New Zealand dollar (NZ\$). We believe that this 80:20 asset allocation represents an appropriate balance to meet our mandate between maximising return and avoiding undue risk over our long-term horizon. The composition of the Reference Portfolio is reviewed every five years by the Board, most recently in 2020.



The table below shows how the components of the Reference Portfolio have performed over time. The returns are shown on a hedged to NZ\$ basis to the year ended 30 June 2023. Total return includes estimated costs to operate the Reference Portfolio.

Reference Portfolio Benchmark*	Weight	2022/23 return	Return p.a. since 2010
Global Equities	75%	15.83%	11.24%
New Zealand Equities	5%	9.64%	11.26%
Global Fixed Income	20%	-0.26%	3.84%
Property**	0%	N/A	14.73%
Total	100%	12.03%	9.57%

* The Reference Portfolio was introduced in 2010.

** Property had a 5% weight between July 2010 and June 2015.

The composition of the Reference Portfolio is the single biggest influence on Fund returns, because it dictates the overall level of market risk we take on. In practice, the Net Asset Value (NAV) of our Reference Portfolio comprises just under half of our Actual Portfolio, with active investment strategies making up the balance.

PERFORMANCE OVER THE PAST YEAR

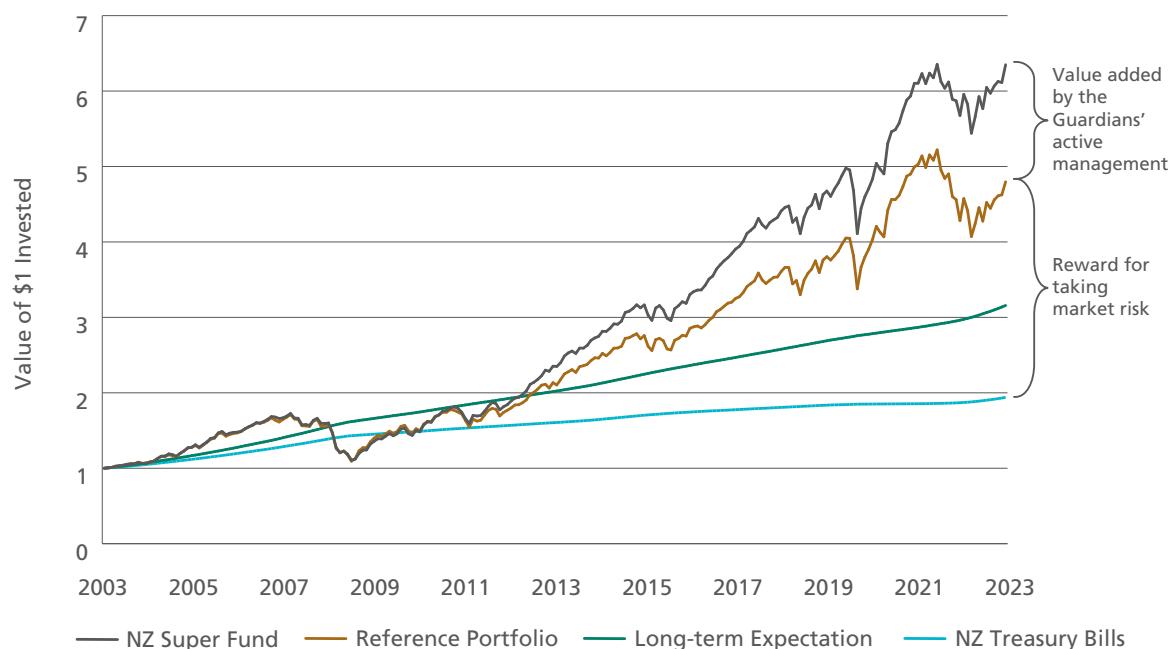
Much of the past year's gains were driven by the strong recovery of stock markets around the world, particularly during the second half of the year. As a result, our Reference Portfolio, 75% of which is made up of overseas equities, posted a gain of 12%.

The performance of our share portfolio meant the active strategies that were so crucial to mitigating last year's losses in both equities and fixed income had less opportunity to outperform the Reference Portfolio. For the 2022/23 year, the Actual Portfolio underperformed our Reference Portfolio by 0.16%. However, over the Fund's lifetime, our Actual Portfolio has outperformed the Reference Portfolio by an average of 1.5% per year, for a total excess return of \$15.1 billion.

This remains ahead of our expectation that over rolling 20-year periods the Fund's active investment strategies will be able to add an extra 1.0% per year over and above the 6.8% return we expect the Reference Portfolio to deliver. Furthermore, these better-than-expected returns have been achieved while taking lower-than-budgeted active risk.

The graph below shows the Fund's actual performance compared to our two key benchmarks and our long-term expectation for the Reference Portfolio. The blue line shows the return on 90-day Treasury Bills (the cost of government debt); the green line shows our long-term expected returns for the Reference Portfolio (the return on Treasury Bills + 2.8%, to reflect the extra risk attached to the assets in the Reference Portfolio); the brown line shows the performance of the Reference Portfolio; and the black line shows actual Fund returns.

PERFORMANCE OF THE NZ SUPER FUND, ITS BENCHMARKS AND LONG-TERM EXPECTATION



ASSET ALLOCATION OVER TIME

The graph on the following page shows how the proportion of the Fund that is invested actively has grown over time as we have continued to identify attractive investment opportunities and funded them by selling down the passive, index-linked Reference Portfolio. About 29% of our total portfolio is managed internally.*

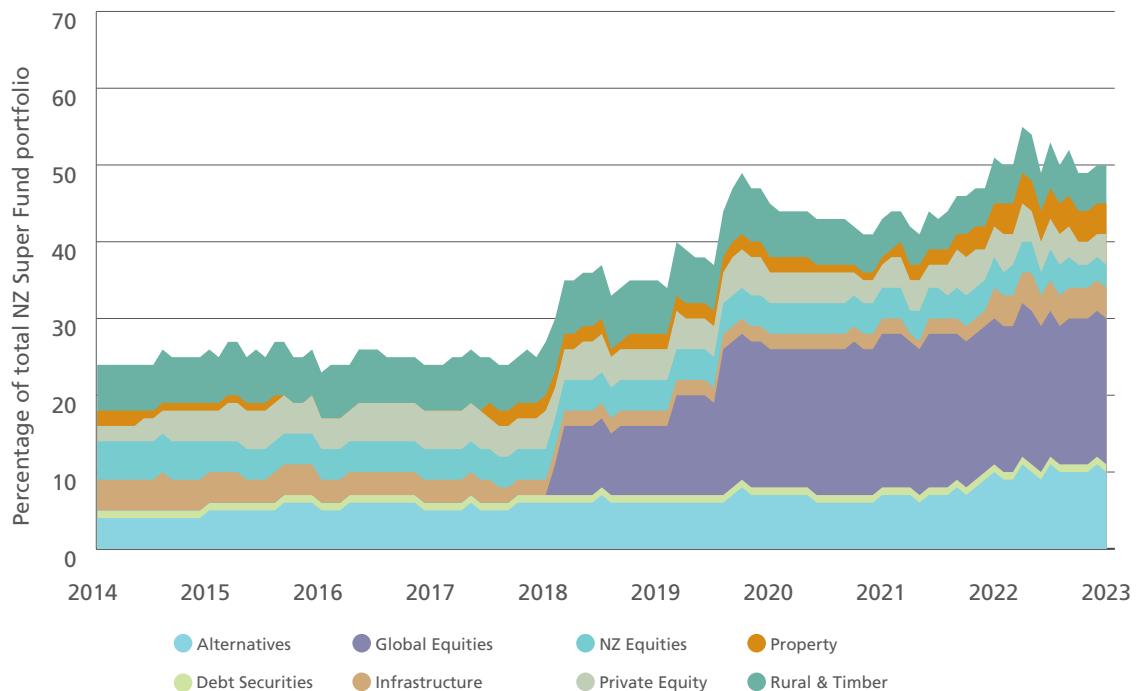
Of particular note are:

- An increased allocation to Alternatives (investment options outside of traditional investments such as stocks, bonds and cash), driven primarily by increased allocations to the Global Macro and Trend opportunities.
- The launch of our Developed Markets Equity Multi-factor opportunity in 2018. This effectively converted some passive equity exposure to active, now representing nearly 20% of the portfolio.
- Greater exposure to Property over the past two years as we have invested in Core, Value Add and Opportunistic segments of the overall Real Estate opportunity and increased our investment in Rural Land.
- Our exposure to Infrastructure has returned to the levels of six or seven years ago. We view Infrastructure as an asset class that provides good opportunities to improve the sustainability profile of our portfolio.

* Does not include derivative exposure.

PERFORMANCE REPORT (CONTINUED)

ACTIVELY INVESTED ASSET EXPOSURE OVER TIME**



ACTIVE INVESTING

Our active investment strategies look to capitalise on advantages we have as an investor. We refer to those advantages as endowments (outlined below). An example of such an endowment is our long-term investment horizon, which allows us to invest in illiquid assets.

Many of these strategies take advantage of the expectation that withdrawals from the Fund will not be made until the mid 2030s, with material withdrawals not commencing until around the 2050s. One of the more successful of these active investment strategies is Strategic Tilting, which is guided by a belief in mean reversion in asset prices and uses derivatives to take contrarian positions across a number of investment markets.

For the past year, Strategic Tilting and Tactical Credit, which provides liquidity into private markets, added significant value.

Global Macro, which made a very strong contribution in 2021/22, was one of the biggest detractors in 2022/23 relative to its proxy, alongside International Growth Equity. See page 41-45 for a fuller description of what an opportunity is and some notable opportunity performances during the 2022/23 financial year.

OUR ENDOWMENTS



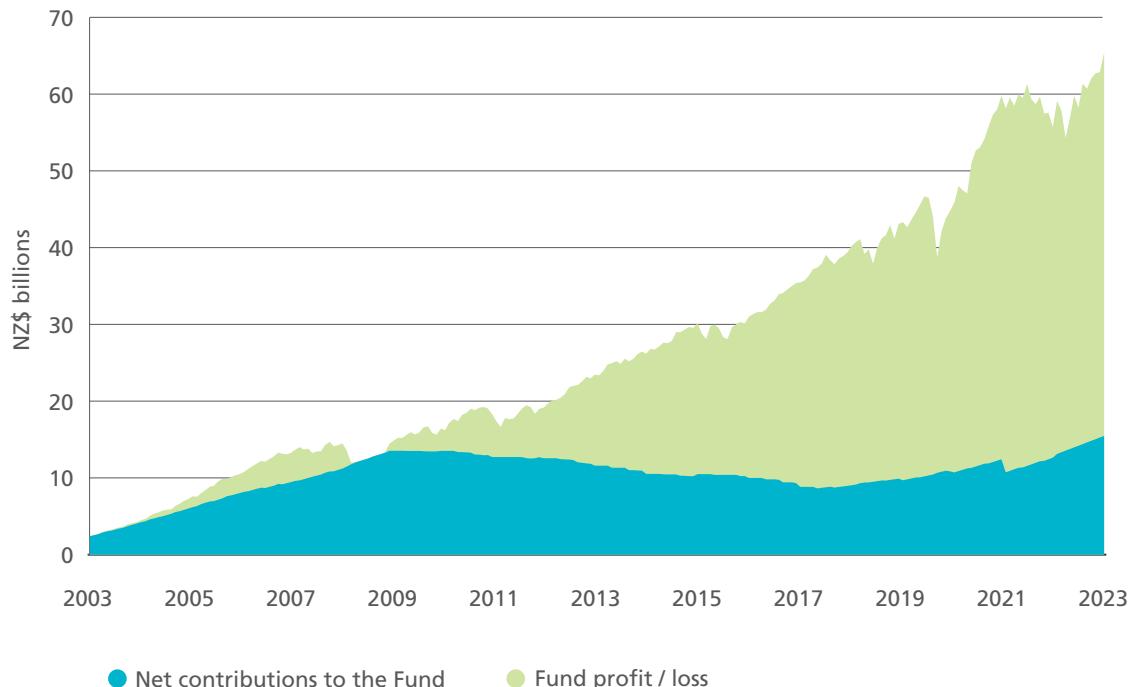
CUMULATIVE NET CONTRIBUTIONS AND THE SIZE OF THE NZ SUPER FUND

Over the next 50 years, the Fund is expected to become an increasingly important asset for the New Zealand Government. Based on Treasury modelling, the Fund will increase in size from about 16% of GDP to 37% and tax paid to the Crown will represent about 0.6% of Gross Domestic Product (GDP).

The graph below shows net government contributions to the Fund (contributions less tax paid back to the government), and the investment returns the Fund has earned on those contributions.

Over time, the substantial amount of tax that the Fund pays will increasingly offset government contributions. The Fund continued to pay tax while government contributions were suspended between 2009 and 2017. Treasury expects that the government will start withdrawing money from the Fund to pay for universal superannuation from 2033/34.

At that point, Treasury estimates the government will have contributed net \$6.9 billion to the Fund (i.e. less than the current net contribution of \$15.5 billion) and the Fund will be worth more than \$133 billion.



● Net contributions to the Fund ● Fund profit / loss

NZ Super Fund performance as at 30 June 2023	Since inception p.a.	10 years p.a.	5 years p.a.	1 year
Actual Fund Returns (after costs, before tax)	9.76%	10.75%	7.98%	11.87%
Reference Portfolio Return (after costs, before tax)	8.22%	8.80%	6.29%	12.03%
Value added (Actual Return – Reference Portfolio Return)	1.54%	1.95%	1.69%	-0.16%
Estimated \$ earned relative to Reference Portfolio*	\$15.12b	\$9.86b	\$4.71b	(\$102m)
New Zealand Treasury Bill Return	3.40%	1.94%	1.46%	3.78%
Net Return (Actual Return – Treasury Bill Return)	6.37%	8.82%	6.52%	8.09%
Estimated \$ earned relative to Treasury Bills*	\$41.59b	\$34.23b	\$16.48b	\$4.66b
Crown contributions*	\$24.94b	\$10.06b	\$9.56b	\$2.56b
New Zealand income tax paid*	(\$9.47b)	(\$6.42b)	(\$3.04b)	\$289m
\$ change in Fund size*	\$65.40b	\$42.43b	\$26.03b	\$9.69b

* Figures are cumulative and not per annum.

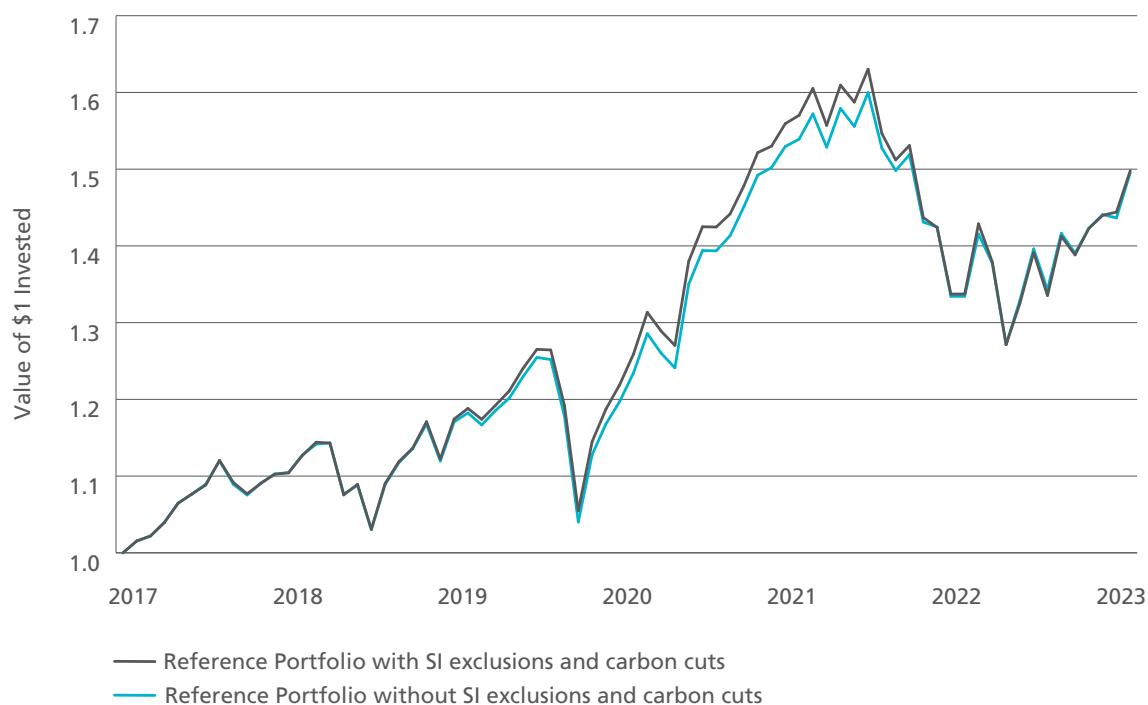
PERFORMANCE REPORT (CONTINUED)

PERFORMANCE IMPACT OF SUSTAINABLE INVESTMENT EXCLUSIONS AND CARBON REDUCTIONS

As detailed in our Sustainable Investment Report on pages 66-77, we exclude some securities from the Fund. Essentially, these are investments we judge to be inconsistent with our legal obligations to maximise return without undue risk to the Fund as a whole and to not prejudice New Zealand's reputation as a responsible member of the world community. More details on our exclusion policy and a list of excluded companies and products can be found on our website.

We have also removed some companies from the Fund's listed equity portfolio in order to meet our emissions intensity and fossil fuel reserve reduction targets. Details of our approach and methodology can be found in our Climate Change Report.

The graph below illustrates the impact that the product and specific company exclusions have had on the performance of the Reference Portfolio. The black line shows how the Reference Portfolio has actually performed since 2017 (the year we first removed investments in order to decarbonise our portfolio); the blue line shows how the Reference Portfolio would have performed without the changes. As demonstrated below, our approach has not cost the Fund anything in terms of investment returns in the six years we have been operating our Climate Change Investment Strategy.

IMPACT OF SUSTAINABLE INVESTMENT EXCLUSIONS AND CARBON REDUCTIONS ON PERFORMANCE

From 1 July 2022 we changed the global equities component of the Reference Portfolio from the MSCI ACWI IMI Index to the MSCI World Climate Paris Aligned Index and the MSCI EM Climate Paris Aligned Index. More information is available on page 68.

RISK-ADJUSTED RETURN PERFORMANCE

The Sharpe ratio

Focusing solely on returns ignores how smooth or rough the ride was in generating those returns and the risk taken to achieve them. A commonly used risk-adjusted performance metric, the Sharpe ratio, compares the portfolio returns above cash returns as a ratio of the volatility of returns. The higher the ratio, the greater the return for the risk taken, and vice versa. The Sharpe ratio enables us to compare the risk-adjusted performance of our benchmark, the Reference Portfolio, with that of our Actual Portfolio, and also against our expectations. This is shown below.

	Reference Portfolio	Actual Portfolio
Expected Sharpe ratios	0.21	0.28
Realised Sharpe ratios		
Since introduction of Reference Portfolio (July 2010) to 30 June 2023	0.77	0.99
Since inception to 30 June 2023	0.46	0.55

Our long-term expectation is that the 80% growth, 20% income Reference Portfolio will achieve a Sharpe ratio of 0.21. For the Actual Portfolio, we expect a slightly higher Sharpe ratio of 0.28, with the increase as a result of the value we expect to be able to add through active investing.

REFERENCE PORTFOLIO

The Reference Portfolio has generated a higher Sharpe ratio than the 0.21 we expected. Since its introduction in 2010, the Reference Portfolio has a realised Sharpe ratio of 0.77. This is because the Reference Portfolio has experienced higher-than-expected returns and lower-than-expected volatility. On a since-inception basis, the realised Sharpe ratio of the Fund's benchmark is 0.46.

ACTUAL PORTFOLIO

The Actual Portfolio has also generated a better Sharpe ratio than we expected, over both periods. Since July 2010, the Actual Portfolio's realised Sharpe ratio has been 0.99, materially exceeding our expectation of 0.28. Again, this has been driven largely by returns exceeding expectations and, to a lesser extent, lower-than-expected volatility. On a since-inception basis, the Actual Portfolio has realised a Sharpe ratio of 0.55. Over both periods, the Sharpe ratio of the Actual Portfolio compares favourably with that generated by the Reference Portfolio.

It is important to note the risk component of the Sharpe ratio calculation is significantly impacted by private market assets. These investments are typically revalued quarterly or annually, as opposed to daily for listed assets such as equities or bonds. This can result in the appearance of much lower risk than these assets actually have, consequently increasing Actual Sharpe ratios. Funds with a higher proportion of unlisted assets will appear to be less risky. The Sharpe ratio calculation above uses annual data points to take into account full valuation cycles of private assets.

INVESTMENT ENVIRONMENT REPORT

Here, we discuss factors that influenced the economic and investment environment in 2022/23.

The main economic theme through 2022/23 was the tension between central banks' efforts to reduce inflation and the continued momentum from previous policy initiatives, intended to stimulate economic activity and counter the effects of the COVID-19 pandemic, which has kept inflation elevated.

During 2022/23, central banks regularly raised policy rates to lower high inflation. From July 2022, the US Federal Reserve raised its rate by 350 basis points (bps); the European Central Bank by 400 bps; the Reserve Bank of Australia by 330 bps; and the Reserve Bank of New Zealand by 300 bps.

This material tightening slowed economic growth in most regions, particularly in sectors sensitive to changes in interest rates, such as housing and business investments. Headline inflation has declined, supported in part by lower commodity prices, as well as reduced instances of the supply chain disruptions that impacted manufacturing centres during the pandemic.

Core inflation, however, remains high in many markets as tight labour supply and consequent wage growth supported consumer demand, particularly for core services. While this economic momentum continues, further interest rate increases remain a possibility.

Ongoing consumer demand, buoyed by strong household balance sheets and the lasting effects of expansionary COVID-era fiscal policies, continued to support economic growth in the US and Canada in particular.

In Europe, economic growth stalled as increased energy costs flowed into more general price increases, reducing demand. As well as its impact on energy and food prices, the war in Ukraine has significantly increased uncertainty, leading to a corresponding drop in economic confidence.

The Japanese economy has benefitted from a combination of mild inflation and low interest rates, underpinned by the Bank of Japan's policy to cap long-term yields.

China's pandemic restrictions were lifted in December 2022, but the reopening hasn't provided the hoped-for rebound. Conditions in the property market continue to be a drag on Chinese growth and consumer sentiment, while geopolitical tensions with the US have seen some investors stay on the sidelines awaiting a more certain outlook.

Economic strength in the face of rising interest rates has raised investors' confidence that inflation will decrease with only a shallow recession. This, alongside the view that central banks will relax monetary tightening in the coming year, has driven strong returns from growth assets.

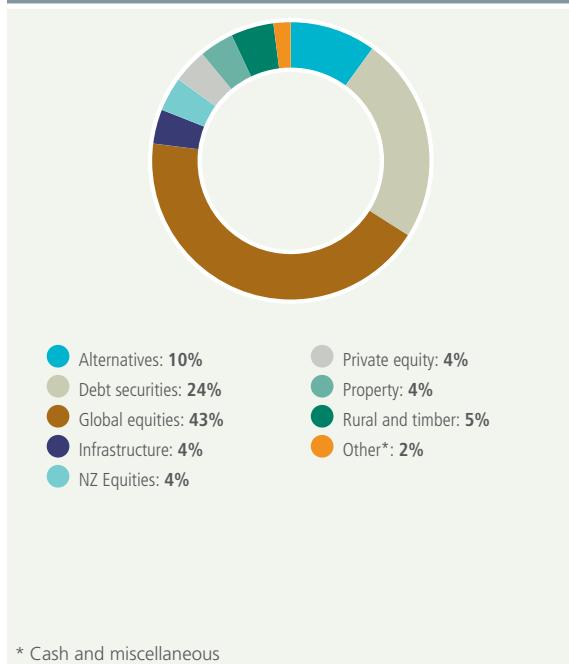
Recent developments in generative Artificial Intelligence (AI) technology have boosted technology stocks, as investors assess the potential impact of AI on future productivity and growth.

Downside risks remain. Investors in commercial real estate face a perfect storm of declining demand for office space as companies transition to flexible work arrangements, higher refinancing rates, and lower revaluations.

In the US, the fast increase of interest rates contributed to volatility in the banking sector, culminating in the collapse of US-based Silicon Valley Bank, and tightening credit conditions more broadly.

In contrast to last year, our active investments slightly underperformed relative to the benchmark. In spite of this, returns for the life of the NZ Super Fund to date from both the Reference Portfolio and our active investment strategies (calculated by subtracting Reference Portfolio returns from Actual Returns) remain well ahead of expectations.

NZ Super Fund asset allocation as at 30 June 2023



INVESTMENT OPPORTUNITY REPORT

We undertake active investments to add value over and above our passive benchmark, the Reference Portfolio, over time.

We make two types of investment in the NZ Super Fund:

- Passive, where we invest in a way that tracks a market index or indices; and
- Active, where we choose (or a manager working on our behalf chooses) to invest in a company or security that we believe will deliver a better risk-adjusted return over the long term than passively investing.

Our active investments are funded from our passive (i.e. Reference Portfolio) holdings. To ensure that active investments do not increase the Fund's volatility, an active investment is funded by a combination of growth, income assets or cash that matches its risk characteristics.

Similarly, when we sell an active investment, the proceeds are invested back into the Reference Portfolio in the same proportion of growth and income assets as the initial funding.



We call this mix of growth and income assets the proxy: it represents the opportunity cost of an active investment (the return we would have made if we did not sell the proxy assets) and is part of our cost of capital or hurdle rate (the minimum rate of return we require to make an active investment). The active return of an investment is the difference between the asset return and its proxy's return. Active investments create 'active risk' (also known as tracking error). This is the chance that they will perform better or worse, or show more volatility, than their proxy.

Two key strategic decisions determine the risk and return profile of the Fund: (i) the structure of the Reference Portfolio, as discussed on page 34, and (ii) the size of the Fund's active risk budget. These are both Board decisions, informed by recommendations from Guardians management. Our total budget for active risk is 4%. That is, the standard deviation of active returns over the long term is expected to average 4%. Within this total budget, management allocates risk to specific investment opportunities, with the most risk being allocated to the investment opportunities we believe will add the most value to the Fund, and are consistent with our liquidity risk appetite and sustainable investment approach.

What are opportunities?

Opportunities are investment activities expected to produce positive risk-adjusted active returns. Effectively equivalent to sub-asset classes, opportunities can be broad (e.g. rural land) or narrow (e.g. spectrum). The opportunity framework allows our investment team to allocate active risk in accordance with our endowments and our investment beliefs, and to construct an actual portfolio that is based on clearly defined drivers of risk and return and that matches the constraints of the risk profile and benchmarks chosen by the Board. Opportunities are subject to regular review and may be terminated, redefined or merged, based on changes to the return and/or risk drivers.

INVESTMENT OPPORTUNITY REPORT (CONTINUED)

ALLOCATING RISK TO INVESTMENT OPPORTUNITIES

Each investment opportunity sits within one of four groups. We set a target risk allocation for each opportunity according to its attractiveness, which is assessed every six months.

TIME-VARYING ALLOCATION APPROACH				
Group	Equity, Credit & Arbitrage	Internal Investment Mandates	Real Assets	Static Targets
Opportunities	<ul style="list-style-type: none"> Growth Capital International Growth Equity Sustainable Transition Opportunity Convertible Arbitrage Natural Catastrophe Reinsurance Life Settlements Insurance Run-off Merger Arbitrage* Buyout* Distressed Credit* 	<ul style="list-style-type: none"> Direct Arbitrage Opportunistic Volatility Tactical Credit Strategic Tilting Active Equities (NZ) Event-Driven Opportunity 	<ul style="list-style-type: none"> Timber Rural Land Real Estate (Opportunistic) Real Estate (Value Add) Real Estate (Core) Infrastructure (Core) Infrastructure (Value Add) Infrastructure (Development) Energy Growth (Alternative)* Energy (Shale)* 	<ul style="list-style-type: none"> Spectrum Developed Markets Equity Multi-factor Global Macro Opportunistic Venture Capital Trend Exploratory
Description	The Equity, Credit and Arbitrage Group is made up of opportunities that are either equity-like, offer credit exposure, or provide a potential arbitrage opportunity.	The Internal Investment Mandate Group includes all of the strategies that are run by Guardians staff.	The Real Assets Group comprises investments or holdings in physical assets.	The Static Target Group contains Opportunities where we do not attempt to time the market (i.e. we do not change our allocation in response to market conditions).

*Terminated opportunity.

PERFORMANCE OF OPPORTUNITIES OVER TIME

Source of value-add	1 year (p.a.)	5 year (p.a.)	10 year (p.a.)
Static Targets	-1.31%	0.05%	0.05%
Internal Investment Mandates	2.02%	1.18%	1.33%
Real Assets	-0.16%	0.47%	0.62%
Equity, Credit & Arbitrage	-1.17%	-0.18%	-0.05%
Terminated*	-0.18%	-0.28%	-0.24%
Total**	-0.79%	1.23%	1.71%

* The returns of the terminated opportunities are not included in the returns of the opportunity groupings in the rows above.

** Totals may not equal the sum of underlying components due to rounding. The difference between the -0.79% total shown here and the Fund's total annual value-add performance of -0.16% for the year can be attributed to portfolio completion activities (see page 45), benchmark calculation methodology factors and Guardians' costs.

OPPORTUNITY PERFORMANCE

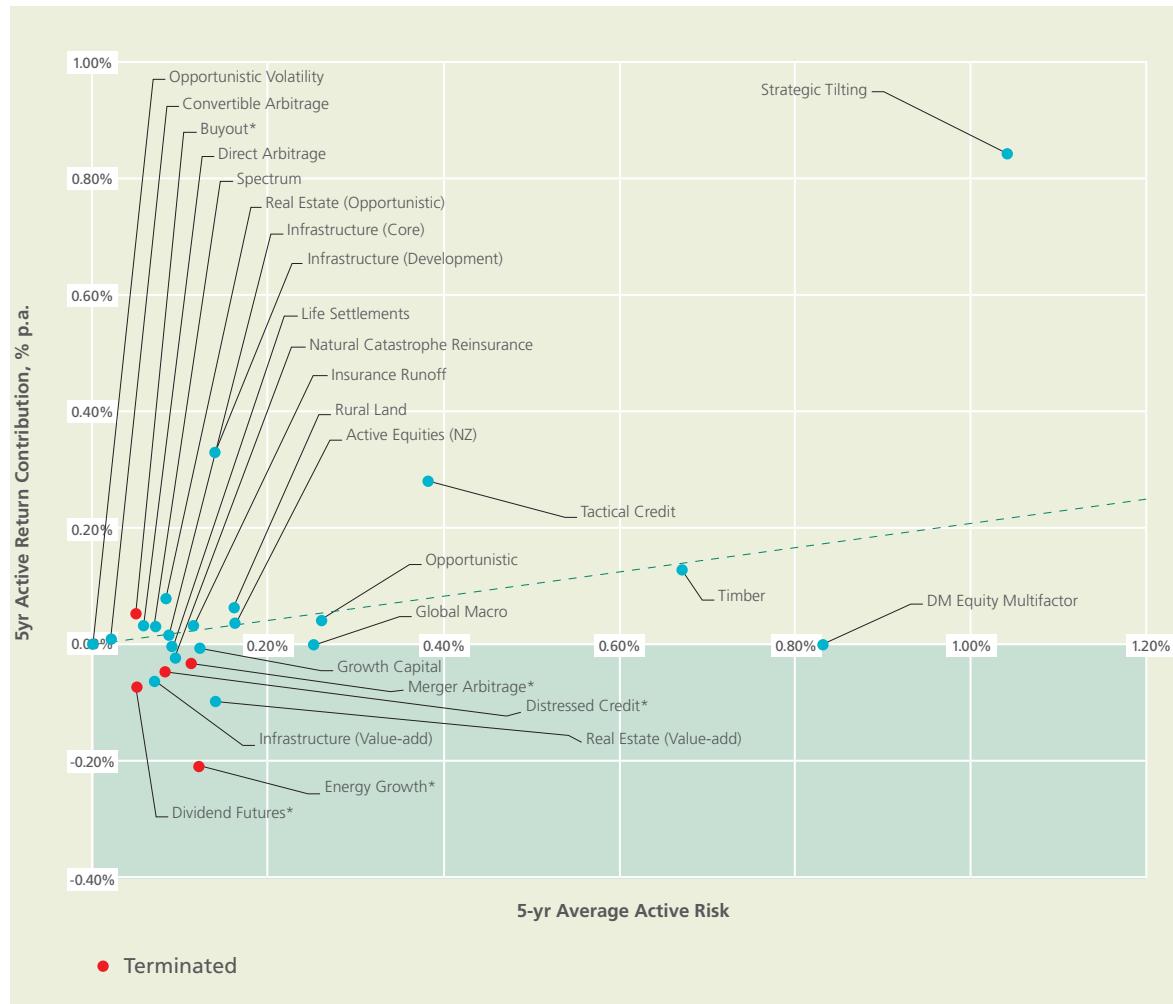
The graph below shows how each of our investment opportunities has performed over the past five years.* The vertical axis represents the percentage returns each opportunity has delivered relative to its proxy. The horizontal axis represents the average amount of active risk we have allocated to each opportunity over the same period. The opportunities that sit above 0% have provided value above the Reference Portfolio, and those above the green line have performed above our long-term return expectations during the measured period. Historically, total portfolio performance has benefitted from the Guardians allocating the most active risk to the best-performing opportunities.

When reading the graph, it is important to understand:

- A low return is not in itself a bad outcome. Opportunities that are allocated less risk over time have less potential to make large returns. We expect opportunities with low-risk allocations to make small active contributions to the portfolio.
- The graph shows performance over five years. This may not be suitable for assessing new opportunities or opportunities based on a long-term case.
- The vertical axis shows whether an opportunity has beaten its proxy or not. An opportunity sitting at or below zero may still have generated a positive absolute return.

While a five-year time frame better reflects our long-term investment horizon, the graph includes opportunities for which we have at least two years' data.

OPPORTUNITY PERFORMANCE OVER TIME**



* We have included opportunities for which we have at least two years of data. The following opportunities have been terminated, but were active in the portfolio at a particular point in time over the past five years: Energy Growth Shale (terminated December 2019); EM Active (terminated December 2019); EM Upweight (terminated February 2020); Dividend Futures (terminated February 2021); Buyout (terminated April 2021); Energy Growth Alternative (terminated December 2021); Merger Arbitrage (terminated June 2023); and Distressed Credit (terminated June 2023).

** Because the active returns of the opportunities are not perfectly correlated, the active risk of all opportunities combined (i.e. the active portfolio) is less than the sum of the individual opportunities' active risks.

INVESTMENT OPPORTUNITY REPORT (CONTINUED)

NOTABLE OPPORTUNITIES

- Our internally managed mandates performed well over the financial year, with **Strategic Tilting** and **Tactical Credit** being two of the largest contributors of value-add in 2022/23. The Strategic Tilting opportunity contributed \$935 million in value-add in 2022/23, and represents the NZ Super Fund's largest contributor to value-add since inception of approximately \$4.6 billion.
- The **Sustainable Transition** opportunity seeks exposure to a portfolio of proven technologies that contribute to a sustainable economy. As this is a relatively new and rapidly developing sector, pricing inefficiencies can create opportunities to add value. We expect to make most of our investments in this opportunity at the growth equity stage, but may also include some earlier-stage investments in the form of venture capital or later stage in the form of buyout. To date we have committed capital to three external managers in this area.
- Returns from the **Real Estate (Opportunistic)** opportunity are largely or entirely reliant on capital gain derived from the substantial development or redevelopment of an asset. Exposure to development risk (consenting, development, construction, offtake) is mitigated by our ability to select and access exceptionally skilled managers or partners, with favourable contractual terms. Our endowments (as outlined on page 36) can also give us a competitive advantage in some situations. For the past year, Real Estate (Opportunistic) delivered the highest value-add relative to its proxy.
- As its name suggests, the **Exploratory** opportunity is used for novel investment strategies with strong qualitative investment drivers that may lack sufficient historical data to confidently determine an expected return (e.g. carbon credits).
- The **Trend** opportunity exploits investor behavioural biases that lead to auto-correlated returns in markets and can be captured by a systematic Trend programme. While the strategy's returns are variable, they are persistent over the long term. This is a new opportunity, approved in mid-2022 following research by our Asset Allocation Team. We appointed our first Trend manager, Man AHL, in late 2022 with an investment of USD\$357 million in two complementary Trend-following funds. We continue to research this opportunity and may look to appoint a second manager in the next financial year.
- The **Distressed Credit** opportunity seeks to capitalise on investments in stressed and distressed companies, with returns generated via various mechanisms including balance sheet restructuring, operational reorganisation and asset sales. Resolution can take some time as court processes, regulatory approvals and creditor negotiations are worked through. This favours the Fund's long horizon endowment and consequent ability to participate in illiquid opportunities. The Distressed Credit opportunity was terminated in part due to potential overlap and competition for capital with other high-performing Fund strategies including Tactical Credit and Strategic Tilting.
- The **Energy Growth** opportunity has been terminated. Some of the assets it held have been transferred to the Sustainable Transition and Infrastructure Development opportunities, such as our investment in renewables developer Longroad, which has been very successful. As at 30 June 2023, the remaining assets, which have under-performed, included shale energy, which is in wind-down mode, and View Glass (exited post year-end).
- The **Real Estate (Value Add)** opportunity performance was impacted by the performance of our investment in RetireAustralia relative to the strong performance of its proxy benchmark. RetireAustralia underwent a strategic review during the year, and remains well-positioned in the sector and has a strong team in place. Other assets in the opportunity are at an early stage and performing promisingly.
- **Infrastructure (Value Add)** contains a mix of assets, some of which are very new, and others which are in wind-down mode. The under-performance relates primarily to residual assets in a long-dated mandate in China.

There are a number of reasons why we may decide to terminate an opportunity, for example; if the opportunity's performance is not in line with our expectations, or there have been structural changes in the market making the opportunity less attractive in regard to future returns.

OTHER VALUE-ADDING ACTIVITIES

In addition to our opportunities, we also seek to add value to our portfolio through efficient implementation – what we call portfolio completion. Our Portfolio Completion Team executes a value-adding strategy focused on obtaining cost-effective access to liquid exposures and managing them efficiently. Through this strategy, we aim to minimise and reduce the direct and indirect costs associated with investing the Fund.

Our Portfolio Completion Team does this in four key ways:

Portfolio optimisation	Portfolio optimisation is where we make a decision to hold securities in the portfolio that will best replicate the performance of our benchmarks.
Asset rebalancing	Asset rebalancing is where we periodically rebalance the proportion of equities and bonds in our portfolio back to desired Reference Portfolio weights.
Foreign exchange hedging	Currency hedging is where we adjust our currency hedges to match the Reference Portfolio currency exposure, which is 100% hedged to the NZ dollar. At times we may be over hedged or under hedged. We also adjust our duration of foreign exchange forward contracts versus our benchmark.
Securities lending	Securities lending is where we lend out both our equities and bonds to other market participants to achieve a return.

Our Portfolio Completion activities have added considerable value to the Fund over time. For the past five years, in dollar terms, we have estimated the value added as approximately \$760 million.

	1 year	5 year (p.a.)	10 year (p.a.)
Portfolio completion	0.33%	0.30%	0.27%
- <i>Passive replication</i>	0.10%	0.19%	0.23%
- <i>Transitions and other</i>	0.01%	0.01%	0.01%
- <i>Currency overlay – Manager</i>	0.21%	0.10%	0.03%

Where We Invest



The NZ Super Fund is diversified across a range of markets and sectors all around the world.

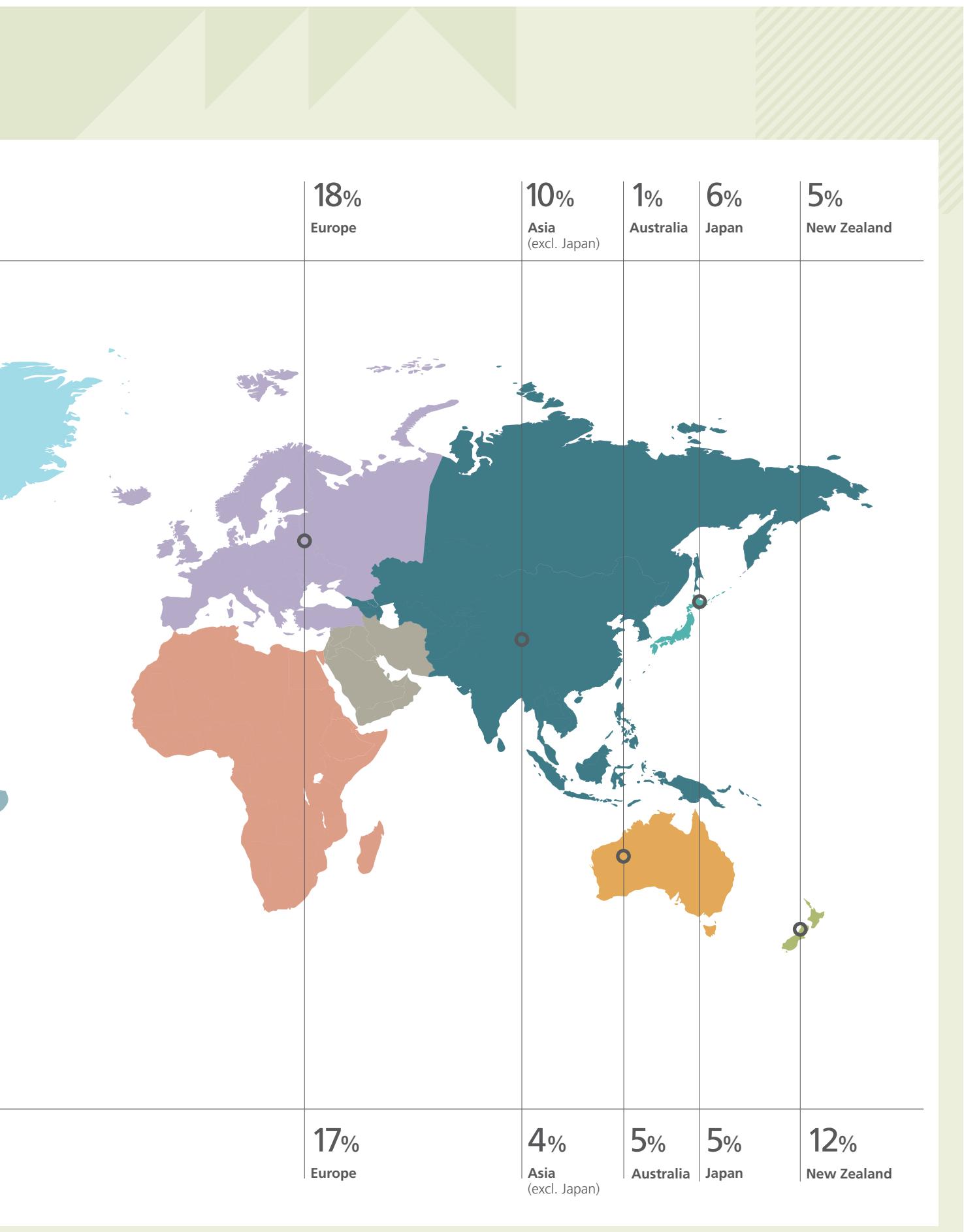
In this section, we show where the Fund's Actual Portfolio is invested, compared to where it would be invested if we took a passive approach and invested solely in line with the Reference Portfolio. As you can see, the Fund is strongly weighted to New Zealand assets relative to the size of the market. This is because of our local advantage: New Zealand is a market we understand and value, and one in which we have some advantages that others do not. The Fund is local and Crown-owned, which is attractive to some investee businesses and co-investment partners; in New Zealand terms, the Fund is relatively large and able to undertake investment at scale; we have a long investment horizon and the ability to invest in illiquid assets (assets that can be hard to sell quickly) to earn a premium over time.

	Reference Portfolio	Actual Portfolio
North America	59%	53%
Europe	18%	17%
Asia (excl. Japan)	10%	4%
Japan	6%	5%
New Zealand	5%	12%
Australia	1%	5%
Other	1%	4%

REFERENCE PORTFOLIO	1%	59%
	Other	North America



ACTUAL PORTFOLIO	4%	53%
	Other	North America



INVESTED IN NEW ZEALAND

New Zealand is our home. It's a market we understand and in which we play an important role.

The Guardians is one of New Zealand's largest institutional investors. Twelve percent of the NZ Super Fund's total investments by value, or \$7.5 billion, is invested in New Zealand assets.

In 2009, the then-Finance Minister directed the Guardians to identify and consider ways to increase the allocation of New Zealand assets in the Fund, while still investing on a "prudent, commercial basis", in accordance with our legislative requirements. While fulfilling those legislative requirements in a way that adds to Crown wealth and improves the ability of future governments to pay for superannuation remains our core purpose, we also aim to also play an active role in strengthening New Zealand's capital markets and institutional investment capability.

To that end, we played a central role in the establishment of the New Zealand Corporate Governance Forum and Toitū Tahuā – Centre for Sustainable Finance, and are an active member of Responsible Investment Association Australasia among other network groups and organisations. While the value of our investments in New Zealand has grown significantly since the directive (around \$2.5 billion to \$7.5 billion), the percentage of New Zealand assets as a proportion of our total portfolio has decreased 3% over the past year, or 10% since 2009.

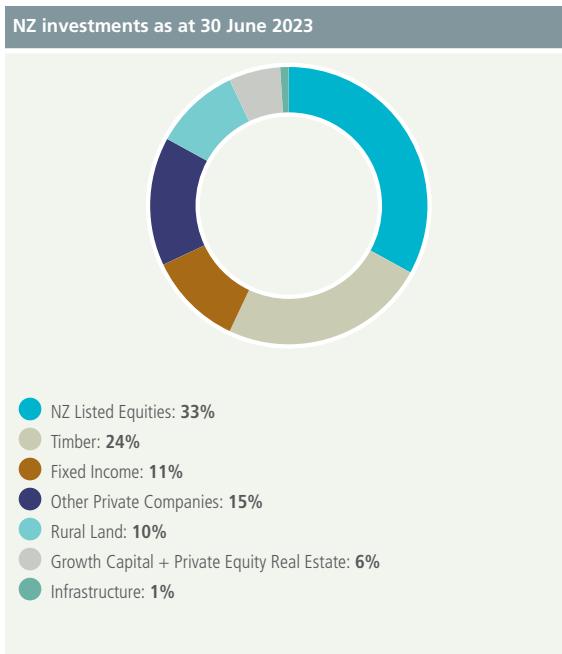
This is a function of the relative growth rates and market size of New Zealand in comparison with the global asset classes in which we are invested. We remain keenly interested in pursuing large-scale domestic investment opportunities and continue to seek out local projects that fit our commercial criteria.

LISTED EQUITIES

Five percent of our Reference Portfolio is invested in New Zealand shares. We allocate to New Zealand shares through two active and one passive internal investment mandates (one of which is described in more detail below) and two active local external managers, Devon Funds Management and Mint Asset Management.

Using multiple mandates guards against the issues that can arise when a fund becomes too big to execute an active management strategy effectively. The debate between the relative merits of active and passive investing approaches continues. Our investments in overseas sharemarkets are passively selected (although we are active owners of the companies we hold); however, when it comes to the New Zealand sharemarket we believe our deep understanding of the local market and our relatively high tolerance for volatility provide the potential for us to add value by stock picking.

This belief has been borne out by the performance of our in-house and external managers measured against the benchmark NZX50 index over the lifetime of the Fund, with \$250 million of value added since inception. A full list of all our shareholdings, including the percentage of each company we hold, is available on our website.



A NEW INTERNAL INVESTMENT MANDATE FOR THE NZ EQUITIES TEAM

The 2021/22 year saw big announcements from the likes of Google, Facebook and Microsoft about the latest developments in the world of AI. Elsewhere, the European Commission issued draft rules to govern its use, and 56% of respondents to a survey carried out by McKinsey reported AI adoption in at least one function.

Meanwhile, investment professionals from across the organisation were working on a proof of concept for an AI-powered portfolio manager that would invest in the New Zealand sharemarket. The thesis was to use machine learning to predict share performance. Machine learning is essentially a collection of algorithms based on relationships observed in existing data that are used to predict outcomes from new data. The data includes many of the same risk factors used by traditional quantitative managers such as value, momentum, quality and volatility. However, machine learning continually ingests new data and updates its views accordingly. The AI-powered portfolio manager is able to consider the entire 'factor zoo' before selecting which factors are most likely to lead to an accurate prediction, free from the human biases and prevailing narratives that can colour the judgement of a traditional quantitative analyst. After extensive paper trading and back testing, the new strategy went live partway through last year. Given the small initial capital allocation and short period in which it has been operating, we are cautious about overstating results to date; however, they have been encouraging. The new manager's quantitative approach is differentiated to our traditional multi-factor managers, providing diversification to our current active equity allocations while maintaining commercial viability. These are qualities which support broader application if this strategy continues to generate alpha.

CASE STUDY

Offshore Wind



On 11 June 2023, Taranaki Offshore Partnership (taranakioffshorewind.co.nz), a joint venture between Copenhagen Infrastructure Partners (CIP) and the NZ Super Fund, launched the first piece of physical offshore wind technology to be deployed in New Zealand, a Floating Light Detecting and Ranging (FLiDAR) device.

The FLiDAR will sit 37 kilometres off the coast from Patea for one year, measuring wind speeds, waves and currents – vital information that will help the joint venture to accurately assess the prospects for our proposed offshore wind farm.

While New Zealand already generates as much as 90% of its **electricity** from renewable fuels, notably hydro and geothermal, only 40% of our **total energy supply** comes from renewable sources.

Continued electrification of various industries will be essential if we are to meet our commitments to reducing CO₂ emissions and create a truly sustainable economy. To achieve that, we will need to explore new ways to generate a sufficient supply of renewable electricity.

The risks and opportunities associated with climate change are an essential consideration in our investment decisions.

Partnering with a world-class infrastructure developer to explore the potential to harness a world-class energy resource is an opportunity ideally suited to our investment timelines and risk appetite, and to our commitment to explore commercially attractive investments in New Zealand infrastructure and climate-oriented investments.

Denmark is the home of the world's first offshore wind farm, and CIP is a global leader in offshore wind.

CIP manages 10 funds and has to date raised approximately €19 billion (about NZ\$35 billion) for investments in energy and associated infrastructure from more than 140 international institutional investors. Those investments include offshore wind and offshore power transmission projects and assets in North America, Taiwan, Australia, the UK and Germany.

The power of the winds in the South Taranaki Bight are an open secret to New Zealand's surfers and windsurfers.

Land-based wind energy is well understood as a source of clean electricity. Now, Taranaki Offshore Partnership is exploring the potential of New Zealand's offshore wind resources on a scale never before seen in this country.

Creating a viable development will require considerable work with regulators, energy users and local communities to create a framework that supports the level of investment and development required to ensure security of supply and demand.

We are actively discussing these and other related matters with a broad range of stakeholder groups, while we compile the detailed data we need to establish the investment case.

To learn more about our experience in renewable energy development, see pages 53 and 54.

CASE STUDY

Investing in New Zealand's Rural Land

Rural land is an important part of the NZ Super Fund's investment portfolio. It provides portfolio diversification, a hedge against inflation, and potential for development and value enhancement.

Our initial investment into rural land was through the 2010 purchase of three dairy farms. That also marked the beginning of our partnership with FarmRight, who we appointed as manager.

Over subsequent years, we have added exposure to beef and horticulture, in particular pipfruit and grapes.

The shift to a more balanced mix of protein and horticulture was boosted by the purchase in late 2022 of T&G Global's Riwaka orchard, which took our apple holdings to 280 hectares of plantings.

The purchase, which followed two similar, smaller transactions in Hawke's Bay, lays the foundations for a three-way partnership between T&G, which holds the plant variety rights for Envy™ apples, the NZ Super Fund as orchard owner, and FarmRight as orchard manager.

An ambitious redevelopment programme will see the entire Riwaka property converted from traditional varieties into Envy™, the variety described by a panel of American consumers as "the ultimate apple-eating experience".

The transaction gives T&G capital to invest into its global growth strategy for Envy™, while giving us and FarmRight the opportunity to not only increase per-hectare returns – and therefore the long-term value of the land – but also to introduce new orchard management techniques that have the potential to improve employee health and safety, as well as crop yield and quality.

New trellising methods will improve light interception, and therefore fruit quality, as well as incorporate elevated work platforms which will significantly reduce ladder use in the orchard. Less ladder use means fewer injuries – it also means a broader pool of potential orchard workers, an important consideration given the increasing average age of New Zealand's rural workforce.

As the rural land portfolio has developed, so has our relationship with our portfolio manager, FarmRight – a change FarmRight's Gavin Tayles describes as "going from asset management to investment management".

"It's a good relationship, based on a simple and agreed strategy," says Tayles.

The Guardians Board's endorsement of our shift from responsible investment to sustainable investment has seen that strategy refreshed to incorporate a stronger focus on the impact our investments have on the community and the environment.



The refreshed strategy includes a commitment to reduce our portfolio's carbon intensity, which in turn means ambitious targets to lower greenhouse gas emissions from our primary sector business activities, starting with a 10% reduction by 2028.

Increasing the proportion of horticulture in the rural land portfolio delivers lower total carbon emissions per hectare, as well as providing uncorrelated returns. However, we are determined to improve the performance of each individual property, rather than relying on our new investments to do the heavy lifting.

The size of our portfolio allows us to innovate on a large scale and apply lessons learnt on one property across the entire operation.

On our beef and dairy farms, increased production efficiency through herd improvement and better stock management, and new technology such as smart collars that improves pasture management and reduces workload, all provide ways we can maintain and even increase production volumes with lower stock numbers and consequently reduced greenhouse gas emissions.

Brendon Jones, NZ Super Fund Director, Direct Investments, says dairy remains an important part of our rural land portfolio.

"Like all dairy farmers, we face challenges in meeting our greenhouse gas targets without compromising production. However, we believe we have an opportunity to help develop solutions that will benefit not only our operations but also the wider sector and the economy as a whole."

"Achieving that will only happen through improving systems and people at ground level. Innovative technology can be a game-changer, but only if it is deployed effectively. That means investing in people and giving them the tools and the environment to succeed."

"In FarmRight, we have a partner that shares the vision for our rural land portfolio: Sustainably Growing Exceptional Natural Produce," says Jones.

INVESTMENT ACTIVITY REPORT

Here, we provide an overview of our new investments over the past financial year.

GLOBAL MACRO**Episteme Capital**

In March 2023, we made a US\$100 million investment in the Systematic Quest Fund, managed by Episteme Capital. This is a quantitative strategy that fits into our Global Macro Opportunity. The team at Episteme invests in a systematic way across a variety of liquid asset classes including equities, fixed income and commodities, and can take long or short positions. We expect this fund to generate returns that are not correlated with movements in traditional markets – providing diversification and a positive contribution to the total portfolio.

TREND**Man AHL**

In December 2022, we made a US\$357 million investment in two Trend-following strategies, managed by Man AHL. These were the first investments the NZ Super Fund has made in Trend-following strategies. Trend-following strategies are generally implemented in highly liquid global markets and span a variety of asset classes including fixed income, commodities and currencies. They can take long or short positions and often provide an element of portfolio support during extended periods of market weakness – or ‘bear’ markets. While the philosophy underpinning the two strategies is the same, they invest across different markets and are expected to display differing return profiles over time. The combination provides a degree of diversification and increases confidence that Trend will beat its opportunity hurdle.

EXPLORATORY**PIMCO**

In September 2022, we committed US\$25 million into PIMCO’s California Carbon Access Offshore Fund, which invests in carbon credits issued by the state of California as part of its cap-and-trade emissions trading scheme. The Californian carbon market was chosen based on observable market inefficiencies, confidence in the statutory and regulatory regime, and a perception of under-pricing. Through PIMCO, we own physical allowances purchased either at auction or on secondary markets. This is the first investment housed in our Exploratory Opportunity, which invests in emerging strategies with potential for scale and outsized returns over the long term.

INTERNATIONAL GROWTH EQUITY**Columbia Capital**

In February 2023, we committed US\$50 million to Columbia Capital Equity Partners Fund VIII and US\$100 million to Columbia Capital Opportunities Fund I, which are US private equity funds focused on the communication and technology space. Columbia’s primary investment strategy involves partnering with experienced executive teams to build businesses around unique assets or growth trends, driven by innovation/disruption in Columbia’s focus areas of digital infrastructure, enterprise technology and mobility.

VENTURE CAPITAL**StepStone**

In November 2022, we committed US\$50 million to StepStone VC Early Stage Fund III, which will provide venture capital at seed and series A/B financing rounds in companies with less than US\$10 million annual recurring revenue. We also established a separate managed account (SMA) with StepStone, with the primary purpose of participating in later-stage venture capital co-investments alongside the manager.

REAL ESTATE**Slate North America**

In July 2022, we invested US\$180 million to seed Slate Asset Management’s North American Essential Real Estate fund. This fund is a sister fund to Slate’s European Essential Real Estate fund, which we seeded in 2021. The proceeds of our US\$180 million investment were used to purchase an 18% stake in the underlying real estate already owned by Slate Grocery REIT. Going forward, the fund will invest in essential real estate across North America and, where applicable, will make further co-investments alongside the REIT. Essential real estate is infrastructure that facilitates the distribution of essential goods and services such as grocery and healthcare assets, and associated warehousing and logistics assets.

ESR

In July 2022, we committed US\$300 million to ESR Data Centre Fund I LP, managed by Asia Pacific real asset manager ESR. This fund targets the acquisition and development of a portfolio of modern data centres across Asia and the Pacific, servicing growing demand for data storage infrastructure and leveraging ESR’s significant presence and experience across the region.

INFRASTRUCTURE**StepStone**

In August 2022, we committed US\$250 million to StepStone NZ Infrastructure Opportunities Fund, managed by global private markets investment firm StepStone. This fund seeks to provide access to a diversified portfolio of high-quality infrastructure investments alongside industry-leading partners.

APG

In July 2022, we established an Asset Owner Partnership with Dutch pension investor APG. This partnership enables us to co-invest alongside APG into large-scale global infrastructure transactions with a focus on generating sustainable long-term returns.

INVESTMENT ACTIVITY REPORT (CONTINUED)

SUSTAINABLE TRANSITION**Wellington Management**

In December 2022, we committed US\$100 million to Wellington Management's Climate Innovation Fund I (CIF), which seeks to invest in companies developing products and solutions for climate change mitigation and adaptation. The fund aims to generate non-concessionary venture capital growth returns by investing in Series B and C rounds of financing at the time of initial investment, predominantly across North America and Europe. Target sectors include energy transformation, sustainable buildings and cities, transportation and mobility, industrial and enterprise efficiency, and food and agriculture.

CO-INVESTMENT PROGRAMME

A co-investment is an investment we make in an individual asset or company, managed by an incumbent manager, either alongside a current fund investment or within a pre-existing co-investment structure. Our co-investment programme allows us to scale investment into high-conviction managers and attractive assets, gives us flexibility over deployment of capital into our key strategic focus areas and reduces fees. We can leverage manager expertise, due diligence, transaction execution and access to investment opportunities without being confined to the limits of a fund.

In the past financial year, we focused on streamlining the process and defining the strategy for our co-investment programme and made co-investments alongside managers in our Infrastructure, Venture Capital, Growth Equity and Sustainable Transition opportunities.

DIRECT INVESTMENT UPDATE**LanzaTech Update**

LanzaTech announced in the third quarter of the 2021/22 financial year that it planned to list on the NASDAQ stock exchange and began trading on 10 February 2023 with the ticker LNZA.

The NZ Super Fund first invested in Illinois-based LanzaTech in 2014, and currently has a 17% shareholding (15.2% on a fully diluted basis). LanzaTech's carbon recycling technology converts waste carbon into new everyday products that would otherwise come from virgin fossil resources.

In June 2023, LanzaTech announced that it and sister company LanzaJet would be working with Air New Zealand and the Ministry for Business, Innovation and Employment on a study to determine the commercial viability and sustainability of domestic sustainable aviation fuel (SAF) production in New Zealand. It was also announced that LanzaJet had entered into a memorandum of understanding with Airbus to advance building SAF facilities.

During the past year, LanzaTech has collaborated with various multinational brands including Coty, H&M, and adidas.

CASE STUDY

Partnering with Morrison & Co.



Strong, mutually-beneficial relationships with the best global investment managers lie at the heart of our investment strategy in External Investments and Partnerships. Our relationship with infrastructure investment specialists Morrison & Co goes back to 2006; here, two of Morrison & Co's partners talk more about working with the NZ Super Fund.

MORRISON & CO

Our relationship with the NZ Super Fund has been one of our most enduring. For over 17 years, Morrison & Co has managed a global infrastructure mandate for the NZ Super Fund, comprising private and listed investments in airports, renewable energy, water recycling, retirement living and many other essential community services.

We are guided by the purpose to “invest wisely in ideas that matter”, finding investments that deliver solutions to address some of the world’s largest long-term challenges. Since our foundation, we have expanded from our New Zealand home market to achieve global recognition as a leading specialist infrastructure investor, focused on delivering superior results for our clients through multiple investment cycles.

Our partnership

Paul Newfield, CEO and Partner at Morrison & Co, describes how the long-standing partnership we’ve built with the NZ Super Fund reflects our complementary investment styles.

“Investing in infrastructure requires conviction and patience. It takes time to transform an idea that matters from a single asset into a significant platform with strong, long-term value creation potential. Our partnership benefits from having a shared investment philosophy, centred around delivering positive outcomes for our clients, the environment and society. We recognise that our actions and how we manage our investments have real-world impacts, and we both take that responsibility seriously.”

One of the hallmarks of our shared investment style is recognising and acting on major global themes early in their development. Together, we build businesses.

In 2010, the NZ Super Fund became the cornerstone investor when we launched the country’s first fund dedicated to public-private partnerships. The fund aimed to offer investors with a longer-term investment horizon exposure to a new asset class for their portfolios, funding the delivery of local social infrastructure assets including schools and hospitals.

Six years later, NZX-listed infrastructure investor Infratil, which is managed by Morrison & Co, partnered with the NZ Super Fund to invest in Longroad Energy Holdings, a newly formed renewable energy development vehicle in the US. A further six years on, what started as an initial investment of US\$48 million is now a 37% shareholding worth more than US\$1 billion (NZ\$1.6 billion).

Longroad has developed and acquired solar and wind power projects comprising 4.3 gigawatts (GW), currently owns an operating asset portfolio of 2.4GW, has 3.2GW of projects for which it provides asset management services, and has more than 25GW of development projects in the pipeline.

Jason Boyes, CEO of Infratil and a Partner at Morrison & Co, says the close working relationship built between the two firms over time has been cemented by a like-minded approach to risk and return and a hands-on focus on governance and stewardship.

“Longroad exemplifies the merits of patient, high-conviction investing focused on sectors supported by strong tailwinds of demand, such as the green energy market. The success of this investment has served as a model for our other renewable energy platforms, including the European-located Galileo business, into which the NZ Super Fund invested in 2020.

“We are both future focused and our investment decisions are intergenerational, designed to deliver outcomes for years ahead. This has resulted in our history of investing ahead of the trend in our sectors, often enabling us to secure assets before others have recognised their value.”

Our partnership with the NZ Super Fund has benefitted from a shared commitment to sustainability.

As aligned active owners of the businesses in which we invest, we embed environmental, social and governance (ESG) factors into our investment and asset management practices, and measure and benchmark our ESG performance using well-regarded industry benchmarks and rating systems such as the GRESB Infrastructure, Principles for Responsible Investment (PRI) and the Investor Group on Climate Change.

Looking ahead

We see demand for infrastructure continuing to rise in most developed economies, fuelled by long periods of public under-investment, the need to decarbonise to meet Paris Accord targets, the adoption of new technologies, heightened global security and supply risks, population growth and changing demographics.

Together, we build businesses

Our teams trust and respect each other's expertise and enjoy working together. We will continue to partner with the NZ Super Fund to source investment opportunities that will help future societies thrive and deliver value through multiple decades and economic cycles.

CASE STUDY

Partnering with Bridgewater



KYLE DELANEY
PRESIDENT AND CHIEF
COMMERCIAL OFFICER

Bridgewater Associates (www.bridgewater.com) is a global leader in institutional portfolio management and the world's largest hedge fund. Based in Westport, Connecticut, Bridgewater works with some of the world's largest and most sophisticated institutional investors, including public and corporate pension funds, university endowments, charitable foundations, supranational agencies, foreign governments, and central banks.

Since 2003, we have collaborated on more than 400 large and small research projects and engagements spanning investing, sustainability, management and technology. Throughout that time, our relationship with the NZ Super Fund has epitomised what we at Bridgewater think of when we use the term 'strategic partner' – a deep, meaningful relationship that creates long-term value for both organisations.

Bridgewater's partnership with NZ Super Fund

Like any true partnership, ours has covered both good times and more challenging times. Having a long-term, high-quality and transparent relationship has allowed us to navigate the tougher times in a straightforward and candid way, ultimately strengthening that relationship. Bridgewater has always appreciated how the NZ Super Fund's team has held us to a very high standard that continues to make us better.

In the last year alone, we have partnered on a number of topics including Market and Investment Insights; Portfolio Construction; Stress Testing; Sustainability; Data and Technology; Geopolitics; People Management; Culture; and Diversity, Equity and Inclusion.

Market and investment insights

We have regular conversations about what we see happening in global markets and economies, the likely impact those developments could have on the NZ Super Fund's portfolio, and potential portfolio shifts being considered.

Throughout these conversations, the NZ Super Fund team brings a unique and thoughtful perspective, and challenges our views in a way that allows both organisations to push each other's thinking.

"The NZ Super Fund is a widely respected investor for the results they have delivered for the people of New Zealand. I have been fortunate to see first-hand what has driven their success in engaging with their leadership and investment teams. The team has a deep curiosity, constantly questions what they and we could be missing, and is committed to continuous learning and improvement. We value the same things at Bridgewater, so it is no surprise that our conversations together feel like a true partnership. The back-and-forth discussions to understand the world together and debate how to approach investing in a changing world make us feel like a meaningful partner in delivering on the Guardians' mission," says Karen Karniol-Tambour, Co-CIO.

Sustainable investing

We view the NZ Super Fund as a global thought leader on Sustainable Investing, and we value the close partnership between our organisations on this shared strategic priority. We have had ongoing dialogue with the entire NZ Super Fund team on the practical aspects of integrating sustainability considerations across the full investment value chain – from definition of objectives to investment beliefs, sustainability assessment methodologies, and portfolio construction implications. This includes contributing to the Responsible Investment Compass project, which culminated in strategic changes in the NZ Super Fund's approach to sustainable finance. In particular, our co-CIO for Sustainability, Carsten Stendevad, has provided our perspective on sustainability and how that compares with what we see leading asset owners do. We have also benefitted tremendously from the insights and feedback that the NZ Super Fund team has provided on our own sustainable investing efforts, including our initiatives to create sustainable macro strategies.

"I am so grateful for the partnership that we have had with the NZ Super Fund team for more than a decade while I've been at Bridgewater and, before that, at ATP. The NZ Super Fund has always sought to be openminded to global best practices while maintaining a fierce intellectual independence in its investment approach. That is a unique and invaluable organisational mindset that has served it well and that I hope it will maintain in the decades to come. We have also benefitted immensely from the thoughtful and direct engagement the team provides, helping us to improve and hone our own approach," says Carsten Stendevad, Co-CIO of Sustainability.

Portfolio Construction Engagement

We have collaborated on several custom projects reviewing the Fund's reference portfolio, each time seeking to 1) deeply understand the Guardians' circumstances, and 2) provide advice on how to generate better consistency from the portfolio over time. We have also made proprietary resources such as our Risk Budget Tool (RBT) available to the NZ Super Fund team for their own research. Using the RBT platform, we have been able to identify environments in which the NZ Super Fund portfolio would be likely to outperform and underperform, do extensive stress-testing back through time, and help evaluate potential portfolio shifts to maximise the likelihood of achieving the Fund's goals over time.

"I'm grateful for the nearly two decades of meaningful work and meaningful relationships with the NZ Super Fund investment team. Their deep sense of mission on behalf of New Zealand is inspiring, as is their strong culture of independent thinking and willingness to do things differently if that's the best answer, the seeking out of divergent viewpoints and global economic-market perspectives in pursuit of that answer, a long-term goal orientation, and a focus on risk management. Across many engagements over the years, unique insight has come through thoughtful disagreement among our teams and working through the whys in a rigorous way that led to improved, shared understanding. Compounded over almost 20 years, together we have built a strong foundation of strategic thinking across a range of economic-market conditions and investment challenges and opportunities," says Seth Birnbaum, Partner and Senior Portfolio Strategist.

The Fund's mission is critical to the future of the people of New Zealand and what they have accomplished since its inception is not to be understated. It is an honour and a privilege to be able to contribute to that mission with the team and we look forward to many more years of meaningful work and partnership.

MANAGERS AND CUSTODIANS

In this section we set out a complete list of our investment managers and custodians.

The table below includes both those managers appointed by us and those who manage funds in which the NZ Super Fund and Elevate are invested. It identifies where new managers or custodians have been appointed or terminated over the last 12 months. It also identifies whether managers invest primarily in listed (or highly traded) or unlisted securities. We disclose the value of the assets each manager manages on behalf of the NZ Super Fund and Elevate, as at 30 June 2023. We also disclose the value of each investment as a percentage of the total Fund. Our internal investment mandates are managed by the Guardians' in-house team of investment professionals.

NZ SUPER FUND

Managers appointed since 1 July 2022	Year appointed	Fund name and focus areas	Type	Value of investment NZ\$m	% of total NZSF (pre-tax)
APG	2022	APG Infrastructure Asset Owner Fund I – Real Assets	Unlisted	0*	0.0%
Episteme Capital	2023	Episteme Segregated Mandate – Global Macro	Listed	167	0.3%
ESR	2022	ESR Data Centre Fund I – Industrial Development (Asia) Real Estate (Opportunistic)	Unlisted	9	0.0%
Man AHL	2022	Man AHL Institutional Solutions – Pure Momentum Plus and Evolution – Trend	Listed	579	0.9%
PIMCO	2022	PIMCO California Carbon Access Offshore Fund – Exploratory	Unlisted	46	0.1%
Wellington Management	2022	Wellington Climate Innovation Feeder Fund I – Sustainable Transition	Unlisted	39	0.1%

* Several mandates appear as zero value - this is either because the mandates were awaiting funding as at 30 June 2023 or the managers have returned capital such that the residual balance of the mandate is less than \$1 million.

Mandates closed since 1 July 2022	Year appointed	Fund name and focus areas	Type
Two Sigma	2020	Two Sigma Absolute Return Macro Enhanced Fund – Global Macro	Listed

Incumbent managers as at 30 June 2023	Year appointed	Fund name and focus areas	Type	Value of investment NZ\$m	% of total NZSF (pre-tax)
Adams Street Partners	2007	Adams Street Partnership Fund – Buyout	Unlisted	3	0.0%
Apollo Global Management	2014	Financial Credit Investment II – US Life Settlements	Unlisted	189	0.3%
	2017	Financial Credit Investment III – US Life Settlements	Unlisted	217	0.3%
AQR Capital Management	2009	CNH Convertible Arbitrage Fund	Listed	45	0.1%
	2018	Segregated Mandate – Multi-factor Investing	Listed	3,630	5.6%
Ascribe Capital	2010	Ascribe Opportunities Fund II – Distressed Credit	Unlisted	5	0.0%
Bain Capital	2013	Bain Capital Credit Managed Account (NZSF) – Distressed Credit	Unlisted	94	0.1%

MANAGERS AND CUSTODIANS (CONTINUED)

Incumbent managers as at 30 June 2023	Year appointed	Fund name and focus areas	Type	Value of investment NZ\$m	% of total NZSF (pre-tax)
BlackRock Investment Management UK	2016	Global Merger Partners – Merger Arbitrage	Listed	795	1.2%
	2020	Segregated Mandate – Fixed Interest Securities (ex Treasuries)	Listed	4,928	7.6%
Bridgewater Associates	2006	Bridgewater Pure Alpha Fund II – Global Macro	Listed	1,044	1.6%
Canyon Capital Advisors	2010	Canyon Distressed Opportunities Fund (Delaware) – Distressed Credit	Unlisted	0*	0.0%
	2016	Canyon NZ-DOF Investing – Distressed Credit	Unlisted	430	0.7%
Carlyle	2020	Carlyle FRL – Insurance Run-off	Unlisted	861	1.3%
CBRE Investment Management	2021	CBRE Asia Value Partners Fund VI – Real Estate (Opportunistic)	Unlisted	38	0.1%
CIM	2019	N-Data Center Portfolio Co-investor – Real Estate (Value-add) and N-Novva Co-investor – Real Estate (Opportunistic)	Unlisted	468	0.7%
Citadel	2020	Citadel Kensington Global Strategies Fund II – Global Macro	Listed	353	0.5%
CITP	2011	China Infrastructure Partners – Infrastructure	Unlisted	79	0.1%
Coller Investment Management	2007	Coller International Partners V Fund – Buyout	Unlisted	0*	0.0%
Columbia Capital	2020	Columbia Spectrum Partners V-A – Spectrum	Unlisted	151	0.2%
	2023	Columbia Capital Opportunity Fund I – International Growth Equity	Unlisted	24	0.0%
	2023	Columbia Capital Equity Partners VIII – International Growth Equity	Unlisted	15	0.0%
Copenhagen Infrastructure Partners	2021	Copenhagen Infrastructure Energy Transition Fund I – Infrastructure	Unlisted	13	0.0%
Devon Funds Management	2011	Segregated Mandate – New Zealand Active Equities	Listed	206	0.3%
Deutsche Finance International	2021	DFI European Value-Add Fund II – Value-add Real Estate	Unlisted	132	0.2%
Direct Capital	2009	Direct Capital IV – New Zealand Growth Capital	Unlisted	0*	0.0%
	2016	Direct Capital V – New Zealand Growth Capital	Unlisted	61	0.1%
	2020	TR Group Limited Co-investment	Unlisted	28	0.0%
	2020	Direct Capital VI – New Zealand Growth Capital	Unlisted	33	0.1%

* Several mandates appear as zero value - this is either because the mandates were awaiting funding as at 30 June 2023 or the managers have returned capital such that the residual balance of the mandate is less than \$1 million.

Incumbent managers as at 30 June 2023	Year appointed	Fund name and focus areas	Type	Value of investment NZ\$m	% of total NZSF (pre-tax)
Elementum Advisors	2010	Segregated Mandate – Natural Catastrophe Reinsurance	Unlisted	671	1.0%
FarmRight	2010	Rural land in New Zealand and Australia	Unlisted	1,058	1.6%
Fifth Wall	2021	Fifth Wall Early-Stage Climate Technology Fund and Co-investments – Sustainable Transition	Unlisted	159	0.2%
Generation Investment Management	2022	Generation IM Sustainable Solutions Fund IV – Sustainable Transition	Unlisted	12	0.0%
Global Forest Partners	2007	GTI 8 Institutional Investors Company – Timber	Unlisted	117	0.2%
	2009 & 2012	AIF Properties – Timber	Unlisted	245	0.4%
	2010	GTI 9 Institutional Investors Company – Timber	Unlisted	54	0.1%
Grain Management	2020	Grain Spectrum Holdings III – Spectrum	Unlisted	180	0.3%
HarbourVest Partners	2006	HarbourVest International Private Equity Partners V-Partnership Fund – Buyout	Unlisted	0*	0.0%
Hillwood	2019	US Industrial Club V – Real Estate (Opportunistic)	Unlisted	210	0.3%
	2021	US Industrial Club VI – Real Estate (Opportunistic)	Unlisted	154	0.2%
H.R.L. Morrison & Co	2006	Global Infrastructure Mandate including investments in Retire Australia, Altogether Group, Longroad Energy Holdings, Galileo Green Energy and Active Listed Infrastructure	Listed and Unlisted	2,316	3.6%
	2009	Public Infrastructure Partners Fund – Infrastructure (Core)	Unlisted	55	0.1%
Kohlberg Kravis Roberts (KKR)	2007	KKR Asian Fund – Buyout	Unlisted	0*	0.0%
	2008	KKR 2006 Fund – Buyout	Unlisted	0*	0.0%
	2014	KKR NZSF Energy Investor – Energy Growth (Shale)	Unlisted	101	0.2%
Leadenhall Capital Partners	2013	Natural Catastrophe Reinsurance	Unlisted	318	0.5%
Mint Asset Management	2015	Segregated Mandate – New Zealand Active Equities	Listed	712	1.1%
Movac	2016	Movac Fund 4 – New Zealand Growth Capital	Unlisted	9	0.0%
	2020	Movac Fund 5 – New Zealand Growth Capital	Unlisted	54	0.1%
	2023	Movac Growth Fund 6 – New Zealand Growth Capital	Unlisted	0*	0.0%
Neuberger Berman	2018	Neuberger Berman Principal Strategies Merger Fund (NZSF) – Merger Arbitrage	Listed	407	0.6%

* Several mandates appear as zero value - this is either because the mandates were awaiting funding as at 30 June 2023 or the managers have returned capital such that the residual balance of the mandate is less than \$1 million.

MANAGERS AND CUSTODIANS (CONTINUED)

Incumbent managers as at 30 June 2023	Year appointed	Fund name and focus areas	Type	Value of investment NZ\$m	% of total NZSF (pre-tax)
Northern Trust	2013	Segregated Mandate – Passive Global Equities	Listed	5,928	9.1%
	2015	Segregated Mandate – Passive Emerging Markets Equities	Listed	655	1.0%
	2018	Segregated Mandate – Multi-factor Investing	Listed	3,171	4.9%
Pencarrow Private Equity	2011	Pencarrow IV Investment Fund – New Zealand Growth Capital	Unlisted	0*	0.0%
Pioneer Capital	2013	Pioneer Capital Partners II – New Zealand Growth Capital	Unlisted	8	0.0%
	2016	Pioneer Capital Partners III – New Zealand Growth Capital	Unlisted	107	0.2%
	2021	Pioneer Capital Partners IV and Co-investments – New Zealand Growth Capital	Unlisted	120	0.2%
Slate Asset Management	2021	Slate European Essential Real Estate Income Fund – Real Estate (Core)	Unlisted	537	0.8%
	2022	Slate North American Essential Real Estate Income Fund – Real Estate (Core)	Unlisted	325	0.5%
State Street Global Advisors	2009	Segregated Mandate – Passive Global Listed Equities (large cap)	Listed	7,128	11.0%
		Segregated Mandate – Passive Emerging Markets Equities	Listed	925	1.4%
StepStone Group	2021	StepStone VC Secondaries Fund V – Venture Capital	Unlisted	132	0.2%
	2022	StepStone NZ Infrastructure Opportunities Fund – Infrastructure	Unlisted	25	0.0%
	2022	StepStone Opportunities VC NZ – Venture Capital	Unlisted	14	0.0%
Stonepeak	2022	Stonepeak Infrastructure Fund IV – Infrastructure (Value-add)	Unlisted	95	0.1%
	2022	Stonepeak Fern Investment Partners Co-investment – Infrastructure (Value-add)	Unlisted	121	0.2%
Timberland Investment Group	2022 & 2023	BTF II Fund and Co-investment – Timber	Unlisted	183	0.3%
	2022	The Reforestation Fund I – Timber	Unlisted	62	0.1%
UBS	2021	Segregated Mandate – Passive Global Equities	Listed	5,008	7.7%
	2021	Segregated Mandate – Multi-factor Investing	Listed	1,649	2.5%
Waterman Capital	2010	Waterman Fund II – New Zealand Growth Capital	Unlisted	19	0.0%
Willis Bond & Co	2010	Willis Bond Institutional Partners – Real Estate (Opportunistic)	Unlisted	0*	0.0%

* Several mandates appear as zero value - this is either because the mandates were awaiting funding as at 30 June 2023 or the managers have returned capital such that the residual balance of the mandate is less than \$1 million.

In addition to the above, certain subsidiary investees of the Guardians have engaged asset managers to oversee the day-to-day operations of specific investments held by those subsidiaries, including the Fund's indirect interests in New Zealand hotels.

ELEVATE

Managers appointed since 1 July 2020	Year appointed	Fund name and focus areas	Type	Value of investment NZ\$m
New Zealand Growth Capital Partners	2020	New Zealand Venture Capital	Unlisted	129

Custodian	Role
MASTER CUSTODIAN – NZ SUPER FUND	
Northern Trust	Global Master Custodian
CUSTODIANS APPOINTED FOR A SPECIFIC PURPOSE – NZ SUPER FUND	
Computershare Corporate Trust and Bank of New York Mellon	Holding collateral associated with our investment in catastrophe-linked securities
Deutsche Bank	Holding collateral associated with our investment in catastrophe-linked securities
Citibank	Holding collateral associated with our investment in catastrophe-linked securities
HSBC (Hong Kong and Shanghai Banking Corporation)	Holding collateral associated with our investment in catastrophe-linked securities
Euroclear Bank NA/SV	Holding collateral required under sale and repurchase (repo) transactions
The New Zealand Guardian Trust Company of New Zealand and the Public Trust	Trustees for holding money relevant to tax-pooling arrangements
State Street Bank and Trust Company	Custodian for the NZ Super Fund's securities lending programme
Northern Trust Investments, Inc	Custodian for the NZ Super Fund's securities lending programme

Investment Mandates managed by the Guardians' in-house team of investment professionals include:

- Active NZ Equities
- Beta Implementation and Completion
- Beta Multi-factor
- Cash
- Currency Management
- Direct Arbitrage
- Event-Driven Opportunity
- Global Sovereign and Credit Fixed Income
- International Growth Equity
- Life Settlements
- NZ and Overseas Transition Assets
- Opportunistic (NZ and Overseas)
- Passive NZ Equities
- Securities Lending
- Strategic Tilting
- Tactical Credit Opportunities
- US Transition Assets

ELEVATE NZ VENTURE FUND

The Elevate NZ Venture Fund exists to support the development of New Zealand's early-stage growth companies and venture capital ecosystem.

The Elevate Fund is administered by the Guardians under a mandate separate from the NZ Super Fund.

In 2019 the Government entrusted the Guardians with an additional mandate. The mandate, known as Elevate NZ Venture Fund (Elevate), was launched in March 2020. Elevate was established to increase the amount of venture capital available to young, innovative companies to develop New Zealand's early-stage capital ecosystem and lift productivity.

Elevate is designed to support investment into New Zealand companies that have moved beyond the start-up, or 'angel' investor stage, and need capital for their next stage of development. It is aimed predominantly at Series A and B venture capital funding rounds, with investments generally ranging between \$2 million and \$40 million. Elevate consists of \$300 million of Crown capital commitments (including a recent additional \$40.5 million commitment in Budget 2023).

Under its governing legislation, Elevate does not have a fixed lifetime, but can be wound down once New Zealand venture capital markets are developed and no longer require government support. When it ultimately winds down, the funds will be returned to the Crown.

Elevate is managed on behalf of the Guardians by NZ Growth Capital Partners Limited (NZGCP) under a fund-of-funds model. NZGCP is a New Zealand Crown entity overseen by the Minister for Economic and Regional Development. NZGCP allocates

capital from Elevate to underlying fund managers progressively, targeting an initial investment period of five years. These underlying fund managers will in turn invest in New Zealand growth companies.

The Guardians' role is to administer and provide governance oversight of Elevate and NZGCP as manager to ensure that it is managed in line with best-practice investment management appropriate for New Zealand's venture capital markets, and in a manner that is consistent with: (a) the Ministerial Policy Statement issued under the Venture Capital Fund Act 2019; and (b) avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

Importantly, unlike the NZ Super Fund's mandate, the commercial aspects (for instance, investing on a prudent, commercial basis or managing and administering the Fund in a manner consistent with maximising returns without undue risk), are not included in the legislation.

ROLES AND RESPONSIBILITIES

In accordance with the legislative framework and the fund-of-funds model, there are different roles and responsibilities for the Guardians, NZGCP (as external manager) and the Minister of Finance.

Guardians	External manager (NZGCP)	Minister of Finance
<ul style="list-style-type: none"> Enter into contract appointing NZGCP to operate the fund-of-funds with terms and conditions that meet the requirements of the legislation. Monitor the performance of Elevate and NZGCP, including through a Limited Partner Advisory Committee (LPAC) that reviews significant matters. Manage and administer Elevate in a manner consistent with the Ministerial Policy Statement and avoiding prejudice to New Zealand's international reputation. Through the above functions, ensure that Elevate is invested using best-practice investment management appropriate for institutional investment in New Zealand's venture capital markets, subject to the requirements in the Ministerial Policy Statement. Annual financial reporting for Elevate, including preparation of Statements of Intent and Performance Expectations. Preparation of Statement of Investment Policies, Standards and Procedures for Elevate. Report on how the Guardians has given effect to directions in the policy statement associated with the legislation. 	<ul style="list-style-type: none"> Act as sole manager for the Elevate fund-of-funds. A wholly-owned subsidiary of NZGCP is the General Partner of the Limited Partnership, Elevate NZ Venture Fund Limited Partnership (the 'fund-of-funds' vehicle). Manage the Elevate Limited Partnership and make and oversee investments based on best-practice fund selection and investment management practices. Establish an Investment Committee to make decisions on investment of capital in underlying funds. Monitor investments and report in line with the requirements set out in the management agreement for the fund-of-funds. Ensure that underlying funds continue to meet the eligibility and other requirements agreed with NZGCP at investment. In addition to its role as the manager of Elevate, NZGCP has its own separate mandate from the Government to support the development of New Zealand's broader early-stage capital markets. This is a critical role, as the effectiveness of early-stage markets influences the health of the venture capital markets. 	<ul style="list-style-type: none"> Issue a policy statement outlining the high-level requirements for Elevate, including directions on what the Guardians must give effect to (how Elevate is invested) and have regard to. Revise the policy statement if required, following consultation with the Guardians, NZGCP and the wider venture capital ecosystem. Issue directions for the winding up of Elevate when broader market development objectives have been achieved.

ELEVATE NZ VENTURE FUND (CONTINUED)



"The NZ venture market is still relatively immature but in the 2022/23 year we saw some hugely important milestones hit, including the 100th portfolio company backed by our underlying funds and \$1 billion of capital raised by funds since Elevate launched in 2020, well ahead of our initial targets. It was also fantastic to see continued government backing of this programme with the additional \$40.5 million for Elevate in the 2023 budget."

James Pinner, Chief Investment Officer, NZGCP

PROGRESS REPORT

The Guardians' obligation is to oversee Elevate and to assist NZGCP to follow best-practice investment management in the context of New Zealand's venture capital markets. We deliver on our responsibilities by:

- Agreeing the terms of appointment with NZGCP as the external fund manager for Elevate;
- Ensuring the terms of appointment reflect best practice in the context of institutional investment in New Zealand venture capital markets;
- Monitoring and managing the performance of NZGCP using the Guardians' frameworks for external managers; and
- Ensuring compliance with the Statement of Investment Policies, Standards and Procedures in respect of Elevate.

The Guardians is required to report on Elevate's financial and operating performance.

	Vintage	NZ\$m committed
Blackbird NZ Fund 2019	2019	23
Blackbird NZ Fund 2022	2022	30
Finistere Aotearoa Fund	2021	16
GD1 Fund 3	2021	45
Hillfarrance Fund 1	2020	18
Movac Fund 5	2020	30
Movac Emerge Fund 4	2023	16
Nuance Fund 1	2021	17
Pacific Channel Fund 2	2020	20

Elevate has been operating since March 2020. NZGCP has made good progress in deploying capital. As at the end of the 2022/23 financial year, Elevate had invested or committed into nine underlying funds.

 mint

Accelerating circular green metals



www.mint.bio

Elevate has a 12% interest in Movac Fund 5 after making a \$30 million commitment in 2020. Movac are NZ's largest and longest running Venture Capital fund manager. One of the underlying portfolio companies that Elevate has indirect exposure to via Movac Fund 5 is Auckland-based Mint Innovation. Mint Innovation was founded in 2016 and has developed the world's first biorefinery, enabling the sustainable recovery of precious metals from electronic waste. Recycling metals produces a fraction of the emissions that mining does, while simultaneously eliminating hazardous waste from landfills. Demand for low-carbon alternative minerals is only increasing as the environmental impact of metal becomes increasingly unacceptable to governments, consumers and the downstream supply chain. The Series B investment into Mint Innovation, led by Movac Fund 5 (and including Elevate funding), has helped the company fund the first full-scale commercial plant in the greater Sydney area, followed by a second plant in the UK in 2024. Mint Innovation expect to be saving 200,000t per year of carbon by the time it has 10 plants operational.

This table sets out a summary of the progress achieved to date.

Financial Statements	Elevate's financial statements for the period ended June 2023 are included in the financial section of this Annual Report.
Statement of Intent (SOI)	The Guardians' SOI for the period 1 July 2022 to 30 June 2027 includes a section on Elevate. It was sent to the Minister of Finance in June 2022 and published on the Guardians' website.
Statement of Performance Expectations (SPE)	The Guardians' SPE for the period 1 July 2023 to 30 June 2024 includes a section on Elevate. It was sent to the Minister of Finance in June 2023 and published on the Guardians' website.
Statement of Investment Policies, Standards and Procedures (SIPSP)	Elevate's SIPSP is required to be reviewed at least annually. The most recent annual review of the SIPSP was approved by the Board in June 2023. The Chair and Chief Executive report on compliance with the SIPSP in the compliance section of this Annual Report.
Conviction Review	The Guardians assesses Elevate's externally-appointed investment manager, NZGCP, in accordance with substantially the same conviction process that we apply to all our external manager relationships.
Number of funds in which Elevate has invested, comprising:	All nine funds in which Elevate has invested (or committed to) have a New Zealand connection. Seven are domestic funds and two are overseas managers establishing a New Zealand-based fund.
<ul style="list-style-type: none"> • funds with a New Zealand connection including foreign-originated funds establishing a fund with a New Zealand connection; and • foreign fund investments 	
Capital invested into funds with a New Zealand connection	NZ\$214 million has been committed to funds with a New Zealand connection.
Ratio of matching private capital raised by underlying funds	Elevate's commitments represent 30% of the capital committed into the underlying funds (NZ\$214 million against an aggregate total of NZ\$717 million).
Capital invested by underlying funds	As at 30 June 2023, 52%* of the NZ\$214 million, or NZ\$111 million*, has been called by the underlying funds. Called capital has been used for a combination of fees and investments in portfolio companies.

* Based on notices received as at 30 June 2023.







Sustainable Investment Report

Te Pūrongo mō te Ahumoni Toitū

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Sustainable investment is core to our organisational purpose.

During the 2022/23 financial year we completed the final phase of our Responsible Investment (RI) Compass, a multi-year work programme for the organisation.

The programme's objective was to review our approach to responsible investment, to consider how best practice would evolve by 2030, and position ourselves to continue to adapt and lead. Our analysis found that a sustainable investment approach would increasingly reflect best practice, including the need to have a deeper understanding and ability to consider the impact of investment decisions on the environment and society. The RI Compass programme led us to adopt goals to:

- Support the development of a sustainable financial system;
- Integrate sustainable investment practice into our core activities; and
- Develop a consistent, disciplined approach to impact investing.

In essence, for investors sustainable finance means considering the impact of investments on society and the environment, as well as considering the environmental, social and governance (ESG) risks on investments. Our approach is detailed in our Statement of Investment Policies, Standards and Procedures. Our processes are set out in our Sustainable Investment Framework. Both are available on our website.

Sustainable finance is a rapidly evolving area of global good practice. Embedding sustainable investment into our Purpose reflects our belief that positive environmental and social outcomes represent an integral component of doing good business.

One of our key workstreams was to improve the ESG profile of the Fund's portfolio, starting with passively-held global equities and then active multi-factor mandates. A second key work stream was to enhance the approach, systems and scale of the Fund's impact investments.

Improving the ESG performance of the Fund

Following the shifting of our passive global equity benchmark to new Paris-aligned indices in 2021/22, representing about 40% of the Fund (see our Climate Change Report for more detail), we turned our focus to the Fund's multi-factor equity mandates this year. These mandates are systematically managed to enhance financial performance by over-weighting investments in certain factors (such as value and quality). The mandates, all with external managers, account for about 20% of the Fund's global equities. After a significant period of analysis, we decided to:

- Change the investment universe to the MSCI World (or equivalent) from the previous MSCI World IMI universe – which will reduce the number of constituents by around two-thirds while still providing strong exposure to desired factors.
- Adopt the MSCI World Climate Paris Aligned (PAB) Index as the benchmark for the multi-factor mandates.

- Ask our external managers to design portfolios that produce ESG outcomes at least as ambitious as the PAB Index.
- Use MSCI ESG metrics to monitor, and if necessary address, performance.

Our analysis suggests that these changes will significantly improve the ESG profile of the multi-factor mandates without negatively affecting financial performance. The changes are to be implemented in the 2023/24 year.

CFI climate change engagement

Over the next two years, alongside other Crown Financial Institutions (CFIs), we will be engaging on climate change with NZX-listed top 50 companies.

Meeting our commitment to having a net-zero investment portfolio by 2050, and delivering real economy emissions reductions, means investee companies must also align with a net-zero pathway. It's not possible for investors to achieve net zero through divestment or reallocation alone. Our objectives include increasing awareness about mandatory climate change disclosures and communicating our expectations, as institutional investors, about what companies should be doing to manage climate change risk.

A position statement providing more detail on the collaborative engagement is available on our website and further detail is included in our 2023 Climate Change Report.

Impact Investment

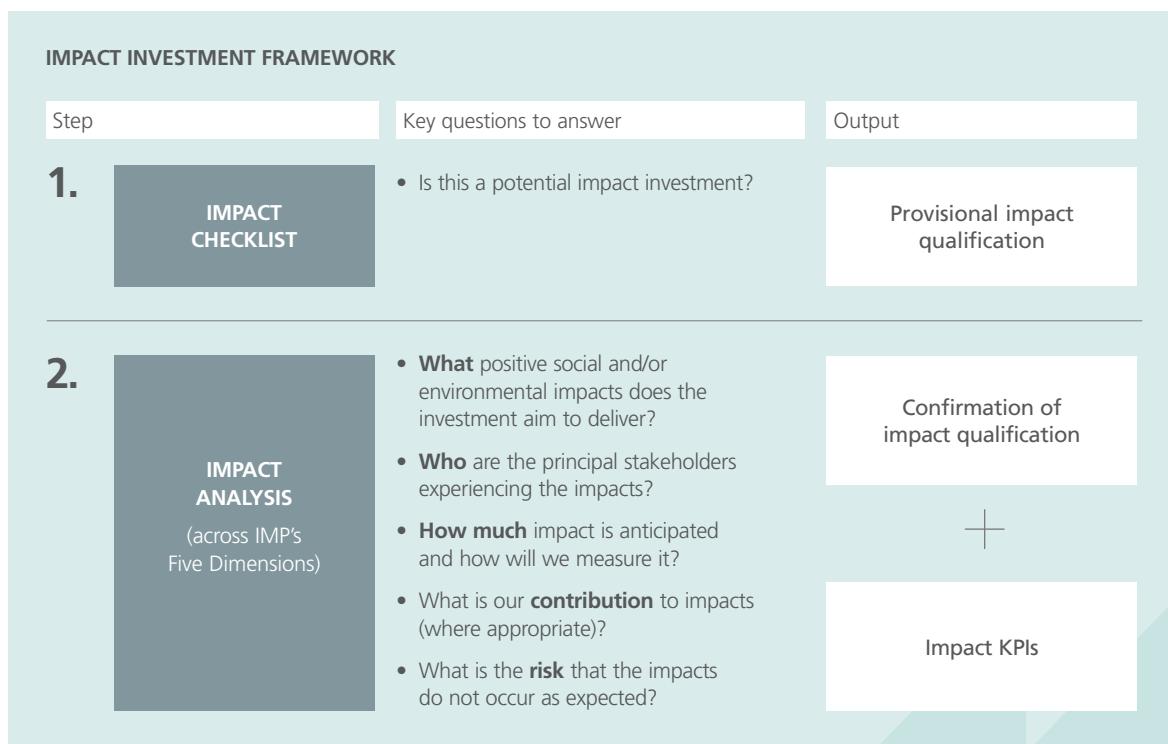
The Guardians defines Impact Investments as: *"Investments made with the intent to deliver measurable positive social and/or environmental impacts, and the Fund's required financial return."*

Over the year, we undertook a significant amount of work to develop an Impact Investment Framework, covering qualification, analysis, measurement and management. This framework is based on global good practices for asset owners such as the Impact Management Project's (IMP) Five Dimensions of Impact, in line with guidelines developed by the Impact Investment Network Aotearoa.

We are currently applying the framework to some of our existing investments, while continuing to search for – and invest in – credible sustainability solutions. Market trends show a rapidly developing impact investment market, including a growing use of sustainability taxonomies, impact standards and external verification.

Our objective is to scale impact investment through integration across our team and opportunity set, and much work has gone into setting up the processes and guidance to enable this growth. This will give us the reach to scale faster. As we integrate our approach to impact investment across the investment strategies in the Fund's portfolio, we expect to see a broader range of priorities emerge.

A good example is the work we are undertaking in partnership with Copenhagen Infrastructure Partners (CIP) to assess the feasibility and investment options for large-scale offshore wind power in the South Taranaki Bight (see page 49).



Stewardship code

We supported the development of the Aotearoa New Zealand Stewardship Code and became a founding signatory when it was launched in September 2022. Stewardship is the responsible allocation and management of capital by investors – including asset owners and fund managers – to create and preserve long-term value for current and future generations. It also promotes sound investor and issuer governance, and business practices that lead to sustainable outcomes for the environment, society and economy.

The Code is a principles-based framework that encapsulates the values of accountability, transparency, fairness and responsibility. Its nine principles, developed by industry participants, were mapped against existing regulatory requirements and key international codes.

The Code has 17 signatories and a secretariat in Auckland, co-hosted by Toitū Tahua Centre for Sustainable Finance and the Responsible Investment Association of Australasia. Signatories undertake to report against the Code on a 'comply or explain' basis by 2024 and we will deepen our ownership activities and reporting to incorporate the Code over the coming year.

REPORT AGAINST THE UNITED NATIONS-BACKED PRINCIPLES FOR RESPONSIBLE INVESTMENT

The Guardians is a signatory to, and active participant in, the United Nations-backed Principles for Responsible Investment (PRI) – the globally accepted benchmark for management of ESG issues by institutional investors. The intent of the PRI is to create an increasingly sustainable financial system with more prosperous and inclusive societies, for both current and future generations. The PRI launched its Blueprint for RI in 2016, setting out a vision for how RI needed to progress through to 2026, delivered by way of three-year strategies (currently 2021–2024).

To achieve its goals, the PRI advocates six principles of responsible investment practice backed up by a compulsory annual assessment and benchmarking process. Importantly, and consistent with a sustainable finance approach, the PRI has shifted from its initial focus on ESG risk and return to a broader approach reflecting investors' roles in driving real-world ESG outcomes.

PRI Benchmarking Report

The PRI annual assessment framework is the main accountability mechanism of PRI. Compulsory for all signatories, it is based on a star rating and percentage scoring system – with five-star ratings representing leading Responsible Investment practice within the investment industry.

The PRI has been focused on transitioning to a new CEO and refreshing its strategy and assessment approach, which continually evolves over time in order to lead and reflect progress across sustainable finance practice. It therefore opted not to conduct an assessment exercise last year. The results of the current assessment are expected to be released in November 2023. We will publish the outcome on our website and discuss the results in more detail in our next Annual Report.

SIX PRINCIPLES OF RESPONSIBLE INVESTMENT

In this section, we provide our report against each of the PRI's six principles of responsible investment.

INTEGRATION

To be most effective, sustainable finance practice needs to be integrated into investment decision-making. We incorporate ESG into our analysis of investment opportunities and asset allocation approach and integrate ESG into how we invest in different markets and asset classes.

We monitor our listed equities portfolio for companies with poor ESG performance. Where we identify issues, we prioritise and address them through sustainable investment mechanisms such as voting, exclusion or engagement. From a direct investment perspective, ESG due diligence is a material component of pre-investment analysis. ESG risks and opportunities are assessed, sometimes with the support of independent experts, to understand how well these are being managed by the prospective investment entity. Post-investment, that focus continues and deepens involving ongoing governance, engagement and reporting. This can include representation on the Board, site visits, and meetings with the management team of investee companies to assess ESG management and discuss climate strategies.

In terms of our external managers, ESG capability plays an important role in our selection, due diligence and ongoing integration processes. Once a manager is selected, sustainable investment requirements – such as ESG and climate change integration, voting, engagement and adherence to our exclusions and reporting requirements – are incorporated into our contractual arrangements, where relevant. Regular reviews of managers' performance in relation to sustainable investment are undertaken and the outcome of these can influence their ongoing relationship with the Fund.

HIGHLIGHTS FOR 2022/23

- Shifted the benchmark Reference Portfolio and passive equities portfolio to Paris-aligned indices and measurements.
- Agreed on steps we can take to improve the ESG profile of our multi-factor equity mandates.
- Integrated ESG profile work into investment objectives and ongoing work programmes.
- Completed the final phase of the formal RI Compass Programme.
- Began considering options for embedding sustainable finance into the fixed-income asset class.
- Conducted ESG due diligence on potential investments.

ACTIVE OWNERSHIP

As active owners, we use our influence as a shareholder to encourage companies to proactively address ESG risks and opportunities. We do this by encouraging high governance standards across markets and asset classes, particularly in the New Zealand market, where our influence as an investor is strongest. While we believe engagement is the best tool for encouraging companies to improve their practices, if engagement is ineffective we might make a decision to exclude a company from our portfolio.

KEY MILESTONES FOR 2022/23

- Founding signatory of the inaugural Aotearoa New Zealand Stewardship Code.
- Commenced CFI climate change engagement.

- Ongoing engagement with investee companies on ESG issues, practices and priorities.
- Continued to exercise active ownership as a shareholder by voting on global and New Zealand equities guided by our published voting policy, which includes voting to advance disclosure, facilitate climate strategy and increase Board diversity.

DISCLOSURE

We work to ensure appropriate disclosure on ESG issues by the entities in which we invest. We engage with investee companies and other relevant organisations to facilitate appropriate disclosure about ESG and performance. This information is used by our investment professionals and managers in order to make more informed investment decisions across the Guardians.

KEY MILESTONES FOR 2022/23

- Produced the 2023 NZ Super Fund's Climate Change Report.
- CFI climate change engagement includes a focus on disclosure.
- Supported the development of New Zealand's climate-related disclosures regime as a member of the External Reporting Advisory Panel of the Te Kāwai Ārahi Pūrongo Mōwaho – External Reporting Board.

BEST PRACTICE AND COLLABORATION

We promote acceptance and implementation of the principles of sustainable investment within the investment industry, including through collaboration. We participate in relevant local and international investor groups where we believe working collaboratively will help deliver better ESG outcomes.

KEY MILESTONES FOR 2022/23

- Commenced our climate change engagement with NZX50 companies in collaboration with the following Crown investors: Accident Compensation Corporation (ACC), New Zealand Government Superannuation Fund Authority (GSF) and the National Provident Fund (NPF).
- Continued to support Toitū Tahua Centre for Sustainable Finance.
- Active member of:
 - United Nations-backed Principles for Responsible Investment (PRI)
 - Responsible Investment Association Australasia (RIAA)
 - Investor Group on Climate Change (IGCC) and the Net Zero Asset Owners Commitment (NZAOC)
 - One Planet Sovereign Wealth Fund Initiative
 - New Zealand Corporate Governance Forum.

COMMUNICATION

We undertake high quality public reporting on our activities and progress towards implementing the Principles for Responsible Investment.

KEY MILESTONES FOR 2022/23

- In July 2023, the NZ Super Fund topped the 2023 Global SWF governance, sustainability and resilience (GSR) charts, earning a perfect score along with three other institutions.
- Winner, 2023 Best of Financial Services Award, and Chair's Commendation Award for 10 Consecutive Gold Awards, Australasian Reporting Awards 2023.

Engagement is central to understanding the companies we invest in, the ESG issues they face and how they manage them. It also provides a tool through which we can support them to mitigate risk, adapt and seize opportunities.

Engagement refers to the ongoing, two-way communication between investors and the companies they invest in, focusing on ESG issues, practices, risks and opportunities.

We believe by improving ESG performance a company will also improve its long-term financial performance and deliver positive sustainability outcomes. This in turn creates value for both long-term investors, the businesses themselves and society. Engaging with companies helps encourage them to make long-term improvements.

Our engagement process is guided by international standards for investors, in particular the UN-backed Principles for Responsible Investment (PRI), as well as other best-practice guidance. These standards advocate that investors should be active owners and engage with companies where concerns are raised. This is also referred to as ownership by the PRI or stewardship in various governance codes.

As at the end of June 2023, there are around 3,000 companies in our global equity portfolios. The number has dropped by about 1,500 following our move to improve the ESG profile of our portfolios by adopting MSCI's Paris-aligned indices as our benchmark. Even so, it is not possible for our own team to monitor such a large number of stocks nor to monitor the whole investment universe effectively. Our engagement efforts are therefore primarily undertaken through an external engagement service provider, Columbia Threadneedle Investments (CTI), which has the capacity and expertise to engage with thousands of companies across the globe.

The additional resource provided by CTI's responsible engagement service (reo®) increases the reach and effectiveness of our global engagement. The reo® service, which has a team of 45 responsible investment specialists, engages with companies on our behalf and on behalf of its other clients. As well as engaging with companies on individual issues, it carries out thematic and industry-wide engagements on topics such as human rights, labour rights, climate change and environmental harm.

In general terms our engagement covers global equities (through CTI and other collaborations), the domestic market (directly via our fund managers and through collaborations such as the CFI climate change engagement), and in Australia as a member of the Australian Council of Superannuation Investors (ACSI). The areas we prioritise for engagement are human rights, bribery and corruption, climate change and severe environmental damage.

One of the factors we consider when prioritising our efforts is whether a breach is of international standards or represents a high/significant ESG risk. This involves looking at factors such as is the breach: long-term or short-term; historic or ongoing;

isolated or endemic; a potential reputation risk internationally or nationally.

Other factors we consider include:

- Our ability to participate in collaborative engagements through international initiatives;
- Our ability to engage directly with the company;
- The potential effectiveness of the engagement; and
- The resources required.

Engagement will often be at its most effective when its leverage is increased through collaboration. A collective approach, a single consistent message from many voices, is often significantly more powerful than acting alone. Alternatively, when we have a large direct investment in companies, engaging directly is often more impactful, creating greater influence.

As a result of engagement programmes by the Guardians and other investors around the world, an increasing number of companies are aware that investors are expecting them to address ESG issues responsibly and are responding accordingly.

Reo® Engagement Programme

We publish reo® quarterly reports in the Sustainable Finance section of the Guardians' website. The reports cover the number of engagements carried out during the quarter, the number of companies engaged, countries covered, engagements by theme and milestones achieved, and public case studies.

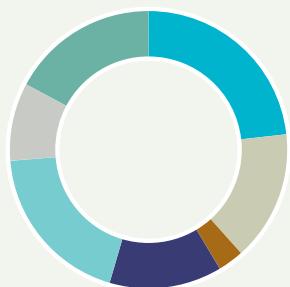
Reo®'s current engagement projects include the Climate Action 100+ collaboration, energy efficiency in real estate, protecting biodiversity, human rights disclosure, and human rights and indigenous peoples' rights. Other reo® projects include collaborative initiatives on banks and climate lobbying, managing physical climate risks, decarbonising the steel industry and the sustainable management of hazardous materials. Reo® is also involved in several initiatives, including access to medicine, access to nutrition, anti-microbial resistance, modern slavery, forced labour and worker safety.

Both CTI reo® and the NZ Super Fund participate in the ongoing investor group addressing the human rights risks linked to the development and use of facial recognition technology. The initiative is led by CANDRIAM, which is one of Europe's leading asset managers and a specialist in responsible investment.

ENGAGEMENT REPORT (CONTINUED)

Engagement statistics

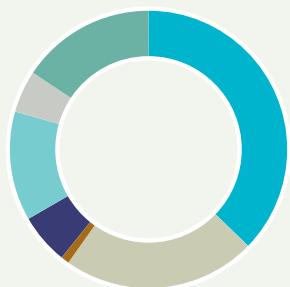
In the year to June 2023, the CTI reo® services engaged with 635 companies in 40 countries on behalf of the Guardians, on a range of issues. It recorded 199 milestones in relation to these engagements. Reo® conducted 1,216 engagement activities on our behalf.

Engagements by theme as at 30 June 2023

- Climate Change: 23%
- Environmental Standards: 15%
- Business Conduct: 3%
- Human Rights: 13%
- Labour Standards: 19%
- Public Health: 9%
- Corporate Governance: 17%

Engagement on climate change as at 30 June 2023	Total
Number of engagement activities on climate change	515
Number of companies engaged	307
Total milestones	75

Sector breakdown as at 30 June 2023	Total	%
Financials	69	13%
Materials	95	18%
Energy	55	11%
Consumer Discretionary	61	12%
Consumer Staples	36	7%
Industrials	78	15%
Utilities	45	9%
Real Estate	35	7%
Healthcare	17	3%
Information Technology	24	5%
Total	515	100%

Milestones achieved by theme as at 30 June 2023

- Climate Change: 37%
- Environmental Standards: 23%
- Business Conduct: 1%
- Human Rights: 6%
- Labour Standards: 13%
- Public Health: 5%
- Corporate Governance: 16%

Companies engaged by country as at 30 June 2023

Europe	31%
North America	39%
Asia (ex Japan)	15%
Japan	9%
Other	6%

VOTING AND CORPORATE GOVERNANCE

The Fund owns shares in a large number of listed companies globally, giving us broad, diversified exposure to global equity markets. As shareholders, we are entitled to vote at company meetings and we consider voting to be a core part of our sustainable investment approach. It represents an important lever through which we are able to exercise our influence as asset owners to promote good corporate governance in the markets we invest in. So, while most of our equities are held passively, we are active in exercising our voting rights as owners of the companies.

Our aim is to use our votes to reflect the essential elements of good governance: board alignment with shareholder interests, long-term strategy, appropriate remuneration, business ethics and shareholder rights. We have a customised voting policy to increase our support for improvements in ESG management and disclosures, based on ISS specialised policies. ISS is our proxy voting service provider helping us implement voting and recall-to-vote activities.

Given the breadth of companies held in the portfolio and large number of shareholder meetings, our voting policy and those of ISS are based on international standards such as the G20/OECD Principles of Corporate Governance, and, for New

Zealand companies, the New Zealand Corporate Governance Forum Guidelines and the NZX Code.

Voting statistics 2022/23		
	Global	NZ
Number of distinct company meetings voted at	3,765	51
Number of management-sponsored proposals	41,914	187
Number of shareholder-sponsored proposals	1,187	0
Category with the most proposals	Director election	Director election
Percentage of votes cast in line with management's recommendations	80%	95%

The Guardians' Voting Performance Platform, available on our website (www.nzsuperfund.nz/voting-performance-platform), provides information on how the NZ Super Fund's shares have been voted by country, company and topic.

EXCLUSIONS

We make exclusion decisions based on the clear processes and principles set out in our Sustainable Investment Framework (available on our website). Where we believe there has been a serious breach of good corporate practice, we may decide to exclude the securities of a company from the NZ Super Fund.

Products

Product exclusions apply to companies based on their products and take account of restrictions or prohibitions by international conventions New Zealand has signed, and of New Zealand law or significant Crown actions.

We exclude companies that are directly involved in certain aspects of the following activities (see our exclusion policies on our website for more information):

- Cluster munitions
- Nuclear explosive devices (NEDs)
- Anti-personnel mines
- Tobacco
- Recreational cannabis
- The manufacture of civilian automatic and semi-automatic firearms, magazines or parts
- The processing of whale meat.

Poor ESG and corporate practices

We may exclude a company where we believe that there is a serious risk of breaches of standards of good corporate practice and that exclusion is the right course of action.

Generally, it is best practice to engage with companies to encourage improved performance on ESG, rather than excluding them. However, engagement can take a significant amount of time and resource and so we focus our engagement efforts on priority issues.

In making a decision to engage, we assess a number of factors including the significance of our holding in the company, ability to join collaborative engagement initiatives and the potential effectiveness of engagement. If a company isn't responsive to engagement, we may consider exclusion. We may move straight to exclusion where engagement is unlikely to be effective or is a poor use of resource, for example because of the company's operating context. Other relevant factors are considered on a case-by-case basis.

Sovereign bond exclusions

Our Sustainable Investment Framework states that we will exclude the government (sovereign) bonds of any nation state where there is widespread condemnation or sanctions by the international community and New Zealand has imposed meaningful diplomatic, economic or military sanctions aimed at that government. In March 2022, following the invasion of Ukraine, we excluded Russian Federation sovereign bonds.

How we apply exclusions

For individual company exclusions, our exclusion policy applies to all investments where securities are held directly, and the exclusion list is produced using their international issuer identification number (International Securities Identification Number).

Collective Investment Vehicles (CIVs) are pooled funds with other investors. We endeavour to apply exclusions to CIVs to the extent this is feasible and commercially prudent. CIVs are evaluated on a case-by-case basis and agreements are entered into where possible. The potential for indirect exposure to excluded securities through CIVs is factored into the selection of access points.

To the extent it is commercially and operationally feasible, exposure to excluded securities through derivative instruments tracking market indices is reversed. The portfolio is monitored on an ongoing basis to encourage compliance with exclusions.

For the listed markets, the large majority of our investments are in internally managed or segregated portfolios where our exclusions are executed directly by the manager.

We disclose a list of our exclusions every six months, including the relevant category of exclusion.

SANCTIONS

We are legally required to comply with sanctions imposed by the New Zealand Government and sanctions imposed by the United Nations (UN) Security Council. This includes the sanctions against certain Russian entities and individuals implemented by the New Zealand Government, following the invasion of Ukraine. The NZ Super Fund no longer has any exposure to Russian sovereign debt positions. We had limited exposure to sanctioned Russian equities at the time New Zealand sanctions were first imposed. We remain unable to sell those equities due to market conditions and the effect of global sanctions, and have written down their value to zero. It is unlikely we will be able to exit these positions in the near term.

CLIMATE CHANGE

Global climate change is upon us. The need for internationally-coordinated concerted action increases daily.

Climate change has been a key focus for the Guardians for many years and, as a result, we are considered both an early mover and a leader, within New Zealand and globally. A detailed description of our approach and activities is contained in our annual Climate Change Report, which is developed in line with Taskforce for Climate-Related Financial Disclosures (TCFD) recommendations, and is available on our website.

We approach climate change from a sustainable investment perspective. We actively seek to identify and mitigate the risks created by a changing climate and identify the investment opportunities it creates. In practical terms, that means we aim to lower our exposure to investments more at risk to the transition to a low-carbon world, work to mitigate climate risks in investments through our integration and engagement activities, and increase relative holdings of investments which contribute to the transition to a low-carbon global economy.

As a signatory to the Paris Aligned Asset Owners Initiative, and following our 2021 net zero commitment, in November 2022 we submitted our required initial target disclosure and Climate Action Plan. Compared to the market average, the Fund is low carbon, and we are well on track to achieving our goal of being net zero by 2050.

We continue to work closely with our fellow Crown Financial Institutions (CFIs), with a particular focus being a collaborative initiative to engage with New Zealand companies on climate change. During the year, we released a joint position statement on climate change and launched the engagement initiative, initially focused on companies listed on the NZX50 index.

Other milestones include further investments being made to contribute to the transition to a more sustainable economy. These included a US\$97 million commitment in Generation Investment Management's Sustainable Solutions Fund IV, a \$1.7 billion fund that invests in high-growth companies that are shifting industries towards sustainability at scale.

We also committed US\$100 million to Wellington Management's Climate Innovation Fund, which invests in companies developing products and solutions that help mitigate and/or adapt to climate change.

In August 2022, along with our co-investment partner Infratil, we announced we would each invest a further US\$100 million in Longroad Energy, a renewable energy company which focuses on developing, owning and managing wind, solar and storage projects throughout North America. We are also conducting a feasibility study into a Taranaki Offshore Wind development project, which would represent a significant renewable energy investment, as described on page 49.

METRICS AND TARGETS

Our 2025 climate change targets, which are expressed relative to our unadjusted Reference Portfolio for the relevant year (baseline), are to reduce the:

- Emissions intensity of the Fund by at least 40%; and
- Carbon reserves of the Fund by at least 80%.

We use carbon footprinting to measure the carbon exposure of the Fund and track progress towards these carbon reduction targets. As at 30 June 2023, the Fund's carbon total emissions intensity was 60% lower than our baseline level, and its exposure to potential emissions from reserves was 99% lower.

The shift of our Reference Portfolio to the Paris Aligned Benchmark is intended to facilitate real world changes required to achieve net zero by 2050. Investments referenced in these indices aim to deliver lower exposure to companies with poor ESG performance, increased investment in climate change solutions and companies with climate targets that are aligned or aligning with net zero.

For further information, please refer to our Climate Change Report and 2023 Carbon Footprint, both available on our website.

ENVIRONMENTAL PERFORMANCE

We are committed to understanding and reducing our impact on the environment.

We measure and work to reduce the impact of the Guardians' operations on the environment. Significant activity is underway around the world as private and public sector organisations and funds seek to reduce or eliminate their carbon emissions. Our own government's aspiration is for New Zealand to be carbon neutral by 2050.

As a responsible investor, we strive to integrate environmental considerations into our wider activities as an investment manager and hold ourselves, as an organisation, accountable to the same guidelines. The biggest potential impact we can make is in our investment portfolio, which we have committed to transitioning to net zero by 2050. See our 2022/23 Climate Change Report for more information including a carbon footprint of the portfolio as at 30 June 2023.

We also aim for the Guardians as an organisation to be carbon neutral. We achieve this by reducing our emissions where possible and purchasing offsets for the remaining unavoidable emissions. Our organisational environmental performance falls under the remit of the Health, Safety, Security and Environment (HSSE) Committee, an executive committee made up of Guardians' staff. The Committee aims to improve staff awareness about the environmental impact of our activities and sets targets for minimising this impact.

Measuring emissions

The measures detailed to the right are the greenhouse gas (GHG) emissions for the corporate operations of the Guardians. They have been calculated in accordance with the guidance provided in ISO 14064-1:2006 for periods up to 2020/21 and ISO 14064-1:2018 from 2021/22, and have been verified by Toitū Envirocare. A verification report is available on our website. When evaluating our environmental performance, Toitū Envirocare looks at our emissions relative to our staff numbers, net asset value and turnover.

International travel is the Guardians' largest source of emissions. COVID-19 and the associated restrictions on travel meant our emissions were lower in the 2019/20, 2020/21 and 2021/22 years than they had been prior to the pandemic. As we have resumed domestic and international travel, which is important and necessary when managing a global investment fund, emissions have increased again – although they still remain lower than pre-pandemic levels, a reflection of greater use of video-conferencing and other travel alternatives.

GHG EMISSIONS DATA SUMMARY BY SCOPE (tCO₂e)

	2022/23	2021/22	2020/21	2019/20
Scope 1, category 1	0	0	0	0
Scope 2, category 2	20t	15t	13t	13t
Scope 3, category 3	1,700t	197t	43t	1,604t
Scope 3, category 4	18t	1t	N/A	N/A
Total gross emissions	1,738t	213t	59t	1,617t

- **Direct emissions (scope 1, category 1)** – Greenhouse gas emissions from sources that are owned or controlled by the Guardians. We produce no scope 1 emissions.
- **Indirect emissions (scope 2, category 2)** – Greenhouse gas emissions arising from the generation of imported (purchased) electricity or heat consumed by the Guardians.
- **Indirect emissions (scope 3, category 3)** – Greenhouse gas emissions that occur as a consequence of the activities of the Guardians, but occur from sources not owned or controlled by us. This includes our largest source of emissions: employee business travel.
- **Indirect emissions (scope 3, category 4)** – Greenhouse gas emissions that occur as a consequence of products used by an organisation (i.e. waste to landfill).

GHG Emissions Summary 2013 – 2023



ENVIRONMENTAL PERFORMANCE (CONTINUED)

GHG EMISSIONS BY SOURCE

ENERGY SOURCE	MEASURE	2022/23		2021/22		2020/21	
		QUANTITY	CO ₂ E	QUANTITY	CO ₂ E	QUANTITY	CO ₂ E
Electricity	kWh	169,899	20.40t	137,669	14.73t	126,070	12.79t
Electricity distributed transmission and distribution losses*	kWh	169,899	1.87t	137,699	1.20t	N/A	N/A
International air travel (long haul)	km	3,414,958	1,432.17t	322,657	129.78t	18,724	2.74t
International air travel (short haul)	km	756,872	130.52t	136,295	23.11t	18,772	2.86t
Domestic air travel	km	204,477	62.55t	60,352	18.46t	139,776	33.89t
Mileage (medium car 1.6 – 2.0L)	km	3,107	0.74t	1,531	0.37t	4,533	1.08t
Taxi (Regular)**	\$	92,071	6.47t	15,056	1.06t	30,918	2.17t
Taxi (Petrol Hybrid)		34,525	1.9t	N/A	N/A	N/A	N/A
Waste to landfill ***	kg	1.825	0.38t	230	0.05t	1,054	0.33t
Freight (short and long haul)	km	117,627	0.12t	127,669	0.13t	N/A	N/A
Working from home	kg	22,496	10.05t	23,907	23.91t	N/A	N/A
Pre-calculated (tCO ₂ e) – Employee commuting****	kg	55,167	55.17t	N/A	N/A	N/A	N/A
Pre-calculated (tCO ₂ e) – Fuel and energy-related activities	kg	15,466	15.47t	N/A	N/A	N/A	N/A

* In 2021/22 the Guardians began measuring: electricity distributed transmission and distribution losses, freight (short and long haul) and the carbon impact of commuting and working from home.

** In 2022/23 the Guardians began reporting separately petrol only and petrol hybrid taxis.

*** Non-hazardous waste.

**** In 2022/23, emissions arising from working from home were measured separately from emissions arising from employee commutes, and from the production, processing and delivery of the fuel used in their commutes ('fuel and energy-related activities'). Previously these were combined into a single category, 'commuting and working from home'.

KEY PERFORMANCE INDICATORS (KPI)

KPI	2022/23	2021/22	2020/21	2019/20
FTE – Full-Time Equivalent Employee	198.2	178.2*	163.0**	154.8
Funds under management (\$ billions after costs, before NZ tax)	64.9	55.7	59.8	44.8
Turnover/revenue (\$ millions)	1,324.6	1,054.5	740.3	801.4

* The 2021/22 figure is based on the average full-time equivalent employees from 1 July 2021 to 30 June 2022.

** The 2020/21 figure is based on the total employee headcount as at 30 June 2021.

Carbon emission figures for long-haul, short-haul and domestic air travel are calculated based on the travel class flown on each flight (e.g. business, economy, premium economy). The carbon emitted differs by travel class in accordance with the space occupied by the passenger; business class seats are larger than the standard berth, meaning fewer people can get on a plane. This results in more fuel being burnt per person for the aircraft to reach its destination for business class in comparison with economy class. Our waste-to-landfill figures are calculated based on monthly weight audits by our contracted cleaning company. Our commuting and working from home data is coordinated by an external supplier and gathered via an anonymous staff survey.

Toitū certification

To achieve certification, an organisation must measure its operational GHG emissions, develop a carbon reduction plan and offset its unavoidable emissions through high-quality carbon credits. These credits support projects meeting specified standards to store, avoid or reduce GHG emissions. This year we have elected to offset our operational carbon emissions plus 20% of the rolling average of the past five years, effectively becoming carbon negative. The emissions data in this section has been verified by Toitū, and certification is pending.

GHG EMISSIONS PER KPI

	2022/23	2021/22	2020/21	2019/20
Total gross GHG emissions per FTE – Full-Time Equivalent Employee	8.77	1.19	0.34	10.44
Total gross GHG emissions per Funds under management (\$ billions after costs, before NZ tax)	26.79	3.82	0.93	36.07
Total gross GHG emissions per turnover/revenue (\$ millions)	1.31	0.20	0.08	2.02

Reducing emissions

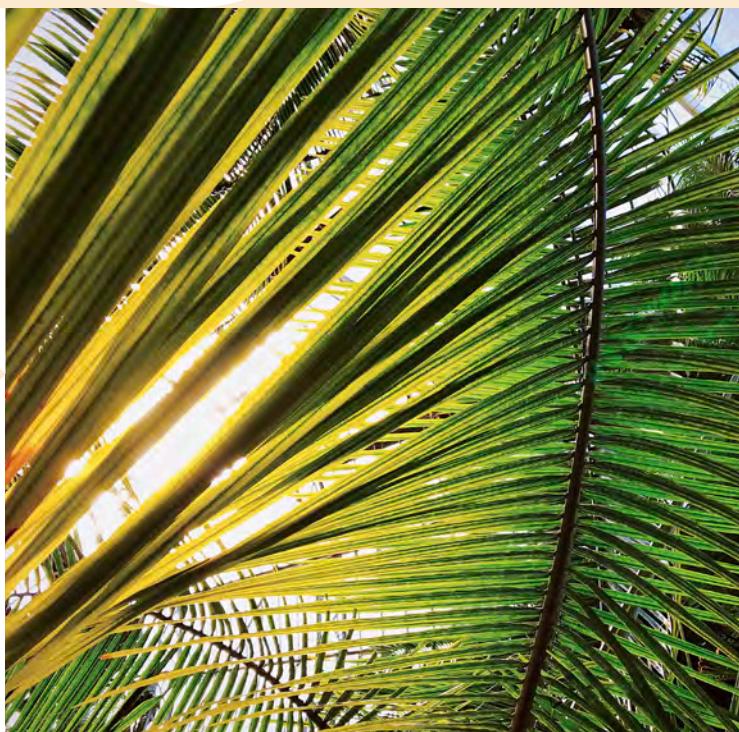
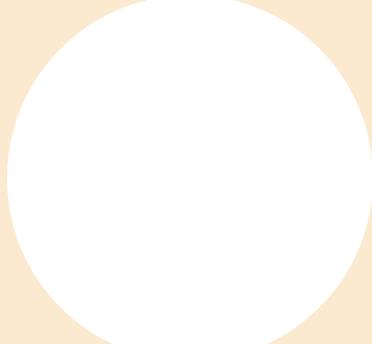
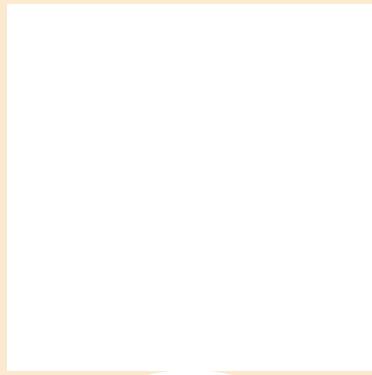
The 2018/19 financial year has been set as our base year to measure emissions against as it was the year we first became carbonzero certified.

One way we worked to reduce our emissions this year was by better labelling the bins in our office and educating staff on what needs to go where in order to reduce the amount of waste that goes to landfill. While waste is a relatively small part of our carbon footprint, it is a way we can make a difference.

For the 2023/24 financial year, we have set the goal of reducing our operational carbon emissions by 10% from our base year relative to our staff numbers, net asset value and turnover. We are working on ways to better inform staff of the environmental impact when they book travel for work with the goal of limiting avoidable emissions.

Our carbon offset

The carbon credits purchased through Toitū Envirocare to offset the past financial year's emissions support the Spraypoint Permanent Forest Sink Initiative, a forest regeneration project in Marlborough, New Zealand; Hinewai Reserve, an ecological restoration project on the Banks Peninsula, New Zealand; and Amayo Phase II Wind Power Project in Nicaragua.





Governance

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Good governance is critical to achieving our long-term Purpose and to maintaining our stakeholders' confidence.

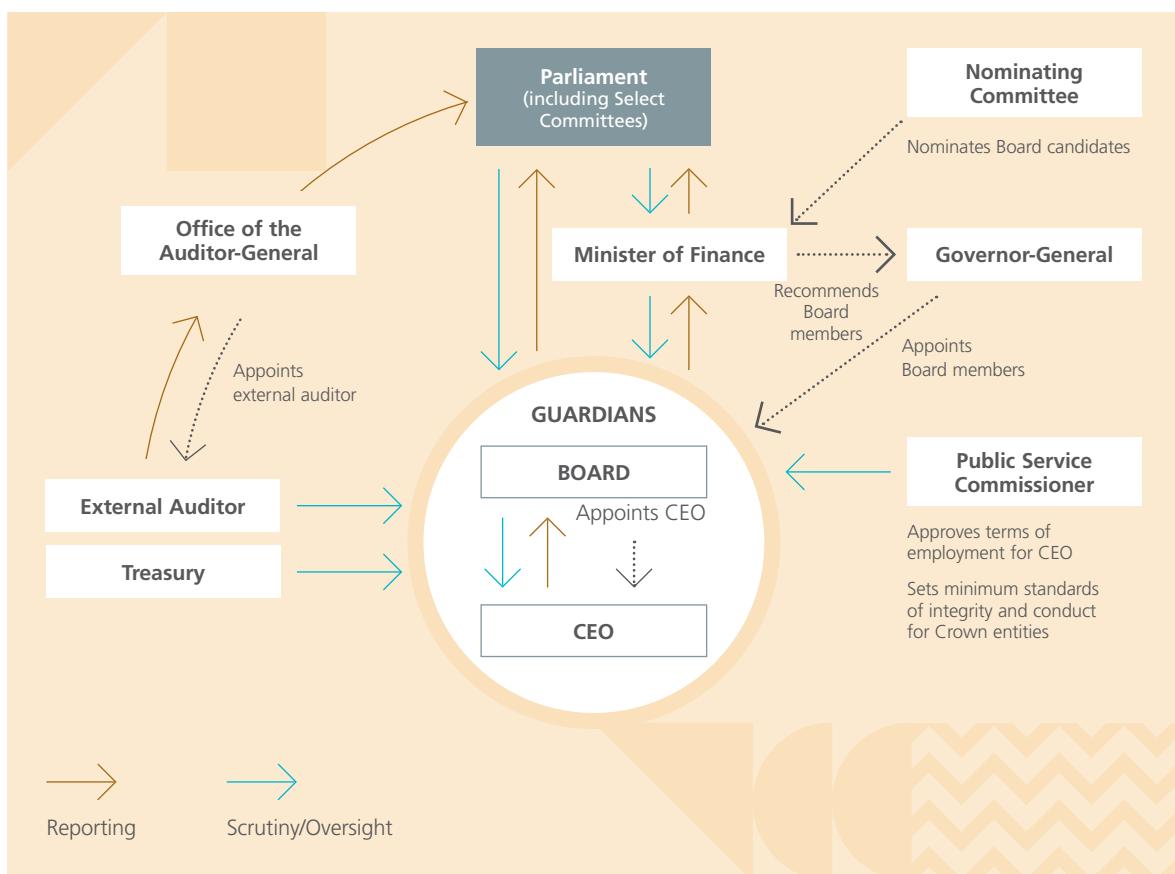
The Guardians is a statutory entity and our governance framework reflects our statutory context, Purpose and the expectations of our key stakeholders, as well as applicable good-practice standards.

STATUTORY CONTEXT

The statutory governance arrangements for the Guardians are set out in the New Zealand Superannuation and Retirement Income Act 2001 (NZ Super Act), the Venture Capital Fund Act 2019 (VCF Act) and the Crown Entities Act 2004. These Acts establish the function and powers of the Guardians, the powers and duties of Board members, and reporting and accountability requirements.

The Guardians is an autonomous Crown entity. It is part of the public sector but legally separate from the Crown and designed to operate at 'double arm's-length' from the Government. This means that, although the Guardians is still accountable to the Government, it is governed by an independent board and has operational independence regarding investment decisions. The statutory governance design for the Guardians is considered to be one of the four 'endowments' that give us an innate advantage as an investor.

The Guardians is responsible for managing and administering the NZ Super Fund and Elevate. Each fund is a pool of Crown assets but is not an entity in its own right. The statutory governance framework for the Guardians is illustrated below.



The Guardians' governance framework substantially reflects the corporate governance principles outlined in the Financial Market Authority's Corporate Governance Handbook.

1	ETHICAL STANDARDS Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for delivering these standards throughout the organisation. (see pages 82 – 83)	2	BOARD COMPOSITION AND PERFORMANCE To ensure an effective board, there should be a balance of skills, knowledge, experience, independence and perspectives. (see pages 84 – 87)
3	BOARD COMMITTEES The board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility. (see pages 88 – 91)	4	REPORTING AND DISCLOSURE The board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures. (see pages 92 – 93)
5	REMUNERATION The remuneration of directors and executives should be transparent, fair and reasonable. (see page 87)	6	RISK MANAGEMENT Directors should have a sound understanding of the key risks faced by the business, and should regularly verify there are appropriate processes to identify and manage these. (see pages 95 – 97)
7	AUDITORS The board should ensure the quality and independence of the external audit process. (see page 92)	8	SHAREHOLDER RELATIONS AND STAKEHOLDER INTERESTS The board should respect the rights of shareholders, and foster constructive relationships with shareholders and stakeholders. Shareholders should be encouraged to engage with the entity. (see pages 93 – 94)

PRINCIPLES FOR CORPORATE GOVERNANCE (CONTINUED)**CULTURE AND CONDUCT**

One of the Board's key roles is to shape the culture and ethics of the organisation. The Board sets the 'tone from the top' and articulates expectations for ethical conduct in Codes of Conduct established for the Board and for employees and contractors.

Culture

Culture plays a significant role in keeping staff engaged, with implications for financial performance, recruitment, risk management, retention and ethical behaviour. We recognise the importance of culture and the need to continually maintain it. To learn more about our culture, see the Our People section of this report (page 27).

Ethical conduct

The Guardians is a public sector entity and high standards of ethical and professional behaviour are expected from its Board members, employees and contractors. The expected standards of behaviour are articulated in the Codes of Conduct for Board members and for employees and contractors. The Board Code of Conduct incorporates the code of conduct for members of Crown entity boards issued by the Public Service Commissioner in March 2021. The Board Code of Conduct is included in the Board Charter (available on our website).

The Code of Conduct for Employees and Contractors incorporates the Standards of Integrity and Conduct (the code of conduct for the Public Services) issued by the Public Services Commissioner in 2007. These Standards require employees and contractors to be fair, impartial, responsible and trustworthy. The Code of Conduct for Employees and Contractors is contained in our Human Resources Policy (available on our website).

The Codes include requirements regarding acting with honesty, integrity, fairness, impartiality, identifying and disclosing conflicts of interest, using corporate information, assets, gifts and hospitality, and reporting breaches of ethics. The induction programme for new Board members, employees and contractors covers the relevant Code of Conduct.

To instil a culture of ethical behaviour and transparency, there is mandatory training for employees on core topics (including gifts and hospitality, fraud awareness, securities trading, and privacy), and there is a six-monthly attestation process covering compliance with policies and authorities, conflicts of interest, disclosure of gifts and hospitality, health and safety, and securities trading.

Whistleblowing

The Guardians is committed to conducting business in a manner which is safe, ethical, professional and compliant with the law.

Provision of an accessible, transparent and robust whistleblowing process which can be used by employees and contractors in all appropriate circumstances is critical to this objective.

Information on reporting concerns and whistleblowing is set out in the Code of Conduct for Employees and Contractors and is also available on our intranet and website.

A confidential Speak-Up line is available for employees, contractors and external parties to report any serious wrongdoing or potential issues they may have experienced or encountered, without any risk of retribution. Whistleblowing complaints will be reported to the CEO and/or Board Chair, as appropriate, and the GM Risk is responsible for the Guardians' whistleblowing process which ensures any allegations are appropriately investigated, documented, reported and responded to.

Securities trading procedure

The Guardians' Securities Trading Procedure aims to reduce the risk of Guardians' employees and contractors breaching the Financial Markets Conduct Act, or similar legislation. It does this by providing guidance on the law and the consequences of breaching it and by setting rules about information flows and trading. All employees and contractors must seek permission in advance before trading single-name listed securities (or derivatives of them) and are required to disclose any personal trading they have undertaken by completing six-monthly attestations. A copy of the Securities Trading Procedure is set out in our Human Resources Policy, which can be found on our website.

Sensitive expenditure

Being a public sector entity, we are very focused on ensuring that expenditure, particularly travel and sensitive expenditure (including hospitality, gifts, koha and donations), is managed prudently and effectively. Our expectations concerning travel and sensitive expenditure are set out in our Travel and Sensitive Expenditure Policy (which can be found on our website).

Conflicts of interest

Our procedures for identifying, disclosing and managing conflicts of interest are set out in the Codes of Conduct. Actual and potential conflicts of interest must be disclosed and are recorded in interest registers. To ensure that Board members, employees and contractors are familiar with and follow the conflict of interest procedures, they are specifically covered in our induction programme and in periodic refresher training. In addition, six-monthly confirmation is obtained from Board members, employees and contractors to ensure their interest registers are up to date. For Board members, conflicts of interest are managed in accordance with statutory requirements.

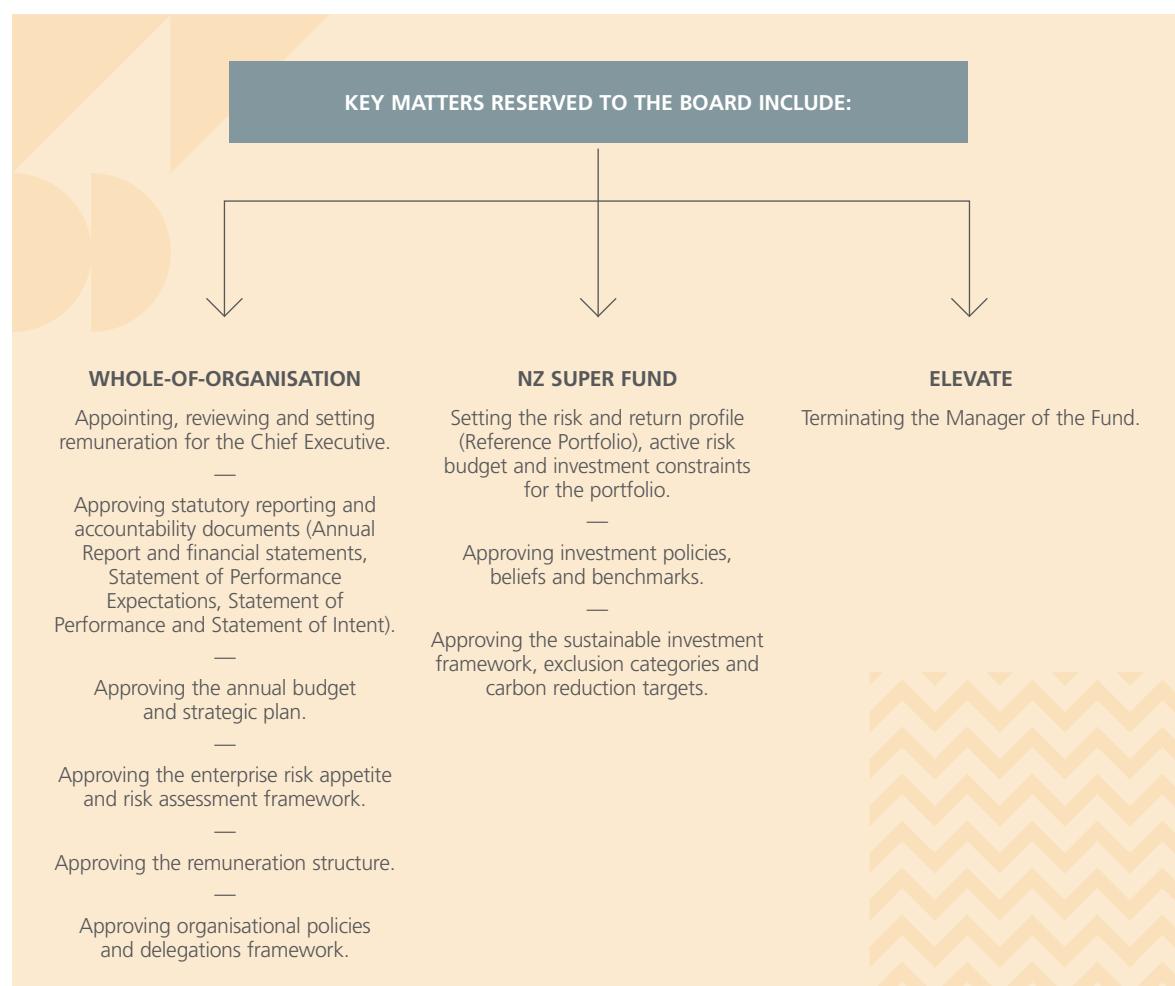
Board members must disclose financial and non-financial interests in matters involving the Guardians and may not vote, take part in discussions or otherwise participate in any activity of the Guardians relating to a matter in which they have an interest. Board members' interests are a standard agenda item at every Board meeting and any disclosure of interest is recorded in the meeting minutes.

BOARD ROLE AND RESPONSIBILITIES

The Board Charter establishes a governance framework for the Guardians and clearly defines the respective roles and responsibilities of the Board and management. It includes the terms of reference for the Board's two standing committees (the Audit Committee and the Employee, Policy and Remuneration (EPRC) Committee) and a Code of Conduct for Board members. The Board Charter was updated during the year to include specific mention of reviewing risk culture in the Board's responsibilities (which was a recommendation from a PwC risk culture review). A copy of the Board Charter is available on our website.

Division of responsibilities

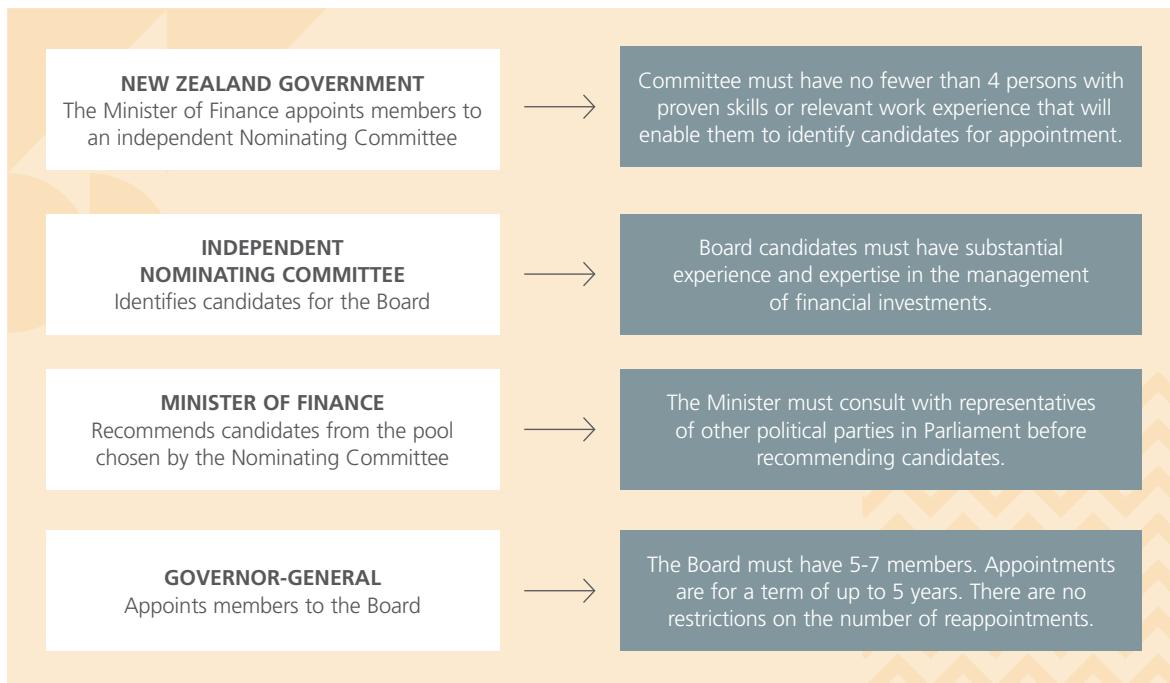
While the Board has overall responsibility for the affairs and activities of the Guardians, it has delegated authority for the day-to-day management of the Guardians to the Chief Executive and other officers, to be exercised within Board-approved parameters. The framework for the delegation of authority is set out in the Guardians' Delegations Policy (available on our website). The division of responsibilities between the Board and management means that the Board's focus is on the governance framework, strategic direction, organisational identity (Purpose, Vision and culture) and resources, risk, key stakeholder relationships and accountability reporting, and oversight of management. Management is responsible for implementing strategy (investment and enterprise wide).



PRINCIPLES FOR CORPORATE GOVERNANCE (CONTINUED)

BOARD COMPOSITION AND PERFORMANCE**Appointment process**

The process for appointing members of the Guardians' Board (summarised below) has unique features that are designed to promote the independence of Board members and the operational independence of the Guardians. Board members are generally appointed for terms of between three and five years and may be reappointed at the expiry of their term.



The Nominating Committee works with the Guardians' Board, primarily through the Chair, to assess the collective skills and experience of the Board. This assessment is used to inform the search criteria for new Board candidates. The Nominating Committee, with input from the Guardians' Board and CEO, nominates Board candidates to the Minister.

Board composition

By statute, the Guardians' Board is required to consist of at least five, but no more than seven, Board members. The Board is led by the Chair, who is appointed by the Minister of Finance. The Board's composition changed during the year with the appointment of Fiona Oliver on 24 March 2023 for a term ending on 30 September 2027, and the resignation of Rosemary Vilgan in May 2023. As at 30 June 2023, the Board has six members.

BOARD MEMBER PROFILES

CATHERINE DRAYTON <i>LLB, BCom, FCA, CFIInstD</i>	Skills and experience: Catherine Drayton is a professional company director with extensive governance and financial market experience. In her earlier executive life she was partner in charge of audit and advisory services for PwC in Central/Eastern Europe, with her specialty being mergers and acquisitions. Her governance roles include Chair of Christchurch International Airport, SparkTowerco Limited and Mint Innovation and directorships of IAG, Southern Cross Medical Care Society, Southern Cross Hospitals and Genesis Energy. Former roles include Beca Group, Ngai Tahu Holdings, technology company PowerbyProxi (which was acquired by Apple) and Meridian Energy.
Chair of the Guardians' Board	
Appointment: 1 Nov 2018, and appointed Chair on 1 April 2021	
Term: expires on 30 September 2027	
Committee membership: EPRC and Audit	

JOHN WILLIAMSON <i>BA, LLB, LLM, CMIInstD</i> Chair of the Employee Policy and Remuneration Committee	Skills and experience: John is a private company investor. He has deep operational and financial expertise gained from leadership roles in listed and private equity-owned companies across multiple sectors, including as Group Chief Executive of ACG Education, Group Managing Director of Hellaby Holdings and senior leadership positions with Fletcher Building and Bendon. His experience spans distribution, manufacturing, industrial services, retail and education businesses in New Zealand and Australia. John is Chair of Ritchies Transport Holdings and a former Chair of Hockey New Zealand.
Appointment: 30 May 2016, and appointed EPRC Chair on 1 April 2021	
Term: expires on 30 September 2025	
Committee membership: EPRC	
DOUG PEARCE <i>BCom, ICD.D</i> Chair of the Audit Committee	Skills and experience: Doug has extensive experience in funds management and capital markets. He was the founding Chief Executive Officer and Chief Investment Officer of the British Columbia Investment Management Corporation (BCI), one of Canada's largest institutional investors. He held these positions from 1988 till he retired in 2014 and has over 35 years of experience in the capital markets. Doug sits on the boards of Fortis BC and the Alzheimer Society of British Columbia and has also served as director and Chair of the Canadian Coalition for Good Governance (CCGG), the Pacific Pension Institute (PPI), and the Pension Investment Association of Canada (PIAC). He has a keen interest in business strategy and good governance and has been a member of the advisory board at the Forum for Women Entrepreneurs and the Faculty Advisory Board at UBC Sauder School of Business. Doug lives in Canada.
Appointment: 30 May 2016, and appointed Audit Committee Chair on 1 April 2021	
Term: expires on 30 September 2024	
Committee membership: Audit	
HENK BERKMAN <i>PhD, MCom</i> Appointment: 1 October 2018	Skills and experience: Henk has extensive expertise in the areas of investment and corporate finance and corporate governance. He is a Professor of Finance at the University of Auckland and has a fractional appointment as Research Professor at the University of Sydney. He completed his PhD at Erasmus University Rotterdam and has published extensively in leading finance journals. He was adjunct director at Arthur Andersen Global Corporate Finance, and has acted as consultant for a number of multinationals and market regulators around the world. Former directorships include SIRCA, a not-for-profit organisation with the mission to promote financial research, and Rozetta Technology Ltd, a big-data analytics organisation based in Sydney. Henk also serves as President of the Dutch language school in Auckland.
Term: expires on 30 September 2024	
Committee membership: Audit	
DAVID McCLATCHY <i>BCom</i> Appointment: 1 October 2021	Skills and experience: A respected business leader and financial markets professional, David returned to New Zealand following a successful career based in Sydney, Australia. There he served as Group Chief Investment Officer of Insurance Australia Group and Managing Director at IAG Asset Management until 2019, and before this held the role of CEO and Chairman at ING Investment Management Australia Ltd. Prior to his move across the Tasman, David spent 16 years with banking and investment management companies in New Zealand. Over the course of his career he has run and directed multinational investment organisations across New Zealand, Australia and Asia, managing funds for insurance firms, corporates, sovereign wealth funds, superannuation funds, and charities. David is a director of NZX-listed investment companies Kingfish Limited, Barramundi Limited and Marlin Global Limited, as well as Trust Investment Management Limited, a professional services entity supporting charities with governance and investment, and Waipuna Hospice Incorporated, a non-profit palliative care provider. David is a past member of Chartered Accountants Australia and New Zealand.
Term: expires on 30 September 2026	
Committee membership: Audit	
FIONA OLIVER <i>LLB, BA, CFIInstD</i> Appointment: 24 March 2023	Skills and experience: Fiona is a highly experienced director and holds governance roles that span a number of business sectors including transport, renewable energy, natural gas, technology, commercial property, sport and financial services. Fiona is a director of Summerset Group Holding Limited, Kingfish Limited, Barramundi Limited, Marlin Global Limited, First Gas Group Limited, Gentrack Group, Freightways Group Limited and Wynyard Group Ltd (in liquidation). Fiona is a former director of BNZ Life Insurance, BNZ Insurance Services, Augusta Capital and Augusta Funds Management, and a director and audit committee chair for Tilt Renewables. In addition, she is a former member of Inland Revenue's Risk and Assurance Committee.
Term: expires on 30 September 2027	
Committee memberships: Audit and EPRC	
	In her executive career, Fiona has held leadership roles in funds management for Westpac and AMP in New Zealand and commercial roles in asset management and private equity in Sydney and London. Before that, she practised as a senior corporate and commercial lawyer, both in New Zealand and overseas, with a focus on mergers and acquisitions.
	Fiona was awarded the New Zealand Shareholders Association Beacon Award in 2021. This recognises outstanding performance in leadership and corporate guidance.

PRINCIPLES FOR CORPORATE GOVERNANCE (CONTINUED)

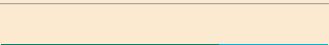
BOARD SKILLS

The Board periodically reviews (including as part of performance evaluations) whether it collectively has the right mix of personalities, knowledge, skills and expertise and the appropriate degree of diversity of thinking to meet the strategy, future challenges and regulatory demands of the organisation. Feedback on the Board's views is provided by the Chair to the Nominating Committee. This year, as part of the process for identifying candidates for the Board, the Board had two meetings with the Chair of the Nominating Committee to discuss the skills and experience considered necessary for the Board.

A key feature of the appointment process for Guardians' Board members is that it is a statutory requirement for Board

members to have substantial experience, training and expertise in the management of financial investments.

A general description of the skills identified as being necessary for the Guardians' Board is set out in the table below. These skills reflect the Purpose and mandate of the Guardians and the Funds. Not all Board members will or need to possess skills in all areas – it is the strength of the entire Board that matters. Effective teamwork within the Board and between the Board and management is also important. In addition, there may be some areas of expertise that the Board feels comfortable taking external advice on as and when required. More information about the skills of our Board members can be found earlier in this section.

BOARD SKILLS AND EXPERIENCE (identified as being most relevant to the Guardians' functions)	IMPORTANCE	BOARD COMPOSITION IN RELATION TO EACH AREA:
MANAGEMENT OF FINANCIAL INVESTMENTS Under the Guardians' legislation, having substantial experience, training and expertise in the management of financial investments is a criteria for appointment to the Guardians' Board. This expertise is directly relevant to the sole function of the Guardians, which is to manage the NZ Super Fund and Elevate.	Essential	
INVESTMENT ENVIRONMENT/PERSPECTIVE Knowledge of financial markets, economic drivers and global investment perspectives relevant to the Guardians and portfolio management. Understanding of sustainable finance principles and an intergenerational perspective on investing.	Core	
GOVERNANCE Experience as a director of a listed entity, large investment fund and/or large/complex organisation. Understanding of the principles of good corporate governance in the context of the purpose of the Guardians and the Funds that it manages.	Core	
STAKEHOLDER MANAGEMENT Experience in relation to significant stakeholder engagement/management.	Core	
STRATEGY Ability to define strategic objectives, constructively evaluate business plans, oversee the implementation of strategy using commercial judgement and bring a global perspective to bear. Enterprise building capacity.	Core	
FINANCIAL ACUMEN Good understanding of financial statements and reporting for organisations of significant size, including ability to probe the adequacies of financial and related risk control.	Core	
RISK MANAGEMENT Experience in anticipating, recognising and managing risks, including financial, non-financial and emerging risks. Understanding of the regulatory environment that the Guardians operates in.	Core	
LEADERSHIP Held a CEO or a similar senior leadership role in a large/complex organisation. Experience in people matters, leading organisational change and delivering desired business outcomes.	Desirable	
DIGITAL AND TECHNOLOGY A. Experience with strategies or projects for the transformation of analogue processes to digital. B. Understanding of technology (including AI) that can be used in investment decision-making	Desirable	

Induction and development

There is a formal induction programme for each new Board member on appointment, consisting of a series of 'deep dive' sessions, one-to-one sessions with the Leadership Team and comprehensive induction papers. Recognising that training and development are continuing processes, an ongoing development programme for Board members ensures they continue to have the skills and expertise needed to discharge their responsibilities. The topics and calendar for this programme are approved by the Board. The programme includes 'deep dive' sessions presented by management and external speakers (see Board Meetings and Activity on pages 88-91 for topics discussed). It also includes arranging for Board members to meet with global peer funds and investment managers and to participate in international peer forums, including forums held by the International Forum of Sovereign Wealth Funds, the Pacific Pension and Investment Institute (PPI), the Sovereign Investor Institute and the International Centre for Pension Management. Engagement with international peer funds and managers, with other strategic partners (such as engagement collaborators) and participation at international forums helps ensure that the Board is able to govern in line with best practice.

Board evaluation

The performance of the Board, its committees, and individual members is evaluated at regular intervals, generally annually for the Board and at least once every two years for its committees.

The performance evaluation is conducted either on the basis of a self-evaluation questionnaire or using an external specialist. Evaluations seek to assess both performance to date and fitness for future challenges. The Chair and Nominations Committee keeps Treasury informed on Board evaluations, including progress on action items.

In the current financial year, Kerridge & Partners was engaged to carry out an evaluation of the performance of the Board, its committees and its members. Kerridge conducted similar evaluations in 2017 and 2019. The evaluation process involved Kerridge representatives attending Board and committee meetings as observers, interviews with members of the Board and Leadership Team and the Chair of the independent Nominating Committee, feedback sessions with each Board member and presentation of a report to the Board. The interviews conducted by Kerridge covered a range of topics, including the 'board dynamic'; board culture; degree of alignment on strategy; decision-making; quality of conversation; agenda management; information flows; planning processes; risk; keys to current success; succession; Chair performance; CEO performance management; board/management interface; and performance of committees.

The Kerridge report highlighted several Board strengths identified in previous reviews that continued to be strengths, as well as some new strengths, including:

Board focus:

- The high level of commitment and engagement from the Board to the organisation's purpose and its obligations to stakeholders
- The broad alignment of Board members and management on the key challenges the Board face over the next three to five years

Board composition:

- The intellectual capacity of Board members and their ability to digest a large volume of information
- There is diversity of perspective and no 'group think'

Key stakeholder relationships:

- There are strong relationships with key government stakeholders, in particular, through the Chair.

The Kerridge report made a number of suggestions for improvement and the Board Chair has developed a list of action items to focus on to improve overall performance.

Board Secretariat

The Board Secretariat is accountable to the Board for governance matters. The Chair and all Board members have access to the Board Secretariat on matters relating to the conduct of the Guardians' affairs and the corporate governance of the Guardians, and on any matter pertaining to the Board Charter. The Board Secretariat facilitates the induction and ongoing development programme for Board members. The Board is kept up to date on legal, regulatory, compliance and governance matters through advice and regular papers from the General Counsel, the Board Secretariat and other advisors.

Board remuneration

The remuneration of Board members is set by the Minister of Finance operating in accordance with the Fees Framework for Members of Statutory and Other Bodies Appointed by the Crown, and as such is not controlled by the Guardians. The remuneration set for Board members in the 2022/23 financial year was:

Chair	\$98,000 p.a.
Committee Chair	\$53,900 p.a.
Board Members	\$49,000 p.a.

Board remuneration has remained unchanged since the last reporting period.

PRINCIPLES FOR CORPORATE GOVERNANCE (CONTINUED)

BOARD MEETINGS AND ACTIVITY**Meetings**

During the year, there were six scheduled Board meetings and one special meeting. Meeting agendas are a mix of forward-looking and priority items and regular standing items. After each scheduled Board meeting, an all-staff briefing is held to keep everyone informed of what items were discussed and decisions made. Board papers are also made available to staff via the intranet (to the extent appropriate having regard to commercial and privacy sensitivities). The Board also meets with Treasury at least once a year and has an annual strategy day.

Where possible, a 'deep dive' or strategy discussion is scheduled to be held before a Board meeting. 'Deep dive' topics and strategy discussions are based on feedback received from the Board. Strategy discussion topics during the year included strategic planning for the Guardians' future state, investment governance, incorporating te Ao Māori into organisational capability, the governance framework for our strategic programmes of work and China's economy.

This year, Board members also attended other Guardians' events including Select Committee Hearings; an annual day-long seminar for the Directors of NZ Super Fund investee companies; and an all-staff hui (meeting), along with other public sector development opportunities for Board members.

KEY BOARD ACTIVITIES**CEO succession**

With the Guardians' CEO resigning at the end of 2023, a key focus for the Board has been on undertaking the process for appointing a successor CEO.

Culture

Assessing the Guardians' organisational culture. Human Synergistics presented the outcomes of their 2022 Culture Survey, which showed further improvement in culture from an already highly constructive 2020 baseline.

People

Considering a refreshed People Strategy (following review by the EPRC) encompassing all people-related activity across the organisation. The Strategy is underpinned by six strategic pillars strongly aligned to the Guardians' values. Each strategic pillar has activities to drive its five-year goal. Considering a new Diversity, Equity and Inclusion (DEI) Strategy (following review by the EPRC). The Strategy builds on lessons from a Deloitte DEI maturity review, and input from staff and leadership (see page 29 for more information).

Investment

Reviewing the investment team strategies, Sustainable Finance strategy, total portfolio report, opportunities report and economic updates.

Strategy

Approving our five-year strategic plan based on a new format, and to a change in reporting approach away from focusing on individual projects to how we perform against our strategic focuses. Key performance indicators and progress targets to measure outcomes have been incorporated into a reporting scorecard. Considering annual strategy updates from the Heads of each of the Investment and Corporate teams. Considering the 'Guardians of the Future' – our long-term (10+ years) strategic direction.

Sustainable investment

Shifting from a responsible investment approach to our sustainable investment strategy continued to be an area of focus for the Board, including:

- Approving new reporting measures for the Reference Portfolio (following the decision to change the Reference Portfolio benchmark to Paris-aligned indices).
- Approving further refinements to our Sustainable Investment Framework.
- Considering the steps being taken to enhance the ESG profile of the portfolio's multi-factor equity mandates.
- Considering updates on impact investment.

Policies

Approving a proposal to simplify our policies (in line with a risk culture survey recommendation). As policies are reviewed by the Board in accordance with their scheduled review timetable, they are being converted to the new policy format. Considering the annual review of the Statement of Investment Policies Standards and Procedures for the NZ Super Fund and Elevate.

Communications

- Approving the Annual Report (including financial statements for the Guardians and the Funds), annual Statement of Performance Expectations and annual Statement of Performance.
- Considering a refreshed three-year Communications Strategy aimed at ensuring that communication and engagement with stakeholders supports stakeholder trust and confidence.

Risk

- Considering a review of the operationalisation and application of the Guardians' Risk Appetite Statement and Risk Assessment Framework. This was the first review since refreshed versions of those documents were approved by the Board.
- Considering the action plan to address observations and recommendations highlighted in the 2022 PwC review of risk culture at the Guardians.
- Considering the control effectiveness assessment for two of our top enterprise risks (as part of an ongoing control effectiveness assessment programme).
- Reviewing our technology systems and applications landscape to understand which ones have high inherent risk, hold personal information and have interdependencies.
- Considering exposure to cyber attacks on third-party systems.

Legislative changes

Considering the risks and opportunities of a change to the Guardians' enabling legislation to allow the NZ Super Fund to control entities. The Board had a series of discussions focusing on the appropriate governance framework for controlled entities.

Technology

Ongoing consideration of a programme of work to establish a new data platform, build data analytics, governance and quality capabilities.

As well as receiving papers on specific topics, the Board receives a regular Dashboard Report with key information on the Fund's

performance and the Guardians' operations covering such matters as:

- Reporting against the Board's risk appetite
- Portfolio and opportunity performance
- Use of active risk
- Performance of the Strategic Tilting programme and Tactical Credit Opportunities Mandate
- Leadership Team, Investment Committee and Risk Committee activity
- Investment activity
- NZ Super Fund and Guardians' financials
- Reporting on derivatives activity and counterparty exposure
- Liquidity
- Human resources
- Stakeholder and external relationships
- Cyber security.

Meeting attendance

The following table shows the attendance of Board members at scheduled Board and Committee meetings during the 2022/23 financial year.

	Board	Audit Committee	EPRC
Board member	Meetings attended	Meetings attended	Meetings attended
Catherine Drayton	6/6	4/4	3/3
Henk Berkman	6/6	4/4	N/A
Doug Pearce	6/6	4/4	1/1
John Williamson	6/6	3/3	4/4
Rosemary Vilgan	5/5	1/1	3/3
David McClatchy	6/6	4/4	N/A
Fiona Oliver	2/2	1/1	N/A

All Board members attend the September Audit Committee meeting. Fiona Oliver was appointed to the Board in March 2023. She attended the March 2023 Audit Committee meeting and the June 2023 EPRC meeting as an observer. John Williamson came off the Audit Committee after the appointment of Fiona Oliver to the Committee but attended the May Committee meeting as an observer. Rosemary Vilgan resigned in May 2023. She attended part of the November 2022 Audit Committee meeting as an observer. David McClatchy attended the August 2022 EPRC meeting as an observer and Catherine Drayton attended the meeting ex officio. As from November 2022, Catherine Drayton replaced Doug Pearce on the EPRC.

BOARD COMMITTEES AND ACTIVITY

The Board and Committee structure for the Guardians is set out in the diagram on the following page.

The roles and responsibilities, reporting requirements, composition, structure and membership requirements of each standing Board Committee are set out in the respective committee's terms of reference. Copies of the terms of reference are contained within the Board Charter (available on our website).

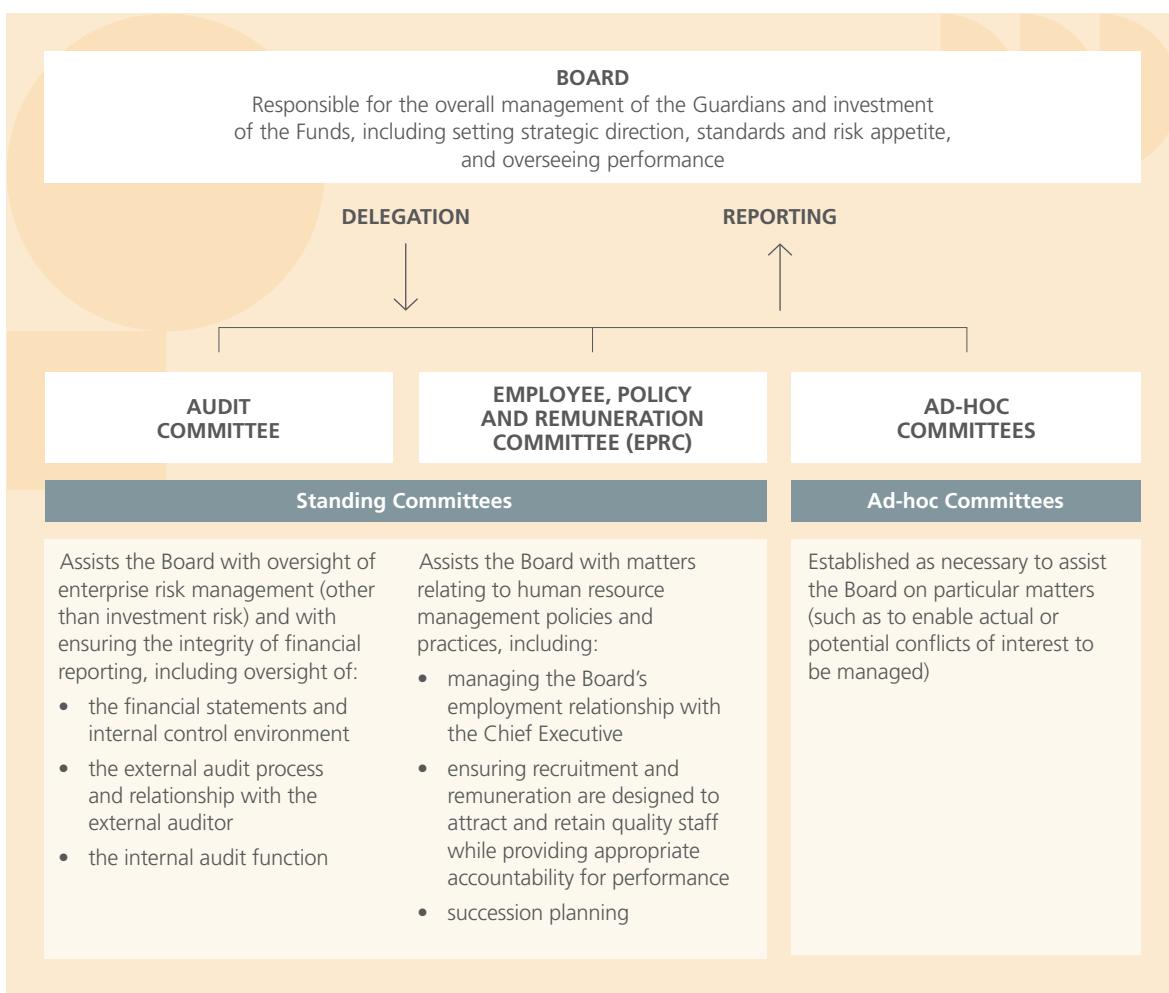
Each standing committee's terms of reference and performance are periodically reviewed by the Board. Minutes of committee meetings are provided to the Board for information and the Committee Chairs provide verbal updates on committee meetings at the following Board meeting. In addition, all Board members are able to attend any committee meeting.

The Board appoints the Chair of each standing committee. The Chair of the Board cannot also be Chair of the Audit Committee or the Employee, Policy and Remuneration Committee. The Guardians' Head of Internal Audit has a direct reporting line to the Chair of the Audit Committee.

From time to time, the Board may establish a specific subcommittee to address a particular matter or for a particular purpose. This allows the Board to function effectively and to manage conflicts of interest.

The standing Board Committees meet quarterly, with additional meetings convened as necessary. Each committee is entitled to the resources and information it requires to operate effectively. The Chief Executive Officer and other members of the management team are invited to attend committee meetings as necessary.

PRINCIPLES FOR CORPORATE GOVERNANCE (CONTINUED)



PROFESSIONAL EXPERIENCE Academia, consulting, banking, funds management, insurance, sales and marketing, manufacturing, industrial services, business management, investment, operational, mergers and acquisitions	NATIONALITIES Canada, New Zealand and The Netherlands
TENURE <ul style="list-style-type: none"> 0 - 2 years 4+ years 7+ years Average tenure: 4.3 years	GENDER Male 4, Female 2*, Non-binary 0
COUNTRY EXPERIENCE Australia, Canada, New Zealand, Asia, Europe, United Kingdom	AGE RANGE 50 - 70

*When Fiona Oliver was appointed to the Guardians' Board we had three female Board members, however as at 30 June 2023 this number has decreased to two with the resignation of Rosemary Vilgan from the Board.

Audit Committee activity	
Members	Summary of main matters considered during the year
Five members as at 30 June 2023:	<ul style="list-style-type: none"> • New Zealand's new climate-related disclosure regime, its application to the Guardians and NZ Super Fund, and the governance role of the Committee and Board in relation to the climate-related reporting for the NZ Super Fund • Control Effectiveness Assessments for two of the Guardians' top enterprise risks • Model risk management • Overview of the Risk Committee from the Chair of the Risk Committee • External auditor appointment and fees • 6-monthly enterprise risk reports • Valuation working group annual plan and annual report • Annual internal audit plan and annual review of outcomes • Annual review of Audit Committee calendar • Annual overviews from Finance and Tax teams • Annual overview of year-end processes • Annual external audit plan and annual external audit report • 6-monthly Compliance Certificates • Audit representation letters • 6-monthly regulatory updates • Annual statutory financial statements for the Guardians, NZ Super Fund and Elevate • Annual Statement of Performance • Annual Tax Compliance and Strategy Update • Annual System and Organisation Control report reviews
Meetings	At each meeting the Committee receives reports from Internal Audit and the General Managers of Risk, Technology, Corporate Affairs and Strategy and Shared Services and a Dashboard Report covering open audit items, learning opportunities reports, custodial incidents, mandate breaches and tax position updates.
Attendance	See page 89 for details of meeting attendance by Committee members. The external auditors are invited to each meeting and meet with the Committee independently of management at least once a year.
The Head of Internal Audit attends each meeting and meets with the Committee independently of management at every meeting. The Committee Chair had regular one-to-one meetings or calls with the Head of Internal Audit.	
Employee, Policy and Remuneration Committee (EPRC) activity	
Members	Summary of main matters considered during the year
Three members as at 30 June 2023:	<ul style="list-style-type: none"> • Review of the refreshed People Strategy • Review of the Diversity, Equity and Inclusion Strategy • Chief Executive Officer succession planning • Chief Executive Officer remuneration • Chief Executive Officer performance review • Strategic activities achievement and progress updates on major programmes of work • Annual performance review and remuneration summary • Interim bonus scheme update for 2022/23 and final report on bonus scheme outcomes for 2021/22 • Phase 2 review of the bonus scheme • Benchmark remuneration data • Annual talent management review • Annual succession planning and key person risk management review • Performance outcomes for Leadership Team and Heads • Gender pay gap analysis • Annual staff departure review • Culture updates • People dashboards • Board member changes
Meetings	At each meeting the EPRC receives a report from the General Manager Human Resources.
Attendance	See page 89 for details of meeting attendance by Board members.
	2-5 2-12

PRINCIPLES FOR CORPORATE GOVERNANCE (CONTINUED)

ACCOUNTABILITY REPORTING

Transparency and quality public reporting are critical to maintaining stakeholder confidence in the Guardians and its mandates. Our aim is to keep our stakeholders well informed about what we do and why we do it. The quality of our reporting has been recognised with regular awards, including winning a Gold Award for the 10th consecutive year for meeting the highest standard in reporting at the 2023

Australasian Reporting Awards. The Guardians is required to prepare and present a range of reports to its responsible Minister and Parliament to facilitate its oversight and accountability. The reporting framework for the Guardians' key reporting documents is included in its Communications and Engagement Procedures (available on our website). The table below summarises key reporting requirements.

Annual	<ul style="list-style-type: none"> Statement of Performance Expectations including, for the NZ Super Fund, forecasting fund performance and setting out priority activities for the year Annual Report summarising the year's performance and Statement of Performance reporting against the Statement of Performance Expectations (the Statement for the 2022/23 financial year was published in June 2022) Annual audited financial statements for the Guardians and the Funds Annual review by Parliamentary Select Committee with participation from the Office of the Auditor General Annual Climate Change Report including Carbon Footprint for the NZ Super Fund
Three-yearly	<ul style="list-style-type: none"> Statement of Intent setting out key strategic objectives and performance measures. The current Statement of Intent sets out the strategic outcome and performance measures for the five years from 2022–2027.
Six-monthly	<ul style="list-style-type: none"> Portfolio holdings and exclusions
Quarterly	<ul style="list-style-type: none"> Report to Minister of Finance covering important developments relating to the Funds and the Guardians
Monthly	<ul style="list-style-type: none"> Portfolio performance Financial data provided to Treasury
As it happens	<ul style="list-style-type: none"> Anything necessary to comply with the expectation that we will operate on a 'no surprises' basis with the Minister of Finance Responses to questions from Parliament, Treasury, media and via the Official Information Act 1982

The Annual Report, which is tabled in the House of Representatives, is available to the public in hard copy and on our website. The report contains both audited financial statements for each Fund, which are signed by the Chair of the Board and the Chief Executive Officer, and audited financial statements for the Guardians, which are signed by the Chair and one other Board member.

The Audit Committee and Board review the Guardians' and each Fund's financial statements. The Chief Executive Officer and the General Manager Strategy and Shared Services state in writing to the Board that the Guardians' and each Fund's financial statements present fairly, in all material respects, the Guardians' and the relevant Fund's financial position and performance, in accordance with relevant accounting standards. They are also required to sign off on the adequacy of the systems of internal control.

The Guardians received 27 requests under the Official Information Act 1982 (OIA) during 2022/23. Copies of our responses, where we consider these to be of material public interest, are available on our website. In addition, we proactively disclosed information relating to our decision to shift the NZ Super Fund's Reference Portfolio to new, Paris-aligned indices, as we believed this information was of material public interest and likely to be requested under the OIA. These documents are also available on our website.

AUDITORS

The Guardians does not appoint the external auditor; this is undertaken by New Zealand's Office of the Auditor-General. Typically the audit partner is rotated every six years.

Emma Winsloe of Ernst & Young has been appointed to carry out the external audit of the Guardians and the NZ Super Fund on the Auditor-General's behalf. This is the second year of her rotation. Graeme Bennett of Ernst & Young has been appointed to carry out the external audit of Elevate and this is his fourth year.

The Audit Committee is responsible for overseeing the external audit of the Guardians and the Funds. Accordingly, it monitors developments in the areas of audit and threats to audit independence to ensure the Guardians' policies and practices are consistent with emerging best practice in these areas. The external auditors are not permitted to perform non-audit work assignments without the approval of the Audit Committee.

Any non-audit work conducted by the audit firm is disclosed in the financial statements.

Both the external auditor and Head of Internal Audit attend Audit Committee meetings. The Audit Committee meets with the external auditor and Head of Internal Audit independently of management as often as is appropriate, but not less than once per annum for the external auditor and twice for the Head of Internal Audit. The Guardians' Head of Internal Audit has a direct reporting line to the Chair of the Audit Committee.

STAKEHOLDER INTERESTS AND RELATIONSHIPS

Accountability

Key reporting documents are summarised on page 92. Accountability mechanisms also include establishing, publishing and annually reviewing a Statement of Investment Policies, Standards and Procedures for each of the Funds, scrutiny by Parliamentary Select Committees and the Office of the Auditor-General, the obligation to disclose information under the OIA and a five-yearly review by an independent reviewer appointed by the Minister of Finance. Copies of the independent reviews and the Guardians' responses are available on our website.

The Minister of Finance may give directions regarding the Crown's expectations as to the NZ Super Fund's performance, including its expectations regarding risk and return. The Minister may not, however, give any direction that is inconsistent with the duty to invest the Fund on a prudent, commercial basis. No directions were received in the 2022/23 financial year. We report on our progress in implementing the single direction received to date (May 2009, about our New Zealand investment activities) on pages 48-50 of this Annual Report.

Along with the other New Zealand Crown Financial Institutions, the Guardians received an annual Letter of Expectations for 2022/23 from the Minister of Finance in December 2022. This letter and the Guardians' response are available on our website. As well as reporting under the requirements of its legislation, the Guardians also reports under the 'no surprises' protocol with the Minister of Finance. This protocol requires the Guardians to inform the Minister in advance of any material or significant events, transactions and other issues that could be considered contentious or attract wide public interest.

Stakeholder engagement

We recognise that building and maintaining healthy stakeholder relationships is important to our success. We continue to refine our communications strategy to improve stakeholder and public awareness and understanding of the Guardians and the Funds. We undertake periodic third-party perception research (both qualitative and quantitative) and the expected outcome (and actual outcome) from this research is that our stakeholder relationships are healthy and that we maintain stakeholder trust and confidence. Key topics raised by stakeholders are presented in our impact assessment on page 25 and our responses to these topics are included in this report. Our main stakeholder groups are:

- Employees
- Investee companies
- Crown (Parliament, responsible Minister, Treasury and other governmental agencies)
- Guardians and Funds
- New Zealand public
- Non-governmental organisations
- Iwi
- Media
- Business partners (contractors, suppliers, asset and investment managers)
- Co-investors
- Peer funds, Crown financial institutions, industry and investment groups

- Regulators.

Priorities for 2022/23 included:

- Ongoing in-person reconnection with staff and stakeholders, following the lifting of COVID-19 restrictions
- Integrating talent and DEI objectives into social media, sponsorship and speaking programmes and reconnecting and engaging with our alumni
- Supporting our sustainable finance approach
- Our intranet migration and refresh project.

Following the publication of our last Annual Report, the transparency of the NZ Super Fund on cost, governance, performance, and responsible investing was independently assessed by CEM Benchmarking using a proprietary, 190-question framework from the Global Pension Transparency Benchmark (a joint initiative of CEM and top1000funds.com). This study measures whether pension organisations are disclosing what they do and how they are generating value for stakeholders clearly, completely and concisely.

NZ Super Fund public disclosures received an overall score of 78 compared to the global average of 55. This was the second-highest score of the 75 funds (including the five largest funds in 15 geographies) whose scores were publicly listed in the Global Pension Transparency Benchmark.

Sponsorships

We undertake a limited number of sponsorships in New Zealand to support activities or events that are consistent with our role and responsibilities. In 2022/23, we have contributed to the following initiatives:

- University of Auckland Nicola Crowley Memorial Scholarship for Women in Computer Science;
- RIAA Responsible Investment Benchmark Report – New Zealand;
- Mindful Money 'Mobilising Investment for a Sustainable Future & Celebrating Leaders Conference';
- Auckland University of Technology New Zealand Finance Meeting;
- University of Otago Assembly of Investment Chairs;
- Contribution to the Toitū Tahua Stewardship Code and funding partnership;
- University of Auckland Women in Finance Mentoring Programme; and
- TupuToa Corporate Pathways Programme.

Total sponsorship spend in 2022/23 was \$98,000 (2021/22: \$146,304). The reduction in sponsorship spend over the period is due to a strategy realignment with our Talent and Diversity, Equity and Inclusion strategies.

PRINCIPLES FOR CORPORATE GOVERNANCE (CONTINUED)

Stakeholder	Engagement initiatives undertaken during 2022/23
Crown	<p>Why we engage</p> <p>To build a trusting, constructive relationship. The Funds are owned by the Crown and we are accountable to the Minister and Parliament for the management of the Funds.</p> <p>Key engagement activity in 2022/23</p> <ul style="list-style-type: none"> • In respect of the New Zealand Superannuation and Retirement Income (Controlling Interests) Amendment Bill. • With the Minister on his annual Letter of Expectations and our annual Statement of Performance Expectations • Appearing at the Finance and Expenditure Select Committee and responding to written questions from the Committee • Regular discussions with and the provision of information to the Treasury
Our people	<p>Why we engage</p> <p>Maintaining and continuing to develop a strong, diverse and inclusive team with a constructive culture is essential to fulfil our Purpose and Vision and embrace ongoing external and internal challenges effectively. A team that has the same focus is greater than the sum of its parts. Together it can harness diversity to tackle complex challenges and maximise opportunities. "Team not hero" is one of our values.</p> <p>Key engagement activity in 2022/23</p> <ul style="list-style-type: none"> • Staff engagement as part of the development of the Diversity, Equity and Inclusion Strategy and our engagement with te Ao Māori • All-staff hui and alumni event to reconnect following multiple lockdowns in Auckland and other COVID-19 restrictions • Holding briefing meetings for all staff after each Board meeting • Holding Town Hall meetings for staff • Getting feedback via a periodic survey using an online tool, as well as two-yearly culture and engagement surveys • Staff engagement to inform the redevelopment of our intranet as part of our Modern Workplace Programme
Peer funds, industry networks and investment groups	<p>Why we engage</p> <p>To build strategic investment relationships and inform best-practice portfolio management.</p> <p>Key engagement activity in 2022/23</p> <ul style="list-style-type: none"> • Participating in peer fund and industry networks and initiatives e.g. participating in annual meetings of the International Forum of Sovereign Wealth Funds; Association of Superannuation Investors; Standards Board for Alternative Investments; International Corporate Governance Network; Institute of Finance Professionals; One Planet Sovereign Wealth Fund Initiative; PPI; and various team-level meetings • Participating in the annual cost survey of peer funds by CEM Benchmarking Inc • Participating in the CEM Transparency Benchmarking review • Collaborating with, and providing support to, the other New Zealand Crown Financial Institutions • Participating in iwi engagement to support our feasibility study into offshore wind in South Taranaki
Investee companies	<p>Why we engage</p> <p>To add value, protect our interests, better understand the impacts of investee companies on our portfolio and on society and the environment, and use our leverage, as appropriate, to encourage responsible business conduct.</p> <p>Our Engagement Report (pages 71-73) summarises our key engagement activity in relation to investee companies for 2022/23.</p>
Others	<p>Why we engage</p> <p>Stakeholder perspectives inform how we go about managing the Funds in a manner consistent with best-practice portfolio management and avoiding prejudice to New Zealand's reputation as a responsible member of the world community. Engagement also helps us understand the impact of our portfolio on society and the environment.</p>

RISK MANAGEMENT

We believe having great culture, governance, people and processes is critical to managing risk.

Risk sits at the heart of what we do. We take investment risk to achieve our mandate and manage other complex enterprise risks. We know risk events will happen; our focus is to mitigate the likelihood of serious risk events and on ensuring we have the right mechanisms in place to respond when they do.

The Board is responsible for setting both investment and enterprise risk appetite. It provides risk governance and oversight, and reviews and approves the Guardians' risk management framework on a regular schedule. The Board has developed a process for delegating authority to the CEO and beyond for the management of both investment and enterprise risk. This ensures that there is accountability for the management of risk within the Guardians and that there is a response plan in place to act on risks in a timely manner. A summary of our risks is outlined on page 96-97.

The Board expects that management operates a 'no surprises' approach to risk and that the CEO will seek Board input if he or she does not have the delegated authority to respond. The CEO and management team attest that management has complied with the Guardians' policies semi-annually. This is designed to ensure that day-to-day responsibility for risk management is at the business unit level, as part of the overall business process, and a robust framework of identification, evaluation, monitoring, and control exists.

We have policies, procedures and internal controls for staff, external investment managers and other expert service providers. Our approach to managing investment risk is set out in our Statement of Investment Policies, Standards and Procedures (SIPSP) and our Investment Risk Allocation Policy. The Risk Appetite Statement, along with our wider approach to managing enterprise risk, is set out in schedule 2 of the Guardians' Risk Management Policy and in our SIPSP available on our website (www.nzsuperfund.nz). The Investment Risk Allocation Policy and Risk Management Policy are reviewed by the Board on at least a five-yearly basis.

RISK MANAGEMENT FRAMEWORK

Our Risk Management Framework makes it clear that accountability for investment and enterprise risk identification and mitigation sits across all parts of our team. The Risk Appetite Statement outlines the approach to risk we will take to achieve our strategic goals.

RISK ASSESSMENT FRAMEWORK

The Risk Assessment Framework supports our risk appetite and

how we will respond to risks we have identified in the four categories set out in the Risk Appetite Statement. Our Risk Assessment Framework:

- Ensures the risk categories are defined;
- Sets out the questions we need to ask ourselves;
- Defines the Guardians' core expectations; and
- Ensures there is appropriate monitoring and reporting of our risk appetite assessments.

CULTURE AND RISK

We are conscious that it is the cultural norms and traditions of behaviour within our workplace that determine how team members identify, understand, discuss and respond to risks when making decisions. In 2022, alongside our Culture Survey, we commissioned an independent assessment of the progress and the maturity of our risk culture since we last reviewed it in 2018/19. The review found that our risk culture had made substantial progress and was, compared to similar peer organisations, mature. The assessment highlighted three improvement opportunities relating to risk culture and 13 more detailed opportunities for improvement. These are grouped into three main themes: 1) Further embed the Guardians' target/aspirational risk culture into the broader risk and values landscape; 2) Develop risk culture metrics aligned to the risk culture target/aspirational state; and 3) Define and document risk culture related accountabilities for the Board, relevant subcommittees and the three lines of accountability. We are progressing these improvements as part of our culture work plan which is being progressed over 2023/24.

ENTERPRISE RISK REPORTING FRAMEWORK

The Board receives an Enterprise Risk report every six months. This report is derived from strategic and emerging risks identified by the Guardians' business units and Leadership Team, and is facilitated by the Enterprise Risk Team and the Risk Committee (a management committee). Each business unit maintains a risk register that identifies the risks that could impact on its specific objectives and activities, with related controls and action plans presented to the Risk Committee. The Risk Committee and Enterprise Risk Team confirm and identify any new risks or changes to existing top risks. They also assess emerging risks and identify those that should be escalated in reporting. The Leadership Team and Board review the top risks and evaluate the effectiveness of our risk management plans and if any further action is needed.

RISK APPETITE STATEMENT

The Guardians of New Zealand Superannuation has developed into, and has a strong ambition to remain, a world-class organisation with a purpose that reflects its intergenerational focus.

In setting out its risk appetite, the Board recognises that risk, internal and external, to its business is likely to come from a range of causes. For these risks, how we respond falls into four broad categories: Culture, Governance, People and Processes.

The Board is willing to take risk to achieve its purpose; it expects the Guardians to continue to use all reasonable measures, without imposing excessive costs or constraints, for its management of the four categories.

Our risk appetite will be determined by the Guardians' Purpose and Vision, with Investment Risk managed by the adoption of the Reference Portfolio and approved Investment Constraints; and Enterprise Risk is managed by the Risk Assessment Framework.

RISKS

Our people (all of them) provide our first line of defence against risk. We take a holistic view and consider both investment and non-investment or enterprise risks. As at 30 June 2023, four of our top risks are elevated and seven are within our risk appetite, as set out below.

Definitions of risk rating		
Within risk appetite	Within risk appetite though the environment scan has identified heightened potential for risk to occur. The risk has been elevated to management, with actions underway to prevent or reduce its impact.	Likely to exceed risk appetite. Event or issue is imminent or has occurred. The risk has been elevated to management and urgent actions are underway to bring the risk back within our risk appetite.

ELEVATED RISKS

Risk	Controls
Staff capability and capacity shortfall	<ul style="list-style-type: none"> Diversity, Equity and Inclusion Strategy Individual development plans Succession planning Talent Sourcing Strategy and plans Culture shaping and measurement Professional development offerings Use of external advisors Maintain appropriate total remuneration
Wellness/Culture	<ul style="list-style-type: none"> Health, Safety, Security and Environment (HSSE) Committee comprising a number of staff is in place to review the adequacy of health and safety requirements across the organisation Adherence to government guidelines Key operational roles cover available Monthly engagement survey Two-yearly Culture Survey Hybrid working model
IT infrastructure or business systems connecting to our network ceases to be fit for purpose	<ul style="list-style-type: none"> Due diligence and monitoring of IT and business system providers Business continuity framework Regular maintenance and upgrade of IT infrastructure Regular monitoring of strength of network Secondary data centre Service Desk focus on delivery Focus on reducing IT fragility
Process failures leading to poor execution	<ul style="list-style-type: none"> Embedded systems for cross-team input on investment and non-investment deals Policies and procedures Access to external resources e.g. IT, Risk, Operations Due Diligence, Tax, Legal and Finance New opportunities approval process

RISKS WITHIN OUR RISK APPETITE

Risk
● Insufficient liquidity to meet our obligations and maintain our strategies
● Key investment beliefs are inappropriate
● Climate change related physical and transition risks
● Change in key stakeholder support resulting in the failure to successfully execute the Guardians' mandates and achieve our overall purpose
● Incidents of fraudulent activity (including rogue traders, bribery and corruption)
● Cyber event occurs (such as malware, phishing attack, or denial of service attack)
● Significant breach of legislation or regulation

ONGOING RISK MONITORING

Staff compliance with our policies and procedures is actively monitored, as is compliance by external managers with the investment mandates we award them. In 2022/23, the Guardians recorded one active breach of compliance by an external manager with NZ Super Fund investment mandates and reported two high risk internal operational errors. These related to the potential disclosure of commercially sensitive information.

Business risk measures	Performance against key Fund risk measures				
	2022/23	2021/22	2020/21	2019/20	2018/19
Active breaches of compliance with investment mandates*	1	0	0	4	1
Operational incidents or errors rated as potentially material risk**	2	4***	2	2	0

* Our custodian reports any breaches of compliance with the Fund's segregated listed investment mandates to us for investigation and discussion with the manager involved. All breaches, passive and active, are factored into our monitoring and reviews of our external and internal investment managers. In the case of serious incidents, a claims process may be available to the NZ Super Fund.

** The Guardians has a structured process for reporting, investigating and rectifying operational incidents and errors. Incidents or errors with potentially high or extreme impacts are reported to the Board's Audit Committee as soon as practicable. As our objective is to capture as much information as possible with a view to improving our processes and controls, we do not set a target for reducing the number of errors reported.

*** Due to a reporting error in 2021/22, this number has been corrected and the additional three incidents relate to incorrect model changes. No decisions were made based on the model output.

REMUNERATION AND DISCRETIONARY INCENTIVE SCHEME

We are required to manage our Funds in line with best practice portfolio management. To achieve this, we must provide competitive remuneration packages that will attract, motivate and retain a world-class team.

Fixed remuneration consists of base salary, KiwiSaver and insurance benefits. As is standard practice in the sector, we offer an at-risk incentive programme to reward exceptional performance.

KEY FACTORS

In structuring remuneration at the Guardians, we are conscious of the need to:

- Reinforce the long-term objectives of the NZ Super Fund;
- Reinforce our investment strategy, which is based on a whole-of-Fund approach, rather than individual asset classes or Investment portfolios;
- Ensure remuneration encourages appropriate, but not excessive, risk-taking; and
- Be realistic about the periods for which staff are likely to remain with the Guardians and can reasonably expect to be rewarded for performance while looking to align Fund and staff outcomes.

BASE SALARIES

Employees receive a fixed base salary, which reflects their role, contribution and level of experience. This is based on:

- independently determined job sizes;
- employees' competence in roles; and
- current, independent remuneration market data, based on upper quartile, New Zealand financial services sector rates.

Every employee has a base salary associated with their position, which is re-evaluated periodically by remuneration specialists using market evaluation systems. Individual performance is reviewed twice a year, and salaries are reviewed annually. Eligibility for a salary review is subject to meeting minimum performance expectations.

KIWISAYER

We match employee contributions to KiwiSaver, New Zealand's voluntary, work-based retirement savings scheme, up to 8%.

DISCRETIONARY BENEFITS SCHEME

Other benefits are also offered to permanent staff on a discretionary, non-contractual basis. These benefits include income protection, life, trauma and health insurance. The total cost to the Guardians of providing these benefits was \$865,722 in 2022/23 (\$614,337 in 2021/22).

DISCRETIONARY INCENTIVE SCHEME

As is standard within the financial services sector, a portion of staff remuneration for permanent employees of the Guardians is at risk and paid on a discretionary basis, based on performance. This is common in the investment sector as a way of incentivising behaviour, aligning personal outcomes with Fund outcomes and creating a culture of good performance. There are two components to the bonus scheme: individual and NZ Super Fund performance, as outlined below. All discretionary incentive payments are at the discretion of the Board.

	Total	Individual component	Fund performance component
Leadership, Investments and Portfolio Completion teams	60% of actual remuneration paid for the financial year*	20%	40%, composed of: <ul style="list-style-type: none"> • Excess return – 1/3 • Value added – 2/3
Corporate staff (Corporate Affairs, Human Resources, Internal Audit, Risk, Strategy and Shared Services, and Technology teams)	30% of actual remuneration paid for the financial year*	20%	10%, composed of: <ul style="list-style-type: none"> • Excess return – 1/3 • Value added – 2/3

* Actual remuneration paid comprises salary and holiday pay paid during the financial year. It excludes KiwiSaver contributions and other benefits such as insurance.

EXCESS RETURN AND VALUE-ADD MEASURES EXPLAINED

These two measures are based on whole-of-Fund performance over a four-year period. Using these performance measures instead of focusing on individual asset classes or investment portfolios is intentionally designed to reinforce our total portfolio investment approach.

The **Excess Return** measure, which comprises one-third of the total potential Fund performance bonus, is calculated based on the Fund's actual return, less the 90-day Treasury Bill return (a proxy of the opportunity cost to the Government of investing in the Fund instead of paying down debt). This measure reflects whether taxpayers have received value for the money that has been contributed to the Fund. It is paid out in full if the average Fund return over the four-year period exceeds the Treasury Bill return by 4%.

The **Value-add** measure, which comprises two-thirds of the total potential Fund performance bonus, is calculated based on the Fund's actual return, less the Reference Portfolio return. This measure reflects whether the Guardians' active investment strategies have added value to the Fund compared to what a low-cost, passive strategy would have achieved. It is paid out in full if the Fund's average return over the four-year period exceeds the Reference Portfolio return by 0.75%. See page 34-35 for more information on our Reference Portfolio benchmark.

In 2021/22 we included corporate staff in Fund performance components of the incentive scheme to recognise the integral support provided by all employees to our investment activities and provide our employees with a stronger connection to the purpose and performance of the Fund. The cost of doing this was \$1.8m in 2021/22 and \$1.9m in 2022/23.

BONUS ACHIEVEMENT FOR THE FOUR YEARS ENDING 30 JUNE 2023

On average, Fund performance over the four years to 30 June 2023 has been very strong, exceeding the levels required for full bonus payment noted above:

- The average excess return over the four years was 7.64% (maximum is achieved at 4%).
- The average value-add over the four years was 1.69% (maximum is achieved at 0.75%).

For bonus purposes, Fund returns are calculated using a cumulative average percentage over the four years. All performance figures are calculated after costs, before New Zealand tax.

Fund performance bonus payments to individuals vary according to base remuneration and tenure. *See also Notes 3(a) and 3(b) of the Guardians' financial statements.*

INDIVIDUAL COMPONENT

Individual performance is measured by reference to the individual's performance against behavioural criteria, consistent with the Guardians' desired workplace culture. Performance is determined by the individual's manager, takes account of feedback from the individual as well as 360-degree input and is calibrated with the Leadership Team. All discretionary bonus payments are contingent on staff having both achieved their individual objectives and met minimum threshold performance requirements. This is captured in an assessment of performance against a set of expectations agreed in writing between the employee and their manager. Available to all permanent employees; up to 20% of current year actual remuneration.

PAY EQUITY AND GENDER PAY GAP

Our Human Resources Policy makes a specific commitment to achieving the principle of equal pay for equal work for the same or similar roles (no matter what gender or ethnicity). **We monitor this closely and are confident that we are paying equally for work of equal value.**

We measure our gender pay gap annually (the differences in pay between women and men based on the median or mean pay that they receive). The current gap is primarily a reflection of the predominance of males in more senior, higher-paying roles at the Guardians. The mean gender pay gap on the base pay at the Guardians has narrowed from 23% in 2019 to 15% in 2023, and over the same period the median gap on the base pay has narrowed from 32% to 17%. In 2022/23, as part of our ongoing commitment to transparency, we have moved to publish our gender pay gap for the total remuneration for 2021 and 2022. This does not include the gender pay gap for the total remuneration for 2023 as this will always lag a year due to the timing of the Annual Report and the approval of annual bonus payments. The reduction in the total remuneration gender pay gap (median) from 2021 to 2022 of 42% to 26% is significant and primarily the outcome of changes to our base pay in 2022.

Our Diversity, Equity and Inclusion (DEI) Strategy 2022–2027 (available on our website) describes how we are taking a systems thinking approach to addressing our gender pay gap. We understand that change is needed structurally (processes, practices and policies), as well as in our behaviours and culture, and that these are interconnected. We see that progress on the gender pay gap will take time, requiring multi-layered initiatives that have short-, medium- and long-term outcomes.

In 2022/23 we published our *Kia Toipoto* (Annual Pay Gap Action Plan), outlining our DEI Strategy goal for reducing the gender pay gap, the activities planned and our key indicators for success. This includes a DEI focus in our new graduate programme, scholarships and through our career progression and talent management strategies. *Further information about remuneration can be found in our Human Resources Policy, available at: www.nzsuperfund.nz/publications/policies. See also Notes 3(a) and 3(b) of the Guardians' financial statements.*

REMUNERATION AND DISCRETIONARY INCENTIVE SCHEME (CONTINUED)

Gender pay gap*	2023	2022	2021	2020	2019
Base salary (mean)	15%	17%	25%	25%	23%
Base salary (median)	17%	27%	34%	37%	32%
Total remuneration (mean)**,*** -		21%	26%	-	-
Total remuneration (median)** -		26%	42%	-	-

* We report contractual base hourly rate of pay for the entire employee workforce (excluding CEO). The numbers reported are the difference of male pay less female pay, divided by male pay. If there was no gap, the result would be 0%. The mean gender pay gap is the difference between the mean hourly base pay of males and females. The median gender pay gap is the difference between the mid-points in the range of hourly base pay of males and females. The mid-point is calculated by taking all hourly base pays in the sample, lining them up in order from lowest to highest, and picking the middle-most hourly base pay.

** We are unable to disclose the gender pay gap – total remuneration median and mean values as the discretionary bonus for 2022/23 is at the discretion of the Board, and is not processed by 30 June 2023. The figure for 2022/23 will be included in next year's Annual Report.

*** Total remuneration is fixed pay (the contractual salary of an employee, employer KiwiSaver contribution, and insurance benefits) and the discretionary bonus. Expert guidance is that using fixed pay and discretionary bonus for gender pay gap calculations is best practice.

Further information about remuneration can be found in our Human Resources Policy, available at: www.nzsuperfund.nz/publications/policies. See also Notes 3(a) and 3(b) of the Guardians' financial statements.

CHIEF EXECUTIVE OFFICER REMUNERATION

Two of the Board's most important decisions are the appointment and remuneration of the CEO. The Board actively considers the public sector context in making remuneration decisions. Under the Crown Entities Act 2004, the Board's recommendation is then passed to the Public Service Commissioner to agree contractual terms including base remuneration and remuneration structure; the Commissioner also agrees to any future changes to base remuneration.

The CEO is eligible for bonus payments up to a maximum of 60% of actual base remuneration under the Guardians' discretionary incentive scheme. The details of this scheme and the rationale behind it are set out on pages 98-100.

The discretionary at-risk incentive payment scheme forms part of the CEO's existing terms and conditions and the payment is established by factors determined by the Board. The Public Service Commissioner does not approve the level of discretionary at-risk incentive payment.

Process

The Employee Policy and Remuneration Committee (EPRC) (see page 91), based on independent advice from external remuneration specialists, reviews the CEO's remuneration annually and makes recommendations to the Board. As is normal good practice, the Board aims to ensure alignment between the CEO's remuneration and the strategy and performance of the Guardians and its Funds. Details of the CEO's remuneration over the past five years are set out in the table on page 101.

CHIEF EXECUTIVE OFFICER REMUNERATION

Financial Year	2022/23	2021/22	2020/21	2019/20	2018/19	
	\$ % achieved	\$ % achieved	\$ % achieved	\$ % achieved	\$ % achieved	
Contractual Base Remuneration	\$797,000	—	\$724,000	—	\$611,000	—
Actual Base Remuneration Payment	\$811,040	—	\$730,982	—	\$598,886	—
(A number of factors can mean there is a difference between the contractual and actual base. See footnote 1 for more detail)						
At Risk – Individual Component	\$137,877	17%	\$116,957	16%	\$114,021	18%
At Risk – Fund Financial Performance ‘Excess Return’ on a 4 year moving average	\$108,112	13.3% (100% achievement level 13.3%)	\$73,101	10.0% (100% achievement level 13.3%)	\$111,718	17.5% (100% achievement level 13.3%)
At Risk – Fund Financial Performance ‘Value Add’ on a 4 year moving average	\$216,304	26.67% (100% achievement level 26.7%)	\$369,202	51% (100% achievement level 26.7%)	\$92,179	14.2% (100% achievement level 26.7%)
KiwiSaver	\$102,757	—	\$103,219	—	\$73,050	—
Benefits (Life, Income Protection, Trauma, and Health Insurance). See footnote 2 for more detail.	\$10,647	—	\$8,201	—	\$6,691	—
Total Remuneration	\$1,386,737	—	\$1,401,663	—	\$996,545	—
					\$928,533	—
					\$1,063,910	—

1. Actual base salary payments can be lower or higher than contractual base salary depending on a number of factors, including the amount and value of leave taken, or from ceasing employment part way through the financial year. From April 2020, the CEO took a voluntary pay cut of 20% of base salary for six months, this had an impact in the 2019/2020 and 2020/2021 financial years.
 2. Benefits include FBT where applicable, but exclude GST.

As a global investor, a wide range of legal and regulatory requirements are relevant to our activities.

MONITORING FRAMEWORK

We identify and monitor proposed changes to core legal obligations that affect our business and operations. We ensure the changes are appropriately considered when making investment decisions and/or incorporated in business-as-usual processes to ensure compliance. Legislative and regulatory changes of relevance to the Guardians are reported to the Audit Committee annually, and discussed at the Risk Committee six-monthly.

SUSTAINABLE FINANCE REGULATION

There is a continuing trend of regulatory initiatives in New Zealand and globally aimed at addressing climate change and other sustainable finance challenges. These include matters such as greater requirements for sustainability disclosures and roadmaps issued by different sustainable finance bodies. We have also seen an increase in climate-change related litigation in New Zealand and internationally. We continue to monitor developments impacting the Guardians and the broader investment sector.

NEW ZEALAND SUPERANNUATION AND RETIREMENT INCOME (CONTROLLING INTERESTS) AMENDMENT BILL

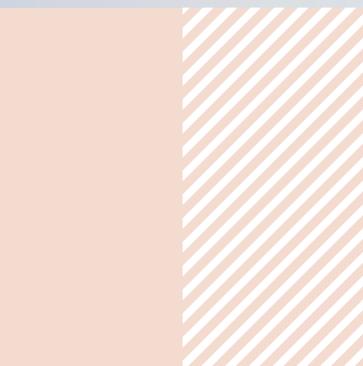
In March 2023, we welcomed the introduction of the New Zealand Superannuation and Retirement Income (Controlling Interests) Amendment Bill to Parliament, which proposes to amend the New Zealand Superannuation and Retirement Income Act 2001 to allow the New Zealand Superannuation Fund to take a controlling interest in entities. We have noted the report back by the Finance and Expenditure Select Committee recommending it proceeds unchanged and acknowledge Treasury's efforts throughout the process.

SUBMISSIONS

From time to time we make submissions on government policy, with a focus on issues that are relevant to our investment mandates or directly impact the Guardians. We made the following submissions in the 2022/23 year:

- To the Australian Treasury on Australia's interest limitation rules, alongside the Public Sector Pension Investment Board
- To HM Treasury on consultation document: Sovereign immunity from direct taxation
- To the Economic Development, Science and Innovation Parliamentary Select Committee on the Business Payment Practices Bill
- To the Finance and Expenditure Select Committee on Taxation (Annual Rates for 2022/23, Platform Economy, and Remedial Matters) Bill (No. 2)
- To the Ministry of Justice on proposed changes to the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 regulations
- To the Ministry of Business, Innovation and Employment on 'Enabling investment in offshore renewable energy' discussion document
- To the Startup Advisors Council on issues of capital and funding in New Zealand's venture capital markets.

Copies of these submissions are available on our website.



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Explaining our Financial Statements



PAULA STEED
GENERAL MANAGER STRATEGY
AND SHARED SERVICES

This Annual Report includes three sets of financial statements: the Guardians of New Zealand Superannuation (Guardians); the New Zealand Superannuation Fund (NZ Super Fund); and the Elevate NZ Venture Fund (Elevate).

The financial statements for the Guardians are on pages 111-135; the NZ Super Fund are on pages 136-191; and Elevate are on pages 192-218.

The Guardians is an autonomous Crown entity that manages two separate investment mandates: the NZ Super Fund and Elevate. The costs incurred by the Guardians mainly include employee- and technology-related costs. All of these costs are recovered from the two mandates, except for a small appropriation that is funded by Parliament, for Board fees and expenses. As a result, the Guardians has a 'zero' net surplus for the year. A breakdown of the expenses recharged to the NZ Super Fund is included in the expense analysis on pages 107-108. The financial statements of the Guardians are prepared in accordance with Public Benefit Entity (PBE) Accounting Standards.

The NZ Super Fund is a pool of assets set aside by the Crown for the purpose of assisting future governments to pay for superannuation and consequently reducing the risk of tax increases on future generations of New Zealand to fund superannuation costs. The financial statements are among the largest and most complex for a New Zealand reporting entity. The financial statements have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). Key elements of these financial statements are discussed on the following pages.

Elevate was formed with the aim of stimulating a functioning venture capital industry and ensuring that high-growth New Zealand businesses have access to the capital and connections they need to be successful. The day-to-day management of Elevate is outsourced to New Zealand Growth Capital Partners (NZGCP), a fellow Crown entity. The financial statements are prepared in accordance with PBE Accounting Standards.

NZ Super Fund Five-Year Financial Summary

	2023 NZD'000	2022 NZD'000	2021 NZD'000	2020 NZD'000	2019 NZD'000
Income statement					
Investment income	1,324,600	1,054,552	740,262	807,059	982,887
Investment gains/(losses)	5,787,682	(5,133,394)	12,775,611	4,931	1,944,667
Net operating income	7,112,282	(4,078,842)	13,515,873	811,990	2,927,554
Operating expenditure	(255,407)	(278,086)	(130,772)	(132,201)	(109,468)
Profit before income tax expense	6,856,875	(4,356,928)	13,385,101	679,789	2,818,086
Income tax (expense)/income	(926,043)	758,046	(2,146,656)	(465,250)	(525,166)
Profit/(loss) after income tax expense	5,930,832	(3,598,882)	11,238,445	214,539	2,292,920
Balance sheet					
Cash and cash equivalents	1,858,270	2,370,257	6,579,356	5,723,737	2,357,277
Net cash pledged as collateral/(collateral received)	(355,965)	173,396	(343,758)	(315,691)	351,926
Net investments	63,734,632	54,519,078	53,070,293	39,486,309	40,242,349
Other assets (including PPE and intangible asset)	514,854	3,202,306	657,925	583,564	355,835
Other liabilities	(890,475)	(5,077,257)	(669,076)	(1,171,762)	(654,998)
Net assets excluding income tax	64,861,316	55,187,780	59,294,740	44,306,157	42,652,389
Income tax receivable/(payable)	(138,459)	272,916	(1,887,279)	(257,725)	(302,009)
Deferred tax asset/(liability)	(49,566)	749,766	(42,866)	(51,128)	(34,286)
Net assets	64,673,291	56,210,462	57,364,595	43,997,304	42,316,094
Contributed capital	24,940,079	22,382,079	19,962,079	17,842,079	16,382,079
Other reserves	39,733,212	33,828,383	37,402,516	26,155,225	25,934,015
Total equity	64,673,291	56,210,462	57,364,595	43,997,304	42,316,094

Understanding the Financial Statements

NZ SUPER FUND

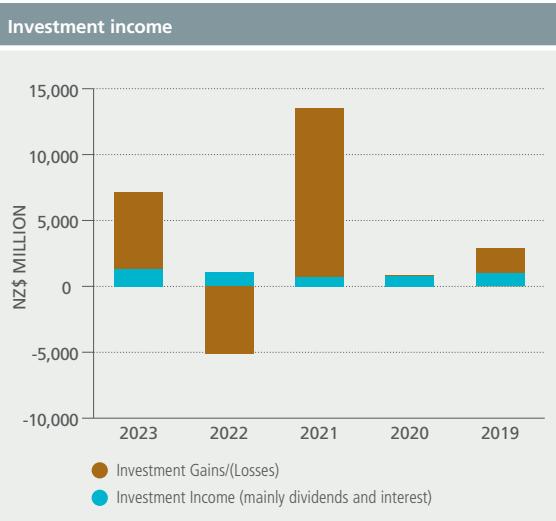
This section explains the key elements of the NZ Super Fund's financial statements and discusses the main financial features of the 2022/23 year.

INCOME STATEMENT

Income: Net operating income is the annual income generated by NZ Super Fund before expenses have been deducted. There are two key components to net operating income:

1. Investment income – primarily interest and dividends; and
2. Investment gains/(losses) – changes in the fair value of NZ Super Fund's investments, along with the impact of changes in the value of the New Zealand dollar on investments held in foreign currencies. We expect to see reasonable volatility here given the significant reliance on the performance of global equity markets.

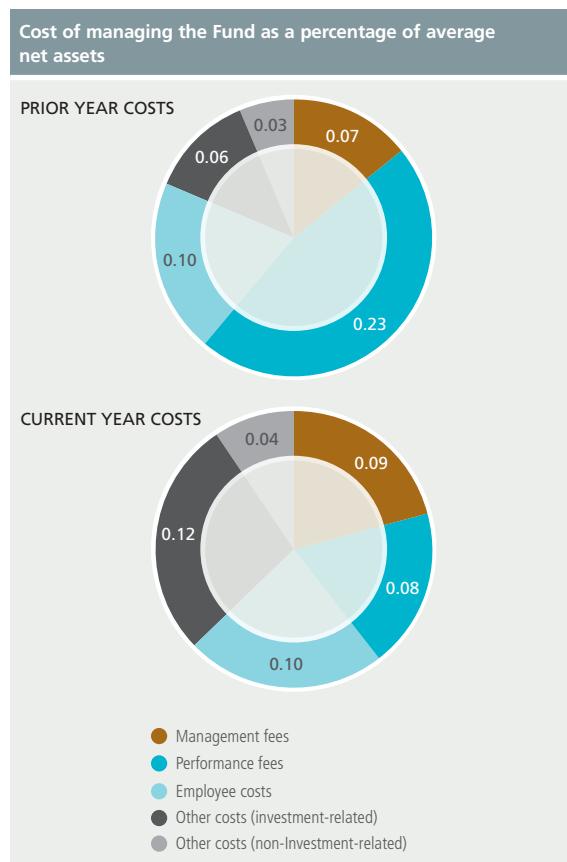
The volatility in net operating income seen by the NZ Super Fund since 2019 is depicted in the following graph.



Favourable global equity market conditions during 2022/23 have resulted in net operating income of \$7.1 billion. The gains in our Reference Portfolio positions in passive global equity have been supplemented by gains in our active positions in multi-factor mandates and strategic tilting, but partially offset by small losses in some of our other active positions. Refer to our investment report on pages 34-45 for more information on performance against our benchmark.

Expenses: We exercise careful judgement in managing the costs of the NZ Super Fund to align with our Purpose of sustainable investment delivering strong returns for all New Zealanders. The expected returns net of expenses are key to our investment decision-making and we therefore manage our expenses carefully by:

- Ensuring that fees paid to external managers are in line with market standards and the complexity of the investment;
- Including the cost of due diligence in our assessment of whether an investment opportunity is worth pursuing, relative to the potential risk-adjusted value;
- Choosing cost-effective access points for all investment opportunities; and
- Benchmarking our costs against those of our peers through the annual CEM Cost-Effectiveness survey (as noted on page 20).



As a percentage of average net assets, costs decreased from 0.49% in the prior year to 0.43% in the current year. In terms of dollar value, the cost of managing the NZ Super Fund's investments was \$255.4 million, a decrease of \$22.7 million from the prior year. This decrease was primarily due to a decrease in performance fees, partially offset by an increase in other investment-related costs. Performance fees are lower in the current year due to higher-than-usual fees in the prior year driven by strong performance in some of our active positions, while other investment-related costs include impairment of certain lending positions in the current year.

CURRENT AND PRIOR YEAR COSTS



MANAGEMENT FEES

\$52.5m

WHAT DO THEY PAY FOR?

Payments to external managers to pay for costs they incur for managing committed and invested capital for the NZ Super Fund.

WHY DO WE INCUR THE COST?

We seek exposure to a wide range of asset classes, geographic markets and strategies which require a diversification of management skills. In some cases, it is not possible to provide specific expertise and economies of scale in-house and we therefore appoint well-aligned external managers who demonstrate the required capabilities. They help drive investment performance and deliver attractive returns on our fund investments.

CURRENT AND PRIOR YEAR COSTS

Management fees* increased by \$11.8 million to \$52.5 million in the current year. Over 2022/23 we increased our investment in asset classes via managed vehicles, which is a more expensive part of our investment portfolio.



PERFORMANCE FEES

\$45.7m

WHAT DO THEY PAY FOR?

Fees paid to external managers for performance (returns) meeting a predetermined benchmark on an investment.

WHY DO WE INCUR THE COST?

This is a form of profit-sharing when returns exceed a predefined percentage hurdle. These fees are only earned by a small number of external managers if they outperform specified benchmarks and can vary considerably year-on-year. When negotiating fees and other terms, we aim to align managers' and our investment goals.

CURRENT AND PRIOR YEAR COSTS

Performance fees decreased by \$86.1 million to \$45.7 million in the current year. High performance fees in the prior year were largely the result of performance in respect of one of our investments.



EMPLOYEE COSTS

\$61.7m

WHAT DO THEY PAY FOR?

Fees paid for salaries, travel costs, training and professional development (reimbursed to the Guardians).

WHY DO WE INCUR THE COST?

To ensure best-practice portfolio management we employ top-tier talent and ensure global access to reach professional development and investment opportunities.

CURRENT AND PRIOR YEAR COSTS

Costs increased by \$7 million to \$61.8 million in the current year. This was due to staff numbers increasing from 189 to 213 as a result of increased investment activity and to be able to support business functions. Remuneration information is reported on pages 122 – 125 (Note 3(b)). This information should be read alongside the explanation of our remuneration framework on pages 98 – 100.

*This does not include manager fees incurred inside investment vehicles. See page 111 for more information.

**INVESTMENT-RELATED COSTS**

—

\$70.6m**WHAT DO THEY PAY FOR?**

These costs relate to transaction expenses (legal, financial and tax advisors, consultants, custodian, trading commissions) and any impairment of investments held at amortised cost.

WHY DO WE INCUR THE COST?

Pursuing complex, large investment opportunities in public and private markets requires us to incur due diligence costs as well as compliance costs required to comply with international regulatory and tax regimes.

CURRENT AND PRIOR YEAR COSTS

Costs increased by \$35.7 million in the current year to \$70.6 million as a result of the impairment (\$32.5 million) of two investments held at amortised cost. Other transaction expenses were consistent year-on-year.

**OTHER COSTS**

—

\$24.9m**WHAT DO THEY PAY FOR?**

These costs relate to technology, data services, lease, equipment and other general expenses (reimbursed to the Guardians).

WHY DO WE INCUR THE COST?

Day-to-day costs to maintain the general infrastructure and business operations.

CURRENT AND PRIOR YEAR COSTS

Costs have increased by \$9 million to \$24.9 million in the current year. The increase reflects better global mobility and the investment we made in technology and our data platform.

Indirect costs

Indirect costs e.g. manager fees incurred by investment vehicles in which the NZ Super Fund holds an interest, are netted off against returns within investment gains and losses.

Indirect investment management costs, specifically manager and performance fees, increased by \$18.4 million to \$60.8 million in the current year. The increase was primarily as a result of higher private equity investments. Performance fees decreased by \$83.8 million to \$42.5 million in the current year. The prior year included fees for one manager who performed markedly stronger than the benchmark in that year.

This additional cost disclosure is based on unaudited information and derived using a variety of methodologies – such as reporting provided by investment managers; additional enquiries made of managers; and our calculations as at the end of the year. In providing this additional information, we seek to provide a full and complete indication of investment management and performance fee costs.

It is important to note that for some of these external asset managers, the pay-out of the current year's fee is capped, with the remainder of the fee being held for possible pay-out in future periods. For those managers, poor performance in the following years might lead to a reduction in the entitlement that is being held.

Income tax

Since inception, the NZ Super Fund has paid \$9.5 billion in tax to the New Zealand Government, making it one of the largest taxpayers in New Zealand. New Zealand tax paid is excluded from the determination of NZ Super Fund's performance as it is considered a return to the Crown.

New Zealand tax is paid on dividends received from New Zealand and most listed Australian equity investments.

New Zealand tax on foreign equities (excluding most listed Australian equity investments) is calculated notionally under New Zealand's 'Fair Dividend Rate' (FDR) regime. A 'deemed dividend' of 5% per annum is taxable while actual dividends received are not subject to tax. As a result, NZ Super Fund's tax rate is very volatile.

Income or losses arising from NZ Super Fund's other investments (e.g. equity derivatives, bonds and cash deposits) are generally subject to 28% New Zealand tax.

NZ Super Fund is also subject to foreign tax depending on the source of its offshore income.

Due to tax losses carried forward from the prior year, New Zealand income tax refunds of \$289 million were received and no income tax was required to be paid in 2022/23. A tax payment of \$190 million was made in July 2023 in respect of the residual tax liability of NZ Super Fund and its subsidiaries for 2022/23 (after utilising available tax losses).

Foreign withholding taxes of \$15.5 million have been paid (excluding underlying taxes paid by NZ Super Fund's investments).

Tax governance

The Guardians has a cooperative compliance agreement with the New Zealand Inland Revenue (IRD).

Under this agreement, tax positions taken by NZ Super Fund on its activities are disclosed to the IRD. This provides us with real-time engagement with the IRD and enhanced certainty around our tax position before the New Zealand tax return is filed.

BALANCE SHEET

NZ Super Fund's balance sheet (or Statement of Financial Position) shows how much the NZ Super Fund is worth at financial year end. While the year-on-year performance of our balance sheet is important, central to our Purpose is how much we grow the size of NZ Super Fund over the longer term.

Since inception, NZ Super Fund has received contributions of \$24.9 billion from the Crown and added a gross value of \$49.3 billion. As a result of this growth, NZ Super Fund has paid a total of \$9.5 billion of tax back to the Crown, resulting in the net value added to the Crown of \$39.8 billion.

Cash and liquidity

Liquidity management is a key and ongoing focus for NZ Super Fund, as it is critical to our operations. With markets showing less volatility around the current yearend, we were able to decrease our cash and cash equivalent holdings.

Investments and fair value

The majority of the assets and liabilities of the NZ Super Fund are measured at fair value. Fair value is defined as the price that one party would be happy to pay, and another party would be happy to accept in a transaction between two parties. The value derived for approximately 82% of assets measured at fair value is obtained from readily observable market data and is priced daily.

For the remaining assets at fair value, where no observable market data is available, a number of other methods are applied to determine fair value. These valuations represent management's best assessment of fair value based on the most up-to-date information available. Further information on the techniques for valuing assets and the fair value hierarchy is outlined on pages 149-155 (refer Note 2(a)).

CONTRIBUTIONS

Crown contributions of \$2.6 billion were received in the current year, with total Crown contributions of \$24.9 billion received since inception. Contributions are received on a monthly basis and are recorded on the balance sheet as contributed capital.



ELEVATE

This section discusses the main financial features of Elevate's financial statements for the 2022/23 financial year.

INCOME STATEMENT

Income

Net operating revenue is the annual revenue generated by Elevate before expenses have been deducted. Similar to the NZ Super Fund, there are two key components to net operating revenue:

1. Investment income – primarily interest; and
2. Investment gains/(losses) – changes in the fair value of Elevate's investments (net of external fund manager costs and foreign exchange gains/(losses) for investments held in foreign currencies).

A number of the Elevate Fund's underlying investments were revalued during the year. This has resulted in net fair value losses of \$21.5 million, compared with net fair value losses of \$3.0 million in the prior year.

Expenses

Total costs for managing Elevate were \$3.1 million in the current year, an increase of \$0.3 million on the prior year. This was primarily due to an increase in manager fees paid to NZGCP.

Income tax

Elevate is required to file an income tax return in New Zealand and is therefore included in the cooperative compliance agreement with the IRD. However, given the investment profile of Elevate and the tax exemption from which Elevate benefits (on gains from New Zealand shares), taxable income is not anticipated.

BALANCE SHEET

Investments

At financial year end, Elevate had made commitments of \$214 million to nine venture capital funds, up from seven in the prior year. Six of these funds are with established managers in the early-stage investment space; the remaining three are first-time fund managers. To date, these funds have called \$102.8 million (excluding prepayments) for capital and management fees, of which \$41.3 million was called in the current year. Net fair value gains of \$16.6 million have been recorded on the underlying investments since inception, resulting in total investments of \$118.9 million at balance date.

CONTRIBUTIONS

Crown capital contributions of \$41.2 million were received in the current year, resulting in total capital contributions of \$121.8 million from the Crown since inception. Requests for capital contributions for the Elevate mandate are received and approved by the Guardians prior to submission to Treasury. Capital contributions from the Crown are recorded in public equity in Elevate's balance sheet.

STATEMENT OF RESPONSIBILITY

For the year ended 30 June 2023

The Board and management of the Guardians of New Zealand Superannuation accept responsibility for the preparation of the annual financial statements and the Statement of Performance of the Guardians of New Zealand Superannuation and Group and the judgements used in them.

The Board and management of the Guardians of New Zealand Superannuation accept responsibility for establishing and maintaining a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of financial and non-financial reporting of the Guardians of New Zealand Superannuation and Group.

In the opinion of the Board and management of the Guardians of New Zealand Superannuation, the annual financial statements and the Statement of Performance for the year ended 30 June 2023 fairly reflect the financial position, operations and cash flows of the Guardians of New Zealand Superannuation and Group.



CATHERINE DRAYTON

CHAIR
28 September 2023

DOUG PEARCE

BOARD MEMBER
28 September 2023

CONSOLIDATED STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

For the year ended 30 June 2023	NOTE	ACTUAL	BUDGET	
			2023	2022
		NZD'000	NZD'000	NZD'000
Revenue	2.a	88,127	71,818	99,685
Expenses	2.b	88,127	71,818	99,685
Surplus/(Deficit) for the year		-	-	-
Other comprehensive revenue and expense		-	-	-
Total comprehensive revenue and expense for the year		-	-	-

The attached notes form part of, and should be read in conjunction with, these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023	NOTE	ACTUAL 2023 NZD'000	BUDGET (UNAUDITED)			
			ACTUAL 2022 NZD'000	2023 NZD'000		
ASSETS						
Current assets						
Cash and cash equivalents	4.b	2,855	2,234	4,487		
Receivables from exchange transactions	4.c	20,056	20,324	17,201		
Receivables from non-exchange transactions	4.c	107	104	-		
Prepayments		1,825	1,168	-		
Total current assets		24,843	23,830	21,688		
Non-current assets						
Receivables from exchange transactions	4.c	1,480	1,429	-		
Total non-current assets		1,480	1,429	-		
Total assets		26,323	25,259	21,688		
LIABILITIES						
Current liabilities						
Payables under exchange transactions	4.d	2,417	1,776	1,634		
Employee entitlements	4.e	21,562	21,213	15,176		
Deferred lease incentive	4.f	86	86	86		
Total current liabilities		24,065	23,075	16,896		
Non-current liabilities						
Employee entitlements	4.e	1,480	1,429	4,122		
Deferred lease incentive	4.f	169	255	170		
Lease make-good provision	4.g	109	-	-		
Total non-current liabilities		1,758	1,684	4,292		
Total liabilities		25,823	24,759	21,188		
Net assets		500	500	500		
PUBLIC EQUITY						
Accumulated comprehensive revenue and expense		-	-	-		
General equity reserve		500	500	500		
Total public equity	4.h	500	500	500		

The attached notes form part of, and should be read in conjunction with, these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN PUBLIC EQUITY

For the year ended 30 June 2023

	ACTUAL		
	GENERAL EQUITY RESERVE NZD'000	ACCUMULATED COMPREHENSIVE REVENUE AND EXPENSE NZD'000	TOTAL NZD'000
Balance at 1 July 2021	500	-	500
Total comprehensive revenue and expense for the year	-	-	-
Balance at 30 June 2022	500	-	500
Total comprehensive revenue and expense for the year	-	-	-
Balance at 30 June 2023	500	-	500

The attached notes form part of, and should be read in conjunction with, these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2023	NOTE	ACTUAL		BUDGET (UNAUDITED)	
		2023	2022	2023	
		NZD'000	NZD'000	NZD'000	
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash was provided from:					
Receipts from the Crown		545	429	728	
Receipts from the NZ Super Fund		87,156	63,695	93,659	
Receipts from the Elevate Fund		500	500	460	
Interest received		229	27	15	
Goods and services tax		-	-	25	
Other receipts		90	103	125	
Total cash inflow from operating activities		88,520	64,754	95,012	
Cash was applied to:					
Payments to Board members		(360)	(385)	(404)	
Payments to suppliers		(28,094)	(18,106)	(33,237)	
Payments to employees		(59,266)	(46,291)	(61,001)	
Goods and services tax		(179)	(94)	-	
Total cash outflow from operating activities		(87,899)	(64,876)	(94,642)	
Net cash flows provided by/(used in) operating activities		621	(122)	370	
Net cash flows provided by investing activities		-	-	-	
Net cash flows provided by financing activities		-	-	-	
Net increase/(decrease) in cash and cash equivalents		621	(122)	370	
Cash and cash equivalents at the beginning of the year		2,234	2,356	4,117	
Cash and cash equivalents at the end of the year	4.b	2,855	2,234	4,487	

The attached notes form part of, and should be read in conjunction with, these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 30 June 2023	ACTUAL 2023 NZD'000	ACTUAL 2022 NZD'000
RECONCILIATION OF SURPLUS/(DEFICIT) FOR THE YEAR TO NET CASH FLOWS PROVIDED BY/(USED IN) OPERATING ACTIVITIES		
Surplus/(Deficit) for the year		
Changes in working capital:		
(Increase)/Decrease in assets:		
Receivables and prepayments	(443)	(7,594)
Increase/(Decrease) in liabilities:		
Payables and employee entitlements	1,041	7,558
Deferred lease incentive	(86)	(86)
Lease make-good provision	109	-
Net cash flows provided by/(used in) operating activities	621	(122)

The attached notes form part of, and should be read in conjunction with, these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2023

SECTION 1: GENERAL INFORMATION, STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES

(a) General information

These are the consolidated financial statements of the Guardians of New Zealand Superannuation (Guardians) and its subsidiaries (Group). The Guardians is a Crown entity as defined by the Crown Entities Act 2004. The Guardians is also a public authority in terms of the Income Tax Act 2007 and therefore is exempt from income tax.

The Guardians is domiciled in New Zealand and the address of its principal place of business is set out in the Corporate Directory on page 229.

The consolidated financial statements of the Group for the year ended 30 June 2023 were authorised for issue in accordance with a resolution of the Board of the Guardians of New Zealand Superannuation on 28 September 2023.

(b) Statement of compliance

The financial statements have been prepared in accordance with the Crown Entities Act 2004 and the Public Finance Act 1989.

The Guardians is a public benefit entity, as the primary purpose is to manage and administer the New Zealand Superannuation Fund (NZ Super Fund) and the Elevate NZ Venture Fund (Elevate Fund). The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with Public Benefit Entity Standards (PBE Standards).

(c) Basis of preparation

The financial statements have been prepared on a historical cost basis.

The financial statements are presented in New Zealand dollars. All values are rounded to the nearest thousand dollars (NZD'000) unless stated otherwise.

Accounting policies are selected and applied in a manner that ensures the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring the substance of the underlying transactions or other events is reported. Accounting policies relating to specific financial statement items are set out in the relevant notes to the financial statements. Accounting policies that materially affect the financial statements as a whole are set out below.

(d) Significant judgements and estimates

The preparation of the Guardians financial statements requires the Board and management to make judgements and use estimates that affect the reported amounts of revenue, expenses, assets, liabilities and the accompanying disclosures. Uncertainty about these judgements and estimates could result in outcomes that require a material adjustment to the carrying amounts of assets and liabilities in future periods. The judgements and estimates used in respect of the Guardians are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Guardians and that are believed to be reasonable under the circumstances. The judgements and estimates that the Board and management have assessed to have the most significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

- Employee entitlements - long service leave (Note 4(e)).

(e) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Guardians and its subsidiaries as at 30 June 2023.

The financial statements of subsidiaries are prepared for the same reporting period as the Guardians using consistent accounting policies. In preparing consolidated financial statements, all inter-entity transactions, balances, unrealised gains and losses are eliminated.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2023

SECTION 1: GENERAL INFORMATION, STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(f) Subsidiaries**

Subsidiaries are those entities that are controlled by the Guardians under the provisions of PBE IPSAS 35 Consolidated Financial Statements. The Guardians controls an entity when it is exposed to, or has rights to, variable benefits from its involvement with the entity and has the ability to affect the nature or amount of those benefits through its power over the entity. The Guardians control of an entity is reassessed if facts and circumstances indicate that there are changes to one or more of the elements of control.

The Guardians has interests in the following subsidiaries:

NAME	NOTE	BALANCE DATE	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST	
				2023 %	2022 %
New Zealand Superannuation Fund Nominees Limited	(i)	30 June	New Zealand	100.0	100.0
NZSF Private Equity Investments (No 1) Limited	(i)	30 June	New Zealand	100.0	100.0

- (i) The principal activity of each subsidiary is to act as a nominee company, holding assets and liabilities on behalf of the NZ Super Fund. These assets and liabilities are recognised in the financial statements of the NZ Super Fund and accordingly are not presented in these financial statements. Nominee companies may only act on the direction of the Guardians.

(g) Foreign currency translation**FUNCTIONAL AND PRESENTATION CURRENCY**

Items included in the financial statements of the Guardians are measured using the currency of the primary economic environment in which the Guardians operates (the functional currency). The functional currency of the Guardians is New Zealand dollars. It is also the presentation currency.

TRANSACTIONS AND BALANCES

Transactions denominated in foreign currencies are converted to New Zealand dollars using the exchange rates prevailing at the dates of the transactions. Foreign currency monetary assets and liabilities are translated at the exchange rate prevailing at balance date. Where there is a movement in the exchange rate between the date of a foreign currency transaction and balance date, the resulting exchange differences are recognised in the Consolidated Statement of Comprehensive Revenue and Expense.

(h) Goods and services tax (GST)

Revenue, expenses, assets and liabilities are recognised in the financial statements exclusive of GST, with the exception of receivables and payables which are stated inclusive of GST. Where GST is irrecoverable as an input tax, it is recognised as part of the related asset or expense. The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the Consolidated Statement of Financial Position.

(i) Statement of Cash Flows

The following are the definitions of the terms used in the Consolidated Statement of Cash Flows:

Operating activities include all activities other than investing or financing activities. Cash inflows include all receipts from the sale of goods and services, interest and other sources of revenue that support the Group's operating activities. Cash outflows include payments made to employees, suppliers and for taxes and levies, other than income tax.

Investing activities are those activities relating to the acquisition, holding and disposal of current and non-current investments and other non-current assets.

Financing activities are those activities relating to changes in public equity and debt capital structure of the Group and those activities relating to the cost of servicing the Group's public equity.

Cash flows are included in the Consolidated Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the IRD, is classified as cash flows from operating activities.

(j) Changes in accounting policies

There have been no changes in accounting policies during the year. All accounting policies are consistent with those applied in the previous financial year.

Certain prior year comparatives have been restated to conform with current year presentation. These classifications have no impact on the overall financial performance, financial position or cash flows of the Guardians for the comparable year.

(k) New and amended standards adopted

The Guardians has adopted PBE IPSAS 41 Financial Instruments and PBE FRS 48 Service Performance Reporting for the first time in these financial statements. The nature and effect of the changes as a result of the adoption of these new standards are described below.

PBE IPSAS 41 FINANCIAL INSTRUMENTS

PBE IPSAS 41 Financial Instruments introduces requirements for the recognition and measurement of financial instruments by Tier 1 and Tier 2 public benefit entities. It supersedes PBE IFRS 9 Financial Instruments and is effective for reporting periods beginning on or after 1 January 2022. The adoption of PBE IPSAS 41 Financial Instruments has not resulted in any changes to these financial statements as the requirements are similar to those contained in PBE IFRS 9 Financial Instruments.

PBE FRS 48 SERVICE PERFORMANCE REPORTING

PBE FRS 48 Service Performance Reporting introduces requirements for public benefit entities to select and present service performance information. It replaces the service performance reporting requirements of PBE IPSAS 1 Presentation of Financial Statements and is effective for reporting periods beginning on or after 1 January 2022. The adoption of PBE FRS 48 Service Performance Reporting has resulted in additional disclosures in the Guardians Statement of Performance.

(l) Budget figures

The budget was approved by the Board of the Guardians of New Zealand Superannuation for the year ended 30 June 2023. The budget figures are unaudited.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2023

SECTION 2: FINANCIAL PERFORMANCE**(a) Revenue**

	NOTE	ACTUAL 2023 NZD'000	ACTUAL 2022 NZD'000
Revenue from exchange transactions			
Cost reimbursement from the NZ Super Fund	3.a	86,760	70,725
Cost reimbursement from the Elevate Fund	3.a	500	500
Other revenue		90	90
Interest income - financial assets at amortised cost		229	27
		87,579	71,342
Revenue from non-exchange transactions			
Appropriations from the Crown	3.a	548	476
		548	476
Total revenue		88,127	71,818

Accounting Policy

The Guardians primarily derives revenue through the provision of services to the Crown, the NZ Super Fund and the Elevate Fund. Revenue is recognised when it is probable that economic benefits will flow to the Guardians and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

REVENUE FROM EXCHANGE TRANSACTIONS

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Rendering of services

Cost reimbursement from the NZ Super Fund and the Elevate Fund is recognised by reference to the stage of completion of services provided at balance date when the transaction involving the rendering of services can be reliably estimated. The stage of completion is measured by the proportion of costs incurred to date compared with estimated total costs of the transaction.

Interest income

Interest income is recognised as the interest accrues, using the effective interest method. The effective interest method allocates interest at a constant rate of return over the expected life of the financial instrument based on the estimated future cash flows.

REVENUE FROM NON-EXCHANGE TRANSACTIONS

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Appropriations from the Crown

Revenue is recognised from the Crown when it is probable that appropriations will be received, the value of those appropriations can be reliably measured and the transfer is free from conditions that require the assets to be refunded or returned to the Crown if the conditions are not fulfilled. To the extent there is a related condition attached to the appropriations that would give rise to a liability to repay the appropriate amount, deferred revenue is recognised instead of revenue. In such situations, revenue is then recognised as the conditions are satisfied.

(b) Expenses

	NOTE	ACTUAL 2023	ACTUAL 2022
		NZD'000	NZD'000
Employee entitlements and other employment-related expenses			
Employee benefits (including salaries, annual leave and long service leave) and other employment-related expenses		41,867	36,581
Employee incentive scheme		15,895	14,492
Employer contributions to KiwiSaver		4,009	3,674
		61,771	54,747
Other expenses			
Travel and accommodation expenses		2,581	398
IT expenses		14,846	9,631
Operating lease expenses		1,719	1,662
Professional fees		2,360	1,447
Board members' fees	3.a	360	385
Auditor's remuneration	2.c	68	64
Other expenses		4,422	3,484
		26,356	17,071
Total expenses		88,127	71,818

Further disclosures on employee entitlements are contained in Note 4(e).

Accounting Policy**OPERATING LEASES**

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is (or contains) a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. Leases in which the lessor retains substantially all the risks and benefits of ownership of an asset are classified as operating leases. Operating lease expenses are recognised on a straight-line basis over the period of the lease.

Operating lease expenses relate to office premises in one location with a remaining term of 3 years. The Group does not have an option to purchase the leased asset at the expiry of the lease period. Non-cancellable lease commitments payable in relation to leased assets have been disclosed in Note 6(a).

(c) Auditor's remuneration

	ACTUAL 2023	ACTUAL 2022
	NZD'000	NZD'000
Audit of the Guardians financial statements		
Audit of the Guardians financial statements	68	64
	68	64

The auditor of the Group is Emma Winsloe of Ernst & Young, on behalf of the Auditor-General.

The financial statements of the Group's subsidiaries are not separately audited following the July 2013 amendments to the Crown Entities Act 2004 which include removal of the requirement for subsidiaries to prepare and have financial statements audited.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2023

SECTION 3: RELATED PARTY TRANSACTIONS AND EMPLOYEE REMUNERATION**(a) Related party transactions**

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions. All related party transactions with other government-related entities have been entered into on an arm's length basis.

Outstanding amounts with related parties at balance date are unsecured and subordinate to other liabilities. Interest is not charged on outstanding balances. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 30 June 2023, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2022: \$nil).

PARENT ENTITY

The parent entity in the Group is the Guardians which is a wholly owned entity of the Crown. Crown appropriations for the year ended 30 June 2023 were \$548,000 (2022: \$476,000). The related party receivable from the Crown as at 30 June 2023 is \$107,000 (2022: \$104,000).

SUBSIDIARIES

Details of the Guardians interests in subsidiaries are disclosed in Note 1(f). There were no related party transactions with these entities during the year.

OTHER RELATED PARTIES

The Guardians pays expenses relating to the NZ Super Fund, as it is required to do under the New Zealand Superannuation and Retirement Income Act 2001 (Act). A portion of these expenses is reimbursed by the NZ Super Fund as is entitled under the Act. The amount of reimbursement from the NZ Super Fund for the year ended 30 June 2023 was \$86,760,000 (2022: \$70,725,000). The related party receivable from the NZ Super Fund as at 30 June 2023 is \$20,831,000 (2022: \$21,227,000).

The Guardians also pays expenses relating to the Elevate Fund, as it is entitled to do under the Venture Capital Fund Act 2019. These expenses are reimbursed by the Elevate Fund. The amount of reimbursement from the Elevate Fund for the year ended 30 June 2023 was \$500,000 (2022: \$500,000). The related party receivable from the Elevate Fund as at 30 June 2023 is \$nil (2022: \$nil).

In addition to the above, the Guardians purchases services from Datacom Employer Services Limited and Datacom Systems Limited, which are subsidiaries of a joint venture owned by the NZ Super Fund. These purchases totalled \$2,929,000 for the year ended 30 June 2023 (2022: \$2,287,000). The related party payable to these entities as at 30 June 2023 is \$359,000 (2022: \$251,000).

OTHER GOVERNMENT-RELATED ENTITIES

In conducting its activities, the Group is required to pay various taxes and levies (such as GST, Fringe Benefit Tax (FBT), Pay As You Earn (PAYE), and ACC levies) to the Crown and entities related to the Crown. The payment of these taxes and levies, other than income tax, is based on the standard terms and conditions that apply to all tax and levy payers. The Group is exempt from paying income tax.

The Group has entered into a number of other transactions with other government-related entities. These transactions have not been separately disclosed as they occur within normal supplier/recipient relationships and are undertaken on terms and conditions equivalent to those that prevail in arm's length transactions.

KEY MANAGEMENT PERSONNEL

Key management personnel of the Guardians comprise members of the Board and the Leadership Team. The Leadership Team comprises 8 employees (2022: 8 employees).

The compensation of the Board and the Leadership Team is set out below:

	ACTUAL 2023 NZD'000	ACTUAL 2022 NZD'000
Leadership team		
Employee benefits (including salaries, annual leave and long service leave)	4,303	3,872
Employee incentive scheme	2,461	2,691
	6,764	6,563

Board members' fees

Board members earned the following fees during the year:

C Drayton (Chair)	98	98
H Berkman	49	49
S Botherway (retired 30 September 2021)	-	12
K Mactaggart (resigned 28 February 2022)	-	32
D McClatchy (appointed 1 October 2021)	49	37
F Oliver (appointed 24 March 2023)	13	-
D Pearce (Audit Committee Chair)	54	54
R Vilgan (resigned 15 May 2023)	43	49
J Williamson (Employee Policy and Remuneration Committee Chair)	54	54
	360	385

Board remuneration is set by the Minister of Finance in accordance with the Fees Framework for the Members of Statutory and Other Bodies Appointed by the Crown. The Minister of Finance has set the annual base fees for all Board members at \$49,000, plus additional annual amounts for the Chair (a further \$49,000), Deputy Chair (a further \$12,250) and Chairs of the Audit and Employee Policy and Remuneration Committees (a further \$4,900).

Board members' and employees' indemnity and insurance

The Guardians has indemnified Board members and certain employees (and former employees) who have been appointed as directors, nominated by the Guardians, or as other officers of entities in which the Guardians has invested. These indemnities are given, to the maximum extent permitted by the Crown Entities Act 2004, in respect of any liability connected with acts or omissions carried out as a consequence of the role. Each indemnified person is also indemnified in respect of costs incurred by that person in defending or settling any claim or proceeding.

The Guardians has effected Directors and Officers Liability insurance cover in respect of the liability or costs of Board members, employees and external director appointees.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2023

SECTION 3: RELATED PARTY TRANSACTIONS AND EMPLOYEE REMUNERATION (CONTINUED)**(b) Employees' remuneration over \$100,000 per annum**

For a full discussion of the Guardians remuneration framework, please refer to page 98 of the Annual Report.

Base remuneration in the following table consists of an employee's gross base salary payable in relation to the current financial year, including KiwiSaver contributions made by the Guardians. Total remuneration comprises an employee's base remuneration and the proportion of their incentive entitlement that will be paid out after balance date, including KiwiSaver contributions on that incentive entitlement. The Guardians matches employee contributions up to 8%.

The employee incentive has both individual performance and financial performance targets of the NZ Super Fund. The financial performance component is based on the preceding four years of returns against thresholds and benchmarks.

TOTAL REMUNERATION AND BENEFITS

BASE REMUNERATION RANGE	ACTUAL					
	NUMBER OF EMPLOYEES	NUMBER OF EMPLOYEES	TOTAL REMUNERATION RANGE	NUMBER OF EMPLOYEES		NUMBER OF EMPLOYEES
				NZD'000	2023	2022
100 - 110	12	14	100 - 110	3		6
110 - 120	11	10	110 - 120	7		9
120 - 130	4	11	120 - 130	5		10
130 - 140	12	8	130 - 140	11		6
140 - 150	11	11	140 - 150	4		9
150 - 160	6	8	150 - 160	1		8
160 - 170	10	5	160 - 170	5		6
170 - 180	9	4	170 - 180	8		8
180 - 190	6	4	180 - 190	14		6
190 - 200	8	6	190 - 200	8		6
200 - 210	10	8	200 - 210	10		3
210 - 220	7	5	210 - 220	8		2
220 - 230	3	8	220 - 230	6		4
230 - 240	6	4	230 - 240	3		2
240 - 250	6	9	240 - 250	5		6
250 - 260	7	5	250 - 260	5		3
260 - 270	5	5	260 - 270	2		2
270 - 280	7	5	270 - 280	3		4
280 - 290	2	2	280 - 290	2		1
290 - 300	5	4	290 - 300	3		3
300 - 310	2	2	300 - 310	4		8
310 - 320	3	3	310 - 320	3		1
320 - 330	-	4	320 - 330	4		5
330 - 340	-	-	330 - 340	5		2
340 - 350	-	1	340 - 350	6		6
350 - 360	2	3	350 - 360	2		3
360 - 370	2	-	360 - 370	1		2
370 - 380	3	2	370 - 380	4		1
380 - 390	1	-	380 - 390	3		1
390 - 400	-	1	390 - 400	3		2
400 - 410	1	-	400 - 410	2		2
410 - 420	-	1	410 - 420	1		1
420 - 430	1	-	420 - 430	1		2
430 - 440	-	2	430 - 440	3		2

ACTUAL

REMUNERATION RANGE	BASE NZD'000	NUMBER OF EMPLOYEES		TOTAL REMUNERATION RANGE	NUMBER OF EMPLOYEES	
		2023	2022		2023	2022
440 - 450	-	1	440 - 450	3	1	
450 - 460	-	-	450 - 460	1	1	
460 - 470	1	-	460 - 470	3	4	
470 - 480	1	1	470 - 480	-	4	
480 - 490	1	-	480 - 490	1	2	
490 - 500	-	-	490 - 500	2	1	
500 - 510	1	1	500 - 510	2	-	
510 - 520	1	-	510 - 520	1	1	
520 - 530	-	-	520 - 530	-	1	
530 - 540	2	-	530 - 540	-	-	
540 - 550	-	-	540 - 550	-	2	
560 - 570	-	-	560 - 570	3	2	
570 - 580	-	-	570 - 580	1	1	
580 - 590	-	1	580 - 590	-	1	
590 - 600	-	-	590 - 600	1	-	
600 - 610	-	-	600 - 610	-	1	
620 - 630	-	-	620 - 630	-	1	
630 - 640	1	-	630 - 640	1	-	
660 - 670	-	-	660 - 670	-	1	
670 - 680	-	-	670 - 680	-	1	
680 - 690	-	-	680 - 690	1	-	
690 - 700	-	1	690 - 700	-	-	
700 - 710	-	-	700 - 710	-	1	
720 - 730	-	-	720 - 730	1	1	
730 - 740	-	-	730 - 740	1	-	
740 - 750	1	-	740 - 750	-	-	
760 - 770	-	-	760 - 770	1	-	
780 - 790	-	-	780 - 790	-	1	
790 - 800	-	-	790 - 800	1	-	
800 - 810	-	1	800 - 810	-	1	
810 - 820	-	-	810 - 820	1	-	
840 - 850	-	-	840 - 850	2	1	
870 - 880	1	-	870 - 880	-	-	
880 - 890	-	-	880 - 890	-	1	
990 - 1,000	-	-	990 - 1,000	1	-	
1,040 - 1,050	-	-	1,040 - 1,050	-	1	
1,160 - 1,170	-	-	1,130 - 1,140	1	-	
1,230 - 1,240	-	-	1,230 - 1,240	-	1	
1,370 - 1,380	-	-	1,370 - 1,380	1	-	
1,400 - 1,410	-	-	1,400 - 1,410	-	1	
	172	161		185	176	

There were no redundancy payments during the year ended 30 June 2023 (2022: one payment in respect of one individual, totalling \$61,153).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2023

SECTION 4: FINANCIAL POSITION**(a) Financial instruments**

2023	NOTE	ACTUAL		
		FINANCIAL ASSETS AT AMORTISED COST	FINANCIAL LIABILITIES AT AMORTISED COST	TOTAL
		NZD'000	NZD'000	NZD'000
Financial assets				
Cash and cash equivalents	4.b	2,855		2,855
Receivables from exchange transactions (excluding GST receivable)	4.c	19,354		19,354
Receivables from non-exchange transactions	4.c	107		107
		22,316	-	22,316
Financial liabilities				
Payables under exchange transactions	4.d		2,417	2,417
		-	2,417	2,417
2022				
Financial assets				
Cash and cash equivalents	4.b	2,234		2,234
Receivables from exchange transactions (excluding GST receivable)	4.c	19,801		19,801
Receivables from non-exchange transactions	4.c	104		104
		22,139	-	22,139
Financial liabilities				
Payables under exchange transactions	4.d		1,776	1,776
		-	1,776	1,776

Accounting Policy

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The Group is party to financial instruments as part of its normal operations. These financial instruments include cash and cash equivalents, receivables and payables. All financial instruments are recognised in the Consolidated Statement of Financial Position and all revenues and expenses in relation to financial instruments are recognised in the Consolidated Statement of Comprehensive Revenue and Expense.

INITIAL RECOGNITION

Financial assets and financial liabilities are recognised in the Consolidated Statement of Financial Position when the Group becomes a party to the contractual provisions of the financial instrument. They are initially recognised at fair value plus transaction costs that are attributable to the acquisition of the financial asset or financial liability.

The classification of financial instruments at initial recognition depends on the Group's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. In making an assessment of the business model for managing a financial asset, the Board and management consider all relevant information.

SUBSEQUENT MEASUREMENT

The Group's financial assets and financial liabilities are subsequently classified into the following categories:

Financial assets at amortised cost

The Group's financial assets are classified at amortised cost if both of the following criteria are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows; and

- The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest.

This category includes cash and cash equivalents and receivables. Subsequent to initial recognition, financial assets at amortised cost are measured at amortised cost using the effective interest method and are subject to impairment. When a financial asset is impaired, impairment losses are recognised in the Consolidated Statement of Comprehensive Revenue and Expense in the period in which they arise.

The Group's financial assets are reclassified when, and only when, the business model for managing those financial assets changes.

Financial liabilities at amortised cost

Financial liabilities at amortised cost are non-derivative financial liabilities. This category includes trade payables and accrued expenses. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

DERECOGNITION

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or when the Group has transferred substantially all of the risks and rewards of ownership. A financial liability is derecognised when the Group's obligation under the liability is discharged, cancelled or has expired.

IMPAIRMENT

The Board and management assess, at each reporting date, whether a financial asset is impaired. The amount of the impairment loss is the difference between the contractual cash flows due in relation to the financial asset and the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate.

Financial assets that are measured at amortised cost and therefore subject to the impairment provisions (the 'expected credit loss model') of PBE IPSAS 41 Financial Instruments comprise cash and cash equivalents and receivables.

The risk of impairment loss for cash and cash equivalents is considered immaterial. Disclosures relating to the impairment of receivables are provided in Note 4(c).

OFFSETTING OF FINANCIAL INSTRUMENTS

The Group offsets financial assets and financial liabilities when it has a current legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis.

(b) Cash and cash equivalents

Accounting Policy

Cash and cash equivalents includes cash on hand, cash held in bank accounts, demand deposits and other highly liquid investments with an original maturity of three months or less.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2023

SECTION 4: FINANCIAL POSITION (CONTINUED)**(c) Receivables**

	NOTE	ACTUAL 2023	ACTUAL 2022
		NZD'000	NZD'000
Current assets			
Receivables from exchange transactions			
Receivable for reimbursement of the Guardians expenses from the NZ Super Fund	3.a	19,351	19,798
Trade receivables		3	3
GST receivable		702	523
		20,056	20,324
Receivables from non-exchange transactions			
Receivable for Crown appropriations	3.a	107	104
		107	104
Non-current assets			
Receivables from exchange transactions			
Receivable for reimbursement of the Guardians expenses from the NZ Super Fund	3.a	1,480	1,429
		1,480	1,429

Accounting Policy

Receivables are initially recognised at fair value which is equal to the amount of consideration that is unconditional. The Group holds receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost less impairment losses using the effective interest method.

The Board and management have applied a simplified approach for calculating expected credit losses (ECLs) on receivables under PBE IPSAS 41 Financial Instruments. As a result, the Board and management do not track changes in credit risk, but instead, recognise impairment losses based on lifetime ECLs at each reporting date. The Group's approach to ECLs reflects a probability-weighted outcome using reasonable and supportable information that is available without undue cost or effort at reporting date about past events, current conditions and forecasts of future economic conditions.

Trade receivables are non-interest bearing and have standard 30-day credit terms. The Group does not have a history of default on trade receivables and the Board and management consider the probability of default in the future to be very low as the counterparties have a strong capacity to meet their contractual obligations in the short term. Accordingly, no allowance has been made for impairment.

(d) Payables

	ACTUAL 2023 NZD'000	ACTUAL 2022 NZD'000
Payables under exchange transactions		
Trade payables	1,890	1,390
Accrued expenses	527	386
	2,417	1,776

Accounting Policy

Short-term trade and other payables are initially recognised at fair value, then subsequently at amortised cost.

Trade and other payables represent amounts due to third parties in the normal course of business. They are non-interest bearing and are normally settled within 30-day credit terms. The Group has risk management policies in place to ensure that all payables are paid within the credit time frame.

(e) Employee entitlements

	ACTUAL 2023 NZD'000	ACTUAL 2022 NZD'000
Current liabilities		
Accrued salaries (including annual leave and long service leave) - key management personnel	704	446
Accrued salaries (including annual leave and long service leave) - other employees	3,759	3,316
Incentives - key management personnel	2,658	2,906
Incentives - other employees	14,441	14,545
	21,562	21,213
Non-current liabilities		
Long service leave - key management personnel	226	253
Long service leave - other employees	1,254	1,176
	1,480	1,429

Accounting Policy

Liabilities for salaries, annual leave, long service leave and incentives are recognised in the Consolidated Statement of Comprehensive Revenue and Expense during the period in which the employee rendered the related service, when it is probable that settlement will be required and such employee entitlements are capable of being measured reliably.

Employee entitlements that are due to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Employee entitlements that are not due to be settled within 12 months are measured at the present value of the estimated future cash outflows. The estimated future cash flows are based on likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement, and contractual entitlement information.

LONG SERVICE LEAVE

Employees become eligible for long service leave after five years of service.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2023

SECTION 4: FINANCIAL POSITION (CONTINUED)**Key judgement - long service leave**

The key assumptions used in calculating the long service leave liability include the discount rate, the likelihood that the employee will reach the required level of service and the salary inflation factor. Any changes in these assumptions will affect the carrying amount of the liability. Expected future payments are discounted using forward rates derived from the yield curve of New Zealand government bonds. The discount rates used have maturities that match, as closely as possible, the estimated future cash outflows. The likelihood of employees reaching the required level of service has been determined after considering historical staff retention rates. The salary inflation factor has been determined after considering historical salary inflation patterns.

INCENTIVES

The Guardians has an incentive scheme in place for all employees. The scheme has two components: achievement of individual performance criteria over the past financial year; and financial performance of the NZ Super Fund relative to investment benchmarks over the preceding four years. Incentives are calculated and paid annually in arrears.

(f) Deferred lease incentive

The deferred lease incentive relates to the lease of office premises. The lease incentive is recognised as a reduction of rental expense on a straight-line basis over the period of the lease. The remaining term is 3 years.

(g) Lease make-good provision

	ACTUAL 2023	ACTUAL 2022
	NZD'000	NZD'000
Opening balance	-	-
New provision during the year	109	-
Closing balance	109	-

Accounting Policy

A provision is recognised in the Consolidated Statement of Financial Position when the Group has a present obligation arising as a result of a past event, it is probable that cash will be paid to settle the obligation and the amount can be estimated reliably. The amount recognised as a provision is the best estimate of the consideration to settle the obligation at balance date, taking into consideration the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Where some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

A lease make-good provision has been recognised by the Group in respect of the lease of office premises at 21 Queen Street, Auckland for reinstatement and make good obligations as required under the lease agreement upon termination or expiry of the lease. The amount of the provision represents the Board and management's best estimate of the cost to reinstate the premises to the condition required under the lease agreement.

(h) Public equity

Equity is the Crown's interest in the Group and is measured as the difference between total assets and total liabilities.

As a public benefit entity that is fully funded by Crown appropriations (for budgeted Board and audit costs) and by NZ Super Fund and Elevate Fund reimbursements (for all other operating costs), the Group has no specific liquidity policies, procedures or targets. Operating budgets are set on an annual basis, with an emphasis upon cost control. The Group is not permitted to borrow and ensures a positive cash position at all times through collection of appropriations and reimbursements.

SECTION 5: RISK MANAGEMENT

(a) Risk management

Through its activities, the Group is exposed to various types of risk including market risk, credit risk and liquidity risk. These risks are not considered significant because the Group does not hold significant financial assets or financial liabilities and it is fully funded by Crown appropriations and NZ Super Fund and Elevate Fund reimbursements.

The Board and management of the Guardians are responsible for the management of risk. A separate Risk Committee has been established to provide leadership on the effectiveness of frameworks and processes at the Guardians.

The Guardians has established risk management policies, procedures and other internal controls to manage the Group's exposure to risk. The framework for managing this risk is set out in its Statement of Investment Policies, Standards and Procedures including its Risk Management Policy.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices. The market risk that the Group is primarily exposed to is interest rate risk.

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market interest rates. The Group's exposure to interest rate risk is limited to movements in New Zealand short-term interest rates in relation to its cash and cash equivalents which are held in short-term floating interest rate accounts. The Board and management ensure the Group receives a fair market return on its cash position but it does not actively monitor exposure to interest rates or interest rate returns.

(c) Credit risk

Credit risk is the risk that a third party will default on its obligation to the Group, causing the Group to incur a loss. The Group is exposed to credit risk arising from its cash and cash equivalents and receivables. The maximum amount of credit risk for each class of financial asset is the carrying amount included in the Consolidated Statement of Financial Position.

The Board and management mitigate the Group's exposure to credit risk by investing cash and cash equivalents with reputable financial institutions with a high credit rating. There is no collateral held as security against its financial instruments.

CONCENTRATIONS OF CREDIT RISK

Cash and cash equivalents is primarily held with Westpac New Zealand Limited which has a credit rating of AA-, obtained from Standard & Poor's as at 30 June 2023 (2022: AA-).

(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities as they fall due. The Group's liquidity framework is designed to ensure that the Group has the ability to generate sufficient cash in a timely manner to meet its financial commitments.

The Board and management mitigate the Group's exposure to liquidity risk by monitoring forecast and actual cash flow requirements and by maintaining a positive cash position from the recovery of all of its expenses from the Crown or the NZ Super Fund or the Elevate Fund.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2023

SECTION 6: UNRECOGNISED ITEMS**(a) Commitments and contingencies****OPERATING LEASE COMMITMENTS**

The base future minimum amounts payable under non-cancellable operating leases are as follows:

	ACTUAL 2023 NZD'000	ACTUAL 2022 NZD'000
Less than 1 year	1,901	1,830
1 to 2 years	1,939	1,866
2 to 5 years	11,396	3,743
Later than 5 years	33,605	-
	48,841	7,439

Operating lease commitments relate to two leases for office premises in two locations. One lease is for office premises at 21 Queen Street, Auckland with a remaining term of 3 years. The other lease is for new office premises for which the Guardians has entered into an agreement to lease for an initial term of 10 years with a commencement date of 2 January 2026. The Guardians has a right of renewal under this lease agreement but does not have an option to purchase the leased asset at the expiry of the lease period.

CONTINGENCIES

The Guardians has no contingent liabilities as at 30 June 2023 (2022: \$nil).

(b) Events after the reporting date

There were no reportable events subsequent to balance date.

(c) Comparison to budget (unaudited)

	ACTUAL	BUDGET (UNAUDITED)	FAVOURABLE/ (UNFAVOURABLE) VARIANCE
	2023 NZD'000	2023 NZD'000	2023
Consolidated Statement of Comprehensive Revenue and Expense: total expenses incurred*	88,127	99,685	11,558
Consolidated Statement of Changes in Public Equity	500	500	-
Consolidated Statement of Financial Position	500	500	-

* Total expenses were lower than budget predominantly due to lower employee costs and IT expenses. This was due to recruitment activity being slower than was envisaged in the budget and a delay in IT projects.



Independent Auditor's Report

TO THE READERS OF GUARDIANS OF NEW ZEALAND SUPERANNUATION'S GROUP FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION

FOR THE YEAR ENDED 30 JUNE 2023

The Auditor-General is the auditor of the Guardians of New Zealand Superannuation and its subsidiaries (the Group). The Auditor-General has appointed me, Emma Winsloe, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements and the performance information, including the performance information for appropriations, of the Group on his behalf.

OPINION

We have audited:

- the financial statements of the Group on pages 112 to 132, that comprise the consolidated statement of financial position as at 30 June 2023, the consolidated statement of comprehensive revenue and expenses, consolidated statement of changes in public equity and consolidated statement of cash flows for the year ended on that date and the notes to the financial statements including a summary of significant accounting policies and other explanatory information; and
- the performance information which reports against the Group's statement of performance expectations and appropriations for the year ended 30 June 2023 on pages 16 to 24.

In our opinion:

- the financial statements of the Group:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2023; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards; and
- the Group's performance information for the year ended 30 June 2023:
 - presents fairly, in all material respects, for each class of reportable outputs:
 - its standards of delivery performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and
 - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year; and
 - presents fairly, in all material respects, for the appropriations:
 - what has been achieved with the appropriation; and
 - the actual expenses or capital expenditure incurred as compared with the expenses or capital expenditure appropriated or forecast to be incurred; and
 - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 28 September 2023. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

BASIS FOR OUR OPINION

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

RESPONSIBILITIES OF THE BOARD FOR THE FINANCIAL STATEMENTS AND THE PERFORMANCE INFORMATION

The Board is responsible on behalf of the Group for preparing financial statements and performance information that are fairly presented and comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards. The Board is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board is responsible on behalf of the Group for assessing the Group's ability to continue as a going concern. The Board is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of the Group, or there is no realistic alternative but to do so.

The Board's responsibilities arise from the Public Finance Act 1989 and the Crown Entities Act 2004.

RESPONSIBILITIES OF THE AUDITOR FOR THE AUDIT OF THE FINANCIAL STATEMENTS AND THE PERFORMANCE INFORMATION

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the performance information.

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to the Group's statement of performance expectations.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board.
- We evaluate the appropriateness of the reported performance information which reports against the Group's statement of performance expectations and appropriations.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements and the performance information of the entities or business activities within the Group to express an opinion on the consolidated financial statements and the consolidated performance information. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

OTHER INFORMATION

The Board is responsible for the other information. The other information comprises the information included on pages 1 to 15, 25 to 111 and 136 to 229, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon other than in relation to New Zealand Superannuation Fund's financial statements on pages 137 to 189 and Elevate NZ Venture Fund's financial statements on pages 193 to 216.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENCE

We are independent of the Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) (PES 1)* issued by the New Zealand Auditing and Assurance Standards Board.

In addition to the audit of the Group, the Board engages us to perform the audit and other assurance engagements in relation to New Zealand Superannuation Fund and Elevate NZ Venture Fund, which are compatible with those independence requirements. Other than the audit and these engagements, we have no relationship with or interests in the Group.



Emma Winsloe
Ernst & Young
On behalf of the Auditor-General
Auckland, New Zealand

STATEMENT OF RESPONSIBILITY

For the year ended 30 June 2023

The Board and management of the Guardians of New Zealand Superannuation accept responsibility for the preparation of the annual financial statements of the New Zealand Superannuation Fund and the judgements used in them.

The Board and management of the Guardians of New Zealand Superannuation accept responsibility for establishing and maintaining a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of financial and non-financial reporting of the New Zealand Superannuation Fund.

In the opinion of the Board and management of the Guardians of New Zealand Superannuation, the annual financial statements for the year ended 30 June 2023 fairly reflect the financial position, operations and cash flows of the New Zealand Superannuation Fund.

**CATHERINE DRAYTON**CHAIR
28 September 2023**MATTHEW WHINERAY**CHIEF EXECUTIVE OFFICER
28 September 2023

STATEMENT OF FINANCIAL POSITION

As at 30 June 2023	NOTE	ACTUAL		BUDGET (UNAUDITED)
		2023	2022	2023
		NZD'000	NZD'000	NZD'000
ASSETS				
Cash and cash equivalents	4.a, 4.b	1,858,270	2,370,257	1,568,671
Cash pledged as collateral	4.a, 4.c	580,326	1,207,798	948,539
Trade and other receivables	4.a, 4.d	481,646	3,142,865	1,665,352
Investments				
Investments - derivative financial instrument assets	2.a, 4.a, 4.e	1,857,777	1,297,646	-
Investments - other financial assets	2.a, 4.a	55,884,314	50,678,565	56,544,039
Investments in unconsolidated subsidiaries	2.a, 4.a	7,316,854	6,547,276	6,394,893
		65,058,945	58,523,487	62,938,932
Income tax receivable		-	272,916	-
Deferred tax asset	7.e	-	749,766	-
Property, plant and equipment		1,511	1,741	2,491
Intangible assets	2.a	31,697	57,700	51,781
Total assets		68,012,395	66,326,530	67,175,766
LIABILITIES				
Cash collateral received	4.a, 4.c	936,291	1,034,402	972,392
Trade and other payables	4.a, 4.h	829,425	4,977,683	80,128
Investments - derivative financial instrument liabilities	2.a, 4.a, 4.e	1,324,313	4,004,410	-
Income tax payable		138,459	-	223,377
Provision for performance-based fees	5.a	61,050	99,573	31,666
Deferred tax liability	7.e	49,566	-	59,161
Total liabilities		3,339,104	10,116,068	1,366,724
Net assets		64,673,291	56,210,462	65,809,042
PUBLIC EQUITY				
Retained surplus		39,706,765	33,775,933	41,396,434
Asset revaluation reserve	6.b	26,447	52,450	46,528
Contributed capital	6.a	24,940,079	22,382,079	24,366,080
Total public equity		64,673,291	56,210,462	65,809,042

The attached notes form part of, and should be read in conjunction with, these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2023	NOTE	ACTUAL 2023 NZD'000	ACTUAL 2022 NZD'000	BUDGET (UNAUDITED)
				2023 NZD'000
Net operating income/(loss)	7.a	7,112,282	(4,078,842)	4,898,304
Operating expenditure	7.c	255,407	278,086	200,107
Profit/(loss) for the year before income tax expense		6,856,875	(4,356,928)	4,698,197
Income tax expense/(income)	7.e	926,043	(758,046)	1,127,597
Profit/(loss) for the year after income tax expense		5,930,832	(3,598,882)	3,570,600
Other comprehensive income - not reclassifiable to profit or loss in subsequent periods				
Gains/(losses) on revaluation of assets		(26,003)	24,749	-
Tax expense on items of other comprehensive income	7.e	-	-	-
Other comprehensive income for the year, net of tax		(26,003)	24,749	-
Total comprehensive income/(loss) for the year		5,904,829	(3,574,133)	3,570,600

The attached notes form part of, and should be read in conjunction with, these financial statements.

STATEMENT OF CHANGES IN PUBLIC EQUITY

For the year ended 30 June 2023

		ACTUAL			
		ASSET REVALUATION RESERVE	CONTRIBUTED CAPITAL	RETAINED SURPLUS	TOTAL
	NOTE	NZD'000	NZD'000	NZD'000	NZD'000
Balance at 1 July 2021		27,701	19,962,079	37,374,815	57,364,595
Profit/(loss) for the year				(3,598,882)	(3,598,882)
Other comprehensive income	6.b	24,749			24,749
Tax expense on items of other comprehensive income		-			-
Total comprehensive income for the year		24,749		(3,598,882)	(3,574,133)
Fund capital contributions from the Crown	6.a		2,420,000		2,420,000
Capital contributions from the Crown in respect of funding the net cost of New Zealand superannuation entitlements	6.a		17,764,000		17,764,000
Capital withdrawals by the Crown in respect of funding the net cost of New Zealand superannuation entitlements	6.a		(17,764,000)		(17,764,000)
Balance at 30 June 2022		52,450	22,382,079	33,775,933	56,210,462
Profit/(loss) for the year				5,930,832	5,930,832
Other comprehensive income	6.b	(26,003)			(26,003)
Tax expense on items of other comprehensive income		-			-
Total comprehensive income/(loss) for the year		(26,003)		5,930,832	5,904,829
Fund capital contributions from the Crown	6.a		2,558,000		2,558,000
Capital contributions from the Crown in respect of funding the net cost of New Zealand superannuation entitlements	6.a		19,517,000		19,517,000
Capital withdrawals by the Crown in respect of funding the net cost of New Zealand superannuation entitlements	6.a		(19,517,000)		(19,517,000)
Balance at 30 June 2023		26,447	24,940,079	39,706,765	64,673,291

The attached notes form part of, and should be read in conjunction with, these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2023	NOTE	ACTUAL	BUDGET			
			2023	2022		
			NZD'000	NZD'000		
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash was provided from:						
Proceeds from sale of investments		43,518,298	32,247,144	48,139,863		
Cash collateral received		20,152,953	13,542,695	-		
Dividends received		762,438	751,586	703,101		
Interest received		512,997	264,179	212,473		
Income tax received		284,664	-	-		
Other income		9,906	9,740	-		
Total cash inflow from operating activities		65,241,256	46,815,344	49,055,437		
Cash was applied to:						
Purchases of investments		(48,520,094)	(37,157,345)	(50,812,290)		
Cash collateral paid		(19,623,593)	(14,059,849)	-		
Managers' fees		(74,239)	(50,337)	(48,137)		
Payments to suppliers		(114,138)	(84,947)	(151,652)		
Income tax paid		-	(2,194,781)	(904,094)		
Goods and services tax		(25)	(3,373)	-		
Total cash outflow from operating activities		(68,332,089)	(53,550,632)	(51,916,173)		
Net cash flows provided by/(used in) operating activities	7.f	(3,090,833)	(6,735,288)	(2,860,736)		
CASH FLOWS FROM INVESTING ACTIVITIES						
Cash was provided from:						
Proceeds from sale of property, plant and equipment		3	2	-		
Total cash inflow from investing activities		3	2	-		
Cash was applied to:						
Purchases of property, plant and equipment		(359)	(619)	(851)		
Total cash outflow from investing activities		(359)	(619)	(851)		
Net cash flows provided by/(used in) investing activities		(356)	(617)	(851)		
CASH FLOWS FROM FINANCING ACTIVITIES						
Cash was provided from:						
Fund capital contributions from the Crown		2,558,000	2,420,000	1,984,000		
Net cash flows provided by/(used in) financing activities		2,558,000	2,420,000	1,984,000		
Net increase/(decrease) in cash and cash equivalents		(533,189)	(4,315,905)	(877,587)		
Cash and cash equivalents at the beginning of the year		2,370,257	6,579,356	2,446,258		
Effects of exchange rate changes on the balance of cash held in foreign currencies		21,202	106,806	-		
Cash and cash equivalents at the end of the year	4.a, 4.b	1,858,270	2,370,257	1,568,671		

The attached notes form part of, and should be read in conjunction with, these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2023

SECTION 1: GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

(a) General information

These are the financial statements of the New Zealand Superannuation Fund (NZ Super Fund), a fund established under Section 37 of the New Zealand Superannuation and Retirement Income Act 2001 (Act) on 11 October 2001.

The NZ Super Fund is a long-term, growth-oriented, sovereign wealth fund that was established to help reduce the tax burden on future taxpayers of the rising cost of New Zealand superannuation. The NZ Super Fund is managed and administered by the Guardians of New Zealand Superannuation (Guardians). The Guardians was established as a Crown entity by Section 48 of the Act and became operative from 30 August 2002. The Guardians is expected to invest the NZ Super Fund on a prudent, commercial basis, consistent with:

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

The NZ Super Fund's global master custodian is the Northern Trust Corporation.

The NZ Super Fund is domiciled in New Zealand and the address of its principal place of business is set out in the Corporate Directory on page 229.

The financial statements of the NZ Super Fund for the year ended 30 June 2023 were authorised for issue in accordance with a resolution of the Board of the Guardians of New Zealand Superannuation on 28 September 2023.

(b) Basis of preparation

The NZ Super Fund is a profit-oriented entity. The financial statements of the NZ Super Fund have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) and the requirements of the Act. They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other authoritative pronouncements of the External Reporting Board, as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards (IFRS).

The financial statements have been prepared on a fair value basis, except for certain items as detailed in the notes to the financial statements.

The financial statements are presented in New Zealand dollars. All values are rounded to the nearest thousand dollars (NZD'000) unless stated otherwise.

Accounting policies are selected and applied in a manner that ensures the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring the substance of the underlying transactions or other events is reported. Accounting policies relating to specific financial statement items are set out in the relevant notes to the financial statements. Accounting policies that materially affect the financial statements as a whole are set out below.

The NZ Super Fund meets the definition of an investment entity and therefore the Board and management have applied the exemption from preparing consolidated financial statements available under NZ IFRS 10 Consolidated Financial Statements. As a result, its investments in subsidiaries are not consolidated, but are measured at fair value through profit or loss in accordance with NZ IFRS 9 Financial Instruments and are classified as 'unconsolidated subsidiaries' in the Statement of Financial Position. These separate financial statements are the only financial statements presented by the NZ Super Fund.

The budget was approved by the Board of the Guardians of New Zealand Superannuation for the year ended 30 June 2023. The budget figures are unaudited.

(c) Significant judgements and estimates

The preparation of the NZ Super Fund's financial statements requires the Board and management to make judgements and use estimates that affect the reported amounts of income, expenditure, assets, liabilities and the accompanying disclosures. Uncertainty about these judgements and estimates could result in outcomes that require a material adjustment to the carrying amounts of assets and liabilities in future periods. The judgements and estimates used in respect of the NZ Super Fund are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the NZ Super Fund and that are believed to be reasonable under the circumstances. The judgements and estimates that the Board and management have assessed to have the most significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

- Assessment as an investment entity (Note 1(d));
- Assessment of control, joint control or significant influence (Notes 1(e) - (g));
- Assessment of investments in structured entities (Note 1(h)); and

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2023

SECTION 1: GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Determination of fair value (Note 2(b)).

(d) Investment entity

The NZ Super Fund meets the definition of an investment entity as the following conditions exist:

- The NZ Super Fund obtains and manages funds for the purpose of providing its investor with investment management services;
- The NZ Super Fund has committed to its investor that its business purpose is to invest funds solely for returns from capital appreciation and investment income;
- The NZ Super Fund measures and evaluates the performance of substantially all of its investments on a fair value basis;
- The NZ Super Fund has more than one investment; and
- The NZ Super Fund has documented exit strategies for its investments.

Key judgement - assessment as an investment entity

Although the NZ Super Fund does not meet all of the typical characteristics of an investment entity (namely, the NZ Super Fund does not have multiple investors, its investor is a related party and it does not have ownership interests in the form of equity), the Board and management believe the NZ Super Fund is an investment entity because it has been specifically established as an investment vehicle, it has a diversified investment portfolio with best practice investment policies and procedures in place, it invests funds for the purpose of maximising returns and it has elected to fair value its investments where feasible for the purposes of its financial statements.

The Board and management reassess the NZ Super Fund's investment entity status on an annual basis, if any of the criteria or characteristics change.

(e) Subsidiaries

Subsidiaries are those entities (including structured entities and other holding vehicles) that are controlled by the NZ Super Fund under the provisions of NZ IFRS 10 Consolidated Financial Statements. The NZ Super Fund controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. The NZ Super Fund's investments are reassessed for the existence of control if facts and circumstances indicate that there are changes to one or more of the elements of control. As an investment entity, the NZ Super Fund does not consolidate any of its subsidiaries.

Under Section 59 of the Act, the Guardians must use their best endeavours to ensure the NZ Super Fund does not control any other entity, with the exception of Fund Investment Vehicles (FIVs). A FIV is defined as an entity that is formed or controlled by the Guardians for the purpose of holding, facilitating or managing the investments of the NZ Super Fund. A FIV that is controlled by the Guardians is a subsidiary of the NZ Super Fund for accounting purposes. All investment opportunities are diligently evaluated to ensure compliance with all relevant laws.

The NZ Super Fund has interests in the following subsidiaries that are measured at fair value through profit or loss in accordance with NZ IFRS 9 Financial Instruments and classified as 'unconsolidated subsidiaries' in the Statement of Financial Position:

NAME	NOTE	BALANCE DATE	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST	
				2023 %	2022 %
APG Infrastructure Asset Owner Fund 1, C.V.	(ii)	31 December	The Netherlands	99.6	0.0
Bain Capital Credit Managed Account (NZSF), Limited Partnership	(i)	31 March	Cayman Islands	99.9	99.9
BCC Managed Account (NZSF) Holdings, Limited Partnership	(i)	31 March	Cayman Islands	99.9	99.9
BTF II-C Co-Invest, Limited Partnership	(i)	31 December	Ontario, Canada	100.0	0.0
Canyon NZ-DOF Investing Limited Partnership	(ii)	30 June	Delaware, US	100.0	100.0
CNH CA Master Account, Limited Partnership	(i)	31 December	Cayman Islands	97.4	62.1
Episteme ESQTR SMF I, Ltd	(ii)	31 December	Cayman Islands	100.0	0.0
Fifth Wall Ventures III SPV XXVIII, Limited Partnership	(i)	31 December	Cayman Islands	99.0	99.0
Global Merger Partners LLC	(ii)	31 December	Delaware, US	96.3	99.2
Global Merger Partners Master Limited	(ii)	31 December	Cayman Islands	81.7	73.5
KKR NZSF Energy Investor Limited Partnership	(i)	31 December	Cayman Islands	100.0	100.0
N-Data Center Portfolio Co-Investor, LLC	(ii)	31 December	Delaware, US	99.9	99.9
N-Nowa Co-Investor, LLC	(ii)	31 December	Delaware, US	99.9	99.9
Neuberger Berman Principal Strategies Merger Fund (NZSF), Limited Partnership	(i)	31 December	Cayman Islands	99.9	99.9
NZSF Australian Rural Holdings Limited	(ii)	30 June	New Zealand	100.0	100.0
NZSF Australian Rural Holdings Trust	(iii)	30 June	Australia	100.0	100.0
Palgrove Holdings Pty Limited	(ii)	30 June	Australia	100.0	100.0
Palgrove Land Holdings Trust	(iii)	30 June	Australia	100.0	100.0
Palgrove Pastoral Co. Pty Limited	(ii)	30 June	Australia	100.0	100.0
NZSF Beachlands Limited	(ii)	30 June	New Zealand	100.0	100.0
Beachlands South GP Limited	(ii)	30 June	New Zealand	73.6	73.6
Beachlands South Limited Partnership	(ii)	30 June	New Zealand	73.6	73.6
NZSF Frontier Investments, Inc.	(ii)	30 June	Delaware, US	0.0	100.0
NZSF Healthcare Investments Limited	(ii)	30 June	New Zealand	100.0	100.0
NZSF Horticulture Investments Limited	(ii)	30 June	New Zealand	100.0	100.0
NZSF Hotel Holdings Limited	(ii)	30 June	New Zealand	100.0	100.0
NZ Hotel Holdings Asset GP Limited	(ii)	30 June	New Zealand	80.0	80.0
NZ Hotel 396 Queen Asset GP Limited	(ii)	30 June	New Zealand	80.0	80.0
NZ Hotel Cashel Street Asset GP Limited	(ii)	30 June	New Zealand	80.0	80.0
NZ Hotel Central Lakes Asset GP Limited	(ii)	30 June	New Zealand	80.0	80.0
NZ Hotel CNI Asset GP Limited	(ii)	30 June	New Zealand	80.0	80.0
NZ Hotel Quba Asset GP Limited	(ii)	30 June	New Zealand	80.0	80.0
NZ Hotel Viaduct Asset GP Limited	(ii)	30 June	New Zealand	80.0	80.0
NZ Hotel Wellington Asset GP Limited	(ii)	30 June	New Zealand	80.0	80.0

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2023

SECTION 1: GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NAME	NOTE	BALANCE DATE	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST	
				2023 %	2022 %
NZ Hotel Holdings Asset Limited Partnership	(ii)	30 June	New Zealand	80.0	80.0
NZ Hotel 396 Queen Asset Limited Partnership	(ii)	30 June	New Zealand	80.0	80.0
NZ Hotel Cashel Street Asset Limited Partnership	(ii)	30 June	New Zealand	80.0	80.0
NZ Hotel Central Lakes Asset Limited Partnership	(ii)	30 June	New Zealand	80.0	80.0
NZ Hotel CNI Asset Limited Partnership	(ii)	30 June	New Zealand	80.0	80.0
NZ Hotel Quba Asset Limited Partnership	(ii)	30 June	New Zealand	80.0	80.0
NZ Hotel Viaduct Asset Limited Partnership	(ii)	30 June	New Zealand	80.0	80.0
NZ Hotel Wellington Asset Limited Partnership	(ii)	30 June	New Zealand	80.0	80.0
NZSF Infrastructure Limited	(ii)	30 June	New Zealand	100.0	100.0
NZSF Land Holdings Limited	(ii)	30 June	New Zealand	100.0	100.0
NZSF Hobsonville Investments Limited	(ii)	30 June	New Zealand	100.0	100.0
NZSF Land Development Limited	(ii)	30 June	New Zealand	100.0	100.0
Kaha Ake Head GP Limited	(ii)	30 June	New Zealand	80.0	80.0
KA Feilding Sub GP Limited	(ii)	30 June	New Zealand	80.0	80.0
KA Matamata Sub GP Limited	(ii)	30 June	New Zealand	80.0	0.0
KA Waimanawa Sub GP Limited	(ii)	30 June	New Zealand	80.0	80.0
KA Woolshed Sub GP Limited	(ii)	30 June	New Zealand	80.0	80.0
Kaha Ake Limited Partnership	(ii)	30 June	New Zealand	80.0	80.0
KA Feilding Limited Partnership	(ii)	30 June	New Zealand	80.0	80.0
KA Matamata Limited Partnership	(ii)	30 June	New Zealand	80.0	0.0
KA Waimanawa Limited Partnership	(ii)	30 June	New Zealand	80.0	80.0
KA Woolshed Limited Partnership	(ii)	30 June	New Zealand	80.0	80.0
NZSF Renewables NZ Limited	(ii)	30 June	New Zealand	100.0	100.0
NZSF Rural Holdings Limited	(ii)	30 June	New Zealand	100.0	100.0
NZSF Canterbury Farms Limited	(ii)	30 June	New Zealand	100.0	100.0
NZSF Rural Land Limited	(ii)	30 June	New Zealand	100.0	100.0
NZSF Southland Farms Limited	(ii)	30 June	New Zealand	100.0	100.0
NZSF Waikato Farms Limited	(ii)	30 June	New Zealand	100.0	100.0
NZSF Side Car (Movac) Limited Partnership	(ii)	31 March	New Zealand	100.0	100.0
NZSF Side Car (Pioneer) Limited Partnership	(ii)	31 March	New Zealand	100.0	100.0
NZSF Timber Investments (No 4) Limited	(ii)	30 June	New Zealand	100.0	100.0
NZSF Tui Investments Limited	(ii)	30 June	New Zealand	100.0	100.0
NZSF US Renewables, Inc.	(ii)	31 December	Delaware, US	100.0	100.0
NZSF Variable Co-Investment (Direct Capital) Limited Partnership	(ii)	31 December	New Zealand	100.0	100.0
StepStone NZ Infrastructure Opportunities Fund, Limited Partnership	(i)	31 December	Cayman Islands	100.0	0.0
StepStone Opportunities VC NZ, Limited Partnership	(i)	31 December	Cayman Islands	100.0	0.0
Stonepeak Fern Investment Partners, Limited Partnership	(ii)	31 December	Delaware, US	99.0	99.0

- (i) Cayman Islands or Ontario limited partnerships are unconsolidated subsidiaries of the NZ Super Fund for accounting purposes but they are not entities under Section 59 of the Act and accordingly the interests held in these partnerships do not constitute a breach of that section.
- (ii) These entities are FIVs established for the purpose of holding, facilitating and managing investments of the NZ Super Fund.

(iii) NZSF Australian Rural Holdings Trust is an Australian Managed Investment Trust established for the purpose of acquiring and holding units in the Palgrave Land Holdings Trust, a unit trust established for the purpose of acquiring and holding land assets in Queensland and New South Wales.

In addition, the NZ Super Fund has 100% ownership in 25 Segregated Accounts (2022: 22 Segregated Accounts) of Horseshoe Re II Limited, a Bermudan-domiciled segregated accounts company, all with balance dates of 31 December. Horseshoe Re II Limited, acting for, and for the benefit of, the Segregated Accounts, enters into agreements relating to the NZ Super Fund's investments in insurance-linked products. These companies are domiciled in Bermuda as Bermuda is a large, well regulated centre for reinsurance business. As a matter of Bermudan law, a Segregated Account is not a 'legal person' and has no existence separate from the Segregated Account company. In addition, the NZ Super Fund does not control the Segregated Account company. Therefore, even though the Segregated Accounts are treated as unconsolidated subsidiaries for accounting purposes, they are not entities under Section 59 of the Act and accordingly the interests held do not constitute a breach of that section.

As at 30 June 2023, there are no significant restrictions on the ability of unconsolidated subsidiaries to transfer funds, including dividends, to the NZ Super Fund.

Further disclosures on transactions with unconsolidated subsidiaries are contained in Note 9(a).

Key judgement – assessment of control

The NZ Super Fund's investments in subsidiaries have been assessed in light of the control model established under NZ IFRS 10 Consolidated Financial Statements to ensure the correct classification and disclosure of investments in subsidiaries. The NZ Super Fund holds investments in a number of entities that are not considered subsidiaries even though its ownership interest exceeds 50%. The Board and management have concluded that the NZ Super Fund has no unilateral power to direct the relevant activities of these entities and therefore it does not have control of these entities.

(f) Associates

Associates are those entities over which the NZ Super Fund has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the entity, but is not control or joint control over those policies.

The NZ Super Fund has interests in the following associates that are measured at fair value through profit or loss in accordance with NZ IFRS 9 Financial Instruments:

NAME	BALANCE DATE	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST	
			2023 %	2022 %
Fidelity Life Assurance Company Limited	30 June	New Zealand	49.6	49.6
Galileo Green Energy GMBH	31 March	Switzerland	20.0	20.0
Kaingaroa Timberlands Partnership	30 June	New Zealand	42.0	42.0
Kiwi Group Holdings Limited	30 June	New Zealand	0.0	25.0
Sustainable Communities Infrastructure Pty Limited	30 June	Australia	30.0	30.0
Sustainable Communities Infrastructure Trust	30 June	Australia	30.0	30.0

As at 30 June 2023, there are no significant restrictions on the ability of associates to transfer funds, including dividends, to the NZ Super Fund.

Further disclosures on transactions with associates are contained in Note 9(a).

Key judgement - assessment of significant influence

The NZ Super Fund's investments in associates have been assessed in light of the definition of significant influence included in NZ IAS 28 Investments in Associates and Joint Ventures to ensure the correct classification and disclosure of investments in associates. The NZ Super Fund holds investments in a number of entities that are not considered associates even though its ownership interest exceeds 20%. The Board and management have concluded that the NZ Super Fund has no power to participate in the financial and operating policy decisions of these entities and therefore it does not have significant influence over these entities.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2023

SECTION 1: GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(g) Joint ventures**

A joint venture is a type of joint arrangement whereby the parties that have joint control have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The NZ Super Fund has interests in the following joint ventures that are measured at fair value through profit or loss in accordance with NZ IFRS 9 Financial Instruments:

NAME	BALANCE DATE	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST	
			2023 %	2022 %
Datacom Group Limited	31 March	New Zealand	45.1	42.9
Gourmet International Holdings Limited	30 June	New Zealand	27.1	27.1
Hobsonville Development GP Limited	31 March	New Zealand	49.0	49.0
Hobsonville Development Limited Partnership	31 March	New Zealand	49.0	49.0
Longroad Energy Holdings, LLC	31 December	Delaware, US	37.1	40.0
New Ground Living (Hobsonville Point) Limited	31 March	New Zealand	45.0	45.0
NZ Healthcare Investments Limited	31 December	New Zealand	48.0	47.9
APHG NZ Investments Limited	31 December	New Zealand	48.0	47.9
NZ Hotel Holdings Management GP Limited	30 June	New Zealand	50.0	50.0
NZ Hotel 396 Queen Management GP Limited	30 June	New Zealand	50.0	50.0
NZ Hotel Cashel Street Management GP Limited	30 June	New Zealand	50.0	50.0
NZ Hotel Central Lakes Management GP Limited	30 June	New Zealand	50.0	50.0
NZ Hotel CNI Management GP Limited	30 June	New Zealand	50.0	50.0
NZ Hotel Quba Management GP Limited	30 June	New Zealand	50.0	50.0
NZ Hotel Viaduct Management GP Limited	30 June	New Zealand	50.0	50.0
NZ Hotel Wellington Management GP Limited	30 June	New Zealand	50.0	50.0
NZ Hotel Holdings Management Limited Partnership	30 June	New Zealand	50.0	50.0
NZ Hotel 396 Queen Management Limited Partnership	30 June	New Zealand	50.0	50.0
NZ Hotel Cashel Street Management Limited Partnership	30 June	New Zealand	50.0	50.0
NZ Hotel Central Lakes Management Limited Partnership	30 June	New Zealand	50.0	50.0
NZ Hotel CNI Management Limited Partnership	30 June	New Zealand	50.0	50.0
NZ Hotel Quba Management Limited Partnership	30 June	New Zealand	50.0	50.0
NZ Hotel Viaduct Management Limited Partnership	30 June	New Zealand	50.0	50.0
NZ Hotel Wellington Management Limited Partnership	30 June	New Zealand	50.0	50.0
NZ Infra Limited	31 December	New Zealand	50.0	50.0
NZ Offshore Wind Development Limited	30 June	New Zealand	50.0	50.0
RA (Holdings) 2014 Pty Limited	31 March	Australia	50.0	50.0

As at 30 June 2023, there are no significant restrictions on the ability of joint ventures to transfer funds, including dividends, to the NZ Super Fund.

Further disclosures on transactions with joint ventures are contained in Note 9(a).

Key judgement - assessment of joint control

The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries. The NZ Super Fund's joint arrangements are classified as joint ventures because certain key operating and financial activities require the approval of the NZ Super Fund as well as at least one other investor and the contractual arrangements provide the parties with rights to the net assets of the joint arrangements.

(h) Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes:

- Restricted activities;
- A narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors;
- Insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and
- Financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks.

The NZ Super Fund is principally involved with structured entities through its investments in private equity investment funds, unconsolidated subsidiaries, collective investment funds, insurance-linked investments, shareholder loans, agency mortgage-backed securities and asset-backed securities that are issued by structured entities. The NZ Super Fund invests in structured entities to assist with the implementation of its overall investment strategy. The NZ Super Fund does not sponsor any structured entities.

The NZ Super Fund's investments in structured entities have the following business activities:

PRIVATE EQUITY INVESTMENT FUNDS AND UNCONSOLIDATED SUBSIDIARIES

Private equity investment funds and unconsolidated subsidiaries provide a mechanism to share exposure with other investors and may take various legal forms (e.g. limited liability companies, limited partnerships, trusts). The NZ Super Fund makes commitments to, and investments in, these legal structures and in return is issued with rights to a proportional stake in their net assets. They have a broad range of investment objectives and are managed by unrelated asset managers who apply various investment strategies to accomplish their respective investment objectives.

COLLECTIVE INVESTMENT FUNDS

Collective investment funds finance their operations by way of subscription, in which case, the NZ Super Fund subscribes and is issued with redeemable shares that entitle it to a proportional stake in the net assets of the investment.

INSURANCE-LINKED INVESTMENTS

The NZ Super Fund invests in catastrophe bonds which are issued by structured entities. Each bond is linked to an insurance event such as a natural disaster. The bonds transfer particular risks from the insurer to the bond holder.

SHAREHOLDER LOANS

The NZ Super Fund may invest in private equity investment funds or other private equity investments via shareholder loans and the borrower in the arrangement may be a structured entity. Shareholder loans are included in fixed income securities in the Statement of Financial Position.

AGENCY MORTGAGE-BACKED SECURITIES

Agency mortgage-backed securities are pass-through securities issued by the Federal Home Loan Mortgage Corporation (Freddie Mac), the Federal National Mortgage Association (Fannie Mae), both US-government sponsored enterprises, and the Government National Mortgage Association (Ginnie Mae), a US-government corporation. These securities are traded in the TBA (To Be Announced) market and are mortgage-backed forward, or 'delayed delivery' securities. The securities have standardised 15-year or 30-year maturity dates, however, whilst the terms of the security are agreed up front, the specific mortgages to be delivered to fulfil the security obligation are only allocated just prior to settlement. Agency mortgage-backed securities are included in fixed income securities in the Statement of Financial Position.

ASSET-BACKED SECURITIES

The NZ Super Fund invests in a variety of asset-backed securities, the majority of which have been senior tranches of debt issued by a structured entity. The debt is usually collateralised by an underlying pool of assets. The asset-backed securities take the form of mortgage-backed securities (collateralised by both commercial and residential mortgages), asset-backed securities (collateralised by consumer loans, small business loans and auto loans), collateralised debt obligations (CDO) and collateralised loan obligations (CLO). Asset-backed securities are included in fixed income securities in the Statement of Financial Position.

EXCHANGE TRADED FUNDS

The NZ Super Fund subscribes to shares in exchange traded funds. The shares entitle the holder to a proportional stake in the net assets of the exchange traded funds' investments. Exchange traded funds are included in listed global equities or fixed income securities in the Statement of Financial Position as appropriate.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2023

SECTION 1: GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Key judgement - assessment of investments in structured entities**

The Board and management have assessed which of the NZ Super Fund's investments are investments in structured entities. In doing so, the Board and management have considered voting rights and other similar rights afforded to investors as well as any contractual arrangements in place with these investments.

The Board and management have concluded that certain of the NZ Super Fund's investments meet the definition of a structured entity because:

- The voting rights in the investments are not the dominant factor in deciding who controls the investment; and
- The investments have narrow and well-defined objectives to provide investment opportunities to investors.

Further disclosures on structured entities are contained in Notes 3(e) and 7(b).

(i) Foreign currency translation**FUNCTIONAL AND PRESENTATION CURRENCY**

Items included in the financial statements of the NZ Super Fund are measured using the currency of the primary economic environment in which the NZ Super Fund operates (the functional currency). The functional currency of the NZ Super Fund is New Zealand dollars. It is also the presentation currency.

TRANSACTIONS AND BALANCES

Transactions denominated in foreign currencies are converted to New Zealand dollars using the exchange rates prevailing at the dates of the transactions. Foreign currency monetary assets and liabilities are translated at the exchange rate prevailing at balance date. Where there is a movement in the exchange rate between the date of a foreign currency transaction and balance date, the resulting exchange differences are recognised in the Statement of Comprehensive Income.

(j) Goods and services tax (GST)

Income, expenditure, assets and liabilities are recognised in the financial statements exclusive of GST, with the exception of receivables and payables which are stated inclusive of GST. Where GST is irrecoverable as an input tax, it is recognised as part of the related asset or expenditure. The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the Statement of Financial Position.

(k) Statement of Cash Flows

The following are the definitions of the terms used in the Statement of Cash Flows:

Operating activities include all activities other than investing or financing activities.

Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and intangible assets.

Financing activities are those activities relating to capital contributions and to payments of superannuation entitlements. As the current funding by the Crown of superannuation entitlements flows directly from the Treasury to the Ministry of Social Development, it is not considered cash flow of the NZ Super Fund and accordingly, is not recorded in the Statement of Cash Flows.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the IRD, is classified as cash flows from operating activities.

(l) Changes in accounting policies

There have been no changes in accounting policies during the year. All accounting policies are consistent with those applied in the previous financial year.

Certain prior year comparatives have been restated to conform with current year presentation. These classifications have no impact on the overall financial performance, financial position or cash flows of the NZ Super Fund for the comparable year.

(m) Standards issued but not yet effective

There are no standards issued but not yet effective that materially impact the NZ Super Fund as at 30 June 2023.

SECTION 2: FAIR VALUE

(a) Fair value measurement

Accounting Policy

The majority of the net assets of the NZ Super Fund are measured at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Management uses valuation techniques for the NZ Super Fund that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within a fair value hierarchy as follows:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets and liabilities. An active market is one where prices are readily available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The fair value of Level 1 assets and liabilities requires little or no judgement.

Level 2 - Valuation techniques that use observable market data. Such techniques include the use of market standard discounting methodologies, option pricing models and other valuation techniques widely used and accepted by market participants.

Level 3 - Valuation techniques that use inputs not based on observable market data. Unobservable inputs are those not readily available in an active market due to illiquidity or complexity of the product. These inputs are generally derived and extrapolated from other relevant market data and calibrated against current market trends and historic transactions. These valuations are calculated using a high degree of management judgement.

The level within which an asset or liability is categorised in the fair value hierarchy is determined based on the highest numerical level in the fair value hierarchy that is significant to the fair value measurement as a whole.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2023

SECTION 2: FAIR VALUE (CONTINUED)

The fair value of the NZ Super Fund's assets and liabilities that are measured at fair value through profit or loss are categorised as follows:

2023	NOTE	ACTUAL			TOTAL NOT AT FAIR VALUE*	TOTAL			
		LEVEL 1 NZD'000	LEVEL 2 NZD'000	LEVEL 3 NZD'000					
ASSETS									
Investments									
Derivative financial instrument assets:									
Forward foreign exchange contracts	4.e	1,271,333			1,271,333	1,271,333			
Cross currency swaps	4.e	2,291			2,291	2,291			
Asset swaps	4.e	6,788			6,788	6,788			
Longevity contingent swaps	4.e		24,011	24,011		24,011			
Futures contracts	4.e			-		-			
Total return swaps	4.e	322,863			322,863	322,863			
Credit default swaps	4.e	50,846			50,846	50,846			
Interest rate swaps	4.e	179,645			179,645	179,645			
Warrants	4.e			-		-			
Total derivative financial instrument assets		-	1,833,766	24,011	1,857,777	- 1,857,777			
Other financial assets:									
Listed New Zealand equities	4.a	2,452,975			2,452,975	2,452,975			
Listed global equities	4.a	24,958,771	17	1,955	24,960,743	24,960,743			
Fixed income securities	4.a	11,249,847		-	11,249,847	2,203,692 13,453,539			
Collective investment funds	4.a	2,290,802		-	2,290,802	2,290,802			
Reverse repurchase agreements	4.a, 4.f			-	889,014	889,014			
Securities on loan under securities lending and similar agreements	4.a, 4.f	3,463,615	1,672,466	264	5,136,345	5,136,345			
Insurance-linked investments	4.a	665,914			665,914	665,914			
Private equity	4.a		6,034,982	6,034,982		6,034,982			
Total other financial assets		30,875,361	15,879,046	6,037,201	52,791,608	3,092,706 55,884,314			
Investments in unconsolidated subsidiaries	4.a		1,414,046	5,902,808	7,316,854	- 7,316,854			
Intangible assets		31,697			31,697	- 31,697			
		30,907,058	19,126,858	11,964,020	61,997,936	3,092,706 65,090,642			
LIABILITIES									
Derivative financial instrument liabilities:									
Forward foreign exchange contracts	4.e	1,187,807			1,187,807	1,187,807			
Cross currency swaps	4.e	-			-	-			
Asset swaps	4.e	4,298			4,298	4,298			
Futures contracts	4.e			-		-			
Total return swaps	4.e	66,744			66,744	66,744			
Credit default swaps	4.e	65,462			65,462	65,462			
Interest rate swaps	4.e	2			2	2			
Total derivative financial instrument liabilities		-	1,324,313		1,324,313	- 1,324,313			
		- 1,324,313			- 1,324,313	- 1,324,313			

* Assets and liabilities not measured at fair value are carried at amortised cost but their carrying values are a reasonable approximation of fair value.

2022	NOTE	ACTUAL					TOTAL NOT AT FAIR VALUE*	TOTAL			
		LEVEL 1 NZD'000	LEVEL 2 NZD'000	LEVEL 3 NZD'000	TOTAL AT FAIR VALUE NZD'000	NZD'000					
ASSETS											
Investments											
Derivative financial instrument assets:											
Forward foreign exchange contracts	4.e		662,399		662,399		662,399				
Cross currency swaps	4.e			3,061		3,061		3,061			
Asset swaps	4.e				-	-	-	-			
Longevity contingent swaps	4.e				16,101	16,101	16,101				
Futures contracts	4.e					-	-	-			
Total return swaps	4.e		164,591		164,591		164,591				
Credit default swaps	4.e		55,440		55,440		55,440				
Interest rate swaps	4.e		396,054		396,054		396,054				
Warrants	4.e				-	-	-	-			
Total derivative financial instrument assets		-	1,281,545	16,101	1,297,646	-	1,297,646				
Other financial assets:											
Listed New Zealand equities	4.a	2,236,675			2,236,675		2,236,675				
Listed global equities	4.a	24,388,041	-	6,954	24,394,995		24,394,995				
Fixed income securities	4.a		9,209,092	71,702	9,280,794	1,326,470	10,607,264				
Collective investment funds	4.a		3,410,263	-	3,410,263		3,410,263				
Reverse repurchase agreements	4.a, 4.f				-	872,173	872,173				
Securities on loan under securities lending and similar agreements	4.a, 4.f	2,591,425	634,933	40	3,226,398		3,226,398				
Insurance-linked investments	4.a		531,481		531,481		531,481				
Private equity	4.a			5,399,316	5,399,316		5,399,316				
Total other financial assets		29,216,141	13,785,769	5,478,012	48,479,922	2,198,643	50,678,565				
Investments in unconsolidated subsidiaries	4.a		1,187,411	5,359,865	6,547,276		6,547,276				
Intangible assets		57,700			57,700	-	57,700				
		29,273,841	16,254,725	10,853,978	56,382,544	2,198,643	58,581,187				
LIABILITIES											
Derivative financial instrument liabilities:											
Forward foreign exchange contracts	4.e		3,378,748		3,378,748		3,378,748				
Cross currency swaps	4.e		24,698		24,698		24,698				
Asset swaps	4.e				-	-	-	-			
Futures contracts	4.e				-	-	-	-			
Total return swaps	4.e		525,461		525,461		525,461				
Credit default swaps	4.e		59,734		59,734		59,734				
Interest rate swaps	4.e		15,769		15,769		15,769				
Total derivative financial instrument liabilities		-	4,004,410	-	4,004,410	-	4,004,410				
		- 4,004,410		- 4,004,410		- 4,004,410					

* Assets and liabilities not measured at fair value are carried at amortised cost but their carrying values are a reasonable approximation of fair value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2023

SECTION 2: FAIR VALUE (CONTINUED)**(b) Determination of fair value**

Specific valuation techniques and the observability of inputs used in valuation models for significant financial instrument categories are outlined below:

DERIVATIVE FINANCIAL INSTRUMENTS

The fair values of derivative financial instruments are principally determined using valuation techniques with market observable inputs and are classified within Level 2 of the fair value hierarchy. The most frequently applied valuation techniques include forward pricing and swap models using present value calculations. The models incorporate various inputs including foreign exchange spot and forward rates, interest rates, futures prices, default rates, credit spreads, volatility curves and discount rates.

In some instances, the fair values of derivative financial instruments are determined using valuation techniques with non-market observable inputs. These financial instruments include longevity contingent swaps and warrants and are classified within Level 3 of the fair value hierarchy. The fair value of longevity contingent swaps is provided by the counterparty at balance date and is based on the fair value of the underlying basket of contracts. The fair value of warrants is determined using a Black Scholes Option Pricing Model.

LISTED EQUITIES

The fair value of listed equities, including equity exchange traded funds and those on loan under securities lending and similar agreements, is determined based on the last quoted price on the relevant exchange at balance date and are classified within Level 1 of the fair value hierarchy. In some instances, where the market on which the security is traded is not highly liquid (e.g. the security may be listed on an emerging market stock exchange or trading of the security may be temporarily suspended), the price can also be determined using non-binding broker quotes. These securities are classified within Level 3 of the fair value hierarchy.

FIXED INCOME SECURITIES

The fair value of fixed income securities, including fixed income exchange traded funds and those on loan under securities lending and similar agreements, is determined based on either the last quoted bid price or the mid price (depending on the market and region of the securities) provided by a reputable pricing vendor (being a financial data provider such as ICE or Bloomberg) or broker at balance date and are classified within Level 2 of the fair value hierarchy.

The fair value of fixed income securities, including fixed and floating rate debt instruments, that form part of an investment into a private equity investment, are valued by a suitably qualified independent valuer who ascribes an enterprise value to the entire private equity investment then apportions that value across the instruments held, including the debt instruments. These securities are classified within Level 3 of the fair value hierarchy.

COLLECTIVE INVESTMENT FUNDS

The fair value of collective investment funds is provided by the investment managers or administrators at balance date. The price is based on the fair value of the underlying net assets or securities of the collective investment fund. Their classification within the fair value hierarchy is determined by the highest numerical level in the fair value hierarchy of the underlying financial instruments.

INSURANCE-LINKED INVESTMENTS

Insurance-linked investments which are catastrophe bonds are valued using prices provided by reputable pricing vendors or brokers at balance date and are classified within Level 2 of the fair value hierarchy.

PRIVATE EQUITY

The fair value of private equity investment funds is provided by the investment managers or administrators at balance date. The price is based on the fair value of the underlying net assets of the private equity investment fund which is determined using a variety of methods, including independent valuations, valuation models based on the price of recent transactions, earnings multiples or discounted cash flows and are classified within Level 3 of the fair value hierarchy. Private equity investments (not invested via a managed fund structure) are valued by reference to either an independent valuation, the price of recent transactions or such alternative valuation as deemed appropriate by the Board and are also classified within Level 3 of the fair value hierarchy.

UNCONSOLIDATED SUBSIDIARIES

The fair value of unconsolidated subsidiaries is based on the fair value of the underlying net assets of the specific investment which can be determined using a variety of methods, including being based on the last quoted bid price provided by a reputable pricing vendor or broker, independent valuations, valuation models based on the price of recent transactions, earnings multiples or discounted cash flows. Unconsolidated subsidiaries are classified accordingly within Levels 2 and 3 of the fair value hierarchy.

INTANGIBLE ASSETS

Allocations of New Zealand Units (NZU's) and/or other carbon credits that the NZ Super Fund owns are recognised at fair value where they have been received, or where the Board and management are reasonably certain they will be received. Where the fair value can be reliably ascertained through the existence of an observable active market, these Intangible assets are classified within

Level 1 of the fair value hierarchy. Where pricing is obtained from reputable brokers, these intangible assets are classified within Level 2 of the fair value hierarchy.

Key judgement - determination of fair value

Where possible, the fair value of the NZ Super Fund's assets and liabilities are measured using quoted prices in active markets. Where the fair value of assets and liabilities cannot be measured using quoted prices in active markets, fair value is determined, using valuation techniques with market observable inputs from third parties such as brokers or pricing vendors, where available. For assets that have no quoted price (which principally consist of investments in unconsolidated subsidiaries, private equity investments held directly, private equity investment funds, collective investment funds, fixed income securities and certain derivative financial instruments) the determination of fair value requires significant judgement. Fair value for these assets is determined as follows:

UNCONSOLIDATED SUBSIDIARIES AND PRIVATE EQUITY INVESTMENTS HELD DIRECTLY

The fair value of certain unconsolidated subsidiaries and private equity investments held directly, is provided by independent valuers who use models to determine the fair value of investments. The determination of fair value for these investments is subject to careful consideration and consultation with a range of reliable and independent sources. Under the Board approved Investment Valuation Policy, the Guardians has an internal Valuation Working Group (VWG) that is responsible for reviewing the valuations of these investments at balance date. The VWG reviews the valuation methodologies, practices and policies used in determining fair value and/or reviews the valuations themselves with a view to ensuring that the fair values of these investments at balance date are as accurate as possible. The VWG reports the outcomes of their reviews to the Audit Committee.

PRIVATE EQUITY INVESTMENT FUNDS AND COLLECTIVE INVESTMENT FUNDS WHERE FAIR VALUE IS PROVIDED BY INVESTMENT MANAGERS OR ADMINISTRATORS

The fair value of certain private equity investment funds and collective investment funds is provided by the investment managers or administrators at balance date who may use their own models, or they may engage independent valuers who use models to determine the fair value of investments. The Board and management may also directly appoint independent valuers to determine the fair value of certain investments where this information is unable to be provided by an investment manager or administrator.

FIXED INCOME SECURITIES WHERE FAIR VALUE IS DETERMINED BY A PRICING VENDOR

Where the market for fixed income securities is illiquid, fair value is determined by a pricing vendor who uses models to value the securities. The Board and management mitigate the risk of pricing errors by only selecting reputable pricing vendors and by periodically calibrating prices against observable market data.

DERIVATIVE FINANCIAL INSTRUMENTS WHERE FAIR VALUE IS DETERMINED BY A PRICING VENDOR, BROKER OR COUNTERPARTY

Pricing vendors, brokers or counterparties may use valuation models to price certain derivative financial instruments for which the inputs may include current and forward exchange rates, estimates of cash flows, interest rates, futures prices, default rates, credit spreads, volatility curves, indicative prices for similar assets and discount rates. The Board and management mitigate the risk of pricing errors by only selecting reputable pricing vendors, brokers or counterparties and by periodically calibrating prices against observable market data.

VALUATION UNCERTAINTY DUE TO EXTERNAL MACRO FACTORS

Since the fair value of investments categorised within Level 1 or Level 2 of the fair value hierarchy reflect market observable prices or inputs, they are inherently less subjective and their valuation less uncertain than those investments categorised within Level 3 of the fair value hierarchy. Whilst the determination of fair value in relation to Level 3 investments is subject to careful consideration and consultation with a range of reliable and independent sources, the impact of external factors such as rising interest rates and inflationary pressures, increased geopolitical tensions and global supply issues, on the valuation of these investments remains uncertain. The Board and management continue to monitor and evaluate the appropriateness of specific valuation techniques and the judgements and estimates used when determining the fair value of these assets to assess whether material adjustments might be required to their carrying value.

(c) Transfers between levels in the fair value hierarchy

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Board and management determine whether transfers have occurred between levels in the hierarchy by reassessing categorisation throughout each reporting period.

During the year ended 30 June 2023, one private equity investment (\$424,124,000) and one unconsolidated subsidiary (\$212,422,000) were listed. As a result of their listing, these investments were reclassified to global listed equities and as a result,

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2023

SECTION 2: FAIR VALUE (CONTINUED)

transferred from Level 3 to Level 1 assets in the fair value hierarchy. In the prior year, global equities totalling \$15,363,000 were transferred from Level 1 to Level 3 assets in respect of investments that were either de-listed or whose trading was suspended during the year.

(d) Reconciliation of fair value measurement under Level 3 hierarchy

The following table provides a reconciliation of movements in the fair value of financial assets categorised within Level 3 of the fair value hierarchy:

	ACTUAL 2023 NZD'000	ACTUAL 2022 NZD'000
Opening balance	10,853,978	7,519,360
Unrealised gains/(losses) recognised in net changes in fair value on financial instruments at fair value through profit or loss	734,544	1,750,804
Realised gains/(losses) recognised in net changes in fair value on financial instruments at fair value through profit or loss	125,332	70,130
Purchases	2,054,428	2,078,414
Sales	(548)	(270)
Settlements	(1,167,168)	(579,823)
Transfers (to)/from other categories	(636,546)	15,363
Closing balance	11,964,020	10,853,978

(e) Fair value sensitivity

Although the Board and management believe that the estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. The following table shows the NZ Super Fund's sensitivity of fair value measurement to likely changes in non-market observable inputs (where appropriate, equivalent to one standard deviation) for financial assets categorised within Level 3 of the fair value hierarchy:

2023	NON-MARKET OBSERVABLE INPUT	MOVEMENT	ACTUAL	
			IMPACT ON FAIR VALUE MEASUREMENT	
			INCREASE NZD'000	DECREASE NZD'000
			%	
Longevity contingent swaps	Discount rate	2	841	(751)
Listed global equities	Share price	24	384	(384)
Fixed income securities	Yield	-	-	-
Private equity	(i)	(i)	926,619	(926,619)
Unconsolidated subsidiaries	(i)	(i)	833,317	(833,317)
2022				
Longevity contingent swaps	Discount rate	2	290	(281)
Listed global equities	Share price	25	1,305	(1,305)
Fixed income securities	Yield	12	6,195	(6,195)
Private equity	(i)	(i)	880,693	(880,693)
Unconsolidated subsidiaries	(i)	(i)	812,065	(812,065)

(i) Level 3 financial assets categorised as private equity and unconsolidated subsidiaries provide the NZ Super Fund with exposure to a wide variety of assets across numerous industries and are held either directly or via internally or externally managed investment vehicles. Valuations for these investments are provided by independent valuers, or by investment managers or administrators if held via a managed structure and the NZ Super Fund does not always have access to the underlying valuation models to fully disclose sensitivities to specific assumptions.

The Board and management have assessed that the reasonably likely movement in fair value for these financial assets in a one-year period is: 20% (2022: 20%) for private equity investment funds and other private equity investments; 25% (2022: 25%) for Telecom-Spectrum investments; 16% (2022: 16%) for timber investments; 12% (2022: 12%) for private infrastructure investments; 10% (2022: 10%) for life settlements; 14% (2022: 14%) for property; 13% (2022: 13%) for rural property; and 20% (2022: 20%) for insurance run-off investments, based on internal risk modelling.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2023

SECTION 3: RISK MANAGEMENT**(a) Risk management**

Understanding and managing risk is considered a fundamental activity that is central to the management of the NZ Super Fund. While risk is a necessary part of the NZ Super Fund's activities, it must be understood to ensure the risk profile adopted is commensurate with the return objective and time horizon of the NZ Super Fund. Effective risk management is critical to maintaining public and stakeholder confidence in the Guardians as manager of the NZ Super Fund.

The NZ Super Fund's investment activities expose it to various types of risk including investment, strategic, legal, operational and reputational risk. The Board and management of the Guardians are responsible for the management of these risks. Separate Risk and Investment Committees have been established by management to provide support for the management of these risks.

The Guardians has risk management policies, procedures and other internal controls for application by staff, external investment managers and other service providers to manage the NZ Super Fund's exposure to risk. The framework for managing this risk is set out in its Statement of Investment Policies, Standards and Procedures including its Risk Management Policy.

The Board has developed a risk appetite statement outlining its expectations of the level of risk that is appropriate for the NZ Super Fund to take on. This statement can be found at Schedule 2 of the Risk Management Policy which is available on www.nzsuperfund.nz. Performance against this statement is measured and reported to the Board on a regular basis, with any major breaches being notified on an exception basis.

CONCENTRATION OF RISK BY GEOGRAPHY AND INDUSTRY

Concentration of risk exists if a single counterparty, or group of counterparties, is engaged in similar activities, operate within similar geographies, industries, or have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions.

As at 30 June 2023, the NZ Super Fund's investments were concentrated in the following geographical locations and industries. Exposures are based on the NZ Super Fund's net financial assets at balance date, at the aggregate level of each individual investment, and covers both internally and externally managed investments.

	ACTUAL 2023	ACTUAL 2022
	%	%
By geography		
New Zealand	12	15
Australia	5	5
North America	53	50
Europe	17	17
Asia	9	9
Other	4	4
	100	100
By industry		
Consumer - cyclical	6	6
Consumer - non-cyclical	5	7
Financial	15	15
Government	10	9
Healthcare	7	8
Industrial	8	8
Real estate	5	5
Technology	12	12
Other	32	30
	100	100

(b) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as equity prices, interest rates, foreign exchange rates and credit default swap spreads.

The market risks that the NZ Super Fund is primarily exposed to are:

- Equity price risk, both globally and in New Zealand;
- Foreign currency risk, primarily due to changes in the New Zealand dollar versus the United States dollar; and
- Interest rate risk, primarily due to changes in New Zealand and United States interest rates.

The NZ Super Fund is also exposed to commodity price risk in relation to its forestry and farming investments as well as derivative financial instruments which reference certain agricultural, energy and metals prices.

EQUITY PRICE RISK

Equity price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in equity prices. The NZ Super Fund is exposed to changes in the price of equities listed on both New Zealand and international stock exchanges, as well as derivative financial instruments or unlisted equities where fair value is determined with reference to an equity market index or to comparable transactions in a listed equity market.

Equity price risk is managed through diversification between asset classes and by imposing investment constraints at a total fund level and within individual investment mandates. Limits imposed on external investment managers are detailed within individual investment management agreements. Compliance with investment constraints is reported to the Board and management on a regular basis.

The following table shows the NZ Super Fund's sensitivity to a change in equity prices with all other variables held constant. The percentages used represent the Board and management's assessment of a reasonably possible change in equity prices, equivalent to one standard deviation, based on internal risk modelling. The increase/(decrease) in profit is calculated after taking into account income tax.

2023	ACTUAL			
	ONE STANDARD DEVIATION	IMPACT ON PROFIT AND EQUITY		
		%	INCREASE NZD'000	DECREASE NZD'000
New Zealand equities	18		444,450	(444,450)
Global equities*	16		6,436,440	(6,436,440)
Emerging markets equities	26		1,017,611	(1,017,611)
Unlisted private equities	20		1,196,054	(1,196,054)
2022				
New Zealand equities	18		408,549	(408,549)
Global equities*	16		5,675,584	(5,675,584)
Emerging markets equities	26		1,384,792	(1,384,792)
Unlisted private equities	20		1,122,451	(1,122,451)

* Although the fair value of global equities is obtained from quoted market prices, the likelihood of a change in those prices and the size of the change can vary, depending on the type of equity. Therefore, these figures represent a weighted average of the reasonably likely movement in fair value in a one-year period for this category. The Board and management's assessment of the reasonably likely movements within this category are: 16% (2022: 16%) for global large cap equities; 20% (2022: 20%) for global small cap equities; 15% (2022: 15%) for developed markets multi factor equities; and 12% (2022: 12%) for global infrastructure equities, based on internal risk modelling.

FOREIGN CURRENCY RISK

Foreign currency risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in foreign exchange rates. The NZ Super Fund is exposed to foreign currency risk through its investments in offshore assets.

Foreign currency risk is managed by establishing a target hedge ratio for all foreign currency exposures at a total fund level and by specifying bounds within which external investment managers may take on foreign currency exposures within individual investment management agreements. The financial instruments that external investment managers may use, and the creditworthiness of the counterparties, are detailed within those investment management agreements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2023

SECTION 3: RISK MANAGEMENT (CONTINUED)

Foreign currency exposures are hedged with forward foreign exchange contracts and cross currency swaps with counterparties that have an appropriate minimum credit rating as determined by an international credit rating agency, and appropriate contractual arrangements must be in place between the NZ Super Fund and the counterparty.

The table below shows effective foreign currency exposure after forward foreign exchange contracts and cross currency swaps have been taken into account.

	ACTUAL 2023	ACTUAL 2022
	NZD'000	NZD'000
British Pounds	1,024,265	581,946
Canadian Dollars	(1,158,412)	(2,003,215)
Chinese Yuan	(351,556)	375,012
European Union Euros	825,934	179,495
Japanese Yen	2,085,674	1,489,170
Swiss Francs	(3,062,955)	(1,556,801)
United States of America Dollars	(180,048)	(2,667,754)
Other	1,576,619	1,774,839
	759,521	(1,827,308)

The following table shows the NZ Super Fund's sensitivity to a change in the New Zealand dollar against the major foreign currencies with all other variables remaining constant. The analysis has been performed only on the effective foreign currency exposure after allowing for the impact of forward foreign exchange contracts and cross currency swaps. The percentages used represent the Board's and management's assessment of a reasonably possible increase in the value of the New Zealand dollar, relative to other currencies. The increase/(decrease) in profit is calculated after taking into account income tax.

2023		REASONABLY POSSIBLE CHANGE IN RATE	ACTUAL		
			%	IMPACT ON PROFIT AND EQUITY	
				INCREASE NZD'000	DECREASE NZD'000
USD		10	12,963	(12,963)	
EUR		10	(59,467)	59,467	
GBP		10	(73,747)	73,747	
JPY		10	(150,169)	150,169	
CAD		10	83,406	(83,406)	
CHF		10	220,533	(220,533)	
CNH		10	57,587	(57,587)	
Others		10	(145,792)	145,792	
<hr/>					
2022					
USD		10	192,078	(192,078)	
EUR		10	(12,924)	12,924	
GBP		10	(41,900)	41,900	
JPY		10	(107,220)	107,220	
CAD		10	144,231	(144,231)	
CHF		10	112,090	(112,090)	
CNH		10	(23,515)	23,515	
Others		10	(131,274)	131,274	

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market interest rates. The NZ Super Fund is primarily exposed to changes in New Zealand and United States short-term interest rates in relation to its investments in fixed income securities, certain derivative financial instruments and cash and cash equivalents.

Interest rate risk is managed by diversification between asset classes and by imposing investment constraints on external investment managers. Interest rate swaps are used to manage exposure to movements in interest rates.

The following table shows the NZ Super Fund's sensitivity to a change in interest rates with all other variables remaining constant. The basis point movement used represents the Board's and management's assessment of a reasonably possible change in interest rates, equivalent to one standard deviation. The increase/(decrease) in profit is calculated after taking into account income tax.

2023		ONE STANDARD DEVIATION BASIS POINTS	ACTUAL	
			IMPACT ON PROFIT AND EQUITY	
			INCREASE NZD'000	DECREASE NZD'000
	Fixed income securities and other interest-sensitive financial instruments	50	(195,441)	195,441
2022				
	Fixed income securities and other interest-sensitive financial instruments	50	(95,207)	95,207

COMMODITY PRICE RISK

The NZ Super Fund is exposed to financial risk in respect of its forestry activities due to the global volatility of log prices, exchange rates and transportation costs. These exposures are managed through adjustments to harvest levels and marketing efforts in order to minimise the risk of financial loss.

The NZ Super Fund is also exposed to financial risk in respect of its farming activities due to the global volatility of milk prices, cattle prices and the price of key inputs (e.g. feed and fertiliser). Dairy and cattle prices relative to key inputs are continually monitored so that operations can adapt as required. There are procedures, systems and infrastructure in place to minimise and manage the risks to which the land and livestock assets are exposed that could lead to financial loss.

The NZ Super Fund is exposed to financial risk in respect of derivative financial instruments which reference certain agricultural, energy and metals prices. The risk of financial loss is managed by strategically adjusting the NZ Super Fund's exposure in exchange traded futures and by managing margins.

(c) Credit risk

Credit risk is the risk that a third party will default on its obligation to the NZ Super Fund, causing the NZ Super Fund to incur a loss. The NZ Super Fund is exposed to credit risk arising from its cash and cash equivalents, receivables and investments. The maximum amount of credit risk for each class of financial asset is the carrying amount included in the Statement of Financial Position.

Cash and cash equivalents and capital allocated to internally managed investments are governed by the Investment Risk Allocation Policy, the Portfolio Completion and Internally Managed Securities Policy and relevant Internal Investment Mandates. The Board and management mitigate the NZ Super Fund's exposure to credit risk associated with cash and cash equivalents and internally managed investments by applying specific prudential limits to any unhedged exposure to any single investment manager or asset. Investment strategy-specific constraints are also imposed to limit the NZ Super Fund's net unhedged exposure to individual counterparties and clearing houses; and collective unhedged exposure to counterparties with credit ratings of 'BBB' or less.

The use of, and capital allocated to, external investment managers is governed by the Investment Risk Allocation Policy and Direct and Externally Managed Investments Policy. Each external investment manager relationship is governed by an investment management agreement which outlines the key terms and conditions of the appointment. The Board and management mitigate the NZ Super Fund's exposure to credit risk associated with externally managed investments by including specific prudential limits in these investment management agreements which restrict the credit risk the NZ Super Fund is exposed to. External investment managers are monitored individually on an on-going basis as well as being considered in the NZ Super Fund's overall financial risk management activities.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2023

SECTION 3: RISK MANAGEMENT (CONTINUED)**COUNTERPARTY CREDIT RISK**

It is the NZ Super Fund's policy to enter into financial instruments with reputable counterparties. The Board and management closely monitor the creditworthiness of the NZ Super Fund's counterparties by reviewing credit ratings, credit default swap spreads, equity pricing, news flows and other indicators on a regular basis.

At balance date, the NZ Super Fund has counterparty exposure in respect of its forward foreign exchange contracts, cross currency swaps, longevity contingent swaps, total return swaps, credit default swaps, interest rate swaps and other over-the-counter swaps. The table below sets out the net exposures, excluding collateral, by individual counterparty where instruments have a net positive fair value:

	ACTUAL 2023 NZD'000	ACTUAL 2022 NZD'000
ANZ Bank New Zealand Limited	184,726	138,108
Bank of America	189,038	7,158
Bank of New Zealand	30,010	51,043
Barclays Bank PLC	-	353
BNP Paribas	37,790	11,328
Citibank N.A.	140,814	136,622
Commonwealth Bank of Australia	183,997	30,757
Credit Suisse Securities (Europe) Limited	23,821	32,115
D.E. Shaw Galvanic International, Inc.	-	217
Deutsche Bank AG	6,752	14,873
Goldman Sachs International	28,886	84,486
Goldman Sachs Financial Markets Pty Limited	7,326	51,806
JP Morgan Chase Bank N.A.	196,820	97,497
MIR SPE Limited	631	-
Morgan Stanley & Co. International PLC	465,507	336,391
Morgan Stanley Capital Services LLC	11,446	41,117
NatWest Markets PLC	11,184	9,875
Societe Generale	-	167
Toronto-Dominion Bank	38	-
UBS AG	74,529	144,054
Westpac Banking Corporation	264,462	109,679
	1,857,777	1,297,646

The Board and management mitigate the NZ Super Fund's exposure to loss from derivative financial instruments through requiring collateral and by entering into master-netting arrangements with major counterparties with whom a significant volume of transactions are undertaken. These arrangements provide for a single net settlement of all financial instruments covered by the agreement in the event of default on any one contract. Master-netting arrangements do not result in the offset of assets and liabilities in the Statement of Financial Position unless certain conditions for offsetting under NZ IAS 32 Financial Instruments: Presentation apply. Refer to Note 4(g) for further disclosures on the offsetting of financial assets and financial liabilities.

CREDIT QUALITY OF CASH AND CASH EQUIVALENTS AND FIXED INCOME SECURITIES

Cash and cash equivalents are held with bank and financial institution counterparties, which have credit ratings of A to AA as at 30 June 2023 (2022: A to AA).

A percentage breakdown of the NZ Super Fund's fixed income securities, both internally and externally managed, by credit rating is set out below. Ratings are obtained from Standard & Poor's, Moody's and Fitch depending on the availability of data.

	ACTUAL 2023 %	ACTUAL 2022 %
AAA/Aaa	28	34
AA/aa	25	18
A/A	19	23
BBB/Baa	10	10
Not rated	18	15
	100	100

(d) Liquidity risk

Liquidity risk is the risk that the NZ Super Fund will encounter difficulty in meeting the obligations associated with its financial liabilities as they fall due. The NZ Super Fund's liquidity framework is designed to ensure that the NZ Super Fund has the ability to generate sufficient cash in a timely manner to meet its financial commitments.

The Board and management mitigate the NZ Super Fund's exposure to liquidity risk by:

- Forecasting liquidity requirements;
- Maintaining a buffer of cash and highly liquid securities to meet short-term liquidity requirements;
- Regular review of the liquidity available by senior management; and
- Periodic 'stress-tests' of the liquidity framework using theoretical scenarios.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2023

SECTION 3: RISK MANAGEMENT (CONTINUED)**MATURITY PROFILE OF FINANCIAL LIABILITIES**

The following table shows undiscounted cash flows of the NZ Super Fund's financial liabilities on the basis of their earliest contract maturity.

	2023	ACTUAL					TOTAL NZD'000
		LESS THAN 1 YEAR NZD'000	1 - 2 YEARS NZD'000	2 - 5 YEARS NZD'000	5 - 10 YEARS NZD'000	10+ YEARS NZD'000	
Non-derivative financial liabilities							
Cash collateral received		936,291	-	-	-	-	936,291
Trade and other payables		827,945	1,480	-	-	-	829,425
Derivative financial liabilities							
Net-settled derivative financial instruments		68,717	5,114	58,377	-	4,298	136,506
Gross-settled derivative financial instruments:							
Cash inflow		(52,085,937)	(200,000)	-	-	-	(52,285,937)
Cash outflow		53,271,737	202,007	-	-	-	53,473,744
		3,018,753	8,601	58,377	-	4,298	3,090,029
2022							
Non-derivative financial liabilities							
Cash collateral received		1,034,402	-	-	-	-	1,034,402
Trade and other payables		4,976,254	1,429	-	-	-	4,977,683
Derivative financial liabilities							
Net-settled derivative financial instruments		526,246	3	60,463	12,512	1,740	600,964
Gross-settled derivative financial instruments:							
Cash inflow		(55,300,143)	-	-	(1,771)	-	(55,301,914)
Cash outflow		58,703,320	-	-	2,040	-	58,705,360
		9,940,079	1,432	60,463	12,781	1,740	10,016,495

(e) Risks associated with structured entities

The following table summarises the carrying values of the NZ Super Fund's investments in structured entities, as well as the maximum exposure to loss. The maximum exposure to loss is contingent in nature and may arise as a result of the provision of funding commitments (which are common with private equity investment funds). The maximum exposure to loss does not take into account the effects of any hedging, subordination or collateralisation designed to reduce that exposure to loss.

The value of the assets of the structured entities themselves have been provided as an indicator of their size, relative to the size of the NZ Super Fund's interest in these entities. These values represent the most current available information.

2023	ACTUAL			
	MAXIMUM EXPOSURE TO LOSS			
	CARRYING VALUE OF INVESTMENTS NZD'000	UNDRAWN COMMITMENTS NZD'000	TOTAL INVESTMENTS AND UNDRAWN COMMITMENTS NZD'000	ASSETS OF THE STRUCTURED ENTITY* NZD'000
Fixed income securities:				
Asset and mortgage-backed securities	2,794,233	242,534	3,036,767	31,580,665
Agency mortgage-backed securities	1,145,551	-	1,145,551	N/A**
Shareholder loans	770,035	240,418	1,010,453	2,760,708
Fixed income exchange traded funds	431,102	-	431,102	4,952,220
Collective investment funds	2,290,802	163,225	2,454,027	217,913,370
Listed global equities:				
Equity exchange traded funds	-	-	-	-
Insurance-linked investments - catastrophe bonds	665,914	-	665,914	35,249,940
Private equity investment funds	4,511,412	2,975,027	7,486,439	30,199,126
Reverse repurchase agreements	481,686	-	481,686	724,338
Unconsolidated subsidiaries	7,316,854	1,891,862	9,208,716	8,092,647
	20,407,589	5,513,066	25,920,655	331,473,014
2022				
Fixed income securities:				
Asset and mortgage-backed securities	1,237,400	117,469	1,354,869	24,362,056
Agency mortgage-backed securities	1,028,507	-	1,028,507	N/A**
Shareholder loans	767,762	246,318	1,014,080	3,082,225
Fixed income exchange traded funds	219,956	-	219,956	4,905,818
Collective investment funds	3,410,263	160,836	3,571,099	226,126,983
Listed global equities:				
Equity exchange traded funds	123,930	-	123,930	105,168,436
Insurance-linked investments - catastrophe bonds	531,481	-	531,481	30,591,737
Private equity investment funds	3,353,977	2,741,916	6,095,893	33,257,914
Reverse repurchase agreements	552,996	-	552,996	737,324
Unconsolidated subsidiaries	6,547,276	849,943	7,397,219	7,197,803
	17,773,548	4,116,482	21,890,030	435,430,296

* Including the value of the NZ Super Fund's investment.

** Information is not available as the securities have not yet been issued.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2023

SECTION 4: FINANCIAL ASSETS AND LIABILITIES**(a) Financial instruments**

2023	NOTE	FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS	ACTUAL		
			NZD'000	NZD'000	NZD'000
Financial assets					
Cash and cash equivalents	4.b		1,858,270		1,858,270
Cash pledged as collateral	4.c		580,326		580,326
Trade and other receivables	4.d		481,646		481,646
Investments					
Derivative financial instrument assets	4.e	1,857,777			1,857,777
Other financial assets:					
Listed New Zealand equities		2,452,975			2,452,975
Listed global equities		24,960,743			24,960,743
Fixed income securities		11,249,847	2,203,692		13,453,539
Collective investment funds		2,290,802			2,290,802
Reverse repurchase agreements			889,014		889,014
Securities on loan under securities lending and similar agreements		5,136,345			5,136,345
Insurance-linked investments		665,914			665,914
Private equity		6,034,982			6,034,982
Total other financial assets		52,791,608	3,092,706	-	55,884,314
Investments in unconsolidated subsidiaries		7,316,854			7,316,854
		61,966,239	6,012,948	-	67,979,187
Financial liabilities					
Cash collateral received	4.c		936,291		936,291
Trade and other payables	4.h		829,425		829,425
Investments - derivative financial instrument liabilities	4.e	1,324,313			1,324,313
		1,324,313		-	1,765,716
					3,090,029

2022	NOTE	ACTUAL			
		FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS	FINANCIAL ASSETS AT AMORTISED COST	FINANCIAL LIABILITIES AT AMORTISED COST	TOTAL
		NZD'000	NZD'000	NZD'000	
Financial assets					
Cash and cash equivalents	4.b		2,370,257		2,370,257
Cash pledged as collateral	4.c		1,207,798		1,207,798
Trade and other receivables	4.d		3,142,865		3,142,865
Investments					
Derivative financial instrument assets	4.e	1,297,646			1,297,646
Other financial assets:					
Listed New Zealand equities		2,236,675			2,236,675
Listed global equities		24,394,995			24,394,995
Fixed income securities		9,280,794	1,326,470		10,607,264
Collective investment funds		3,410,263			3,410,263
Reverse repurchase agreements			872,173		872,173
Securities on loan under securities lending and similar agreements		3,226,398			3,226,398
Insurance-linked investments		531,481			531,481
Private equity		5,399,316			5,399,316
Total other financial assets		48,479,922	2,198,643	-	50,678,565
Investments in unconsolidated subsidiaries		6,547,276			6,547,276
		56,324,844	8,919,563	-	65,244,407
Financial liabilities					
Cash collateral received	4.c		1,034,402		1,034,402
Trade and other payables	4.h		4,977,683		4,977,683
Investments - derivative financial instrument liabilities	4.e	4,004,410			4,004,410
		4,004,410	-	6,012,085	10,016,495

Accounting Policy

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The NZ Super Fund is party to financial instruments as part of its normal operations. These financial instruments make up the vast majority of the NZ Super Fund's net assets and include cash and cash equivalents, receivables, investments and payables. All financial instruments are recognised in the Statement of Financial Position and all income and expenditure in relation to financial instruments are recognised in the Statement of Comprehensive Income.

INITIAL RECOGNITION

Financial assets and financial liabilities are recognised in the Statement of Financial Position when the NZ Super Fund becomes a party to the contractual provisions of the financial instrument. They are initially recognised at fair value plus, in the case of financial assets and financial liabilities not recorded at fair value through profit or loss, transaction costs (e.g. trading commission) that are attributable to the acquisition of the financial asset or financial liability. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the Statement of Comprehensive Income.

Purchases or sales of financial instruments that require delivery within a time frame established by regulation or convention in the market place are recognised on the trade date, i.e. the date on which the NZ Super Fund commits to purchase or sell the financial instrument.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2023

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The classification of financial instruments at initial recognition depends on the NZ Super Fund's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. In making an assessment of the business model for managing a financial asset, the Board and management consider all relevant information such as the investment objectives of the NZ Super Fund and how performance is evaluated and reported to the Board and management.

SUBSEQUENT MEASUREMENT

The NZ Super Fund's financial assets and financial liabilities are subsequently classified into the following categories:

- Those to be measured at fair value through profit or loss; and
- Those to be measured at amortised cost.

The NZ Super Fund does not have any financial assets classified as financial assets at fair value through other comprehensive income. The NZ Super Fund classifies all financial assets that are either held for trading and/or managed or evaluated on a fair value basis, as financial assets at fair value through profit or loss.

The NZ Super Fund's financial assets are reclassified when, and only when, the business model for managing those financial assets changes.

Financial assets and financial liabilities at fair value through profit or loss

The following financial assets and financial liabilities are classified at fair value through profit or loss:

- Financial assets, including debt instruments, that do not qualify for measurement at amortised cost; and
- Financial assets and financial liabilities that are held for trading.

This category includes investments in derivative financial instruments, listed equities, collective investment funds, insurance-linked investments, private equity and unconsolidated subsidiaries among others. These financial assets are either held for trading or are managed and have their performance evaluated on a fair value basis.

The NZ Super Fund does not designate any derivative financial instruments as hedges in a hedging relationship.

Financial assets and financial liabilities at fair value through profit or loss are recognised in the Statement of Financial Position at fair value with changes in fair value being recognised in the Statement of Comprehensive Income in the period in which they arise.

Financial assets at amortised cost

The NZ Super Fund's financial assets are classified at amortised cost if both of the following criteria are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows; and
- The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest.

This category includes cash and cash equivalents, cash pledged as collateral, trade and other receivables, reverse repurchase agreements and some unlisted fixed income securities. Unlisted fixed income securities that are classified as financial assets at amortised cost include fixed and floating rate notes.

Subsequent to initial recognition, financial assets at amortised cost are measured at amortised cost using the effective interest method and are subject to impairment. When a financial asset is impaired, impairment losses are recognised in the Statement of Comprehensive Income in the period in which they arise.

Financial liabilities at amortised cost

Financial liabilities at amortised cost are non-derivative financial liabilities. This category includes cash collateral received and trade and other payables. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

DERECOGNITION

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or when the NZ Super Fund has transferred substantially all of the risks and rewards of ownership. A financial liability is derecognised when the NZ Super Fund's obligation under the liability is discharged, cancelled or has expired.

IMPAIRMENT

The Board and management assess, at each reporting date, whether a financial asset or a group of financial assets is impaired. The amount of the impairment loss is the difference between the contractual cash flows due in relation to the financial asset or the group of financial assets and the cash flows that the NZ Super Fund expects to receive, discounted at an approximation of the original effective interest rate.

The following financial assets that are measured at amortised cost are subject to the impairment provisions (the 'expected credit loss model') of NZ IFRS 9 Financial Instruments:

- Cash and cash equivalents;
- Cash pledged as collateral;
- Trade and other receivables;
- Reverse repurchase agreements; and
- Unlisted fixed income securities carried at amortised cost.

The impairment loss for cash and cash equivalents and cash pledged as collateral is considered immaterial.

Disclosures relating to the impairment of receivables are provided in Note 4(d).

The NZ Super Fund's investments in reverse repurchase agreements and unlisted fixed income securities that meet the criteria for being classified as financial assets at amortised cost and which are therefore subject to the expected credit loss model, are considered to have low credit risk and/or the credit risk has not increased significantly since initial recognition. As a result, the impairment loss recognised is limited to 12-month expected credit losses. The Board and management consider these financial assets to have low credit risk because there is a low risk of default and the issuers have a strong capacity to meet their contractual cash flow obligations in the near term. Refer to Note 3(c) for further disclosures on credit risk.

12-month expected credit losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date or a shorter period if the expected life of the financial asset is less than 12 months.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. The gross carrying amount of a financial asset is written-off when the Board and management have no reasonable expectations of recovering a financial asset.

(b) Cash and cash equivalents

Accounting Policy

Cash and cash equivalents includes cash on hand, cash held in bank accounts, demand deposits and short-term investments held for the purpose of meeting short-term cash commitments with original maturities of three months or less, which have an insignificant risk of change in fair value.

At 30 June 2023, cash of \$307,622,000 (2022: \$977,508,000) had been allocated and was held in Northern Trust's (the NZ Super Fund's global master custodian) custody awaiting investment by investment managers.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2023

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)**(c) Collateral****Accounting Policy**

Cash provided by the NZ Super Fund as security for financial arrangements remains a financial asset of the NZ Super Fund and is recognised as cash pledged as collateral in the Statement of Financial Position, separate from cash and cash equivalents. Cash received by the NZ Super Fund as security for financial arrangements is also recognised as an asset in the Statement of Financial Position, along with a corresponding liability (cash collateral received) to repay the cash collateral when the underlying transaction is terminated.

For non-cash collateral received by the NZ Super Fund, if the NZ Super Fund has the right to sell or re-pledge the collateral, the collateral is recognised accordingly in the Statement of Financial Position. However, if the NZ Super Fund does not have the right to sell or re-pledge the collateral, the collateral is not recognised in the Statement of Financial Position but disclosed in the notes to the financial statements instead.

The NZ Super Fund enters into various derivative financial instruments and securities lending and similar agreements which may require the NZ Super Fund to post or receive collateral as security with counterparties. Where an agreement between counterparties results in one counterparty owing the other, prior to the termination of the agreement, collateral may be exchanged, offsetting some or all of the amount outstanding at that point in time. At the termination of the agreement, should the counterparty that is owing default, the collateral may be applied in order to settle any outstanding liability.

In line with standard industry practice, collateral is provided for derivative transactions in accordance with Credit Support Annexes (CSAs) which may vary from counterparty to counterparty. Settlements of collateral transactions inherently lag behind real-time mark-to-market movements in the related derivative financial instruments; they may only be settled once thresholds, as governed by the CSAs, in these mark-to-market movements are achieved; and may be required from one, both or neither of the counterparties involved with the transaction.

CASH PLEDGED AS COLLATERAL

The cash balance pledged as collateral to meet obligations under CSAs for derivative positions is \$207,250,000 (2022: \$698,081,000). The counterparties are permitted to sell or re-pledge the collateral balances. The pledged assets will be returned to the NZ Super Fund when the underlying transaction is terminated, but in the event of default the counterparty is entitled to apply the collateral in order to settle the outstanding liability.

Cash balances totalling \$373,076,000 (2022: \$509,717,000) are held in separate bank accounts lodged with the relevant futures exchange. These cash balances have been pledged as collateral for potential margin calls on futures with a fair value of \$nil (2022: \$nil) held by the NZ Super Fund.

CASH COLLATERAL RECEIVED

The cash balance received as collateral to meet obligations under CSAs for derivative positions is \$528,378,000 (2022: \$713,674,000). The NZ Super Fund is permitted to sell or re-pledge the collateral cash balances. The pledged assets will be returned to the counterparties when the underlying transaction is terminated, but in the event of default the NZ Super Fund is entitled to apply the collateral in order to settle the liability.

The cash balance received as collateral to meet obligations under securities lending and similar agreements is \$407,913,000 (2022: \$320,728,000). The NZ Super Fund is permitted to sell or re-pledge the collateral cash balances. At 30 June 2023, cash of \$402,514,000 (2022: \$318,456,000) had been used to purchase securities under a reverse repurchase agreement. These will be returned to the counterparties of the securities lending and similar agreements once the underlying transactions are terminated, but in the event of default the NZ Super Fund is entitled to apply the collateral in order to settle any liability.

NON-CASH COLLATERAL RECEIVED

The fair value of fixed income securities received as collateral to meet obligations under securities lending and similar agreements is \$2,602,564,000 (2022: \$1,703,066,000). The fair value of equity securities received as collateral to meet obligations under security lending and similar agreements is \$2,310,642,000 (2022: \$1,024,218,000). The NZ Super Fund is not permitted to sell or re-pledge the collateral. The assets will be returned to the counterparties when the underlying transaction is terminated, but in the event of default the NZ Super Fund is entitled to apply the collateral in order to settle the liability.

The fair value of fixed income securities received as collateral to meet obligations under a reverse repurchase agreement is \$1,091,094,000 (2022: \$1,019,589,000). The fair value of equity securities received as collateral to meet obligations under a reverse repurchase agreement is \$43,923,000 (2022: \$43,419,000). The NZ Super Fund is not permitted to sell or re-pledge the collateral. The assets will be returned to the counterparties when the underlying transaction is terminated, but in the event of default the NZ Super Fund is entitled to apply the collateral in order to settle the liability.

(d) Trade and other receivables

	ACTUAL 2023 NZD'000	ACTUAL 2022 NZD'000
Trade receivables	18,504	13,504
Accrued interest	111,808	68,672
Dividends receivable	34,508	38,386
Unsettled sales	316,577	3,022,051
GST receivable	249	252
	481,646	3,142,865

Accounting Policy

Trade receivables are initially recognised at their transaction price unless they contain significant financing components, in which case they are recognised at fair value. The NZ Super Fund holds trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost less impairment losses using the effective interest method.

The NZ Super Fund only holds trade receivables that have maturities of less than 12 months and which have no financing components. As such, the Board and management have applied a simplified approach for calculating expected credit losses (ECLs) on trade receivables under NZ IFRS 9 Financial Instruments. As a result, the Board and management do not track changes in credit risk, but instead, recognise impairment losses based on lifetime ECLs at each reporting date. The NZ Super Fund's approach to ECLs reflects a probability-weighted outcome using reasonable and supportable information that is available without undue cost or effort at reporting date about past events, current conditions and forecasts of future economic conditions.

Trade receivables are non-interest bearing and have standard 30-day credit terms. The NZ Super Fund does not have a history of default on trade receivables and the Board and management consider the probability of default to be very low as the counterparties have a strong capacity to meet their contractual obligations in the short term. Accordingly, no allowance has been made for impairment.

The timing and amount of expected cash flows for accrued interest, dividends receivable and unsettled sales are certain as they are based on contractual terms and corporate actions.

As a result of their short-term nature, the carrying value of trade and other receivables held at amortised cost approximates fair value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2023

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)**(e) Derivative financial instruments**

	ACTUAL 2023 NZD'000	ACTUAL 2022 NZD'000
Derivative financial instrument assets:		
Forward foreign exchange contracts	1,271,333	662,399
Cross currency swaps	2,291	3,061
Asset swaps	6,788	-
Longevity contingent swaps	24,011	16,101
Futures contracts	-	-
Total return swaps	322,863	164,591
Credit default swaps	50,846	55,440
Interest rate swaps	179,645	396,054
Warrants	-	-
Total derivative financial instrument assets	1,857,777	1,297,646
Derivative financial instrument liabilities:		
Forward foreign exchange contracts	1,187,807	3,378,748
Cross currency swaps	-	24,698
Asset swaps	4,298	-
Futures contracts	-	-
Total return swaps	66,744	525,461
Credit default swaps	65,462	59,734
Interest rate swaps	2	15,769
Total derivative financial instrument liabilities	1,324,313	4,004,410
Net derivative financial instruments	533,464	(2,706,764)

The NZ Super Fund enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk, credit risk and interest rate risk and to achieve exposure to assets and asset classes. The use of derivative financial instruments is governed by the Statement of Investment Policies, Standards and Procedures, including the Derivatives Policy, which provide written principles on the use of derivative financial instruments by the NZ Super Fund. Compliance with policies and exposure limits is monitored on a continuous basis.

At 30 June 2023, the NZ Super Fund has positions in the following types of derivative financial instruments:

Forwards and futures contracts

Forward and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forward contracts are customised contracts transacted in the over-the-counter market. Futures contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements.

The main differences in the risks associated with forward and futures contracts are credit risk and liquidity risk. The NZ Super Fund has credit exposure to the counterparties of non-collateralised forward contracts. The credit risk related to futures contracts is considered minimal because the exchange reduces credit risk by daily margining. Where possible, the NZ Super Fund seeks to settle all forward contracts on a net basis, but in some instances they are settled gross. Forward contracts that are settled gross are considered to bear a higher liquidity risk than the futures contracts which are settled on a net basis. Both types of contracts result in market risk exposure.

Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts. Where swap contracts are settled net, the payment flows are usually netted against each other, with the difference being paid by one party to the other. Where possible, swaps are settled net but some cross currency swaps are settled gross. In a cross currency swap, the NZ Super Fund pays a specified amount in one currency and receives a specified amount in another currency. Swap contracts expose the NZ Super Fund to counterparty credit risk, market risk and liquidity risk.

Warrants

Warrants are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

The NZ Super Fund holds warrants at fair value in respect of one (2022: one) of its listed global equities investments, valued at \$nil (2022: \$nil).

The contract maturities, notional and fair values for all derivative financial instruments are set out below. Fair values presented correspond in total to the net assets and liabilities for each class of derivative financial instrument.

FORWARD FOREIGN EXCHANGE CONTRACTS

	ACTUAL			
	NOTIONAL VALUE - BUY/ (SELL) FOREIGN CURRENCY	FAIR VALUE	NOTIONAL VALUE - BUY/ (SELL) FOREIGN CURRENCY	FAIR VALUE
	2023	2023	2022	2022
	NZD'000	NZD'000	NZD'000	NZD'000
Less than 3 months	(44,263,819)	155,451	(45,694,780)	(1,471,709)
3 to 6 months	(16,635,673)	142,049	(12,409,384)	(609,678)
6 to 9 months	(11,193,689)	(188,540)	(5,778,523)	(391,004)
9 to 12 months	(8,697,805)	(26,700)	(9,706,858)	(243,958)
1 to 2 years	(600,000)	1,266	-	-
	(81,390,986)	83,526	(73,589,545)	(2,716,349)

Where possible, the NZ Super Fund seeks to settle all forward foreign exchange contracts on a net basis, otherwise, forward foreign exchange contracts are settled gross. Refer to Note 4(g) for further disclosures on the offsetting of financial assets and financial liabilities.

CROSS CURRENCY SWAPS

	ACTUAL			
	FOREIGN CURRENCY BUY/ SELL	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE
	2023	2023	2022	2022
	NZD'000	NZD'000	NZD'000	NZD'000
Less than 1 year	NZD/USD	-	-	275,432
2 to 5 years	NZD/USD	288,272	865	430,232
	AUD/USD	645,654	1,159	636,204
5 to 10 years	NZD/USD	-	-	272,726
	AUD/USD	95,970	267	(33)
		1,029,896	2,291	1,614,594
				(21,637)

Where possible, the NZ Super Fund seeks to settle all cross currency swaps on a net basis, otherwise, cross currency swaps are settled gross. Refer to Note 4(g) for further disclosures on the offsetting of financial assets and financial liabilities. Notional value is derived from the 'buy' leg of these contracts.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2023

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)**ASSET SWAPS**

	ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2023 NZD'000	2023 NZD'000	2022 NZD'000	2022 NZD'000
Later than 10 years	489,676	2,490	-	-
	489,676	2,490	-	-

All asset swaps are settled net.

LONGEVITY CONTINGENT SWAPS

	ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2023 NZD'000	2023 NZD'000	2022 NZD'000	2022 NZD'000
Later than 10 years	179,548	24,011	194,612	16,101
	179,548	24,011	194,612	16,101

All longevity contingent swaps are settled net.

FUTURES CONTRACTS

	ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2023 NZD'000	2023 NZD'000	2022 NZD'000	2022 NZD'000
Equity futures	4,920,056	-	4,325,240	-
Fixed interest futures	1,427,593	-	3,318,296	-
Commodities futures	82,809	-	331,984	-
	6,430,458	-	7,975,520	-

The margin on futures contracts is settled daily.

TOTAL RETURN SWAPS

	ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2023 NZD'000	2023 NZD'000	2022 NZD'000	2022 NZD'000
Equity				
Less than 1 year	14,973,258	256,142	9,886,038	(401,174)
	14,973,258	256,142	9,886,038	(401,174)
Bonds				
Less than 1 year	81,613	(23)	321,673	40,304
	81,613	(23)	321,673	40,304

All total return swaps are settled net.

CREDIT DEFAULT SWAPS

	ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2023	2023	2022	2022
	NZD'000	NZD'000	NZD'000	NZD'000
Buy protection				
Less than 1 year	852,036	(17,536)	321,673	(4,228)
1 to 2 years	4,859,218	(66,953)	945,718	(14,387)
2 to 5 years	1,742,129	(61,826)	5,874,765	(791)
5 to 10 years	-	-	247,717	(12,512)
	7,453,383	(146,315)	7,389,873	(31,918)
Sell protection				
Less than 1 year	852,036	15,566	276,639	4,283
1 to 2 years	4,859,218	61,838	839,566	20,463
2 to 5 years	6,543,965	36,233	10,974,439	(23,581)
5 to 10 years	7,993,413	18,062	8,969,682	26,459
	20,248,632	131,699	21,060,326	27,624

All credit default swaps are settled net.

INTEREST RATE SWAPS

	ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2023	2023	2022	2022
	NZD'000	NZD'000	NZD'000	NZD'000
Less than 1 year	170,000	3,491	397,000	3,503
1 to 2 years	21,000	1,957	239,636	5,114
2 to 5 years	1,136,401	44,295	1,555,368	71,151
5 to 10 years	170,000	29,642	444,390	67,291
Later than 10 years	1,540,184	100,258	2,680,563	233,226
	3,037,585	179,643	5,316,957	380,285

All interest rate swaps are settled net.

WARRANTS

	ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2023	2023	2022	2022
	NZD'000	NZD'000	NZD'000	NZD'000
2 to 5 years	11,657	-	11,487	-
	11,657	-	11,487	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2023

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)**(f) Securities lending and similar agreements****Accounting Policy**

Securities lending transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the Statement of Financial Position if the risks and rewards of ownership are also transferred. Collateral advanced by the borrower in the form of readily marketable securities (non-cash) is held in escrow by a third party agent. Recourse of those securities is only available in the event of default of the borrower and, because of this, the non-cash collateral is not recognised in the Statement of Financial Position. Collateral advanced by the borrower in the form of cash is recognised as an asset in the Statement of Financial Position, along with a corresponding obligation to repay the cash collateral to the borrower, once the securities have been returned.

Securities purchased under reverse repurchase agreements to resell at a specified future date are not recognised in the Statement of Financial Position. The consideration paid, including accrued interest, is recorded separately in the Statement of Financial Position as an investment, reflecting the transaction's economic substance as a loan. The difference between the purchase and resale prices is recorded in interest income and is accrued over the life of the agreement using the effective interest rate.

The NZ Super Fund enters into agreements to lend global equities and fixed income securities to other market participants in return for a fee, with an obligation that the securities are returned at the termination of the agreement. These market participants may then use the loaned securities to enter into other contractual agreements themselves, however the NZ Super Fund retains all risks and rewards in relation to the securities throughout this period. Collateral is received from the borrowers of these securities for the period of the agreement.

(g) Offsetting financial assets and financial liabilities**Accounting Policy**

The NZ Super Fund offsets financial assets and financial liabilities when it has a current legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis. Each master netting arrangement allows for net settlement of certain open contracts where the NZ Super Fund and the respective counterparty both elect to settle on a net basis. In the absence of such an election, contracts will be settled on a gross basis. However, each party to the master netting arrangement will have the option to settle all open contracts on a net basis in the event of default of the other party. Under the terms of the master netting arrangements, collateral can only be seized by a party in the event of default of the other party.

At balance date the NZ Super Fund was subject to multiple master netting arrangements with its derivative financial instrument and securities lending and similar agreements' counterparties. The following table shows the NZ Super Fund's financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements:

ACTUAL						
2023	AMOUNTS OFFSET		RELATED AMOUNTS NOT OFFSET			
	GROSS AMOUNTS SET- OFF IN THE STATEMENT OF FINANCIAL POSITION		NET AMOUNTS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION		FINANCIAL INSTRUMENTS	CASH COLLATERAL
	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
Financial assets						
Derivative financial instrument assets	2,080,904	223,127	1,857,777	-	528,378	1,329,399
Reverse repurchase agreements*	889,014	-	889,014	1,135,017	-	(246,003)
Securities on loan under securities lending and similar agreements*	5,136,345	-	5,136,345	4,913,207	407,913	(184,775)
	8,106,263	223,127	7,883,136	6,048,224	936,291	898,621
Financial liabilities						
Derivative financial instrument liabilities	(1,547,440)	(223,127)	(1,324,313)	-	(207,250)	(1,117,063)
	(1,547,440)	(223,127)	(1,324,313)	-	(207,250)	(1,117,063)
2022						
Financial assets						
Derivative financial instrument assets	1,434,385	136,739	1,297,646	-	713,674	583,972
Reverse repurchase agreements*	872,173	-	872,173	1,063,008	-	(190,835)
Securities on loan under securities lending and similar agreements*	3,226,398	-	3,226,398	2,727,284	320,728	178,386
	5,532,956	136,739	5,396,217	3,790,292	1,034,402	571,523
Financial liabilities						
Derivative financial instrument liabilities	(4,141,149)	(136,739)	(4,004,410)	-	(698,081)	(3,306,329)
	(4,141,149)	(136,739)	(4,004,410)	-	(698,081)	(3,306,329)
* Financial instruments held as collateral against reverse repurchase and securities lending and similar agreements are held in escrow by a third party agent. Recourse of those securities is only available in the event of default of the borrower and, because of this, the non-cash collateral is not recognised in the Statement of Financial Position.						
(h) Trade and other payables						
				ACTUAL	ACTUAL	
				2023	2022	
				NZD'000	NZD'000	
Accrued expenses				135,996	43,947	
Unsettled purchases				672,598	4,912,509	
Amounts owed for reimbursement of the Guardians' expenses				20,831	21,227	
				829,425	4,977,683	
Represented by:						
Current				827,945	4,976,254	
Non-current				1,480	1,429	
				829,425	4,977,683	

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2023

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)**Accounting Policy**

Short-term trade and other payables are initially recognised at fair value, then subsequently at amortised cost. As a result of their short-term nature, the carrying amount of trade and other payables held at amortised cost approximates fair value.

Trade and other payables represent amounts due to third parties in the normal course of business and to the Guardians for the reimbursement of expenses. Trade payables are non-interest bearing and are normally settled within 30-day terms. The NZ Super Fund has risk management policies in place to ensure that all payables are paid within the credit time frame.

The timing and amount of expected cash flows for unsettled purchases are certain as they are based on contractual terms and corporate actions.

Other than the non-current portion of trade and other payables, all payables are expected to settle within one year. The non-current payable will settle progressively over a four-year period.

(i) Financial assets and financial liabilities expected to be recovered or settled after more than 12 months

Certain financial assets and financial liabilities combine amounts expected to be recovered or settled no more than 12 months after balance date and amounts expected to be recovered or settled more than 12 months after balance date. The following table sets out the amounts expected to be recovered or settled after more than 12 months:

	ACTUAL 2023 NZD'000	ACTUAL 2022 NZD'000
Financial assets		
Investments - derivative financial instrument assets	263,361	464,071
Investments - other financial assets (including unconsolidated subsidiaries)	16,528,321	14,505,147
	16,791,682	14,969,218
Financial liabilities		
Trade and other payables	1,480	1,429
Investments - derivative financial instrument liabilities	69,796	74,987
	71,276	76,416
Net financial assets	16,720,406	14,892,802

SECTION 5: NON-FINANCIAL ASSETS AND LIABILITIES

(a) Provision for performance-based fees

	ACTUAL 2023 NZD'000	ACTUAL 2022 NZD'000
Opening balance	99,573	-
New provision during the year	37,720	128,955
Unused provision released during the year	-	-
Current portion transferred to accrued expenses	(76,243)	(29,382)
Closing balance	61,050	99,573

Accounting Policy

A provision is recognised in the Statement of Financial Position when the NZ Super Fund has a present obligation arising as a result of a past event, it is probable that cash will be paid to settle the obligation and the amount can be estimated reliably. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at balance date, taking into consideration the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Where some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

Performance-based fees are payable to certain external investment managers based on the performance of the assets under their management over and above an agreed benchmark. For some of these external investment managers, the pay-out of the current year's fee is capped, with the remainder of the fee being held by the NZ Super Fund for possible pay-out in future periods. For those managers, poor performance in the following years may lead to a reduction in the entitlement that is being held.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2023

SECTION 6: MANAGEMENT OF FUND CAPITAL AND RESERVES**(a) Fund capital****PURPOSE**

Fund capital, which comprises investments and all other assets of the NZ Super Fund less any liabilities, is the property of the Crown. The NZ Super Fund's purpose is to build a portfolio of assets to help reduce the impact of providing retirement income, in the form of New Zealand superannuation, to an ageing population.

CAPITAL CONTRIBUTIONS

The Crown is required to make capital contributions to the NZ Super Fund in accordance with Sections 42 to 44 of the New Zealand Superannuation and Retirement Income Act 2001 (Act). These capital contributions are made by the Crown for investment purposes based on a percentage of Gross Domestic Product (GDP). Under Section 44 of the Act, the Crown is entitled to contribute lesser amounts than calculated using the formula under Section 43 of the Act. Fund capital contributions are recorded in the Statement of Changes in Public Equity.

CAPITAL WITHDRAWALS

Under Section 47 of the Act, if the required annual capital contribution is less than zero, the Minister of Finance may require a capital withdrawal to be made from the NZ Super Fund up to that amount and paid into a Crown bank account. Capital withdrawals are projected to commence from 2033/34 under current Treasury modelling.

SUPERANNUATION ENTITLEMENTS

Under Section 45 of the Act, the Minister of Finance must ensure that sufficient money is transferred into the NZ Super Fund in each financial year to meet the net cost of the superannuation entitlements that are payable out of the NZ Super Fund during that year. This requirement is additional to and separate from the obligation to make annual capital contributions. The Treasury, through its New Zealand Debt Management office, has facilitated funding for these superannuation entitlements from the Minister of Finance to the Ministry of Social Development on behalf of the NZ Super Fund. The Guardians has no control over these transfers, with The Treasury acting as agent for the NZ Super Fund. Transfers for superannuation entitlements are recorded in the Statement of Changes in Public Equity.

MANAGEMENT OF FUND CAPITAL

The NZ Super Fund is a profit-oriented entity, managed by the Guardians. The Guardians' mandate is to invest the NZ Super Fund on a prudent, commercial basis and, in doing so, ensure that the NZ Super Fund is managed and administered in a manner consistent with best-practice portfolio management, maximising return without undue risk to the NZ Super Fund as a whole, and avoiding prejudice to New Zealand's reputation as a responsible member of the world community. The contributions from the Crown to the NZ Super Fund are invested in accordance with its Statement of Investment Policies, Standards and Procedures, which is available at www.nzsuperfund.nz.

(b) Reserves**ASSET REVALUATION RESERVE**

The asset revaluation reserve is used to record increases and decreases in the fair value of intangible assets.

SECTION 7: FINANCIAL PERFORMANCE

(a) Income

	ACTUAL 2023 NZD'000	ACTUAL 2022 NZD'000
Net operating income		
Interest income	556,134	281,825
Dividend income	758,560	762,987
Net changes in fair value on financial instruments at fair value through profit or loss	5,308,328	(4,989,598)
Net foreign exchange gains/(losses)	479,354	(143,796)
Other income	9,906	9,740
	7,112,282	(4,078,842)
Interest income		
Interest income - financial instruments at fair value through profit or loss	394,995	235,031
Interest income - financial assets at amortised cost	161,139	46,794
	556,134	281,825

Accounting policy

Income is recognised when it is probable that economic benefits will flow to the NZ Super Fund and the income can be reliably measured, regardless of when payment is being made. The following specific recognition criteria must also be met before income is recognised:

INTEREST INCOME

Interest income comprises interest on financial instruments measured at fair value through profit or loss and interest on financial assets measured at amortised cost.

For financial instruments measured at fair value, interest income is recognised on an accruals basis, either daily or on a yield-to-maturity basis. For financial assets measured at amortised cost, interest income is recognised as the interest accrues using the effective interest method, which allocates interest at a constant rate of return over the expected life of the financial instrument based on the estimated future cash flows.

DIVIDEND INCOME

Dividend income is recognised when the shareholder's rights to receive payment has been established, normally the ex-dividend date. Where the NZ Super Fund has elected to receive dividends in the form of additional shares rather than cash, the amount of the cash dividend foregone is recognised as income. Any excess in the value of shares received over the amount of cash dividend foregone is recognised as a gain in the Statement of Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2023

SECTION 7: FINANCIAL PERFORMANCE (CONTINUED)**(b) Income received and fair value gains and losses recognised from interests in unconsolidated structured entities**

The following table summarises income received and fair value gains and losses from the NZ Super Fund's investments in unconsolidated structured entities:

2023	ACTUAL				
	INTEREST INCOME	DIVIDEND INCOME	FAIR VALUE GAINS	FAIR VALUE LOSSES	TOTAL
	NZD'000	NZD'000	NZD'000	NZD'000	
Fixed income securities:					
Asset and mortgage-backed securities	99,417	-	8,653	(4,182)	103,888
Agency mortgage-backed securities	25,618	-	29,812	(88,719)	(33,289)
Shareholder loans	6,771	-	-	-	6,771
Fixed income exchange traded funds	9,308	-	-	(24,434)	(15,126)
Collective investment funds	11,589	-	83,619	(229,612)	(134,404)
Listed global equities:					
Equity exchange traded funds	-	1,625	36,910	-	38,535
Insurance-linked investments - catastrophe bonds	63,642	-	15,897	(35,268)	44,271
Private equity investment funds	-	78,708	408,426	(149,998)	337,136
Reverse repurchase agreements	30,576	-	-	(25,352)	5,224
Unconsolidated subsidiaries	-	11,969	1,008,224	(457,681)	562,512
2022					
Fixed income securities:					
Asset and mortgage-backed securities	26,273	-	94,393	(107,197)	13,469
Agency mortgage-backed securities	12,707	-	3,787	(77,383)	(60,889)
Shareholder loans	3,292	-	-	-	3,292
Fixed income exchange traded funds	6,332	-	413	(3,696)	3,049
Collective investment funds	329	-	371,618	(20,845)	351,102
Listed global equities:					
Equity exchange traded funds	-	4,665	-	(44,369)	(39,704)
Insurance-linked investments - catastrophe bonds	35,755	-	4,493	(22,341)	17,907
Private equity investment funds	-	36,244	356,293	(50,832)	341,705
Reverse repurchase agreements	721	-	-	-	721
Unconsolidated subsidiaries	-	21,764	1,359,725	(232,097)	1,149,392

(c) Operating expenditure

	ACTUAL 2023 NZD'000	ACTUAL 2022 NZD'000
Reimbursement of Guardians' expenses	86,760	70,725
Managers' fees - base	52,446	40,688
Managers' fees - performance	45,667	131,798
Custody fees	6,854	6,404
Depreciation	533	555
Amortisation	-	27
Impairment loss on assets carried at amortised cost	32,468	-
Loss on disposal of property, plant and equipment	-	2
Auditor's remuneration	679	646
Professional advisors	8,567	9,349
Trade expenses	11,145	9,594
Other expenses	10,288	8,298
	255,407	278,086

(d) Auditor's remuneration

	ACTUAL 2023 NZD'000	ACTUAL 2022 NZD'000
Audit of the NZ Super Fund's financial statements	658	616
Audit of the NZ Super Fund's unconsolidated subsidiaries met by the NZ Super Fund	-	9
Other fees paid to auditor	21	21
	679	646

The auditor of the NZ Super Fund is Emma Winsloe of Ernst & Young, on behalf of the Auditor-General.

Under Section 59B of the New Zealand Superannuation and Retirement Income Act 2001 (Act) Fund Investment Vehicles (FIVs) are not required to prepare and have financial statements audited. However, during the year, \$nil was paid in respect of the voluntary audit of unconsolidated subsidiaries (2022: \$9,000 was paid in respect of the voluntary audit of one unconsolidated subsidiary for the year ended 30 June 2021).

The other fees paid to the auditor of the NZ Super Fund were for the assurance review of the calculation of NZ Super Fund performance and the assurance review of the annual self-assessment of the Guardians' adherence to the Generally Accepted Principles and Practices for Sovereign Wealth Funds (Santiago Principles).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2023

SECTION 7: FINANCIAL PERFORMANCE (CONTINUED)**(e) Income tax**

The income tax expense/(income) included in the Statement of Comprehensive Income is analysed as follows:

	ACTUAL 2023	ACTUAL 2022
	NZD'000	NZD'000
Components of income tax expense/(income)		
Current tax expense:		
Current period	150,702	13,493
Prior period adjustment	-	21,093
Total current tax expense	150,702	34,586
Deferred tax expense:		
Current period	785,715	(792,632)
Prior period adjustment	(10,374)	-
Total deferred tax expense/(income)	775,341	(792,632)
Income tax expense/(income)	926,043	(758,046)
Reconciliation of income tax expense and accounting profit/(loss) for the year		
Profit/(loss) for the year before income tax expense	6,856,875	(4,356,928)
Income tax expense/(income) calculated at 28%	1,919,925	(1,219,940)
Fair Dividend Rate*	(772,623)	652,663
Dividend imputation credits	(18,206)	(17,108)
Portfolio Investment Entities (PIE) Regime	(75,155)	40,598
Controlled Foreign Companies (CFC) Regime	(126,419)	(247,731)
Prior period adjustment	(10,374)	21,093
Other items	8,895	12,379
Income tax expense/(income)	926,043	(758,046)

* The NZ Super Fund applies the 'Fair Dividend Rate' (FDR) to all equity investments excluding New Zealand equities and certain Australian equities listed on the Australian Stock Exchange (ASX). The investments subject to FDR are taxed on 5% of their market value. Gains, losses and dividends on these investments are not subject to any further tax.

The Guardians has a Co-operative Compliance Agreement with the Inland Revenue Department (IRD). Under this agreement, tax positions undertaken on NZ Super Fund activities, including the tax treatment of new investments, are disclosed to the IRD before the tax return is filed.

The table below sets out the deferred tax (liability)/asset recognised in the Statement of Financial Position, together with movements during the year:

	ACTUAL 2023 NZD'000	ACTUAL 2022 NZD'000
Opening balance	749,766	(42,866)
Losses available for offsetting against future taxable income	(786,112)	810,103
Controlled foreign companies	1,340	(18,986)
Tax credits receivable	(273)	2,298
Other items	9,704	(783)
(Charged)/Credited to Profit or Loss	(775,341)	792,632
Other items not (charged)/credited to Profit or Loss*	(23,991)	-
Total deferred tax asset/(liability)	(49,566)	749,766

* Tax losses of \$23,991,000 that arose in the year ended 30 June 2022 were made available by NZ Super Fund to offset the New Zealand tax payable of its subsidiaries for the year ended 30 June 2022.

Accounting Policy

In accordance with Section HR 4B of the Income Tax Act 2007, income derived by the NZ Super Fund is subject to New Zealand tax determined using the rules applying to companies. The income tax expense recognised in the Statement of Comprehensive Income comprises current and deferred tax and is based on accounting profit, adjusted for permanent differences between accounting and tax rules. Income tax relating to items of other comprehensive income is recognised in other comprehensive income.

Current tax is the expected tax payable to or receivable from the taxation authorities based on the taxable income or loss for the year and any adjustment in respect of prior years. It is calculated using tax rates and tax laws that have been enacted or substantively enacted at balance date.

Deferred tax is recognised in respect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the tax bases of assets and liabilities at balance date. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- The initial recognition of goodwill;
- The initial recognition of assets or liabilities that affects neither accounting nor taxable profit or loss other than in a business combination; and
- Temporary differences relating to investments in subsidiaries, associates and interests in joint ventures where it is probable that they will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses only to the extent that it is probable that sufficient taxable profit will be available to utilise the deductible temporary differences, the carry forward of unused tax credits and unused tax losses. The carrying amount of deferred tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at balance date.

Deferred tax assets and liabilities are offset when a legally enforceable right to set-off exists, the deferred tax balances relate to income taxes levied by the same taxation authority and the NZ Super Fund intends to settle on a net basis.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2023

SECTION 7: FINANCIAL PERFORMANCE (CONTINUED)**(f) Reconciliation of profit/(loss) for the year to net cash flows from operating activities**

The following is a reconciliation of profit/(loss) for the year to cash provided by operating activities as per the Statement of Cash Flows.

	ACTUAL 2023 NZD'000	ACTUAL 2022 NZD'000
Profit/(loss) for the year after income tax expense/(income)	5,930,832	(3,598,882)
Add/(Deduct) non-cash items:		
Depreciation and amortisation	533	582
Net changes in fair value on financial instruments at fair value through profit or loss	(5,308,328)	4,989,598
Net foreign exchange (gains)/losses	(479,354)	143,796
Increase/(Decrease) in deferred tax liability/asset	799,332	(792,632)
Other non-cash items	18,342	21,064
Add items classified as investing activities:		
Loss on disposal of property, plant and equipment	-	2
Changes in working capital:		
(Increase)/Decrease in assets:		
Trade and other receivables	2,661,219	(2,519,546)
Increase/(Decrease) in liabilities:		
Trade and other payables	(4,148,258)	4,308,605
Provisions	(38,523)	99,573
Increase/(Decrease) in current tax	411,375	(2,160,195)
Add/(Deduct) changes in net assets and liabilities related to operating cash flows not included in net profit:		
Unsettled sales	(2,705,474)	2,498,254
Unsettled purchases	4,239,933	(4,294,780)
Add/(Deduct) net operating cash flows not included in net profit*	(4,472,462)	(5,430,727)
Net cash provided by/(used in) operating activities	(3,090,833)	(6,735,288)

* Net operating cash flows not included in net profit is primarily comprised of the cash flows arising from the sale and purchase of investments and the net movement in cash collateral.

SECTION 8: UNRECOGNISED ITEMS

(a) Commitments and contingencies

LEASE COMMITMENTS

The NZ Super Fund has no commitments for lease contracts that have not yet commenced at 30 June 2023 (2022: \$nil).

CAPITAL COMMITMENTS

At 30 June 2023, the NZ Super Fund had outstanding commitments to private equity investment funds and collective investment funds (excluding those classified as unconsolidated subsidiaries) totalling \$2,458,061,000 (2022: \$2,333,637,000), of which \$20,531,000 has been called but not yet paid (2022: \$721,000). Additionally, private equity investment funds that have reached the end of their contracted investment periods can call for 'follow on capital' under restricted conditions to support existing investments. The NZ Super Fund has an additional commitment of \$720,390,000 for follow on capital (2022: \$690,163,000). These commitments are denominated in the foreign currency of the respective private equity investment funds and collective investment funds and have been translated at the exchange rate prevailing at balance date.

At 30 June 2023, the NZ Super Fund had outstanding commitments under loan agreements (excluding those to unconsolidated subsidiaries) totalling \$535,707,000 (2022: \$271,517,000). Under the loan agreements, the borrower can call for cash by giving the NZ Super Fund up to two business days notice.

CONTINGENCIES

The NZ Super Fund has no contingent liabilities at balance date (2022: \$nil).

(b) Events after the reporting date

There were no reportable events subsequent to balance date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2023

SECTION 9: OTHER INFORMATION**(a) Related party transactions**

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions. The definition includes subsidiaries, associates and joint ventures. All related party transactions with other government-related entities have been entered into on an arm's length basis.

PARENT ENTITY

The NZ Super Fund is managed and administered by the Guardians which is a wholly owned entity of the Crown. Both the Guardians and the Crown prepare financial statements that are available to the public.

The Guardians pays expenses relating to the NZ Super Fund, as it is required to do under the Act. A portion of these expenses is reimbursed by the NZ Super Fund as is entitled under the Act. These expenses are included in the financial statements of the Guardians. The amount of reimbursement to the Guardians for the year ended 30 June 2023 was \$86,760,000 (2022: \$70,725,000). The related party payable to the Guardians as at 30 June 2023 is \$20,831,000 (2022: \$21,227,000).

SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES**Subsidiaries**

The NZ Super Fund's interests in unconsolidated subsidiaries are set out in Note 1(e). Transactions entered into with these unconsolidated subsidiaries during the year are as follows:

	ACTUAL 2023	ACTUAL 2022
	NZD'000	NZD'000
Interest income	6,771	3,292
Dividend income	11,969	21,764
Other income	285	1,926
Expenses paid by the NZ Super Fund on behalf of unconsolidated subsidiaries	-	9
Drawdown of loans	35,868	131,054
Repayment of loans	76,342	118,377

The NZ Super Fund has made the following financial commitments to unconsolidated subsidiaries:

NOTE	COMMITMENT EXPIRY DATE	ACTUAL			
		TOTAL COMMITMENT	OUTSTANDING COMMITMENT	TOTAL COMMITMENT	OUTSTANDING COMMITMENT
		2023 NZD'000	2023 NZD'000	2022 NZD'000	2022 NZD'000
APG Infrastructure Asset Owner Fund I C.V.	22 July 2037	445,196	445,196	-	-
Bain Capital Credit Managed Account (NZSF) Limited Partnership	(i) 30 June 2020	276,022	167,465	260,625	120,291
BTI II-C Co-Invest, LP	18 May 2027	163,225	140,380	-	-
Canyon NZ-DOF Investing Limited Partnership	1 Nov 2023	408,063	110,177	402,090	213,108
KA Waimanawa Limited Partnership	29 Oct 2024	22,895	18,358	22,895	18,358
KKR NZSF Energy Investor Limited Partnership	(ii) 12 Feb 2019	408,063	234,990	402,090	231,811
N-Data Center Portfolio Co-Investor, LLC	No expiry date	136,150	499	134,157	20,325
N-Novva Co-Investor, LLC	No expiry date	232,142	-	228,744	95,613
NZSF Beachlands Limited	No expiry date	5,696	1,046	5,696	1,046
NZSF Hobsonville Investments Limited	No expiry date	49,169	9,491	49,169	9,491
NZSF Horticulture Investments Limited	30 Sep 2023	5,000	-	5,000	-
NZSF Land Development Limited	5 Oct 2023	240,000	222,060	240,000	227,960
NZSF Land Holdings Limited	No expiry date	11,745	129	11,745	129
NZSF Renewables NZ Limited	30 Jun 2024	4,446	4,446	1,969	1,969
NZSF Side Car (Movac) Limited Partnership	(i) 2 Nov 2021	25,000	2,282	25,000	2,298
NZSF Side Car (Pioneer) Limited Partnership	(i) 2 Dec 2021	60,000	3,358	60,000	8,263
NZSF US Renewables, Inc.*	No expiry date	438,249	24,484	138,309	3,217
NZSF Variable Co-Investment (Direct Capital) Limited Partnership	(i) 14 Dec 2022	50,000	5,412	50,000	5,762
StepStone NZ Infrastructure Opportunities Fund, Limited Partnership	31 Aug 2026	408,063	381,269	-	-
StepStone Opportunities VC NZ, Limited Partnership	No expiry date	244,838	230,714	-	-
Stonepeak Fern Investment Partners LP	6 Jan 2034	244,838	130,524	241,254	136,620
		3,878,800	2,132,280	2,278,743	1,096,261

*In addition, NZSF US Renewables, Inc. has committed to providing financial support to its joint venture, Longroad Energy Holdings, LLC in respect of a letter of credit taken on by that company. In the event that Longroad Energy Holdings, LLC is unable to pay any outstanding amount arising from the letter of credit as it falls due, NZSF US Renewables, Inc. may require additional funding from the NZ Super Fund to enable it to provide the required support. At balance date, the letter of credit totalled \$278,221,000 (equivalent to USD 170,452,000) (2022: \$180,885,000) of which NZSF US Renewables, Inc.'s share is \$139,110,000 (equivalent to USD 85,226,000) (2022: \$90,443,000).

(i) Although the contracted investment period has expired, the unconsolidated subsidiary can call for 'follow on capital' under restricted conditions to support the administration of the unconsolidated subsidiary and for existing investments.

(ii) Although the contracted investment period has expired, the unconsolidated subsidiary can call for 'follow on capital' under restricted conditions to support the administration of the unconsolidated subsidiary and for existing investments. These restrictions limit the contractually available outstanding commitment stated above to \$60,544,000 (2022: \$59,917,000).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2023

SECTION 9: OTHER INFORMATION (CONTINUED)

The NZ Super Fund has made the following loans to unconsolidated subsidiaries:

	NOTE	ACTUAL 2023	ACTUAL 2022
		NZD'000	NZD'000
KA Waimanawa Limited Partnership	(ii)	5,633	4,890
NZSF Canterbury Farms Limited	(i)	96,062	92,924
NZSF Rural Land Limited	(i)	65,713	44,799
NZSF Southland Farms Limited	(i)	60,535	56,462
NZSF Waikato Farms Limited	(i)	15,534	15,054
NZSF Australian Rural Holdings Trust	(iii)	97,476	84,653
Palgrove Holdings Pty Limited	(iv)	22,734	22,027
Palgrove Land Holdings Trust	(v)	5,883	5,682
NZSF Horticulture Investments Limited	(vi)	5,000	5,000
NZSF Land Development Limited	(i)	15,460	12,040
NZSF Tui Investments Limited	(i)	-	13,791
NZSF Timber Investments (No 4) Limited	(i)	380,005	410,439
		770,035	767,761

- (i) Interest free, repayable on demand.
- (ii) Interest bearing, repayable by 29 October 2024.
- (iii) Interest bearing, \$75,916,000 is repayable by 14 August 2027 and \$21,560,000 is repayable by 31 March 2025.
- (iv) Interest bearing, \$13,344,000 is repayable by 14 August 2027 and \$9,390,000 is repayable by 31 March 2025.
- (v) Interest bearing, repayable by 30 June 2026.
- (vi) Interest bearing, repayable by 30 September 2023.

The loans to unconsolidated subsidiaries are classified as fixed income securities in the Statement of Financial Position.

Associates

The NZ Super Fund's interests in associates are set out in Note 1(f). Transactions entered into with these associates during the year are as follows:

	ACTUAL 2023	ACTUAL 2022
	NZD'000	NZD'000
Interest income	102	38
Other income	428	317

At 30 June 2023, the NZ Super Fund had one outstanding commitment to an associate, Sustainable Communities Infrastructure Trust, totalling \$909,000 (2022 \$3,650,000). The commitment has no expiry date.

At 30 June 2023, the NZ Super Fund had one loan to an associate, Galileo Green Energy GmbH, totalling \$20,365,000 (2022 \$10,387,000). The loan is interest bearing, repayable by 4 February 2040.

Joint ventures

The NZ Super Fund's interests in joint ventures are set out in Note 1(g). Transactions entered into with joint ventures during the year are as follows:

	ACTUAL 2023 NZD'000	ACTUAL 2022 NZD'000
Dividend income	7,257	5,811
Other income	345	345

At 30 June 2023, the NZ Super Fund had no loans or commitments to joint ventures (2022: nil).

OTHER GOVERNMENT-RELATED ENTITIES

At balance date, the NZ Super Fund held fixed income securities issued by the New Zealand Government valued at \$71,753,000 (2022: \$32,990,000). Interest income earned from these investments during the year was \$1,378,000 (2022: \$1,169,000).

At balance date, the NZ Super Fund held inflation-indexed securities issued by the New Zealand Government valued at \$170,442,000 (2022: \$122,386,000). Income earned from these investments during the year was \$3,633,000 (2022: \$2,299,000).

At balance date, the NZ Super Fund held fixed income securities issued by Housing New Zealand Limited valued at \$17,673,000 (2022: \$191,841,000). Interest income earned from these investments during the year was \$3,313,000 (2022: \$4,230,000).

At balance date, the NZ Super Fund held 25,302,000 (2022: 27,862,000) shares in Meridian Energy Limited, valued at \$141,690,000 (2022: \$130,392,000). Dividend income earned during the year from holdings in this entity amounted to \$4,696,000 (2022: \$4,960,000).

At balance date, the NZ Super Fund held 40,000 (2022: nil) shares in Air New Zealand Limited, valued at \$31,000 (2022: \$nil). Dividend income earned during the year from holdings in this entity amounted to \$nil (2022: \$nil).

At balance date, the NZ Super Fund held 9,373,000 (2022: 10,858,000) shares in Mercury NZ Limited, valued at \$60,923,000 (2022: \$61,346,000). Dividend income earned during the year from holdings in this entity amounted to \$2,033,000 (2022: \$2,304,000).

During the year ended 30 June 2023, the 227,789,000 ordinary shares and 61,750,000 redeemable preference shares in Kiwi Group Holdings Limited, held by the NZ Super Fund's wholly owned subsidiary NZSF Tui Investments Limited, were acquired by Kiwi Group Capital Limited, a new company established by the Crown. The Crown's accepted offer for NZSF Tui Investments Limited's 25% shareholding in Kiwi Group Holdings Limited totalled \$527,000,000. Dividend income earned during the year from holdings in this entity amounted to \$6,316,000 (2022: \$23,308,000).

(b) Comparison to budget (unaudited)

During the year ended 30 June 2023 the specific asset mix of the NZ Super Fund varied from the budgeted figures and market returns were higher than the long-term return expectations on which the budget is based. Given the weight of growth assets in the NZ Super Fund, the Board and management expect significant year to year variations in the NZ Super Fund's returns. It is not possible to accurately predict these variations and incorporate them into the budget.



Independent Auditor's Report

TO THE READERS OF NEW ZEALAND SUPERANNUATION FUND'S FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

The Auditor-General is the auditor of New Zealand Superannuation Fund (the Fund). The Auditor-General has appointed me, Emma Winsloe, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements of the Fund on his behalf.

OPINION

We have audited the financial statements of the Fund on pages 137 to 189, that comprise the statement of financial position as at 30 June 2023, the statement of comprehensive income, statement of changes in public equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion the financial statements of the Fund on pages 137 to 189:

- present fairly, in all material respects:
 - its financial position as at 30 June 2023; and
 - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Our audit was completed on 28 September 2023. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of the Guardians of New Zealand Superannuation (the Board) and our responsibilities relating to the financial statements, we comment on other information, and we explain our independence.

BASIS FOR OUR OPINION

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

RESPONSIBILITIES OF THE BOARD FOR THE FINANCIAL STATEMENTS

The Board is responsible on behalf of the Fund for preparing financial statements that are fairly presented and comply with generally accepted accounting practice in New Zealand.

The Board is responsible for such internal control as it determines is necessary to enable it to prepare financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board is responsible on behalf of the Fund for assessing the Fund's ability to continue as a going concern. The Board is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or terminate the activities of the Fund, or there is no realistic alternative but to do so.

The Board's responsibilities arise from the New Zealand Superannuation and Retirement Income Act 2001.

RESPONSIBILITIES OF THE AUDITOR FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements.

For the budget information reported in the financial statements, our procedures were limited to checking that the information agreed to the Fund's Statement of Performance Expectations.

We did not evaluate the security and controls over the electronic publication of the financial statements.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

OTHER INFORMATION

The Board is responsible for the other information. The other information comprises the information included on pages 1 to 136 and 190 to 229, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon other than in relation to Guardians of New Zealand Superannuation's financial statements on pages 112 to 132 and Elevate NZ Venture Fund's financial statements on pages 193 to 216.

In connection with our audit of the financial statements, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENCE

We are independent of the Fund in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board.

In addition to the audit we have carried out other assurance engagements, which are compatible with those independence requirements. We also act as auditor of some of the Fund's unconsolidated subsidiaries. Other than the audit and these engagements, we have no relationship with or interests in the Fund.



Emma Winsloe
Ernst & Young
On behalf of the Auditor-General
Auckland, New Zealand

STATEMENT OF RESPONSIBILITY

For the year ended 30 June 2023

The Board and management of the Guardians of New Zealand Superannuation accept responsibility for the preparation of the annual financial statements of the Elevate NZ Venture Fund and Group and the judgements used in them.

The Board and management of the Guardians of New Zealand Superannuation accept responsibility for establishing and maintaining a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of financial and non-financial reporting of the Elevate NZ Venture Fund and Group.

In the opinion of the Board and management of the Guardians of New Zealand Superannuation, the annual financial statements for the year ended 30 June 2023 fairly reflect the financial position, operations and cash flows of the Elevate NZ Venture Fund and Group.

**CATHERINE DRAYTON**CHAIR
28 September 2023**MATTHEW WHINERAY**CHIEF EXECUTIVE OFFICER
28 September 2023

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023	NOTE	ACTUAL 2023 NZD'000	ACTUAL 2022 NZD'000
ASSETS			
Current assets			
Cash and cash equivalents	4.a, 4.b	3,416	13,223
Receivables	4.a, 4.c	8,365	11
Total current assets		11,781	13,234
Non-current assets			
Investments	2.a, 4.a, 4.d	118,881	56,070
Total non-current assets		118,881	56,070
Total assets		130,662	69,304
LIABILITIES			
Current liabilities			
Trade and other payables	4.a, 4.e	1,836	663
Total current liabilities		1,836	663
Total liabilities		1,836	663
Net assets		128,826	68,641
PUBLIC EQUITY			
Accumulated comprehensive revenue and expense		7,074	(11,911)
Contributed capital	5.a	121,752	80,552
Total public equity		128,826	68,641

The attached notes form part of, and should be read in conjunction with, these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

For the year end 30 June 2023	NOTE	ACTUAL 2023 NZD'000	ACTUAL 2022 NZD'000
Net operating revenue	6.a	22,065	(2,866)
Expenses	6.c	3,080	2,801
Surplus/(Deficit) for the year before income tax expense		18,985	(5,667)
Income tax expense	6.e	-	-
Surplus/(Deficit) for the year after income tax expense		18,985	(5,667)
Other comprehensive revenue and expense		-	-
Total comprehensive revenue and expense for the year		18,985	(5,667)

The attached notes form part of, and should be read in conjunction with, these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN PUBLIC EQUITY

For the year ended 30 June 2023

		ACTUAL	
		ACCUMULATED COMPREHENSIVE REVENUE AND EXPENSE	
	CONTRIBUTED CAPITAL	NZD'000	TOTAL
	NOTE	NZD'000	NZD'000
Balance at 1 July 2021		23,405	(6,244)
Total comprehensive revenue and expense for the year			(5,667)
Capital contributions from the Crown	5.a	57,147	57,147
Balance at 30 June 2022		80,552	(11,911)
Total comprehensive revenue and expense for the year			18,985
Capital contributions from the Crown	5.a	41,200	41,200
Balance at 30 June 2023		121,752	7,074
			128,826

The attached notes form part of, and should be read in conjunction with, these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2023	NOTE	ACTUAL 2023 NZD'000	ACTUAL 2022 NZD'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Interest received		511	132
Total cash inflow from operating activities		511	132
Cash was applied to:			
Purchases of investments		(48,369)	(43,944)
Managers' fees		(2,526)	(2,331)
Reimbursement of Guardians' expenses		(500)	(500)
Payments to suppliers		(123)	(42)
Total cash outflow from operating activities		(51,518)	(46,817)
Net cash flows provided by/(used in) operating activities		(51,007)	(46,685)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from:			
Capital contributions from the Crown		41,200	57,147
Net cash flows provided by/(used in) financing activities		41,200	57,147
Net increase/(decrease) in cash and cash equivalents		(9,807)	10,462
Cash and cash equivalents at the beginning of the year		13,223	2,761
Cash and cash equivalents at the end of the year	4.a, 4.b	3,416	13,223

The attached notes form part of, and should be read in conjunction with, these financial statements.

For the year ended 30 June 2023	NOTE	ACTUAL 2023	ACTUAL 2022
		NZD'000	NZD'000
RECONCILIATION OF SURPLUS/(DEFICIT) FOR THE YEAR TO NET CASH FLOWS PROVIDED BY/(USED IN) OPERATING ACTIVITIES			
Surplus/(Deficit) for the year			
Add/(Deduct) non-cash items:			
Net changes in fair value on financial instruments at fair value through surplus or deficit	2.c	(21,545)	2,998
Changes in working capital:			
(Increase)/Decrease in assets:			
Receivables excluding investment prepayments		(104)	(11)
Increase/(Decrease) in liabilities:			
Trade and other payables excluding unpaid investment called		26	(61)
Add/(Deduct) net operating cash flows not included in net deficit*		(48,369)	(43,944)
Net cash provided by/(used in) operating activities		(51,007)	(46,685)

* Net operating cash flows not included in net deficit comprises the cash flows arising from the purchase of investments.

The attached notes form part of, and should be read in conjunction with, these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2023

SECTION 1: GENERAL INFORMATION, STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES

(a) General information

These are the consolidated financial statements of the Elevate NZ Venture Fund (Elevate Fund) and its subsidiary (Group). The Elevate Fund is a venture capital fund established under Section 8 of the Venture Capital Fund Act 2019 (Act) on 13 December 2019.

The purpose of the Elevate Fund is to contribute to a sustainable and productive economy by increasing the venture capital available to New Zealand entities and by developing New Zealand's venture capital markets to function more effectively.

The Elevate Fund is managed and administered by the Guardians of New Zealand Superannuation (Guardians). The Guardians was established as a Crown entity by Section 48 of the New Zealand Superannuation and Retirement Income Act 2001 and became operative from 30 August 2002. The Guardians is expected to invest the Elevate Fund in New Zealand's venture capital markets using best-practice investment management that is appropriate for institutional investment in those markets and in doing so, the Guardians must manage and administer the Elevate Fund in a manner consistent with avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

The Elevate Fund invests via its wholly owned subsidiary, the Elevate NZ Venture Fund Limited Partnership. The General Partner of the limited partnership is Elevate NZ Venture Fund GP Limited, a wholly owned subsidiary of New Zealand Growth Capital Partners Limited (NZGCP). The General Partner is responsible for the management, operation and administration of the limited partnership.

The Elevate Fund is domiciled in New Zealand and the address of its principal place of business is set out in the Corporate Directory on page 229.

The consolidated financial statements of the Group for the year ended 30 June 2023 were authorised for issue in accordance with a resolution of the Board of the Guardians of New Zealand Superannuation on 28 September 2023.

(b) Statement of compliance

The financial statements have been prepared in accordance with the Venture Capital Fund Act 2019.

The Elevate Fund is a public benefit entity for financial reporting purposes. The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with Public Benefit Entity Standards (PBE Standards).

(c) Basis of preparation

The financial statements have been prepared on a historical cost basis, except where modified by the measurement of financial assets at fair value.

The financial statements are presented in New Zealand dollars. All values are rounded to the nearest thousand dollars (NZD'000) unless stated otherwise.

Accounting policies are selected and applied in a manner that ensures the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring the substance of the underlying transactions or other events is reported. Accounting policies relating to specific financial statement items are set out in the relevant notes to the financial statements. Accounting policies that materially affect the financial statements as a whole are set out below.

(d) Significant judgements and estimates

The preparation of the Group's financial statements requires the Board and management to make judgements and use estimates that affect the reported amounts of revenue, expenses, assets, liabilities and the accompanying disclosures. Uncertainty about these judgements and estimates could result in outcomes that require a material adjustment to the carrying amounts of assets and liabilities in future periods. The judgements and estimates used in respect of the Group are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances. The judgements and estimates that the Board and management have assessed to have the most significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

- Assessment of control (Note 1(f));
- Assessment of investments in structured entities (Note 1(g)); and
- Determination of fair value (Note 2(b)).

(e) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Elevate Fund and its subsidiary as at 30 June 2023.

The financial statements of the subsidiary are prepared for the same reporting period as the Elevate Fund using consistent accounting policies. In preparing consolidated financial statements, all inter-entity transactions, balances, unrealised gains and losses are eliminated.

(f) Subsidiaries

Subsidiaries are those entities that are controlled by the Elevate Fund under the provisions of PBE IPSAS 35 Consolidated Financial Statements. The Elevate Fund controls an entity when it is exposed to, or has rights to, variable benefits from its involvement with the entity and has the ability to affect the nature or amount of those benefits through its power over the entity. The Elevate Fund's investments are assessed for the existence of control if facts and circumstances indicate that there are changes to one or more of the elements of control.

Under Section 25 of the Act, all or any of the investments of the Elevate Fund may be held in a Venture Capital Fund Investment Vehicle (VIV) that is formed or controlled by the Guardians for the purposes of holding, facilitating, or managing investments of the Elevate Fund. A VIV that is controlled by the Guardians is a subsidiary of the Elevate Fund for accounting purposes.

The Elevate Fund has an interest in the following subsidiary:

NAME	NOTE	BALANCE DATE	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST	
				2023	2022
Elevate NZ Venture Fund Limited Partnership	(i)	30 June	New Zealand	100.0	100.0

- (i) Elevate NZ Venture Fund Limited Partnership is a Venture Capital Fund Investment Vehicle (VIV) established for the purpose of holding, facilitating and managing investments of the Elevate Fund.

Key judgement - assessment of control

The Elevate Fund's investment in its subsidiary has been assessed in light of the control model established under PBE IPSAS 35 Consolidated Financial Statements to ensure the correct classification and disclosure of its investment in the subsidiary.

(g) Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes:

- Restricted activities;
- A narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors;
- Insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and
- Financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks.

The Group is principally involved with structured entities through its investments in venture capital investment funds. The Group invests in structured entities to assist with the implementation of its overall investment strategy. The Group does not sponsor any structured entities.

VENTURE CAPITAL INVESTMENT FUNDS

Venture capital investment funds provide a mechanism to share exposure with other investors and may take various legal forms (e.g. limited liability companies, limited partnerships). The Group makes commitments to, and investments in, these legal structures and in return is issued with rights to a proportional stake in their net assets. They have a broad range of investment objectives and are managed by unrelated asset managers who apply various investment strategies to accomplish their respective investment objectives.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2023

SECTION 1: GENERAL INFORMATION, STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Key judgement - assessment of investments in structured entities**

The Board and management have assessed which of the Group's investments are investments in structured entities. In doing so, the Board and management have considered voting rights and other similar rights afforded to investors as well as any contractual arrangements in place with these investments.

The Board and management have concluded that certain of the Group's investments meet the definition of a structured entity because:

- The voting rights in the investments are not the dominant factor in deciding who controls the investment; and
- The investments have narrow and well-defined objectives to provide investment opportunities to investors.

Further disclosures on structured entities are contained in Notes 3(e) and 6(b).

(h) Foreign currency translation**FUNCTIONAL AND PRESENTATION CURRENCY**

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the Group operates (the functional currency). The functional currency of the Group is New Zealand dollars. It is also the presentation currency.

TRANSACTIONS AND BALANCES

Transactions denominated in foreign currencies are converted to New Zealand dollars using the exchange rates prevailing at the dates of the transactions. Foreign currency monetary assets and liabilities are translated at the exchange rate prevailing at balance date. Where there is a movement in the exchange rate between the date of a foreign currency transaction and balance date, the resulting exchange differences are recognised in the Consolidated Statement of Comprehensive Revenue and Expense.

(i) Goods and services tax (GST)

The Elevate NZ Venture Fund Limited Partnership deregistered for GST during the year. As a result, revenue, expenses, assets and liabilities are recognised in the financial statements inclusive of GST.

(j) Statement of Cash Flows

The following are the definitions of the terms used in the Consolidated Statement of Cash Flows:

Operating activities include all activities other than financing activities.

Financing activities are those activities relating to changes in public equity and debt capital structure of the Group and those activities relating to the cost of servicing the Group's equity capital.

Cash flows are included in the Consolidated Statement of Cash Flows on a gross basis.

(k) Changes in accounting policies

There have been no changes in accounting policies during the year. All accounting policies are consistent with those applied in the previous financial year.

Certain prior year comparatives have been restated to conform with current year presentation. These classifications have no impact on the overall performance, financial position or cash flows of the Elevate Fund for the comparable year.

(I) New and amended standards adopted

The Elevate Fund has adopted PBE IPSAS 41 Financial Instruments and PBE FRS 48 Service Performance Reporting for the first time in these financial statements. The nature and effect of the changes as a result of the adoption of these standards are described below.

PBE IPSAS 41 FINANCIAL INSTRUMENTS

PBE IPSAS 41 Financial Instruments introduces requirements for the recognition and measurement of financial instruments by Tier 1 and Tier 2 public benefit entities. It supersedes PBE IFRS 9 Financial Instruments and is effective for reporting periods beginning on or after 1 January 2022. The adoption of PBE IPSAS 41 Financial Instruments has not resulted in any changes to these financial statements as the requirements are similar to those contained in PBE IFRS 9 Financial Instruments.

PBE FRS 48 SERVICE PERFORMANCE REPORTING

PBE FRS 48 Service Performance Reporting introduces requirements for certain public benefit entities to select and present service performance information. It replaces the service performance reporting requirements of PBE IPSAS 1 Presentation of Financial Statements and is effective for reporting periods beginning on or after 1 January 2022. The adoption of PBE FRS 48 Service Performance Reporting has resulted in additional disclosures required by the Guardians in the Guardians Statement of Performance. There is no legislative requirement for the Elevate Fund to prepare a separate Statement of Performance under the Venture Capital Fund Act 2019.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2023

SECTION 2: FAIR VALUE**(a) Fair value measurement****Accounting Policy**

The majority of the Group's investments are measured at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Management uses valuation techniques for the Group that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within a fair value hierarchy as follows:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets and liabilities. An active market is one where prices are readily available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The fair value of Level 1 assets and liabilities requires little or no judgement.

Level 2 - Valuation techniques that use observable market data. Such techniques include the use of market standard discounting methodologies, option pricing models and other valuation techniques widely used and accepted by market participants.

Level 3 - Valuation techniques that use inputs not based on observable market data. Unobservable inputs are those not readily available in an active market due to illiquidity or complexity of the product. These inputs are generally derived and extrapolated from other relevant market data and calibrated against current market trends and historic transactions. These valuations are calculated using a high degree of management judgement.

The level within which an asset or liability is categorised in the fair value hierarchy is determined based on the highest numerical level in the fair value hierarchy that is significant to the fair value measurement as a whole.

The fair value of the Group's assets and liabilities that are measured at fair value through profit or loss are categorised as follows:

2023	NOTE	ACTUAL						
		(LEVEL 1) NZD'000	(LEVEL 2) NZD'000	(LEVEL 3) NZD'000	FAIR VALUE NZD'000	TOTAL AT FAIR VALUE NZD'000	NOT AT FAIR VALUE NZD'000	
ASSETS								
Investments								
Venture capital investment funds	4.a, 4.d				118,881	118,881	118,881	
		-	-	118,881	118,881	-	118,881	
2022								
ASSETS								
Investments								
Venture capital investment funds	4.a, 4.d				56,070	56,070	56,070	
		-	-	56,070	56,070	-	56,070	

(b) Determination of fair value

Specific valuation techniques and the observability of inputs used in valuation models are outlined below:

VENTURE CAPITAL INVESTMENT FUNDS

The International Private Equity and Venture Capital Valuation Guidelines (IPEV) have been accepted as the industry standard valuation guidelines, are based on the principle of fair value and are reviewed following any relevant changes in accounting standards or market practices. The IPEV guidelines set out principles for investors to determine fair value for their investments and have been adopted by the Group.

In line with the IPEV guidelines, the Group adopts the fair value of venture capital investment funds as provided by the investment managers or administrators at balance date. Prices are based on the fair value of the underlying net assets of the venture capital investment funds which are determined using a variety of methods, including independent valuations, valuation models based on the price of recent transactions, earnings multiples or discounted cash flows and are classified within Level 3 of the fair value hierarchy.

The Group has access to the valuation processes and methodologies adopted by external fund managers through positions on Limited Partnership Advisory Panels (LPACs) with each venture capital investment fund and through ongoing conviction reviews of those managers. Valuations provided are also considered alongside any other available evidence before being adopted.

Key judgement - determination of fair value

Where the fair value of assets and liabilities cannot be measured using quoted prices in active markets, fair value is determined using valuation techniques with market observable inputs from third parties such as brokers or pricing vendors, where available. For assets that have no quoted price (which consist of investments in venture capital investment funds) the determination of fair value requires significant judgement. Fair value for these assets is determined as follows:

VENTURE CAPITAL INVESTMENT FUNDS WHERE FAIR VALUE IS PROVIDED BY INVESTMENT MANAGERS OR ADMINISTRATORS

The fair value of venture capital investment funds is provided by the investment managers or administrators at balance date. Depending on the nature of the underlying instruments, investment managers and administrators may use observable market prices, their own models or they may engage independent valuers who use models to obtain the fair value of investments. The Board and management may also directly appoint independent valuers to obtain the fair value of certain investments where this information is unable to be provided by an investment manager or administrator or where an investment is directly managed by the Group.

VALUATION UNCERTAINTY DUE TO EXTERNAL FACTORS

All investments made by the Group are categorised within Level 3 of the fair value hierarchy and these investments, by their nature, are inherently more subjective and therefore more exposed to valuation uncertainty as at 30 June 2023. Whilst the determination of fair value in relation to these investments is subject to careful consideration and consultation with a range of reliable and independent sources, the impact of external factors such as rising interest rates and inflationary pressures, increased geopolitical tensions and global supply issues, on the valuation of these investments remain uncertain. The Board and management continue to monitor and evaluate the appropriateness of specific valuation techniques and the judgements and estimates used when determining the fair value of these assets to assess whether material adjustments might be required to their carrying value.

(c) Reconciliation of fair value measurement under Level 3 hierarchy

The following table provides a reconciliation of movements in the fair value of financial assets categorised within Level 3 of the fair value hierarchy:

	ACTUAL	ACTUAL
	2023	2022
	NZD'000	NZD'000
Opening balance	56,070	12,849
Purchases (excluding investment prepayments)	40,119	46,219
Unpaid investment called	1,147	-
Unrealised gains/(losses) recognised in net changes in fair value on financial instruments at fair value through surplus or deficit	21,545	(2,998)
Closing balance	118,881	56,070

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2023

SECTION 2: FAIR VALUE (CONTINUED)**(d) Fair value sensitivity**

Although the Board and management believe the estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. The following table shows the Group's sensitivity of fair value measurement to likely changes in non-market observable inputs (where appropriate, to one standard deviation) for financial assets categorised within Level 3 of the fair value hierarchy:

2023	NON-MARKET OBSERVABLE INPUT	MOVEMENT	ACTUAL	
			IMPACT ON FAIR VALUE MEASUREMENT	
			INCREASE	DECREASE
		%	NZD'000	NZD'000
Venture capital investment funds	(i)	30	35,664	(35,664)
2022				
Venture capital investment funds	(i)	35	19,625	(19,625)

(i) Venture capital investment funds provide the Group with exposure to a variety of assets across numerous industries and are held via externally managed investment vehicles. Valuations for these investments are provided directly by investment managers or administrators if held via a managed structure and the Group does not always have access to the underlying valuation models to fully disclose sensitivities to specific assumptions. All investments are unlisted early-stage growth companies which inherently imposes significant risks and returns and are most likely illiquid assets.

The Board and management have assessed that the reasonably likely movement in fair value for these financial assets in a one-year period is 25%-35% (2022: 30%-40%) for venture capital investment funds, based on internal risk modelling.

SECTION 3: RISK MANAGEMENT

(a) Risk management

Understanding and managing risk is considered a fundamental activity that is central to the management of the Elevate Fund. While risk is a necessary part of the Elevate Fund's activities, it must be understood to ensure the risk profile adopted is commensurate with the objective of the Elevate Fund. Effective risk management is critical to maintaining public and stakeholder confidence in the Guardians as manager of the Elevate Fund.

The Group's investment activities expose it to various types of risk including market risk, credit risk and liquidity risk. The Board and management of the Guardians are responsible for the management of these risks. A separate Risk Committee has been established to provide support for the management of these risks.

The Guardians has risk management policies, procedures and other internal controls for application by staff, external investment managers and other service providers to manage the Group's exposure to risk. The framework for managing this risk is set out in its Statement of Investment Policies, Standards and Procedures.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as equity prices, interest rates and foreign exchange rates. The market risks that the Elevate Fund is primarily exposed to are equity price risk, foreign currency risk and interest rate risk.

EQUITY PRICE RISK

Equity price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in equity prices. The Group invests through venture capital investment funds into unlisted early-stage growth companies. Unlisted investments are generally not publicly traded. As there may be no open market to establish an independent value for certain unlisted investments, there can be no assurance that a determination of fair value for an unlisted investment will be obtainable in the market, or that there will be a market for the unlisted investment. Refer to Note 2(b) for further disclosure on the determination of fair value.

FOREIGN CURRENCY RISK

Foreign currency risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in foreign exchange rates. The Group is exposed to foreign currency risk through its investment in offshore assets made via venture capital investment funds, which are managed by investment managers. These investments are denominated in United States dollars.

Foreign currency risk is not currently actively managed by the Group given the limited foreign currency exposure at balance date.

As at 30 June 2023, if there were a 10% movement in the New Zealand dollar against the United States dollar, with all other variables remaining constant, the Group's surplus/(deficit) for the year would have been \$386,000 (2022: \$313,000 based on a sensitivity of 10%) higher/lower. A 10% movement represents the Board's and management's assessment of a reasonably possible change in the value of the New Zealand dollar relative to the United States dollar at balance date.

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market interest rates. The Group's exposure to interest rate risk is limited to movements in short-term interest rates in relation to cash and cash equivalents which are held in short-term floating interest rate accounts. Requests for capital contributions from the Crown are made as and when required to minimise cash holdings in the Group. The Board and management ensure the Group receives a fair market return on its cash position but do not actively monitor exposure to interest rates or interest rate returns and considers the risk immaterial.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2023

SECTION 3: RISK MANAGEMENT (CONTINUED)**(c) Credit risk**

Credit risk is the risk that a third party will default on its obligation to the Group, causing the Group to incur a loss. The Group is exposed to credit risk arising from its cash and cash equivalents, receivables and investments. The maximum amount of credit risk for each class of financial asset is the carrying amount included in the Consolidated Statement of Financial Position.

The Board and management mitigate the Group's exposure to credit risk by investing cash and cash equivalents with reputable financial institutions with a high credit rating.

The Board and management mitigate the Group's exposure to credit risk associated with its investments by applying specific prudential limits to any exposure to any single investment manager. The use of, and capital allocated to, external investment managers is governed by the Group's investment policies. Each external investment manager relationship is governed by an investment management agreement which outlines the key terms and conditions of the appointment. External investment managers are monitored individually on an on-going basis.

CONCENTRATIONS OF CREDIT RISK

Concentration of credit risk exists if a single counterparty, or group of counterparties, is engaged in similar activities, operate within similar geographies, industries, or have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions.

Cash and cash equivalents is primarily held with ASB Bank Limited which has a credit rating of AA-, obtained from Standard & Poor's as at 30 June 2023 (2022: AA-).

The following tables analyse the Group's concentration of credit risk by geographical and industrial distribution.

	ACTUAL 2023 %	ACTUAL 2022 %
By geography		
New Zealand	100	100
	100	100
By industry		
Venture capital investment funds	100	100
	100	100

In accordance with the requirements of the Act and the associated Policy Statement, the Elevate Fund must be invested wholly or substantially in funds with a New Zealand connection, and those funds must invest wholly or substantially in New Zealand entities. As at 30 June 2023, the Elevate Fund was in compliance with this requirement.

(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities as they fall due. The Group's liquidity framework is designed to ensure that the Group has the ability to access sufficient cash in a timely manner to meet its financial commitments.

In addition, the Guardians has entered into an Uncalled Capital Contribution Agreement with the Crown under which the Crown makes available capital in accordance with Section 13 of the Act. The Guardians may request a capital contribution under the terms of this agreement and apply this capital to make payments for any purpose as permitted under Section 12 of the Act, which includes payment for any obligation directly related to the operation of the Elevate Fund.

(e) Risks associated with structured entities

The following table summarises the carrying values of the Group's investments in structured entities, as well as the maximum exposure to loss. The maximum exposure to loss is contingent in nature and may arise as a result of the provision of funding commitments (which are common with venture capital investment funds).

The value of the assets of the structured entities themselves have been provided as an indicator of their size, relative to the size of the Group's interest in these entities. These values represent the most current available information.

	ACTUAL			
	MAXIMUM EXPOSURE TO LOSS			
	CARRYING VALUE OF INVESTMENTS	UNDRAWN COMMITMENTS (INCLUDING PREPAYMENTS)	TOTAL INVESTMENTS AND UNDRAWN COMMITMENTS	ASSETS OF THE STRUCTURED ENTITY*
2023	NZD'000	NZD'000	NZD'000	NZD'000
Venture capital investment funds	118,881	112,142	231,023	467,724
	118,881	112,142	231,023	467,724
2022				
Venture capital investment funds	56,070	119,288	175,358	259,769
	56,070	119,288	175,358	259,769

* Including the value of the Group's investment.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2023

SECTION 4: FINANCIAL ASSETS AND LIABILITIES**(a) Financial instruments**

2023	NOTE	ACTUAL			
		FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH SURPLUS OR DEFICIT	FINANCIAL ASSETS AT AMORTISED COST	FINANCIAL LIABILITIES AT AMORTISED COST	TOTAL
		NZD'000	NZD'000	NZD'000	
Financial assets					
Cash and cash equivalents	4.b		3,416		3,416
Receivables	4.c		8,365		8,365
Investments					
Venture capital investment funds	4.d	118,881			118,881
Total financial assets		118,881	11,781	-	130,662
Financial liabilities					
Trade and other payables	4.e			1,836	1,836
Total financial liabilities		-	-	1,836	1,836
2022					
Financial assets					
Cash and cash equivalents	4.b		13,223		13,223
Receivables	4.c		11		11
Investments					
Venture capital investment funds	4.d	56,070			56,070
Total financial assets		56,070	13,234	-	69,304
Financial liabilities					
Trade and other payables	4.e			663	663
Total financial liabilities		-	-	663	663

Accounting Policy

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The Group is party to financial instruments as part of its normal operations. These financial instruments include cash and cash equivalents, receivables, investments and payables. All financial instruments are recognised in the Consolidated Statement of Financial Position and all revenues and expenses in relation to financial instruments are recognised in the Consolidated Statement of Comprehensive Revenue and Expense.

INITIAL RECOGNITION

Financial assets and financial liabilities are recognised in the Consolidated Statement of Financial Position when the Group becomes a party to the contractual provisions of the financial instrument. They are initially recognised at fair value plus, in the case of financial assets and financial liabilities not recorded at fair value through surplus or deficit, transaction costs that are attributable to the acquisition of the financial asset or financial liability. Transaction costs of financial assets carried at fair value through surplus or deficit are expensed in the Consolidated Statement of Comprehensive Revenue and Expense.

Purchases or sales of financial instruments are recognised on the trade date i.e. the date on which the Group commits to purchase or sell the financial instrument.

The classification of financial assets at initial recognition depends on the Group's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. In making an assessment of the business model for managing a financial asset, the Board and management consider all relevant information such as the investment objectives of the Group and how performance is evaluated and reported to the Board and management.

SUBSEQUENT MEASUREMENT

The Group's financial assets and financial liabilities are subsequently classified into the following categories:

- Those to be measured at fair value through surplus or deficit; and
- Those to be measured at amortised cost.

The Group's financial assets are reclassified when, and only when, the business model for managing those financial assets changes.

Financial assets at fair value through surplus or deficit

The following financial assets are classified at fair value through surplus or deficit:

- Financial assets that do not qualify for measurement at amortised cost; and
- Financial assets for which the Group has not elected to recognise fair value gains and losses through other comprehensive revenue and expense.

This category includes investments. These financial assets are managed and have their performance evaluated on a fair value basis.

Financial assets at fair value through surplus or deficit are recognised in the Consolidated Statement of Financial Position at fair value with changes in fair value being recognised in the Consolidated Statement of Comprehensive Revenue and Expense in the period in which they arise.

Financial assets at amortised cost

The Group's financial assets are classified at amortised cost if both of the following criteria are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows; and
- The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest.

This category includes cash and cash equivalents and receivables. Subsequent to initial recognition, financial assets at amortised cost are measured at amortised cost using the effective interest method and are subject to impairment. When a financial asset is impaired, impairment losses are recognised in the Consolidated Statement of Comprehensive Revenue and Expense in the period in which they arise.

Financial liabilities at amortised cost

Financial liabilities at amortised cost are non-derivative financial liabilities. This category includes trade payables and accrued expenses. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

DERECOGNITION

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or when the Group has transferred substantially all of the risks and rewards of ownership. A financial liability is derecognised when the Group's obligation under the liability is discharged, cancelled or has expired.

IMPAIRMENT

The Board and management assess, at each reporting date, whether a financial asset is impaired. The amount of the impairment loss is the difference between the contractual cash flows due in relation to the financial asset and the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate.

Financial assets that are measured at amortised cost and therefore subject to the impairment provisions (the 'expected credit loss model') of PBE IPSAS 41 Financial Instruments comprise cash and cash equivalents and receivables.

The risk of impairment loss for cash and cash equivalents is considered immaterial. Disclosures relating to the impairment of receivables are provided in Note 4(c).

OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group offsets financial assets and financial liabilities when it has a current legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2023

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)**(b) Cash and cash equivalents****Accounting Policy**

Cash and cash equivalents includes cash on hand, cash held in bank accounts, demand deposits and other highly liquid investments with original maturities of three months or less, which have an insignificant risk of change in fair value.

(c) Receivables

	ACTUAL 2023	ACTUAL 2022
	NZD'000	NZD'000
Receivables from exchange transactions		
Investment prepayments	8,250	-
Other	115	11
	8,365	11

Accounting Policy

Receivables are initially recognised at fair value which is equal to the amount of consideration that is unconditional. The Group holds receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost less impairment losses using the effective interest method.

The Board and management have applied a simplified approach for calculating expected credit losses (ECLs) on receivables under PBE IPSAS 41 Financial Instruments. As a result, the Board and management do not track changes in credit risk, but instead, recognise impairment losses based on lifetime ECLs at each reporting date. The Group's approach to ECLs reflects a probability-weighted outcome using reasonable and supportable information that is available without undue cost or effort at reporting date about past events, current conditions and forecast of future economic conditions.

Investment prepayments relate to capital calls that were paid for two of the Group's venture capital fund investments prior to the due date.

(d) Investments

	ACTUAL	ACTUAL
	2023	2022
	NZD'000	NZD'000
Blackbird New Zealand 2019 Limited Partnership	26,196	14,036
Blackbird New Zealand 2022 Limited Partnership	5,405	996
Finistere Aotearoa Fund Limited Partnership	3,860	3,131
GD1 Fund 3 Limited Partnership	23,712	9,028
Hillfarrance Limited Partnership	15,883	-
Movac Fund 5 Limited Partnership	24,033	17,759
Nuance Connected Capital 1 Limited Partnership	5,750	6,113
Pacific Channel Fund II Limited Partnership	14,042	5,007
	118,881	56,070

The Group invests in early-stage growth companies via holdings in externally managed venture capital investment funds. The fair value of these funds is provided by the investment managers or administrators at balance date. Prices are based on the fair value of the underlying net assets of the venture capital investment fund.

The Group has also made a commitment to Movac Emerge Fund 4 Limited Partnership as at 30 June 2023. No capital has been called by this fund and therefore, this investment is recorded at nil fair value at balance date.

Further disclosures on the valuation of venture capital investment funds are contained in Note 2(b).

(e) Payables

	ACTUAL	ACTUAL
	2023	2022
	NZD'000	NZD'000
Payables under exchange transactions		
Unpaid investment called	1,147	-
Trade payables	641	645
Accrued expenses	48	18
	1,836	663

Accounting Policy

Short-term trade and other payables are initially recognised at fair value, then subsequently at amortised cost. As a result of their short-term nature, the carrying amount of trade and other payables held at amortised cost approximates fair value.

Unpaid investment called relates to a capital call notice received on 30 June 2023 that was not paid until after balance date.

Trade and other payables represent amounts due to third parties in the normal course of business and to the Guardians for the reimbursement of expenses. Trade payables are non-interest bearing and are normally settled within 30-day credit terms. The Group has risk management policies in place to ensure that all payables are paid within the credit time frame.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2023

SECTION 5: MANAGEMENT OF FUND CAPITAL AND RESERVES**(a) Fund capital****PURPOSE**

Fund capital, which comprises investments and all other assets of the Elevate Fund less any liabilities, is the property of the Crown. The Elevate Fund's purpose is to contribute to a sustainable and productive economy by increasing the venture capital available to New Zealand entities and by developing New Zealand's venture capital markets to function more effectively so that over time:

- More venture capital becomes available to New Zealand entities from sources other than the Elevate Fund;
- New Zealand entities that receive venture capital become more likely to grow into successful and sustainable businesses; and
- Those markets become self-sustaining (including through more investment from New Zealand investors).

CAPITAL CONTRIBUTIONS

The Crown may pay any money into the Elevate Fund in accordance with Section 13 of the Venture Capital Fund Act 2019 (Act). These contributions are made by the Crown for investment purposes and for other payments specifically permitted under Section 12 of the Act. The Guardians is responsible for investing capital contributions in New Zealand's venture capital markets.

The Guardians has entered into an Uncalled Capital Contribution Agreement with the Crown under which these capital contributions are made available. Under this agreement, the Guardians may request a capital contribution, with at least 10 business days notice, to apply towards the capital commitments of the Elevate NZ Venture Fund Limited Partnership or to payments permitted under Section 12 of the Act. These payments include amounts due for managers' fees and other obligations directly related to the operation of the Elevate Fund. As at 30 June 2023, the Crown's commitment under this agreement amounted to \$259,500,000 (2022: \$259,500,000) with an increase to \$300,000,000 subsequent to balance date.

The amount of capital contributions requested and received into the Elevate Fund for the year ending 30 June 2023 was \$41,200,000 (2022: \$57,147,000). Capital contributions are recorded in the Consolidated Statement of Changes in Public Equity.

MANAGEMENT OF FUND CAPITAL

The Elevate Fund is a public benefit entity, managed by the Guardians. The Guardians must invest the Elevate Fund in New Zealand's venture capital markets using best-practice investment management that is appropriate for institutional investment in those markets. The Guardians must manage and administer the Elevate Fund in a manner consistent with the Policy Statement set out on www.beehive.govt.nz and avoiding prejudice to New Zealand's reputation as a responsible member of the world community. The contributions from the Crown to the Elevate Fund are invested in accordance with its Statement of Investment Policies, Standards and Procedures, which is available at www.nzsuperfund.nz. The Elevate Fund invests via its wholly owned subsidiary, the Elevate NZ Venture Fund Limited Partnership. The General Partner of the limited partnership is Elevate NZ Venture Fund GP Limited, a wholly owned subsidiary of New Zealand Growth Capital Partners (NZGCP). The General Partner is responsible for the management, operation and administration of the limited partnership.

SECTION 6: FINANCIAL PERFORMANCE

(a) Revenue

	NOTE	ACTUAL 2023 NZD'000	ACTUAL 2022 NZD'000
Net operating revenue from exchange transactions			
Interest income		511	132
Net changes in fair value on financial instruments at fair value through surplus or deficit	6.b	21,545	(2,998)
Other income		9	-
		22,065	(2,866)
Interest income			
Interest income - financial assets at amortised cost		511	132
		511	132

Accounting Policy

Revenue is recognised when it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

REVENUE FROM EXCHANGE TRANSACTIONS

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Interest income

Interest income comprises interest on financial instruments measured at amortised cost.

For financial assets at amortised cost, interest income is recognised as the interest accrues, using the effective interest method, which allocates interest at a constant rate of return over the expected life of the financial instrument based on the estimated future cash flows.

(b) Income received and fair value gains and losses recognised from interests in structured entities

The following table summarises income received and fair value gains and losses from the Group's investments in structured entities:

2023	ACTUAL		
	FAIR VALUE GAINS NZD'000	FAIR VALUE LOSSES NZD'000	TOTAL NZD'000
Venture capital investment funds	32,620	(11,075)	21,545
2022			
Venture capital investment funds	4,796	(7,794)	(2,998)

(c) Expenses

	ACTUAL 2023 NZD'000	ACTUAL 2022 NZD'000
Managers' fees	2,522	2,264
Reimbursement of Guardians' expenses	500	500
Auditor's remuneration	58	37
	3,080	2,801

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2023

SECTION 6: FINANCIAL PERFORMANCE (CONTINUED)**(d) Auditor's remuneration**

	ACTUAL 2023 NZD'000	ACTUAL 2022 NZD'000
Audit of the Group's financial statements	58	37
	58	37

The auditor of the Group is Graeme Bennett of Ernst & Young, on behalf of the Auditor-General.

(e) Income tax

The income tax expense included in the Consolidated Statement of Comprehensive Revenue and Expense is analysed as follows:

	ACTUAL 2023 NZD'000	ACTUAL 2022 NZD'000
Reconciliation of income tax expense and accounting surplus/(deficit) for the year		
Surplus/(Deficit) for the year before income tax expense	18,985	(5,667)
Income tax expense/(income) calculated at 28%	5,316	(1,587)
Non assessable income/(expenses) for tax purposes	(5,176)	1,727
Tax losses not recognised in deferred tax	(140)	(140)
Income tax expense	-	-

Accounting Policy

In accordance with Section HR 4B of the Income Tax Act 2007, income derived and expenditure incurred by the Crown in activities relating to the Group are determined as if the amounts were being derived or incurred by a company and are therefore subject to New Zealand tax. The income tax expense recognised in the Consolidated Statement of Comprehensive Revenue and Expense comprises current and deferred tax and is based on accounting surplus/(deficit), adjusted for permanent differences between accounting and tax rules.

Current tax is the expected tax payable to or receivable from the taxation authorities based on the taxable income or loss for the year and any adjustment in respect of prior years. It is calculated using tax rates and tax laws that have been enacted or substantively enacted at balance date.

Deferred tax is recognised in respect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the tax bases of assets and liabilities at balance date.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses only to the extent that it is probable that sufficient taxable surplus will be available to utilise the deductible temporary differences, the carry forward of unused tax credits and unused tax losses. As at 30 June 2023, the Group has \$15,666,000 of tax losses carried forward. The Elevate Fund benefits from a tax exemption on gains from New Zealand shares and therefore, taxable income is not anticipated. As a result, the Group has not recognised a deferred tax asset in relation to the tax losses carried forward.

SECTION 7: UNRECOGNISED ITEMS

(a) Commitments and contingencies

CAPITAL COMMITMENTS

At 30 June 2023, the Group had outstanding commitments to venture capital investment funds (excluding investment prepayments), totalling \$105,039,000 (2022: \$119,288,000), of which \$1,147,000 has been called but not yet paid (2022: \$1,333,000).

CONTINGENCIES

The Group has no contingent liabilities at 30 June 2023 (2022: \$nil).

(b) Events after the reporting date

On 31 July 2023, the Guardians received formal notice from the Crown to increase its commitment under the Uncalled Capital Contribution Agreement in relation to the Elevate Fund by \$40,500,000. This increase takes the Crown's total commitment under this agreement to \$300,000,000.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2023

SECTION 8: OTHER INFORMATION**(a) Related party transactions**

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions. The definition includes subsidiaries.

Outstanding amounts with related parties at balance date are unsecured and subordinate to other liabilities. Interest is not charged on outstanding balances. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 30 June 2023, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2022: \$nil).

PARENT ENTITY

The Elevate Fund is managed and administered by the Guardians which is a wholly owned entity of the Crown. Both the Guardians and the Crown prepare financial statements that are available to the public.

The Guardians pays expenses relating to the Elevate Fund, as it is entitled to do under the Act. These expenses are reimbursed by the Elevate Fund. The amount of reimbursement to the Guardians for the year ended 30 June 2023 was \$500,000 (2022: \$500,000). The related party payable to the Guardians as at 30 June 2023 is \$nil (2022: \$nil).

SUBSIDIARY

Details of the Elevate Fund's interest in its subsidiary are disclosed in Note 1(f). There were no transactions entered into with its subsidiary during the year.

OTHER GOVERNMENT-RELATED ENTITIES

The General Partner of the Elevate NZ Venture Fund Limited Partnership is Elevate NZ Venture Fund GP Limited, which is a wholly owned subsidiary of NZGCP, a Crown entity. Transactions entered into with Elevate NZ Venture Fund GP Limited during the period are as follows:

	ACTUAL 2023	ACTUAL 2022
	NZD'000	NZD'000
Managers' fees	2,522	2,264
Payables	641	645

In conducting its activities, the Group is also required to pay various taxes and levies (such as GST) to the Crown and entities related to the Crown. The payment of these taxes and levies is based on the standard terms and conditions that apply to all tax and levy payers.



Independent Auditor's Report

TO THE READERS OF ELEVATE NZ VENTURE FUND GROUP'S FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

The Auditor-General is the auditor of Elevate NZ Venture Fund and its subsidiary (the Group). The Auditor-General has appointed me, Graeme Bennett, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements of the Group on his behalf.

OPINION

We have audited the financial statements of the Group on pages 193 to 216, that comprise the consolidated statement of financial position as at 30 June 2023, the consolidated statement of comprehensive revenue and expense, consolidated statement of changes in public equity and consolidated statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion the financial statements of the Group on pages 193 to 216:

- present fairly, in all material respects:
 - its financial position as at 30 June 2023; and
 - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards.

Our audit was completed on 28 September 2023. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of the Guardians of New Zealand Superannuation (the Guardians) and our responsibilities relating to the financial statements, we comment on other information, and we explain our independence.

BASIS FOR OUR OPINION

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

RESPONSIBILITIES OF THE GUARDIANS FOR THE FINANCIAL STATEMENTS

The Guardians are responsible on behalf of the Group for preparing financial statements that are fairly presented and comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards.

The Guardians are responsible for such internal control as they determine are necessary to enable them to prepare financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Guardians are responsible on behalf of the Group for assessing the Group's ability to continue as a going concern. The Guardians is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the Group, or to cease operations, or there is no realistic alternative but to do so.

The Group's responsibilities arise from the Venture Capital Fund Act 2019.

RESPONSIBILITIES OF THE AUDITOR FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements.

We did not evaluate the security and controls over the electronic publication of the financial statements.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Guardians.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Guardians and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Guardians regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

OTHER INFORMATION

The Guardians is responsible for the other information. The other information comprises the information included on pages 1 to 15, 25 to 192 and 217 to 229, but does not include the financial statements, and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon other than in relation to New Zealand Superannuation Fund's financial statements on pages 137 to 189 and Guardians of New Zealand Superannuation's financial statements on 112 to 132.

In connection with our audit of the financial statements, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENCE

We are independent of the Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: *International Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with, or interests in, the Group.



Graeme Bennett
Ernst & Young
On behalf of the Auditor-General
Auckland, New Zealand



Appendix He Āpitihanga

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COMPLIANCE STATEMENTS

SIPSP COMPLIANCE

The Guardians' Statement of Investment Policies, Standards and Procedures (SIPSP) for both the NZ Super Fund and the Elevate NZ Venture Fund are published on our website www.nzsuperfund.nz. On behalf of the Board and management of the Guardians of New Zealand Superannuation, we hereby certify that, to the best of our knowledge, the SIPSPs have been complied with during the 2021/22 financial year.



CATHERINE DRAYTON, CHAIR



MATT WHINERAY, CEO

PRESENTATION OF THE ANNUAL REPORT

We are pleased to provide this Annual Report of the Guardians of New Zealand Superannuation for the year ended 30 June 2022.



CATHERINE DRAYTON, CHAIR



DOUG PEARCE, CHAIR - AUDIT COMMITTEE

GLOSSARY

Access point	The actual investment the Guardians makes to gain exposure to a desired risk (e.g. buying a listed equity). Access points are our way of exploiting opportunities, themes, stress test outcomes and manager skill. The access point can be passive, active, synthetic or funded, directly (internally) or externally managed.
Active return	Any return differential between the Actual Portfolio and the Reference Portfolio. In the context of an investment, the positive return we hope to earn for taking on active risk. Same as 'Value-add'.
Active risk	Any deviation in risk in the Actual Portfolio relative to the Reference Portfolio. Active risk is a relative risk concept. The active risk in the portfolio is dominated by activities in our value-adding strategies. Note that the Actual Portfolio can have the same total or absolute risk as the Reference Portfolio but still have active risk. Technically active risk is expressed as the expected standard deviation of the active returns.
Active strategies	Value-add strategies.
Actual Portfolio	The Fund's portfolio at any point in time reflecting all the positions arising from our value-adding strategies as well as drift. Conceptually, the Actual Portfolio equals the Reference Portfolio (cash plus risk premiums) plus drift plus active risk.
Arbitrage	The simultaneous purchase and sale of an asset in order to profit from a difference in the price.
Asset class	An asset class is a group of securities or assets that share common risk and return characteristics.
Basis point	One-hundredth of a percentage point.
Belief	Our stated view on some aspect of financial markets and investing. It a result of mixed judgement and evidence.
Benchmark	A standard against which the performance of a security, index or investor can be measured.
Beta	The sensitivity of a security or asset class to the market or Reference Portfolio.
BMO	Bank of Montreal – our responsible investment engagement service provider.
Capability	Management's ability to execute a value-add strategy. Incorporates depth and breadth of experience, risk management abilities etc.
Capital	A corpus of funds that can be invested to generate economic value.
Cash	Generally taken to mean a very short-term investment earning interest from a highly rated bank or an equivalent bank bill.
CEM	CEM Global Benchmarking - a provider of benchmarking services and peer comparisons.
Collateralisation	The primary means of managing credit exposure among our counterparties. It represents monies or securities that are posted between us and counterparties to mirror unrealised profit and loss on our open derivatives positions.
Commodities	Tangible products, such as metals, crude oil or grain.
Compensation	Return for taking on risk. Often, the compensation is the risk premium, or excess return over cash, that the investment offers.
Control effectiveness assessment	An assessment that supports the identification of reliable evidence that our key controls are operating effectively, and that either individually, or in conjunction with other measures, the controls in place adequately manage the causes and impacts identified for each of our top risks.
Conviction	A measure of the degree of confidence we have in an active manager's investment skill. The Guardians' approach to rating an active manager. Applicable to both public and private market managers. The conviction rating is a quantitative overall score based on the scores of a number of individual, largely qualitative, factors.
Cost-asset ratio	Operating expenses ÷ average assets over the period.
Counterparty	A counterparty describes a legal entity that presents an exposure to financial risk. The Guardians' counterparties are typically banks.
Crown entity	An organisation that forms part of New Zealand's state sector, as established under the Crown Entities Act 2004. Crown entities are legal entities in their own right. A decision to assign a government activity or function to a Crown entity indicates that the function should be carried out at 'arm's-length' from the Government. The Crown entity's Board directs the entity's day-to-day operations.

Currency management	The Reference Portfolio's foreign currency exposures are 100% hedged to the New Zealand dollar. This means that we receive the actual return of the assets we are invested in without the currency fluctuations adding or detracting from performance. Occasionally we 'step away' from 100% hedging in order to, for example, take advantage of temporary price dislocations and add value to the Fund.
Cybersecurity	Technologies, processes and practices that are designed to protect networks, computers, programmes and data from attack, damage or unauthorised access.
Derivative	A financial instrument that derives its value from the value of underlying entities such as an asset, index or interest rate - it has no intrinsic value in itself. The derivative itself is merely a contract between two or more parties, the value of which at any one time is determined by fluctuations in the value of the underlying asset. Derivatives can be used to manage risk, reduce cost and enhance returns.
Direct	A direct activity is a financial market transaction undertaken by the Guardians' management.
Diversification	The potential improvement in a portfolio's Sharpe ratio that arises from introducing assets into the portfolio that behave differently from the assets in the Reference Portfolio. Introducing any new asset or asset class into the portfolio will have a diversification benefit. The more diversified a portfolio, the more difficult it is to achieve further diversification gains.
DM	Developed Markets.
Double arm's-length	The Guardians is an autonomous Crown entity, meaning it is legally separate from the Crown and operates at 'double arm's-length'. The first arm of independence is that the Government does not decide the pool of candidates for the Board of the Guardians (candidates are identified by an independent Nominating Committee). The second arm of independence is that investment decisions are made by the Board and management of the Guardians.
EM	Emerging Markets.
Employee Value Proposition	The offering that is received by employees in return for their performance at the workplace.
Endowment	A characteristic of the Fund that provides the Guardians with a natural advantage or edge over the typical investor.
Equilibrium	The long-term or steady state. Generally expressed in the context of long-term average expected risks and returns.
Equities	More commonly known as shares or stocks. Securities that signify ownership in a corporation and represents a claim on part of the corporation's assets and earnings.
ESG	Environmental, Social and Governance.
Exposures	The amount of money that an investor has invested in a particular asset.
Externally managed	An investment managed by an appointed external manager.
Factors	Factor investing is an investment strategy that takes passive market capitalisation-weighted indices and constructs an alternative index that is weighted toward companies possessing certain characteristics. It is expected that these characteristics or 'factors' will deliver superior risk-adjusted returns for investors, above those of a purely passive index, over the long-term.
Fair value	The amount paid in a transaction between participants if an asset is sold in the open market.
Fixed income	Assets providing income to investors via a fixed periodic payment. In the context of the Reference Portfolio, fixed income is a very well-diversified set of exposures, including sovereign bonds, investment grade credit, agency debt, high yield bonds and emerging market debt. Inflation-linked securities are also included though an element of the income is variable because it is linked to future inflation out-turns.
Foreign exchange	The Fund's exposure to non-NZ\$ cash rates. In our Reference Portfolio, there is no foreign exchange exposure as all non-NZ\$ denominated assets (i.e., foreign funded assets) are hedged back to NZ\$. Hedging back to NZ\$ essentially replaces foreign cash returns with NZ\$ cash returns. Foreign exchange in the Fund's context refers to a basket of the major foreign currencies.
Fund-of-funds model	A pooled investment fund that invests in other types of funds.

GLOSSARY (CONTINUED)

Fund Investment Vehicle (FIV)	An entity formed or controlled by the Guardians for the purpose of holding, facilitating or managing investments in the Fund.
Futures	A financial contract obligating the buyer to purchase an asset (or the seller to sell an asset), such as a physical commodity or a financial instrument, at a predetermined future date and price.
Global Reporting Initiative (GRI)	An international independent organisation that helps businesses, governments and other organisations to understand and communicate the impact of business on critical sustainability issues.
Global Macro	A market neutral strategy that produces return by skilfully exploiting inefficiencies within and across a broad range of liquid markets. The key source of return within this opportunity is manager skill.
Growth assets	In the Reference Portfolio, growth assets comprise equities and REITs. Some private market assets are also growth assets, e.g. private equity. Over the long-term and on average, the largest share of returns accruing to investments in growth assets derive from underlying exposures to real economic growth.
Hurdle	The minimum expected return required from a proposed investment to compensate the Fund for the inherent risks, fees and other costs (such as taxes) of that investment.
Illiquid	The inability to buy or sell an investment in a timely manner with minimal transaction costs.
Initial margin	Collateral exchanged between parties to protect against the potential future exposure of changes in the mark-to-market value of a derivatives transaction during the time it takes to close out and replace the position in the event the other party defaults.
Institutional Investor	An institutional investor is an organisation that invests money on behalf of other people. Institutional investors include banks, credit unions, insurance companies, sovereign wealth funds, hedge funds, REITs, investment advisors, endowments, and mutual funds.
Internalisation	To bring management in-house.
Internal Investment Mandate (IIM)	The policy governing the management of an internal mandate falling under an active strategy.
Investment	An allocation of risk capital to a specific manager or activity. Could include an individual investment undertaken by our internal management under an Internal Investment Mandate (IIM).
Iwi	Meaning 'peoples'. Iwi is often translated as a tribe. Iwi forms the largest social units within Māori culture.
Liquidity	The degree to which an asset or security can be quickly bought or sold in the market without affecting the asset's price.
Long	A long or long position is an investment strategy where an entity buys a security, currency or derivative with the expectation that it will rise in value.
Mandate	An official order or commission to do something.
Mark-to-market	A measure of the fair value of accounts that can change over time, such as assets and liabilities. Mark-to-market aims to provide a realistic appraisal of an institution's or company's current financial situation. The accounting act of recording the price or value of a security, portfolio or account to reflect its current market value rather than its book value.
Market index	An aggregate value produced by combining several stocks or other investment vehicles together and expressing their total values against a base value from a specific date. Market indices are intended to represent an entire stock market and thus track the market's changes over time.
Market mispricing	Market mispricing causes a divergence between the market price of a security and the fundamental value of that security.
Market neutral strategy	Generally refers to hedge fund investments where the hedge fund has no systematic loading onto market risk, i.e. returns are independent of general market movements.
Market risk	Is the non-diversifiable risk associated with exposure to a broad mix of asset classes. The risk in the market portfolio. In the context of the Fund, this also refers to the risk in an investment that is correlated with the Reference Portfolio or some investable public market benchmark or asset class.
Merger arbitrage	Involves simultaneously purchasing and selling the stocks of two merging companies to take advantage of the difference in price of those stocks pre-merger.
Mezzanine loan	A financial security or a layer of capital that ranks between debt provided by creditors (like banks) and the equity provided by shareholders. Debt claims therefore have first claim on the capital of a

	business, with the mezzanine loans paid thereafter. These loans are usually convertible to equity under defined circumstances.
NAV	Net Asset Value.
Net return	Returns over and above the Treasury Bill return – the Government's cost of debt.
Net zero economy	Net zero emissions refers to an overall balance between greenhouse gas emissions produced and greenhouse gas emissions taken out of the atmosphere. The New Zealand Government has set a target of becoming a net zero emissions economy by 2050.
Opportunity	A feature of the investment environment that is conducive to generating positive risk-adjusted active returns.
Passive management	Passive management, or 'index-tracking', is a style of investment management through which a fund's portfolio mirrors a selected market index. Stocks move in and out of the portfolio according to index inclusion rather than through an active investment decision.
Physical	An investment that is funded with cash to the full notional amount of the investment.
Portfolio	A portfolio can be thought of as a pie that is divided into pieces of varying sizes, representing a variety of asset classes and/or types of investments to achieve an appropriate risk-return portfolio allocation.
Portfolio completion	A value-adding strategy that seeks to access and manage the Fund's portfolio exposure to equities and bonds. It does this by rebalancing (see 'Rebalancing' below) the Fund to our desired Reference Portfolio weightings and managing the currency overlay and liquidity risk in the most effective manner possible.
Portfolio construction	The allocation of risk in a portfolio. Generally applied to active management, portfolio construction embraces the broad allocation of risk capital to various value-add strategies, as well as the specific allocations of risk capital to individual investments.
Private equity	Private placement of capital with defined ownership rights (i.e. claims to the profits generated by the business).
Private markets	Investments not traded on a public exchange or market.
Public markets	Investments comprising: <ol style="list-style-type: none"> 1. exchange listed securities or 2. over the counter financial contracts linked to listed securities and/or widely-followed indices or benchmarks. Public market investments are generally (but not always) liquid and generally (but not always) have regular and transparent pricing.
Rebalancing	Rebalancing is the process of realigning the weightings of one's portfolio of assets. The Fund's passive exposures change as markets move over time. Periodically, therefore, we consider whether to rebalance (buy and sell listed equities and fixed income assets) the Fund's actual passive exposures back in line with the weightings in the Reference Portfolio. Minimising the costs of rebalancing this activity is an important objective.
Recession	A period of temporary economic decline during which trade and industrial activity are reduced, generally identified by a fall in GDP in two successive quarters.
Reference Portfolio	A simple low cost, passively managed and well-diversified portfolio of listed asset classes that is consistent with the Fund achieving its return objectives without undue risk, i.e. fit for purpose. Conceptually, the Reference Portfolio comprises a 100% cash position (NZ\$) plus a set of risk premiums or excess returns that also sum to 100%.
Real Estate Investment Trust (REIT)	A company that owns, operates, or finances income-generating real estate.

GLOSSARY (CONTINUED)

Risk	The standard deviation of expected returns. The Fund's risk model uses equilibrium risk (and return) assumptions.
Risk Allocation Process (RAP)	The process by which risk capital is allocated to the Fund's opportunities. Under the RAP: 1. Opportunities are assessed for relative attractiveness; 2. Allocation approaches determine how much risk capital should be allocated for various levels of attractiveness; and 3. The approaches are scaled to meet risk budgets set for groups of opportunities and for the Fund as a whole. This latter budget is referred to as the total active risk budget and the groups of opportunities as risk budget baskets.
Risk appetite	The amount of loss an organisation is willing or able to tolerate should a downside risk materialise.
Risk budget	Articulates the average amount of active risk that is expected to be allocated to an opportunity or group of opportunities referred to as risk budget baskets. Risk budgets aggregate to the total active risk budget. Risk budgeting is a stage of the risk allocation process.
Risk premium	The return in excess of cash earned by investors as compensation for taking passive exposure to the market or an asset class. Risk premium and excess return can be used interchangeably.
Risk profile	A risk profile is an evaluation of an investor's willingness and ability to take risks. A risk profile is important for determining the investment asset allocation for a portfolio.
Santiago Principles	A set of principles and practices generally accepted by the member institutions of the International Forum of Sovereign Wealth Funds as amounting to a basic code of good practice for sovereign wealth funds.
Securities lending	Loaning a stock, derivative or other security to an investor or a firm.
Sharpe ratio	A characterisation of how well the return of an investment compensates the investor for the risk taken.
Short	A short or short position is an investment strategy where an entity sells a security, currency or derivative with the view of buying back the same amount of the relevant instrument at a lower price.
Side-car investment	Occurs where one investor allows a second investor to control where and how to invest the capital.
SIPSP	Statement of Investment Policies, Statements and Procedures.
Skill	Active investment expertise. The ability to generate active returns.
Sovereign bond	A debt security issued by a national government.
Sovereign Wealth Fund	Pools of money derived from a country's reserves, which are set aside for investment purposes that will benefit the country's economy and citizens.
Strategic Tilting	Tilting is a value-adding strategy where the mix of the Fund's market or currency exposures relative to the Reference Portfolio is changed to increase exposure to undervalued asset classes.
Sustainable Development Goals (SDGs)	A collection of 17 global goals designed to be a 'blueprint to achieve a better and more sustainable future for all'. The SDGs were set in 2015 by the United Nations General Assembly and are intended to be achieved by the year 2030.
Swap	A derivative in which two parties agree to exchange one stream of cash flows against another.
Synthetic	Obtaining exposures using derivatives. Generally does not require funding.
Taskforce on Climate-related Financial Disclosures (TCFD)	The TCFD was created by the Financial Stability Board to help identify the information needed by investors, lenders and insurance underwriters to appropriately assess and price climate-related risks and opportunities. In its final report released in 2017, the TCFD defined four core elements of recommended financial disclosures: governance; strategy; risk management; and metrics and targets.
Theme	Long-term influences on the economy and capital markets that are expected to be relatively immune to business cycle and other short-term influences. An enduring characteristic or feature of the global economic or financial environment.
Tilt	Changes in the mix of the Fund's market or currency exposures relative to the Reference Portfolio (other than through drift or the proxies). Tilting is a value-add strategy.
Total risk	Generally referring to the Fund's total or absolute risk.

Treasury Bill	Debt instruments issued by the government that mature in less than one year; the yield on these measures the cost of running a budget deficit.
UNPRI	United Nations Principles for Responsible Investment.
Value-add	See 'Active returns'. In performance reporting, the difference between the actual return and the Reference Portfolio return, net of the costs of obtaining passive exposures.
Value-adding strategies	Board approved strategies that define the objectives and parameters for taking on active risk. Also referred to as active strategies or just strategies.
Variation margin	Collateral exchanged between parties to protect against current exposures caused by changes in the mark-to-market value of a derivatives transaction.
Venture capital	Money provided to fund early-stage businesses with perceived long-term growth potential.
Volatility	The amount of uncertainty or risk about the size of changes in a security's value.

GOOD EMPLOYER REPORTING

GOOD EMPLOYER

The Guardians is committed to being a good employer. All staff are employed on individual contracts and our Human Resources Policy details the commitment to being a good employer. Diversity, Equity and Inclusion are integral to the Guardians' approach to ensuring all people in our organisation are treated with respect and fairness. Staff also have the opportunity to provide input into our Human Resources Policy and approach.

We believe being a good employer will help us achieve our strategic goals. To us, being a good employer means our people enjoy their jobs and feel valued, included, and safe in the workplace; that they trust the processes and procedures around their development, recognition, promotion and exit; and are enthused by and professionally satisfied in their roles.

Element	Guardians' activity
Leadership, accountability and culture	<ul style="list-style-type: none"> Alignment between Strategic Plan objectives, individual objectives and performance measures Following up on the results of our most recent Organisational Culture Inventory (OCI) and Organisational Effectiveness Inventory (OEI) surveys
Employee development, promotion and exit	<ul style="list-style-type: none"> Programme in place to identify and develop talent Vacancies advertised internally Internal secondment opportunities Exit interview process
Recruitment, selection and induction	<ul style="list-style-type: none"> Robust recruitment and selection processes Onboarding and induction for all staff Summer internship programme
Remuneration, recognition and conditions	<ul style="list-style-type: none"> Transparent, equitable and gender-neutral job evaluation practices Remuneration benchmarked against third-party New Zealand data Current incentive programme into its 11th year, with increased participation and refinements to simplify the programme last year
Flexibility and work design	<ul style="list-style-type: none"> IT systems facilitate remote working from anywhere Flexible working arrangements supported 6/6 primary carers returned from parental leave
Harassment and bullying prevention	<ul style="list-style-type: none"> Employee Code of Conduct and relevant policies available Performance management process rewards positive and constructive behaviour
Safe and healthy environment	<ul style="list-style-type: none"> Strong focus on employee health, safety and well-being through the provision of support services (see page 28)



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