



**Natural Hazards
Commission**
Tōka Tū Ake

Statement of Investment Policy and Objectives

Contents

1	Introduction	2
2	Governance structure	4
3	Investment philosophy	7
4	Investment objectives	9
5	Investment strategy	10
6	Investment policies	13
7	Reviews and monitoring	16
8	Glossary	19

1 Introduction

1.1 SIPO

This Statement of Investment Policy and Objectives (**SIPO**) governs the investment of the Natural Hazard Fund (**the Fund**) stewarded by the Natural Hazards Commission Toka Tū Ake (**the NHC** or **the Commission**). Authority for this document comes from the Funding and Risk Management Statement (**FRMS**).

In particular, this SIPO covers:

- Long-term performance objectives and expected tracking error;
- Asset classes which the Fund can invest in and the selection criteria for investments within those classes;
- Benchmarks against which the performance of the Fund as a whole, and classes of investments, will be assessed;
- Investment beliefs;
- Rebalancing policy;
- Responsible investments policy;
- The use of options, futures and other derivative financial instruments;
- The management of credit concentration, liquidity, operational, currency, interest rate, market and other financial risks;
- Voting policy for equity investments;
- The method of, and basis for, valuation of investments that are not regularly traded at a public exchange; and
- Prohibited or restricted investments or any investment constraints or limits.

For the avoidance of doubt, the Fund does not include NHC's working capital. This SIPO does not therefore apply to any working capital amounts. Working capital is managed subject to the *Working Capital Management Policy* which is approved and monitored by the Board (see Section 2.8).

1.2 The Fund and its purpose

The purpose of the Natural Hazard Fund is to provide for payment of claim settlement costs and the other amounts referred to in Section 111 of the Natural Hazards Insurance Act 2023 (**the Act**). The requirements of the Act are set out in Section 4.1 of this SIPO.

1.3 Effective date and review

The effective date of this SIPO is 1 July 2026.

Review procedures are specified in Section 7.3. The next review is due to be completed before 1 July 2027.

Effective date	Version	Approved by
1 July 2025	1	The Board
1 July 2026	2	The Board

1.4 Document history

Material changes to the SIPO are documented here.

Effective date	Version	Summary of significant changes made
1 July 2025	1	This is the first SIPO of the Fund.
1 July 2026	2	Annual review updates for clarity.

2 Governance structure

2.1 Introduction

This section sets out the investment governance structure for the Fund.

2.2 The Act

The Fund is governed by the Act, available [here](#).

2.3 The Commission

The Commission is overseen by a Board of Commissioners (**the Board**), which is responsible for investing the Fund in line with the requirements of the Act and the adherence to this SIPO. The Board is accountable to the Minister with delegated responsibility for the NHC (**the Minister**).

Most importantly the Board must:

- Consult with the Minister if it intends to modify the SIPO to any substantive degree.
- Review the SIPO at least annually.

In satisfying its responsibilities, the Board may delegate decision-making and implementation to other parties, both internal and external.

2.3.1 Board Capital Management Committee

The Board is supported in the execution of its duties by the Board Capital Management Committee (**the CMC**), which is a subcommittee of the Board. In particular, the CMC is responsible for:

- Recommending the *Executive Investment Committee Charter* for the Board's approval (see next subsection).
- Overseeing the annual SIPO review performed by the Executive Investment Committee and reporting back to the Board on the results of these reviews, including any recommended changes.
- Considering strategic issues papers from time to time as required.
- Ensuring appropriate risk oversight and investment management policies and procedures (including escalation protocols) are in place and operating effectively.

2.4 Executive Investment Committee

The Executive Investment Committee (**EIC**) has been established to assist the Board in fulfilling its responsibilities, with the Board delegating it certain responsibilities. The EIC operates under the *Executive Investment Committee Charter* approved by the Board following recommendation by the CMC.

The EIC will comprise of NHC's Chief Executive and Chief Financial Officer, with other roles to be outlined in the *Executive Investment Committee Charter*. The EIC may include an **Independent Investment Expert** appointed by the Chief Executive, who is suitably qualified and experienced. Further details on this role will be included in the *Executive Investment Committee Charter*.

The EIC's tasks are:

- Assisting the CMC with the annual SIPO review.
- Appointing, reviewing and replacing Investment Managers.
- Reviewing the investment performance of the Fund on at least a quarterly basis and reporting on this to the CMC.
- Monitoring compliance with the SIPO.
- Managing cashflows and providing instructions to Investment Managers on rebalancing, as required, to stay within the allowable ranges (see Section 5.4 and 5.5).

2.5 Investment Managers

Day-to-day management of the investments will be outsourced to third party **Investment Managers**.

The Investment Managers have the responsibility for:

- Ensuring the funds are invested in line with the agreed investment mandates.
- Providing reporting to the EIC on the performance of the portfolio (including comparison to agreed market benchmark indices) on a regular basis.
- Confirming compliance with the SIPO on a regular basis.
- Attending meetings of the EIC periodically, and if requested meetings of the Board / CMC as required.

The Investment Managers may also support the EIC by:

- Proactively advising of any developments within investment markets which may require attention.
- Offering input on the investment strategy, including this SIPO, if requested.

2.6 Investment Asset Advisor

From time to time the EIC may engage the services of a suitably qualified and independent **Investment Asset Advisor**. The criteria for appointment are set out in Section 7.5. The Investment Asset Advisor and the Independent Investment Expert (Section 2.4 above) are separate functions.

The Investment Asset Advisor shall:

- Assist the EIC in reviewing the investment strategy, the Fund's performance and the SIPO when requested.
- Assist the EIC in assessing the Investment Managers, including for example assessing the Investment Managers' performance against competitors in the market, assessing the Investment Managers' fee levels, and assessing the Investment Managers' ability to execute the agreed mandates and achieve the agreed objectives.

- Prepare any investment advice requested by the EIC in relation to the SIPO, Investment Managers, or other investment matters.

2.7 Tax

NHC is not subject to the Income Tax Act 2007.

When appointing an Investment Manager, the EIC will consider any tax consequences arising from the relevant collective investment vehicles. The Investment Managers and Investment Asset Advisor are expected to take account of NHC's tax status in performing their functions.

2.8 Related documents

The Act requires that at least once every five years the Minister must make a FRMS. One of the purposes of the FRMS is to set out requirements relating to the investment of the Fund that the Commission is required to comply with. The current FRMS is for the period 2024 to 2029 and can be found [here](#).

Periodically, the Minister will provide a **Letter of Expectations** to the Commission. These letters can be found [here](#).

Other governance documents which interact with the investment management of the Fund are:

- Executive Investment Committee Charter
- Delegations of Authority Framework
- Policy of Participation of Reinsurers and Reinsurance Brokers
- Working Capital Management Policy
- Risk Financing Strategy
- NHC's Risk Appetite Framework
- Sanctions Policy .

3 Investment philosophy

3.1 Introduction

The Board believes that a robust and documented investment philosophy is critical for long-term success. This section sets out the investment philosophy and beliefs of the Board.

3.2 Investment philosophy

The Board acts as a responsible steward of the Natural Hazard Fund, investing in line with best practice portfolio management, maximising return without undue risk, and avoiding prejudice to New Zealand's reputation as a responsible member of the world community. The investment philosophy is to generate higher returns than the risk-free rate, whilst minimising the risk of loss, providing a high certainty of the funds being available when required, and investing in a socially responsible manner over a long-term investment horizon.

3.3 Investment beliefs

The Board believes in the importance of investing following the best practices of good governance. It has adopted the following investment beliefs to serve as guiding principles for the Fund's investments.

Investment belief	Implication
Governance: Good governance, robust decision-making processes and continuity of approach will deliver better investment outcomes over time.	The responsibilities of the Board are set out clearly and fully documented. Reviews occur at regular intervals or when certain triggers are met. The Board utilises qualified experts to obtain the requisite expertise and skills to execute on its responsibilities.
Risk appetite: The purpose of the investment portfolio is to maximise return without undue risk to the Fund as a whole. Taking a considered approach to investment risk will increase investment returns over time.	The investment strategy is set having regard to the Fund's context and the NHC's broader balance sheet. Investments are considered based on their expected contribution to investment return (or reduction to risk), subject to maintaining risk within the established controls, policies and limits of this document.
Asset allocation: Strategic asset allocation, in particular, the split between growth and income assets, has the greatest impact on overall investment outcomes. It is important to limit the movements away from the strategic asset allocation position (which may occur due to market movements or due to cashflows) to avoid taking on unintended risks or biases.	A strategic asset allocation is set based on the investment objectives, the liquidity requirements, and the risk tolerance of the Board. The actual asset allocation is monitored closely and mechanical rebalancing rules are employed.
Investment approach: While investment markets are broadly efficient, inefficiencies do exist to a greater or lesser extent in certain markets. Therefore, some markets may offer the opportunity for skilled active managers to add value after investment fees.	Implementation of investment management is considered on a sector-by-sector basis. Active managers are selected where there is conviction that there is an inefficiency in the market and that the manager can add sufficient value to justify the incremental cost over passive management.
Efficiency: Value can be added by efficient implementation, including through diversification (e.g., asset sector, managers, securities) and control of costs.	Collective investment vehicles are preferable where the investment portfolio does not have the scale to implement an appropriately diversified portfolio or at an efficient cost. Efficiency in terms of recognising the Fund's tax status is also an important factor.

Sustainability and responsible investment: The NHC has a duty to invest responsibly where practical and in a manner which does not prejudice New Zealand's reputation as a responsible member of the world community. Environmental, social and governance (ESG) factors, and other non-financial factors, can impact investment outcomes and need to be considered throughout the investment process.	Investment Managers incorporate ESG factors and sustainability considerations in their investment process. Investment Managers are expected to align with the Crown's responsible investment framework.
--	--

Periodically, the Board will review the supporting evidence for these beliefs. Typically, this will form part of a review of the SIPO.

3.4 Risk appetite

The Fund has a long-term, investment horizon. It is able to tolerate a degree of short-term investment market volatility and variations in the value of its investment assets. However, the NHC requires funds periodically for several purposes (as defined by the Act), some of which are unpredictable. As such, there is a balance to be struck between pursuing a long-term investment profile and having certainty in the short-term.

The Board has currently settled on a conservative risk appetite with respect to its investments. This, practically speaking, results in a portfolio comprising approximately 20% in growth assets (such as equities) and 80% in income assets (such as fixed income and cash). The investment objectives have been set to align with the risk appetite, in particular the expectations of return and risk (see Section 4.2).

The risk appetite settings form an important part of the regular SIPO reviews.

3.5 Fund context

The investment strategy documented in this SIPO has been developed with a long-term time horizon in mind. However, it is possible that a natural hazard event will result in large proportion of the Fund's investments needing to be paid out to settle claims in a short period.

The FRMS states that when the NHC's forecasts indicate a probable payment under Section 112 of the Act is required within a 12 month period, there is an expectation for minimising investment risk since the timing of impending liabilities can be predicted with reasonable certainty.

The EIC keeps the Board (through the CMC) informed of these forecasts and as such, the Board may at any time instruct the EIC to adjust the investment strategy to an even more conservative profile. Specifically, the strategic asset allocation and ranges given in Section 5.4 which apply will be the alternative de-risked profile.

While the Fund remains at the de-risked settings, other policies such as the investment performance objectives will be adapted to appropriately match the investment profile.

For the avoidance of doubt, the changes to the investment strategy described in this section are only to be used to match the asset profile with the expected claims payment profile. This section does not provide for the ability to change the investment approach based on economic conditions or forecast investment market conditions. The Board does not support tactical asset allocation.

4 Investment objectives

4.1 Introduction

The Board believes in the importance of setting transparent investment performance objectives.

The Act states that the Commission must (subject to other requirements of the Act) invest the Fund on a prudent, commercial basis that is consistent with—

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

4.2 Investment objectives

The investment objectives have been set across multiple dimensions covering return and risk. Failure to achieve any investment objective will usually warrant an investigation as to the reasons why and the Board may take action to address the reasons for such a failure.

The Board has set a single primary investment objective but also considers it important to achieve the secondary objectives.

The primary long-term investment objective of the Fund is quantified as follows:

- To achieve an investment return in excess of inflation by 2.5 percentage points per annum over rolling five year periods.

Above, and throughout this section, the “investment return” is defined as the time-weighted return on the investment portfolio after the deduction of investment management fees and any applicable taxes. “Inflation” is defined as the change in the New Zealand Consumers Price Index (CPI) published by Stats NZ Tatauranga Aotearoa.

The return expectation has been set to be consistent with the level of risk taken in the Fund (see Section 3.4).

The Fund has secondary objectives defined as follows:

- To achieve an investment return in excess of the Fund's Composite Benchmark return (defined in Section 5.7) over rolling five year periods.
- To realise tracking error to the Fund's Composite Benchmark of less than 2% per annum, measured over rolling five year periods.

In addition, the portfolio is managed such that the modelled expectations for portfolio risk are within the following levels:

- A negative investment return over a one year period is expected no more frequently than one year in twenty.
- An investment return of -2.5% or worse over a one year period is expected no more frequently than one year in a hundred.

For the avoidance of doubt, the primary objective takes precedence over the secondary objectives.

5 Investment strategy

5.1 Introduction

This section sets out the investment strategy followed by the Fund.

5.2 Implementation

The Fund is primarily invested through collective investment vehicles managed by the Investment Managers. The Investment Managers' collective investment vehicles typically hold individual securities directly, although may in some instances allocate them to managed funds. The Investment Managers may appoint third party fund managers/sub-managers.

In some cases, the Fund may invest through individually managed accounts. Where this is done, an independent custodian will be employed to safeguard the assets. Any custodian in use must be subject to an annual controls audit (ISAE 3402).

5.3 Asset classes

The Fund invests in the following asset classes.

- **Listed equity.** Listed equity means equity securities issued by companies on public exchanges.
- **Fixed interest.** Fixed interest means debt securities issued or guaranteed by governments or corporations. It includes, but is not limited to, government, local authority and corporate debt, and securitised assets. This asset sector is expected to be defensive and act as a diversifier to the equity portion of the portfolio.
- The Fund apportions fixed interest into two subparts:
 - **Domestic sovereign fixed interest** which covers debt securities issued by the New Zealand Government.
 - **Other fixed interest** which encompasses government, semi-government and local government, and corporate debt securities issued by New Zealand or international entities.
- **Cash.** Cash means investments in short term (typically defined as a maturity period of less than 90 days) and highly liquid securities denominated in New Zealand dollars, such as short-term bank deposits.

The Fund invests into collective investment vehicles which the EIC considers invest in assets which fall predominantly within one of the above asset sectors. These collective investment vehicles are treated as being an investment in the relevant asset sector.

Investment vehicles are expected to be tax-efficient given NHC is not subject to the Income Tax Act 2007.

5.4 Strategic Asset Allocation

The Strategic Asset Allocation (**SAA**) is given in the following table. The neutral position and allowable ranges are shown.

	Strategic Asset Allocation				De-risked portfolio			
	Neutral %	Allowable range % - %			Neutral %	Allowable range % - %		
Listed equity	20.0	15.0	-	25.0	0.0	0.0	-	0.0
Growth assets	20.0	15.0	-	25.0	0.0			
Fixed interest								
Domestic sovereign	45.0	40.0	-	50.0	25.0	0.0	-	35.0
Other	30.0	25.0	-	35.0	0.0	0.0	-	15.0
Cash	5.0	2.5	-	12.5	75.0	50.0	-	100.0
Income assets	80.0	75.0	-	85.0	100.0			
Total	100.0				100.0			

The EIC is responsible for maintaining the asset allocation within the allowable ranges (see Section 5.5).

As discussed in Section 3.5, as a result of a natural hazard event expected to create significant liquidity demands on the Fund in the near term, the Board may instruct the EIC to move to the de-risked portfolio.

5.5 Rebalancing and cashflow

Due to market movements and cashflows, the investment mix will naturally vary from the neutral position. The allowable ranges have been set to limit the movements too far away from the neutral position. The EIC monitors the investment mix on a monthly basis to ensure it remains within the allowable ranges.

In the event that the asset allocation mix breaches an allowable range, the EIC will inform the CMC and arrange for transactions with the Investment Managers to rebalance the portfolio back within the allowable ranges as soon as practicable.

Investments into the Fund and withdrawals out of the Fund will be made by the EIC so as to bring the asset allocation back towards the neutral position. In practice, this means that investments will generally be made into asset sectors which are below their neutral weight and withdrawals will be made from asset sectors which are above their neutral weight.

5.6 Market indices

For the purposes of performance measurement, the EIC assesses the performance of each asset sector against appropriate market indices. Where passive management is chosen, the Investment Manager seeks to replicate the performance of the market index (before the deduction of fees). Where active management is chosen, the Investment Manager will seek to outperform the market index by the appropriate margin specified by the EIC (before the deduction of fees) through the selection of securities.

5.7 Composite Benchmark

The performance of the total Fund is measured against a **Composite Benchmark** which is defined as the weighted average of the market indices given above using the SAA weights.

One of the secondary objectives given in Section 4.2 is to outperform the Composite Benchmark return after the deduction of investment fees and any applicable taxes.

5.8 Transition period

The investment strategy given in this SIPO represents a material change from the previous approach. The Board believes that a staged approach to changing the investment strategy is prudent to allow adequate time to undergo due diligence on potential Investment Managers and investment products. It is intended that full implementation of the Strategic Asset Allocation (as set out in Section 5.4) will be achieved before 30 June 2027.

An implication of this policy is that the asset allocation mix may not fall within the prescribed asset allocation ranges during the transition phase through to 30 June 2027.

6 Investment policies

6.1 Introduction

This section sets out various investment policies which are adhered to.

6.2 Investment Managers

Investment Managers are expected to be financially strong, stable, well-resourced and risk-controlled organisations. Criteria for assessing Investment Managers are set out in Section 7.4.

6.3 Currency hedging

Foreign currency exposure is hedged back to the New Zealand dollar per the following policy.

- Listed equity investments are hedged. The neutral position is to be 75% hedged to the New Zealand dollar, with the allowable range from 65% to 85%.
- All other investments denominated in foreign currency are expected to be fully hedged to the New Zealand dollar. In practice, an allowable hedging range of 95% to 105% has been set for each asset sector, apart from listed equity investments, as noted immediately above.

6.4 Investment Managers and funds

Several overarching limits have been established in order to mitigate concentration and liquidity risk.

Investment Managers

No single Investment Manager organisation may represent more than 50% of the investment portfolio. This limit is designed to mitigate the exposure to the risk of organisational instability, change in business direction, and other company-related issues.

Investment vehicle

The Fund's investments into a collective investment vehicle may represent no more than 20% of said vehicle. This limit is designed to mitigate the exposure to liquidity risk. That is, the risk that it cannot redeem all of its investments in full in a reasonably short timeframe.

If the Fund's investments increase to more than 15% of any investment vehicle, the EIC will review the continued use of that investment vehicle. In this instance, the EIC may decide to decrease the investments allocated to the relevant vehicle or retain the Fund's allocation if it assesses the risks are acceptable.

6.5 Liquidity and valuation

All investments are to be traded on public exchanges or otherwise readily marketable. Reliable market quotations for prices for investments are to be available at all times.

The investment portfolio is expected to be highly liquid. All investments are expected to be redeemable in full within five business days with no more than a 10% impact on market value.

6.6 Derivatives and leverage/borrowing

The investment portfolio may not be leveraged. Where collective investment vehicles are used, there may be facility for the Investment Managers to borrow for short-term cashflow management purposes. In all circumstances, borrowing may not exceed 0.5% of the total Fund value.

Derivatives may be used by the Investment Managers for currency hedging purposes, for interest rate swaps and credit default swaps, and to equitise cash over the short term. Derivatives are not to be used to leverage the portfolio.

The Investment Managers have detailed derivative and counterparty risk policies which are reviewed by the EIC from time-to-time and at least at the time of the Investment Manager's triennial review (see Section 7.4).

6.7 Credit quality

For the domestic sovereign fixed interest sector, the only allowable securities are those issued by the New Zealand Government.

For the other fixed interest sector, the weighted average credit rating is required to be A- or better, as given by S&P Global Ratings (or an equivalent rating from a similar ratings agency). This sector will primarily comprise investment grade debt. The maximum allocation to non-investment grade debt (including unrated debt) is 15% of the allocation to this sector.

6.8 Interest rate risk

Interest rate risk is controlled at an asset sector level by selecting and limiting the Fund's exposure to various asset sectors. Within each asset sector, the allocation is expected to have interest rate sensitivity which is similar to the market index. In particular, the following duration limits have been set.

Asset sector	Allowable duration range
Domestic sovereign fixed interest	Index $\pm$ 2 years
Other fixed interest	Index $\pm$ 2 years
Cash	Less than 180 days

6.9 Operational risk

Operational risk primarily relates to the timing and accurate execution of cashflows by the EIC. This is primarily managed through due regard to the NHC's other policies, such as the *Delegations of Authority Framework*. The EIC is also responsible for regular monitoring of the Fund's overall position and effecting rebalancing (see Section 5.5).

Operational risk at the Investment Manager level is controlled through the requirement that each Investment Manager has a third-party custodian and undergoes a regular custodial controls audit.

6.10 Responsible investments and voting policy

The Act requires that the Fund be invested in a manner that avoids prejudice to New Zealand's reputation as a responsible member of the world community. The Board requires that its Investment Manager incorporates environmental, social and governance (**ESG**) factors and sustainability considerations into its investment process.

The Investment Managers are expected to align with the Crown's responsible investment framework. The Investment Managers are expected not to invest in securities which violate the exclusions list which the New Zealand Superannuation Fund lists in its policy – available [here](#). Where collective investment vehicles are used, the Board recognises that the Investment Manager's exclusion policies, definitions and criteria (such as revenue thresholds) may differ from the New Zealand Superannuation Fund's policy. The CMC, through the EIC, annually reviews the portfolio for any securities of concerns, considers the materiality of such exposures (if they exist), and engages with the relevant Investment Managers to address any issues.

The Investment Managers are required to report annually to the EIC on their sustainable investment practices and outcomes. The EIC reports to the CMC on climate related disclosures annually as part of the SIPO review process.

The Investment Managers are expected to exercise their voting responsibilities in line with their fiduciary duty, market best practice and in alignment with the Fund's responsible investments policy. The EIC will periodically review the Investment Managers' proxy voting policies and track record.

7 Reviews and monitoring

7.1 Introduction

The Board recognises the importance of a well-defined and rigorous review regime. This section provides the review criteria and frequency of review for the various parties involved with the Fund.

7.2 Regular monitoring

7.2.1 Immediate

Upon becoming aware that the portfolio has breached an allowable range, the EIC will inform the CMC and arrange for transactions with the Investment Managers to rebalance the portfolio back within the allowable ranges as soon as practicable.

Upon becoming aware of a breach of any other SIPO limits, the EIC will inform the CMC as soon as practicable and outline the plan to remedy the breach.

7.2.2 Monthly

On a monthly basis, the CFO provides the following as part of the regular Board financial reporting:

- The portfolio valuation and overall Fund position by asset sector as at month end.
- Confirmation of compliance with the SIPO.

The CFO may provide any other additional reporting as required.

7.2.3 Quarterly

On a quarterly basis, the EIC provides a more detailed report to the CMC which includes:

- Performance of the Fund against the investment objectives for the quarter, and trailing one, three and five year periods.
- Performance of each asset sector against the relevant market index, outperformance target and relevant peer group (where available) over the same time periods.
- Brief commentary on the main factors driving the performance of the Fund.

On a quarterly basis, the Investment Managers provide the EIC a report on the sectors of the Fund they have responsibility for. These reports contain:

- Performance of the relevant asset sector(s) and market indices for the quarter and trailing one, three and five year periods.
- An explanation of the main drivers of out/underperformance of the market indices over the quarter.
- A brief discussion of investment market conditions and the outlook.
- Confirmation of liquidity levels in the portfolio.

7.2.4 *Annual*

The Investment Managers present to the EIC at least annually. These reports include investment performance and details of their sustainable investment practices and outcomes.

Annually, the Investment Managers' custodians undergo a controls audit. The results are communicated to the EIC and in turn CMC.

7.3 SIPO review

The CMC, with the assistance of the EIC, reviews the SIPO to ensure it remains fit for purpose annually. These reviews include consideration of the Fund's purpose, the SAA, the Fund's current circumstances, and the investment outlook.

Any changes to the SIPO need to be recommended by the CMC and then approved by the Board.

The Board may, at its discretion, bring forward any such review. Reasons for this may be the occurrence of a natural hazard event, a change to the Fund's purpose or circumstances, or changes with an Investment Manager.

7.4 Investment Managers

Notwithstanding the regular performance monitoring, the EIC conducts an in-depth review of the Investment Managers triennially, or sooner in its discretion.

The EIC uses the following criteria when selecting and reviewing the Investment Managers.

- **Business:** The organisational strength of the Investment Manager. Aspects such as stability, resourcing, alignment, and remuneration will be considered.
- **People:** The skills of the personnel employed in investment management roles. Experienced investors with complementary skills, working in a collaborative and dynamic environment are favoured.
- **Process:** The investment process employed should be disciplined and clearly articulated. Research and other input should be drawn from multiple sources and thoroughly worked through prior to portfolio construction. Risk should be actively monitored and managed as part of the investment process.
- **Performance:** The performance of the portfolio after considering the market environment and level of active risk undertaken.
- **Responsible investment:** The Investment Manager's alignment with the Crown's responsible investment framework and the impact of ESG decisions on the portfolio.
- **Fees and costs:** All else equal, a lower fee is preferred. However, if the Investment Manager has a higher fee, this may be justified by better performance. This category includes the efficiency of the investments (i.e., any costs introduced through implementation inefficiencies).

7.5 Investment Asset Advisor

As outlined in Section 2.6, from time to time the EIC may engage the services of an Investment Asset Advisor to assist it in executing its duties. The following criteria are used for the appointing an Investment Asset Advisor:

- **Independence:** The Investment Asset Advisor needs to be suitably independent from the Investment Managers.
- **Track record:** The quality of advice given to the EIC and the Board / CMC and, to the extent that it is obtainable, given to other investors.
- **Market knowledge:** The Investment Asset Advisor needs to demonstrate a strong awareness and knowledge of the institutional investment marketplace.
- **People:** The quality of the individuals involved in advising the EIC and the Board / CMC. A collaborative approach is preferred.
- **Cost:** The level of fees paid and the basis for the fees (i.e. fee for service versus retainer model).
- **Education and communication:** The Investment Asset Advisor will have the ability to provide education and training and explain investment theory to the EIC and the Board / CMC.

8 Glossary

This section contains brief definitions of certain terms used within this document.

- **Benchmark:** Typically a market index used to measure one's performance.
- **Collective investment vehicle:** A fund where different investors place their money into a collective pool of assets invested by an investment manager.
- **Credit default swap:** A derivative that allows one party to transfer the credit risk of a particular debt instrument to another party.
- **Credit rating:** An independent assessment of an organisation's ability to repay its debts.
- **Currency hedging:** The process of limiting the impact of the changes in currency exchange rates on the value of one's investments. Currency hedging is typically implemented using derivatives such as forward contracts.
- **Custodian:** The party in charge of the safekeeping of assets. Best practice is for the custodian to be independent from the investment manager.
- **Derivative:** A financial contract whose value is determined based on an underlying asset, such as a stock market index, currency exchange rate or interest rate.
- **Duration:** A measure of the sensitivity of a bond's price to changes in interest rates. Duration is typically expressed in years and reflects the weighted average cashflow of the bond.
- **ESG:** Environmental, social and governance. ESG usually refers to an investing framework which considers non-financial factors (in addition to financial factors) when assessing investment opportunities and risks.
- **To equitise:** To use derivatives to maintain equity market exposure while holding cash.
- **Fiduciary duty:** The obligation of one party (the fiduciary) to act in the best interests of another party (the beneficiary). This is typically referred to in situations where the fiduciary is responsible for financial outcomes affecting the beneficiary.
- **Interest rate swap:** A derivative contract where two parties agree to exchange a stream of interest rate payments. Typically, a fixed interest rate is exchanged for a variable (floating) interest rate.
- **Investment grade debt:** Securities with a credit rating of BBB- or better from S&P Global Ratings (or an equivalent rating from a similar ratings agency).
- **Liquidity:** The concept of how quickly an investment asset can be converted into cash without significantly affecting its price.
- **Risk appetite:** The amount of risk an investor is willing to accept in order to achieve their objectives.
- **Strategic Asset Allocation:** The long-term investment strategy which encompasses neutral allocations to various asset sectors and the allowable ranges around these.
- **Tactical Asset Allocation:** The act of purposefully moving away from the strategic asset allocation in an attempt to add value or reduce risk over a short-term time horizon (sometimes called Dynamic Asset Allocation).
- **Tracking error:** A measure of how closely the performance of an investment portfolio follows its market index. Tracking error is calculated as the annualised standard deviation of the outperformance profile.