Mana Tiaki o te

Cook Islands National Superannuation Fund Board

SIPO

Statement of Investment Policy & Objectives

Investment Governance Policy

21 July 2023

Contents

This Investment Governance Policy may also be called the "SIPO" or Statement of Investment Policies and Objectives

Effective Date

This Policy takes effect from 21st July 2023 and supersedes all prior-dated SIPO documents

Review Date

This Policy will be reviewed annually from the effective date unless, in the opinion of the Board, an earlier review is deemed necessary.

Summary

Primary goal	"Supporting Security in Retirement" for the people of the Cook Islands. As one of the three pillars of post-retirement income; the state pension, personal savings and a pension generated from the members' accumulated balances at CINSF, our focus is on producing an income stream.
Assets	$214 million (as at May 2023)
Time horizon	Long-term (over 20-years)
Risk tolerance	Broadly a Balanced portfolio defined as 60% growth assets, 40% defensive
Expected portfolio return (After fees and costs)	8% p.a. (over a 10-year horizon) 8% p.a. (over a 30-year horizon)
Expected risk	± 8% (annual volatility)
Tax status	Tax exempt in Cook Islands (of all income under Income Tax Act 1997)[1] Non-resident for New Zealand tax purposes and subject to 0% tax rate.
Next policy review	Annual. Next review due end July 2024

Mana Tiaki

The Cook Islands National Superannuation Fund's purpose is:

To provide a retirement savings vehicle resulting in pension payments that support security in retirement for the people of the Cook Islands.

The Fund, while pooled for efficiencies, is vested in individual member accounts, supervised by an Independent Trustee in New Zealand, and managed by a Board that is representative of stakeholders here in the Cook Islands and independent of government.

[1] The Fund is a non-resident for New Zealand tax purposes allowing the Trustee to utilize the Approved Issuer Levy Regime to invest directly into securities in New Zealand.

Summary of Investment Portfolios

Reference Portfolio for Conservative Option

Conservative 30/70	Weight (% of portfolio)	Range (% of portfolio)
SuperLife Total World Fund (Unhedged) – NZ PIE Fund[2]; invests in the **Vanguard Total World Stock ETF** [3]	15%	10-20%
SuperLife Total World (NZD Hedged) Fund – NZ PIE Fund[3]; invests in the **Vanguard Total World Stock ETF** [4]	15%	10-20%
Growth Exposure	**30%**	**25-35%**
SuperLife Global Aggregate Bond Fund (Hedged) – NZ PIE Fund[3]; invests fully in the **(Blackrock) iShares Core Global Aggregate Bond UCITS ETF** [5]	70%	65-75%
Defensive Exposure	**70%**	**65-75%**

Reference Portfolio for Balanced: Default Option/ Pension Assets/ Reserves

Balanced 60/40	Weight (% of portfolio)	Range (% of portfolio)
SuperLife Total World Fund (Unhedged) – NZ PIE Fund[3]; invests in the **Vanguard Total World Stock ETF** [4]	30%	25-35%
SuperLife Total World (NZD Hedged) Fund – NZ PIE Fund[3]; invests in the **Vanguard Total World Stock ETF** [5]	30%	25-35%
Growth Exposure	**60%**	**55-65%**
SuperLife Global Aggregate Bond Fund (Hedged) – NZ PIE Fund[3]; invests fully in the **(Blackrock) iShares Core Global Aggregate Bond UCITS ETF** [6]	40%	35-45%
Defensive Exposure	**40%**	**35-45%**

Reference Portfolio for Growth Option

Growth 80/20	Weight (% of portfolio)	Range (% of portfolio)
SuperLife Total World Fund (Unhedged) – NZ PIE Fund[3]; invests in the **Vanguard Total World Stock ETF** [4]	40%	35-45%
SuperLife Total World (NZD Hedged) Fund – NZ PIE Fund[3]; invests in the **Vanguard Total World Stock ETF** [5]	40%	35-45%
Growth Exposure	**80%**	**75-85%**
SuperLife Global Aggregate Bond Fund (Hedged) – NZ PIE Fund[3]; invests fully in the **(Blackrock) iShares Core Global Aggregate Bond UCITS ETF** [6]	20%	15-25%
Defensive Exposure	**20%**	**15-25%**

Reference Portfolio metrical description

Strategy / Option	Average Gain per annum	Standard Deviation
Conservative	3.9%	10.8%
Balanced	5.4%	12.0%
Growth	6.5%	13.8%

Monthly data 2015 – May 2023 Source: NDR Inc, www.ndr.com

2022 was one of the worst years in the last three decades for both bond and equity markets. Such was the shift, that historical statistics were affected.

Does this mean that the design principles we used changed? So far, the 2023 returns appear to have re-exerted the same design principles relied upon in 2021 for designing the option strategies.

As a result, there is no recommendation to change the option strategies.

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[2] PIE = Portfolio Investment Entity, a New Zealand collective investment structure that enables investors to be taxed at their marginal rate, in the case of CINSF, that tax rate is set to 0% as a foreign, exempt investor.
[3] Vanguard Total World Stock ETF (Ticker VT) tracks index: FTSE Global All Cap Index (converted to the New Zealand dollar)
[4] Vanguard Total World Stock ETF (Ticker VT) tracks index: FTSE Global All Cap Index (100% hedged to the New Zealand dollar)
[5] The Blackrock iShares Core Global Aggregate Bond UCITS ETF tracks index: Bloomberg Global Aggregate Index 100% hedged to the NZD

Background

The Fund is a sponsored contributory defined contribution superannuation scheme resulting in a defined lifetime pension benefit arising from accumulated assets to which the in-force pension pay-out factor is applied.

Legislation and Trust Deed

The CINSF was established under the Cook Islands National Superannuation Fund Act 2000 (the "Act") and is governed under the terms of a Trust Deed dated 1 April 2021[6] between the CINSF Board (the "Board") and the Trustee for the purpose of providing retirement pensions and other related[7] benefits to its members.

The Act was amended in July 2017 to reflect changes to Board appointments, among which was the removal of the government right to appoint, providing portability of members' funds on their permanent departure from the Cook Islands, and eliminating the previous forfeiture of employer contributions upon a non-citizen member's repatriation.

A further amendment was made to the Trust Deed in 2022 introducing a Critical Illness Benefit.

Subject to the Act and the Trust Deed, all persons employed in the Cook Islands from the age of 18 – 60 years old are required to contribute 5% of their wages and 5% from their employers.

The Board is the CINSF Board established under the Act; otherwise known as the Mana Tiaki o te Cook Island National Superannuation Fund.

The Board prepares the Trust Deed and appoints the Trustee.

Trustee

The Trustee is the Public Trust, a crown entity established under the Public Trust Act 2001 (New Zealand legislation).

The Trust Deed provides the Trustee with broad authority to invest the Fund's assets.

The Trustee remains as independent arbiter of member claims and provides oversight of the process with rights to be consulted and potentially veto any investment that it believes is not in the interests of the members. This is a similar obligation to that of a "supervisor" under section 160 (1) (b) of the New Zealand Financial Markets Conduct Act 2013.

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[6] Latest Trust Deed issue date is 14th April 2021

[7] Hansard of the Parliament of the Cook Islands: 23rd Nov 2000, Second reading of the CINSF Bill

Responsibility

Together, the Trustee, Board and its Office, administrator and investment providers shall invest the assets of the Fund in a manner expected to ensure the continuing compliance with the Cook Islands National Superannuation Fund Act and the Trusts Act 2019 (New Zealand legislation) and any other relevant legislation.

Together, Public Trust and Board have agreed a matrix of accountability to allocate clear responsibility for initiation, review and, if necessary, veto, of investment actions.

The SIPO

This document establishes the framework for the investment governance and process of the Fund's portfolio assets by providing a clear statement of the objectives, investment policies and approach that must be adhered to when investing the Fund's assets.

Our Approach

Approach - Focus

The focus of the Fund is on providing a post-retirement pension income for members. So, while accumulation is a key task, the ultimate goal is not so much a lump sum, but a sustainable long-term income stream for funding pensions. This is the focus of our design and approach.

Approach - Independence

Our independence from government and freedom from any direction by government as to how to invest the Fund has been tested by the Privy Council who opined that the security of members' interests is served by three elements; an independent and 'highly reputable" Trustee in New Zealand; no government appointees to the Board; and account balances vested in the name of members.[8]

Approach - Benchmarking

As a small Pacific nation with an advanced economy, there is no reason our Fund cannot measure up well against some of the best in the world. By deliberately benchmarking ourselves with the most respected funds globally, seeking independent insights from relevant governance expertise, and being committed to training for Board and Staff, we aim to implement (and demonstrate) that the Cook Islands National Superannuation Fund (CINSF) operates at a level that compares favourably with the best superannuation funds globally.

We believe that this will result in the best possible outcomes for the members of the CINSF in the long term.

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[8] UKPC 32 Privy Council Appeal No 0033 of 2015; JUDGMENT GIVEN ON 17 November 2016, Michaelmas Term [2016] Arorangi Timberland Limited and others (Appellants) v Minister of the Cook Islands National Superannuation Fund (Respondent) (Cook Islands) From the Court of Appeal of the Cook Islands before Lord Neuberger Lord Mance Lord Clarke Lord Sumption Lord Toulson – Paragraph 61, page 22.

Our values

Value 1	Mana Tiaki
Value 2	Accountability
Value 3	Global Best-practice
Value 4	Effective
Value 5	Sustainable
Value 6	Make use of our natural advantages

What our values mean for us

We apply these values as individuals in every person-to-person interaction with members, partners and suppliers. This is the core of our person-to-person culture.

Mana Tiaki means we appreciate the honour and sacred trust of looking after someone else's money.

Accountability means we respond in transparent and open communication in ways that measure us and prove our integrity.

Global best-practice means we look, learn and listen globally and act locally to give the Cook Islands the best super fund possible, comparable with the best found anywhere.

Effective means we are careful to right-size our solutions aware of cost and benefit to get results that are meaningful.

Sustainable means we build an advanced skill set that transcends the tenure of any individual and is repeatable through time.

Making use of natural advantages means that we know who we are, where we are and how best to make the most of our many blessings.

Member Investment

The objective for the CINSF is to assist members in growing their retirement savings. It does this by providing:

- Compulsory Accounts to hold mandated employee and employer contributions; and,
- Voluntary Accounts to hold additional savings by members.

Only the Compulsory Account balance at retirement (which is at or after age 60) is commuted to a pension for life (and to their surviving legal spouse) at retirement, subject to the option to take up to 25% as a lump sum at retirement.

As such, the compulsory account is designed to accumulate a post-retirement income stream.

Given this, our investment objective is to achieve at least 8%pa over the investment time horizon with +/- 8% annual volatility in 68% of cases (one standard deviation).

The natural growth rate in the Fund from non-investment cashflows (i.e. contributions from members less claims) is running at approximately 9% p.a.

Fund Options for members

We do this by providing a suitable default option for all members for their core holdings as well as two additional choices of Fund. A member's compulsory and voluntary accounts are both invested in the same self-determined investment option. Members can choose a combination of the available options. Their choice is the member's "Investment Direction".

The current default option (for new members who join the fund) is the "Balanced 60/40 (growth/defensive) option.

The two additional options are currently a Conservative 30/70 option and an 80/20 Growth option.

Post-retirement, all Pension accounts are defaulted to the Balanced (60/40) Option.

The Board and Trustee also establish a Reserve Account and Pension Reserve Account according to the provisions of the Trust Deed. Reserve accounts are allocated to the Balanced (60/40) option.

Time Horizon – Accumulation phase

The age demographic ranges from 18 to 88 years, with members being either contributing or pensioners.

The majority of members are aged between 18 and 50. As such, the investment time horizon for members accumulating assets is long-term and in excess of 20 years for most.

Time Horizon – Pension phase

However, an important aspect, and indeed, a principal benefit of this fund (not shared by Kiwi-Saver or Australian super funds) is the original intention of the legislation[9] to provide a post-retirement income stream. Under the CINS Act 2000, the Fund continues to invest pensioners' funds to provide a pension for life (and for the life of a surviving spouse), with any remainder allocated to the estate[10].

It is this requirement that shapes the Board's focus in deciding time horizon. It means Cook Islanders retiring in the Cook Islands can receive a lifetime tax free income stream[11].

At present, Pensioners are a minority, with only 2% of members (representing 6% of the assets of the fund). However, another 16% of members (and 28% of assets) will reach retirement age over the next five years.

By 2027, the Fund could therefore have nearly 1/3 of its assets backing pensions-for-life.

Many members choose to remain in the workforce beyond 60 years of age. To date, only around ¼ of those eligible to take the pension have done so[12].

The Fund will require further data to understand these trends. This data is not currently accessible and is in a process to shift to a new administration system, an advantage of which is more readily available member demographic data and enhanced ability to track and predict these trends.

A significant focus of the Board is to provide an attractive Pension Rate. This is benchmarked globally, and a 2021 report commissioned from an adviser to the World Bank shows that the CINSF pension rate is some of the most competitive value for money available in the world[13]. Unusually, women receive the same rate as men, which is an added benefit for Vaine in this country.

With no Actuarial tables available for the Cook Islands population, the Actuarial Report refers to the New Zealand Period Life Tables 2010-12 with life expectancy for Māori females of 76.5 years and Māori males 72.8 years. This gives some 12-17 years of retirement on average to provide an income.

The Fund is trying to source more complete local mortality evidence from the Cook Islands. Our experience, and government statistics indicate a lower figure than that of New Zealand

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[9] Hansard of the Parliament of the Cook Islands: 23rd Nov 2000, Second reading of the CINSF Bill.

[10] Subject to the minimum member balance requirements of the Trust Deed, at age 60, at age 60, members have the option to commute all their balance to a pension-for-life (and to their surviving spouse) or withdraw up to 25% of their balance leaving the remaining assets to pay a pension.

[11] If members retire in another country, they receive the income stream, but that income could be subject to the tax requirements of that country.

[12] Only 2% of all members are pension recipients, while 8% of members are eligible, being over 60 years of age.

[13] Value For Money: Pensions from the CINSF, Craig Thorburn, Lead Financial Sector Specialist, The World Bank, 12 Jan 2022.

Māori. This is actively discussed with the Fund Actuary as a potential point of further improvement of appropriate pension rates.

Assuming there are no significant drawdown requirements, changes to the CINS Act 2000. or Trust Deed, our practical estimate of investment time horizon is set at 20+ years. This period means strategy settings are oriented to the medium-long-term, but not those of an Endowment.

In short, we favour assets that provide visible and reliable yield in the current term as well as seeking growth for the future.

Gender gap analysis

Super funds globally are analysing the retirement outcomes for women and men as significantly different and are considering ways to mitigate this problem. In response to a question from the Asian Development Bank regarding gender pay and super gaps across the Pacific, the Fund was able to establish that while 48% of our members are women, so too do 48% of member balances belong to women.

While it appears in a gross sense, that there is little gender gap in the Cook Islands National Super, further analysis will need to be undertaken as well as commencing collection of data that will enable this task. While the issue appears to not be as major as it is in New Zealand or Australia, we will continue to monitor this in the future.

Investment Approach

Consistent with our value of Mana Tiaki, the investment goals of the Fund are:

- Protect and grow members' retirement savings
- Achieve and exceed the investment benchmark (Reference Portfolio which encapsulates expected risk and real return above inflation over the medium term)
- Demonstrate prudent investment principles and processes

The Reference Portfolio is a simple and lowest cost implementation of the investment strategy and represents the least complicated approach to achieving the goals of the members.

In pursuing this goal, we will:

Follow best practice governance and portfolio management
Make use of the unique advantages we have – our "Endowment"
Access investments from the best possible "Access Points" to advantage outcomes
Hold a diversified portfolio
Maintain an appropriate asset allocation
Maintain sufficient liquid assets to meet obligations in full and when due
Maintain the real value of the member contributions

Further explanation:

Follow best practice – we seek ways to validate our approach by external review and with reference to examples of good quality superannuation industry management practices from around the world. This gives our members confidence and causes us to self-reflect with the aim of continuous improvement. Our adoption of a Reference Portfolio reflects the most recent thinking of leading super and sovereign wealth funds around the world.

Engage our "endowment advantages" – The CINSF has a set of unique "home-ground" advantages due to its position in the world. By cultivating and encouraging these advantages, a fund can play in familiar territory and utilise these opportunities first before venturing into less familiar opportunities. CINSF understands that Cook Island or Pacific opportunities fit within its range of natural Endowments.

Use the best "Access Points" The structuring of the Fund's underlying investment assets is important and worth considering carefully. Each investment might present itself by different vehicles or by different methods. For example, a single company may be able to be accessed by purchasing its shares on a stock market directly, or via subscribing to a fund which includes that company, or even subscribing to its debentures. Each investment is in the same company with the same underlying economic exposure, but the experience of the investor will differ in each because the investor has accessed the same investment by a different method.   In this sense, CINSF will always be conscious of the most favourable way to approach each investment. An example is the use of New Zealand PIE funds to access our Reference Portfolio. While not necessarily the cheapest form of access, it is the most available to CINSF.

Be thoughtfully diversified – It is standard professional practice to develop robust portfolios composed of varying risks with as low as possible correlations to improve risk and reward outcomes for members. This, however, is to be done intelligently by understanding the true contribution each investment brings to the portfolio. The framework we use is the Reference Portfolio. Any diversification must add tangible benefits in terms of extra return, or lower risk, or better fees than the Reference Portfolio.

Employ appropriate Asset Allocation – over 90% of the outcome will be dictated by the decisions around strategy design and asset allocation, so appropriate effort will be used to understand and implement a suitable asset allocation strategy. For this reason, the default option was changed from the Conservative option to the Balanced strategy to reflect the long-term nature of the investment purpose and to harmonise the accumulation strategy with the pension strategy. The purpose of the fund is to result in a long-term pension for life.

Ensure sufficient liquidity – The Fund is designed to honour pension payments, settlements to estates and transfers. As such, we seek to understand the typical requirement for daily cash while balancing our requirement to be as fully invested as possible in productive investments. For this reason, we focus on and favour present-yielding opportunities over medium term illiquid growth assets, which, while needed, are reduced in significance within the strategy.

Maintain the real value – returns above inflation are what we count as success in the long term because the ultimate goal is to provide a sustainable pension.

Investment Governance Objectives

Good investment governance involves the following:

Clarity: Clear link between objectives and strategy, showing how the objectives are best served by the actions taken
Accountability on who does which action and how that will be approved, monitored and assessed
Discipline in maintaining an overall allocation of investments commensurate with the Board objectives
Understanding and demonstrating the application of prudent investment principles and processes. Developing knowledge and understanding of overall governance responsibilities for the investments complete with feedback loops for review and learning and regular periodic independent assessment
Documentation: Ensure that the governance framework is effective and repeatable
Institutionalised: Provide suitable training and capacity building for those responsible for overall governance and internal management of assets to ensure the approach continues beyond the tenure of individuals

Risk statement

The Board recognises that investment market risk must be assumed within the context of best-practice portfolio construction in order to achieve the long-term investment objectives. However, a higher rate of return over the long term from riskier ("growth") assets is the reward for sensibly taking on this volatility.

The Board recognises that "reward" is not the automatic result of "risk", but rather reward is one of the possible outcomes of risk. As such, risk is not blindly taken, but a considered approach is taken to risk which involves using the best and most professional techniques currently available to construct portfolios which, on balance, are likely to result in attractive long term returns to members.

In this way, risk is managed, and reward is increased as much as it practically possible.

Prudential limits

Prudential Limits	Constraint (% of portfolio)
Cook Islands in-country investment limit	20%
Direct assets limit	40%
Single asset or business investment	10%
Single active strategy limit	15%
Liquid assets target minimum limit	60%
Leverage limit (borrowing as % of portfolio)	10%

Notes:

- Cook Islands in-country assets are most likely to be direct equity in private companies, real estate or infrastructure assets in JV with government or private entities.

- Direct assets may include similar assets (to Cook Islands in-country) in Pacific countries with the PIIF (Pacific Islands Investment Forum) agreed MOU of November 2022.

- Single asset is to avoid too much risk in a single counterparty.

- Single strategy sector limit – so the fund does not rely too heavily on one particular alpha strategy or approach.

- Liquid Asset target - is set as a minimum, given that the Reference Portfolio is highly liquid and available to be sold and returned in cash within T+3 days. Also note that in the unlikely event that the entire portfolio needed to be liquidated, there would be a minor pricing disadvantage of around 10bp (for amounts shifted in excess of NZD10 million).

- Leverage is allowed under the Act.

- These prudential limits are a first-line risk mitigation and are set as general guidelines without being hard numbers. They are not targets to achieve; they are upper limits of optional maximum exposure made in the wisdom of the Board's judgement. As different markets behave differently at various times, it is not always possible to achieve exact limits. Generally, we can say that a + 5% of these limits is acceptable, but reportable as a breach of limit, in excess of +5%, the Board is obliged to remedy the breach, by selling or whatever practical means available.

Investment Beliefs

Our investment beliefs, and how they influence the way we invest, are shown below.

	Beliefs	Implication for what we do
Investment objectives and governance	Our purpose is to accumulate savings with the specific goal of producing a pension to meaningfully support retirement income for the people of the Cook Islands.	We take a long-term perspective seeking to optimise the pension rate.
	Industry best-practice leads to better results	We benchmark against global peers and actively seek independent insights to give assurance of quality.
	We have a fiduciary duty to maintain the highest standards when managing the assets in our care.	We invest on a commercial basis after considering risk, return, asset class, sector, and, where practical, ESG issues. We make well-informed decisions with only member interests in mind and are accountable to independent review.
	Good governance and good processes are needed to succeed.	We invest in governance by a commitment to Board & staff professional development, appropriate external consultancy, and reviews, and by welcoming and encouraging diverse insights.
Asset allocation	Asset Allocation is the key determinant of investment outcomes.	We spend an appropriate amount of time on understanding and questioning our asset allocation decisions considering member interests
	To earn higher returns, more risk must be managed appropriately within the portfolio.	We believe our portfolio should contain at least a 60% weight to growth accessed by a diverse and robust portfolio.
Measurement	Better measurement leads to better results	We have a simple Reference Portfolio which makes clear measurement of added value intuitive and helps focus on decisions that matter.
Asset classes and strategies	Diversifying across asset classes, risk factors and securities will improve the risk-return trade-off.	We aim to hold a broadly diversified portfolio to enhance the robust quality of the portfolio construction, minimising unrewarded risks. We invest in alternatives to improve diversification away from short term market volatility. We apply prudential limits to the portfolio as a first-line risk defence to mitigate asset, geographic, and sector concentration risks.
	There is a positive equity risk premium which leads to higher returns over the long term to investors in share markets.	We consider that long term investors benefit from well-constructed share market exposure.
	Long-term investors should outperform short-term investors, by doing things those short-term investors can't. These include riding thorough periods of market volatility, investing counter-cyclically, providing liquidity in stressed environments, and taking advantage of long-term investment themes.	We remain disciplined to our strategy during market downturns. We favour investments that generate cashflow or include a high probability of visible earnings.
	Some markets are inefficient, allowing skilled managers to earn excess returns. The degree of inefficiency varies across markets and over time.	We invest in active management where the benefit materially justifies the cost, because active return can provide some modest benefits in terms of return minor diversification.
	Tilting towards Factors such as Value, Small and Quality stocks may beat a market-cap index over the long term.	We consider any strategies where benefits justify the cost.

Alternative investments	Alternative investments can help diversify the portfolio and can have better risk-adjusted returns.	We pursue direct investments that show characteristics such as visibility of cash earnings, yield and stability in valuation.
	Additional: hedge funds and other complex and non-transparent strategies are not appropriate for us.	We prefer strategies that are transparent and easily understood.
Dynamic asset allocation	Investment opportunities change over time. Market's overshoot and undershoot, but they revert to fair value eventually.	We remain disciplined and stick with our strategy during market downturns. We do not time markets by Strategic Tilting of this strategy unless it is measured, managed, and moderated as an active return (preferably undertaken by a professional manager).
	Execution of strategic tilts is a risky task highly sensitive to timing, implementation efficiency and subject to a single set binary outcome as opposed to being a diverse opportunity set of a portfolio with a range of positions.	We have fixed Asset Allocation weights and do not attempt to vary our asset allocation through the cycle.
Manager selection	Due diligence of managers should be systematic, repeatable, and consider qualitative as well as quantitative factors.	We require our external providers to have robust research and monitoring processes of funds, that fees are competitive, and that our interests are put first.
	Low-cost access is important. Most risk premiums are now available in low-cost, liquid form such as ETFs. Managing costs by investing as efficiently as possible can materially improve the portfolio's performance.	We start by considering the lowest cost, most simple execution of our strategy and call that the Reference Portfolio. All additional complexities must therefore be benchmarked against this and demonstrably add value relative to the cost involved.
	Skilled managers can beat the index in some markets.	We do consider active management if there is a demonstrable cost/benefit enhancement relative to the Reference Portfolio.
	Active management is more appropriate in some of the less efficient markets and asset classes.	We access active management judiciously.
Security selection	Security selection is best left to expert fund managers. It is not a role for the Board and Trustee.	We employ fund managers for this role.
Private markets and direct investing	Private markets provide investment opportunities that are not available in public markets.	We can invest directly and in private equity funds.
	Direct investing is more difficult and costly and can involve substantial business-specific risk. It requires greater investment governance skills and time and carries greater reputational risk.	We invest directly only when we are confident that we have access to adequate due diligence resources and are compensated for the risks and complexities of direct investing (including liquidity, management time, etc).
	Influencing or exercising a controlling stake in a business is an important part of adding value.	We prefer to invest directly and be hands-on, and resource appropriately the post-acquisition management of direct assets as part of the task of capturing the benefits of the investment. We prefer to be associated with a good operating partner within a shareholders' agreement that offers protections including reserved matters such as annual business plan and dividend policy to be referred to a Shareholder Vote. We look carefully at any control (negative or positive) that CINSF can exert in that vote.
	Private Assets allow an asymmetric information flow which gives better insight into the asset for owners than is possible with a listed company	We develop systems and resources to use this information advantage to the benefit of our management of the investment.

	Investors should play to their strengths where they have a competitive advantage or have access to unique opportunities.	We consider the best access point for each investment and if CINSF has any relative advantage to leverage. We can be a co-investor of choice in the Cook Islands or the Pacific region and prefer to invest with others who share our values and approach.
Fees and costs	Fees should be consistent with the complexity of the strategy and what the manager is trying to deliver.	We measure all fees and costs to ensure they are competitive.
Rebalancing	Frequent rebalancing back to the asset allocation adds value and controls risk over the long term. It is best done in a structured and consistent way.	We regularly monitor our portfolio and re-balance taking into consideration our illiquid investments and cash-flows.

Asset Allocation

The Board believes that a 60% growth/40% defensive strategy for our Default option is appropriate given the Board's obligations and risk tolerance as well as expectations of outpacing inflation.

Investment options with different growth/defensive splits will be offered for member choice, but each will be robust and thoughtfully constructed.

Reference Portfolio

A Reference Portfolio is intended to be a living benchmark that achieves the Fund's core purpose and provides a benchmark against which any investment choice is measured.

Eventually, the actual portfolio will include additional investments that are included specifically to add value in terms of return, better risk characteristics or lower fees.

This primary benchmark for the portfolio is constructed by applying the cheapest and simplest implementation available to the Fund, given its circumstances, location and available choice set.

In our case, the Reference Portfolio is constructed using ETF (Exchange-traded Funds) exposure, but because of our tax status, we must use New Zealand PIE funds. This comes at marginally greater cost but is realistically the cheapest form of implementation.

It is important to remember that the Reference portfolio is a living benchmark which is 100% invested at all times.

Diversification

In designing the portfolio and in the annual planning process we will ensure that we are appropriately diversified across common risk factors. These include:

- Sectors, industries and asset classes.
- Assets (i.e., exposure to an individual asset).
- Managers and strategies.
- Underlying economic risks, including NZ dollar, international trade, interest rates, inflation.

The Board will review annually the degree of portfolio diversification and exposure to common risks.

Liquidity

We will maintain sufficient liquidity to cover the Fund's day-to-day operational requirements and member benefit obligations in full and when due. As the bulk of the portfolio is invested in highly liquid equity and bond market vehicles that can be redeemed within 3 days, liquidity is not a prime risk for the fund, but proper understanding of net cash flows is important to minimise unnecessary transaction costs.

In principle, enough cash will be held to cover daily expenses, but remembering that the minimum risk position is for assets to be as fully invested as possible to avoid performance leakage against the Reference Portfolio (Which is notionally always 100% invested).

Leverage (or borrowing)

Leveraging is a valid business tool to supplement the entity's capital. Each sub-policy will address the issue of leverage as it applies to that policy. Leverage is allowed under s16 (o) of the Act.

Currency Hedging

To minimise currency risk against the NZD – the currency in which we pay benefits, the Board and Trustee policy is to fully hedge foreign currency exposures arising from all investments except for global equities which are hedged 50%. While a source of volatility, there are some diversification benefits from limited currency exposure.

Other asset classes

The Trustee and the Board have considered alternative assets such as Hedge Funds, Private Equity Funds, Unlisted Real Estate funds and Unlisted Infrastructure. At the present time, these examples of assets do not typically match the desired investment style.

The reason is that they do not represent a good expression of our Endowment attributes or preferred natural Access Points.

Provider due diligence

Consistent with our duty of care and loyalty, we will undertake comprehensive investment and operational due diligence prior to appointing any external provider.

External providers may include investment providers, fund managers, investment consultants or managers and other professionals providing analytical, legal and tax service that relate to business strategy.

The general approach will be to:

- Establish service requirements.

- Undertake appropriate due diligence of capability and experience, which may be by way of formal Requests for Proposal (RFP) or Requests for Information (RFI).
- Ensure complete disclosure of any potential conflicts.
- Ensure costs of services are reasonable.
- Undertake periodic reviews.

Costs and Fees

Cost management within each of the investment areas will be detailed within the appropriate sub-policies.

Costs and fees will be reviewed at least annually to ensure they are fair, reasonable and in line with current market levels. The review will cover all fees and cost, including:

- investment advice and external investment manager fees.
- administration and management of the Funds, including custody costs.
- transaction costs, including due diligence and brokerage and bid/offer spreads.
- other professional fees including governance, accounting, legal, etc

All parties must be fully transparent on fees and costs incurred including brokerage. The Trustees and the Board will review fees and costs, fully unbundled, at least annually.

Direct Investments

Direct investments in assets are a way of capturing active returns to add value to the Reference Portfolio. Direct investment can only be considered if it is consistent with our investment philosophy and when it offers improved risk adjusted returns, there is alignment of interest, we have effective access points and we have the capabilities and governance leverage within the constitution, shareholders' agreement or other owners' agreement to successfully implement and manage.

One of the attractions of direct investment is that we avoid paying ongoing investment manager fees, but we recognise counter-balancing internal resourcing costs also.

We compare the expected net of costs and unlevered return from the investment with what we could expect if we simply kept the funds in the Reference Portfolio. We do this by determining the hurdle required rate of return which compensates us for the risk we are introducing into the portfolio, including penalties for illiquidity and costs. The hurdle is the minimum or break-even return needed to ensure that the portfolio would be improved by making the investment.

Monitoring the investment strategy

The focus of the Board in normal circumstances will be on (a) the overall shape of the total portfolio and (b) the extent to which the organisation is tracking in line with strategic objectives.

The Board and the Trustee expects continuous disclosure of material commercial and reputational issues in line with a 'no surprises' approach.

- Assess the extent to which overall investment objectives are being achieved (as articulated by the Reference Portfolio) and to make any necessary adjustments if required.
- Assess the performance of each investment in terms of added value against the reference Portfolio.
- Assess whether risk levels and option design remain appropriate; and
- Ascertain the existence of any weakness in the investments and portfolio mix.

External managers and direct investment companies are expected to provide sufficient information for the Board and Trustee to assess their performance against mandate.

Roles and responsibilities

Overview of key responsibilities

Body	Primary role
Board	Responsibility for drafting the Trust Deed and appointing the Trustee as well as setting the underlying purpose of the fund and ensuring the processes are properly (a) organised, (b) formalised, (c) implemented, and (d) monitored.
Trustee	Legal ownership of assets, responsible for oversight that investment takes place properly as per processes, with an overall veto in cases where the Trustee is not satisfied that the decision is not consistent with the best interest of members. Importantly, the Trustee has independent discretion with respect to member claims.
CEO / staff	Responsibilities delegated by the Board to Implement (in cooperation with the Trustee as proper authority holder to transact) the Board's strategy. Prudently select investment execution options and ensure the portfolio is properly diversified. Provide Trustee with all relevant transparency and work effectively with Trustee and investment manager(s).
Portfolio administrator	Portfolio execution, rebalancing, reporting, regulatory compliance. The Portfolio Administrator has delegation from the Trustee to transact.
Fund managers	Invest the funds according to their mandates, using the care, skill, prudence, and diligence expected of experienced investment professionals. Investment manager takes instruction from the portfolio administrator.
Actuary	Recommending the monthly interim and final crediting rates for the CINSF member accounts, pensioner accounts and reserve accounts. Completing the three-yearly actuarial review of the Fund as required under the Act.
Consultants	Provide objective advice where required

Legislative source of responsibility

General responsibilities for the Board are set out in the Act, chief of which is to prepare the Trust Deed and to appoint and monitor the Trustee.

The Trustee's duties, while covered by the Act and the Trusts Act 2019 (NZ legislation), are principally set out in the Trust Deed.

Section 19 of the Act provides that the Trustee is responsible for investing the Fund and (inter alia) must provide an investment strategy and notify the Board how the Trustee proposes to give effect to any Board direction. The Board is not to give any direction that is inconsistent with the Trustee's duty to invest the Fund on a prudent commercial basis, consistent with best practice portfolio management. This indicates a statutory intention to maintain a 'separation of powers' between the Trustee and Board in respect of investment of the Fund, with the Trustee retaining ultimate responsibility.

Provisions limit the extent to which the Trustee can relinquish its responsibility for the Fund's investment by delegating the role to the Board.

As such, the Trustee retains a veto on high-level issues regarding investments. This veto, similar to s160 (1) (b) of the New Zealand Financial Markets Conduct Act 2013 is exercised where the decision is manifestly not in the interests of the members.

Board

At a high level, the Board responsibilities include:

1. Establishing the Trust Deed
2. Setting the CINSF corporate Strategy
3. Deciding Investment Beliefs
4. Setting the policy for distributions and Pension rate
5. Choosing a Reference Portfolio to best achieve investment goals
6. Developing a SIPO to cover off all investment policies and practices and implementation
7. Appointing and monitoring the Trustee
8. Recommending the appointment of a Portfolio Administrator
9. Recommending the appointment of a Fund Manager
10. Recommending the approval of transactions in Direct Assets
11. Ensuring assets are sustainably managed to meet long-term return and Fund regulatory obligations
12. Controlling and accounting for all investment and administrative expenses associated with the overall portfolio.
13. Monitoring and supervision of all entities controlled by the Fund
14. Managing conflicts of interest

In addition, specific activities are delegated to the CEO / CINSF office, as well as prudent experts, including any external managers and advisors, but ultimate responsibility for outcomes of the Fund remains with the Board for the above activities.

Trustee

Trustee responsibilities included in the Act and Trust Deed:

1) Legally owning the assets independently

2) Providing annual audited financial statements

3) Delegating administration subject to Trust Deed provisions

4) Entering into contracts with providers such as Portfolio Administrator, Investment managers, Actuary and Consultants/Advisors

    a. Appointing a Portfolio Administrator

    b. Appointing a Fund Manager

    c. Approving transactions in Direct Assets

5) Ensuring independent Valuation of Assets

6) Reserve veto powers for:

    a. Choice of Reference Portfolio and strategy within the SIPO made by the Board

    b. Or any other action impacting member interests

Appendix 1 – Service Providers

The current set of out-sourced service providers is set out below:

• Trustee	Public Trust of New Zealand
• Administrators	Link Market Services Ltd (Link)
• Underlying Investment Managers	SuperLife Limited, a subsidiary of NZX Ltd
• Auditors	Deloitte
• Actuaries	AON
• Insurance broker	Mercer Marsh
• Insurer	AIA New Zealand
	Willis Towers Watson

Appendix 2 – Governing law and policies

Documents

- Cook Islands National Superannuation Fund Trust Deed 2021

Legislation

- Cook Islands National Superannuation Fund Act 2000
- Cook Islands National Superannuation Fund Amendment Act 2017
- Trusts Act 2019 (New Zealand legislation)