

Hon Grant Robertson  
Minister of Finance

By email: [g.robertson@ministers.govt.nz](mailto:g.robertson@ministers.govt.nz)

21 December 2021

Dear Minister,

## **RESPONSE TO ENDURING LETTER OF EXPECTATIONS: CROWN RI FRAMEWORK**

Thank you for your letter of 25 October 2021 and for your comments to the INFINZ Conference on 28 October 2021 acknowledging the leadership position the Guardians of NZ Superannuation has taken in response to climate change.

I am pleased to confirm that the Guardians' Board supports the Crown RI Framework as outlined in your letter. We acknowledge the constructive engagement by Treasury with the Crown Financial Institutions over many months, the respect shown to our commercial independence and the way the Framework accommodates the differences among the Crown Financial Institutions' investment approaches.

In 2017, the Guardians made significant reductions in the NZ Super Fund's exposure to carbon. Further cuts to portfolio emissions and reserves since then mean that we have already met our 2025 carbon reduction targets and are well placed on the pathway to being net zero by 2050. The NZ Super Fund no longer has any material, long-term holdings in fossil fuel reserves.

We have also made a series of significant NZ Super Fund investments in climate solutions, including:

- a 12% stake in waste-to-energy company Lanzatech;
- US\$100m investment in waste and recycling technology company Rubicon;
- €125 million in the Copenhagen Infrastructure Partners Energy Transition Fund; and
- US\$100m investment in the Fifth Wall Climate Technology Fund
- Longroad, our joint venture focused on renewable generation development in the US, which has raised US\$6.9b of third party capital and developed 2.3 gigawatts of solar and wind capacity.

In November 2021, the NZ Super Fund was named a world leader in a [ranking](#) of the responsible investment practices adopted by the world's top sovereign wealth funds and government pension funds. The NZ Super Fund achieved a perfect 100% score in the study, which was undertaken by New America in partnership with the Fletcher School at Tufts University.

The NZ Super Fund has also continued to perform exceptionally well financially, returning 10.51% p.a. since inception in 2003 and 14.34% p.a. over the last 10 years, as at 30 September 2021 (after costs, before NZ tax). Since inception the Fund has increased Crown wealth by \$39 billion, as measured by the estimated \$ earned relative to Treasury Bills.

Most recently, we have joined the Net Zero Asset Owners Commitment (NZAOC), pledging to decarbonise our portfolio by 2050 or sooner, increase investment in climate solutions, set interim targets and undertake advocacy and engagement in line with net zero goals. Committing the NZ Super Fund to net zero is consistent with our legislative mandate to invest the Fund in line with best practice portfolio management, our recent adoption of a sustainable finance strategy and the New Zealand Government's commitment to the Paris Agreement to limit global warming to 1.5 degrees. The Net Zero Asset Owners Commitment is an important tool and network that will help us ensure we are working to global best practice standards. Under the NZAOC, we will be disclosing objectives and targets and publishing an Investor Climate Action Plan within one year from making the commitment.

Nevertheless, getting the NZ Super Fund – which is projected by Treasury to be worth in excess of \$330 billion by 2050 – to net zero, without compromising long-term investment returns, is a challenging task. It will require systemic change and significant moves by investee companies to change their operating models. We have started working with our businesses to make these changes.

Our response in respect of each of the three pillars of the Crown RI Framework is set out below.

### **Measure**

The Guardians already reports in line with the Taskforce on Climate Financial Disclosures (TCFD) reporting requirements and will meet XRB requirements when finalised. Our reporting includes a carbon footprint of the NZ Super Fund which is assured by KPMG.

We will continue to report against our existing reduction targets in respect of both emissions and reserves, and will add additional measures (listed equity portfolio footprint, measured on scope 1&2 emissions plus scope 3 fossil fuel sector emissions) to ensure comparability between the other Crown Financial Institutions.

We will also report on our investments in climate solutions.

### **Reduce**

As noted above, we have already met the 2025 carbon reduction targets we have set for the NZ Super Fund as a whole. Measured against a 2019 baseline on the basis of scope 1, 2 and scope 3 fossil fuel emissions (the comparable metric agreed with the other CFIs for reporting purposes), our initial assessment suggests we have already achieved an 82% reduction in our listed equity portfolio. In simple terms these reductions mean the NZ Super Fund has already achieved carbon reductions greater than the 50% reduction many funds globally are aiming to achieve by 2030 in order to be considered on an accepted net zero pathway.

We will continue to set five-yearly carbon reduction targets consistent with globally accepted pathways to net zero by 2050. Given the rapid developments in both data and frameworks in this space, by 2025 we expect that global reporting standards for investors will be significantly more developed than they are currently, and that better carbon foot-printing data will be available from companies including broad scope 3 data. For example, the standards may shift towards reporting on an implied temperature rise from each portfolio. For this reason we do not believe it is worthwhile setting a 2030 target currently; better to reassess this when we are better placed to do so as we approach 2025.

Between now and 2025 we will continue to look for opportunities to further reduce the Fund's carbon footprint, particularly in our direct and unlisted investments.

## **Influence**

### *Engagement*

Climate change has been a priority within our responsible investment engagement programme for many years and will continue to be so. Engagement initiatives we are currently involved in include:

- CDP (formerly the Carbon Disclosure Project)
- Investor Group on Climate Change
- Climate Action 100+

Climate change is also a key theme for BMO Global Asset Management, the company we and the other Crown Financial Institutions have appointed to undertake global responsible investment engagement with companies on our behalf. During the 2020/21 financial year, BMO engaged with 225 unique companies on climate change matters, undertook 409 engagements in total and achieved 64 milestones – evidential progress towards a defined engagement objective.

In New Zealand, we will continue to use our influence to help encourage the Boards and management teams of our investee companies, listed and unlisted, to focus on climate change risk and net zero plans. We will collaborate with the other Crown Financial Institutions in this.

### *Voting*

Our voting guidelines on climate change support companies which are:

- developing a strategy to manage climate change risks, including in relation to
- capital expenditure policy
- reducing greenhouse gas (GHG) emissions and/or setting GHG reduction goals
- improving disclosure on risks related to climate change on its operations and investments (such as financial, physical or regulatory risks)
- measuring and/or reporting on greenhouse gas emissions.

## **Climate Solutions**

We are committed to undertaking further positive investment and believe this is achievable while still meeting our commercial mandate. Under our Climate Change Investment Strategy we will set and report against specific targets for investment in climate solutions.

We are actively exploring a range of opportunities to do this, including in New Zealand.

We will include an estimate of how much of the Fund is invested in climate solutions investments in our TCFD climate report and will work with the other CFIs to agree definitions for reporting purposes so the information for Ministers on this is clear and consistent. We note your expectation that these investments will generate additionality to the transition to a low carbon economy.

## **Collaboration**

The Guardians will continue to co-ordinate closely with the other Crown Financial Institutions on climate change-related investment and in respect of each of the measure, reduce and influence pillars of the Crown RI Framework.

## **Future Evolution of Framework**

In your letter you said the Government reserved the right to evolve the Framework to other aspects of Environmental, Social and Governance (ESG) factors where Government policy sets the basis of society's expectations of responsible investment practice.

In response, we note that the United Nations Principles for Responsible Investment, which is central to our Responsible Investment Framework, is the global best practice standard in this regard; and that (as noted above), the NZ Super Fund is already considered a leader in responsible investment practice among similar institutions. The details of where and how we consider New Zealand Government policy in our decision-making process are set out in our Responsible Investment Framework.

We look forward to sharing our expertise in any future discussions about the Crown RI Framework and to a continuation of the collaborative working style employed by Treasury during this recent process.

Finally, I would like to acknowledge and thank you personally for your leadership on the Crown RI Framework. We are very satisfied with both the process and the outcome, and are confident that we will be able to deliver on its objectives for the benefit of New Zealand.

Yours sincerely

A handwritten signature in black ink, appearing to read 'C. Drayton', with a stylized flourish at the end.

**Catherine Drayton**  
**Chair**

CC Michael Eyre, Treasury.