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*Te Kaitiaki Tahua Penihana  
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Hon Grant Robertson  
Minister of Finance  
Parliament Buildings  
Wellington

Hon Peeni Henare  
Minister for the Accident Compensation Corporation  
Parliament Buildings  
Wellington

8 May 2023

Dear Ministers

### **Crown RI Framework: CFI Collaborative Climate Change Engagement**

The purpose of this letter is to provide an update on how Crown Financial Institutions (CFIs) have responded to the Crown Responsible Investment (RI) Framework to date and to advise you that the CFIs will shortly begin a collaborative initiative to engage with New Zealand companies on climate change. The initiative will involve engagement with NZX50 listed companies and companies covered by climate related reporting requirements.

The CFIs group consists of the Accident Compensation Corporation (ACC), Government Superannuation Fund Authority (GSFA), New Zealand Superannuation Fund (NZSF), and the Board of Trustees of the National Provident Fund (NPF). While NPF is not a Crown entity, it is included with the CFIs for the purpose of this initiative. NPF and GSFA are both managed by Annuitas Management Limited.

The CFI initiative is a response to the Crown RI Framework and the Enduring Letter of Expectations to Crown Financial Institutions in relation to Responsible Investment, which were released in October 2021.

The Crown RI Framework set out requirements for CFIs to address climate change by (in summary):

- Ensuring transparent reporting of emissions intensity of investment portfolios;
- Investing in climate solutions;
- Using their collective influence as asset owners to engage with companies on developing transition strategies;
- CFI investment portfolios must be carbon neutral by 2050.

At the time the Crown RI Framework was announced, the CFIs welcomed the initiative and we committed to transitioning our investment portfolios to be aligned with a net zero emissions economy by 2050 or sooner. We all joined the Paris Aligned Investment



Initiative's Net Zero Asset Owners Commitment (PAII), under which we committed to make reductions in portfolio carbon footprint in line with a globally-accepted pathway. We undertook to report on reductions using common metrics. We welcomed the principles-based nature of the Crown RI Framework, noting it provided each institution with flexibility in applying its own investment approach within the broader commitment to net zero by 2050.

In October 2022, each CFI submitted its first climate update report to the PAII, including interim emissions reduction targets for 2025 and 2030. PAII published its first progress report, covering 57 signatories, in November 2022.

Further actions by the CFIs have included:

- In December 2021, ACC launched a \$100 million Climate Change Impact Investment Fund. It seeks expressions of interest in initiatives that reduce carbon emissions. The fund has a long-term investment horizon and flexibility in how it structures transactions. It is open to any size of debt or equity investment. It is the second impact fund in ACC's private markets investment portfolio, following the launch of a \$50 million health and safety fund in 2020.
- In September 2022, ACC adopted the MSCI ACWI Low Carbon Target Index (ACWI LCTI) as its global equities benchmark. In June 2022, NZ and AU equity benchmarks were also adjusted as part of portfolio decarbonization. The changes cover about 40% of the overall investment portfolio, or \$17 billion as of September 2022. The new benchmarks allow ACC to meet interim targets for a 60% reduction in the Fund's carbon intensity by 2025 and 65% by 2030.
- NZSF has shifted its benchmark Reference Portfolio to market indices that align with the Paris Agreement. The changeover to the MSCI World Climate Paris Aligned Index and the MSCI Emerging Markets Climate Paris Aligned Index commenced in June 2022, with the new passive portfolio benchmark taking effect in July 2022. The change covers about 40% of the overall investment portfolio, approximately \$25 billion at the time. The changes will further reduce the Fund's exposure to carbon emissions as well as deliver better environmental, social and governance (ESG) outcomes across the board.
- NZSF has also invested to support the transition, with investments worth approximately \$1.4 billion in renewable development in the United States and more than \$500 million in funds focused on energy efficiency and energy transition. NZSF has set up a partnership with Copenhagen Infrastructure Partners to explore the potential for large-scale off-shore wind energy in the South Taranaki Bight, as part of New Zealand's energy transition.
- From January 2023, both GSFA and NPF have shifted their benchmark portfolios to the MSCI Low Carbon Target Index.

In order to meet our commitments to net zero and to achieve real economy emissions reductions, CFIs will need to ensure that our investee companies are also aligned with a net zero pathway. We also note the expectation in the Crown RI Framework that CFIs use their collective influence as asset owners to engage with companies on climate change and emissions reductions.



Accordingly, we have started an initiative to engage with New Zealand companies, particularly those listed on the NZX50 and companies that are covered by climate related reporting requirements identified in the Financial Markets Conduct Act 2013, as amended last year.

The objectives of our collaborative engagement are to:

- Increase awareness about mandatory climate-related disclosures and support the work of the External Reporting Board in rolling out its climate standards to the New Zealand market;
- Communicate institutional investor expectations related to climate change risk management;
- Use our influence as investors to build the awareness, capability and commitment of New Zealand companies to reduce greenhouse gas emissions in line with net zero by 2050;
- Support companies to develop transition strategies aligned with net zero by 2050;
- Enable us to meet our commitments to net zero by 2050.

The CFIs have agreed on a joint position statement, which will be posted on our respective websites, and we will send a letter to the chairs of all companies listed on the NZX50 drawing attention to the CFI position. We will engage with key stakeholder groups, business organisations and our external managers. We will also have direct engagements with selected companies on a confidential basis.

Specifically, our collaborative engagement will encourage companies to:

1. Have clear policies and action plans to manage climate risks and to realise opportunities presented by the global energy transition;
2. Demonstrate how they are considering physical and transition risks in their long-term strategy, including supply chain risks;
3. Demonstrate that their boards have sufficient fluency and knowledge of climate risk and the energy transition to provide appropriate oversight of company plans and targets;
4. Ensure that disclosures are robust and in line with relevant guidelines such as the External Reporting Board (XRB) standards for Climate Related Disclosures (CRD);
5. Progress towards disclosure of scope 1 and scope 2 emissions, and scope 3 emissions for companies in carbon-intensive industries;
6. Develop meaningful interim and long-term reduction targets (for companies with high exposure to greenhouse gas emissions);
7. Set out how they are supporting the transition to a low carbon economy;
8. Articulate how they align to a scenario in which global warming is limited to 1.5°C, consistent with a global and domestic aspiration ambition to reach net zero greenhouse gas (GHG) emissions by 2050.

We will report aggregated information about the engagement in our annual climate related reporting and in our updates to Ministers.



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We believe the CFI collaborative engagement is an effective way for CFIs to support the transition to net zero in the wider New Zealand economy. Please let us know if you would like any further information.

Yours sincerely

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Catherine Drayton  
**Chair**  
**New Zealand**  
**Superannuation Fund**