



Stakeholder Engagement Research

**The Guardians of New Zealand
Superannuation**

*Final Qualitative Report
April 2019*



Key findings



The Guardians continue to demonstrate strong performance, engagement and leadership

The Guardians fulfil its primary purpose of delivering **strong, consistent growth**.

Three areas of particularly strong performance are:

- An **investment approach** with a long horizon and integrated performance analysis and risk management across the entire Fund.
- Strong commitment to **best practices** and **international thought leadership** in portfolio management.
- Active, leading role in **responsible investment**.

Stakeholders view the Guardians as a leader in its field due to the quality of its decision making and its thought leadership on issues like responsible investing.



Stakeholders feel the quality and calibre of its staff give the Guardians' its competitive edge; maintaining this will be crucial going forward.

Stakeholder **interactions are useful and appropriate** BUT domestic stakeholders express two concerns:

- Relationship with the NZ Government is not fully open; and
- The Guardians' knowledge sharing within the New Zealand capital markets is inconsistent.

The Guardians' **stakeholder communications are thorough, transparent, and accessible**. There is potential to raise some awareness with the New Zealand public about the Guardians' role and what they do.

The Guardians' **staff are very highly regarded**. Stakeholders appreciate the Guardians' focus on building internal capability.

Key areas for improvement going forward

The suggestions below should be read in the context that the Guardians continue to demonstrate strong performance, engagement and leadership.

IMPROVE STAKEHOLDER PERCEPTIONS OF THE GUARDIANS PERFORMANCE, ENGAGEMENT, AND LEADERSHIP BY:



Developing an open and transparent relationship with the New Zealand Government.



Acting as a role model for the New Zealand investment sector through dialogue and knowledge sharing.



Establishing a physical presence in key international locations to overcome time and distance barriers with international stakeholders.



Looking for ways to improve awareness of the Guardians among the public in order to proactively manage expectations and perceptions.



Ensuring its climate change strategy reflects the rapidly evolving global political, environmental and economic landscape.



The need for research and our approach



The New Zealand Superannuation Fund (the Fund) was established over ten years ago to help pay for the increasing costs of superannuation entitlements in the future.



The Guardians of New Zealand Superannuation (the Guardians) is the Crown agency charged with managing the Fund. It is an autonomous Crown entity that operates at 'double-arm's-length' from political stakeholders. Its operational independence ensures it makes investment decisions on a purely commercial basis.

The Guardians invests the money the Government has contributed to the Fund. Since December 2017, the Government has resumed contributions to the Fund after ceasing these following the 2009 Global Financial Crisis (GFC).

Under the Act*, the Guardians must invest the Fund on a prudent, commercial basis, and in doing so, must manage and administer the Fund in a manner consistent with:

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





The Guardians has a range of political, business and supplier stakeholder relationships both within New Zealand and globally. Maintaining strong partnerships with these stakeholders is crucial.



The Guardians therefore sought to understand how effective it is in its engagement and communications with its stakeholders. The research will provide direction for communication strategy, insight into perceptions and knowledge of the organisation, and help provide an understanding of what stakeholders want, what drives their satisfaction, and how the Guardians measures up to this.



The baseline for this research was first conducted in 2015 which consisted of in-depth qualitative interviews followed by a quantitative survey. Since then, the political landscape the Guardians operates in has changed. The Guardians also has a longer track-record of high performance, have had a new CEO appointed in June 2018 and have a stronger position on responsible investment. These factors may result in changes to stakeholders' perceptions and experiences.

In light of this, the research has been repeated in 2018/19 with a quantitative survey with all stakeholders preceding qualitative in-depth interviews with senior stakeholders. This document provides findings from the qualitative phase of the research conducted in 2019 and where relevant, makes comparisons to the 2018 quantitative findings as well as the 2015 qualitative research.

We undertook 22 interviews with senior stakeholders of the **Guardians**.



STAKEHOLDER TYPE

INTERVIEWS

Supplier of investment services	3
Custodian or supplier of non-investment services	2
Peer fund or investee company	8
Industry body or political representative	9
Total	22



LOCATION

INTERVIEWS

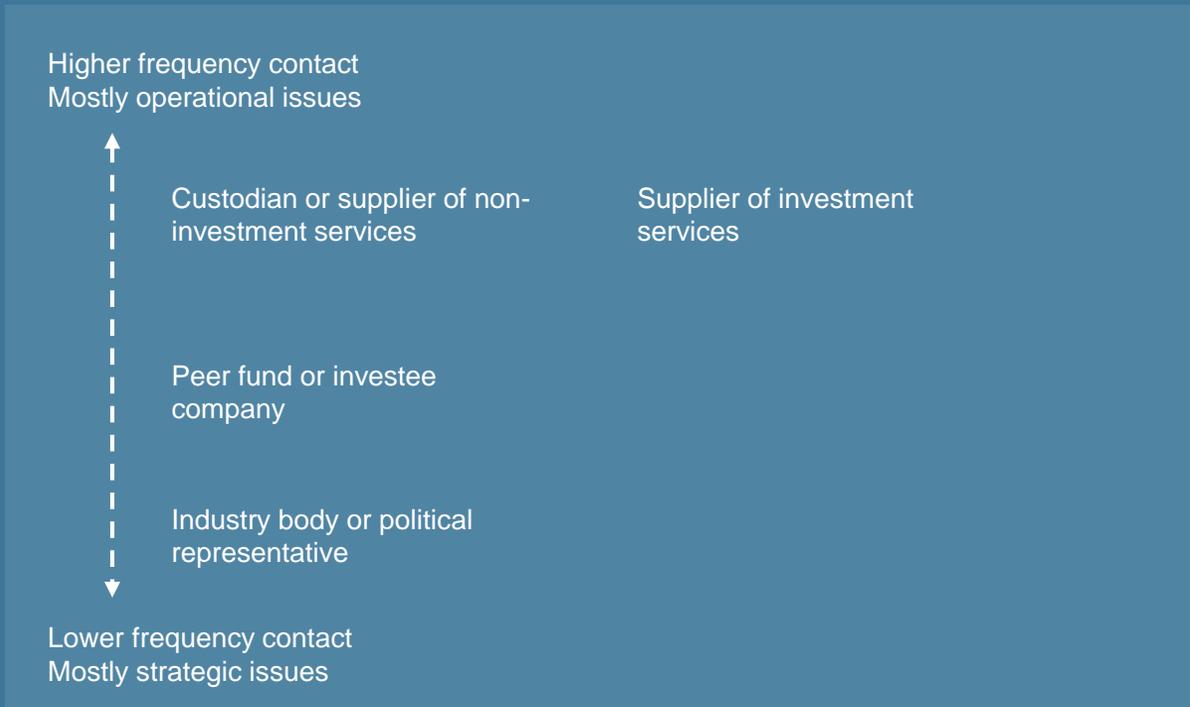
Domestic	10
International	12
Total	22

The interviews were conducted over the phone and face to face. Each interview lasted up to 45 minutes. The interviews took place in January and February 2019.

Note: A total of 24 people took part across 22 interviews. This is because three of the stakeholder organisations had two people take part in one interview.

Frequency and type of stakeholder interactions with the Guardians

For stakeholders who took part in this research, their scope of interactions with the Guardians varies depending on their organisation's relationship with the Guardians:



The interactions typically include face-to-face meetings (both formal and informal), email and telephone conversations, and consulting the website or Annual Report.



Notes:

- The stakeholders who took part in this qualitative research hold senior positions within their organisations and tend to interact with the Guardians primarily on strategic matters. Hence the term 'stakeholder' in the context of the qualitative findings refers to senior stakeholders. This is similar to the qualitative research conducted previously in 2015.
- In the 2018 quantitative research, stakeholders who took part came from all levels of their organisation ranging from junior to more senior roles.
- There is some ambiguity among stakeholders, especially those based overseas, regarding the terminology when referring to the Guardians and the Fund. Some are aware of the Guardians as the managers of the Fund, while others don't draw a distinction between the two and use 'the NZSF' to refer to the Guardians.





Elements of effective stakeholder relationships with the Guardians



The Guardians' relationships with its stakeholders comprises three core elements



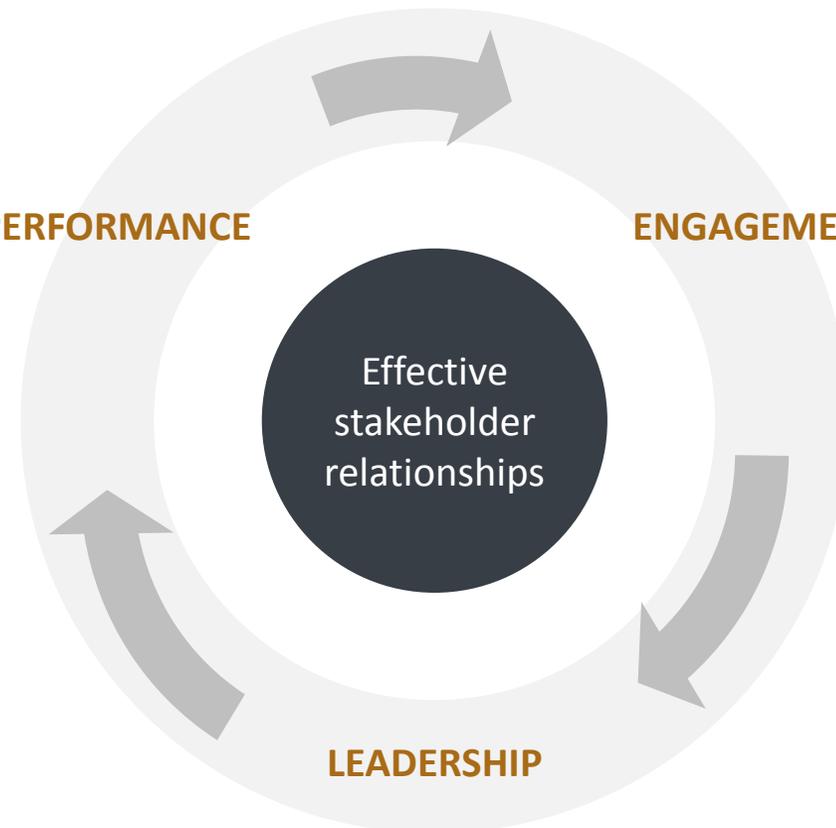
Effective stakeholder relationships with the Guardians entails success in these three areas. The following three sections discuss stakeholders' perceptions of each of these three areas in detail. While the elements are discussed separately, in reality, they are highly inter-connected.

How the Guardians perform against its **mission and mandate**.

PERFORMANCE

ENGAGEMENT

How the Guardians **interacts and communicates** with its stakeholders, and perceptions of the **calibre of staff**.



The level of confidence and trust in the Guardians' **leadership of the sector** and in the **leadership team**.



Stakeholder perceptions of the Guardians' performance



Stakeholders view the Fund's performance as a barometer of how well the Guardians is doing

In the 2015 qualitative research, it emerged that stakeholder perceptions of the Guardians' performance was broadly linked to how well the Fund was performing. This remains the case, as most stakeholders view the protection and growth of the Fund as central to the Guardians' purpose.

Stakeholders feel the Guardians continues to perform well, given the Fund's consistent growth. It has also managed to surpass other, more established sovereign funds which stakeholders view as further evidence of the Guardians' strong performance.

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“Initially it might have been seen as just a small sovereign wealth fund but now it's recognised all over the world as a really excellent fund.”

Industry body or political representative

“[The NZSF] might be based in Auckland and only started in the early 2000s, but they continue to set the pace on a global stage. I work with other funds that have been around for longer and they often look to the Guardians as a benchmark.”

Peer fund or investee company

Three key areas for strong performance for the Guardians

There are three areas where domestic and international stakeholders feel the Guardians show particularly strong performance:



A highly **effective investment** model that is based on a long horizon and understands risk.



A deep understanding of and commitment to **best practice in portfolio management.**



Innovative and progressive thinking around **responsible investment.**

The Guardians have an effective investment approach based on a long horizon and well-integrated risk management strategy

Stakeholders continue to feel the Guardians' are successfully maximising their gains without undue risk across the Fund, similar to the 2015 qualitative research. This is primarily evidenced by the Fund's continued growth and a lack of a "big bust".

In 2019, stakeholders also mention two salient features of the Guardians' investment approach that give them confidence in its ability to continue making good investment decisions in the future:

- The Guardians are committed to a long-term vision. This lends coherency to the Guardians' investment decisions and gives it the conviction to ride through market volatility and realise long-term gains.
- The Guardians have put in place performance analysis and risk management strategies that are integrated across their portfolio and based on thorough, well-explained research. This gives stakeholders confidence in the Guardians' investment decisions and the Guardians' ability to consistently identify and leverage growth assets without overexposing the Fund to risk.

“

“One of [the Guardians’] key strengths is that they believe in their strategy and their long-term goals. They’re not a firm that chops and changes and strays from their track. They make adjustments when required...but they are convicted to their long-term strategic goal. If you look at the performance of the Fund over the years, it’s not one that’s been around for decades, but in its short time it has delivered consistent gains and outperformed other funds.”

Supplier of investment services

“[The Guardians’] decision making is of outstanding quality. Their moves are always well-grounded in research and carefully thought out...you never get the feeling that they will take any unnecessary risks.”

Peer fund or investee company

The Guardians continue to exhibit best practices in their portfolio management

As in the 2015 research, most stakeholders continue to believe the Guardians remain genuinely committed to industry best practices in relation to portfolio management.

Alongside their ongoing commitment to best practice, stakeholders feel the Guardians are starting to establish themselves as thought leaders in this area, evidenced by the leading role they take internationally via the International Forum of Sovereign Wealth Funds (IFSWF).

“

“[The Guardians] are always looking to understand best practice. They take it very seriously and its as it should be because you need to fully understand what the best practice is to be able to strive for it.”

Peer fund or investee company

Stakeholders are starting to appreciate the Guardians' commitment to responsible investing

While previously most stakeholders were not aware of the Guardians' work on responsible investing, there is a clear sense now that the organisation is much more active in this area.

Stakeholders feel the Guardians is starting to show its commitment to responsible investing through its thought leadership around managing environmental, social and governance risk factors, and the organisation's continued strong performance in the United Nations Principles for Responsible Investment (UNPRI) assessments.

Stakeholders also recognise other tangible actions taken by the Guardians, like the whole-of-Fund climate change strategy and resultant decarbonisation of its passive equities. This is seen as a reflection of the wider progressive thinking being done by the Guardians on sustainability.

There is a sense that given the length of time since the 2015 Paris Agreement and the United States' planned withdrawal from it, the Guardians have reached a point where a review of their climate change strategy may be needed to maintain its relevance and industry leading position amid present day realities.

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“When [the Guardians] communicated their climate change strategy, what was exceptional was it opened up quite a lot of discussion about why they were doing what they were doing. It started the thinking among the industry and I think it was very good for everyone to learn directly from them.”

Supplier of investment services

“The work the Guardians have done around integrating climate change and sustainable investment into their portfolio is truly ground-breaking...they do credit to New Zealand in its broadest terms.”

Custodian or supplier of non-investment services

Most stakeholders, especially those based overseas, view this type of work as directly contributing to advancing New Zealand's reputation overseas by setting an example for others in the investment sector to follow.

This aligns with the finding from the 2018 quantitative research that shows an improvement in international stakeholders' perceptions that the Guardians is avoiding prejudice to New Zealand's reputation as a responsible member of the world community.



Stakeholder perceptions of **engagement** with the Guardians

Stakeholders' view their interactions with the Guardians appropriate for their needs, but there are some areas of concern for domestic stakeholders

As in the 2015 research, most stakeholders view their interactions with the Guardians as open, transparent, collaborative, relevant and useful. Nevertheless, for domestic stakeholders there are two key areas of concern:

The Guardians' relationship with the New Zealand Government.*

Domestic stakeholders acknowledge the Guardians have performed extremely well despite no government contributions between 2009 and 2017. They are also cognisant of the need to strike a balance between operating at arms' length from the government while still working closely with the public sector.

However, there is a perception that a lack of openness continues to be a key part of the relationship between the Guardians and the public sector despite political change and the restart of contributions.

Domestic stakeholders feel that while there is professionalism and a no-surprises approach, there are also entrenched positions on both sides with little appetite for compromise on important issues.

The Guardians' connection with the New Zealand investment

sector. Domestic stakeholders understand the Guardians hold a high degree of influence within New Zealand's economic landscape due to the size of the Fund and their international reputation.

However, domestic stakeholders believe that the Guardians are not fully leveraging their influence to the benefit of the local capital markets. There is a feeling that more of the Guardians' expertise and knowledge from their international work could be shared with local organisations to grow their capability and provide leadership to New Zealand's investment sector.

*Domestic stakeholders in the 2018 quantitative research in particular show a decline in their agreement that the Guardians has a positive relationship with the government. These stakeholders have a clearer view of this relationship given their location. However those based internationally have limited insight in this regard but still sense that given the Guardians' mandate comes from the government, it is important for both to be on the same page.

The Guardians' communications are thorough, transparent, and accessible to a range of audiences

Stakeholders, especially from overseas, value the thoroughness and depth of the communications they receive from the Guardians. They particularly appreciate the transparency about long-term strategy, risk management, and the Fund's overall performance.

This creates trust and provides stakeholders with a comprehensive picture. It also gives them a level of certainty in the Guardians' decision making and future direction.

Stakeholders acknowledge the Guardians' communications are often in straightforward language so that there is clarity and directness in the message being conveyed.

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“There’s a lot of hype in financial circles where people puff up what they do. [The Guardians] can be trusted to give an authentic version of how things work at the fund...warts and all.”

Supplier of investment services

- The breadth and depth of communications, especially regarding the Fund's performance and the explanation of their decision making, is a key driver of positive stakeholder perceptions.
- The 2018 quantitative research confirms this, where international stakeholders in particular showed improved perceptions of the Fund's transparency.

Domestic stakeholders feel the New Zealand public don't fully understand the Guardian's role

There is a sense, especially from domestic stakeholders that in the case of an economic downturn, managing public perceptions will be important for the Guardians given the size of the Fund.

Stakeholders feel there is potential for the Guardians to prepare grounds with the New Zealand public to ensure expectations are managed when the inevitable period of economic uncertainty arrives.



“There’s not a lot of understanding in the public about what the Guardians do and they need to undertake engagement and raise awareness of what they do to some extent. It’s about preparing ground for the downturn that will arrive at some point and when it does, the public may start to question the Guardians’ role and their overseas investments unless there is a level of awareness already present.”

Industry body or political representative

“It’s about preparing grounds and being ready for when the markets go down...and proactively managing the questions and scrutiny that might come [the Guardians] way.”

Industry body or political representative

There is a clear perception among stakeholders that the Guardians' staff are some of the most competent and knowledgeable individuals in the industry. Most feel that a key part of the Guardians' strong performance is due to the calibre of its staff.

Moreover, stakeholders appreciate the Guardians has focused on building their internal capability over recent years. Most stakeholders feel there is a good mix of high-quality staff that have been promoted internally and others that have been externally hired who bring with them a diversity of skills and experiences.

“

“I would describe the Guardians staff as professional, competent, and exceptionally bright.”

Industry body or political representative



Stakeholder perceptions of the Guardians' leadership



The Guardians remain at the forefront of the investment sector

Similar to 2015, stakeholders consider the Guardians as one of the leading funds in the sector because of its leadership team and quality of thinking and decision making.

Stakeholders feel a high degree of trust and confidence in the leadership team's capabilities. Most have direct experience of working with them and feel the team has the skills and experience to continue guiding the organisation on its upwards trajectory.

Alongside this, international stakeholders appreciate the level of outreach undertaken by the leadership team and their work to maintain relationships with stakeholders overseas despite the geographic distance. Most have had contact with the Guardians' senior leadership team at industry events and meetings where they find them approachable, transparent, and genuinely committed to sharing their knowledge and forging new relationships. This is seen as crucial for maintaining the Guardians' position as an active, leading member of the international investment community.

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“The leadership team have got everyone on-board with them on responsible investment and shown real leadership on that issue to everyone...it has provided a benchmark for the rest of the sector to follow.”

Industry body or political representative

“Running a fund from Auckland is no walk in the park. The contacts you need and the deals that need to be done makes this a burden on the existing team's travel.”

Supplier of investment services

Maintaining the quality of its staff and attracting new talent will be essential for future performance

Stakeholders feel the quality of the Guardians' leadership team and wider staff is a key strength and source of competitive advantage within the investment sector.

However, there is a sense that continuing to attract and retain this calibre of staff will be a challenge given the Guardians' distance from major financial centres in North America and Europe and the limitations on salary and remunerations for senior leadership.

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“We hold [the Guardians] in very high regard. We only have sporadic contact with their leadership team during international conferences and some other events but each of them is very bright and extremely genuine.”

Industry body or political representative

“A critical part of their competitive edge is the quality of their staff. It is a tough ask to maintain that calibre unless your competitive with the commercial sector in terms of what you offer to staff.”

Supplier of investment services

This is consistent with the 2018 quantitative research where stakeholders identified attracting and retaining high quality staff as a key area of focus for the Guardians.

There is some uncertainty about the future direction of the Guardians given recent changes in the senior leadership team

There is a clear sense from stakeholders that the Guardians' previous Chief Executive was a major driver of the unique culture and organisational perspective of the Guardians. With his departure, there is an element of uncertainty among stakeholders, especially those based overseas, about how the organisation's investment approach and overall culture will evolve going forward.

Stakeholders feel there is a need for the Guardians' senior leadership team to undertake outreach as much as possible during this transition period. This will help bring clarity to stakeholders, especially those based overseas, about the Guardians' future direction and also ensure continuity where relationship owners have changed positions or left the organisation.

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“Adrian Orr was a very significant leader with a lot of personal brand. Matt is an extremely competent and capable individual, but he's his own person and quite different. For the Guardians to maintain their momentum, its leaders will need to be out and about a fair bit.”

Supplier of investment services

“It's a natural thing as people move up the ranks there is some turnover and with new leadership, there is a change in strategy and culture. So there is a bit of a question mark in our relationship with the Guardians because of that...it's a little hard to know what [the Guardians] are thinking of doing with their long-term strategy. The person I used to work with left and I haven't heard much from the Guardians except for a quick phone call since that happened.”

Custodian or supplier of non-investment services

Looking ahead

Suggested areas of
improvement

There is a sense of progress on most of the key areas of improvement identified in the previous research



Improved visibility: Stakeholders feel the Guardians is more transparent about its organisational structure. They are able to find and engage with the relevant people within the organisations and the website's accessible, easy to use layout makes it easy for them to find more information when needed.



Better capacity and capability: There is appreciation that the Guardians have focused on building their internal capability over recent years. Stakeholders feel there is a good mix of high-quality staff that have been promoted internally and others who have been externally hired who bring with them a diversity of skills and experiences.



Restarted contributions: The government contributions restarted in 2017 and this has been well-received as a highly beneficial step for the Guardians and the Fund.



Clear investment focus: Stakeholders appreciate the Guardians' transparent decision making, especially pertaining to its New Zealand investments.



Effective succession planning: Stakeholders feel the Guardians handled the recent change in Chief Executive professionally but there is some uncertainty about the organisation's future direction. Stakeholders hope this will become clearer as the new leadership team starts to establish itself.

Stakeholders feel the Guardians need to continue maintaining the key strengths identified previously in 2015

Maintain



Open communications especially pertaining to the Guardians' investment decisions and future strategy.



Positive culture of transparency, openness, and professionalism.



The **quality and calibre of staff** both within the leadership team and across the organisation as a whole.



Maximising returns and ensuring the Fund shows consistent growth through smart, well-thought out decision making.

Stakeholders see a few challenges and opportunities on the horizon



Government relationship: Stakeholders feel that as the Fund has grown over recent years and the political and economic landscape has evolved, there is an opportunity to revisit the context of the Guardians' relationship with the government and improve the alignment between the two organisations' strategic vision and goals.



Role model for New Zealand: Stakeholders sense that as the Guardians has established itself as a leader in the international investment sector, there is an opportunity for it to do the same in New Zealand. This could be achieved by undertaking more consistent dialogue with New Zealand's capital markets, share its knowledge and experience, and act as a role model especially in areas of sustainable governance, accountability, and transparency.



Location: There is a clear perception, especially from international stakeholders, that New Zealand's distance from major financial centres in North America, Europe, and Southeast Asia limits their ability to work with the Guardians. Offices in key international locations can help minimise the impact of distance and time differences with New Zealand.



Public awareness: There is some potential for the Guardians to create awareness about their work with New Zealanders. Stakeholders feel this will be especially important in managing expectations during periods of market volatility (e.g. an economic downturn).



Climate change: Stakeholders feel a significant period of time has elapsed since the 2015 Paris Agreement and there have been some important political (e.g. U.S. withdrawal from the Agreement, Labour-led government in New Zealand) and environmental (increasing frequency of adverse weather events) developments since then. In light of this, there is a sense that the Guardians could revisit their climate change strategy to ensure it remains relevant and industry leading in light of the rapidly changing climate picture and political landscape.



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