

13 January 2023

Hon. Grant Robertson
Minister of Finance
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WELLINGTON

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By email: Grant.Robertson@parliament.govt.nz

Dear Minister,

I write in response to your letter of 5 December 2022, in which you set out your expectations of the Guardians of New Zealand Superannuation for the 2023/24 year. Thank you for your letter.

Government Strategic Priorities

The Board agrees with your statement that, while continuing to deliver fiscal strategies that support New Zealanders' financial wellbeing across generations, Crown Financial Institutions (CFIs) such as the Guardians, as the manager of the NZ Super Fund, can have significant impacts on human, social and natural capitals. The revised organisational purpose statement the Guardians adopted at the beginning of 2022 - "sustainable investment delivering strong returns for all New Zealanders" – is consistent with this.

We also acknowledge the support your letter provides for our exploration of commercially attractive opportunities for the NZ Super Fund to invest in New Zealand assets, specifically in infrastructure, housing and climate-oriented investments.

One example of our efforts to find local, large scale investments is our partnership with Copenhagen Infrastructure Partners to explore the opportunity to develop an estimated 1GW, \$5b wind farm off the South Taranaki Bight. Should this project go ahead, it will not only add to New Zealand's portfolio of renewable generation assets and help to meet strong projected growth in demand for electricity, it will also support the Government's strategy of a just transition away from oil and gas for the Taranaki region. We welcome the high priority the Government is giving to the development of a regulatory framework for offshore wind.

Domestically, property investment is another area in which our investment activities are aligning with the Government's broader priorities. We now have development partnerships with Russell Group, Classic Group and Eke Panuku, with a focus on large-scale housing development and urban regeneration. In particular, we were pleased to learn in December that Auckland Council has approved a private plan change enabling our housing development in Beachlands, Auckland, to progress to the next stage. We are a major investor in this project alongside the Russell Group, Ngāi Tai ki Tāmaki and Hāpai Development Property.

Working in partnership

We also note your comments regarding the importance of a collaborative approach across all of Government. We too emphasise openness and trust as being essential to the establishment of a successful partnership.

It is encouraging to read that you are pleased with the relationships we have maintained with your office and with Treasury over the past year: continuing to enhance those relationships, and our relationships with CFIs and other government entities, remains a priority for us.

This kaupapa will also underpin our approach to working with Treasury officials to prepare for the Independent Review scheduled for 2024.

Good citizenship

We note your statement that the Government is committed to acting as a responsible citizen, and the corresponding expectation that CFIs maintain robust ethical investment policies.

As you are aware, the NZ Superannuation and Retirement Income Act requires, among other things, that the Guardians manage and administer the Fund in a manner consistent with avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

In line with this, we have during the past year worked to embed sustainable finance into our governance, strategic frameworks and policies, including by adding climate change measures into our latest Statement of Intent, which sets our strategic intentions for the medium term, and by updating the Guardians' Responsible Investment Framework to include our commitment to developing and integrating a Sustainable Finance Strategy.

As you note in your letter, we have also adopted the MSCI World Climate Paris Aligned Index and the MSCI EM Climate Paris Aligned Index as the two building blocks for the global equity component of our Reference Portfolio benchmark. This enables us to improve the ESG characteristics of the portfolio, without compromising financial returns, by moving to a portfolio with fewer constituent stocks and better ESG ratings.

Thank you for recognising the work we have done in this area; we remain committed to continuing to improve our sustainable finance performance and progress, and to encouraging our investee companies along a similar path.

Risk and returns

As you allude to in your letter, the aftermath of the COVID pandemic, including higher-than-expected inflation and rising interest rates, and the war in Ukraine, among other events, have made for an uncertain geo-political environment. This has significantly affected global financial and commodity markets: equity markets in particular have lost value over the course of 2022.

I can confirm that we actively consider geopolitical risk and its implications for the New Zealand Super Fund portfolio. We are also mindful that foreign policy is a matter for the Government which is obviously outside our mandate.

We continue to focus on our long-term investment strategies, managing our liquidity carefully and maintaining an appropriate balance of risk and return in order to achieve our purpose.

The use of derivatives and leverage continues to be part of our investment and risk management strategy. We note your expectations regarding the use of these instruments, and remain confident that our people, our policies, and our procedures are sufficient to ensure that this practice will not give rise to negative financial or reputational outcomes.

Elevate Venture Capital Fund

We also note your expectations that the Guardians continues to oversee the Elevate NZ Venture Capital Fund, with a view to ensuring it is being invested in line with best practice investment management. In fulfilling this responsibility we are required to be proactive in our engagement with the Government regarding significant decisions or communications.

We were pleased to advise you earlier this year that our conviction in NZ Growth Capital Partners as the manager of the Elevate mandate has increased from below conviction threshold to a positive conviction threshold. Whilst this level of conviction still requires active management, the increase recognises the significant progress NZ Growth Capital Partners has made over the last year.

We will continue to monitor NZ Growth Capital Partners closely.

We look forward to meeting with Treasury early in 2023 to discuss your letter and our upcoming priorities for the 2023/24 year.

Yours sincerely



Catherine Drayton
Chairperson of the Guardians of New Zealand Superannuation