



STAKEHOLDER ENGAGEMENT RESEARCH

NEW ZEALAND SUPERANNUATION FUND

Qualitative report

16 January 2015

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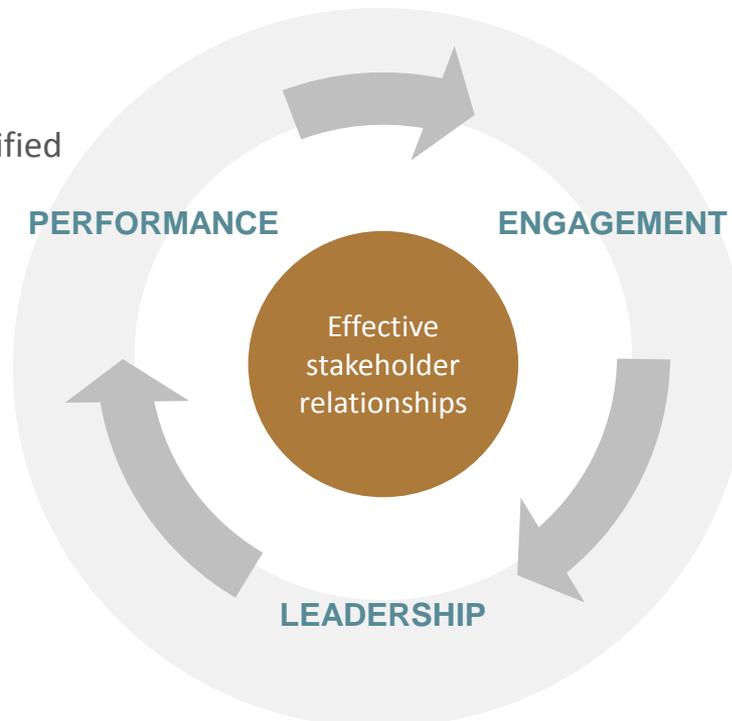
Executive summary

Stakeholders feel their relationship with the Guardians is effective

The Guardians' relationship with its stakeholders comprises three elements. The Guardians perform strongly on all three of these elements as the findings below indicate.

PERFORMANCE

- ✓ Strong returns
- ✓ No undue risk/exposure identified
- ✓ No reputational damage
- ✓ Best practice followed (and developed)



ENGAGEMENT

- ✓ Transparent
- ✓ Willing to listen
- ✓ Collaborative
- ✓ Helpful and useful
- ✓ Knowledgeable
- ✓ Responsive and accessible
- ✓ Staff are very capable and expert
- ✓ Annual Report and website informative and easy to read

LEADERSHIP

- ✓ Leads and connects others in the sector
- ✓ Develops and shares knowledge
- ✓ Strong leadership team
- ✓ Competent, professional
- ✓ Trusted
- ✓ Show integrity
- ✓ Approachable and accessible

Senior stakeholders feel their relationship with the Guardians is effective and want the Guardians to 'keep doing what they are doing.'

Future focus

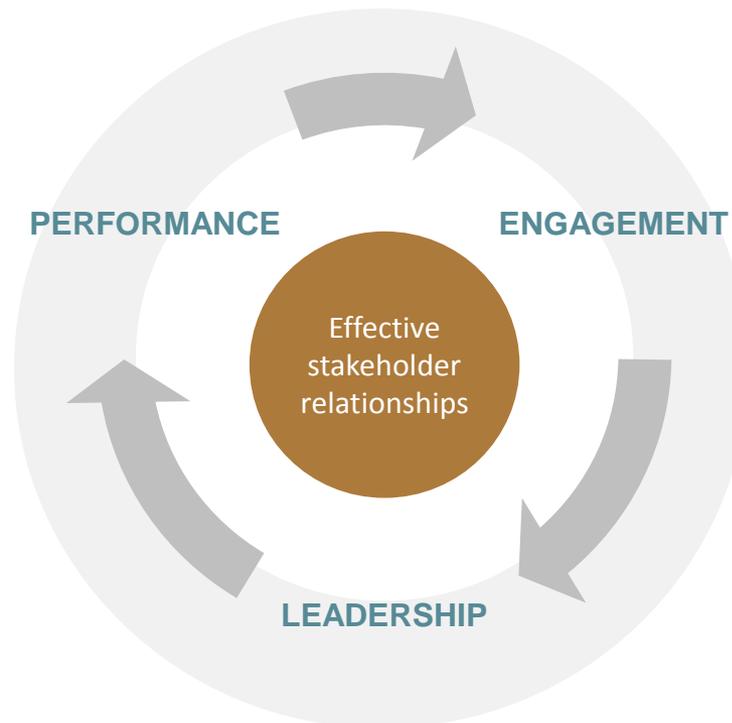
Presented below are stakeholders' suggestions for the Guardians to focus on in the future. However, these suggestions should be read in the context that most senior stakeholders consider the Guardians a strong performer and they believe the Guardians needs to continue what it is currently doing.

PERFORMANCE

- Lobby Government for contributions to resume earlier to maximise the investment opportunity
- Communicate the balance of investment between investing in New Zealand and investing internationally as some stakeholders in New Zealand feel the Fund does not invest enough in New Zealand businesses.

LEADERSHIP

- Inform stakeholders about succession planning and recruitment and retention plans to further increase confidence in the future of the Guardians.
- Increase board members' visibility (eg profiles on the website).



ENGAGEMENT

- Promote sponsorships so stakeholders know what and who the Guardians support. This would increase the sense of 'giving back' to New Zealand.
- Increase capacity levels so staff can undertake a greater range of investments in shorter timeframes.



The need for the research

The Guardians of New Zealand Superannuation

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 the Global Financial Crisis in 2008/2009, the Government ceased its contributions to the Fund. These are scheduled to restart once core Crown net debt is 20% of GDP (forecasted for 2020/2021).

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.

Research need

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.

This document reports on the findings from the initial qualitative stage of the research. A subsequent quantitative phase is scheduled for early in 2015.

Twenty interviews with senior stakeholders

GOVERNMENT/POLITICAL STAKEHOLDERS

5

interviews with senior parliamentary Ministers, political party members and relevant Government departments.

MARKET/INDUSTRY STAKEHOLDERS

3

interviews with organisations that have an overview of the New Zealand capital market.

PEER FUND STAKEHOLDERS

6

interviews with organisations the Guardians collaborates with (e.g. shares knowledge and expertise).

SUPPLIER STAKEHOLDERS

4

interviews with organisations that supply services to the Guardians, such as managing investments on its behalf.

ISSUING COMPANY STAKEHOLDERS

2

interviews with companies in which the New Zealand Superannuation Fund has a significant shareholding.

Fieldwork dates. Face-to-face and telephone interviews with stakeholders took place between November 2014 and January 2015. Interviews were up to an hour each.

Themes and analysis. If stakeholders from all or most groups make a similar comment then this is a considered widespread theme. Where comments are limited to either *one stakeholder* or a *specific stakeholder group or groups*, this is noted in the text.

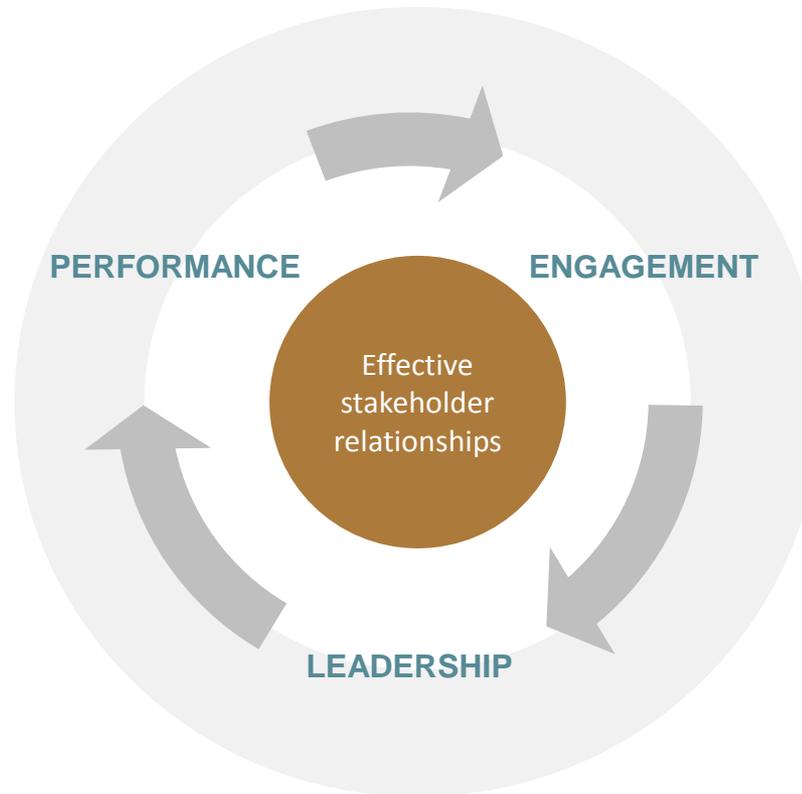
Note: A total of 24 people took part across 20 interviews. This is because two of the supplier stakeholder organisations had three people take part in one interview.



Elements of effective stakeholder relationships with the Guardians

The Guardians' relationships with its stakeholders comprises three core elements

How the Guardians is performing against its **mission and mandate**.



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**.

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



Stakeholders' perceptions of the Guardians' performance

Perceptions of the Guardians' performance is linked to how well the Fund is performing

THE FUND'S PERFORMANCE

Main driver of perceptions



THE GUARDIANS' PERFORMANCE

MISSION

Maximise the Fund's return over the long term, without undue risk, so as to reduce future New Zealanders' tax burden.

- Has the Fund experienced strong returns over the long term?
- Has this occurred without undue risk?

Stakeholders recognise that the performance of the Fund is strong



RETURN

The performance of the New Zealand Superannuation Fund has yielded favourable results since the Guardians began investing. These strong returns mean stakeholders agree that the Guardians is maximising the Fund's returns over the long term.

RISK

Most senior stakeholders feel the strong performance has been achieved without undue risk. They perceive the Guardians effectively balances the risk/return ratio.

One senior stakeholder considers the Guardians take high risk to achieve high returns. This stakeholder believes this gives a misleading impression of outstanding performance.

The Fund is performing well and many stakeholders feel the Guardians strikes the right balance between humility and confidence about their performance.

Given the Fund's strong performance, the Guardians is seen as a strong performer



“They punch above their weight on a global scale.” PEER FUND

“They have a well thought through and articulated risk and mitigation strategy, and they don’t stray from that.” SUPPLIER

“They are so far ahead [of how other funds operate] it’s hard for me to even compare them.” PEER FUND

“Can’t argue with success.” GOVERNMENT/POLITICAL

“I think they are maximising returns taking quite big risks.” GOVERNMENT/POLITICAL

Stakeholders consider the Guardians approach to portfolio management is best practice

BEST PRACTICE PORTFOLIO MANAGEMENT

<p>POLITICAL/GOVERNMENT STAKEHOLDERS</p>	<ul style="list-style-type: none"> The Guardians is seen to follow best practice as evidenced by the spread of investments and that others rely on the Guardians' analysis to follow. 	<p><i>"I don't have any concerns in any of these areas."</i></p>
<p>PEER FUND STAKEHOLDERS</p>	<ul style="list-style-type: none"> The Guardians is seen to be leading the area of portfolio management.* (See footnote) 	<p><i>"Yes, they have high benchmarks."</i></p>
<p>SUPPLIER STAKEHOLDERS</p>	<ul style="list-style-type: none"> Fund's performance suggests the Guardians are achieving best practice portfolio management and evolve these practices.* (See footnote) 	<p><i>"They are very diligent."</i></p>
<p>ISSUING COMPANIES</p>	<ul style="list-style-type: none"> Stakeholders feel the Guardians are doing well based on employing strategies to invest with a long term view and other global funds meet with the Guardians to share knowledge and information. 	<p><i>"They don't chase short-term gains, they are investing over a long timeframe."</i></p>
<p>MARKET OVERVIEW STAKEHOLDERS</p>	<ul style="list-style-type: none"> The Fund's performance indicates that the Guardians leverage and using best practice to manage risk and maximise returns. This stakeholder group feels the Guardians also evolve and define what best practice might be. 	<p><i>"They are leading, not just following best practice."</i></p>

* Note that peer funds and suppliers feel the term 'best practice' can be problematic. While they consider the Guardians performs well in regard to best practice, they feel the term implies that there is only one 'best' way of approaching portfolio management, and that it also implies a static state. (i.e., that best practice is fixed).

The Guardians is seen to perform well at maximising returns without undue risk

MAXIMISING RETURN WITHOUT UNDUE RISK TO THE FUND AS A WHOLE

<p>POLITICAL/GOVERNMENT STAKEHOLDERS</p>	<ul style="list-style-type: none"> • Most in this stakeholder group believe the strong results indicate the Guardians maximise return without undue risk. • One stakeholder agrees the Guardians have achieved strong returns, but considers the risk involved is high. This stakeholder believes the Guardians does not adequately communicate the risk side of the story. 	<p><i>“There is no denying they have made a lot of money, but they don’t talk about the risk that is involved.”</i></p>
<p>PEER FUND STAKEHOLDERS</p>	<ul style="list-style-type: none"> • This stakeholder group feels the Guardians’ investment strategy and approach is effective at managing risk. They have confidence in the way the investments are made and trust the Guardians’ analysis. 	<p><i>“They are very diligent about what they invest in. They don’t rush in.”</i></p>
<p>SUPPLIER STAKEHOLDERS</p>	<ul style="list-style-type: none"> • These stakeholders believe the results speak for themselves and the staff at the Guardians balance risk and asset allocation. They feel their own investment strategies are similar and align well with the balance the Guardians’ achieves. 	<p><i>“Their stewardship of the fund is evident in how the fund is managed.”</i></p>
<p>ISSUING COMPANIES</p>	<ul style="list-style-type: none"> • These stakeholders assumes returns are maximised without undue risk because the returns are high and there has yet to be a “big bust’. 	<p><i>“The evidence would say that they’ve been generating returns that are high and extremely good relatively, they haven’t had a big bust.”</i></p>
<p>MARKET OVERVIEW STAKEHOLDERS</p>	<ul style="list-style-type: none"> • These stakeholders have no concerns about the Guardians’ approach to risk and feel the Fund is sufficiently diversified and balanced to reduce significant or concerning fluctuations. 	<p><i>“My understanding of their approach is that it’s well thought through.”</i></p>

Stakeholders are not aware of the Guardians prejudicing New Zealand's reputation

AVOIDING PREJUDICE TO NEW ZEALAND'S REPUTATION AS A RESPONSIBLE MEMBER OF THE WORLD COMMUNITY

POLITICAL/GOVERNMENT
STAKEHOLDERS

PEER FUND
STAKEHOLDERS*
(See footnote)

SUPPLIER STAKEHOLDERS

ISSUING COMPANIES

MARKET OVERVIEW
STAKEHOLDERS

- All stakeholder groups perceive the Guardians has a strong commitment to responsible investing.
- They believe the Guardians is doing well in this area as they have not heard otherwise.

"They aren't in the news, so I suppose that's a good thing." MARKET/INDUSTRY

"They take this very seriously." SUPPLIER

"They make thousands of investments. It's very hard to identify a dodgy investment in landmines in Angola, [they] have to be very careful in researching all aspect of an investment or business." PEER FUND

"I'd say in the absence of hearing anything they're doing very well. Because I'm sure if they weren't then it would become a political football and we'd all hear about ." ISSUING COMPANY

* Stakeholders in the peer fund group comment that the task of identifying and avoiding investments that might bring New Zealand into disrepute is a difficult one. They perceive the Guardians takes this task seriously and is cognisant of this in all their investment investigations. Peer fund stakeholders feel this was because they face a similar challenge in their own role.

Stakeholders understand and acknowledge the political challenges the Guardians faces

AWARENESS OF POLITICAL INFLUENCE

Most stakeholders mention the Guardians operates in a political environment. They understand there is layer of additional responsibility and accountability that is demanded of it. They do not feel parliament or any individuals have influence over the Guardians', but they acknowledge the relationship.



“They have to be aware of the political nature of their role. It’s not a day-to-day influence, but it adds another layer to their work.” SUPPLIER

CONTRIBUTION SUSPENSION

Some stakeholders feel the Government ceasing contributions has limited the Guardians' investment opportunities.



“They have done well with one hand tied behind their back [with less funds than they could have had].”
PEER FUND



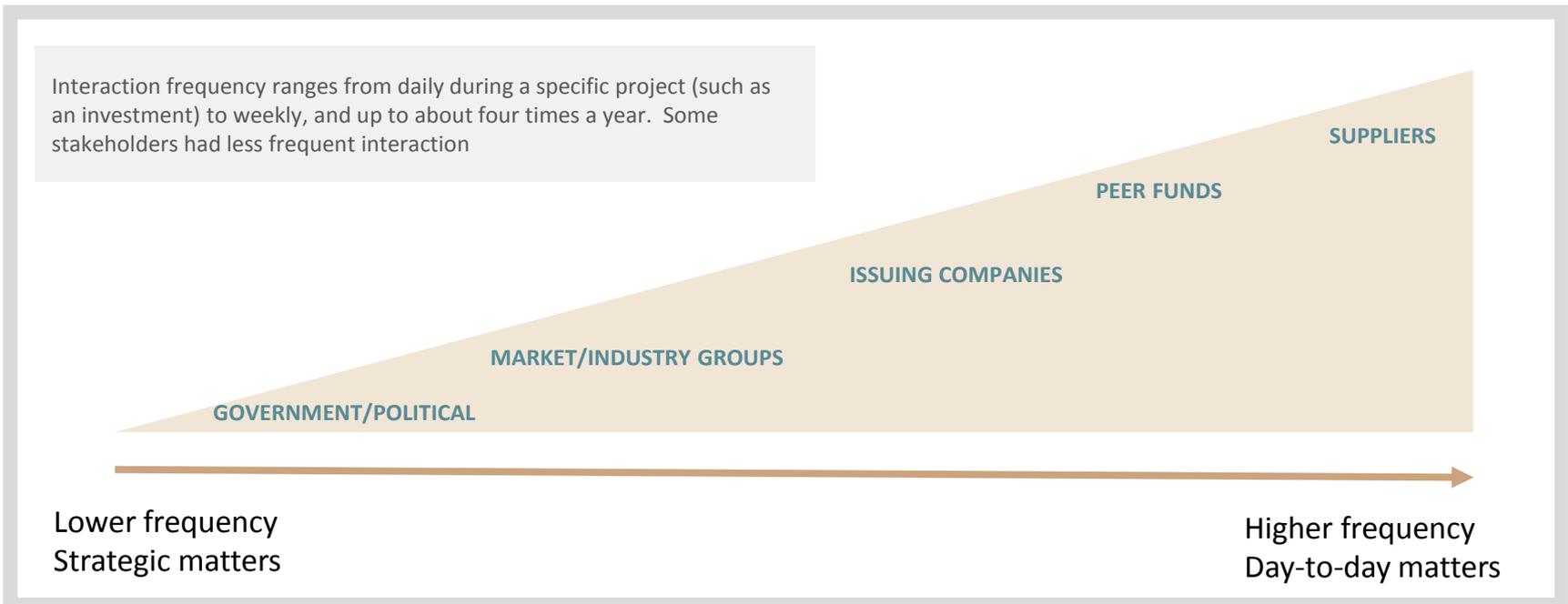
“We seriously regret the present Government’s failure to maintain contributions, because even with borrowing, against their performance it was still a winner and as a consequence we don’t have nearly the savings that we could have had, should have had.” GOVERNEMENT/POLITICAL



Stakeholders' perceptions of **engagement** with the Guardians

Type and frequency of interactions

The stakeholders included in this research hold senior positions within their organisation and tend to interact with the Guardians at this level on strategic matters. The frequency of their interactions reflects this and most stakeholders have relatively infrequent interactions with the Guardians. Suppliers and peer funds stakeholders tend to have more frequent interactions, particularly during specific projects (such as collaborating on a co-investment). Comments from stakeholders in this section reflect the differing levels of contact.



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

Interactions with the Guardians' staff is well regarded

The Guardians' staff are well regarded by senior stakeholders. Relationships are positive and effective. Stakeholders describe their relationship with staff as:

OPEN AND TRANSPARENT

The Guardians' staff are considered transparent about their investment approach and strategy. Their documentation (e.g. the Annual Report) and website provide comprehensive information that is easily accessible, and clearly worded to avoid obfuscation.

WILLING TO DISCUSS AND DEBATE ISSUES

Stakeholders feel staff are also open to engagement, eg willing to listen and discuss issues. One stakeholder disputed this view and feels the Guardians have a fixed idea of how to manage the portfolio and are not willing to listen to others' perspectives at times.

COLLABORATIVE

In particular, peer fund and issuing companies and supplier stakeholders consider the Guardians as collaborative. This is demonstrated in the Guardians willingness to share their opinions, knowledge and expertise and to work together on investment projects.

HELPFUL AND USEFUL

The Guardians' staff willingness to collaborate means they are considered helpful and useful. Issuing companies find the Guardians' staff helpful as they connect them to other similar organisations internationally. These stakeholders can then share information and knowledge with these international organisations and learn what is taking place globally.

UNDERSTANDING THE STAKEHOLDER'S BUSINESS

Issuing companies and supplier stakeholders perceive the Guardians' staff to hold a deep understanding of their business. This understanding is developed over time through institutional knowledge and working together.

CHALLENGES THE STAKEHOLDER

Supplier stakeholders in particular mention that the Guardians staff have high standards, and expect high standards from suppliers. They feel staff do this well without being demanding, and that processes and discussions that improve both organisations' performance can result from this.

RESPONSIVE AND ACCESSIBLE

Stakeholders all consider the Guardians' staff responsive and accessible. They feel they can contact the staff member they need to (including senior management) at any time. Those stakeholders based overseas also mention that while time zones are difficult between the two hemispheres, there is commitment to accessibility from the Guardians' staff (such as being contactable outside normal New Zealand working hours).

In stakeholders' own words...



OPEN AND TRANSPARENT

"They tell you what they are doing. The public documents about what they do, how they do it and how approach things. New Zealand Government organisations are the most transparent and ethical in the world." PEER FUND

"They are certainly in the upper quartile of my clients in terms of being up front about issues and communicating things early. That's a huge advantage to us if we know what's coming up or what's worrying them because it gives us a better opportunity to address the issue and get an appropriate response." SUPPLIER

"They are very open, they discuss their thoughts with us. It makes for a trusting relationship between our two organisations." PEER FUND

COLLABORATIVE

"They are collaborative, there is good chemistry, we make decisions together. We have both invested time and effort in the relationship." PEER FUND

"I don't ever feel like I'm going in to some conversation where I may be blindsided." SUPPLIER

HELPFUL AND USEFUL

"They are generous with their time." MARKET/INDUSTRY

COLLABORATIVE/COOPERATIVE

"I would think that you know it's a relationship which is characterised by excellent cooperation and understanding at management level." SUPPLIER

CHALLENGES THE STAKEHOLDER

"They demand high standards of themselves, and there are high expectations of us, so they have processes to measure us by and they don't let anything slip by." SUPPLIER

UNDERSTAND OUR BUSINESS

"They've got a very deep understanding of our organisation because we've worked together a long time." SUPPLIER

RESPONSIVE AND ACCESSIBLE

"They are very responsive, no concerns there. We have met about six or seven times in person, and I can email or contact them when we need to." PEER FUND

The Guardians' staff are considered very capable

The Guardians is seen to attract and recruit people of a high calibre.

Stakeholders consider the capability of the Guardians' staff is extremely high. Stakeholders feel across the Guardians there is a great depth of knowledge and experience held by individuals. Staff are described as:

- Highly competent.
- Experienced and knowledgeable about investing.
- Providing careful and robust thinking/analysis.
- Experts in investment.

This high level of capability within the Guardians is considered to have been built up over the years.

One stakeholder feels staff retention may get harder as global market conditions improve, and as the Fund matures into 'business as usual'. This stakeholder is concerned that while the Guardians is able to attract high calibre staff now, it should not assume this will always be the case.



"They are investment professionals and they are good at what they do." MARKET/INDUSTRY

"They should be very proud of the team they've got. A lot of people would be very envious of them, because to the people themselves, their values, their investment skills and capabilities." PEER FUND

"[Staff member] comes to meetings well prepared and well read. It gives me the view that they care and they are passionate about their work and also about our business and want to do their best." ISSUING COMPANY

"We find them very competent, we have intelligent conversations, we don't waste our time going back and forth on meaningless matters so from that perspective really, really good." SUPPLIER

Stakeholders feel the Guardians is able to retain and attract competent staff, and some would like to see expansion of staff capacity and capability (for example, to think about managing funds in-house).

The Annual Report and website are considered clear and informative

Stakeholders who commented on the **Annual Report** are complimentary. As a source of information about the New Zealand Superannuation Fund report:

- is clear and easy to read.
- provides transparent information about the activities of the Guardians.
- provides stakeholders with an understanding of the risks and mitigation strategies the Guardians employs to reduce risk to the Fund.



“I think they make a really strong effort in trying to articulate [their investment policies] in a language that a lot of people can understand.” SUPPLIER

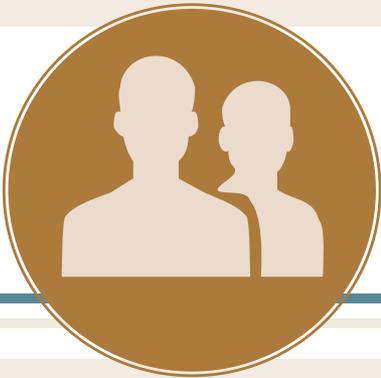
The **website** is clear and informative, and provides stakeholders with useful information about the Guardians’ work.



“They’re good, they’ve had a very specific investment philosophy which has been executed really well and it’s probably 9/10, there’s always room for improvement. But it’s, it’s on the website, I’ve seen the stuff, and I know enough to know that they’re doing a good job.”

MARKET/INDUSTRY

The Annual Report is a significant stakeholder touchpoint and meets their information needs well.



Stakeholders' perceptions of the Guardians' leadership

Leading the investment sector

Stakeholders who hold a view about the Guardians' leadership externally perceive it to be doing well in this area. These stakeholders perceive the Guardians' provides sector leadership through sharing their knowledge and approach to investing and by acting as a intermediary within the sector to tackle industry-wide issues.



“Very strong leadership in a lot of ways. Their thought leadership in what they are doing and how they are approaching things.” PEER FUND

“They demonstrate best practice in a way that means other people rely on their analysis and follow them in their investment decisions.” GOVERNMENT/POLITICAL

“They are at the forefront of trying to liaise with industry bodies to improve the overall regulatory framework. They're very happy to be the conduit between various parties in the market to get a lot of discussion and agreement on issues we face. They're playing that role well.” SUPPLIER

The Guardians is seen to lead the investment sector because in addition to performing well (as discussed earlier), they also take the lead in connecting others in the sector, and sharing information with the sector from their own successes and experience.

Leading the team and organisation

Most stakeholders have a high level of trust and confidence in the leadership team. As well as the successful performance of the Fund, this high level of trust and confidence stems from stakeholders' perceptions of how the leadership team runs the organisation and the individual qualities of the leadership team.

LEADING THE ORGANISATION

Stakeholders feel the leadership team manage and lead the organisation well. It is professional in its approach and is focussed on meeting its objectives. The culture is one where there is an understanding of the important responsibility and the role the Guardians play in managing large investments of behalf of New Zealanders.

QUALITIES OF THE LEADERSHIP TEAM

The leadership team, and in particular the Chief Executive Officer (CEO) and the Chief Investment Officer (CIO), are admired and respected. Stakeholders attribute the CEO and CIO with the following qualities:

- Competent investment professionals.
- Pragmatic in their approach to leadership and investment.
- Sound judgement.
- Have integrity.
- Want to do the best they can, enthusiastic about their work and the sector.
- Approachable and accessible.
- Confident and focused in their role, investment strategy and approach to managing the fund.
- Have a long term focus and do not waver from that when developing investment strategies.

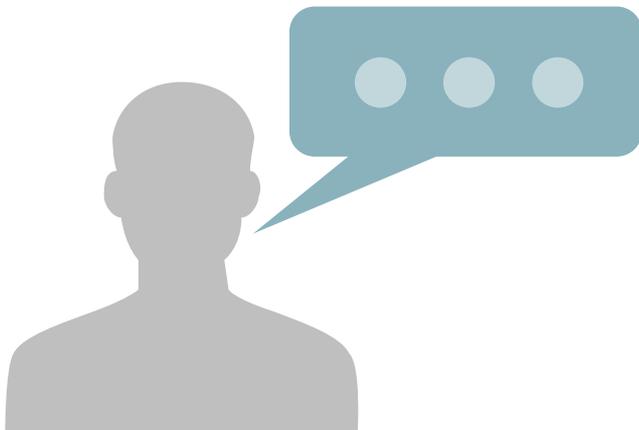
In stakeholders' own words



LEADING THE ORGANISATION

"I think [CEO] personally has done a very good job of developing the right sort of culture within the team. They take their responsibilities seriously and yet at the same time they realise that they are investing on behalf of millions of New Zealanders and what they do is clearly important." ISSUING COMPANY

"It comes from the top down and you can see the culture is set by the CE and the senior team." PEER FUND



QUALITIES OF THE LEADERSHIP TEAM

"To me [the CEO] is like the epitome of what I would call a world class New Zealander. He's bloody great at what he does and he's a good guy. He's like a Richie McCaw, fund management style." ISSUING COMPANY

"I think [the CEO] is clearly very accomplished technically and professionally, and that's matched with, I think he's an extremely good leader and communicator." ISSUING COMPANY

"I think they are people of integrity and ability."
GOVERNMENT/POLITICAL

"They've got two incredibly smart people at the top. The CEO is down to earth, level headed, very smart and leading the organisation in a good way. The [CIO] is incredibly smart and very pragmatic." SUPPLIER

"They are awesome! We see the world in a similar way, we have the same investment philosophy. Our strengths are complementary." PEER FUND



Areas for future focus

Suggestions and comments from stakeholders

Stakeholders suggest few improvements

Presented below are stakeholders' suggestions for the Guardians to focus on in the future. However, these suggestions should be read in the context that most senior stakeholders consider the Guardians strong performers and believe it needs to continue in the future as it currently works with them.

RETAIN OR MAINTAIN

- Current open and transparent approach to sharing information.
- Formal and informal communications with stakeholders.
- Annual Report tone and information content.
- Culture of the organisation (open, transparent, collaborative, diligent, willing to listen).
- Performance of the Fund (based on clear strategy and investment approach).
- Good lines of communication to leadership team and other staff.
- Calibre of staff.

Some potential areas of focus

IMPROVING VISIBILITY

Stakeholders feel they do not hear from the board, or do not know who the board are. Consider increasing communications from the board and more prominent placement of board members profiles on the website, as well as bios of key staff, and an organisational chart to show the depth and breadth of experience at the Guardians.

Sponsorships are evident from the website, but some stakeholders consider these could be better promoted or more visible.

INCREASING CAPACITY AND CAPABILITY

While current staff are perceived as expert and competent, some stakeholders see room for increasing numbers of staff to expand expertise in some investment sectors and to allow the Guardians to conduct more investigations into investments. Some feel capacity to invest is limited because of the time intensive and rigorous investment process staff undertake. More staff might alleviate this pressure and reduce the time it takes to make an investment.

POLITICAL

Some stakeholders think the Guardians should lobby Government for contributions to the fund to be re-established sooner than 2020/2021. Some stakeholders feel the lack of contributions is stifling the fund from maximising gains.

INVESTMENT FOCUS

Stakeholders debate how the Guardians should balance the mandate to increase the fund with developing and investing in New Zealand businesses. The Guardians address this in the FAQ on its website, but the rationale could be better communicated to some stakeholders (particularly those based in New Zealand).

SUCCESSION PLANNING

Stakeholders would like some idea of plans for leadership team succession planning. This would give them confidence should any key member of the leadership team depart.



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