

Guardians of New Zealand Superannuation – Five-Yearly Independent Review

Response

Recommendations	Guardians' response
<p>1. The Guardians should review its beliefs, values and strategic principles:</p> <ul style="list-style-type: none"> ▪ The Board should review its high level investment beliefs; ▪ Management should identify and document their organisational beliefs, values and strategic principles; and ▪ This work should include consideration of stakeholder expectations and particularly the sponsor (Crown's) position. 	<p>We agree with this recommendation and note that some of this work is under way:</p> <ul style="list-style-type: none"> • The Board will review our existing investment beliefs in parallel with the Reference Portfolio review currently in progress; • We will articulate a more explicit set of organisational beliefs and strategic principles. We have recently redeveloped and launched new Values; • Work to develop a fuller understanding of external stakeholder expectations is ongoing, and will build on recent stakeholder surveys.
<p>2. The Guardians should review its compensation structure, to assist with developing a stronger employee value proposition.</p>	<p>Agree. A Board sponsored remuneration structure review is under way, including the compensation structure, and this is a strategic activity for 2019-20, due for completion by end June 2020.</p>
<p>3. The Guardians should make greater use of a risk factor framework, as an additional lens through which to view the portfolio and for highlighting diversification opportunities.</p>	<p>We have explored the use of risk factor frameworks and employed them to test the additional understanding they provide. We came to the conclusion that such frameworks did not greatly increase insight into the portfolio compared with our risk budgeting process. However we have found macro risk factor work to be helpful as part of our investment environment and scenario analysis and will build on that work.</p>
<p>4. The Guardians should allocate more resources to focus on responsible investing (RI) issues.</p>	<p>Agree. RI is important for long-term outcomes and we are currently assessing resource needs. Our dedicated team of three RI professionals</p>

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		has substantial support from the investment team, because the RI framework is integrated through the investment process.
5.	The Guardians should make greater use of reverse stress-testing or “pre-mortems” to develop responses that would prevent capitulation of the current portfolio construction and active risk approach, under a small number of extremely adverse (but plausible) scenarios.	Agree. We use stress-testing in a range of areas and will look for further opportunities to employ these techniques.

Suggestions		Guardians' response
	Governance	
1.	The Board could benefit from greater use of external advice, particularly on issues that are highly complex or contentious.	The Board does obtain external advice when it believes these advisers can add value to discussions. Individual Board members are also active in a number of international and peer forums, which provide regular best practice insights. We will continue to look for further opportunities for external perspectives.
2.	Management could give greater attention to identifying and reducing bias in decision-making. This should include consideration of the role that new technologies can assist with this process.	Agree. We have been improving awareness of bias-risk across the team through education programmes on bias and inclusion, and have been strengthening our recruitment and development processes. We will also consider tools and processes to reduce the influence of bias.
3.	We support the Guardians' plan to introduce a holistic approach to assessing all Fund risks (investment and enterprise risks) and for bringing the key risks to the Board's attention. We suggest that the same principles could be	Agree. As Willis Towers Watson notes, the dashboard reports are very comprehensive, and we need to periodically check that key information can be readily identified by recipients.

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	applied to the dashboard reporting, with the major issues from these highlighted in a manner which helps them to stand out.	
	People Model (Culture)	
4.	Management and the Board could do more to maintain and evolve the cultural effectiveness of the organisation.	We note that elsewhere in its report, Willis Towers Watson observes that the Guardians already has an excellent culture and this recommendation is made in that context. Culture has been a major focus for the Board and Management for some years, and we continue to invest substantially in this area. We see this recommendation as an endorsement of work already under way.
5.	The Guardians could act to strengthen diversity, e.g. through observing the experiences of leading peer funds and corporates, in order to learn more about diversity mechanisms which produce both better outcomes and better culture.	Agree. We have several workstreams under way, including formal training programmes, enhanced recruitment processes, a comprehensive leave and benefits programme designed to further diversity objectives, and ongoing engagement with peer funds.
6.	Greater consideration could be given to scenarios as part of the Long Term Target State review by considering changes in the investment "ecosystem", e.g. the evolution of private markets investing, the application of new technologies and the state of capitalism.	Agree. This will be an input to ongoing strategic conversations on the longer term target state.
	Investment Model <i>The Board could:</i>	

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7.	Consider whether it remains comfortable with the Management team making a recommendation on the choice of the most appropriate reference portfolio.	The Board has considered this recommendation and confirmed that it is comfortable with Management including a recommendation, as part of the range of options presented to the Board.
8.	Confirm that it remains comfortable with the proportion of the active risk budget allocated to the strategic tilting programme.	The Board considered the proportion of the active risk budget allocated to the strategic tilting programme in June 2019. The Board is comfortable with the budget allocated to strategic tilting. The Board considers the risk tolerance on strategic tilting at each risk budget review and oversees the programme via reports at each Board meeting.
9.	Assign greater time to strategic dialogue on RI issues and the oversight of Management's RI actions.	Agree. This will be actioned.
	Management could:	
10.	Review the long-term cash rate assumptions as part of the next reference portfolio review.	Agree. This is being done as part of the current Reference Portfolio Review due to be completed by June 2020.
11.	Review the case for having a 100% hedged portfolio as part of the next reference portfolio review.	Agree. This is being done as part of the current Reference Portfolio Review due to be completed by June 2020.
12.	Consider whether the ex-post returns to date are consistent with the Guardians' beliefs on the reliability of mean reversion in the different asset classes used in the strategic tilting programme.	<p>The programme performance is monitored at both the aggregate and asset class level against our expectations. We believe the performance to date, which is greater than our return expectation, provides endorsement of the reliability of mean reversion across the programme.</p> <p>Furthermore, we conduct reviews of the inputs to the valuations and risk budgets across each asset class and that provides the opportunity to adjust our assessment of mean reversion as needed.</p>

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13.	Consider whether the current level of rigour and detail required in the compliance and attestation process is having the undesired effect of stifling creativity.	Agree. We note that there is an important balance between rigour, efficiency and innovation. As part of the current Risk Culture work programme we are reviewing our approach to compliance and periodic attestation.