



21 October 2015

Robert Ashe  
Green Party Advisor  
[by email: [Robert.Ashe@parliament.govt.nz](mailto:Robert.Ashe@parliament.govt.nz)]

Dear Robert,

### **Official Information Act request – Fossil Fuel Exposures**

Thank you for your Official Information Act request of 29 September 2015. Your questions, and our responses, are set out below.

You asked:

*How the Fund's **exposure to companies** directly involved in the mining and production of fossil fuels has changed over the last five years and how this sector has performed relative to the rest of the Fund over the same time period.*

*For clarity, you specified that we:*

- *use the Carbon Underground 200 index to limit the comparison to the world's 100 dirtiest publicly listed coal companies and the world's 100 dirtiest publicly listed oil & gas companies.*
- *compare our latest audited year with that done five years ago.*
- *provide enough detail so that the Fund's exposure to these companies can be separated from the significant changes in their value over this time.*

*What **rate of return** has the Fund made on these investments over the last five years (percent and dollar value) and how does this return compare with the Fund's overall rate of return?*

*Please also provide any **additional commentary** that might help us to better understand the Fund's exposure to the fossil fuel sector over this time period and its performance.*

### **Our response - Exposure to companies**

The Fund achieves its exposure to global equity markets in two ways – through physical holdings (as detailed on our website at <https://www.nzsuperfund.co.nz/publications/annual-equity-listings>) and synthetic holdings using derivative products (e.g. total return swaps). We switch between these access points according to whichever is the most cost-effective and efficient at the time. To understand the Fund's total exposure to a group of specific companies at a point in time it is therefore necessary to factor in derivative holdings as well as physical ones.

To answer your request, therefore, we have identified which companies within the Carbon Underground 200 are in the Fund's physical portfolio, estimated the proportion that they

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comprise within the MSCI All Country World Index and then applied this to our total notional derivative exposure. The resulting figures are an estimate rather than a precise calculation.

As previously explained, because the size of the Fund has increased over time, and the ratio of physical to derivative holdings is currently higher than it has been at times in the past, our physical holdings in these companies have increased. When physical and derivative holdings are taken into account, however, as a proportion of the overall Fund, exposure to these companies has decreased from 4.5% to 3.6% over the last three years.

	30 June 2012	30 June 2015
<b>Physical holdings in Carbon Underground 200 companies</b>	\$234m	\$675m
<b>Derivative exposure to Carbon Underground 200 companies</b>	\$630m	\$379m
<b>Total exposure to Carbon Underground 200 companies</b>	\$864m	\$1,054m
<b>Fund Net Asset Value</b>	\$19.0b	\$29.5b
<b>% of Fund Net Asset Value</b>	4.5%	3.6%
<b>% of MSCI All Country World Index (ACWI)</b>	8.5%	5.4%

The size of the Fund's exposure to these companies (which is largely a passive exposure) is reflective of the fact that the energy sector, predominantly oil and gas, comprises a large part of global markets.

Please note:

- 1) we are unable to provide comparisons going back five years as you have requested. While we have holdings data at a company level, we only possess MSCI index data (used for the derivatives calculation) at a company level from 2012. We have therefore used the earliest-available year-end data, which is as at 30 June 2012;
- 2) these estimates do not include bond exposures (as per above; the Barclays Global Aggregate Index data we possess does not include company-level data);
- 3) the estimates exclude the impact of any positions taken under our tilting strategy;
- 4) the composition of the Carbon Underground 200 has changed over time. We have worked off the list we obtained from Fossil Free Indexes in March 2015. 127 of these companies are held by the Fund;
- 5) all values are in NZD;
- 6) lists of our equity holdings from 2010 to 2015 are available at <https://www.nzsuperfund.co.nz/publications/annual-equity-listings>.

### **Our Response – Sector performance / rate of return**

We do not hold the performance information you have requested. Performance calculations involve multiple factors such as interest, dividends, trades, value changes over time and corporate actions (e.g. mergers). The 'Carbon Underground 200' index is not an industry-standard classification and is not incorporated into our performance reporting system. It is therefore not possible to provide performance calculations such as the return rates requested, especially given our use of derivative products over the time period, without undertaking a significant amount of bespoke research.

Your request is therefore refused on the basis that we do not hold the information and, pursuant to section 18(f) of the Official Information Act 1982, on the basis that the information requested cannot be obtained without substantial collation or research, and would divert Guardians' resources away from other important work to a degree that would impact negatively on our ability to perform our duties.

**Our Response - Additional Commentary to explain the Fund's exposure to the fossil fuel sector and the performance of these investments**

As detailed in our 2014/15 Annual Report, we are continuing work on the Fund's climate change strategy. This work includes understanding our passive and active exposures (physical and synthetic); assessing options for measuring the Fund's carbon footprint; and considering divestment as a tool available to us, alongside other options, for managing climate change risk.

As you are aware, we have committed to an active investment strategy aiming to increase the Fund's exposure to alternative energy, alongside its traditional energy investments. To date the Fund has invested US\$305 million via direct international investments in alternative energy (via stakes in Ogin Inc., Bloom Energy, LanzaTech and View). We have also notionally committed a further US\$350 million to clean tech initiatives via the Aligned Intermediary initiative. If we are successful in implementing this strategy, over time it will result in a less carbon-intensive investment portfolio.

You have the right to seek a review by the Office of the Ombudsman of our response to your request. We set out the details of the Office of the Ombudsman below should you wish to contact it.

Website: [www.ombudsman.parliament.nz](http://www.ombudsman.parliament.nz)  
Email: [info@ombudsman.parliament.nz](mailto:info@ombudsman.parliament.nz)  
Free phone: 0800 802 602 (+64 4 473 9533)

Please note that we may choose to publish our response to your Official Information Act request on our website.

Yours sincerely



Adrian Orr  
Chief Executive Officer