

23 November 2021



Grant Robertson  
Minister of Finance  
Parliament Buildings  
Wellington  
(By email)

**RE: Response to annual letter of expectations**

Dear Minister,

I am responding to your letter of 27 October 2021 setting out Government’s annual expectations for the Guardians of New Zealand Superannuation.

I wish to place on record the team’s appreciation for the constructive way you and your officials engaged with us on development of the Crown Responsible Investment Framework. While this letter provides a full response to your Annual letter of expectations, we intend to provide a detailed reply on the matter of our climate change plan by 31 December 2021, as required by the Framework.

I also wish to thank you for your support for the NZ Super Fund as we managed through the impacts of Covid-19. We estimate that if contributions to the Fund had been switched off at the start of March 2020 and remained so, the cost (i.e., foregone gain) would have been in excess of \$500m.<sup>1</sup>

To explain, while global equities were hit hard by the COVID shock, this market shock was followed by a rapid – and sustained – rebound. As you will have noted in our 2020/21 Annual Report, the 12 months to 30 June represented the strongest ever annual return of 29.63% for the Fund. The result exceeded the Treasury Bill return by \$13.02 billion (29.39%) and beat our benchmark Reference Portfolio by \$757 million (1.73%), which was most pleasing given the strong performance of global listed equity markets over the year.

In total, this means that following net Government contributions after tax of \$12.4 billion, the Fund’s assets have grown into a \$59.8 billion nest egg, ringfenced to support future superannuation payments. We are proud to continue this important mahi. The Fund’s endowments of a long horizon, operational independence and strong governance allow us to withstand market shocks such as that caused by COVID while harvesting the higher long-term returns associated with holding a high allocation to equities in our portfolio.

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<sup>1</sup> This is the value add that investing the contributions, totalling \$3.01b between March 2020 and August 2021, in our Reference Portfolio has generated after costs.  
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### **NZ Super Fund value to New Zealand**

We note the Government's priorities as set out in your letter, specifically in keeping New Zealanders safe from Covid-19, accelerating the economic recovery and laying the foundations for a better future. We believe the Guardians supports the Government's objectives across all three areas, from our work with domestic investee companies to support their safe operations, through to our efforts to invest more of the Fund domestically, and of course our mission of supporting future New Zealanders with dignity in retirement.

On the final point, as you are aware, the NZ Super Fund was established to help smooth future cost increases of providing universal superannuation entitlements. By doing this the NZ Super Fund adds to Crown wealth, improves the ability of future Governments to pay for superannuation, and ultimately reduces the tax burden on future New Zealanders.

The Guardians' most fundamental contribution to the wellbeing of New Zealanders therefore comes from fulfilling our legislative requirement to successfully invest the NZ Super Fund.

Under current modelling, Government is projected to start making withdrawals from the Fund to help pay for superannuation from the mid-2030s, and the Fund is forecast to continue to grow as a percentage of GDP through 2070. Given that time horizon, we've built a growth-oriented portfolio that will generate strong returns over the long term and performs strongly in periods of market expansion.

NZ Super Fund disbursements and tax are projected to provide 11.6% of the cost of National Superannuation in 2040, moving up to 20.7% by 2083. For the fifty year period 2040-2090, NZ Super Fund disbursements and tax will cover an average of 16.1% of the annual cost of superannuation (or 76% of the increasing costs of superannuation as a result of the aging population) .

### **Contributing to New Zealand's economic, social and environmental progress through investment industry leadership**

The Guardians is now one of the largest institutional investors in New Zealand and plays a significant role in New Zealand's capital markets. Overall, the Fund has just over NZD8.7 billion invested in New Zealand, or 16.2% of its total investments by value.

We aim to play an active role in strengthening New Zealand's capital markets and institutional investment capability, as evidenced by our involvement in a range of industry fora and initiatives in recent years, including:

- New Zealand Corporate Governance Forum (which we established);
- Toitū Tahua - Centre for Sustainable Finance (founding partner);
- Capital Markets 2029;

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- Te Pūia Tāpapa Investment Fund;
- Providing responsible investment services to the other crown financial institutions;
- University of Otago Investment Chairs Seminar Series; and
- Responsible Investment Association of Australasia.

As you are aware, we also oversee New Zealand Growth Capital Partner's management of the Elevate NZ Venture Capital Fund, which continues to make investments into early stage VC funds to support development of local high-tech and growth-orientated businesses, and supports the development of the early-stage investment ecosystem.

### **Infrastructure Investment**

We remain interested in pursuing large scale domestic infrastructure investment where suitable commercial projects can be found and continue to have active conversations with ministers and officials over various domestic infrastructure opportunities where we can bring together innovation, capital and expert global partners to help solve New Zealand's infrastructure deficit.

The SuperBuild investment model for large-scale infrastructure is an equity-funded end-to-end delivery solution (i.e. planning, financing, building and operating), which has benefits including increased financial flexibility, faster delivery and greater risk tolerance. It is based on long-term investments in large-scale infrastructure by publicly owned and commercially focused investors, in partnership with central and local governments. The model shares some attributes with structures such as the 'Alliance' model that has been used occasionally to fund infrastructure in New Zealand, but is fundamentally different to the more common Public-Private Partnership (PPP) funding model.

To progress our infrastructure and real estate ambitions, the Guardians has appointed new in-house infrastructure and real estate investment capabilities to sit alongside our land and housing development team members in order to help us identify and transact suitable opportunities. Recent activity in this area include establishment of a nationwide land development platform called Kaha Ake with Classic Group, purchase of a large-scale land holding at Beachlands to support Auckland's future housing provision, partnership with Auckland Council's Panuku development agency to progress town centre redevelopments and exploring the potential for offshore wind at a number of New Zealand sites.

### **Use of Derivatives**

We note your expectations regarding the use of derivatives. Derivative instruments have a vital role to play in investing the Fund, both as a way of investing cost-effectively and in managing risk. We remain comfortable that management has the requisite skills and is applying appropriate control, policies and procedures to these instruments, the use of which is considered standard industry practice globally.

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### **Partnership**

We note your expectations regarding partnerships within the public sector and in particular the sharing of expertise between with the Crown Financial Institutions.

We work closely with the Crown Financial Institutions, in particular on responsible investment matters, and liaise regularly with other Government entities on issues relating to operations, expenses and communications, including Treasury, MBIE, Ministry of Foreign Affairs and Trade, Reserve Bank, Department of Prime Minister and Cabinet, Green Investment Fund and others.

### **Citizenship**

We note your expectation that the CFIs maintain robust ethical investment policies. Our current responsible investment approach is based on the integration of ESG considerations into investment decision-making. It is principle-based and grounded in industry best practice. The approach has been thoroughly tested and has worked well. In some areas, as with our climate change investment strategy and social media collaborative engagement initiative, we are regarded as a global leader.

As you will be aware, the Guardians recently completed the first phase of a review into its responsible investment strategy to ensure it is fit for the future, feasible to implement, and oriented to maintaining our social licence to operate over the medium to long term. The proposed strategy was reviewed and approved by the Board in June 2021.

In considering the review's findings, the Guardians' Board supported a shift from responsible investment to sustainable finance, recognising this as the global direction of travel and emerging best practice in portfolio management. The Guardians' long-term, intergenerational purpose will be affected by the success or failure of the world meeting its sustainable development goals. Although there is much more detailed work to be done, in broad terms we intend to incorporate sustainable finance into our investment practices over time by:

1. Supporting the development of a sustainable financial system;
2. Integrating ESG considerations into investment decisions, with the intention of advancing sustainability outcomes while fulfilling our financial purpose; and
3. Considering the impact of ESG on our investments and the impact of our investments on society and the environment.

The next phase of the project will be to finalise our sustainable finance strategy and integrate sustainable finance into the Statement of Investment Policies, Standards and Procedures (SIPSP) for both the NZ Super Fund and the Elevate Fund.

In addition to this work, we note and acknowledge your request that we consider, consistent with our commercial mandate and overarching purpose, where we can support the Government's broader goals for New Zealand. I can also confirm that

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we understand the importance of being seen as a ‘good citizen’ in our home market to our social licence to operate. Accordingly, we strive to meet high standards in all aspects of our operations, from our employment offering to our procurement practices and investment activities. We are also active, as noted above, in a range of initiatives to develop and strengthen New Zealand’s capital markets.

### **Expectations Specific to the Guardians**

#### ***Government’s strategic priorities***

We note your expectation that the Guardians continues to explore commercially attractive opportunities to invest in New Zealand assets including infrastructure, housing and climate-orientated investments. We appreciate the support you have shown us in helping to coordinate meetings with ministers and officials to help us outline the Fund’s approach to domestic investment opportunities. Our current activities in infrastructure and housing are covered previously.

#### ***Responsible Investing***

We will keep you updated on development and implementation of our sustainable investment approach and have appreciated your engagement on responsible investment issues. We will also continue our engagement with the CFIs, and with other investors and stakeholders, to support development across the investment sector.

#### ***Venture Capital Fund***

We note your expectation that the Guardians should continue to apply best practice investment management to our oversight of the Elevate NZ Venture Capital Fund. We will continue to be proactive in communicating any significant developments to Government.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Catherine Drayton', written in a cursive style.

**Catherine Drayton**  
**Chairperson of the Guardians of NZ Superannuation**