NZSUPERFUND
Te Kaitiaki Tahua Penihana Kaumātua o Aotearoa

TITLE:

Guardians of New Zealand Superannuation

2022/23 Review

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EVENT | PRESENTATION:

Finance & Expenditure Select Committee, 21 February 2024

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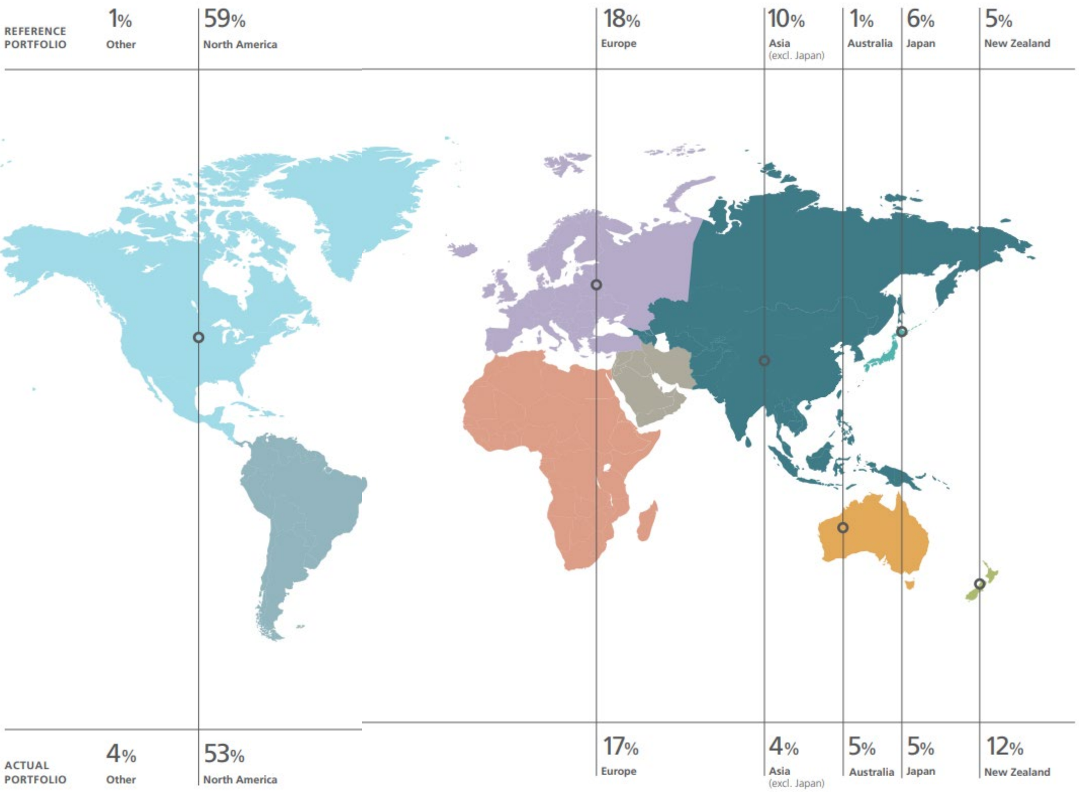
Where we invest



NZ Super Fund's role

- The NZ Super Fund is a pool of assets that sits on the Crown's balance sheet. It was established to 'smooth out' the increasing cost of government-provided superannuation, using current tax revenues to create a pool of wealth (the Fund) that can partially pay for superannuation, reducing the need for future tax rises or government spending cuts
- It is expected that from the mid-2030s, the Government will begin to withdraw money from the Fund to help pay for New Zealand Superannuation. The Fund will continue to grow until it peaks in size in 2070s

The Guardians' Governance Structure

- The Guardians of New Zealand Superannuation manages and administers the NZ Super Fund.
- The Guardians is an autonomous Crown entity, legally separate from the Crown, and operates at double arms' length from Government.

New Zealand Government
Appoints members to the independent nominating committee

Independent nominating committee
Identified candidates for the Guardians' Board

First 'arm' of independence - Government does not choose the pool of Board candidates

Minister of Finance
Selects candidates from the pool chosen by the independent nominating committee
Appoints the Board Chair
Can direct the Guardians regarding expectations of the Fund's risk and return

Board and management of the Guardians
Decide investment policy and make investment decisions

Second 'arm' of independence – investment decisions made by the Board and Management of the Guardians

The Guardians' Mandates

- **NZ Super Fund Mandate** (the NZ Superannuation and Retirement Income Act 2001)
  - The Guardians must invest the NZ Super Fund on a prudent, commercial basis and must manage it in a manner consistent with:
    - Best-practice portfolio management;
    - Maximising return without undue risk to the Fund as a whole; and
    - Avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

- **Elevate NZ Venture Fund Mandate** (the Venture Capital Fund Act, 2019):
  - The Guardians must invest the venture capital fund in New Zealand's venture capital markets using best-practice investment management that is appropriate for institutional investment in those markets. It must manage and administer the fund in a manner consistent with:
    - The policy statement; and
    - Avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

The Guardians' Objectives

Our purpose:

Sustainable investment delivering strong returns for all New Zealanders

Kia toitū te haumi hei hua mā ngā tāngata katoa o Aotearoa

Our vision:

An inclusive team creating a better future through investment excellence

Mā te kotahi ā-kapa, mā te kounga ā-haumi, ka tino eke ki tua

The Guardians’ Endowments

Our competitive advantages

- Long investment horizon
- Operational independence
- Sovereign status
- Governance

How We Invest

Reference Portfolio + Active Portfolio = Actual Portfolio

Reference Portfolio

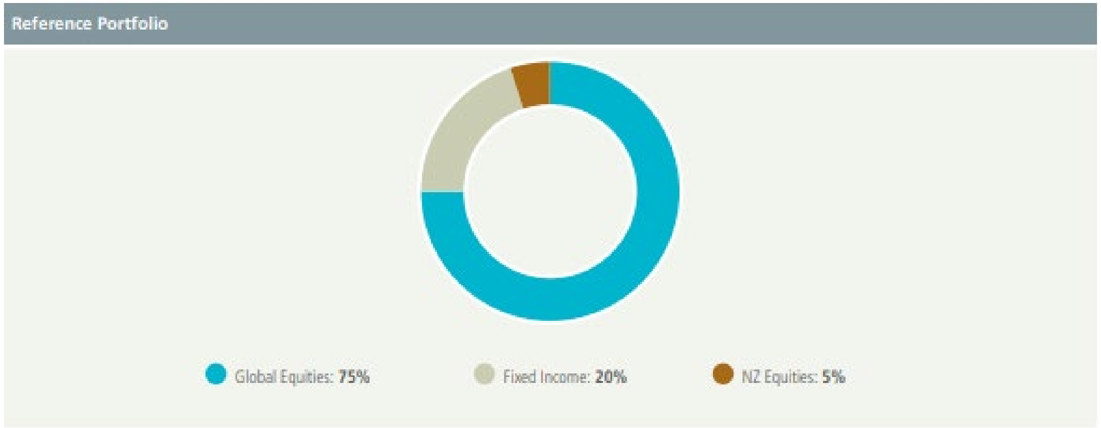
- 75% overseas equities, 5% NZX-listed stocks, 20% fixed income assets; fully hedged to the $NZ
- Composition reflects the Board's desired level of risk
- Index-linked, low-cost, passive
- Benchmark for the Actual Portfolio

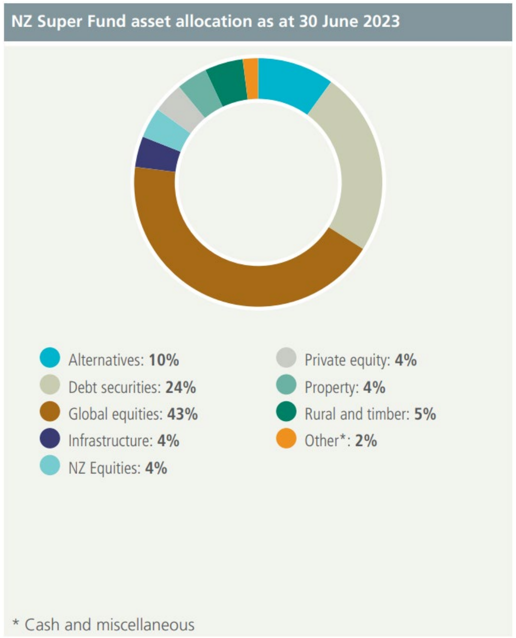
Active Portfolio

- Takes advantage of our endowments to generate excess return
- Entails a risk of underperformance – especially over the short term
- Active investments are funded by selling passive assets; the proportion of equities/bonds sold is calculated to maintain desired level of risk across the Actual Portfolio

Investing for Growth

Reference Portfolio + Active Portfolio = Actual Portfolio





The proportion of the Fund that is invested actively has grown over time as we have continued to identify attractive investment opportunities and funded them by selling down the passive, index-linked Reference Portfolio.

Who makes what decisions?

- Board has delegated most investment decisions to management, but is responsible for determining
  - Structure of the Reference Portfolio
  - Size of active risk budget
- CIO holds the delegation for most investment decisions
  - GMPC holds the delegation for Portfolio Completion
  - Investment Committee endorses/recommends decisions
- CIO has delegated some decisions to Senior Managers
  - Sign off on transactions below a certain size
  - Risk target setting

Benchmarks

We benchmark against best practice industry principles, measures and relevant global peer funds

	Internal measures and mechanisms	External measures	Stakeholder engagement
Cost structure	By business unit By investment opportunity Holistic view of fees	CEM Benchmarking Survey Hay remuneration database	
Governance	Reference Portfolio Review Internal Audit	Independent Reviews ‘04, ’09, ’14, ‘19, '24 OAG special performance audit (‘08) SWF GAAP Select Committee Reviews	Peer fund engagement: • 3Cs: Comparison, collaboration and co-investment
Performance	NZ T Bill rate + 2.8% Reference Portfolio + 1.0%	Performance against both measures published monthly	Global expertise
Transparency	Website Annual Report OIA	CEM Benchmarking Survey Australasian Reporting Awards Sovereign Wealth Institute’s Transparency Index	
Responsible Investment		UNPRI assessments	
Risk	Risk Committee Reviews Risk Registers Investment Risk Limits Target Liquidity Level	CEM Benchmarking Survey	

Performance (provisional and unaudited as at Dec 2023)

	Since inception (Sept 2003)	Last 20 years	Last 10 years	Last 5 years	Last 12 months	Quarter to December 2023[1]
Actual Fund Returns (before tax, after costs	9.79%	9.82%	10.11%	10.24%	16.03%	7.39%
Reference Portfolio Return	8.29%	8.29%	8.16%	8.91%	18.30%	9.16%
Value-Added (Actual Return – Reference Portfolio Return)	1.50%	1.53%	1.95%	1.33%	-2.26%	-1.77%
Estimated $ earned relative to Reference Portfolio	$15,889m	$15,888m	$10,418m	$3,893m	($1,335m)	($1,145m)
Government contributions	$25,747m	$22,858m	$10,865m	$9,865m	$2,086m	$404m
NZ income tax (paid)/ recovered	($9,656m)	($9,656m)	($6,089m)	($3,264m)	($190m)	$0m
Net Government contributions	$16,091m	$13,202m	$4,776m	$6,601m	$1,896m	$404m
NZ Treasury Bill (T-Bill) Return	3.45%	3.44%	2.10%	1.85%	5.16%	1.40%
Net Return (Actual Return – T-Bill Return)	6.34%	6.38%	8.01%	8.39%	10.88%	5.99%
Estimated $ earned relative to T- Bills	$44,485m	$44,405m	$33,949m	$21,204m	$6,436m	$3,874m
$ change in net asset position[2]	$69,657m	$66,695m	$44,456m	$31,767m	$11,426m	$5,291m

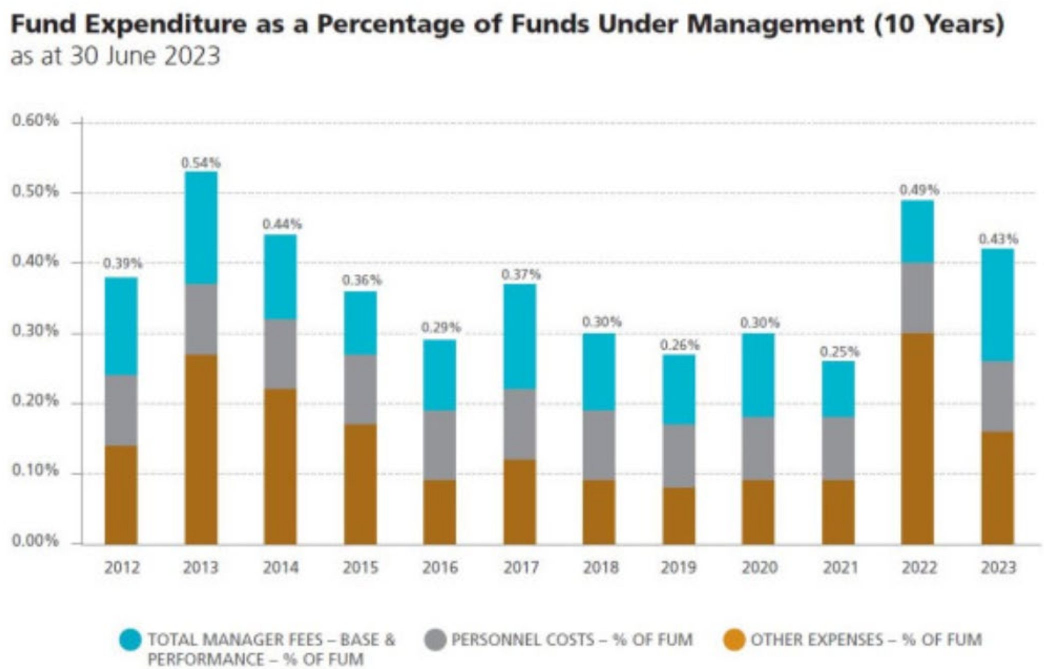
1 Returns for periods longer than one year are annualised.

2 Excludes provisions for New Zealand tax.

Cost

CEM (Cost Effectiveness Management) Benchmarking is the global leader in benchmarking pension and sovereign wealth funds

- CEM's latest report found our net value-add was above the median of our peers and costs were below the median over the relevant five-year period



Oversight

Mechanisms for Accountability

- An annual Letter of Expectations from the Minister of Finance that sets out the Government's priorities and the Minister's expectations of the Guardians. The Guardians must have regard to any direction from the Minister; any direction must be consistent with our mandate
- Ongoing monitoring from Treasury
- A five yearly statutory review. Terms of Reference are set by the Minister, in line with the requirements set out in our Act. The next review is about to commence; it will have a particular focus on our operational and investment processes
- Regular reviews of the proxy process, which determines the risk we allocate to various asset classes (an independent review is currently under way)
- Regular reviews of the assumptions underlying the composition and management of the Reference Portfolio

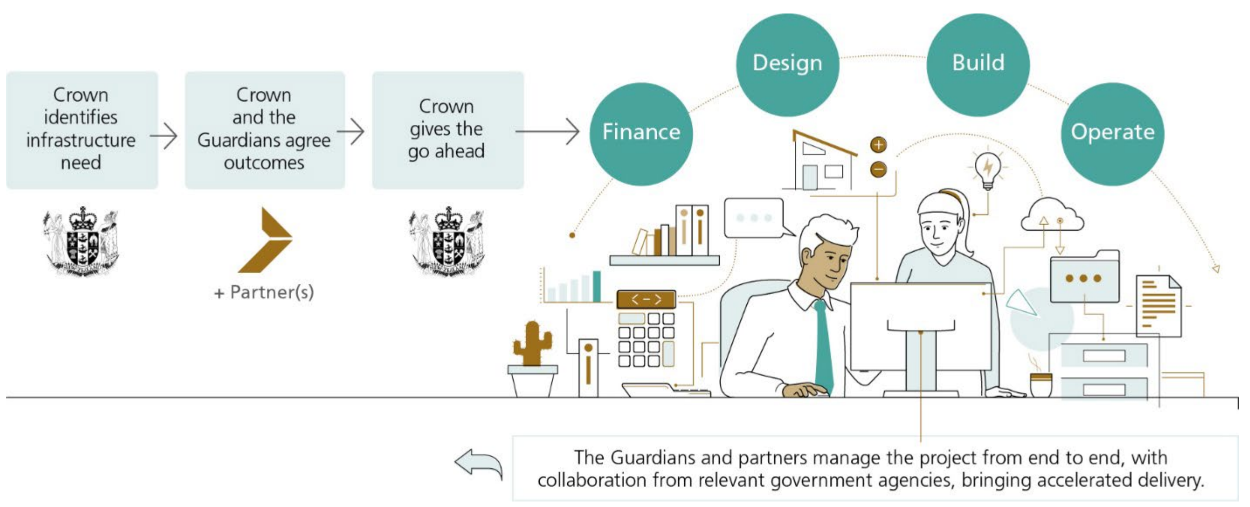
Investing in New Zealand

- Ministerial Directive (2009)
  - *"…that opportunities that would enable the Guardians to increase the allocation of New Zealand assets in the Fund should be appropriately **identified** and **considered**…"*
- At 30 June 2023, 12 percent of the Fund's total investments ($7.5 billion) was in New Zealand assets
- The value of our New Zealand investments has grown by 50 percent since the 2009 directive, but the percentage of New Zealand assets as a proportion of our total portfolio continues to decrease. This is a function of the relative growth rates and market size of New Zealand compared to the global asset classes in which we are invested
- Between 4 percent and 5 percent of the Actual Portfolio is made up of NZX-listed stocks; the NZX accounts for about 0.12 percent of global equities
- Unlisted investments include Datacom, Fidelity Life, NZ Gourmet, Kaingaroa Timberlands, NZ Health Investments, dairy and horticulture, housing, growth capital and infrastructure

The SuperBuild Model

We are interested in large-scale domestic investment opportunities that meet our commercial mandate. Our endowments provide us with significant advantages for certain potential infrastructure investments.

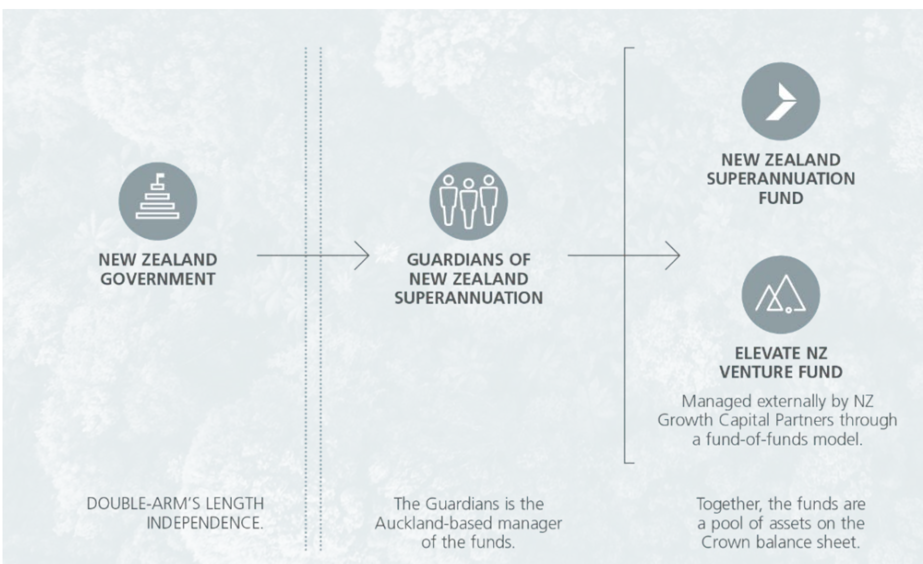
- SuperBuild is an end-to-end investment and delivery solution covering the financing, design, build and operation of infrastructure projects
- SuperBuild will typically involve us introducing an experienced partner to deliver large-scale infrastructure projects that suit our long investment horizons and Sovereign status
- SuperBuild combines a disciplined commercial approach and world-leading expertise with the benefits of local ownership



Developing NZ's venture capital markets

- The Elevate NZ Venture Fund: established 2019, launched 2020

- $300 million of Crown capital, $250 million already committed or reserved for fees
- Fund of funds model
- Guardians oversees NZ Growth Capital Partners' management of Elevate Fund's investment into venture capital funds



ELEVATE

NZ VENTURE FUND

Elevate NZ Venture Fund

Established by the Venture Capital Fund Act 2019 to

- increase the venture capital available to New Zealand entities
- develop New Zealand's venture capital markets to function more effectively so that over time
  - more venture capital becomes available to New Zealand entities from sources other than the VCF
  - New Zealand entities that receive venture capital become more likely to grow into successful and sustainable businesses; and
  - New Zealand's venture capital markets become self-sustaining
- No financial return benchmark
- No fixed lifetime (typically takes between seven and 10 years for distributions from the initial investments to be realised and re-invested)
- **Elevate NZ Venture Fund launched in March 2020**
- Legislation supported by Policy Statement
- Sets broad investment parameters to ensure capital deployment aligns with policy intention
- Elevate NZ Venture Fund capital to be "wholly or substantially" invested in NZ entities and through NZ connected funds

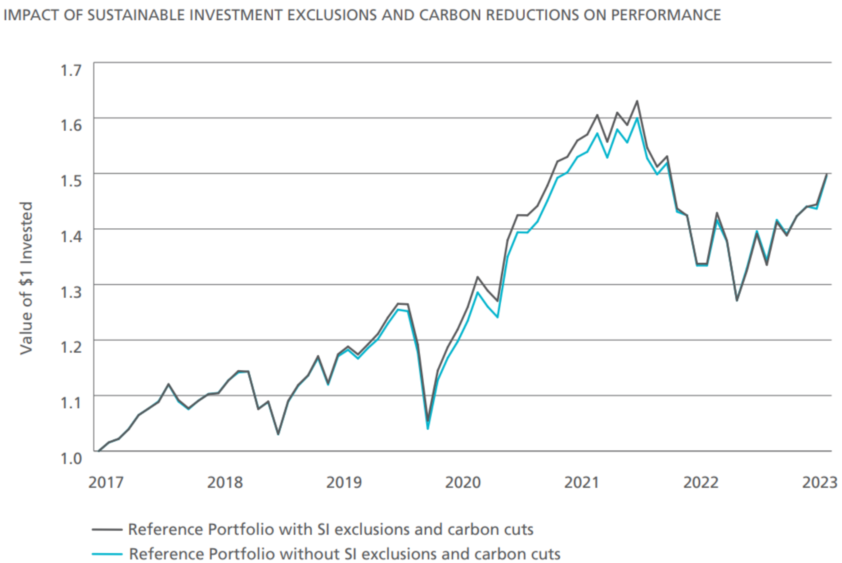
Sustainable Investment

Central to Our Purpose and to Our Mandate

- Increasingly reflects best-practice portfolio management
- Goes beyond considering potential ESG-related risks **on** the portfolio to include the potential effects **of** our investments on people and the planet
- Improved ESG profile effected by changing the benchmark indices for passively and actively managed equities; work is now under way to improve ESG profile of fixed asset holdings
- ESG factors are incorporated into our analysis of investment opportunities and our evaluation of external managers
- As active asset owners, we use our influence as a shareholder to encourage high governance standards across markets and asset classes, particularly in the New Zealand market
- We believe by improving ESG performance a company will also improve its long-term financial performance. By engaging with companies, we can encourage them to make those improvements

Sustainable Investment

We exclude from the Fund some securities we judge to be inconsistent with our Sustainable Investment Framework.
We have also removed some companies from the Fund's listed equity portfolio in order to meet our emissions intensity and fossil fuel reserve reduction targets.
This graph shows that our approach has not affected investment returns in the six years we have been operating our Climate Change Investment Strategy.



Exclusions

- Where a company breaches good corporate practice and engagement is unsuccessful, we may decide to exclude that company's securities from the Super Fund's portfolio
- Decisions regarding product exclusions will factor in New Zealand government policy and international conventions New Zealand has signed, in line with our Sustainable Investment Framework
- Sovereign exclusions will be implemented where nation states are subject to New Zealand Government or United Nations Security Council sanctions

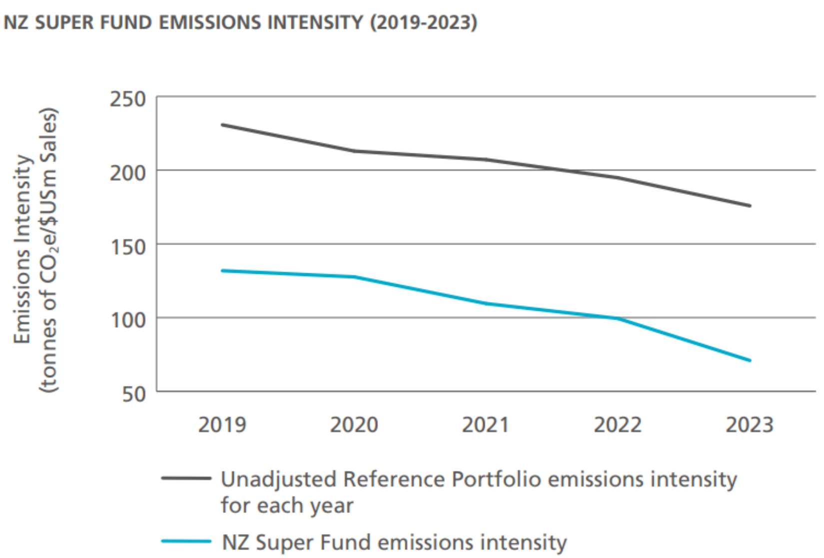
Exclusions List, December 2023				
Practices	**Products**			**Sovereign bonds**
20 Poor ESG Practice	79 Recreational Cannabis	11 Nuclear	6 Cluster Munitions	15 Countries
	108 Tobacco	17 Civilian Firearms	2 Anti-personnel Mines	

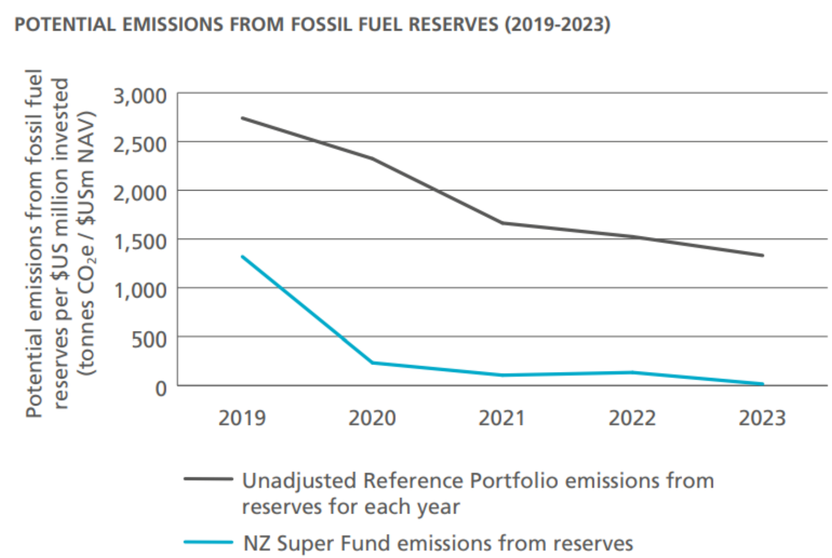
Climate Change

- We actively seek to identify and mitigate the risks created by a changing climate and identify the investment opportunities it creates
- We aim to lower our exposure to investments more at risk to the transition to a low-carbon world, work to mitigate climate risks in investments through our integration and engagement activities, and increase relative holdings of investments that contribute to the transition to a low-carbon global economy
- The NZ Super Fund has already met its 2025 targets for reducing its carbon emissions and exposure to reserves
- As at 30 June 2023, the Fund's carbon total emissions intensity was 60 percent lower than our baseline level, and our exposure to potential emissions from reserves was 99 percent lower
- We are now moving to aligning the Fund's carbon reduction targets with the goal of net zero by 2050

Carbon emissions

- The graphs below show how our portfolio's emissions intensity, and the potential emissions of fossil fuel reserves in our portfolio, have decreased over time





NZSUPERFUND
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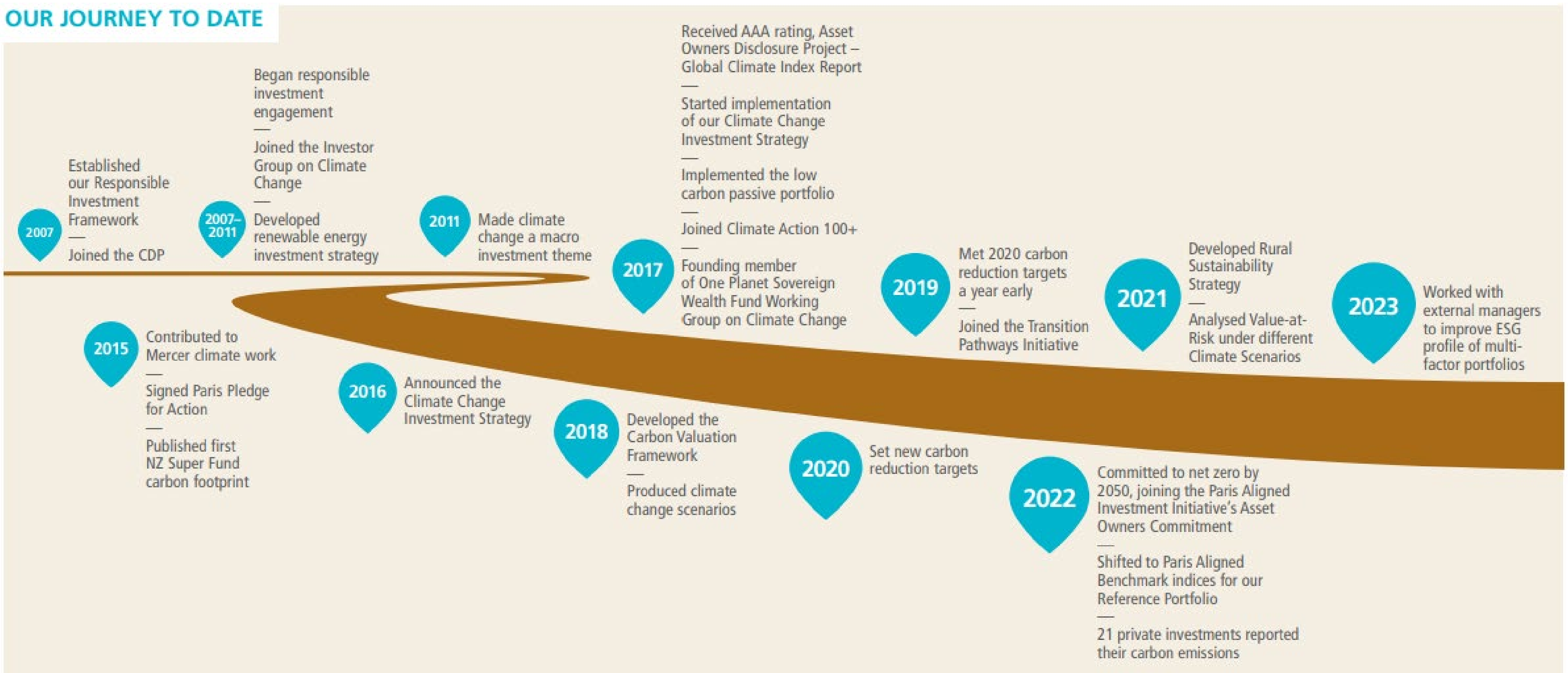
Climate strategy implementation

Reduce, Analyse, Engage, Search



Outlook

- Our endowments give us important advantages as an investor
- The Fund continues to be strongly weighted to growth assets – we are prepared to weather short-term volatility for a better long-term return
- We remain interested in investing in large-scale infrastructure and real estate projects (both in New Zealand and internationally)
- The strong 2022-2023 result was in large part driven by the recovery in global equity markets. As a result, returns from our Actual Portfolio lagged the Reference Portfolio. However, over the lifetime of the Fund to date, the Guardians' active management strategies have earned the Fund almost $16 billion more than investing in a passive, index-linked portfolio such as the Reference Portfolio would have yielded
- The Super Fund remains heavily weighted to equities, in line with our growth mandate and the risk target set by the Board. However, where we see an opportunity to diversify, optimise risk settings, and add value through active investment strategies, we will take it