Guardians

157. Please provide an update on the independent review commencing in 2024.

- The review commenced in January 2024 and is currently in the discovery phase. Willis Towers Watson's team has carried out extensive in-person interviews from 26th – 28th February 2024 at the Guardians' offices in Auckland with 40 GNZS staff and is currently reviewing information provided by us that pertains to the review's terms of reference.
- A draft progress report is expected to be provided to Treasury in late March; delivery of a final report is scheduled for mid-June. The statutory deadline is 1st July 2024.

158. What recommendations and improvements are yet to be progressed from the independent review completed in 2019 and why?

- In July 2019, we published a response to the recommendations and suggestions in the 2019 independent review; this response was updated in June 2020 to reflect further work carried out. At June 2020, the only recommendation awaiting action was that management "identify and document their organisational beliefs, values and strategic principles".
- In January 2022, we agreed new Purpose and Vision statements: these set the scene for a new strategic framework, approved by the Board in May that year, which includes clearly defined strategic focuses and organisational values. More information can be found on page 20 of our 2022 Annual Report.

159. How is independence being managed given the same firm that conducted the independent review in 2019 will undertake the review again in 2024?

- The independent reviewer is appointed by Treasury, with that appointment requiring approval from the Minister of Finance.
- Treasury announced the appointment of Willis Towers Watson in January of this year, noting that it followed "a thorough evaluation process which considered a number of high-quality proposals".

NZ Super Fund

160. Is the performance of the NZ Super Fund meeting expectations to achieve its overall goal to pre-fund the increasing cost of superannuation in the future?

- While the Fund has exceeded its investment performance benchmarks since inception, the Government's decision to suspend contributions between 2009 and 2017 has reduced the value of the Fund from what was initially projected. In 2003, the Fund was expected to be worth $100 billion by 2023 (see page five of our 2003 Annual Report). At 31 December 2023 the Fund was worth some $70 billion; Treasury's current forecasts are that it will be worth $100 billion in 2030.
- Treasury's current modelling expects drawdowns to commence in 2034, at which point it forecasts the Fund's closing balance will be $139 billion, or 21 percent of GDP. Substantial draw-downs do not begin until the 2050s and the Fund is expected to peak as a proportion of GDP in the 2080s.

- On current Treasury projections, capital withdrawals from the Fund will be meeting 2.7 percent of the net cost of Super in 2040, peaking at 11.8 percent in 2084, and averaging 6.4 percent for the 50 years between 2040 and 2090. In 2090, withdrawals will amount to 14 percent of the increase in the cost of funding NZ Superannuation between 2040 and 2090.
- The Fund will also be paying tax to the New Zealand government. In 2084, capital withdrawals and tax payments combined are forecast to equal 19.4 percent of the total annual net cost of pensions.
- Financial market returns are inherently volatile and a wide range of outcomes is possible over any given period. Because of the difficulty of estimating short-term returns, we use the return on 90-day Treasury Bills as a benchmark. This return also represents the opportunity cost to the government of contributing to the Fund rather than paying down debt.
- Over any 20-year moving average period, we expect the Reference Portfolio (a notional portfolio of passive, low-cost securities suited to the Super Fund's investment horizons and risk profile) to generate a return 2.8 percentage points higher than the return on Treasury Bills and the Actual Portfolio (made up of passive investments based on the Reference Portfolio and various active investment strategies) to outperform the Reference Portfolio by a further one percentage point.
- For the 20 years to 31 December 2023, annual returns for the Actual Portfolio and the Reference Portfolio were 9.82 percent and 8.29 percent respectively, against an annual return of 3.44 percent for Treasury Bills.

161. Please outline how the sustainable finance approach has benefited NZ Super Fund's investment performance.

- For investors, sustainable finance entails considering both ESG-related risks to investments (these include physical, political, and social risks) and the potential effects of our investments on the environment and on society.
- Our review of the academic literature, our discussions with investment managers and peer funds, and our own analysis suggests that, up to a point, we can improve sustainability outcomes without compromising returns.
- We first removed investments in order to decarbonise our portfolio in 2017. These changes have not affected actual returns, as demonstrated by the graph on page 38 of the 2022/23 Annual Report, which shows the performance of the Reference Portfolio with and without our SI exclusions.
- In 2022, we switched the benchmark indices for the Reference Portfolio and for our passively managed global equities to indices made up of underlying assets whose greenhouse gas emissions are aligned with the long-term global warming target of the Paris Agreement. In 2023, we made equivalent changes to our multi-factor equity mandates, and we are currently working on improving the ESG profile of our fixed-interest portfolio. It is too early to determine the impact of these changes on the Fund's investment performance.

Elevate

162. Similar to the previous year, the Guardians are mute on what the conviction review results actually entailed. Please update Committee on the review and its key findings.

- The 2023 conviction review of the Elevate Fund's externally-appointed investment manager, NZGCP, considered eight factors: viability; structure and focus; trust and transparency; risk awareness and management; people capabilities; process capabilities; opportunity consistency; and performance (with regards to meeting the objectives of the Ministerial policy statement). Each factor is rated either red, amber, or green; seven factors were rated green.
- In terms of performance, the review found NZGCP has been able to get capital away quickly into a nascent market and during a difficult economic period post-COVID, and that at the time of the review (September 2023) the ratio of Elevate’s total value (current value of the fund plus distributions) to paid-in capital was 1.06, which is a satisfactory position at this early stage of the fund’s life cycle.
- The 2023 review downgraded NZGCP’s viability from green to amber, due to the current uncertainty as to whether the government will provide further funding for Elevate. The Elevate Fund is not yet self-sustaining, and without further funding may fail to meet its statutory objectives, which could in turn result in departures of key personnel.
- Elevate’s viability score will be reconsidered in light of its funding situation and any market impact when the next conviction review is carried out at the end of the current financial year, or before then if necessary.