



NZSUPERFUND

*Te Kaitiaki Tāhua Penihana
Kaumatua o Aotearoa*

TITLE:

Global trends, our journey and response

AUTHOR:

Adrian Orr

CHIEF EXECUTIVE

EVENT | PRESENTATION:

RIAA RI Briefing, 25 November 2014

#1379684

Long-term investment

Long-term: control over capital

- Good for us – collect illiquidity risk premia, contrarian investing
- Good for market – smooth functioning of capital markets
- Good for firms – stable sources of long-term capital
- Good for society – initiatives are funded that otherwise wouldn't be

- **But – long-term is HARD**

- It requires:
 - Governance
 - Discipline
 - Steady hands

Global initiatives

■ Inclusive Capitalism

- Aims to extend the benefits of the current economic system to more people through economic opportunity, long-term company management and values-led corporate culture

■ World Economic Forum – Long Term Investing Council

■ Focusing Capital on the Long Term

- Canada Pension Plan (CPPIB) and McKinsey
- Advancing practical actions to focus business and markets on the long term
- Practical structures, metrics and approaches

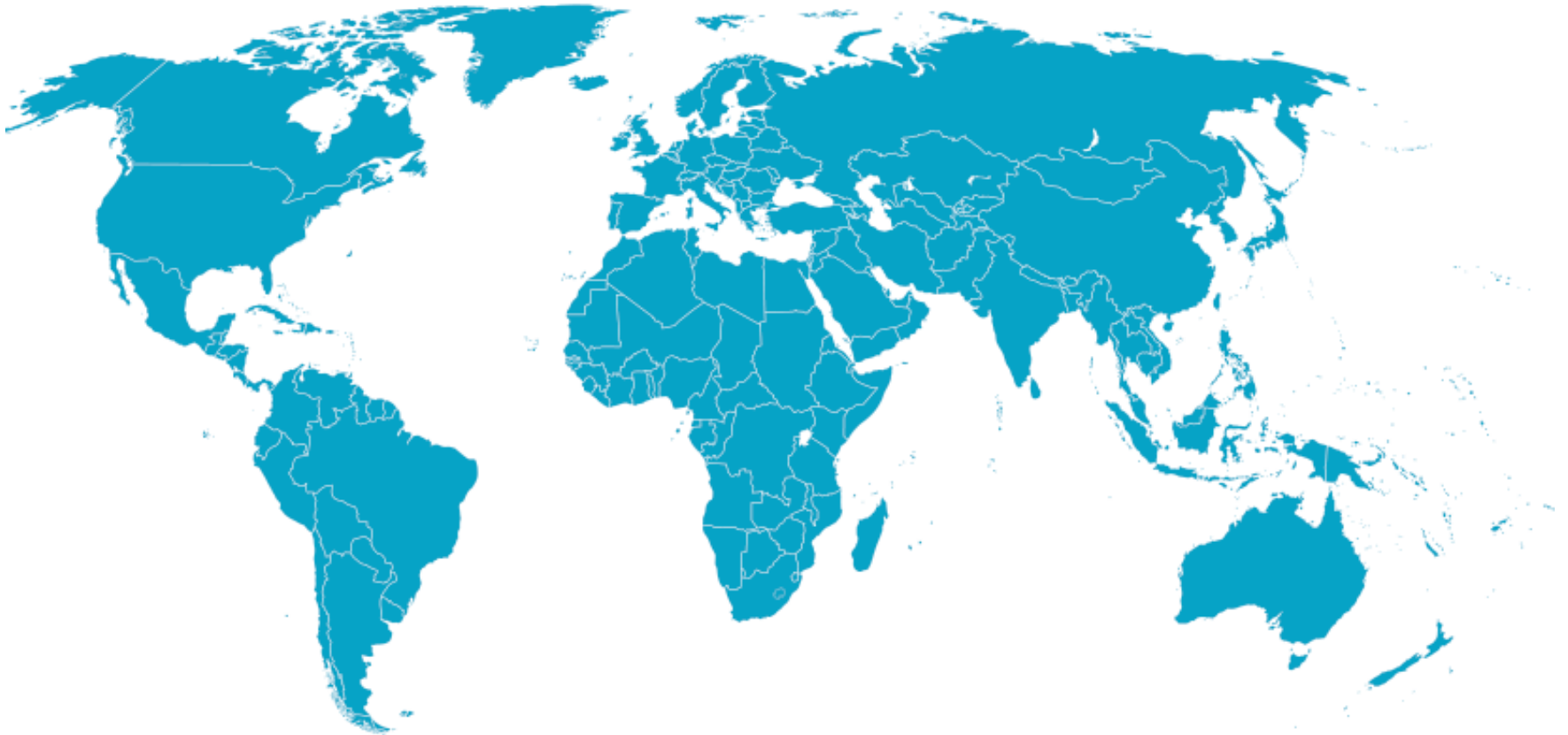
■ United Nations Principles for Responsible Investment

■ OECD

■ Santiago Principles – International Forum of Sovereign Wealth Funds

Regional attitudes

Varied levels of interest and commitment



Navigating the changing landscape

Trends and issues – which are important and which aren't?

- Widespread concerns about inequality
- Many developed economies in precarious financial positions
- Developing countries looking to improve outcomes
- Democratisation, autocratic governments
- Ageing populations, changing economic structural models
- Climate change, food security, labour conditions
- Pollution
- Treatment of stranded assets
- Urbanisation
- NGO activism
- Social media

Tools for navigating the changing landscape

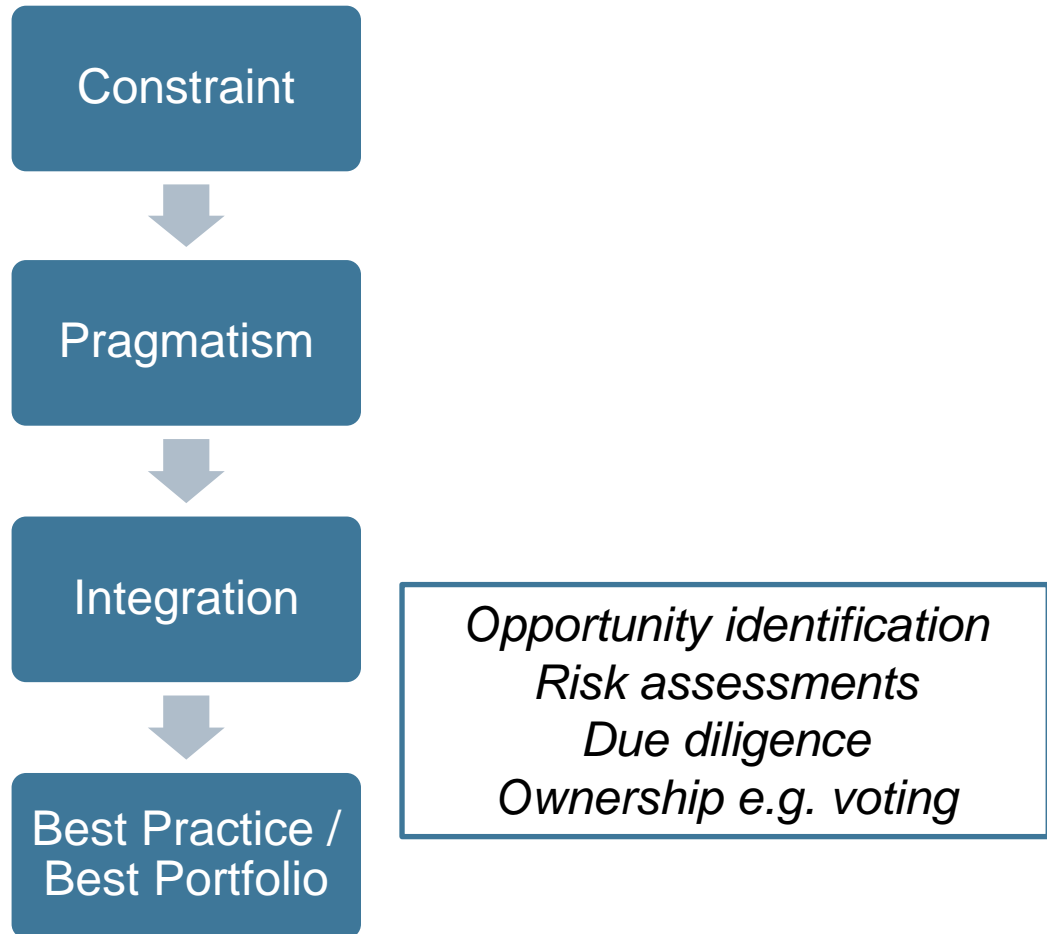
- Engagement and investor/corporate dialogue
 - Constructive engagement good for returns
 - Wide beneficial impact of corporate practice, regulatory standards, signalling effects  better markets
- Divestment
 - blunt
- Investment mandates
 - Market open to new, flexible mandates with long-term performance indicators
- Social bonds
- Smart beta
 - Better passive access to the exposures we want, but governance and capacity issues
- Collaboration
 - The collective might of billions of dollars of long-term capital

‘Ethical’ investing / responsible investing

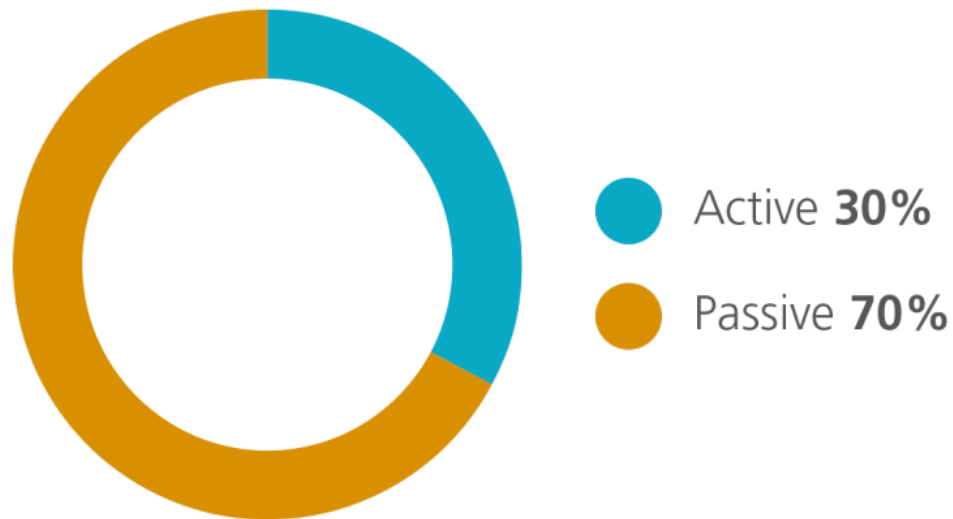
What’s the difference and where does the NZ Super Fund fit in?

- We are required to have an ethical policy
- We are a responsible investor because:
 - we believe that environmental, social and governance factors are material to long term returns
 - our governing legislation requires us to avoid prejudice to New Zealand’s reputation in the community

Our journey over the last 8 years



Challenges



Our approach to RI issues

- We take our lead from:
 - national and international laws
 - conventions to which the NZ Government is a signatory; and
 - significant policy positions of the NZ Government

- We must act consistently with these principles, in order to avoid prejudicing NZ's reputation as a responsible member of the world community

How we care and act

- Participated in 518 engagements during 2013/14
- No quick fixes

Engagement examples	Objective	Result
Oil and gas	Management and reporting of ESG risks	Engagement is ongoing
Climate change	Increasing the number of companies reporting on climate change measures and risk management	% of companies remained similar but quality of disclosure improved
Bribery and corruption	Improvements in anti-bribery policies and practices	15 of 21 companies improved their score on bribery and corruption policies

Engage or divest?

- As a driver for change, divestment is not as effective as analysis and engagement
 - **Analysis** – integration of ESG risk into company valuations
 - **Engagement** – using shareholder influence to encourage companies to improve their policies and practices
- Analysis and engagement fundamentally impact a whole-of-market view of a company rather than reallocating share-ownership to other investors through share sales (divestment)
- Divestment
 - may impact on the reputation of companies
 - may make some companies less attractive to some investors
 - could equally make the shares more attractive to other investors if they believe divestment has led to a mispricing opportunity.

Observations

- Transparency, transparency, transparency
- Consistency is vital
 - on issues, companies, sectors and over time
- Collaboration is vital
 - Collective weight of capital when working with others increases our influence
 - Nevertheless, there are limits to shareholder influence
- Stick to your principles
- **Think long-term!**