

TITLE:

# Guardians of New Zealand Superannuation

## 2023/24 Review

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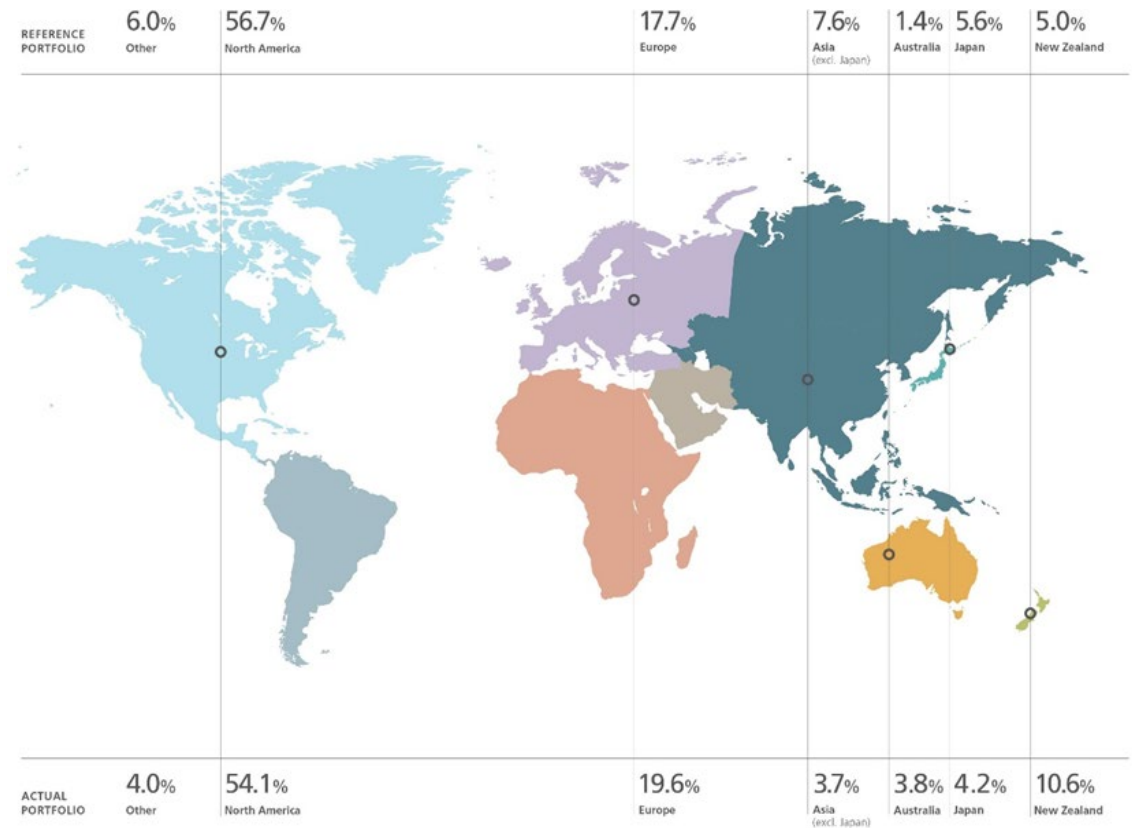
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## Where we invest

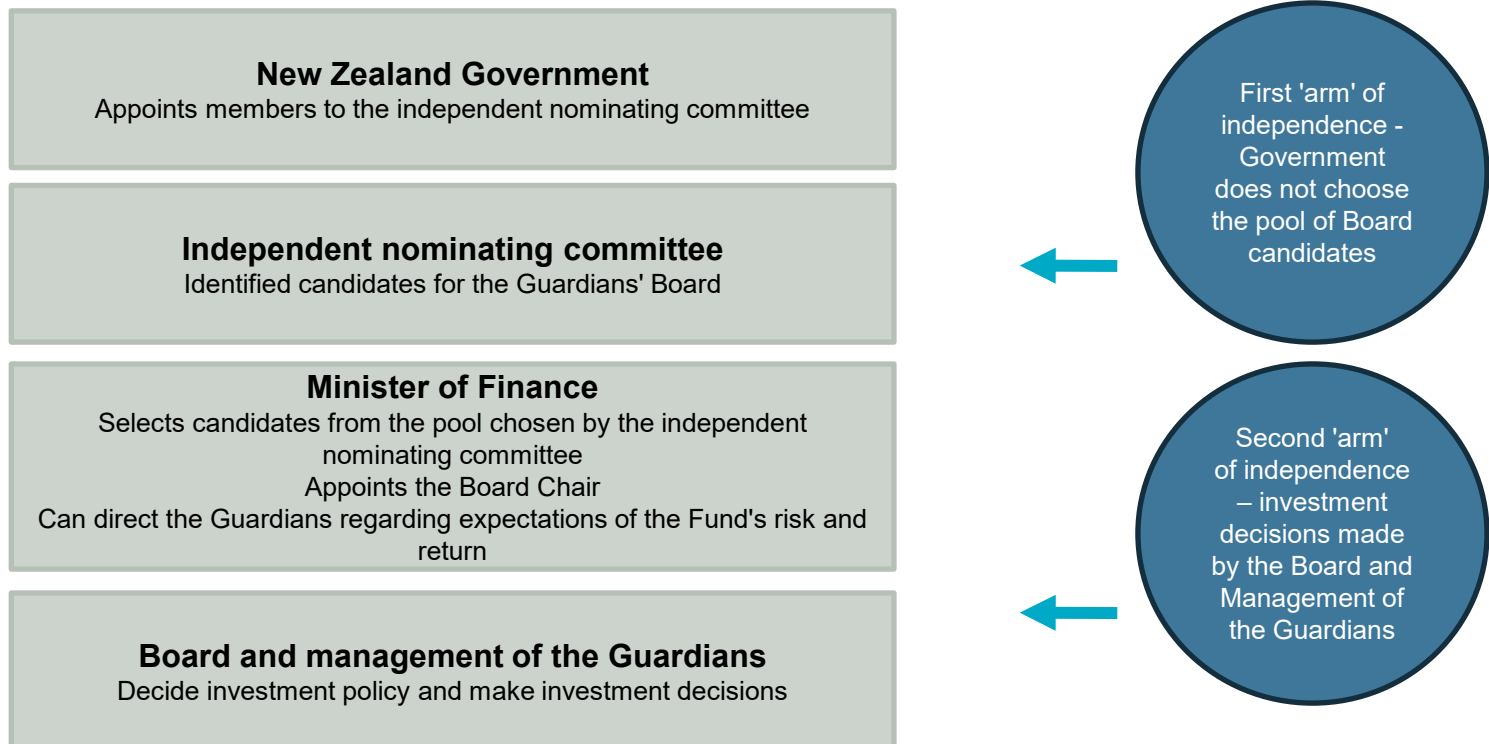


# NZ Super Fund's role

- 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 the 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.



# 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:

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***Sustainable investment delivering strong returns for all New Zealanders***

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

Our vision:

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***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

It all starts with the Reference Portfolio

## Reference Portfolio

- 75% overseas equities, 5% NZX-listed stocks, 20% fixed income securities; fully hedged to the \$NZ
- Composition reflects the Board's desired level of risk
- Notional Portfolio: index-linked, low-cost, passively managed
- Benchmark for the Actual Portfolio

# How We Invest

Passive Portfolio + Active Portfolio = Actual Portfolio

## Passive Portfolio

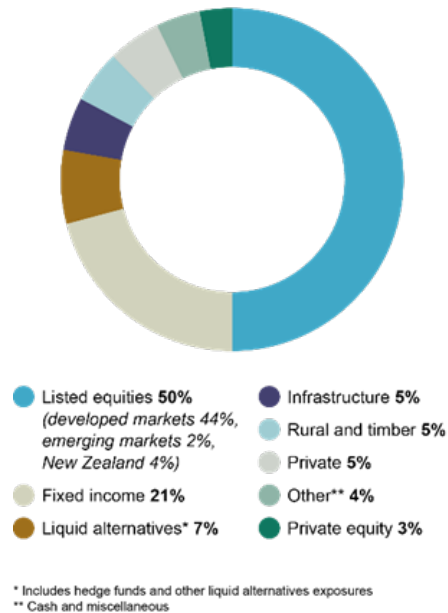
- Investments in fixed income securities and most equity holdings are passively managed through external managers
- (Investments in NZX-listed companies are actively managed through a mix of in-house and external mandates)

## Active Portfolio

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

# Investing for Growth

Passive 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 assets from the Passive 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
- Co-CIOs hold the delegation for most investment decisions
  - Investment Committee endorses/recommends decisions
- Senior Managers have delegated authority for
  - 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	Peer fund engagement: <ul style="list-style-type: none"> <li>• 3Cs: Comparison, collaboration and co-investment</li> </ul> Global expertise
Governance	Reference Portfolio Review Internal Audit	Independent Reviews '04, '09, '14, '19, '24 OAG special performance audit ('08) SWF GAAP Select Committee Reviews	
Performance	NZ T Bill rate + 2.8% Reference Portfolio + 1.0%	Performance against both measures published monthly	
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 31 Dec 2024)

	Since inception (Sept 2003)	Last 20 years	Last 10 years	Last 5 years	Last 12 months	Quarter to December 2024 <sup>1</sup>
Actual Fund Returns (before tax, after costs)	10.06%	9.94%	10.27%	9.21%	15.61%	0.63%
Reference Portfolio Return	8.66%	8.47%	8.53%	7.75%	16.35%	0.54%
Value-Added (Actual Return – Reference Portfolio Return)	1.40%	1.47%	1.74%	1.46%	-0.75%	0.09%
Estimated \$ earned relative to Reference Portfolio	\$17,977m	\$17,835m	\$10,792m	\$4,909m	(\$514m)	\$72m
Government contributions	\$26,994m	\$22,146m	\$12,112m	\$9,882m	\$1,247m	\$220m
NZ income tax (paid)/ recovered	(\$11,146m)	(\$11,020m)	(\$6,714m)	(\$4,233m)	(\$1,490m)	(\$53m)
Net Government contributions	\$15,848m	\$11,126m	\$5,398m	\$5,649m	(\$243m)	\$167m
NZ Treasury Bill (T-Bill) Return	3.54%	3.42%	2.33%	2.65%	5.45%	1.20%
Net Return (Actual Return – T-Bill Return)	6.52%	6.52%	7.94%	6.55%	10.16%	-0.58%
Estimated \$ earned relative to T- Bills	\$54,007m	\$53,307m	\$39,536m	\$20,859m	\$7,096m	(\$457m)
\$ change in net asset position <sup>2</sup>	\$80,233m	\$74,904m	\$52,697m	\$33,549m	\$10,576m	\$744m

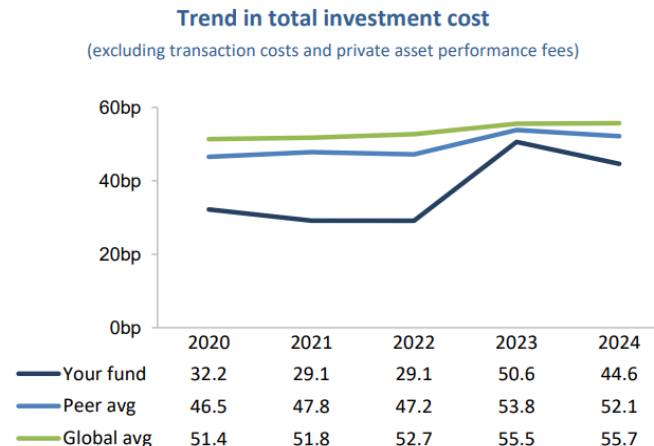
1 Returns for periods longer than one year are annualised.

2 Excludes provisions for New Zealand tax.

# Cost

CEM Benchmarking assesses the Fund's performance against 293 global funds with total AUM of \$19 trillion

- CEM's cost benchmarks are based on median costs for peer funds. CEM's latest report calculated our benchmark cost at 45.3bps against our actual cost of 44.6bps
- Over the past five years, the Fund's costs have consistently been less than both the average for our peer funds and the global fund average



Trend analysis is based on 228 Global funds and 18 peer funds with 5 or more consecutive years of data.

# 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 one-in-five yearly statutory review (most recently carried out in 2024). Terms of Reference are set by the Minister, in line with the requirements set out in our Act.
- Regular reviews of the proxy process, which determines the risk we allocate to various asset classes
- Regular reviews of the assumptions underlying the composition and management of the Reference Portfolio; formal review to be carried out during the coming year

# Oversight

## The 2024 Statutory Review

### ■ Terms of Reference included

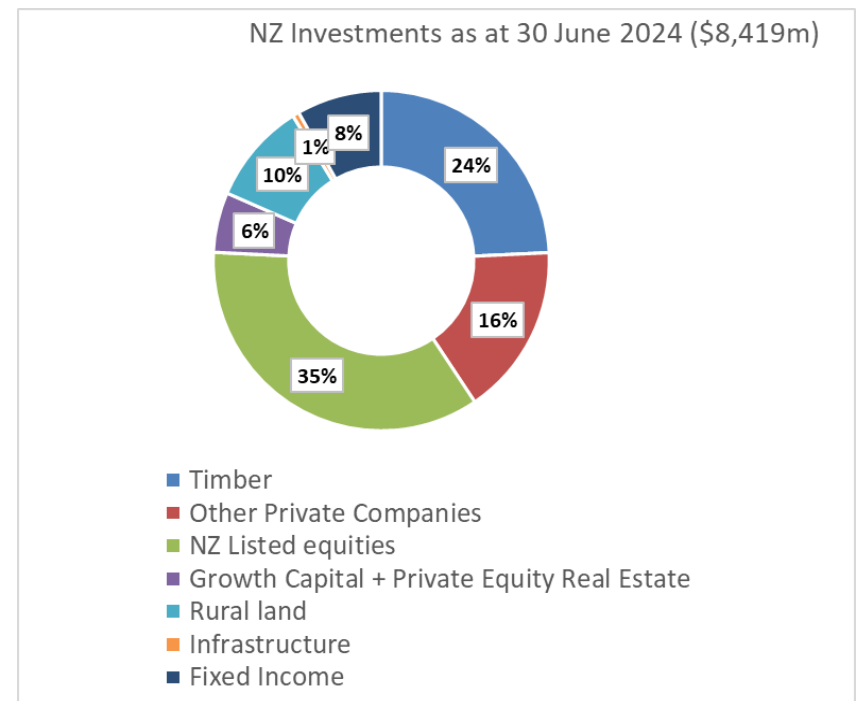
- reviewing the appropriateness of, and compliance with, the policies, standards and procedures of the New Zealand Superannuation Fund
- an evaluation of the investment performance of the Fund overall, with a focus on operational and investment processes

### ■ Overall assessment

- Business model: *AA Excellent*
- Governance model: *AA Excellent*
- People model: *AA Excellent*
- Investment model: *AAA Exceptional*
- Systems model: *A Very good*

# Investing in New Zealand

- At 30 June 2024, 11 percent of the Fund's total investments (\$8.4 billion) was in New Zealand assets. During the life of the Fund, the value of our investments in New Zealand has increased in line with nominal GDP
- NZX-listed stocks currently make up about 4 percent of the Fund's net total exposure; 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, property development, and growth capital

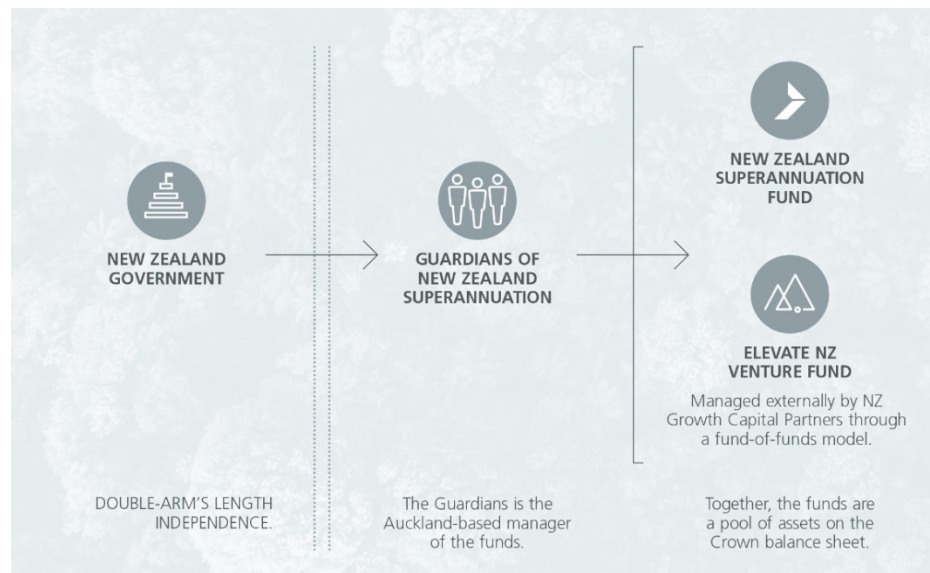


# Investing in New Zealand

- As the size of the Fund increases relative to the size of the New Zealand economy, the percentage of the Fund invested outside New Zealand will also increase
- Our endowments, in particular our ability to attract overseas-based capital and technical expertise, provide us with significant advantages for certain potential infrastructure investments
- Local investments have delivered good returns to the Fund; as we grow, the challenge will be to identify further opportunities of sufficient scale that satisfy our commercial criteria and our statutory obligation to maximise returns without undue risk to the Fund as a whole
- We continue to actively explore opportunities to invest locally in projects that meet our investment criteria and also deliver social and economic benefits to the country: our partnership with Copenhagen Infrastructure Partners to investigate developing an offshore windfarm is one example of that

# 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

## 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'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

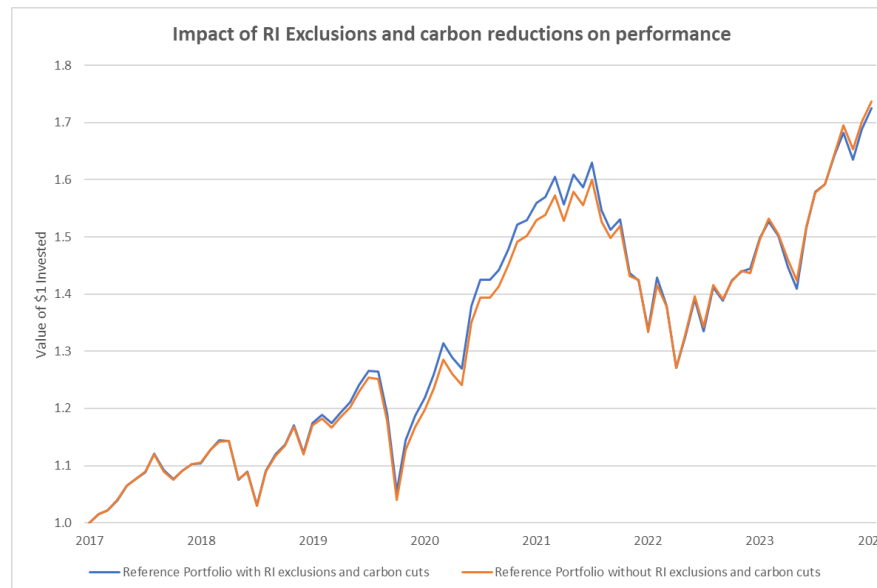
- Increasingly reflects best-practice portfolio management
- Goes beyond considering potential ESG-related risks **on** the portfolio to include the potential effects of our investments on people and the planet
- ESG factors are incorporated into our analysis of investment opportunities and our evaluation of external managers
- As an active asset owner, 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 the environmental sustainability of a company's operations, its social licence to operate, and the quality of its governance are fundamental to its long-term financial performance

# Sustainable Investment

- We seek to mitigate the investment risks and take advantage of the investment opportunities related to climate change
- We aim to lower our exposure to investments more at risk from the transition to a low-carbon world and increase relative holdings of investments that satisfy our commercial criteria and contribute to the transition to a low-carbon global economy
- As at 30 June 2024, the Fund's carbon total emissions intensity was 64 percent lower than our baseline level, and our exposure to potential emissions from reserves was 98 percent lower
- We are now moving to aligning the Fund's carbon reduction targets with the goal of net zero by 2050

# Sustainable Investment

- In 2022, the Board approved a change to Paris Agreement-aligned indices for our passive investments (bonds and equities) and for the benchmark Reference Portfolio; this transition is now fully completed
- This graph shows that implementing sustainable investment exclusions and decarbonising the portfolio has not affected investment returns to date



## Exclusions

- Where a company breaches good corporate practice and engagement is impractical or unsuccessful, we may decide to exclude that company's securities from the Super Fund's portfolio
- Product exclusions factor in New Zealand law and significant Crown actions, as well as international conventions New Zealand is party to
- Sovereign exclusions will be implemented where nation states are subject to New Zealand Government or United Nations Security Council sanctions

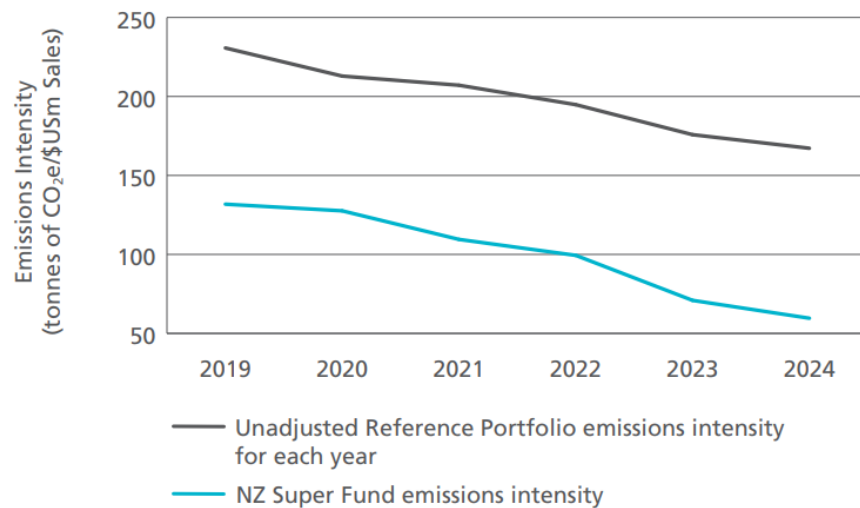
### Exclusions List, December 2024

Practices	Products			Sovereign bonds
15 Poor ESG Practice	59 Recreational Cannabis	16 Nuclear	7 Cluster Munitions	15 Countries
	72 Tobacco	19 Civilian Firearms	1 Anti-personnel Mines	

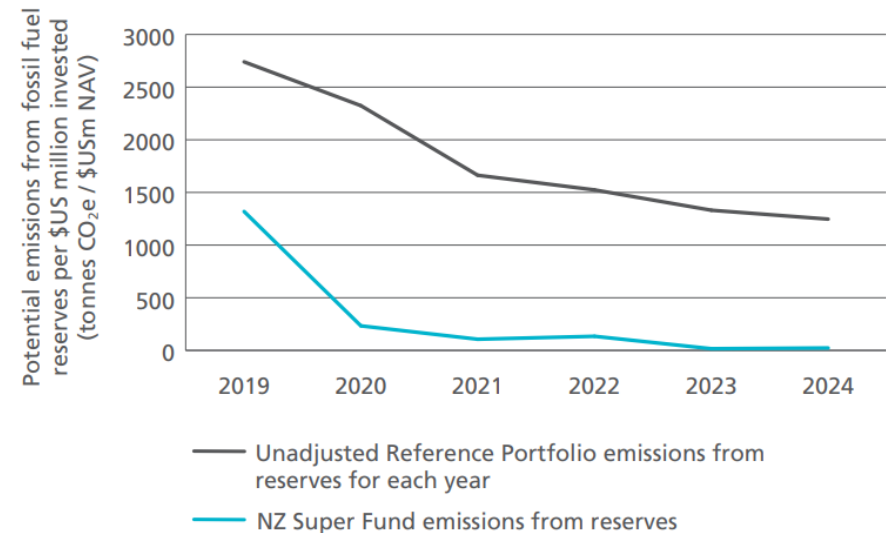
# Carbon emissions

- 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

NZ Super Fund - Emissions Intensity



NZ Super Fund - Potential emissions from fossil fuel reserves



# 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 continue to prioritise identifying and transacting on investments in New Zealand; we are particularly interested in investing in large-scale infrastructure
- The strong 2023-2024 result was in large part driven by outperformance in global equity markets, particularly the US. 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 \$17.2 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 listed 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 other active investment strategies, we will take it