

2 July 2020



Dear 

REQUEST UNDER THE OFFICIAL INFORMATION ACT 1982

Thank you for your request to the Guardians of New Zealand Superannuation ("**Guardians**"), the manager of the New Zealand Superannuation Fund ("**NZ Super Fund**", "**NZSF**", "**Fund**"), dated 13 June 2020 made pursuant to the Official Information Act 1982 ("**OIA**").

Your Request

You have requested information relating to the Guardians' investment strategies and activities on behalf of the NZ Super Fund. Details of the information we have identified as being within the scope of your request are set out below. We have withheld some information on the basis that we have a good reason for doing so under section 9 of the OIA, and in one instance we are neither able to confirm nor deny the existence or non-existence of such information under section 10 of the OIA.

Our Response

1. *Given the overwhelming drop in NAV in March, what actions did the NZ Super Fund take in January and February 2020 as a more information came to light of the Covid-19 pandemic.*

Actions taken:

- We had high levels of liquidity coming into January and February, which we maintained in order to meet potential funding and collateral requirements.
- We included a coronavirus element in a liquidity stress test scenario conducted in February.
- The selloff in credit began to surface new opportunities to deploy capital, which were considered by the team.
- We worked with our managers and investee companies to assess the short-to-medium term impact the pandemic could have on our mandates, portfolio companies and assets.
- We continued to implement our strategic tilting programme. This counter-cyclical strategy makes use of the Fund's long-term investment horizon to enhance risk-adjusted returns over the long-run. More information on the strategy is available on our website here.

2. *What decisions did the Event Driven Opportunity (EDO) group inside the fund make prior to the large market drawdowns from late February.*

The EDO group met several times in the lead up to late February 2020, and a trade recommendation was made on the basis of the COVID-19 event.

The Guardians' commercial position would be materially and unreasonably prejudiced if non-public information related to its trading decisions and likely future investment actions were made known to competitors. It would also be prejudicial to the Guardians' negotiating position for information to be disclosed that gives potential future counterparties insights into the basis on which the Guardians is prepared to transact.

We therefore decline to provide detail on this decision on the basis of the following grounds from the Act:

- **Section 9(2)(i)** – “enable a Minister of the Crown or any department or organisation holding the information to carry out, without prejudice or disadvantage, commercial activities.” Investing the Fund is a commercial activity; and
- **Section 9(2)(k)** – “prevent the disclosure or use of official information for improper gain or improper advantage”.

3. What derivative overlay strategies were discussed as part of the EDO working group?

The EDO in general discusses trades that may use equity, FX, or bond derivatives including futures, swaps and options. Topics that were discussed centred on the unfolding COVID-19 pandemic. These discussions focused on the effect of the pandemic on equity market valuations and sentiment, the impact on volatility, credit spreads and sovereign contagion. Discussions were also had on central bank and governments’ response to the pandemic and the impacts this may have on credit markets in particular.

4. How have the NZ Super Fund's US shale gas investments performed? Is there a view to sell the fund positions in the secondary market?

Since inception through to 31 March 2020 the performance of the Fund’s US shale gas investments is -3.71% net IRR (NZD hedged). In local currency (USD) the Fund’s shale gas investments have delivered cash flow yields of between 7-9% p.a. although NAV has been impacted as a result of energy sector volatility resulting from downturns in 2014/15 and early 2020.

The Guardians’ prospective trading decisions are commercially sensitive. Maintaining the confidentiality of that information is essential to:

- ensure that Guardians’ trading positions are not prejudiced by premature disclosure of its intentions; and
- ensure the commercial position of third parties is not prejudiced; and
- protect the flow of information to the Guardians by ensuring that third parties are willing to approach the Guardians about investment opportunities.

We therefore decline to disclose our commercial intention with respect to our shale investments based on the following grounds from the Act:

- **Section 9(2)(i)** – “enable a Minister of the Crown or any department or organisation holding the information to carry out, without prejudice or disadvantage, commercial activities.”
- **Section 9(2)(k)** – “prevent the disclosure or use of official information for improper gain or improper advantage”.
- **Section 9(2)(b)(ii)** – “protect information where the making available of the information would be likely to unreasonably prejudice the commercial position of the person who supplied or who is subject of the information.”

5. What exposure does the fund's treasury operations have to CLOs? Of exposure to CLOs, are there any active CLO warehouse facilities or mezzanine tranches?

The NZ Super Fund has exposure to CLOs, to the sum of USD389 million (as at 30 June 2020). We have no active CLO warehouse facilities or mezzanine tranches.

6. What exposure if any does the NZ Super Fund have to Greensill managed trade finance vehicles?

The NZ Super Fund has no exposure to Greensill managed trade vehicles.

7. What is the gross expense to date from NZ Infra for costs related to the lightrail bid, including human capital hours of NZ Super staff devoted to the project?

By way of background, NZ Infra Limited is a New Zealand limited liability company established on a commercial basis by the NZSF and Canadian infrastructure investor CDPQ Infra, a subsidiary of Canadian institutional investor Caisse de dépôt et placement du Québec. NZSF and CDPQ Infra are (through subsidiary entities) 50:50 shareholders in NZ Infra.

As part of a competitive and confidential delivery partner selection process run by the Ministry of Transport, NZ Infra developed a comprehensive and detailed proposal for the City Centre to Māngere Light Rail project, utilising the expertise of a range of global and local experts.

A transaction budget for NZSF's portion of the costs was reviewed and approved by the Board of the Guardians. Costs relating to the proposal were paid directly to suppliers by the Guardians and CDPQ Infra. Specific expense items were evaluated and considered under a procurement process by senior representatives of the Guardians and CDPQ Infra. The Guardians has visibility of some but not all costs paid directly by CDPQ Infra, and an estimate of the precise cost of the human capital hours of Guardians (and CDPQ Infra) staff working on the project has not been undertaken (though the human capital hours were commensurate with a project of this nature).

We are therefore declining your specific request for NZ Infra's gross expense to date, including the human capital hours, on the basis **Section 18(g)** of the Act that: "Information requested is not held and there are no grounds for believing that the information is (i) held by others subject to the Act or (ii) connected more closely with the functions of another department or Minister.

The Guardians does hold information about proposal costs paid for by the NZSF, and some CDPQ Infra costs. We have also interpreted your request to cover this information, but have determined that such information should be withheld for the reasons outlined below.

The Government has the option of engaging with NZ Infra to see how the proposal NZ Infra has prepared can support the next phase of the project. If the Crown decides to exercise this option, the two parties will need to enter into negotiations, and therefore disclosing these costs would unreasonably prejudice our negotiating position.

In addition, given that both NZSF and CDPQ Infra are intending to pursue other opportunities to invest in infrastructure in the future, disclosing costs associated with this transaction has the potential to compromise both parties' negotiating positions in relation to other market processes, participants and potential bid advisers in the future, by giving away a sense of the nature and scale of our approach to due diligence. For example, future advisers would be able to negotiate fees/expenses in this context.

Furthermore, as noted above, NZSF has partnered with a third party investor, CDPQ Infra, to establish the NZ Infra company and develop the NZ Infra bid. Information shared between NZSF and CDPQ Infra in developing the NZ Infra bid, including in respect of costs incurred, is under an obligation of confidence, as set out in contractual agreements between the parties. Disclosing NZ Infra's gross expense on this project would undermine the willingness of investors to partner with NZSF in future transactions, thus prejudicing the Guardians' ability to invest the NZSF on a commercial and global best practice basis, as required by its legislative mandate. It is critical that

we maintain the highest standards of commercial confidentiality in our dealings with such investors. They will not wish to work with us if we cannot uphold the confidentiality of commercially sensitive information.

Critically, NZSF needs to partner with top tier investors, including private sector and international investors, in direct investment transactions and substantial infrastructure transactions such as this. This is because NZSF is unable, under its founding legislation, to own more than 50% of an operating entity.

There is a very strong public interest in ensuring NZSF is able to maintain and develop strategic investment partnerships with leading investors such as CDPQ Infra. Given NZSF is for the benefit of all New Zealanders, it is in the public interest that we can continue to attract capable and compatible private sector and international investors to work with us and share commercially sensitive information and expertise with us on investment opportunities.

We note that NZSF has also identified infrastructure investment as a key and ideal investment category through which it can advance the Ministerial directive to invest in New Zealand in a manner consistent with the Fund's investment mandate and objectives, which further reinforces the public interest consideration in withholding the information.

We are therefore declining your request, based on the following grounds from the Act:

- **Section 9(2)(ba)** – Information provided subject to an obligation of confidence where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied or would be likely to otherwise damage the public interest.
- **Section 9(2)(b)(ii)** – “protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information”.
- **Section 9(2)(i)** – “enable a Minister of the Crown or any department or organisation holding the information to carry out, without prejudice or disadvantage, commercial activities”.
- **Section 9(2)(j)** – “enable a Minister of the Crown or any department or organisation holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)”.
- **Section 9(2)(k)** – “prevent the disclosure or use of official information for improper gain or improper advantage”.

8. *What is target levered IRR for NZ Infra? What is NZ Super's internal cost of capital for the project?*

As noted above, NZ Infra participated in a competitive process run by the Ministry of Transport to select the Government's preferred delivery partner for the City Centre to Māngere light rail project. This process remains subject to extensive confidentiality requirements in order to protect its probity. Details related to NZSF's investment thresholds for such transactions (whether it is target IRR, internal cost of capital or any other metric) are particularly commercially sensitive information, being central to the NZ Infra proposal and investment model.

More generally, the information is also commercially sensitive as it relates to future potential infrastructure and other similar transactions that NZSF and CDPQ Infra undertake.

The release of this commercially sensitive information would:

- disclose the specific pricing/valuation methodologies NZSF and CDPQ Infra apply to infrastructure transactions, therefore allowing competitors and counterparties to utilise such

information in future infrastructure opportunities. This would create the potential for this information to be used for improper gain or improper advantage by other participants in future procurement processes, transactions and negotiations. Other private market investors would not disclose such information;

- jeopardise NZSF's ability to undertake other commercial transactions in what is a highly competitive investment landscape, both in this instance and more generally, by disclosing information that is commercially sensitive and relevant to our negotiating position to our competitors and counterparties; and
- undermine NZSF's ability to attract credible investment and business partners, on the basis that it is unable to maintain the confidentiality of commercially sensitive information. Our investment partners, such as CDPQ Infra, are commercial entities in their own highly competitive markets. They will not work with us if we cannot uphold the confidentiality of commercially sensitive information. As the NZSF is for the benefit of all New Zealanders, we strongly believe that it is in the public interest that we can maintain the highest standards of commercial confidentiality.

Your request is therefore declined, based on the following grounds:

- **Section 9(2)(k)** – “prevent the disclosure or use of official information for improper gain or improper advantage”.
- **Section 9(2)(b)(ii)** – “protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information”.
- **Section 9(2)(i)** – “enable a Minister of the Crown or any department or organisation holding the information to carry out, without prejudice or disadvantage, commercial activities”.
- **Section 9(2)(j)** – “enable a Minister of the Crown or any department or organisation holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)”.

9. Why did Will Goodwin and team continue to buy up hospitality related assets as the world was clearly in latter stages of the business cycle?

We have interpreted this question as referring to the NZSF's co-investment in a hotel portfolio established by the Russell Group and Lockwood Property Group. The Guardians invests the NZSF on a purely commercial basis in order to maximise returns without undue risk to the NZSF as a whole. All direct investments are subject to a rigorous due diligence process which includes benchmarking expected risk-adjusted returns against what could be achieved from an equivalent mix of passively invested, listed, low-cost investments. We make active investments such as these when we believe doing so will add value to the NZSF.

We note that the NZSF is a long-term investor with the ability to look through market cycles and no significant draw-downs until the 2050s. Notwithstanding the impact of economic cycles and the current COVID-19 pandemic on the New Zealand tourism and hospitality sector, the Guardians remains of the view that, at the right price, domestic tourism and hospitality assets are suitable long-term investments for the NZSF.

We note that Guardians has publicly released information about the rationale for these specific investments on its website at:

<https://www.nzsuperfund.nz/news-and-media/tourism-investment-partnership-expands-portfolio/>
<https://www.nzsuperfund.nz/news-and-media/nz-super-fund-partners-russell-group-and-lockwood-property-group-invest-new-zealand/>

10. Why did NZ Super never invest in Rocket Lab, yet let the Australian Future Fund take a stake?

The Guardians considers many potential investment opportunities for the NZSF in New Zealand and internationally. Whether or not the Guardians has considered a particular investment opportunity and, if it has considered an investment opportunity but decided not to proceed with it, is commercially sensitive information. Maintaining the confidentiality of this information is essential to:

- ensure that the NZSF's commercial activities are not prejudiced by premature disclosure of what investment opportunities it may or may not have considered or be considering;
- ensure that the commercial position of third parties that the Fund has considered investing in, or may be considering investing in, is not prejudiced;
- ensure that third parties are willing to approach the Fund about investment opportunities; and
- protect the flow of information about investment opportunities to the Guardians.

We note that companies will be less likely to approach the Guardians about investment opportunities if they believe their confidential approaches and any resulting discussions may become public. For these reasons, as a general rule the Guardians does not comment publicly on whether or not it is engaged in, or has engaged on in the past, discussions regarding specific potential investment transactions. We therefore advise, pursuant to **section 10** of the Official Information Act, that the Guardians neither confirms nor denies the existence or non-existence of the information requested.

We note that the Guardians has no influence over the activities of the Australian Future Fund, which is a separate entity entirely.

General

Where we have withheld information, we have considered whether the public interest in favour of disclosure outweighs our reasons for withholding it and in all instances have concluded that it does not. As outlined above, we note that in many cases there are very strong public interest considerations in favour of withholding the information.

You have the right to seek a review by the Ombudsmen's Office of our decision to withhold the information. Please note that we may choose to publish our response to your request on our website at www.nzsuperfund.nz.

Yours sincerely



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