



25 November 2016



Dear 

REQUEST UNDER THE OFFICIAL INFORMATION ACT 1982

Thank you for your request dated 28 October 2016 made pursuant to the Official Information Act 1982 ("OIA").

Your Request

You have requested: documents containing analyses of the financial impact of the Guardians' of New Zealand Superannuation's ("Guardians") [Responsible Investment Framework](#) on NZ Superannuation Fund "Fund" returns.

Background Information

Under our Responsible Investment Framework, the impact on expected Fund returns is one of the factors we consider when making a decision to exclude a security or sector from the Fund. The documents we are releasing to you are reports to Board and management committees on the impact of these exclusions on Fund returns.

Currently, around 160 stocks are excluded from the Fund (to put this in context, the Fund has more than 6,000 investments). Overall, we estimate that responsible investment exclusions (largely of tobacco stocks) have cost the Fund 4 bps or 0.04% p.a. on a cumulative basis to June 2016; we do not consider this figure to be material.

It is important to note that exclusions (which in our case are largely based on New Zealand law, international conventions to which New Zealand is a signatory, and major policy positions of the New Zealand Government) are just one small part of our approach to responsible investment. For example, we have not attempted to quantify the impact of our engagements with companies to improve their performance on environmental, social and governance factors on the returns of the Fund. However, studies have found investor engagement with companies can have a measurable positive financial impact on the portfolio with the most comprehensive study (Dimson et al, 2013) showing a one-year excess return averaging 180bp or 1.8%.

As outlined in our Responsible Investment Framework, we believe environmental, social and governance (ESG) factors are material to long-term returns. ESG considerations are therefore integrated into all aspects of the Fund's investment activities, from investment selection and due diligence to ownership activities such as monitoring our external investment managers, exercising our voting rights and engaging with companies to improve their ESG policies and practices. This approach is in line with best practice investment management globally.

As outlined in a 2015 white paper on 'Why we believe responsible investing pays off' (also attached), we expect that our wider responsible investment activities, such as company engagements to improve ESG practices, will have a positive effect on Fund performance over the long term. This white paper references two meta-reviews, one by Deutsche Bank in 2012 and the University of Oxford in 2014. Overall, there is strong evidence that companies that do well on ESG metrics tend to perform better. More specifically, companies with strong ESG or corporate social responsibility (CSR) ratings tend to have some or all of the following features:

- a lower cost of equity and cheaper borrowing costs;
- better corporate performance, for example higher profitability; and
- better market performance, for example a higher stock price than less well-rated companies.

The white paper notes that more than 80% of studies find positive links between ESG ratings and the particular measures of performance that they are analysing. The fact that companies with better ESG practices have a lower cost of capital suggests that the market is treating them as having lower risk. The evidence suggests that they face fewer capital constraints as well, for example with better access to bank credit lines and to bond markets.

Our Response

Details of the information we have pertaining to your request, and our response in respect of that request, are set out in the table at Appendix 1 to this letter. The documents we are releasing are attached to this email at Appendix 2.

Please also note that we have not included duplicates nor drafts of documents in our response. None of the drafts that we have chosen to exclude from our response contain any different material information.

With regard to the references to MSCI in a number of these documents, please note that there is no official index called MSCI ACWI ex Tobacco. These calculations are by Guardians' management who have used the MSCI ACWI and MSCI ACWI tobacco returns to calculate the MSCI ACWI excluding tobacco returns. MSCI was not involved that calculation.

We have chosen to withhold the names of some Guardians staff members, under section 9(2)(a) of the Official Information Act, in order to protect their privacy. We have considered whether the public interest in favour of disclosing that information outweighs our reasons for withholding it, and have concluded that it does not. Names of senior Guardians' staff members have been released.

General

You have the right to seek a review by the Ombudsmen's Office of our decision. Contact details for the Ombudsmen's Office can be found at: www.ombudsmen.parliament.nz.

Please note that we may choose to publish this response on our website at www.nzsuperfund.co.nz.

Our Head of Responsible Investment Anne-Maree O'Connor would be happy to meet with you to discuss these matters further. If you would like to take up this offer, or have any questions about our response to your request, please contact our Head of Communications Catherine Etheredge on cetheredge@nzsuperfund.co.nz.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'M Whineray', is positioned above the printed name and title.

Matt Whineray
Chief Investment Officer

Appendix 1						
Page	Document Reference	Document Date	Document Title	Sections Relevant to Request	Status	Withholding grounds if applicable
1	59644	2008-10-14	Item 8B - Responsible Investment Appendix 1 Tobacco Board Paper	Section 4 / Appendix 1 / Appendix 3	Relevant portions released in full; remainder out of scope	N/A
4	43741	2008-10-14	Item 4(a) Appendices - Investment in companies associated with the manufacture of nuclear weapons	Appendix 1 / Appendix 4	Relevant portions released in full; remainder out of scope	N/A
9	931441	2013-10-03	Memo to Board re Impact of Tobacco Exclusions Oct 2013*	All	Released in full, other than names of some staff members	Section 9(2)(a) – Protect the Privacy of Natural Persons
13	336025	2012-06-30	IIM Review - June 2012	4. Performance	Relevant portion released in full; remainder out of scope	N/A
15	1324516	2014-09-17	2014-09-17 Board Meeting Item 6(a) IIM Review for Six Months Ending 30 June 2014	Section 2 – Portfolio Completion – Page 11	Relevant portion released in full; remainder out of scope	N/A

17	962685	2013-05-12	Item 6a – IC Dashboard Responsible Investment 2013 Final	Excluded Companies	Relevant portions released in full in all instances; remainder out of scope	N
	1420029	2015-01-27	IC Responsible Investment Dashboard December 2014	Excluded Companies		
	1688676	2015-08-10	IC Responsible Investment Dashboard June 2015	Excluded Companies		
	1834784	2016-02-11	RI Dashboard - Dec 2015 for March 3rd 2016 IC meeting	Excluded Companies		
	1961706	2016-08-05	RI Dashboard - IC August 2016	Excluded Companies		
	1814776	2016-08-08	Exclusions Impact on Benchmark Returns FY15-16	All		
25	1964825	2013-12-03	Board Paper Calculating Impact of RI exclusion on reference portfolio	All	Released in whole	N
31	64562	2008-10-14	Item 7(c) - Investment in Companies Associated with the Manufacture of Nuclear Weapons	Section 9	Relevant section released in full	N
33	43382	2007-11-23	Item 3 Cluster Munitions RIC Report	Section 5	Relevant section released in full	N