CHIEF EXECUTIVE PROACTIVE REMUNERATION DISCLOSURE

This document provides information about the remuneration provided to the Guardians' Chief Executive for the financial year to 30 June 2017. Further information concerning the Chief Executive's remuneration can be found in the Guardians' Annual Report for the period, and information concerning the Guardians' remuneration framework can be found in its Human Resources Policy. Both documents are available on this website.

GUARDIANS' REMUNERATION FRAMEWORK

Our legislation requires us to manage the Fund in line with global best practice. Achieving our statutory mandate requires us to provide remuneration packages that will attract, motivate and retain a world-class team. The employment market for professionals in the investment sector is highly competitive. We aim to build and maintain a team of talented people who can deliver value in terms of Fund performance.

The challenges that the Guardians faces in attracting and retaining highly-qualified employees and the need to use international benchmarks to keep the Guardians' remuneration levels competitive were highlighted in the 5-yearly independent review of the Guardians carried out for Treasury by Promontory Financial Group in 2014. The review (which is available on this website under Publications) noted:

> "*The appropriate levels and composition of base salary and bonus are driven largely by the need to remain competitive within the local labour market, as well as being able to attract highly-qualified New Zealand expatriates to return when needed. This is a much more challenging exercise in a small market such as New Zealand and the cost of losing key staff due to uncompetitive remuneration could be extremely high. To date the evidence suggests that the Guardians have been effective both in attracting qualified local staff and in attracting high-quality expatriates back to New Zealand. This is a record that needs to be protected.* "

> and recommended that:

> "[the Guardians] *commission an external review of the maximum bonus rates allocated to front office and senior management against industry benchmarks in New Zealand and Australia, as well as comparable sovereign wealth funds in developed countries. The objective should be to keep the Guardians' remuneration levels competitive.*"

Unlike other public sector organisations in New Zealand, staff salaries at the Guardians are not funded through Parliamentary appropriation. Instead, they are paid for by the Fund.

WHAT ARE COMPONENTS OF THE CHIEF EXECUTIVE'S REMUNERATION

Element	Operation of the element	Maximum potential value	Performance metrics used **and time period used**
BASE REMUNERATION	A fixed amount reviewed annually, with any changes effective in 1 July for the following year after consultation with the State Services Commission and, if necessary, the Minister of Finance Actual base remuneration payments for a financial year can be lower or higher than contractual base remuneration, depending on a number of factors; the difference is mostly attributable to the amount and value of leave taken	Base remuneration is associated to the job size which is evaluated by remuneration specialists using market evaluation systems. Job position is re-evaluated at least 5 yearly.	Eligibility for a salary review is subject to meeting minimum performance expectations
BENEFITS	Life insurance, income continuance insurance, and medical insurance is provided on a discretionary basis. Compulsory employer KiwiSaver contributions are made as a percentage of base remuneration.	Cost of the insurance premiums from time to time. KiwiSaver contributions are made at the minimum level (3%)	None
INDIVIDUAL PERFORMANCE	Bonus is discretionary and paid after the end of the financial year to which it relates	Maximum bonus potential: 20% of actual base remuneration	Linked to employee behaviour consistent with Guardians' desired workplace culture
FUND PERFORMANCE	Bonus is discretionary and paid over 4 years The Fund performance component comprises an Excess Return portion and Value Added portion	Maximum bonus potential: • Excess Return – 13.33% of actual base remuneration • Value Added – 26.67% of actual base remuneration	Performance is measured on a whole of fund average performance over a rolling four year period. Metric for Excess Return component: The Fund's return outperforming the 90 day Treasury bill return p.a. capped at 4% (ie the

Element	Operation of the element	Maximum potential value	Performance metrics used **and time period used**
			maximum 13.33% bonus is achieved if the Fund outperforms the Treasury Bill return by 4%) Metric for Value Added component: The Fund's return outperforming the Reference Portfolio's return p.a. capped at 0.75% (ie the maximum 26.67% is achieved if the Fund exceeds the Reference Portfolio by 0.75%.

PROCESS FOR SETTING THE CHIEF EXECUTIVE'S REMUNERATION

The Board is responsible for setting the terms and conditions of employment for the Chief Executive (including remuneration), and monitoring his performance. Under the Crown Entitles Act 2004, before agreeing to any change to those terms and conditions, the Guardians must consult with the State Services Commissioner and if the proposed change does not comply with the guidance issued by the Commissioner, the Guardians must also consult the Minister of Finance. Accordingly, consultation is required if the Board proposes to change the Chief Executive's remuneration terms.

The Guardians must have regard to (but is not bound by) the recommendations made to it by the Commissioner or the Minister of Finance within a reasonable time of being consulted.

Following its annual performance and remuneration review for the Chief Executive at the end of 2016, the Board recommended a 2.7% increase in the Chief Executive's base remuneration for the 2017 financial year. As for other employees, the Chief Executive's base remuneration is based on:

- job size determined by independent experts;
- competence; and
- current, independent remuneration market data.

The recommended change took into account the Chief Executive's continued strong performance, including achieving improvements in the Guardians' workplace culture, the increased complexity of the role and the growth in the size of the Fund.

C1 - Public

No changes were proposed to the Guardians' discretionary bonus scheme or the Chief Executive's entitlement to participate in the scheme for the financial year ended 30 June 2017.

Consultation was undertaken with the State Services Commissioner and Minister of Finance on the proposed change to the Chief Executive's base salary. Both the State Services Commissioner and Minister of Finance declined to support the proposed increase but did support a 1% increase. We have decided to proactively disclose copies of the following documents concerning the consultation process:

1. Letter from the State Services Commission to the Chair of the Guardians' Board dated 21 July 2016
2. Letter from the Board Chair to the State Services Commission dated 22 March 2017;
3. Email from the State Services Commission to Board Chair dated 28 April 2017;
4. Letter to the Minister of Finance from the Board Chair dated 30 May 2017;
5. Letter from the Minister of Finance to the Board Chair dated 27 July 2017; and
6. Letter to the Minister of Finance from the Board Chair dated 9 August 2017.

In some instances, information has been redacted to protect privacy or other interests. Our reasons for withholding the information are noted in the documents as applicable.

After consulting with the State Services Commissioner and the Minister, the Board concluded that the recommended 2.7% increase was appropriate. Factors taken into account included:

- The Board's view that the role of the Guardians' Chief Executive's is unique in New Zealand, requiring original strategic thinking and leadership and has grown in complexity and scope over time.
- The Board's view that the public sector pay scale recommended by the State Services Commission is not appropriate for setting the remuneration for the Chief Executive of the Guardians. The Guardians operates in a highly completive market, and its global mandate, highly specialised financial and investment focus and the potential difficulty in replacing the Chief Executive's skill set requires a directly meaningful and relevant market-based benchmark. Accordingly, the Board considers remuneration paid by both public and private sector organisations and comparable public funds.

The Board's view is that the Chief Executive's remuneration, which is benchmarked against New Zealand companies, is competitive and appropriate.

The Board is very mindful of the public sector view point espoused by the State Services Commissioner and the Minister of Finance. However, ultimately the Board is accountable for the financial performance of the Fund and ensuring that it operates in accordance with best practice as required by statute. The Board does not believe the New Zealand public sector pay scale recommended by the SSC is appropriate in the case of the Guardians. In setting the CEO's remuneration, the Board therefore considers remuneration paid by public and private sector organisations and comparable public funds.

Our mandate requires us to manage the Fund in line with global best practice. Achieving our mandate requires us to provide remuneration packages that will attract, motivate and retain a world-class team.

The employment market for professionals in the investment sector is highly competitive. We aim to build and maintain a team of talented people who can deliver value in terms of Fund performance. The Guardians is made up of people with significant expertise and experience in investment management and research, portfolio design, risk management and investment operations, along with highly skilled specialists in finance, law, IT, communications and HR.

Remuneration consists of salary, participation in a discretionary bonus programme, KiwiSaver and participation in a discretionary benefits scheme.

Unlike other public sector organisations in New Zealand, staff salaries at the Guardians are not funded through Parliamentary appropriation. Instead, they are paid for by the Fund.

KEY FACTORS

In structuring remuneration at the Guardians appropriately, we are conscious of the need to:

- reinforce the long-term objectives of the Fund;
- reinforce our investment strategy, which is based on a whole-of-Fund approach, rather than individual asset classes or investment portfolios;
- ensure remuneration encourages appropriate, but not excessive, risk-taking; and
- be realistic about the periods for which staff are likely to remain with the Guardians and can reasonably expect to be rewarded for performance.

We aim to be clear about what people are paid for and why, and to be consistent, systematic and transparent in applying our remuneration policies. Our intent is to remunerate and reward people for their knowledge, skills, alignment to behavioural expectations and contribution in the roles they are performing.

Equal Pay

Our Human Resources Policy makes a specific commitment to achieving the principle of equal pay for equal work.

Based on a 2016 report from EY, we are confident that we are paying equally for work of equal value. The overall pay gap at the Guardians reflects the predominance of males in senior and investment professional roles. See page 91 for further details.

BASE SALARIES

Employees receive a base salary, which is fixed, and which reflects their role, contribution and level of experience. Base salaries are based on:

- independently determined job sizes;
- employees' competence in roles; and
- current, independent remuneration market data, based on upper quartile, New Zealand financial services sector rates.

Salaries are reviewed annually with any increases subject to meeting minimum performance expectations.

SUPERANNUATION

The Guardians makes compulsory employer contributions to KiwiSaver at the minimum level (3%).

DISCRETIONARY BENEFITS SCHEME

A range of other benefits is also offered to permanent staff on a discretionary, non-contractual basis. These benefits include income protection insurance, life insurance and health insurance. The total cost to the Guardians of providing these benefits was NZD229,000 in 2016/17.

DISCRETIONARY BONUS SCHEME

As is normal within the financial services sector, staff are eligible for performance pay on top of base salaries.

The Guardians' discretionary bonus scheme is designed to incentivise employees and create a culture of good performance. All bonuses are at the discretion of the Board. There is no contractual requirement with employees requiring the payment of any bonus in any given year.

There are two components to the bonus scheme:

1) an individual performance component for which all permanent employees are eligible; and
2) a two-part Fund performance component, which applies to members of the Leadership Team, Investments Group and Portfolio Completion Group.

Bonuses are calculated as a percentage of average base remuneration and vary up to a maximum percentage. The maximum available is:

	Total	Individual Component	Fund Component
Leadership Team, Investments Group and Portfolio Completion Group	60%	20%	40%, comprised of: • Excess Return – 13.33% • Value Added – 26.67%
Other employees	20%	20%	N/A

REMUNERATION SUMMARY

Benefit	Purpose and link to strategy	Operation
Base salary	Building and maintaining a 'great team' To reflect the responsibilities of the individual role and the individual's level of experience and competence in the role Set at appropriate level to mitigate risks of over-reliance on discretionary income	Reviewed annually Each individual has a job size and base salary associated with their position. Positions are re-evaluated at least 5 yearly Base salaries are determined by positions being evaluated by remuneration specialists using market evaluation systems General approach is to benchmark against upper quartile, New Zealand financial services sector rates Individual performance is reviewed bi-annually, and salaries are reviewed annually. Eligibility for a salary review is subject to meeting minimum performance expectations. Employees with a performance rating outcome equivalent to below target are not eligible for a salary review
Individual objectives and performance bonus	Promotes commitment to a positive, constructive workplace culture Linked to employee behaviour consistent with the Guardians' desired workplace culture	Bonus payments are at the Board's discretion Employees with a performance rating outcome equivalent to below target are not eligible for a bonus
Fund component	Based on Fund financial performance outperforming Treasury Bill return and Reference Portfolio Incentivises whole of Fund approach and aligns with statutory mandate of maximising returns without undue risk Based on Fund performance over rolling four year periods to encourage sustainable performance	Bonus payments are at the Board's discretion Based on audited performance results Employees with a performance rating outcome equivalent to below target are not eligible for a bonus Available to the Leadership Team, Investments and Portfolio Completion employees
Other benefits	Building and maintaining a 'great team' Good employer	Discretionary life insurance, income continuance insurance and medical insurance

Further information about the bonus scheme is set out below.

INDIVIDUAL PERFORMANCE COMPONENT (ALL STAFF)

All permanent staff are eligible for a discretionary bonus payment in respect of achievement relating to their individual performance (a maximum of 20% of base remuneration). All discretionary bonus payments are contingent upon staff having achieved their objectives. This is captured in an assessment of performance against a set of expectations agreed in writing between the employee and their manager.

Individual performance is measured with reference to:

- the individual's performance against behavioural criteria consistent with the Guardians' desired workplace culture (this is determined by the individual's manager, based on feedback from 360 degree performance reviews and in consultation with the Leadership Team).

The involvement of the Leadership Team in the process is designed to ensure fairness and consistency across the organisation.

The individual component of the bonus is payable annually.

FUND PERFORMANCE COMPONENT (LEADERSHIP TEAM, INVESTMENTS GROUP, PORTFOLIO COMPLETION GROUP)

Staff who are members of the Leadership Team, Investments Group and Portfolio Completion Group are eligible for a further bonus (a maximum of 40% of base remuneration), based on two Fund performance measures:

1) Excess Return (1/3 of the 40%); and

2) Value Added (2/3 of the 40%).

These measures are based on whole-of-Fund performance, consistent with our Reference Portfolio approach to investing the Fund. Under the Reference Portfolio approach, we work together to ensure our investment decisions improve the Fund's portfolio as a whole, rather than optimising performance within individual asset classes or sub-portfolios.

Payments against these measures are made over four years on a rolling average basis. This is intended to incentivise appropriate risk-taking and reflect the Fund's focus on long-term performance.

Payments made in any one year therefore reflect a four year moving history. A new four year 'Vintage' is initiated each financial year.

The Excess Return measure is calculated based on the Fund's actual return, less the 90-day Treasury Bill return, a proxy of the opportunity cost to the government of investing in the Fund instead of paying down debt. The maximum bonus payable under this portion is capped at 13.33% of base remuneration if the Fund exceeds the Treasury Bill return by 4% (i.e. outperformance of the Treasury Bill return is capped at 4%).

The Value Add measure is calculated based on the Fund's actual return, less the Reference Portfolio return. Payments based on this measure are capped at 26.67% of base remuneration if the Fund exceeds the Reference Portfolio return by 0.75% (i.e. outperformance of the Reference Portfolio is capped at 0.75%).

Interim payments for the Fund performance component are calculated based on actual average remuneration (excluding bonus payments) across the relevant period. The maximum percentage paid out is a quarter of the Vintage in Year 1 and increases by a quarter of the Vintage each year thereafter, in line with the percentage of services rendered by the employee.

Therefore, once a staff member has been employed for four years, they will have four separate Vintages running, paying out a maximum of 25% each, as summarised in the table below.

Max Out scenario	Vesting Level (% of services performed)	Less Previously Paid	Payable Current Year
1st Vintage	100%	75%	25%
2nd Vintage	75%	50%	25%
3rd Vintage	50%	25%	25%
4th Vintage	25%	0%	25%
Total			100%

INCENTIVE ACHIEVEMENT IN 2016/17

- For eligible staff who have been employed for the last four full years:
  - Payments made in respect of Treasury Bill return were 16.67% of average base remuneration for the equivalent period, compared with the maximum possible 13.33%.
  - Payments made in respect of the Reference Portfolio return were 28.71% of average base remuneration for the equivalent period, compared with the maximum possible 26.67%.
- Over the past four years the Fund has:
  - Exceeded the Treasury Bill return by an average of 11.55% p.a. (12.68% in 2016/17)
  - Exceeded the Reference Portfolio return by an average of 2.30% p.a. (3.05% in 2016/17).

The maximum possible refers to the maximum payable per vintage. At any given time we have four vintages running, and each of these will have cumulative achievement levels between 0% and 100% throughout their four year lives. The associated interim payments also vary year to year.

Strong performance will improve the status of previously underperforming vintages, and result in catch-up of interim payments. This year we have all four vintages at 100% achievement to date for the current year and one vintage that has made-up performance for previous underachievement. The combined effect is an additional 5% bonus payment to make up for a prior year underachievement. This occurs occasionally.

Further information about remuneration can be found in our Human Resources Policy, available at: https://www.nzsuperfund.co.nz/publications/policies. See also the Guardians' financial statements at page 192.

CHIEF EXECUTIVE OFFICER REMUNERATION

One of the Board's most important decisions is deciding on the appointment and remuneration of the CEO.

Process

The EPRC (see page 67), based on independent advice from external remuneration specialists, reviews the CEO's remuneration annually and makes recommendations to the Board. The Board then consults with the State Services Commission and, where relevant, the Minister of Finance, before making a final decision. In ensuring the final decision rests with the Board, this process reflects the design of the Fund and the importance placed on its commercial independence.

Factors Taken into Account

In the Board's view, the role of the CEO of the Guardians is unique in New Zealand, requires original strategic thinking and leadership and has grown in complexity and scope over time.

As is normal good practice, the Board aims to ensure alignment between the CEO's remuneration and the strategy and performance of the Guardians and Fund. For this reason, the CEO (along with other members of the Leadership, Investments and Portfolio Completion teams) is eligible for bonus payments up to a maximum of 60% of his base remuneration, under the Guardians' discretionary bonus scheme.

The Board also considers relativity between the CEO's remuneration and the staff of the Guardians.

The Board is confident that the CEO's pay is competitive and appropriate.

In public discussion about the CEO's remuneration over the course of the year, it was noted that the remuneration is high relative to other public sector CEOs in New Zealand. The public sector pay scale recommended by the State Services Commission is not, in the Board's view, appropriate for setting the CEO's remuneration. The Guardians operates in a highly competitive market, and its global mandate, highly specialised financial and investment focus and the potential of difficulty in replacing the CEO's skill set requires a directly meaningful and relevant market-based benchmark.

In setting the CEO's remuneration, the Board therefore considers remuneration paid by public and private sector organisations and comparable public funds. See page 81 for further information on the components of the bonus scheme and how they are measured.

Rationale for Increases

The Board approved a 2.7% increase to the CEO's base salary for the 2016/17 year. This increase to base salary, combined with strong individual performance and the Fund's ongoing out-performance of its benchmarks, resulted in an increase in the CEO's total remuneration of 14.7% in 2016/17.

In approving increases to the CEO's base salary over the last few years, the Board has been conscious of factors including:

- the increased complexity of the role;
- the growth in the size of the Fund;
- the CEO's continued strong performance, including achieving improvements in the Guardians' workplace culture.

Changes to the Guardians' bonus scheme became effective 1 July 2015. As described in previous annual reports, the effect of these changes was to make the CEO (and other Leadership Team members) eligible for the same bonus scheme as Guardians' investments staff: 60% of base remuneration compared with 40% previously. There was no change to the discretionary nature of the scheme; all bonuses are paid at the Board's discretion. The extension of the 60% scheme to the CEO and other members of the Leadership Team reflected the nature of their work and influence over investment strategy and performance. The Board also wished, given the need for succession planning, to maintain appropriate relativity between roles in the organisation.

The discretionary bonus scheme is designed to create strong alignment between the CEO's remuneration and the performance of the Guardians and the Fund. Consistent with the Guardians' long-term goals, bonus payments for Fund performance in any one year reflect a four-year rolling average. There are no trailing payments available once an employee ceases service with the Fund.

The alignment between performance and remuneration is illustrated by the large range in the CEO's potential remuneration. For 2016/17, the CEO's potential remuneration range was from a minimum of $728,843 to a maximum (based on a retrospective view of actual salary payments) of $1,249,199.

Annual CEO Remuneration 1 July 2012 – 30 June 2017

Financial Year	2016/17		2015/16	
	$	% achieved	$	% achieved
Contractual Base Remuneration	$700,400	–	$682,000	–
Actual Base Remuneration Payment (A number of factors can mean there is a difference between the contractual and actual base. See footnote* for more detail)	$740,476	–	$690,322	–
At Risk – Individual Component (max 20% of actual base remuneration)	$116,995	15.8%	$117,355	17.0%
At Risk – Fund Financial Performance Excess Return on a 4 year moving average	$116,647	13.3%	$61,829	10.0%
Cumulative Fund Performance can impact interim payments resulting in payments in a subsequent year. See page 81 for more detail.		3.3%		(3.3%)
At Risk – Fund Financial Performance Value Add on a 4 year moving average	$200,330	26.7%	$155,616	24.6%
Cumulative Fund Performance can impact interim payment resulting in payments in a subsequent year. See page 81 for more detail.		2.1%		(2.1%)
KiwiSaver	$35,233	–	$30,754	–
Benefits (Health, Life and Income Protection Insurance)**	$7,431	–	$4,879	–
Total Remuneration	**$1,217,112**	**–**	**$1,060,753**	**–**

The At Risk Financial Performance component was increased from 20% to 40% in FY 2015/16 when the Leadership Team's bonus structure was made consistent with the Investments and Portfolio Completion teams. From FY 2015/16, the maximum At Risk for the Fund's Financial Performance of Excess Return is 13.3%. The maximum At Risk for the Fund's Financial Performance of Value Add is 26.7%. The At Risk Fund Financial Performance components of the bonus scheme are explained fully at page 81.

Financial Year	2014/15		2013/14		2012/13	
	$	% achieved	$	% achieved	$	% achieved
Contractual Base Remuneration	$571,000	–	$566,000	–	$464,000	–
Actual Base Remuneration Payment (A number of factors can mean there is a difference between the contractual and actual base. See footnote* for more detail)	$596,078	–	$586,796	–	$477,685	–
At Risk – Individual Component (max 20% of actual base remuneration)	$101,333	17.0%	$117,359	20.0%	$83,595	17.6%
At Risk – Fund Financial Performance Excess Return on a 4 year moving average	$37,932	6.7%	$35,621	6.7%	$40,590	6.9%
Cumulative Fund Performance can impact interim payments resulting in payments in a subsequent year. See page 81 for more detail.		–		–		1.6%
At Risk – Fund Financial Performance Value Add on a 4 year moving average	$95,581	13.3%	$51,686	10.0%	$65,233	13.8%
Cumulative Fund Performance can impact interim payment resulting in payments in a subsequent year. See page 81 for more detail.		3.3%		(3.3%)		–
KiwiSaver	$24,928	–	$23,744	–	$20,013	–
Benefits (Health, Life and Income Protection Insurance)**	$4,276	–	$4,020	–	$3,582	–
Total Remuneration	**$860,128**	**–**	**$819,226**	**–**	**$690,698**	**–**

For FY 2013/14 and FY 2014/15, the maximum At Risk for the Fund's Financial Performance of Excess Return was 6.7%. For FY 2012/13 this maximum was 6.9%, due to a final payment from a prior bonus scheme. For FY2013/14 and FY 2014/15 the maximum At Risk for the Fund's Financial Performance of Value Add was 13.3%. For 2012/13, this maximum was 13.8%, due to a final payment from a prior bonus scheme.

* Actual base salary payments can be lower or higher than contractual base salary, depending on a number of factors; the difference is mostly attributable to the amount and value of leave taken.

** Benefits include FBT, exclude GST.

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STATE SERVICES COMMISSION
Te Komihana O Ngā Tari Kāwanatanga

21 July 2016

Catherine Savage
Chair
Guardians of New Zealand Superannuation

By email: [redacted]

Dear Catherine

Guardians of New Zealand Superannuation: Chief Executive's 2016 Remuneration Review

The remuneration review for your Chief Executive, Mr Adrian Orr, is due with effect from 1 July 2016.

Your Chief Executive's employment agreement provides that remuneration reviews are undertaken annually. To meet this obligation and to ensure your Chief Executive is treated fairly, it is important that a remuneration review is undertaken each year, in a timely manner. Each year, prior to your Chief Executive's remuneration review, we provide advice to you about expectations and remuneration movement for that review. This letter provides details and guidance for you to undertake the review.

Remuneration review expectations

The State Services Commission's (SSC) remuneration policy, and the Government's expectation for pay and employment conditions in the State sector, is that increases to chief executive remuneration should be modest, linked to performance and consider business issues such as recruitment, retention, and affordability. The State Services Commissioner (the Commissioner) continues to expect that all Crown entity chairs will exercise restraint regarding remuneration reviews.

In the current fiscal environment, an increase should be proposed only where it:

- is supported by Mr Orr's strong performance relative to his performance objectives
- can be met within existing funding levels
- is responsible
- demonstrates value for money.

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New Zealand
Phone +64-4-495 6600
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www.ssc.govt.nz

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Current remuneration

Our records show that Mr Orr's current remuneration package is as follows:

Base salary	$682,000
KiwiSaver @ 3% of base salary	$20,460
LTI – fund investment performance @ 40% of base salary	$272,800
KiwiSaver @ 3% of LTI	$8,184
STI – individual performance @ 20% of base salary	$136,400
KiwiSaver @ 3% of STI	$4,092
Insurance	$5,800
Total Potential Remuneration	**$1,129,736**

A government remuneration range of 90% to 110%, with a midpoint at 100%, is established for each chief executive's role, based on an independent job size. A chief executive's actual remuneration will depend on individual circumstances, and the midpoint provides context in which to consider a level of remuneration.

Market information and ongoing pressure on the Government's finances continue to influence the Commissioner's decision about increasing government remuneration ranges. Accordingly, a government remuneration range for positions of the same size as your Chief Executive's has remained unchanged for 2016/2017, reflecting the continuing low inflationary environment, and is [redacted] with a midpoint of [redacted].

Mr Orr's current remuneration is [redacted] of the 2016/2017 remuneration range midpoint, as highlighted in the matrix in the Appendix attached.

Authority to increase remuneration

You are required to consult with the Commissioner for a remuneration increase, however, consultation will be considered as complete for Mr Orr's 2016 remuneration review if you have:

- undertaken a formal assessment of his performance and formed a view on where he sits in the performance rating matrix
- taken into account the Commissioner's expectation that a chief executive assessed as having "exceeded expectations" will have achieved their stretch targets, and performed beyond the core requirements of a chief executive role
- taken account of the advice about his current position in the range and decided that any remuneration increase to total potential remuneration is at or less than the percentage increase in the matrix
- decided that there is no change to the components, and proportion of the components relative to each other, of the remuneration package
- included all benefits received by Mr Orr in the remuneration package.

If your proposal for a remuneration increase is within the performance matrix and meets the criteria detailed above, please advise your SSC advisor of the decision taken, and no further action is required. If your proposal is outside the criteria, you will need to send

3)

your SSC advisor a proposal outlining the rationale for the increase for consideration (before any change is implemented).

When you respond to this letter, please confirm that we have included all of the components of Mr Orr's remuneration package, and advise the performance rating and the percentage of the performance component that has been awarded to him for the past year. This information will ensure our records are accurate and allow us to track trends in variable pay in the Crown entity sector.

Remuneration disclosure

As you know, your Chief Executive's remuneration is disclosed annually by SSC. Later this year, we will be reviewing the form and content of our current remuneration reporting, considering if there is a need to provide more and different information to meet obligations for transparency, and to make the report easier to understand. The 2015/2016 disclosure is not expected to change but it is possible that any remuneration decisions taken in this coming year may be reported differently in future years. You will be consulted on any proposed changes for future years.

[redacted] is the SSC advisor with responsibility for the relationship between Guardians of New Zealand Superannuation and SSC regarding the terms and conditions of employment, including remuneration, for your Chief Executive. She can be contacted by email at [redacted]

Yours sincerely

[redacted]

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NZSUPERFUND
Te Kaitiaki Tāhua Penihana Kaumatua ō Aotearoa

C3 - Restricted Confidential

22 March 2017

[redacted]
State Services Commission
PO Box 329
WELLINGTON 6140

Dear [redacted]

RE: GUARDIANS OF NZ SUPERANNUATION - CEO'S 2016/17 REMUNERATION REVIEW

Introduction

1. I refer to [redacted] letter to me concerning the remuneration review of the Guardians of New Zealand Superannuation's (Guardians) CEO, Adrian Orr, for the 2016/17 financial year.

2. As is its annual practice, the Board of the Guardians has considered your letter and has also undertaken a thorough review of the CEO's performance for the 2015/16 financial year. We have considered carefully the remuneration parameters outlined by the Commissioner of State Services (Commissioner) and balanced those against our need as a responsible employer to compensate our staff fairly for their contribution and expertise, and to ensure our ability to attract, motivate and retain the best leadership talent for this significant New Zealand institution.

Process

3. The Guardians' CEO role was last confirmed by Hay Group in May 2015, resulting in a job size of [redacted]

4. As you may be aware, the Guardians benchmarks its remuneration against the fixed package upper quartile financial services sector, but because there are insufficient data points for roles of this size in that sector, Hay Group recommends that the [redacted] be used as a benchmark for our CEO role. While the Board has considered the "public sector" remuneration range recommended by the Commissioner, it has determined that market-based comparisons form a more meaningful basis against which to assess the CEO's remuneration range.

5. In our view, the highly specialist nature of the role and the organisation, the exceptional performance of the CEO, and our anticipated recruitment challenges in replacing the incumbent's skill set require a directly meaningful and relevant, market-based benchmark against which to assess the CEO's remuneration package.

Performance

6. In considering the CEO's proposed remuneration package for the 2016/17 financial year, the Board has taken into account the CEO's personal performance, which continues to exceed expectations, and the sustained strong performance of the Fund itself, which increased in size from $28.79 billion as at 31 August 2015 to $31.6 billion as at September 2016.

7. Since its inception in September 2003 until the end of September 2016, the Guardians' investments have produced an annualized rate of return of 9.7% per annum (adding $21.61 billion net value to the $14.88 billion of contributions received), which is 5.33% above the Treasury Bill rate (i.e. returning $14.87 billion above the cost of Government borrowing) and 1.27% above our Reference Portfolio (i.e. adding $4.68 billion in value through additional active investment decisions). Included in these returns is the $4.89 billion the Guardians has returned to the Crown in tax paid.

Proposed remuneration package

8. In its recent deliberations on this matter, the Board reaffirmed its commitment to the salary setting process it has applied in the previous four years. It has considered Mr Orr's proposed salary for the 2016/17 financial year against the [redacted]

9. [redacted]

10. Mr Orr's ongoing performance remains exceptional and the Board has taken this performance into account in its deliberations. However, when setting the CEO's remuneration, the Board is also mindful of the competing needs to keep pace with a highly competitive international market, as well as to balance the requirements and interests of the Guardians' various stakeholders. Taking these considerations into account, and having deliberated carefully and at length, the Board therefore recommends that the CEO's base salary be increased to $700,400, effective 1 July 2016. This is an increase to Mr Orr's base salary of 2.7%, [redacted]

Total compensation package

11. The Board has compared the CEO's potential total package with other Crown entities and international peers, and it is comfortable that the proposed total potential package is well within the remuneration parameters for those roles.

12. As you know, in addition to the base salary, the CEO's total compensation package also includes a discretionary annual incentive component, amounting to a maximum 60% of base remuneration (20% personal, 40% based on fund performance).

13. The fund performance component of the Guardians' discretionary bonus payment is measured over four year moving averages; takes four years to reach payment in full; is payable at the sole discretion of the Board, and only if the incumbent remains employed in the role at maturity (eg. there are no trailing payments once the CEO relinquishes his role).

14. Payments of the fund performance component made in any one year reflect a four year moving history, of which a nominal one quarter (or 10% of fixed package) is a short term incentive (STI) payment, and the remaining three quarters (or 30% of fixed package) is essentially a long term incentive (LTI) payment, which is aligned with the long term nature of the Fund, its investment strategy and performance outcomes.

15. The proposed new base salary therefore gives the following Total Package at Target:

Base salary	KiwiSaver (3% on base)	Other incentives (e.g. insurance)	**Fixed package**	Maximum STI as a % of Base & KS (20% + 10%)	Maximum LTI as a % of Base & KS (30%)	**Total Package at Target**
$700,400	$21,012	$5,700	**$727,112**	$216,424	$216,424	**$1,159,960**

16. The methodology outlined above includes all possible payments which form part of the total potential remuneration package. However, note that when calculating its Total Package at Target, Hay Group does *not include* any LTI element. Notwithstanding our desire to align with Hay's approach, we have included the LTI portion of the package in the calculations above for the sake of transparency, and in order to align as closely as possible to the approach adopted by the SSC.

17. We are of course aware that the CEO's total remuneration package falls outside the Commissioner's recommended parameters. We therefore assume that consultation with the Commissioner may be required before the CEO's final package is confirmed.

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Conclusion

18. The Board of the Guardians recommends that the CEO receive a base salary for the 2016/17 financial year of $700,400. [redacted]

19. I note the Commissioner's expectation that any increase will be proposed only where it can be met "within existing funding levels". As you are aware, the Guardians has not received government funding since 2009. For completeness, I can confirm that the proposed increase does not require additional funding outside the Guardians' approved 2016/17 budget.

20. We would welcome the opportunity to speak with the Commissioner about how we might expedite the consultation process with the Commissioner in future years, particularly given that our CEO's remuneration package falls outside the parameters articulated by the SSC each year in its general consultation process. Could you advise whether it is possible to meet the Commissioner in Wellington, in order to discuss how we might best work together going forward?

21. I look forward to hearing from you.

Yours sincerely

Catherine Savage
Chair of the Board

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[redacted]

From: [redacted]
Sent: Friday, 28 April 2017 4:35 p.m.
To: Catherine Savage [Board Member]
Cc: [redacted]
Subject: Guardians CE's 2017 Remuneration Review

[IN-CONFIDENCE]

Good afternoon Catherine

Further to our phone conversation today, this email is to confirm SSC's decision on your proposal for a 2.7% increase to Mr Orr's base salary,

Having considered the Board's proposal and how it aligns with our policy, guidance and other decisions across Crown entities, SSC is declining to support the proposed 2.7% increase but will support a 1% increase to total potential remuneration (TPR), as provided in the performance matrix.

On this basis, with effect from 1 July 2016, Mr Orr's remuneration package would be as follows:

Base salary	$688,916
KiwiSaver @ 3% of base salary	$20,667
LTI – fund investment performance @ 40% of base	$275,566
KiwiSaver @ 3% of LTI	$8,267
STI – individual performance @ 20% of base	$137,783
KiwiSaver @ 3% of STI	$4,133
Insurance	$5,700
Total Potential Remuneration	**$1,141,033**

You may wish to consult with your Minister if you decide not to accept this advice.

As discussed today, Dallas Welch, the Deputy Commissioner, would be happy to meet with you to talk about how you might expedite the consultation process in future years. Please let me know when you are available and I will organise a meeting for you.

Kind regards

[redacted]

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C3 - Restricted Confidential

9.

30 May 2017

Hon. Steven Joyce
Minister of Finance
Private Bag 18041
Parliament Buildings
WELLINGTON 6160

By Email: S.Joyce@ministers.govt.nz

Dear Minister Joyce,

RE: GUARDIANS OF NZ SUPERANNUATION - CEO'S FY2016/17 REMUNERATION REVIEW

1. I refer to the remuneration review of the CEO of the Guardians of New Zealand Superannuation (Guardians), Mr Adrian Orr, for the financial year 2016/17.

2. Having completed consultation with the State Services Commission (SSC), the Board now wishes to consult with you in accordance with s117 Crown Entities Act 2004.

3. I **attach** a copy of my letter to the State Services Commission (SSC) dated 22 March 2017 which recommends that Mr Orr receive an increase of 2.7%, bringing his total base salary to $700,400. The reasons for the Board's recommendation are set out in the attached correspondence, and include a careful balancing of the Board's obligation to compensate fairly and competitively, while also taking into account the expectations of the Board's stakeholders.

4. I note that a key component of the CEO's remuneration package is eligibility for an LTI payment of up to 30% of base salary. This payment is based on, and payable only in the event of, superior fund performance. Payments made in any one year reflect a four year moving average aligned with the long term nature of the Fund, its investment strategy and performance outcomes. The LTI component takes four years to reach maturity, is payable at the sole discretion of the Board, and only while the incumbent remains employed (eg. there are no trailing payments post-employment).

5. As you are no doubt aware, on 28 April 2017 the SSC advised via email that:

   Having considered the Board's proposal and how it aligns with our policy, guidance and other decisions across Crown entities, SSC is declining to support the proposed 2.7% increase but will support a 1% increase to total potential remuneration (TPR), as provided in the performance matrix.

   On this basis, with effect from 1 July 2016, Mr Orr's remuneration package would be as follows:

Base salary	$688,916
KiwiSaver @ 3% of base salary	$20,667
LTI – fund investment performance @ 40% of base	$275,566
KiwiSaver @ 3% of LTI	$8,267
STI – individual performance @ 20% of base	$137,783
KiwiSaver @ 3% of STI	$4,133
Insurance	$5,700
Total Potential Remuneration	**$1,141,033**

6. The Board remains of the view that its original proposal is fair, competitive and appropriate given the nature and complexity of the Guardians' CEO role. It reflects a principled approach to remuneration, taking into account the highly specialised nature of the Guardians as a global investment organisation, the incumbent's performance in what is a complex and unique position in the state sector, and the potential recruitment challenges in replacing his skill set.

7. Before setting the CEO's remuneration, the Board seeks your advice and wishes to consult with you in accordance with s117 Crown Entities Act 2004. I understand you will receive a briefing from the State Services Commission in relation to this matter, and I am available to meet with you at your convenience, should that assist.

Yours sincerely

Catherine Savage
Chair of the Board

Office of Hon Steven Joyce

Minister of Finance
Minister for Infrastructure

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27 JUL 2017

Catherine Savage
Chairperson
Guardians of New Zealand Superannuation
PO Box 106607
AUCKLAND 1143

Dear Catherine

Guardians of New Zealand Superannuation – CEO's FY 2016/17 remuneration review

I write in response to your letter of 30 May 2017 regarding the remuneration review for your Chief Executive, Mr Adrian Orr.

You are proposing that Mr Orr receive an increase of 2.7% effective from 1 July 2016, bringing his base salary to $700,400, and his total potential remuneration to $1,159,960.

I acknowledge your advice in relation to the highly specialised nature of the Guardians as a global investment organisation, Mr Orr's performance, and the potential recruitment challenges in replacing his skill set.

I accept that an increase is appropriate. However, I note that the CEO of the Guardians of New Zealand Superannuation is not involved in raising capital for investment. This means that the CEO roles in the private sector financial market are not fully comparable with Mr Orr's role.

I consider that an increase of 2.7% is too large in the current climate, particularly given the increase in the previous year.

The State Services Commissioner's guidance is that a chief executive who exceeds performance expectations and sits above 104% of the government remuneration range can receive a 1% increase to total potential remuneration.

I consider that an increase of 1%, effective from 1 July 2016, would be appropriate. This would take Mr Orr's total potential remuneration to $1,141,033.

Yours sincerely

Steven Joyce
Minister of Finance

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C3 - Restricted Confidential

9 August 2017

Hon. Steven Joyce
Minister of Finance
Private Bag 18041
Parliament Buildings
WELLINGTON 6160

By Email: S.Joyce@ministers.govt.nz

Dear Minister Joyce

RE: GUARDIANS OF NZ SUPERANNUATION - CEO'S FY2016/17 REMUNERATION REVIEW

1. Thank you for your letter dated 27 July 2017 (sent 30 July) in relation to the remuneration review of the CEO of the Guardians of New Zealand Superannuation (Guardians), Mr Adrian Orr, for the financial year 1 July 2016 – 30 June 2017.

2. The Board has noted your position that a 2.7% increase is "too large in the current climate", and that, instead, a 1% increase is appropriate for the CEO of the Guardians. In reaching that view, you stated that you are influenced by the fact that the CEO of the Guardians is not involved in raising capital for investment and that, therefore, CEO roles in the private sector are not fully comparable with Mr Orr's role.

3. With respect, this is not the process which the Board has adopted when setting the CEO's remuneration. The first step in determining the CEO's salary is to have the job sized by independent experts, Korn Ferry Hay Group. In so doing, all of the key components of the role are assessed (including the need to raise capital, or not, as the case may be). Both we and the State Services Commission are agreed on Korn Ferry Hay Group's job size for the CEO role, and this has formed the basis of the Board's market comparisons.

4. Having agreed the job size with the State Services Commission, the Board then compares roles *of that size* to other roles in the market. These may or may not include CEO roles, but only includes those roles which are comparable in terms of their breadth, complexity, know how and accountability. By definition, roles which are sufficiently more complex are not considered in the comparative market data. Applying a discount to the market data on that basis is therefore a fallacy.

5. The Board considers its original recommendation is robust, and balances its obligation to compensate fairly and competitively, while also taking into account the expectations of the Board's stakeholders. The Board therefore remains of the view that a 2.7% increase is appropriate.

6. Mr Orr's base salary for the 2016/17 financial year has been set at $700,400, and back pay from 1 July 2016 has been paid accordingly.

Yours sincerely

Catherine Savage
Chair of the Board

Cc: Joan Foster, State Services Commission