

Commerce Committee Responsible Investment Submission

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8 November 2007

Outline for today

- Guardians of New Zealand Superannuation's mandate and responsible investment
- Responsible Investment Framework (which includes ethical, social, and governance issues)
- Responsible Investment in Practice
- Responsible Investment Activities to Date

Guardians of New Zealand Superannuation: Overview

- Manages and invests the New Zealand Superannuation Fund with the goal to smooth the cost of future New Zealand superannuation
- Operates within NZ Superannuation and Retirement Income Act 2001 (Act)
- Investing for 4 years and new organisation
- Since inception, 13.94% annualised return, over 3,000 stock holdings, 39 investment mandates

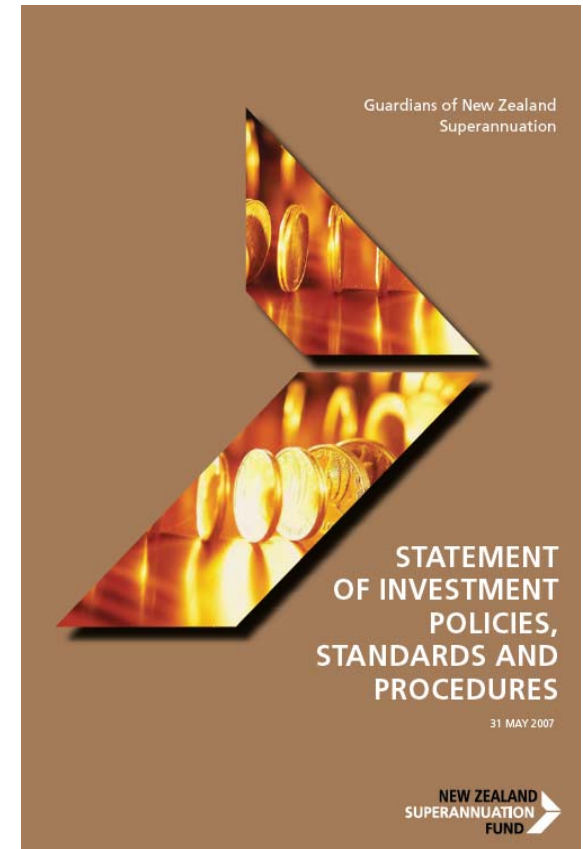
Guardians of New Zealand Superannuation: Mandate and Reporting

Section 58 of the Act

- The Guardians must invest the Fund on a prudent, commercial basis and, in doing so, must manage and administer the Fund 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.
- All 3 components have equal weight
- The Guardians aim to “avoid prejudice” by being a **“responsible investor”**

Guardians of New Zealand Superannuation: Mandate and Reporting

- **Section 61 of the Act** requires a “Statement of Investment Standards, Policies, and Procedures” that includes ethical and voting comment
- Guardians’ “**Responsible Investment**” framework is outlined in appended document - which includes ethical and voting comment as required by s61 (d) and (i) of the Act



Responsible Investment Policy, Standards and Procedures

- Responsible Investment Policy, Standards and Procedures incorporate both s61 (d) and (i):
 - a) ethical investment including policies, standards and procedures for avoiding prejudice to New Zealand's reputation as a responsible member of the world community; and
 - b) the retention, exercise or delegation of voting rights acquired through investments.



Guardians of New Zealand Superannuation: Responsible Investment and Governance

Act of Parliament

Sets mandate and establishes the Guardians and requirements

Minister of Finance

Treasury receives statutory reports from Guardians

Board of the Guardians

Approves Responsible Investment Policy, Standards and Procedures

Responsible Investment Committee

Board Committee oversees Responsible Investment Policy

Chief Executive Officer

Responsible for implementation and reporting

Internal Committees

Responsible Investment in terms of reference for Management, Investment, and Communications Committees



Guardians of New Zealand Superannuation: Investment beliefs and commitments

- **Responsible investment considerations are embedded into the New Zealand Superannuation Fund's investment beliefs:**

“Long-term financial performance can be affected by environmental, social, and governance (ESG) issues. The Guardians have encouraged and continue to encourage the companies they invest in to meet international standards in these areas.” (Annual Report)

“The Responsible Investment framework is consistent with meeting best-practice portfolio management, and avoiding prejudice to New Zealand's reputation as a responsible member of the world community.” (Responsible Investment Policy, Standards and Procedures)

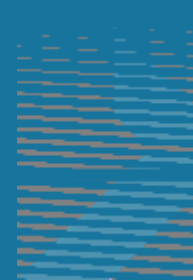
Responsible Investment and Best-Practice Portfolio Management

- Responsible Investment Policy, Standards and Procedures provide a consistent framework for integrating Responsible Investment
- Consistent with best-practice portfolio management, the Fund's portfolio is diversified through investments across global market indices
- Inevitably, institutional investors will hold shares in companies that give rise to social and environmental concerns.
- The UN Principles for Responsible Investment (UN PRI) provide the basis for broadly diversified investors to implement an effective responsible investment policy.

Responsible Investment Framework: Standards

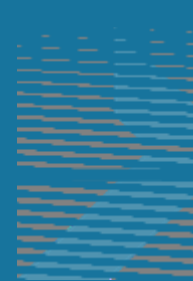
- United Nations Principles for Responsible Investment (UN PRI)
 - Framework for institutional investors
 - Focus on integration of environmental, social and governance criteria into investment analysis; and
 - Collaborative engagement and voting to drive improvements in corporate practices
 - Do not require divestment or exclusion
- United Nations Global Compact principles
 - Framework for companies
 - Aspires to encourage improvements in environmental and social practices amongst signatories globally

Responsible Investment Framework: Standards (cont.)



- Corporate Governance Voting Guidelines – New Zealand and international
- Sovereign Security screening against international conventions and sanctions
- Other international standards if appropriate

Responsible Investment Framework: Monitoring



- Global Listed Equities
 - Innovest Strategic Value Advisors: UN Global Compact screen
- Corporate Governance and voting
 - Institutional Shareholder Services: International and New Zealand proxy voting service
- Sovereign securities
 - H. Willberg & M. Powles Sovereign Screen
- Analysis on specific issues
 - Additional research services as required

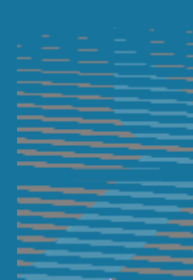
Guardians of New Zealand Superannuation: Responsible Investment in Practice

- Main shareholder actions: integration into investment; engagement and voting; exclusion; and divestment
- Assessment of issues that arise under the Responsible Investment Policy, Standards and Procedures may include consideration of:
 - the nature of involvement by the company and the Fund;
 - the materiality of the issue or breach of Responsible Investment standards;
 - the regulatory environment, including international conventions. New Zealand law and Crown actions;
 - the effectiveness of shareholder actions; and
 - the impact on the Fund's portfolio.

Guardians of New Zealand Superannuation: Responsible Investment Integration

Resource	Application
<p>Internal:</p> <ul style="list-style-type: none"> Investment Committee Portfolio team Operations Communications 	<ul style="list-style-type: none"> Investment manager approval Investment Manager selection and agreements Portfolio data and monitoring Transparency and reporting
<p>External:</p> <ul style="list-style-type: none"> Proxy voting agency Responsible Investment research agencies UN Principles for Responsible Investment (UN PRI) Crown Financial Institutions 	<ul style="list-style-type: none"> Corporate Governance and Voting Sovereign and UN Global Compact screening Collaborative engagement and assessment Knowledge sharing

Responsible Investment Activities to Date



Items	Actions
Investor Initiatives	Responsible Investment Association Australasia members UN PRI founding signatory & members of <ul style="list-style-type: none"> • UN PRI Board • Working Groups: Engagement; Assessment; Asia-Pacific Carbon Disclosure Project signatory
Engagement	UN PRI ^[1] <ul style="list-style-type: none"> • Steel industry • Multinational retailer • UN Global Compact Freeport McMoRan Copper & Gold
Voting	UN PRI SEC ^[2] proposal on shareholder resolutions. Active in the development and launch of ISS ^[3] Proxy Voting Guidelines specifically for New Zealand New Zealand proxy voting - consultation with ISS and investment managers on New Zealand company resolutions International voting via ISS

^[1] United Nations Principles for Responsible Investment.
^[2] US Securities Exchange Commission
^[3] Institutional Shareholder Services

Items	Actions
Divestments & exclusions Landmines (2006) Whaling involvement (2006) Tobacco Sector (2007/08)	Singapore Technologies Engineering Ltd. Alliant Techsystems Inc.; General Dynamic Corp.; Textron Systems Corp.; Maruha Group Inc. Background information on the Fund's website
Knowledge sharing Signatories (2007) Conferences (2007)	CDP Briefing for NZX 50 presentation SRI Asia 2007 presentation UNEP FI Climate Change Panel UN PRI Asia-Pacific Panel
Implementation support	Institutional Shareholder Services Innovest ^[1] UN Global Compact Screening Sovereign Screening ^[2]
Work in Progress	RI assessment of investment in companies involved in nuclear weapons and cluster munitions production

Guardians of New Zealand Superannuation: Communications

- Crown entity legal responsibilities
- Guardians commitment to transparency
- Reporting on the New Zealand Superannuation Fund's website including specific Responsible Investment section and Responsible Investment in Practice Report
- Next step: web-post of voting report

Guardians of New Zealand Superannuation: Focus Ahead

- Responsible Investment Policy, Standards and Procedures implementation
- UN PRI collaboration
- Knowledge sharing and participation in investor initiatives to develop responsible investment best practice
- Responsible investment analysis of specific issues (e.g. nuclear weapons and cluster munitions)