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Nicola Willis
Minister of Finance
Parliament Buildings
Wellington

PO Box 106 607
Level 12, 21 Queen Street
Auckland 1143, New Zealand
Phone: +64 9 300 6980
Email: enquiries@nzsuperfund.co.nz
Website: www.nzsuperfund.nz
NZBN: 9429041903469

Tēnā koe Minister

2024 Statutory Review of the Guardians and NZ Super Fund

Please find attached our formal response to Willis Towers Watson's 2024 Review of the Guardians and Fund.

On behalf of the Board and management, we are delighted with both the Review process and its outcome. Willis Tower Watson's finding that we have maintained our global best practice standing over the last five years is especially pleasing: as you are aware this period included the COVID-19 pandemic, which was highly challenging both from a financial markets perspective and organisationally.

As you can see in more detail in the attached response, we are supportive of the recommendations and suggestions Willis Towers Watson has made, and will take these forward.

The key recommendations are very much in line with our existing strategic plan; that said, Willis Towers Watson's insights will help us deepen our thinking and focus on what matters most. In our view the Review has been a useful exercise not just in giving stakeholders such as yourself an independent view of the quality of our approach and activities, but also in providing us with valuable guidance on the way forward, to ensure we continue to meet or exceed our mandate.

We note in particular the need for ongoing organisational change and evolution in order to embed new leadership and provide better leadership continuity; to respond to increasingly likely headwinds to capital market outcomes; improve the system design; maintain our strong culture in a larger and more complex organisation; and undergo a technology transition.

I would personally like to acknowledge the efforts and professionalism of the Treasury team involved in the Review, in particular Blair Harden and Theresa Egan. They have made a significant and positive contribution to the process.

CEO Jo Townsend and I would be happy to meet with you to discuss the Review outcomes at your convenience.

Yours sincerely



John Williamson
Chairman

Guardians of New Zealand Superannuation – Five-Yearly Independent Review – Response 10 July 2024

WTW Recommendation	Guardians' Response
<p>1. Develop a set of complexity principles and strategies</p> <p>Address certain system design imbalances that have developed from increasing complexity. Ensuring that the BbU (business-beyond-usual) area and change function attract sufficient weight in the mix of Guardians' focus and strategy. Systems design is defined on page 71 and explained on page 73</p>	<p>Agree.</p> <p>This recommendation is consistent with our refreshed organisational strategy ("Guardians of the Future"), which has a strong focus on managing complexity including change management.</p>
<p>2. Evolve the TPA [total portfolio approach] model</p> <ul style="list-style-type: none"> • Develop greater integration of systemic risk into the TPA design through the use of horizon scanning. • Consider models that include left-tail risk measurement and management. • Ensure the Reference Portfolio is fully joined-up with the investment approach. 	<p>Agree.</p> <p>We will improve the integration of systemic risk and associated tail risk models in our ongoing evolution of our TPA model, including in the next Reference Portfolio Review. As a result of this and key management and board changes, we will defer the planned completion date for the Review from June 2025 to June 2026.</p>
<p>3. Mature the insourcing of private market investment.</p> <p>Consideration of establishing an overseas presence (e.g. London) to improve access to talent, GP and peer relationships and deals</p>	<p>Agree.</p> <p>We will continue to look for ways to enhance how we resource insourced investment in private markets to increase exposure to global opportunities, co-investments and controlling interest opportunities. While we have no immediate plans to establish an overseas presence, we will keep this under consideration. The recent removal of the legislative constraint on the NZ Super Fund owning a majority stake in an operating company will also give us more optionality and investment opportunities in private markets.</p>

WTW Recommendation	Guardians' Response
<p>4. Mature the sustainability proposition and model.</p> <p>Building out the sustainability factors by integrating the combined proposition. Maximising risk-adjusted return working within universal ownership/3D investing principles (see page 70 for definition). The focus should extend more significantly into systemic stewardship. Consider additional resourcing</p>	<p>We are committed to continuing to mature our sustainability proposition and model. Sustainable investment is integrated into our organisational purpose and is core to our investment strategy.</p> <p>While we agree with the recommendations at a high level, this is a complex area in which best practice is rapidly evolving globally. We have more work to do to fully consider how to respond to all aspects of the recommendation, including incorporation of universal ownership/3D investing principles and the recommended focus on system stewardship (noting that this is consistent with our recent stewardship initiatives). We will consider adding additional resources in this area.</p>
<p>5. Elevate the ambition of the Guardians' learning and development platforms</p> <p>The accelerating speed of change in the industry calls for a much larger response to upskilling: including pro-active skills development to support the technology transition ushered in by AI; extending the program to cover system thinking; including the upskilling of the team in Python and other relevant applications (see pages 71 and 72 for definitions)</p>	<p>Agree.</p> <p>We note and support the recommendation including the proposed focus areas. This recommendation is consistent with our refreshed Guardians of the Future Strategy.</p>
<p>6. Strengthen the technology proposition.</p> <p>The Guardians should consider how to increase the degree of integration of technology users and specialists, including alternative models used by peers (e.g. including T-shaped teams with innovation specialists in between users and specialists)</p>	<p>Agree.</p> <p>This recommendation is consistent with our refreshed organisational strategy.</p>
<p>7. Ensure strong leadership succession practices.</p>	<p>Agree.</p>

WTW Recommendation	Guardians' Response
<p>The Board, Management and Nominations Committee should review their practices for succession planning and succession more generally and position the organisation in a stronger place to respond to continuity challenges in top leadership roles – notably Board chair, CEO and CIO.</p>	<p>We acknowledge the recent continuity challenges at Board and management level. This will be an area of focus for the Board and management, and we will work with the Nominating Committee accordingly.</p> <p>Noting Willis Towers' Watson's view that Board fees are unusually low relative to global best practice (page 18) and below what seems appropriate (page 23), we will continue to discuss resourcing for Board fees, and for the Nominating Committee, with Treasury.</p>

WTW Suggestion	GNZS Response
<p>1. Deepen the existing investment beliefs particularly on sustainability. Consider the integration of organisational beliefs and principles with the investment beliefs</p>	<p>We will progress this work in combination with next steps in response to recommendation 4.</p>
<p>2. Review the Reference Portfolio for better fit with universal ownership principles, notably considering the merits of forward-facing benchmarks and the opportunity to work with other asset owners on this. Develop a stronger Board and Management position on universal ownership, with continued open communication with the Guardians' principal stakeholders – the Crown, the Minister of Finance and the Treasury</p>	<p>These suggestions will be considered as part of the Reference Portfolio Review.</p>

WTW Suggestion	GNZS Response
<p>3. Deepen Board – Management engagement. There are various ways for better engagement to be developed. WTW considers consultant intermediation and facilitation, in the form of dedicated board advisory support, to be worth considering.</p>	<p>We will continue to look for further opportunities to bring in external perspectives and advice to support the Board.</p> <p>We acknowledge the critical importance of external perspectives and challenge, particularly on issues that are highly complex or contentious.</p> <p>We note that the Board and management obtains external advice when it believes these advisers can add value to discussions. Individual Board members are also active in a number of international and peer forums, which provide regular best practice insights.</p>
<p>4. Reposition the hybrid work design to increase social capital. Use the opportunity in the office move in 2026 to align office design, hybrid design and EVP [employee value proposition] and OVP (organisational value proposition) to increase the social capital which is needed for collaboration to thrive and to support superteams principles. We are aware that Management is reviewing its options on this matter. We are urging that more attention is given to the evaluation of alternative work design arrangements (e.g. hybrid versus office) with particular regard to the social capital factor.</p>	<p>We continuously look at our hybrid model to ensure it is optimal for our EVP and OVP. As part of this, our planned office move will provide an opportunity to ensure our physical premises look to both enhance our EVP and OVP.</p>