

TITLE:

Responsible Investment NZ Superannuation Fund's Framework

Presentation for the QIC Board

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Overview

- Why we do it?
- Policy & Framework
- Standards
- Activities and Procedures

Why Responsible Investment

Economic Rationale for ESG

- RI can be a source of opportunities (idea generation)
- Managing downside risks for higher returns
- Meeting clients expectations and managing our brand (hallmark)

Examples of how Fund performance can improve:

- More consumer support of the businesses we invest in
- Less legal and regulatory risk
- Investments in more dynamic, innovative and productive companies
- Potential active returns from investing early in the life cycle of assets
- Improved corporate governance leading to less principle-agent conflict
- Leveraging our time-horizon endowment to exploit slow-burn global changes

Policy & Framework

Our responsibilities under our Act

- Our governing legislation says that we 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;
 - Avoiding prejudice to New Zealand’s reputation as a responsible member of the world community
- None of these three legs has precedence over the other so each must be taken into account when considering investment issues.
- Our Responsible Investment Framework is consistent with our mandate and incorporates both 61(d) and (i) under our Act:
 - ethical investment including policies, standards and procedures for avoiding prejudice to New Zealand’s reputation as a responsible member of the world community ; and
 - the retention, exercise or delegation of voting rights acquired through investments

The Responsible Investment Framework

Governance, Policy & Strategy

Mandate, Beliefs, Values, Philosophy

Work streams

Integration

Ownership

Disclosure
(Company Reporting)

Best Practice &
Collaboration

Communication

P1

P2

P3

P4 & 5

P6

Standards & Benchmarks

UNPRI (Principles 1-6)

- UN Global Compact (all principles as they are issue specific)

Activities & Procedures
(examples)

- Integrate RI guidelines across asset classes
- Apply exclusions
- Positive Investment & social rating
- Investment manager DD; monitoring & conviction

- Direct and collaborative engagements with companies
- Voting
- NZ Corporate Governance

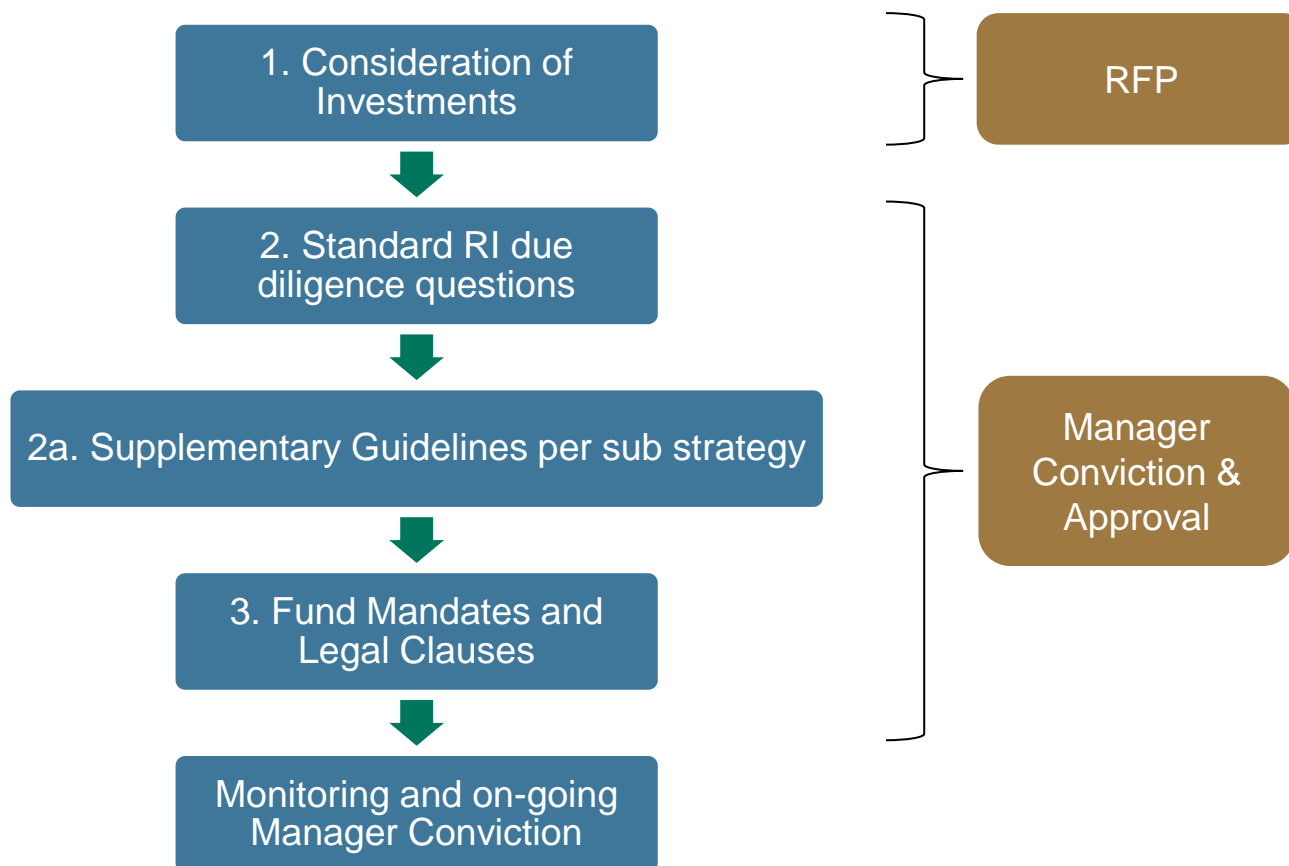
- ESG Reporting standards for companies
- Carbon Disclosure Project
- Encourage good practice reporting by NZ companies

- Participation in Forums & working groups (e.g. UNPRI)
- Engagement with regulators & advisors
- Collaboration with CFIs & global peers
- Asset & Co-investment guidelines

- Public reporting of RI activity & benchmarking
- Internal reporting
- Stakeholder engagement

Activities & Procedures: P1: Integration

RI in the Investment Framework



Activities & Procedures: P2: Ownership

Active Ownership

- Why is active ownership important?
 - Responsible asset owners should have concern for ESG issues
 - Improving ESG practice can improve long-term financial performance
 - Institutional investors are “universal owners” and through collaboration can reduce value destroying practices across markets
 - Exercising rights as shareholders helps to reduce agency risk and improve shareholder oversight

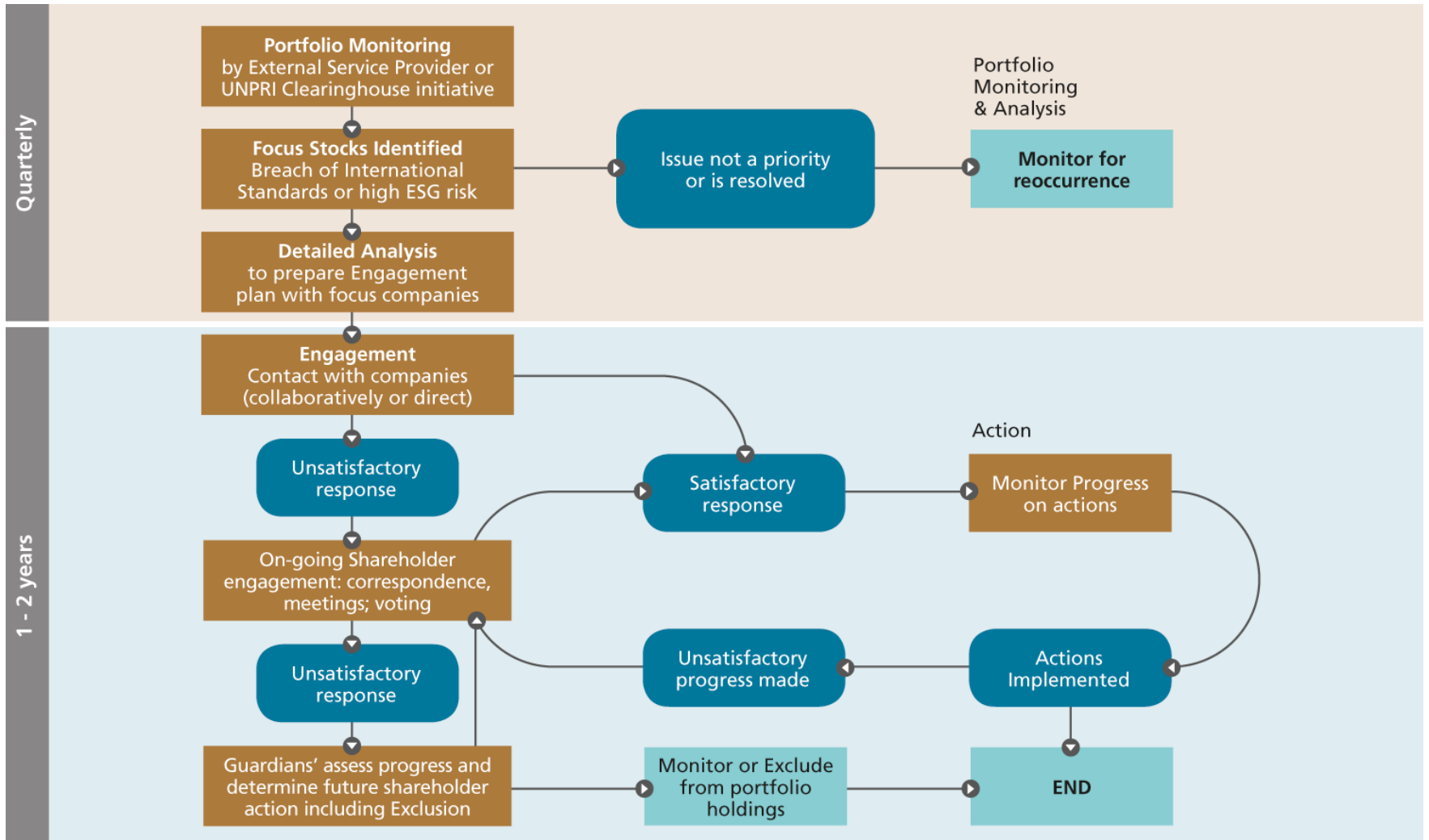
- Activities
 - **Governance & Voting** – to encourage high governance standards across markets & asset classes
 - **Monitoring & Engagement** – dialogue with companies over significant breaches of standards & to encourage best practice
 - **Substantial owner** – engagement on material ESG issues with companies in which we have a significant stake

Activity & Procedures: P2: Ownership

Engagement

- Where companies are found to breach RI standards we focus our engagement efforts by taking into account:
 - Significance of the breach e.g. if it is a priority issue
 - Significance of the Fund's holding in the company
 - Ability to collaborate with other investors or engage directly with the company
 - Potential effectiveness of engagement (given context and responsiveness)
 - Resources required
- Where companies have made sufficient progress, engagement ends and the company is monitored for further breaches
- Where companies have not responded to engagement or engagement is unlikely to be effective, the Guardians may in certain cases decide to exclude companies.

Activities & Procedures: P2: Ownership



Activities & Procedures: P2: Ownership

Exclusion

- In some limited cases the Fund will exclude securities issued by companies from the portfolio. This may occur where companies are involved in certain activities or breaches of standards. These decisions take account of:
 - New Zealand or national law
 - International conventions to which New Zealand is a signatory
 - Significant policy positions of the New Zealand Government
 - Impact of exclusion on expected Fund returns
 - Actions of our peers
 - Severity of breach/action
 - Likelihood of success of alternative course of action (engagement)

Activities & Procedures: P3: Disclosure

Corporate Disclosure

- Why encourage companies to report on ESG practices?
 - Integration and ownership activities are dependent on access to relevant ESG information
- Activities
 - Engagement with companies and relevant organisations to encourage ESG disclosure
 - Encourage investment analysts & managers to use this information
- Notes
 - Listing requirements and company law are beginning to address ESG disclosure but varies between countries
 - Reporting Initiatives: Global Reporting Initiative (GRI) key standard to guide ESG reporting; Carbon Disclosure Project (CDP) is specific to carbon emissions

Activities & Procedures: P4: Best Practice

- Why develop RI best practice?
 - Statutory requirement on us to adopt best-practice
 - RI still developing as a discipline and we want to promote relevant best practice standards
 - Promote best practice amongst managers and advisors

- Activities
 - Annual RI Conviction Review of Managers
 - UNPRI and other working groups to develop industry guidelines e.g. private equity
 - RIAA – regional industry association promoting education and professional development
 - Conferences, industry reviews, information sharing

Activities & Procedures: P5: Collaboration

- Why collaborate with other investors?
 - Collaboration is more effective & resource efficient than standing alone.
 - RI requires inclusiveness – peers, managers, advisors and stakeholders

- Activities
 - RI Agreement with other Crown Financial Institutions
 - UNPRI collaboration with peers on engagement and RI standards
 - Membership organisations: UNPRI, IGCC, RIAA, ICGN for access to global expertise & education

Activities & Procedures: P6: Communication

- Why communicate on RI activities?
 - Benefits internal integration & inclusiveness
 - We are committed to transparency

- Activities
 - Internal reporting to Board, internal committees and team
 - Public reporting
 - UNPRI assessment & case studies
 - Stakeholder engagement & events