
INVESTMENT OPTIONS FOR MĀORI ENTITIES

Tama Potaka
New Zealand Superannuation Fund
Auckland

Introduction

Kia ora koutou, it is wonderful to be here. Matanuku – thank you for inviting some comments on Investment Options for Māori Entities. Reflecting on the earlier kōrero today, I want to acknowledge Chapman Tripp and NZ Trade and Enterprise who are both at the advisory coalface of Iwi/Māori investment. I would also acknowledge speakers who are scheduled to make additional comments later today.

I recently attended the Pacific Islands Investment Forum – previously known as the Pacific Provident Funds and Social Security Forum for CEOs – in Rarotonga. Aside from NZ Super, delegates to the Forum represent circa \$30 billion of long term institutional investment across the Pacific. The key focus of the Forum was the Three C's – Compare, Collaborate and Co-Investment.

The nature of these organisations – pension funds, social security funds, sovereign wealth funds – reminded me of the Iwi/Māori organisational landscape. We can do much better at comparing, collaborating and co-investing. It also reiterated that Te Moana-nui-ā-Kiwa (the Pacific Ocean) is at the centre of global action – geopolitics, financial and environmental challenges are either at our beach or within launch range. Some countries are building islands in the Pacific – others are trying to survive drowning and degradation. We have a lot to share with our Pacific whanaunga both there and here in Aotearoa.

For any specific opportunity and investment class, Iwi/Māori groups may have choices around going active/passive, direct/indirect, equity/debt, by ourselves or with others. I would like to focus today's comments on *co-investment* with reference to a recently established Iwi/Māori direct investment vehicle – the Te Pūia Tāpapa Fund. My key message today is that *co-investment can take many forms* – and it is useful to figure out how co-investment matches endowments, beliefs, and your risk/return appetite.

NZ Super Fund

When I joined the NZ Super Fund last year, I was determined to find ways in which the NZ Super Fund could *connect more effectively with Iwi/Māori* groups in Aotearoa.

As some of you are aware, our mission at NZ Super is *to reduce New Zealanders' future tax burden*. We are a *buffer fund*. We invest and save to help our children and their children counter the future (and rising) cost of the universal pension. As the Guardians, we are required to invest the Fund on a *prudent, commercial basis* and to manage it in a manner consistent with:

- *Best-practice* portfolio management;

- *Maximising return without undue risk*; and
- *Avoiding prejudice to New Zealand's reputation* as a responsible member of the world community.

NZ Super fortunately has a number of endowments – operational independence from the Crown, long term investment horizon, sovereign status, and some clarity around dividend flows. Our investment beliefs are also well formed and distinguished from investment facts. We have an appetite for risk – with an 80/20 growth and income split within our reference portfolio.

We have four Strategic Objectives therein:

- Investments: best portfolio;
- Stakeholders: strong external relationships;
- People: building and maintaining a great team; and
- Activities: efficiency, scalability and innovation.

Engaging With Intent With Iwi/Māori Groups Aligns With NZ Super's Objectives

About 85-88% of NZ Super's investments are offshore.

Our NZ Direct team has invested locally in timber, farms, infrastructure, banking and finance, IT, the Aged/Retirement sector, property and insurance. Our legislative arrangements mean we are unable to own more than 50% of an operating business – therefore we are genetically hardwired to co-invest with aligned partners.

NZ Super recognised that engaging with Iwi/Māori groups could help us realise *our long term and medium-term target operating states* to:

- Be a strong local investor and partner of choice;
- Broadly cooperate with Iwi/Māori and like-minded funds;
- Engender a better understanding of and support for the Fund's purpose, endowments and activities;
- Have regular exchange of best practice and wider benchmarking; and, where suitable
- Identify and create opportunities for co-investment with Iwi/Māori and other domestic partners

Iwi/Māori Groups are Very Diverse

Whilst many of you have intimate knowledge of collectively owned Iwi/Māori groups, it is useful to make some brief comments around the diversity of same:

- There are over 50 Iwi (or tribal) groups in Aotearoa defined by whakapapa – genealogy, songs and poems, recognition by other iwi, and specific associations with mountains, waterways, forests, and oceans. All Iwi have hapū (sub-tribes) and whānau (families).

We've been to the Privy Council and back to get their erudite views on the definition of Iwi.

- Individual hapū, Iwi, and pan-tribal “Treaty settlements” have resulted in some cultural and commercial redress implemented through contractual and statutory arrangements – and the concomitant rise of Trusts, Rūnanga, and other representative entities.
- Iwi corporates have emerged from these settlements and reincarnation of Trust Boards, along with Asset Holding Companies, MIOs, RIOs, and the Iwi Chairs Forum. I won't forget to mention the fisheries businesses at pan-tribal and tribal levels.
- There are thousands of Māori Land Incorporations, Trusts and Reservations which own Māori land and operate under the Te Ture Whenua Māori Act.
- There are numerous pan-tribal and statutory bodies, including Wānanga referred to in the Education Act.
- Residual representative bodies continue to exist like the NZ Māori Council established under the Māori Community Development Act.

All groups have their own constitutional arrangements and sometimes distinct statutory arrangements – the empowering Treaty settlement legislation, Māori fisheries and aquaculture legislation, charities legislation, Trust Board legislation, trustee legislation, tax legislation, and companies legislation. Common law – including potential for expanded appreciation of the Crown's fiduciary obligations to some groups – has some insight for investment obligations across these groups. In addition, there are corporate governance standards and other international commitments, which can inform the exercise of investment responsibilities within these groups.

What I am saying is that there is an incredible *diversity of structures within collectively owned Iwi/Māori groups* across circa \$15 billion assets. Make no mistake - governing, managing, advising, and commenting for these groups are each challenging - I commend those who try to do all four. Investing interfaces with these different disciplines and does not fit a “one size fits all” mantra – especially when there are multiple legal touchpoints for investment responsibilities along with variable endowments, investment beliefs and risk/return appetites.

Investment Amongst Iwi/Māori Organisations

Many Iwi/Māori groups have historically had limited diversification across portfolios, no direct investment teams, and minimal genuine deal flow. In addition, there is a recent tendency to hold land for the long term, and where possible be “active” investors.

There are consistent threads within these groups. They:

- Share NZ Super's long-term investment horizon;
- Desire to make a difference on an intergenerational basis to the lives of their owners and/or their members;
- Aspire to contribute to local, regional, national and international economies; and
- Exercise kaitiakitanga – stewardship – for their assets.

NZ Super has some existing relationships – with Ngāi Tahu Property we are building houses in Hobsonville Point, Auckland. We are co-investing with six (6) Iwi groups and PSP Investments in Kaingaroa - NZ's largest forest. We are proud of these multi-lateral investments with Iwi groups.

NZ Super sought to broaden and deepen our engagement with tangata whenua beyond bilateral or multilateral arrangements, including engagement with a larger number of Iwi/Māori groups.

One Single Co-investment Vehicle

One challenge for NZ Super was that there was no single front-facing entity to engage with. As mentioned, there is a significant diversity (and number) of potential groups to engage.

Serendipitously, the challenge was one that Iwi/Māori groups have talked about for years albeit in a different way - how can Iwi/Māori collectively and effectively invest together in a single front-facing entity.

Within Iwi/Māori groups, a number of large bilateral and multilateral direct co-investments amongst Māori have happened such as:

- Wairarapa Moana Incorporation and Tuaropaki Trust teaming with others to build the Miraka dairy business;
- Waikato-Tainui and Ngāi Tahu co-investing in high profile businesses Waikato Milking Systems and Go Bus;
- PKW Incorporation, Moana (Fisheries), Ngāti Mutunga ki Wharekauri and Iwi Collective Partnership investing in Port Nicholson Fisheries crayfish business; and
- Te Tumu Kāinga, and mana whenua groups in Auckland co-investing in housing alongside community housing providers in South Auckland.

The investment structures for these co-investments have generally been in the form of unincorporated joint venture agreements and/or limited partnerships.

The concept of having one front-facing direct co-investment vehicle owned by many groups had not yet been realised for various alleged reasons. Timing. Personalities. Insufficient capital. Governance. Dealflow. Options elsewhere like Private Equity.

Successive leaders have waved the flag for nationwide co-investment. Paul Quinn - Chair of Ngāti Awa Group Holdings – publicly took things forward in 2016 to promote larger Iwi/Māori groups to establish an Iwi/Māori owned Private Equity fund. In addition, a number of people spoke with NZ Super's leadership around the potential for the sovereign wealth fund to support a new collectively owned co-investment vehicle.

The concept of a single investment vehicle for many groups was initially criticised – some of NZ Super's peers, some Iwi/Māori groups, and some investment advisors, were not universally and overly enthusiastic for the concept. It wouldn't work. Not enough groups would be interested. Smaller investors would want to control the fund. It didn't fit the strategic asset allocation model. It was unproven.

Kīngi Tawhiao had some relevant wisdom in this moment:

*Ki te kotahi te kākaho, ka whati
Ki te kāpuia, e kore e whati*

NZ Super took action.

Our first step involved the then NZ Super CEO Adrian Orr and Paul Quinn convening a hui in early 2017, and inviting anyone with interest. 50+ people turned up - governors, managers, advisers and officials – keen to understand why/how NZ Super wanted to engage with Iwi/Māori. *NZ Super stuck to the open piupiu approach* and articulated a few contextual elements at play:

- No one had a monopoly on deal flow;
- There were limited players in mid-market opportunities (\$150+ million EV) which were bigger than where PE funds were playing (\$20-150 million EV), and where there were limited players. However, on a single group basis, but only a couple of Iwi/Māori groups could get involved in these eg Ngāi Tahu;
- A number of projects of national significance eg. infrastructure were necessary for NZ's economy. NZ Super did (and still does) want to consider those projects;
- Iwi/Māori groups have some unique access opportunities, that coupled with capability, and long-term capital, could be brought together as a long term, scale, and scalable proposition for NZ Super and the groups themselves;
- There was no existing go-to investment vehicle for the groups to co-invest with NZ Super and/or others; and
- No one group has everything, and every group has something.

The first hui outlined three potential ways for NZ Super and Iwi/Māori to work together:

- Bi-lateral and multi-lateral deals;
- An investment club/forum; and/or
- A direct co-investment fund.

The options were not mutually exclusive and could work simultaneously. At the end of the hui, a Working Group including Debbie Birch, Hinerangi Raumati, Paul Quinn and June McCabe was proposed to progress options and recommend a way forward. This started a journey of a thousand cups of green tea, many air miles, and lots of hui.

A Thousand Cups of Green Tea

The Working Group travelled. We listened. We got feedback. We drank lots of green tea. We hustled. Central government provided some financial support for a scoping paper under the “He kai kei aku ringa” kaupapa. There were no big parties – no nightclub versions – just genuine engagement and lots of jasmine and peppermint. We even attended other hui – that had nothing to do with the concept we were discussing - to promote the concept. We found some NZ Super expats – David Rae and Aaron Drew who helped with analyses of options.

After three months, the Working Group recommended a direct investment fund be established. It was a chance for groups to come together, to work together, through a fund investing in direct investments.

The proposed Fund's characteristics were clear:

- *Long-term commitment* – 15 to 20 years – allowing investments to be held through inevitable market cycles;
- *Best practice* governance and investment – independent investment decision-making;
- *The fund would co-invest and partner* with organisations like NZ Super and ACC. It would not go after deals as a sole investor;
- *Kaupapa Māori* was a recognised part of decision-making;
- *Management costs* would not eat into returns. Vanilla 2/20 arrangements like mainstream private equity funds would not be adopted; and
- *\$60 million* was a credible target to enable three or four investments.

More engagement followed. The Working Group was enthusiastic. But by October last year we had only three or four parties announce their indicative commitment – Te Tumu Paeroa was interested at around \$10 million, along with Ngāti Awa Group Holdings at \$5 million. I could sense Scribe's rhymes in his song *Dreaming* were coming through for the Working Group:

I was down and out, struggling, wondered how I'm gonna make it thru. I got a dream,
holding on, I can't let go cos I gotta make it true.

By October, the Working Group was struggling to see if there would be insufficient indicative support to continue. *However, a number of committed individuals and groups started to show interest and support for the concept.* Governors, managers, advisors and commentators alike. A new hope had arrived – and it came in the form of Iwi/Māori groups demonstrating a desire to engage.

By November, the team had comfort to start legal drafting. Delegates from indicative investor groups joined the Working Group. People got keen. A draft Terms Sheet followed. *The investment objective: maximise return without undue risk for Limited Partners within defined Kaupapa Māori parameters through direct investments in New Zealand businesses.* A Limited Partnership was the chosen structure – groups knew this form especially from a tax perspective.

A Heads of Agreement was then drafted and sent out to all before Christmas 2017. Some of us optimistically thought that we would form the fund before Christmas but this was not to be the case – further time was needed to percolate the way forward.

With my passion levels rising, NZ Super decided to step aside as owners in the proposed fund took responsibility to drive the concept into reality. Our role as a facilitator had been fulfilled. All along we stated that NZ Super would neither be the manager of the fund nor invest in same. We would be a “preferred partner” – at that point it was yet to be defined. However, our intent was to support the people to come together, and then see it through to a suitable conclusion.

New Year came and went along with the four (4) week NZ summer, and then another milestone was reached - the fund was named *Te Pūia Tāpapa* which represented a cluster of seed beds used for growing kūmara.

Relationship With NZ Super Formalised

With growing interest in the fund, the indicative investor groups then sought to clarify the relationship with NZ Super. A formal agreement was drafted, negotiated, and signed the week of Adrian's departure from NZ Super. The Agreement reiterated that NZ Super and Te Pūia Tāpapa would be "preferred partners". This means that we will:

- Operate in a spirit of good faith, transparency and mahi tahi;
- Have regular relationship interactions eg site visits, where we will compare and collaborate; and
- Think of one another when suitable deals come along

Key principles underlying future co-investment include:

- Maintaining highest corporate governance and ESG principles;
- Operating on a commercial basis consistent with respective values; and
- Standard commercial documentation and terms.

Te Pūia Tāpapa Established

Since then, the Te Pūia Tāpapa Fund has publicly recruited Investment Committee members and two independent directors, and confirmed its Chairs. At the time of drafting this paper, circa 90% of the capital indicatively committed had executed the formal LP documentation – with circa \$115 million of commitment expected across around 25 members.

The largest owner has circa \$20 million committed and consists of 10 organisations coming together. The other owners have anywhere between \$1 million and \$10 million committed. This is critical – parties of different sizes and scale – from \$20 million asset value through to \$300 million – are investors in the fund. After nearly 18 months of work, a 30-year dream is at the starting gate with a driven preferred partner – NZ Super.

Motivations have been different for different owners – but the key is to work together over the long term, to co-invest together, in direct investments. Groups want to:

- Diversify portfolios;
- Reduce risk;
- Improve returns;
- Get access to bigger and better direct investment opportunities;
- Reduce DD costs; and/or
- Be part of something bigger with friends and whānau over a longer investment term.

No two investor groups are the same, but there is an energy and direction which all are comfortable with.

It was clear that the coming together of the Te Pūia Tāpapa Fund was a multiple way effort – not just one way. *NZ Super sought to take lead by facilitating, by supporting, and by action. If we did nothing, nothing would change for us. If we did something, there would be a chance for change.* This concept needed to link into groups, central government, and advisors. Importantly, we pulled back at a suitable moment to support the ultimate investors to take this to the starting line.

Many of the groups in Aotearoa had talked for decades around working together – and had co-invested together on a bi-lateral or multi-lateral basis – this fund represents a further step to a co-investment vehicle to identify and execute on direct investment opportunities.

Time To Insert Your Token

Prior to closing, I would like to acknowledge that the success of this fund coming together included involvement of and support for several wahine to lead the initiative within the Working Group and from other perspectives. These included people like Debbie, Hinerangi, June, Vanessa Eparaima, then MBIE Manager Liz Te Amo, and NZ Super team members like Cristina Billett and Catherine Etheredge. Fundamental to our long-term relevance and success, is embracing diversity, and making sure we support the right people into investment, governance, management, advisory and communications roles.

Long term investors such as NZ Super and Iwi/Māori groups can play multiple roles in global, regional and local economies, as well as having a duty to the citizens, members and owners whose money we look after. From a conceptual perspective, investment options for Iwi/Māori groups are the same as other legal entities. The statutory and common law frameworks which underpin the groups may impact on investment choices. Endowments, risk/return appetite, and investment beliefs – including those around Cultural, Environmental, Social and Governance issues – will also influence the preferred investment options. A long term investment horizon inevitably provides groups with a greater ability to work in investment cycles and with investors with a similar timeframe.

NZ Super has intentionally supported Iwi/Māori groups wanting to work together with the country's sovereign wealth fund. Our NZ Direct team welcomes *mahi tahi*, and continues to be open to other bi-lateral and multi-lateral deal opportunities as they present themselves.

Co-investment can take many forms, and sometimes requires some innovative thinking. As Che Fu opines in his famous collaboration with DLT:

I opened up my mind, I severed it straight down the middle, consciousness like the ocean started out from the trickle, inspiration now the dam is broken, my brain is open, game is over - time to insert your token.

Whakamutunga.