

TITLE:

NZ Super Fund Direct Investment Approach

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NZ Super Fund and Sustainable Investment



The NZSF was established in 2001 to smooth the cost of superannuation between today's tax payers and future generations

Overview of the NZSF

- The **NZ Super Fund is New Zealand's Sovereign Wealth Fund** and was established by Parliament under the *New Zealand Superannuation and Retirement Income Act 2001*
- The **purpose** of the Fund is to reduce the future burden of national superannuation on future taxpayers – in particular, to assist with the squeeze NZ will face over the next few decades as the retired population increases and the tax base shrinks
- Current retirees make up around 16% of the population, rising to around 21% by 2033
- Contributions to the Fund began in 2003 and the first withdrawals are expected around 2035

NZSF Key Figures

Fund Size

\$64.4b

Return since inception

9.5% p.a

Net Govt contributions

\$15.7b

Value Add over benchmark

\$15.6b

As at 30 September 2023

Our mandate¹ is to invest the Fund on a prudent, commercial basis and manage it 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”

1. Act of Parliament

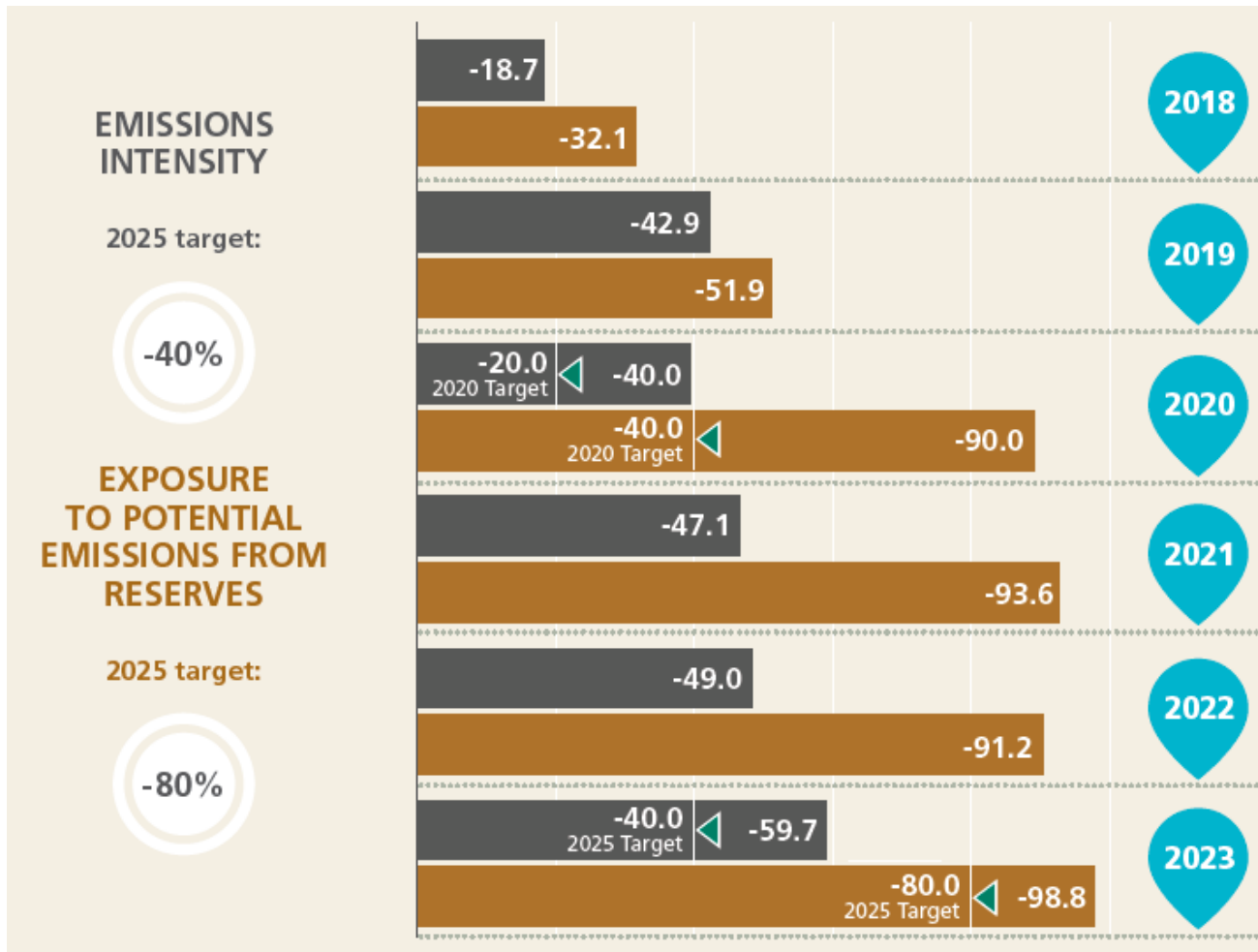
Sustainable Finance Goal

The Guardians incorporates sustainability considerations into investment decision-making and supports the development of a sustainable financial system.

We believe: Environmental, social and governance considerations, including climate change, are fundamental to long-term risk and return.

- this means:
 - incorporation of ESG into investment decisions, with the intention of **advancing sustainability whilst fulfilling our financial purpose.**
 - considering the *impact of ESG on our investments* and the *impact of our investments on society and the environment.*
 - working with others to overcome barriers to a sustainable financial system.

NZ Super Fund: Carbon Footprint



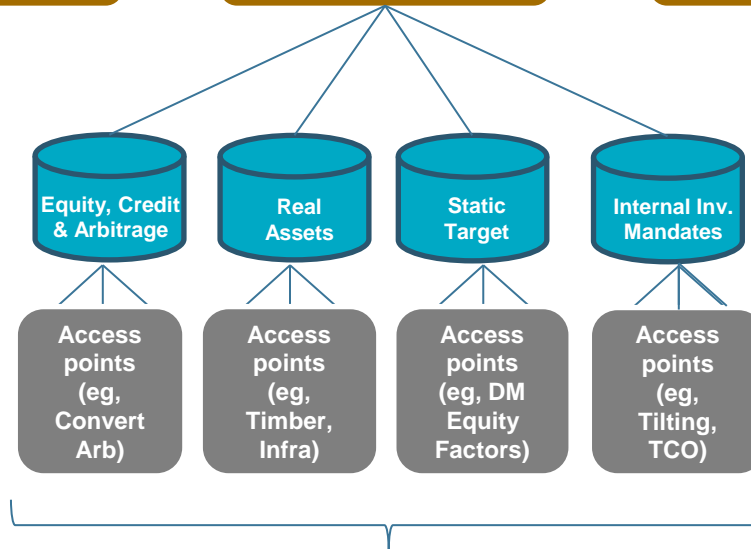
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Investing in New Zealand - Our Direct Investment Approach



Portfolio Construction

Objectives, Endowments & Beliefs











Risk budgets set at opportunity level

Managers / mandates

Value-add opportunities

Target Opportunities

The Direct Investments Team focuses on originating, executing and managing active investments that fall across 8 strategies

Opportunity (sector-focussed)	Rationale	Opportunity (cross-sector)	Rationale
 Timber	Good diversifier with low correlations to both equities and bonds	 Sustainable Transition	Exposure to a set of proven technologies which contribute to a sustainable economy. Not limited to energy.
 Rural	Sovereign advantage in NZ due to heightened concerns around foreign investment	 Exploratory	Scope to invest in emerging strategies with potential for scale and outsized returns over the long run
 Infrastructure	Long-term hedging benefits and possible sovereign advantages via peer collaboration	 Opportunistic / Private Equity	Long term investments that many investors don't have the horizon to consider / where we are a preferred partner
 Real Estate	Extract excess returns from supply-demand mismatch (core), repositioning or repurposing (value add) or substantial (re)development (opportunistic)	 Growth Capital	Strategy to capitalise on market inefficiencies and asset level mispricing

The Direct Investments Team

We focus on large, private market transactions where our endowments give us an opportunity to add value via direct access

What kind of investments do we normally look for?

Size

- NZ\$200m+** is our ideal long-term equity position
- 20%-50% stake** (under our legislation, we are unable to take a controlling interest in an operating company)

Asset Characteristics

- Defensible competitive advantage
- Able and trustworthy management
- Ability to take an active governance approach
- Aligned investment partners
- Commercially attractive risk adjusted returns

Our current portfolio totals \$5.8bn across 17 investments



**KAINGAROA
TIMBERLANDS**

Largest single plantation forest in Southern Hemisphere with ~180k ha



Awanui

NZs largest pathology network (recently rebranded from Asia Pacific Healthcare), a partnership with OTPP and local Māori investors



FarmRight
Investing Sustainably

12,000ha of dairy, beef and horticulture farms located around New Zealand



TARANAKI
OFFSHORE PARTNERSHIP

Exploring the feasibility of a 1GW offshore wind farm off the coast of South Taranaki alongside CIP

FidelityLife

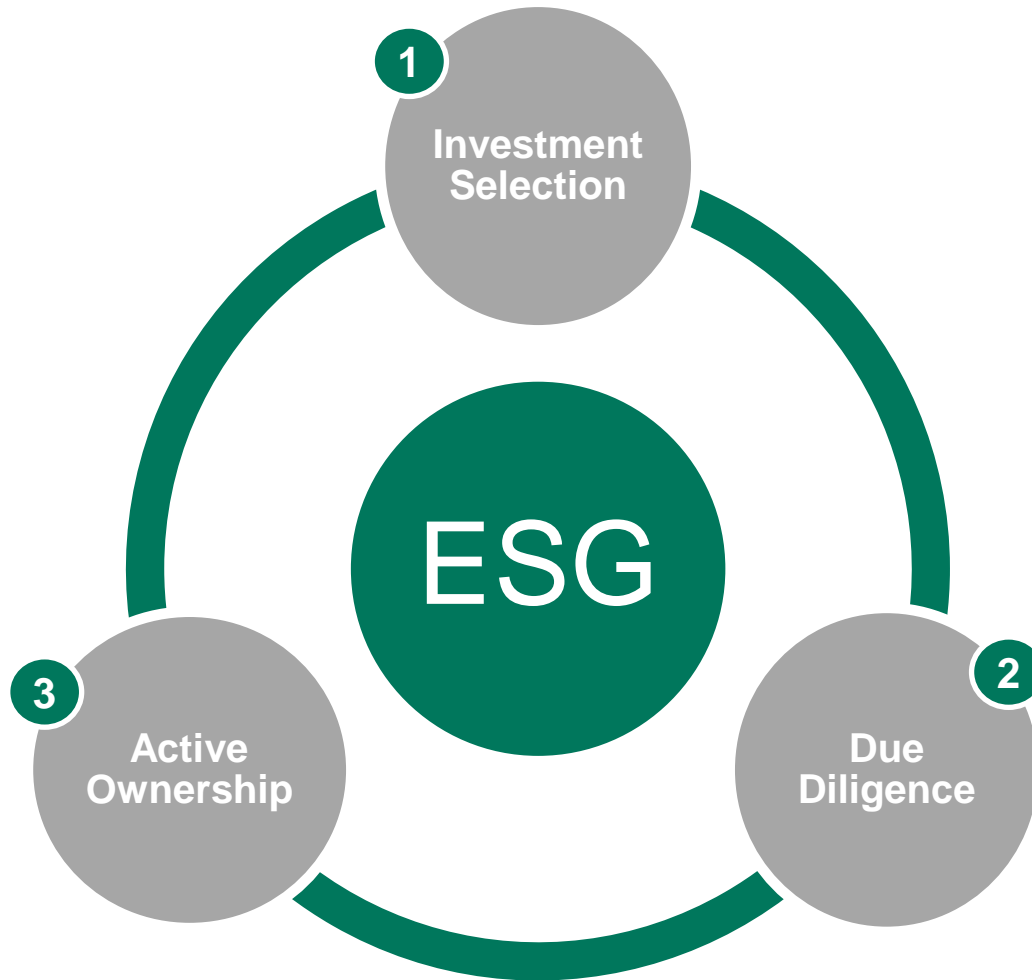
49% shareholding in one of the largest life insurers in New Zealand



euroclear

Fifth largest investor in Brussels-based critical financial markets infrastructure provider that has ~€36 trillion assets under custody and settles > €1 quadrillion worth of securities annually.

ESG integration in Direct Investment process



ESG integration across our Direct Portfolio

ESG Considerations

(not exhaustive; focus determined by materiality)



Occupational Health & Safety



Labour rights / relations



Animal Welfare



Land-use regulations



Biosecurity



Diversity, Equity & Inclusion



Climate Change

Good ESG Practice – Examples

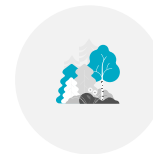
Direct has developed investment partnerships with organisations leading in their approach to ESG integration. These include:



Infrastructure: *Copenhagen Investment Partners (CIP)* to explore the potential for offshore wind in Taranaki. CIP is a highly rated manager (NZSF A+; GRESB).



Real Estate: *Eke Panuku* to accelerate the redevelopment of town centres in Tāmaki Makaurau Auckland. Eke Panuku has high standards for incorporating sustainable finance considerations.



Timber: *Kaingaroa Timberlands (KT)* in NZ and *Timber Investment Group (TIG)* in Latin America are two NZ Super Fund investment partners deeply committed to sustainable forest stewardship.

NZSF Climate Change Valuation Framework

Our Climate Change Valuation Framework consists of 5 steps:



Q&A

