

## **GOVERNMENT SUPERANNUATION FUND AUTHORITY**

### **ROLE AND ACTION ON CLIMATE CHANGE, as at 30 June 2020**

#### **Introduction**

Reducing the impact of climate change presents society with the challenge of adapting to less carbon-intensive ways of living, which will impact businesses and investment portfolios significantly. New Zealand has committed to the Paris Accord and aims to become a net zero society by 2050, via the Zero Carbon Act. As responsible investors, we are considering how to integrate climate change risks and opportunities into our investment decisions. This information sheet explains how the Government Superannuation Fund Authority (the Authority) is doing this.

#### **Context**

The Government Superannuation Fund (**Fund** or **GSF**) has just over 51,000 members, some 4,500 still working and the remaining 43,800 retired and receiving scheme pensions. The Fund was closed to new members in 1992 and thus will decline over the next 50 years.

The Authority is responsible for administering the Fund. It has two main roles. The first is to invest the Fund, and the second is to pay entitlements to members of the Fund.

As of 30 June 2020, the Fund amounted to about \$4.3 billion while the projected pension liability was about \$12.1 billion. The bulk, or \$659.5 million, of the \$901 million pension cost in 2019/20 was met directly from the Government's annual budget, while the remaining \$241.5 million was met from the assets of the Fund..

#### **The Fund**

Under the Government Superannuation Fund Act 1956 (the **Act**), the Authority must invest the Fund so as to 'maximise investment returns without undue risk.' The law also requires us to 'follow best practice' in the way we invest the Fund, and 'avoid prejudice to New Zealand's reputation as a responsible member of the world community'.

To meet all three objectives requires a careful balanced approach.

## **How we invest**

The Fund is invested mainly in global equities to earn a higher return and reduce the Government's share of the pension liability compared to investing only in low risk Government bonds. It also invests in some alternative investments that offer returns not dependent on equities. These are expected to improve the Fund's return for risk over the long term.

The Authority believes that financial markets are fairly efficient in reflecting information in the prices of market securities, including climate-related risks and opportunities, but there are opportunities for skilled active managers to add value over time. The Authority engages more than 20 professional fund managers to invest the Fund on its behalf. They continually assess the impact of material climate-related risks and opportunities in their valuations and portfolio decisions and we include this as a criterion for selecting and retaining them.

## **Limiting Global Warming**

With regard to supporting global efforts to reduce greenhouse gas emissions, the Authority can align with such efforts but its influence is limited. The Fund is small investor compared to world markets. Each of our fund managers invests on behalf of many investors and has correspondingly more influence than the Authority itself. They also have more direct contact and influence over the investee companies.

To ensure our investment portfolio limits the risks and captures the opportunities that climate change presents, given our objective of maximising returns and the limitations of size:

- we encourage our fund managers to engage with companies on the disclosure and management of climate change risks and opportunities;
- we exercise our global voting obligations through our fund managers to influence change;
- we have started to monitor the Fund's overall exposures to carbon emissions and fossil fuels to ensure they are not inconsistent with the Government's policy. We have not yet set a target for reduced exposure to emissions but are continuing to gather data and will do what is necessary to meet our NZ and international obligations. We are working with our managers on the best way to limit exposure, if necessary, with the least risk to performance; and
- we participate in the annual PRI survey as a way of benchmarking our approach against other funds.

## Partnering with Others

We also leverage off the larger resources and investment influence of our fellow Crown financial institutions, the NZ Super Fund and the Accident Compensation Commission. The Authority shares research resources and collaborates with them where we can usefully do so. All three of us are members of the Principles for Responsible Investment (**PRI**).

We partner with them by:

- Meeting regularly to share information on best practice. This allows us, for example, to benefit from the NZ Super Fund's membership of the Investor Group on Climate Change<sup>1</sup>, the Responsible Investment Association Australasia<sup>2</sup>, the Carbon Disclosure Project<sup>3</sup>, the Transition Pathway Initiative<sup>4</sup> and the One Planet Sovereign Wealth Fund Framework<sup>5</sup>.
- Being members of the Principles for Responsible Investment (PRI)<sup>6</sup>.
- Using an independent third party, BMO Global Asset Management<sup>7</sup>, to advise us on global environmental, social and governance issues and engage with companies on our joint behalf; and
- jointly investigating participation in global initiatives, such as those that seek to promote disclosure of emissions by companies.

## Reporting

Finally, we have committed to reporting regularly on progress by making ongoing and regular disclosures on our website and in our annual reports, by aligning disclosure of our climate-related exposures and actions with the requirements of the Taskforce on Climate-Related Financial Disclosures<sup>8</sup> and the Authority Board monitors progress on the suite of climate change work through its regular meetings.

ENDS

---

<sup>1</sup> <https://igcc.org.au/>

<sup>2</sup> <https://responsibleinvestment.org/>

<sup>3</sup> <https://www.cdp.net/en>

<sup>4</sup> <https://www.transitionpathwayinitiative.org/>

<sup>5</sup> <https://oneplanetswfs.org/>

<sup>6</sup> <https://www.unpri.org/>

<sup>7</sup> <https://www.bmogam.com/>

<sup>8</sup> <https://www.fsb-tcfd.org/>