

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 Authority is doing this.

Context

The Government Superannuation Scheme has just over 51,000 members, some 7,000 still working and the remaining 44,000 retired and receiving scheme pensions. The Scheme was closed to new members in 1992 and thus will decline over the next 50 years.

The Government Superannuation Fund Authority is responsible for administering the scheme. It has two main roles. The first is to invest the Government Superannuation Fund (GSF), and the second is to pay beneficiaries of the scheme.

As of 30 June 2020, the GSF amounted to about \$4.3 billion while the projected pension liability was about \$12.1 billion. The bulk, or \$701M, of the \$901M pension cost in 2019/20 was met directly from the Government's annual budget, while the remaining \$200m was met by members (\$33M), their employers (\$14M) and the return on the Fund investments (\$154M).

The Fund

By Act of Parliament, 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 Government Superannuation 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 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; and
- 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;
- 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 CFIs, the NZ Super Fund and the ACC. 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 Super Fund's membership of the Investor Group on Climate Change¹, the Responsible Investment Association Australasia², the Carbon Disclosure Project³, the Transition Pathway Initiative⁴ and the One Planet Sovereign Wealth Fund Framework⁵.
- Being members of the Principles for Responsible Investment (PRI)⁶
- Using an independent third party, BMO Global Asset Management⁷, 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 Disclosures⁸. and the Board monitors progress on the suite of climate change work through its regular meetings.

ENDS

¹ <https://igcc.org.au/>

² <https://responsibleinvestment.org/>

³ <https://www.cdp.net/en>

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

⁵ <https://oneplanetwfs.org/>

⁶ <https://www.unpri.org/>

⁷ <https://www.bmogam.com/>

⁸ <https://www.fsb-tcfd.org/>