

TITLE:

# The evolving nature of responsible investment and sustainable finance

## Assembly of Investment Chairs

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EVENT | PRESENTATION:

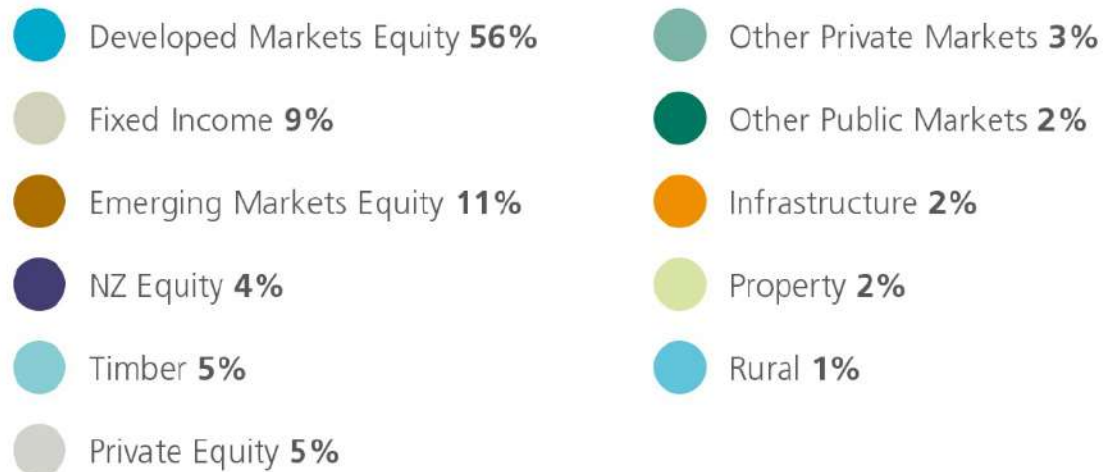
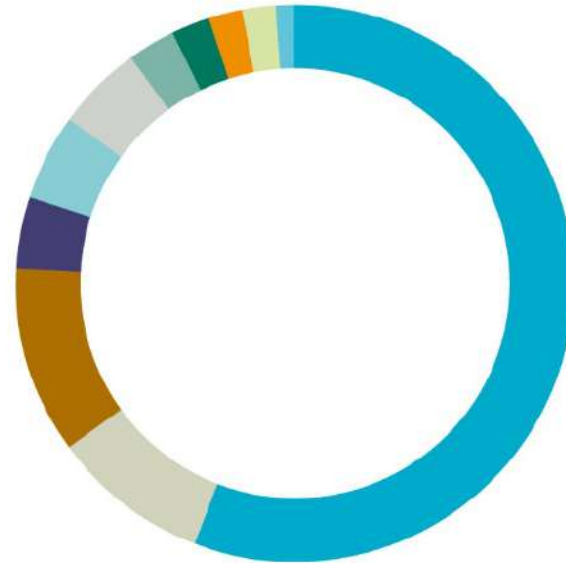
27 November 2019

## New Zealand Superannuation Fund – Quick Facts

as at 31 October 2019

Inception date	September 2003
Fund size	NZ\$44.5 billion
Government contributions net of tax paid back (Suspended 2009, resumed progressively from December 2017)	NZ\$9.88 billion
Return p.a. (since inception, before NZ tax, after costs)	10.15%
Value add vs Reference Portfolio	NZ\$8.653 billion
Purpose	Reduce the tax burden on future taxpayers of the rising cost of New Zealand superannuation
First withdrawals	2034-35 (Treasury forecast December 2018)
Governance	Autonomous Crown entity with independent board

## Actual Portfolio as at 30 June 2019



# Our context

## **NZ Superannuation and Retirement Income Act (section 58)**

- Best-practice portfolio management
- Maximise returns without undue risk
- Avoid prejudice to NZ's international reputation as a responsible member of the world community

### ■ **Best practice portfolio management**

Integration of material environmental social and governance (ESG) issues into investment decision making.

### ■ **Investment risk associated with climate change is material and unrewarded**

If ignored, it could be considered taking *undue risk*, so climate change should be factored into Guardian decision making, both in allocating and accessing investments.

### ■ **Avoiding prejudice**

Growing importance of social licence to operate reflected in climate policy and societal norms

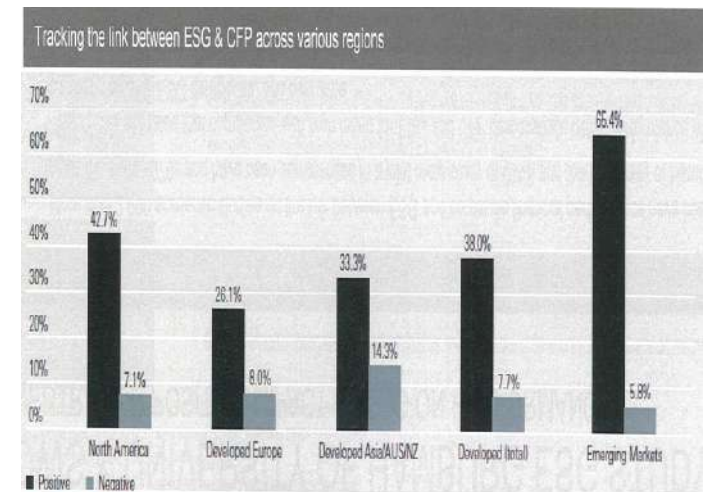
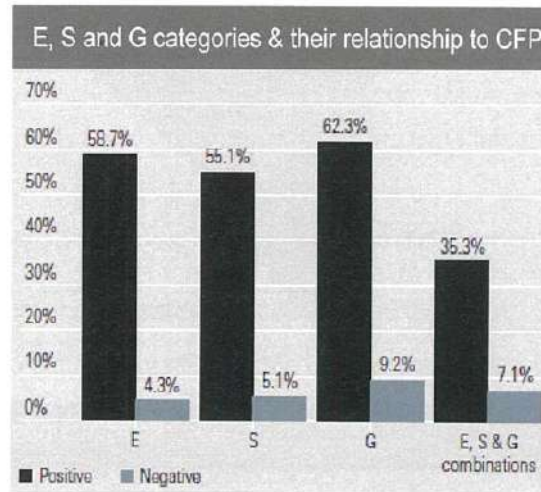
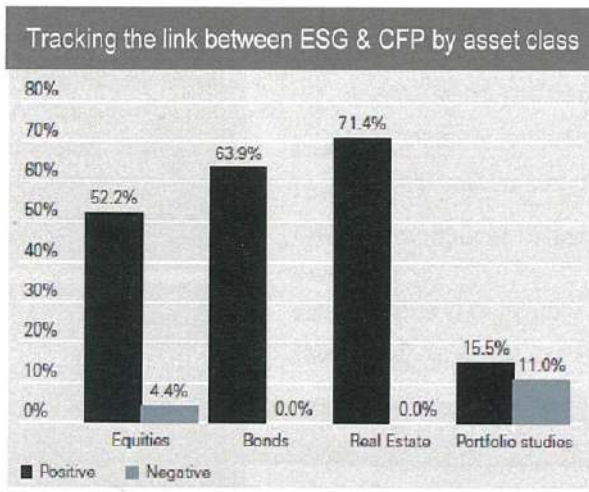
### ■ **Relevant investment beliefs**

- Investors with a long-term investment horizon can outperform more short-term focused investors over the long run.
- Responsible investors must have concern for environmental, social and governance factors because they are material to long-term returns.

# Basis for ESG belief

Literature and studies tell us that ESG adds value to corporate financial performance (CFP)

- Good management of ESG factors – including governance, employee relations, safety and environmental risks – is material to the long-term successful performance of any business
- A source of opportunity and a way to control risk
- We expect our returns to be higher and downside risks lower, over the long term by taking account of ESG issues
- ESG helps is to make more informed investment decisions



Source :Friede, G et al, 2015 - Journal of Sustainable Finance & Investment; *ESG and financial performance: aggregated evidence from more than 2000 empirical studies.*

# Integrated into the investment process

Environmental, social and governance factors, including climate change, are integrated into the investment process

As share owners, we manage ESG through collaboration, engagement and, in some cases, exclusions

Our performance on ESG is measured through global benchmarking

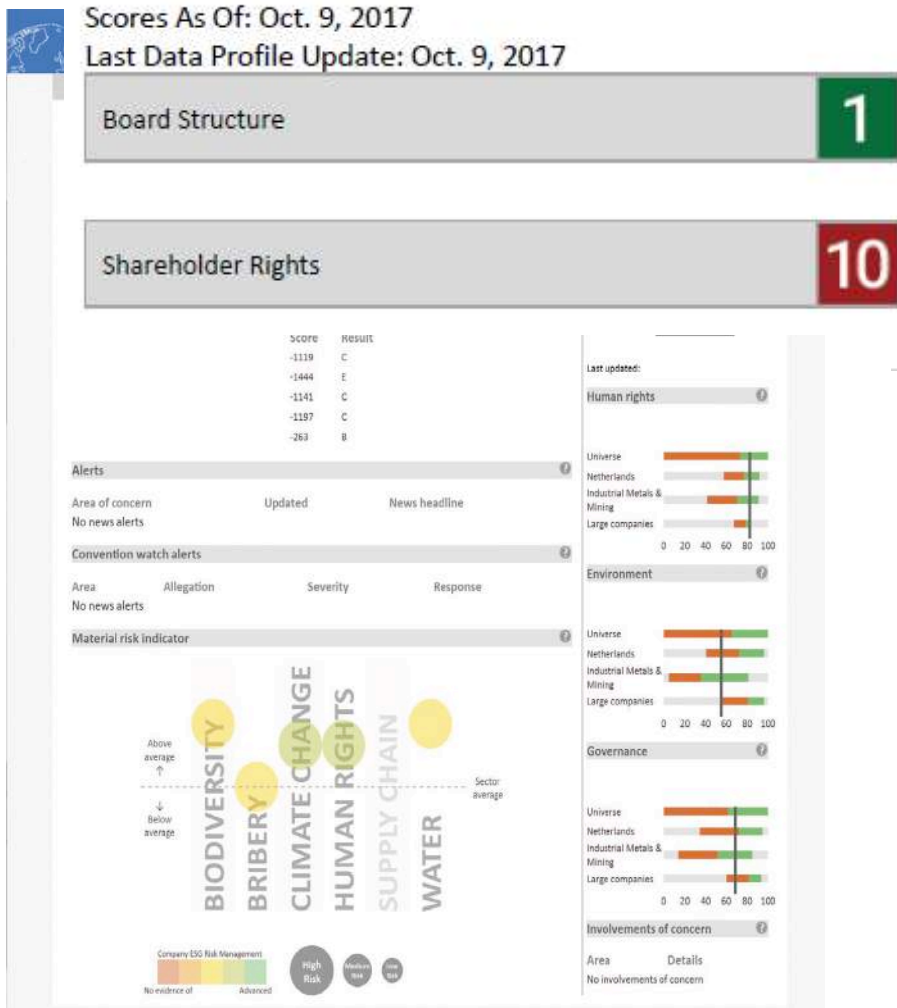


**FIGURE 6: RIAA's responsible investment spectrum**

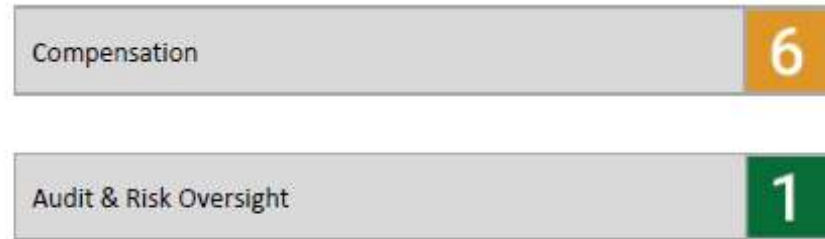
CORPORATE ENGAGEMENT & SHAREHOLDER ACTION	TRADITIONAL INVESTMENT	RESPONSIBLE & ETHICAL INVESTMENT							PHILANTHROPY
		ESG INTEGRATION	CORPORATE ENGAGEMENT/ SHAREHOLDER ACTION	NEGATIVE SCREENING	SCREENING NORMS-BASED SCREENING	POSITIVE/ BEST IN CLASS SCREENING	SUSTAINABILITY-THEMED INVESTMENT	IMPACT INVESTING (& COMMUNITY INVESTING)	
<b>FOCUS</b>	Limited or no regard for ESG factors	Consideration of ESG factors as part of investment decision	Using shareholder power to influence corporate behaviour	Industry sectors or companies excluded/ divested to avoid risk and better align with values	Screening out investments that do not meet minimum standards & including investments that meet defined ESG criteria	Investments that target companies or industries with better ESG performance	Investments that specifically target sustainability themes eg: clean energy; green property	Investments that target positive social & environmental impact and provide either a market or below market rate.	Grants that target positive social & environmental impact with no financial return
<b>IMPACT INTENTION</b>	Agnostic	Avoids harm			Benefits stakeholders				
							Contributes to solutions		
<b>FEATURES</b>		Delivers competitive financial returns							
		Manages ESG risks					Pursues ESG opportunities		
							Intentionality: delivery of impact is central to underlying asset/investment		
							Impact of investment is measured & reported		



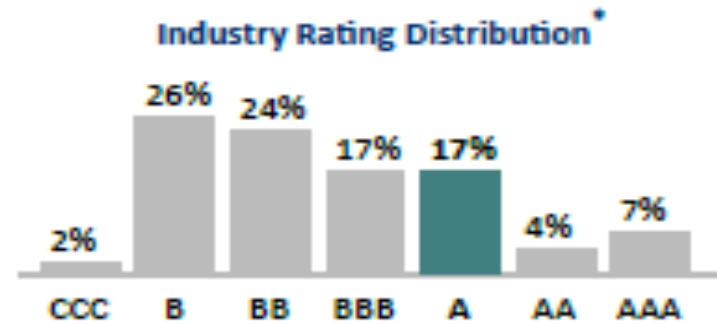
# ESG analysis: investor tools - “outside looking in”



Source: EIRIS



## COMPETITIVE SET



Source: MSCI ESG

**Bloomberg**

ESG readily accessible via Bloomberg terminals

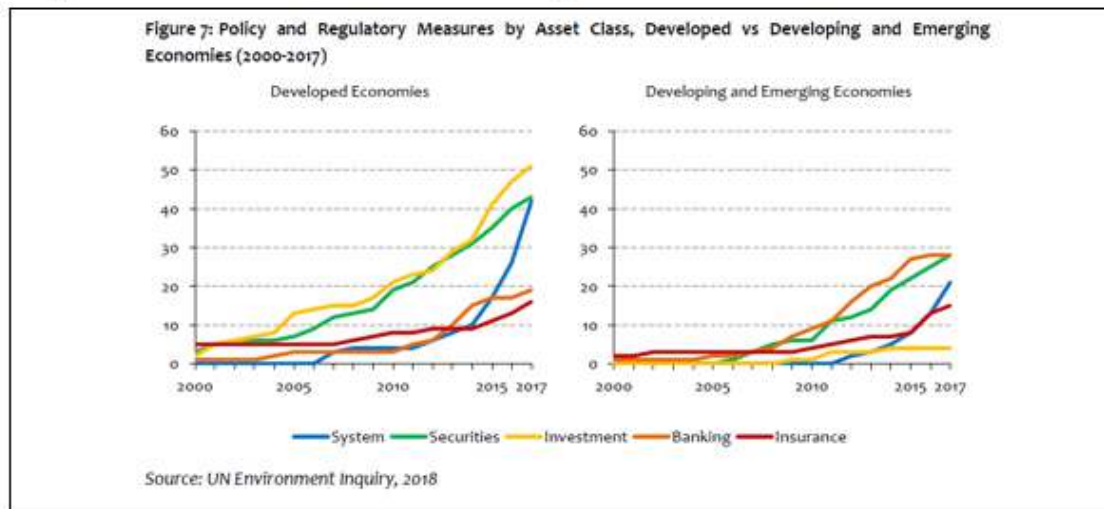


# Sustainable Finance

## ■ Key global initiatives – “quiet revolution” in policy & regulatory measures

- UN Sustainable Development Goals
- National Action Plans for Sustainable Finance – EU, Canada, UK complete; Australia & NZ in progress
- G20 Task-force on climate-related financial disclosure (TCFD - the new “standard”)
- French Energy Transition Law Article 173
- Transition Pathway Initiative and Carbon Action 100+ (Investor-led)
- Central Banks and Regulators Network for Greening the Financial System

**Figure 1. Growth in measures addressing sustainable finance<sup>3</sup>**



# Our climate strategy

## CLIMATE CHANGE INVESTMENT RISK STRATEGY

<b>GOAL</b>	A portfolio more resilient to climate-related risks.
<b>TARGETS</b>	By 2020: to reduce the carbon emission intensity of the Fund by at least 20%; and reduce the carbon reserves of the Fund by at least 40%.
<b>PRINCIPLES</b>	<p><b>1 — Whole portfolio</b> Manage climate risks and opportunities of the whole portfolio.</p> <p><b>2 — Consistency</b> Be as consistent as we can across all investments (listed and unlisted; active and passive).</p> <p><b>3 — Best tools</b> Use the full range of tools available to us. There is no single solution.</p>

## WORKSTREAMS



### REDUCE

Reduce exposure to fossil fuel reserves and carbon emissions.



### ANALYSE

Incorporate climate change into investment analysis and decisions.



### ENGAGE

Manage climate risks by being an active owner through voting and engagement.



### SEARCH

Actively seek new investment opportunities, for example in renewable energy.

## We use “lenses” to assess the first and second order Climate Change risks and opportunities



### Technology

Disruption driven by development of technology to support a low-carbon economy



### Resource Availability

Slow onset shifts in everyday environmental factors



### Impact of Physical Damages

Acute, extreme weather events causing damage to investments



### Policy

Increased costs and complexity from policies / regulations designed to limit long-term effects of CC & to encourage sustainable business operations



### Demand & Supply

Changes in economic and social factors affecting demand & supply



### Liability

Parties who have suffered loss or damage from the effects of climate change seek compensation from those they hold responsible

# Using scenarios

	LOW	CENTRAL	HIGH
Fossil fuel for energy generation by 2050 (rel. to 2010)	↓ 40%	↓ 25%	↓ 15%
Sea level by 2050 (rel. 1990)	↑ 0.25m	↑ 0.3m	↑ 0.4m
Max wind speed in strongest cyclones	↑ 40%	↑ 60%	↑ 80%
Precipitation by 2050	+/- 10%	Water availability a major risk in many regions	+/- 20%
Carbon price by 2040 (2018 USD)	↑ ↑ ↑	↑ ↑	↑
Physical/transition risk trade-off	Lower physical risk to 2050 and beyond  Higher transition risk between now and 2030		Higher physical risk to 2050 and beyond  Lower transition risk between now and 2030

Source: NZSF

## Physical risk example – sea level rise

Table 3.2 Exceedances of today's '100 year events' occur more and more often as the sea level rises.

SLR	Auckland	SLR	Wellington
0cm	Every 100 years	0cm	Every 100 years
10cm	Every 35 years	10cm	Every 20 years
20cm	Every 12 years	20cm	Every 4 years
30cm	Every 4 years	30cm	Once a year
40cm	Every 2 years	40cm	Every 2 months
50cm	Every 6 months	50cm	Twice a month
60cm	Every 2 months	60cm	3 times a week
70cm	Every month	70cm	Every tide
80cm	Every week	80cm	Every tide
90cm	Twice a week	90cm	Every tide
100cm	Every day	100cm	Every tide