

The Treasury

Enduring Letter of Expectation Information Release

October 2021

This document has been proactively released by the Treasury on the Treasury website at <https://www.treasury.govt.nz/publications/information-release/shareholder-expectations-letters-2021-22-information-release>

No information has been withheld

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Minister of Finance

Minister for Infrastructure

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Minister for Arts, Culture and Heritage

Minister for Disability Issues



Dear Board Chairs of the Crown Financial Institutions

ENDURING LETTER OF EXPECTATIONS TO CROWN FINANCIAL INSTITUTIONS IN RELATION TO RESPONSIBLE INVESTMENT

We are writing to the Boards of the largest public investment institutions, sometimes referred to as New Zealand's Crown Financial Institutions (CFIs), to convey the Government's expectations in relation to your ethical investment policies.¹

While this letter is specific to the CFIs, we encourage all public investment institutions to consider the principles of the Crown Responsible Investment Framework (the Framework) and how these can be applied consistently with investment mandates. All parts of the Government's economic apparatus have a role to play to deliver the required climate transition. To do this we must start with transparency but also commit to action.

This Government is committed to responsible actions, to optimise the wellbeing of both current and future generations. The CFIs play a crucial role in managing New Zealand's financial wealth to promote intergenerational equity. We consider this to be analogous to the role of responsible investment across the four capitals, to ensure investments today are made into things we can stand proudly behind and contribute to the society we will hand down to future generations.

Climate change is one of the greatest challenges of our time. The recently published Sixth Assessment Report from the Intergovernmental Panel on Climate Change found unequivocal evidence that the global economy's reliance on fossil fuel consumption is causing temperatures to rise, leading to drastic changes in the atmosphere, ocean and land. Our national wellbeing is vulnerable to the economic and environmental impacts of climate change, both locally in our communities and internationally through New Zealand's reputation on the world stage and ensuring our national commitments are met.

New Zealand has committed to taking urgent action on greenhouse gas mitigation and climate change adaptation through the Paris Agreement's article 2(1)(c), which commits the government to "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development", and Nationally Determined Contributions and the Climate Change

¹ The Crown Financial Institutions include: the Guardians of New Zealand Superannuation in relation to the New Zealand Superannuation Fund, the Accident Compensation Corporation, the Government Superannuation Fund Authority and the National Provident Fund (NPF). While the NPF is not a Crown Entity it is included with the CFIs for the purposes of this letter.

For the purpose of this letter the terms 'ethical investment' and 'responsible investment' are interchangeable. Ethical is used for consistency with underlying legislation, while the modern parlance denotes responsible investment as a broader interpretation that incorporates positive as well as negative screening.

Response (Zero Carbon) Amendment Act 2019. The Government has committed to reduce emissions in its own activities, in order to demonstrate what is possible for other sectors in the economy and showcase positive action to the rest of the world.

In December 2020, the Government announced a climate change emergency and the establishment of the Carbon Neutral Government Programme (CNGP).² This aims to accelerate reductions of emissions within the public sector, and to be carbon neutral from 2025. The Framework is designed to be complimentary to the Government's carbon neutral commitments but recognises that company level emissions are not directly influenced by investment managers.

Cabinet has already made a decision that all Crown funds with greater than \$1 billion in total assets under management should provide transparent reporting, consistent with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. TCFD reporting helps to identify, mitigate and manage the risks associated with climate change so that reporting entities can demonstrate responsibility and improved foresight in their consideration of climate issues. Aligning with best practice standards is important for New Zealand to fulfil its ambition of being a responsible global citizen by taking a leadership position on global issues.

The establishment of the Framework enables clear communication of the Government's key policies and responsible investment expectations. At this time, the Framework is focused on the Government's pledge to deliver a carbon neutral New Zealand by 2050, aligned with the Paris Agreement. However, we reserve the right to evolve the Framework to other aspects of Environmental, Social and Governance (ESG) factors where Government policy sets the basis of society's expectations of responsible investment practice.

CFI leadership on responsible investment will avoid the need for Ministers to be more directive on how to achieve a just transition. This provides the best opportunity to continue to deliver excellent investment performance throughout the transition and is of greatest benefit to all New Zealanders. However, if CFI leadership does not meet our expectation on the level of ambition of the Framework, the Government reserves the right to use legislative tools to strengthen the enforcement of the Framework.

How the Framework is expected to work

The Framework below is intentionally principles-based. This is to enable flexibility of individual CFI investment strategies while moving towards the overarching policy objective. We recognise the importance of this flexibility to deliver on dual financial and responsible investment objectives over time. However, you should ensure that progress is transparent. You should measure and report carbon footprint metrics for your investment portfolios clearly, and in the case of fossil fuel reserve owners, also account for emissions from the end-use of their products.

Measurement alone will not drive the transition, there must be a commitment to action. As investment managers you do not have direct influence over investee companies, but you have choices for which companies are more aligned to the required climate transition. We expect you to set ambitious carbon reduction targets for your portfolios, consistent with Government policy, the

² The CNGP commits to reductions of scope 1, scope 2 and certain categories of scope 3 emissions. Investments, as scope 3 emissions, are not currently captured by the CNGP.

Paris Agreement and global investment leadership over time. In the case of fossil fuel reserve owners, reduction targets should also address emissions from the end-use of their products.

The leadership of CFIs to connect to global investors does not stop there. We expect you to be influential in the domestic market for how businesses and investors can drive the transition to a low carbon economy. You should actively seek all opportunities to drive the climate transition, from education to active engagement to investment into climate solutions where there is consistency with your investment strategy(s).

The principles of the Framework are intended to be enduring

Stability of the Government's expectations will enable the CFIs to develop long-term responsible investment strategies to measure, reduce and influence the transition to zero carbon investment portfolios by 2050.

The principles set a minimum standard to be consistent with global best practice investment standards and commitments of the Paris Agreement. You should feel comfortable going above and beyond the minimum standard where this is not expected to have a negative impact on your investment return profile.

We expect you to respond to this letter with how you will meet the expectations of the Framework now and into the future. You should, at a minimum, set out how you will give effect to the Framework over the following five years, to 2025 initially. This response should be received by 31 December 2021 and explain how you expect to transition on the pathway from 2025 to achieving carbon neutrality by 2050.

You should refresh your commitments regularly, initially prior to 1 January 2025 and within five years after that date. The intention of regularly updating your commitments is to remain current with evolving expectations of global best practice commitments. Should there be any significant shift to the New Zealand policy position, we will reissue this letter to refresh the Framework principles.

Yours sincerely



Hon Grant Robertson
Minister of Finance



Hon Carmel Sepuloni
Minister for ACC

CC: Chief Executives of the Crown Financial Institutions

Crown Responsible Investment Framework for Crown Financial Institutions*

Measure

1. Carbon footprint metrics for your investment portfolios should be reported transparently, on a consistent basis, enabling public scrutiny over progress towards carbon neutral portfolios by 2050. In the case of fossil fuel reserve owners, you should also account for emissions from the end-use of their products.
2. Reporting should align with the Taskforce for Climate-related Financial Disclosure recommendations, until the External Reporting Board's (XRB) climate related disclosure framework has been issued, at which point it should apply, and should continue to evolve in line with global best practice standards;
3. You should strive for consistency of measurement standards across the Crown Financial Institutions so that relative performance on carbon emissions reduction can easily be interpreted.

Reduce

1. Crown Financial Institution investment portfolios must be carbon neutral by 2050;
2. You should set challenging minimum carbon reduction targets at interim periods to provide assurance that investment portfolios are on track to be carbon neutral by 2050. In the case of fossil fuel reserve owners, reduction targets should also address emissions from the end-use of their products.
3. Interim targets should be aligned with global best practice standards to maintain a 1.5 degree global warming outcome;
4. Your first interim target should be for 2025 and should be refreshed prior to the start of that year for 2030. This process is to be repeated every five years thereafter;
5. Where investment strategies allow, you should take a leadership position ahead of minimum reduction expectations to demonstrate how return on investments can be achieved through low carbon strategies.

Influence

1. You should utilise your long-term risk and return strategies to actively identify positive investments that generate additionality to the transition to a low carbon economy; and
2. Recognising that success in reducing carbon exposure for investment portfolios relies on investee companies to transition to low carbon solutions, you should utilise your position as significant investors to engage with New Zealand and global companies on developing transition strategies.

*Crown Financial Institutions, for the purpose of this Framework, include:

- Guardians of New Zealand Superannuation in relation to the New Zealand Superannuation Fund
- Accident Compensation Corporation
- Government Superannuation Fund Authority
- National Provident Fund

Definitions and References

Carbon Emissions captures the greenhouse gases which contribute to climate change (CO₂, CH₄, N₂O, HFCs, PFCs, SF₆, and NF₃), with carbon dioxide being the predominate gas.

Carbon Neutral Government Programme <https://www.beehive.govt.nz/release/public-sector-be-carbon-neutral-2025>

Climate Change Response (Zero Carbon) Amendment Act 2019

<https://www.legislation.govt.nz/act/public/2019/0061/latest/LMS183736.html>

Fossil fuel reserves is the proved and probable reserves for coal and proved reserves for oil and natural gas that a company owns but has not extracted. Fossil fuel reserves represent potential greenhouse gas emissions in the event they are extracted and sold.

Intergovernmental Panel on Climate Change's Sixth Assessment Report

https://www.ipcc.ch/report/ar6/wg1/downloads/report/IPCC_AR6_WGI_SPM.pdf

Nationally Determined Contribution

<https://unfccc.int/process-and-meetings/the-paris-agreement/nationally-determined-contributions-ndcs/nationally-determined-contributions-ndcs>

New Zealand Nationally Determined Contribution

<https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/New%20Zealand%20First/New%20Zealand%20first%20NDC.pdf>

Paris Agreement

<https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement>

Responsible investment

<https://www.unpri.org/introduction-to-responsible-investment/what-is-responsible-investment/4780.article>