

## **TAMA POTAKA**

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Direct Investments Team**

### **Address to the Green Building Summit Tamaki-makau-rau / Auckland**

10am, Thursday 11 April 2019

Brief mihi to the hau kainga, MC, Property Council and Green Building Council.

Kia ora koutou,

It is wonderful to be here. Andrew – **fantastic that the Property Council and your team at the GBC are hosting this hui**. I celebrate your commitment and the shared aspiration towards creating a more sustainable world starting in Aotearoa NZ.

Today I will give you some brief observations on the Super Fund, Iwi/Māori groups, and a couple of sustainability issues.

My main message is:

**As long term investors and asset owners, the NZSF and Iwi/Māori have a deeper capacity and appetite than most other investors to take a broad view around sustainable investment.**

For Iwi/Māori, this is influenced heavily by our world view.

**Whatungarongaro te tangata, toitū te whenua – people come and go, the land remains.**

For NZSF, our investment horizon, and our investment beliefs, influence our ability to see risks like climate change and factor these into our decision-making. It's part of being a **Great Team building the Best Portfolio.**

**So who is the NZSF?**

The NZSF does not look after KiwiSaver – Simplicity and others do that. Our mission at NZ Super Fund is to **reduce New Zealanders' future tax burden.** We invest \$40 billion of the country's wealth to help our tamariki and mokopuna address the future (and rising) cost of the universal pension.

As the Guardians, we are required to invest the Fund on a **prudent, commercial basis** and to manage it in a manner consistent with:

- **Best-practice** portfolio management
- **Maximising return without undue risk**
- **Avoiding prejudice to New Zealand's reputation** as a responsible member of the world community

About 85% of NZSF's investments are offshore, and our legislation effectively requires us to **partner on our direct investments.** We directly invest alongside partners in large NZ businesses like KiwiBank, Fidelity Life, Datacom, the Kaingaroa forest, NZ Gourmet, and MetLifeCare. We own farms and a winery.

**One of our core investment beliefs is that ESG factors impact investment over the long term.**

ESG issues are integrated into investment decision-making. We do this through decision making for both active and passive investments. Our ESG framework also supports us to consider investments which provide positive social returns in addition to financial returns. Exclusions are a small but very topical part of the Responsible Investment Team's work.

We have considerable focus on climate change, how this impacts current and/or potential investments, and what steps we need to take to mitigate against risks from same. You might recall the NZSF selling \$1 billion of shares a couple of years back as we thought that these companies did not sufficiently account for climate change risks in their valuations. I applaud the work to establish the Green Investment Fund as a reflection of our national commitment to reducing GHG emissions and exhibiting kaitiakitanga for the planet.

There is great pride within the organization around our RI work - which we are a founding signatory to the UNPRI, we use the UN Global Compact as a performance benchmark, and we are an active member of the RIAA. Our recent engagement with social media companies around the live streaming of objectionable content has been particularly topical and we have collaborated on this matter with investors looking after nearly \$1 trillion of funds globally.

**Engaging with intent with Iwi/Māori groups aligns with the NZSF's strategic objectives and helping us to realise our long term and medium term target operating states.** We want to be a strong local investor, a partner of choice, and facilitate co-investment opportunities with Iwi/Māori and others like including community trusts, Councils, the Crown, intergenerational family businesses and even the Pacific Islands investment funds.

### **Who are the Iwi/Māori groups?**

Across \$15 billion of collectively owned assets, Iwi/Māori groups **are very diverse.**

There are over 70 Iwi – Iwi has two main meanings – (1) tribe (2) bones. You would have heard of a few – Ngai Tahu, Ngāti Whātua o Orākei, and Tainui. Each Iwi has sub-tribes or hapū and families or whānau. Every Māori has an Iwi! Every person has bones.

All Iwi have genealogical and nutritional dependence on our planet - the earth is our mother, and our identity is tied into mountains, waterways, and forests as our atua (gods) and tupuna (ancestors) and providers of sustenance. The Whanganui people have a saying that encapsulates this well “Ko au te awa ko te awa ko au” which means “I am the river and the river is me”.

Another way of understanding the standard Māori world view is by reference to the Muttonbirds who sung a famous song with the phrase “Nature Enter Me”. In Māori terms “Nature Is Me” and we have a responsibility to the planet then people then profit - in that order.

There are thousands of Māori Incorporations and Trusts a few of which are huge asset owners. These include huge regional players like PKW Inc, Tuaropaki, Tauhara North No 2, Ngai Tukairangi Trust, Atihau Inc. Most (not all) of the collectively owned Māori economy starts at the Bombays and Brynderwyns – it doesn't stop there.

There are also some pan-tribal and statutory bodies like Te Ohu Kai Moana (the Treaty of Waitangi fish commission), Te Tumu Paeroa (the new Māori Trustee), and Poutama Trust which helps micro-finance Māori businesses. The Māori Women's Welfare League has legendary status.

All groups have their own constitutional arrangements – and most have separate and overlapping legislative arrangements – this keeps many lawyers and accountants very busy. In addition, many have historically had limited diversification across portfolios, no direct investment teams, and no genuine deal flow suitable for their scale and sustainability objectives. These groups:

- almost always have a long term investment horizon;
- desire to make a difference on an intergenerational basis to the lives of their owners and/or their members; and
- aspire to contribute to local, regional and national economies.

**Māori concepts such as kaitiakitanga and ahi kaa pre-date the sustainability discussion.** This is not to say that Iwi/Māori have always generated positive outcomes e.g. moa and other extinct fauna. But there

are growing and serious commitments to kaitiakitanga and sustainability for example:

- Moana NZ's commitment to Sustainable Development Goals through things like precision seafood harvesting
- Ngai Tahu iwi commitment to the Climate Leaders Coalition
- The Waikato-Tainui Environmental Plan
- Guiding organisational principles like Tuaropaki Trust stating Look after the land and the land will look after you
- Action oriented environmental programmes like the NW Orākei commitments with environmental rangers in Okahu Bay, nursery and other kaitiakitanga activities at Orākei.

Any commercial enterprise is basically a means to achieve more meaningful objectives - helping elderly folks, helping tamariki get education, promoting cultural identity and wairuatanga.

Treaty claims based around Article 2 have focussed on the physical environment – and how responsibilities for that were stripped during the past 200 years. The nature and extent of Our long term future relies primarily on how we can work together to best meet the evolving responsibilities for these resources – and what that looks like given climate change, pollution, biodiversity loss, and other environmental matters of significance. Financial wealth is only one contributor of a lift in living standards – as the pending Wellbeings Budget is expected to demonstrate.

**We are proud of our co-investments with Iwi/Māori groups** – with Ngāi Tahu Property we are building houses in Auckland. 6 Iwi groups are co-investors with us and Canadian pension fund PSP in Kaingaroa - NZ's largest forest.

When I arrived at the office two years ago, NZ Super wanted to broaden and deepen our engagement with tangata whenua – and engage with a larger number of Iwi/Māori groups. **One challenge was that there was no single front-facing entity to engage with.**

Serendipitously, **the problem was one that Iwi/Māori groups have talked about for years albeit in a different way** - how can Iwi/Māori collectively and effectively invest together in a single front-facing entity.

Plenty of large Māori co-investments have happened – GoBus, the largest Kiwifruit orchard in the country in Te Puke, the Miraka dairy business, the Port Nicholson Fisheries crayfish business; and housing at Waimahia in South Auckland.

**The concept of having one front-facing direct investment vehicle owned by many groups had not yet been realised for various alleged reasons.** Timing. Personalities. Insufficient capital. Governance. Dealflow. Options elsewhere like PE. Over the past two years, many groups have come together with NZSF support to explore a deeper commitment to co-investment.

This resulted in a serious workstream involving a thousand cups of green tea – peppermint and jasmine mainly but also oolong at times, many air miles, and lots of hui to create a co-investment fund amongst Iwi/Maori groups.

After 30 years of discussion, 18 months of grind, and goodwill of many influential wahine Maori and a couple of guys clinging on the starboard bow, a direct investment fund called Te Pūia Tāpapa was established with:

- 26 investors in a LP structure – one group has 10 investors and one has 12 investors so nearly 50 investors in total.

- **Long-term investment commitment** – 15 to 20 years.
- **Kaupapa Māori** in decision-making.
- **Management costs** low.
- NZSF a preferred partner.
- **\$115.5 million** was committed.

The NZSF and TPT Fund MOU sets out a preferred partnership relationship where we will:

- operate in a spirit of good faith, transparency and mahi tahi;
- have regular relationship interactions e.g. site visits, where we will compare and collaborate; and
- think of one another when suitable deals come along.

Key principles underlying future co-investment include:

- maintaining highest corporate governance and (C)ESG principles;
- operating on a commercial basis consistent with respective values; and
- standard commercial documentation and terms.

It was clear that the coming together of the Te Pūia Tāpapa Fund was a multiple way effort – not just one way. **If we did nothing, nothing would change for either NZSF or the groups. If we did something, there would be a chance for change. We also reinforced our mutual commitment to Cultural ESG principles.**

We expect that the TPT Fund will also explore strong relationships, where suitable with the likes of the Green Investment Fund and others.  
Kia ora Craig.

**I want to touch briefly on our baby steps in property development. Our first major property development has been in partnership with Ngai Tahu Property and New Ground Capital building over 200 homes at Hobsonville Point – the Kerepeti development.** I should acknowledge Ngai Tahu delegates here today including Brett Ellison.

**NZSF has learnt many things from this entree into building and construction.** The development has a mix of typologies - 70% of the development is “Auckland” affordable and some are long term 3/5/7 year rentals. In that development, the co-investors made a number of design and construction choices to seek, within the affordability pricing parameter, energy efficiency and achieve satisfaction amongst residents. This involved suitable storage, energy systems, enduring and low maintenance materials, passive solar design principles, LED lighting, and recovery ventilation. We have sought better rainwater usage and strategic site plantings. Some units are designed around the principles of Universal Design with designated car parking for disabled use, ramps and lifts in apartments.

We did not seek environmental certification there - this was a good learning opportunity and a serious conversation starter for a project that we are currently considering in the property development space with Iwi/Māori landowners.

**We are currently working with many groups to activate Iwi/Māori owned land for residential living, on a provincial, greenfield basis.** If the investment proceeds, it will create jobs, preserve land ownership, and help groups diversify portfolios. We hope it will be the largest multi-regional financial investment on Māori land to date.

For engagement with Iwi/Māori, we expect that kaitiakitanga will be an interface for JV arrangements. This reaches into partnership principles, design, landscaping, construction, story telling, and the delivery of services. **The kaitiakitanga/sustainability interface is not a complete match, but together it feels stronger.** We will explore this further.

Current discussion is hardwiring 6\* Homestar certification into the financial models, and considering enhanced kaitiakitanga and sustainability commitment with 7\* certification. We do not anticipate calculating investment returns for this type of investment on a 7-10 year basis.

The beauty about our shared long term investment horizon, is that it enables us to have control over capital, our independence, our purpose, our mandate, and our liquidity, and ultimately open up possibilities for sustainable investment. Five years ago, the notion of 7\* certification was probably too far out for the participating groups, but assessing things on a 30 year or 50 year IRR basis makes it more appealing.

I have touched briefly on a number of issues today – the NZSF, Iwi/Māori organisations, a new co-investment fund comprising some of those groups, our work at Hobsonville Point with Ngai Tahu Property, and some of the learning we have taken from that development into a proposed new property development on Māori owned land across multiple sites.

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