

Investing for future generations

Te haumi mō ngā reanga o muri



MATT WHINERAY
CEO

Ko Ngā Kaitiaki tētahi o ngā wāhi mahi whakaihiihi katoa i te ao mō te kaupapa o te haumi ā-whakahaere. Nā te ture whakatū i a mātou e motuhake nei ā mātou whakahaere, e mārama nei hoki ā mātou whāinga: ko te haumi ināianei hei painga mō ngā reanga o muri. Mā te whai wāhi ki tēnei ohu e whai wāhi nui ai mātou ki te anamata o Aotearoa. He ohu e eke nei nei ā mātou mahi ki tētahi taumata teitei, e tōngakingaki ana ki tā mātou whāinga, ki te oranga tauroa, ki te ita hoki o ngā hononga. Nōku te maringanui ki te ārahi i tēnei whakahaere.

Ka whakahaere mātou i tētahi wāhanga nui o te pūtea a te marea. I te Tahua e tupu haere ana, ka noho tērā hei wāhanga nui tonu mō ngā rawa a te motu. He haepapa tēnei e whakaaro nuitia nei e mātou.

I ngā tau 10 kua hori e mahi ana au mā Ngā Kaitiaki, kua whakaturia e mātou ngā anga whakata e hōhonu ai tō mātou māramatanga ki te huinga haumitanga me te āhua o te whakapiki i te uara i roto i te wā.

TE NOHO TAKATŪ KI TE TUPURANGA

I tēnei tau, i tīmata mātou i tētahi arotake ā-roto i te āhua pae tawhiti o Ngā Kaitiaki e whāia ana, hei tūāpapa mō ngā matapakihanga me tō mātou Poari. Ko te pūtake o te arotake, ko te noho takatū ki te tupuranga o te Tahua hei ngā tau e heke mai nei, i runga i te aranga anō o ngā takoha a te Kāwanatanga me te whakapae ka whiwhi te Tahua ki ngā hua e matapaetia ana i te pae tawhiti. Mā reira mātou e mārama ai ki te āhua o te panoni haeretanga o te rautaki haumi a Ngā Kaitiaki i te wā e tupu ana te Tahua. Mā reira hoki e tohu ngā hiahia mō te taha ki ngā kaimahi, ki ngā pūnaha me te hangarau.

The Guardians is one of the most exciting places to work in institutional investment globally. Our founding legislation gives us operational independence and clarity of purpose: to invest now for the benefit of future generations. Being a part of this team means we can make a real difference to the future of New Zealand. We have a high-performing team, a deep commitment to our purpose, sustainability and strong partnerships. It is a real privilege to lead this organisation.

We manage a large amount of the public's money. As the Fund grows in size, it will represent a significant portion of the country's wealth. It is a responsibility we take very seriously.

In the 10 years I have worked for the Guardians, we have developed decision frameworks to give us a deep understanding of the portfolio and how to add value over time.

PREPARING FOR GROWTH

This year, we started an internal review of the Guardians' long-term target state as the basis for a discussion with our Board. The purpose of the review is to prepare for the Fund's future growth, given the restart of Government contributions and the assumption the Fund achieves expected long-run returns. It will give us a detailed understanding about how the Guardians' investment approach will need to evolve as the Fund grows. It will also determine future needs for staffing, systems and technology.

As we prepare for future growth, efficiency will continue to be a high priority. We continue to benchmark our costs and value add performance against peer funds each year. The findings from the 2017 CEM research, which showed the Fund was

CHIEF EXECUTIVE'S STATEMENT TE TAUĀKĪ A TE TUMU WHAKARAE

Nō mātou ka takatū ki te tupuranga e heke mai nei, ka mātāmua tonu te aro ki te whakarite pai i ngā rauemi. E whakataurite tonu ana mātou i ā mātou utu ki ngā tahua a ngā aropā i ia tau me te āpiti uara ki ā mātou mahi. Ka kitea ngā hua i puta ai i te rangahau CEM o te tau 2017, e whakaatu mai nei he iti iho te utu o te Tahua, he nui ake hoki te uara kua āpitihia tēnā i ngā aropā o te ao whānui, i te whārangi 102.

I te tau 2019, ka tū te arotake ā-riima tau e motuhake nei o Ngā Kaitiaki me te Tahua i runga i ngā here i whakatakotoria ai i te ture e maru nei i a mātou. Ko te tuawhā tēnei o ngā arotake motuhake, ā, e āritarita nei mātou ki te whai wā ki te whakataurite i ā mātou mahi ki ngā tikanga mahi kōunga katoa i te ao whānui. Mā te Minita Tahua e kopou te kaiarotake, māna hoki e whakatau ngā paearu mahi, i runga i ngā kupu ārahi a Te Tari Tātari Pūtea.

TE ĀRAI TŪRARU ME NGĀ HUA HAUMI

Ko tētahi o ngā āhuatanga whai hua o te Tahua ko tana pae tawhiti, e toka tū moana ai ia i te wai karekare o te pae tata, i te papa tauhokohoko. E taea ana e mātou te titiro ki tua o ngā whakapōreareatanga i te papa tauhokohoko e wehi ai pea ētahi atu kaihaumi, ka mārō tonu ai te haere kia tau rā anō ngā hua haumi.

Nā tō mātou pae tawhiti me te teretere o ā mātou pūtea e mōhiotia nei - kua mōhio mātou ki te wā e tīmata ai te Kāwanatanga ki te tango pūtea i te Tahua - e anga ana tō mātou huinga haumitanga ki ngā rawa ka tupu. Kua takoto i te Poari te paeraro mō te Huinga Haumitanga Tūāpapa kia 80% ngā tūtanga ā-ao, ā, kia 20% te moni whiwhi pūmau ā-ao. Ko tā mātou he whakatinana i taua whakaaro me te āpiti uara i ngā wāhi ka kitea e mātou he huarahi penapena pūtea, he huarahi āpiti uara rānei i tēnei taha o ngā tawhā tūraru kua whakaaetia. Ko ētahi o ā mātou rautaki āpiti uara, ko te rautaki whakatītaha, ko te whakamahi tika i te pūtea taituarā me te haumi tōtika. Ko te whāinga o ia rautaki, kia pai ake ngā hua haumi ka puta ake ki te Tahua i runga i te nui o te mōreareatanga.

Kei a mātou te pūtea teretere e wātea ai ki te whai i ngā huarahi o te hoko rawa e iti iho ana te utu i te utu e tika ana. E taea ana hoki e mātou te pupuri rawa, te hoko rawa hoki i te wā e iti ana ngā utu i te papa tauhokohoko. E tika ana ngā rautaki pao ā-tōrea me ngā rautaki ātete nei mō tētahi Tahua pae tawhiti, e aro nui ana ki te tupuranga.

Nā tā mātou kōwhiri i te taumata o ngā rawa tupu kei roto i te huinga haumitanga me tā mātou whai kia kaha te hokohoko haumitanga, ka kumukumu te āhua o ngā hua haumitanga, ā, i ōna wā, ka puta he hua tōraro. Ka āta matapakihia ngā taipitopito o te āhua o tā mātou ārai tūraru me te whānuitanga o ngā momo hua haumitanga ka puta pea i te roanga o te wā i te whārangi 20 o tēnei pūrongo.

TE RAUTAKI MŌ TE PANONITANGA I TE ĀHUARANGI

I a Whiringa-ā-nuku o te tau 2016, i pānui mātou i te rautaki haumi e hāngai ana ki te panonitanga i te āhuarangi me ngā whāinga ā-putanga waro me whakatutuki, me hipa rānei i mua i te tau 2020. I tēnei tau i whakaurua e mātou ngā whakakorenga waro i ētahi mana whakahaere ā-tūtanga e whakahaerehia ana e waho, ā, i āpitihia te tūraru ā-āhuarangi ki ā mātou tauira whakatau uara. E whakahaere haere tonu ana mātou i tā mātou whai pānga ki ngā kamupene 'he nui te waro o roto', ā hei ngā whārangi 56 kitea ai te whakahoutanga o tā mātou whakamahinga waro e whakaatu ana i te kokenga ki te whakatutukihanga o ā mātou whāinga.

Kua tino whai wāhi atu mātou ki te kaupapa a One Planet Sovereign Wealth Fund Group, i kōkirihi ai e te Perehitini o Wīwī, e Emmanuel Macron, hei whakawhanake i tētahi anga mō ngā

lower cost and added more value than global peers, are noted at page 102.

In 2019, there will be a five-yearly independent review of the Guardians and the Fund, a requirement set down in our legislation. This will be our fourth independent review, and we look forward to the opportunity to benchmark against global best practice. The Minister of Finance appoints the reviewer and sets the terms of reference, on the advice of Treasury.

MANAGING RISK AND RETURN

One of the Fund's endowments is its long-term horizon, which allows it to withstand short-term fluctuations in the market. We are able to look beyond the kind of market disruptions that might spook other investors and hold a steady course until returns normalise again.

Because of our long-term horizon and our known liquidity profile – we know when the Government will start to make withdrawals from the Fund – our portfolio is oriented towards growth assets. The Board has set the benchmark Reference Portfolio at 80% global equities and 20% global fixed income. Our task is to implement that approach and to add value where we can identify cost efficiencies or value-creating opportunities within agreed risk parameters. Our value-adding strategies include strategic tilting, collateral optimisation and direct investing. The objective behind every strategy is to get better returns for the Fund for the amount of risk taken.

We have the liquidity to take advantage of opportunities to buy under-priced assets. We can hold and also buy when the market is down. These opportunistic and contrarian strategies are appropriate for a long-term, growth-oriented Fund.

Given our choice of the level of growth assets in the portfolio and our approach to active investment, we will experience volatility in our returns and negative returns from time to time along the way. We discuss how we manage risk and the range of possible returns over the long run in detail on page 20 of this report.

CLIMATE CHANGE STRATEGY

In October 2016, we announced a climate change investment strategy and carbon exposure targets to meet or exceed by 2020. This year, we introduced carbon exclusions in selected external manager equity mandates and added climate risk to our valuation models. We have continued to reduce our exposure to 'carbon-heavy' companies and an updated carbon footprint showing progress towards our targets is covered on page 56.

We have been closely involved in the One Planet Sovereign Wealth Fund Group initiative, championed by French President Emmanuel Macron, to develop a climate change framework for sovereign investors. The publication of the framework in Paris in July 2018 was the culmination of six months' work by six sovereign wealth funds, including four from the Middle East, which collectively manage over USD3 trillion in assets. Our Head of Responsible Investment, Anne-Maree O'Connor, a recognised global leader in this field, was instrumental in the process.

NEW ZEALAND INVESTMENTS

Because New Zealand is a small economy, most of the Fund is invested offshore. This is prudent from a diversification perspective and is considered global best practice. We are, however, committed to finding attractive investment opportunities in New Zealand, and a significant proportion of

panonitanga i te āhuarangi mā ngā kaihaumi ā-kāwanatanga. Ko te tānga o te anga i Parī i te marama o Hōngongoi i te tau 2018 te otinga o ngā mahi i tutuki ai i roto i te ono marama i ngā tahua whai rawa e ono nā te kāwanatanga, e whā o ērā nō Te Pokapū o Āhia ki te Uru, e whakahaere ngātahi ana i ngā rawa e neke atu ana i te 3 tiriona tāra ki Amerika te uara. Ko tō mātou Upoko mō te Haumi Whai Tikanga, ko Anne-Maree O'Connor, ko tētahi rangatira e mōhiotia ana i te ao mō tēnei tūāhutatanga, i tino whai wāhi ki te tukanga.

NGĀ HAUMITANGA I AOTEAROA

Nā te mea he ōhanga paku a Aotearoa, kei tāwāhi te nuinga o ngā haumitanga a te Tahua. Matawhāiti ana tēnei i runga i te whakaaro kia whānui ngā momo haumitanga, ā, e kīia ana, koinei te tikanga whai hua katoa i te ao whānui. Heoi, e ū ana mātou ki te whakaaro me rapu ngā huarahi haumitanga arotau i Aotearoa tonu, ā, ko tētahi wāhanga nui o ngā haumitanga e kaha ana te hokona me te āpiti uara, kei tēnei whenua. He tau nui te tau pūtea 2017/18 nā te whanake tonutanga o tā mātou rautaki hou e whakapūria ai ngā haumitanga i tēnei whenua mā te Pū Haumitanga. Ko tētahi tohu nui o tērā ko te whakaterenga o te tahua haumi Māori o Te Pūia Tāpapa, e whakaae nei tātou kia hono atu hei hoa mātāmua.

NGĀ PANONITANGA Ā-WHAKAHAERE

He wāhanga matua tō mātou ahurea ā-mahi ki tō mātou angitu. Kua roa tonu tā mātou whakapau kaha puta i te whakahaere e pai ai te mahi ngātahi, ā, he ahurea mārohirohi tō mātou, hangore ana te taiao o te wāhi mahi, e whai whakaaro ana anō hoki ki te whānau. Ka haere tonu tēnei arotahitanga i raro i te maru o tōku kaiārahitanga; e whakapono ana au mā reira tātou e whai painga ai i te nui o te whakataetae i te papa tauhokohoko kia whai kaimahi i te rāngai tahua.

E mihi atu ana au ki ngā kaimahi katoa kua whakakīki tūranga wāpoto i te wā e panonitia ana te kaiārahi o Ngā Kaitiaki, i whakaae hoki ki te kawae haepapa atu anō - ki ngā kaimahi katoa hoki i whakaaro pai mai ki te panonitanga. He ohu pakari tō te whakahaere nei, ā, he nui tōna puna pūmanawa.

TE TIROHANGA WHAKAMUA

He nui ngā hua haumitanga i hoki mai ki te Tahua i te tau pūtea 2017/18 nā te tupuranga o te papa tauhokohoko me ā mātou rautaki āpiti uara. I puta te āhua o ngā hua haumitanga nui i te tauhokohoko tūtanga me ngā taumata pāpaku rawa atu o te kumukumu i te wāhanga tōmua o te tau pūtea, nō muri iho ka puta anō te kumukumu i te tīmatanga o te tau 2018 - koinei kē te tūāhua e waia ana mātou, ā, koinei tētahi tūāhua i whai hua rawa ai mātou nā te tika o te takatū.

Ina anga whakamua, e uaua ana te āhua o te taiao ā-waho. Kua tīmata te heke haere o te tupuranga i te ao whānui, kua tīmata te piki haere o ngā utu i ētahi papa tauhokohoko pakari, ā, e ita haere ana ngā tūāhua ā-tahua nā te tangohanga o ngā moni teretere a te pēke matua. Ahakoa kua piki haere ngā maniore ā-tauhokohoko, e whāiti ana te horanga o tērā ki roto ki ngā papa tauhokohoko ā-tahua ā-mohoa. E noho ana ētahi papa tauhokohoko maha ki te taumata o te uara tika, e teitei ake ana rānei i tērā, nō reira hei urupare atu kua whakaitiā e mātou te taumata o te noho mōrearea ā-tauhokohoko me te mau tonu i ngā rawa kia nui ake te teretere o ngā huinga haumitanga i ngā taumata māori. E ū tonu ana mātou ki ā mātou rautaki haumi mō te pae tawhiti, ā, ka whai tonu kia urupū ki te rautaki e pā ana ki te tauhokohoko haumitanga.

the Fund's active, value-adding investments are domestic ones. The 2017/18 financial year was notable for the further development of our new Investment Hub approach to generating domestic deal flow. A major milestone in this was the launch of Māori investment fund Te Pūia Tāpapa, with which we have agreed to become a preferred partner.

ORGANISATIONAL CHANGES

Our working culture is a key part of our success. We have devoted considerable time and effort throughout the organisation to ensure that we work well together and have a constructive culture and a flexible and family-friendly working environment. This focus will continue under my leadership; I believe it gives us an advantage in the highly competitive market for staff in the finance sector.

My personal thanks go to all the staff who have stepped up into interim roles during the changes in the Guardians' leadership and taken on additional responsibilities - and to all staff for their positive response to the change. This organisation has a strong bench to call on and a great pipeline of talent.

OUTLOOK

The Fund achieved strong returns in the 2017/18 year thanks to a combination of market growth and our value-adding strategies. Equity markets were characterised by strong returns and exceptionally low levels of volatility in the first half of the financial year, followed by the re-emergence of volatility at the start of calendar 2018 – a more normal situation and one from which we were well positioned to profit.

Looking ahead, the external environment appears challenging. Global growth is beginning to decelerate, inflation is starting to rise in some developed markets and financial conditions are tightening with the withdrawal of central bank liquidity. While trade tensions have been escalating, the contagion into financial markets has been limited to date. With many markets at or above fair value, our response has been to lower the level of active risk and maintain higher than normal levels of portfolio liquidity. We remain committed to our long-term investment strategies and will continue to take a highly disciplined approach to active investment.