

Appendix One – Recommendations and Actions

Sct	Recommendation	NZGIF Response June 2023	Actions taken or planned
Recommended actions			
5.2.1	Include a more precise definition of the counterfactual and the reason for market failure in the investment DD reports.	Agree to consider	NZGIF's purpose and objectives provide a high degree of clarity on how NZGIF should operate to deliver on its commercial and public policy outcomes in this market. NZGIF's approval documents for each transaction include considerable detail on the rationale for investment and the ways the investment fulfils our purpose and objectives. The Board considers these critical matters before approving any transaction. We are currently updating our investment strategy and policy to ensure the balance between our commercial and public policy objectives is adequately reflected, resulting in investments that meet NZGIF's objectives.
5.2.2	Use a standardised risk profile scale that is relative to a well know comparator such as the risk ratings produced by Standard & Poor's or Moody's.	Agree. Complete	Over time we have been refining our credit assessment methodology. While the review was underway, we instituted a shadow credit rating methodology for deal pricing, risk monitoring and provisioning purposes based on that used by S&P.
5.2.2	Include more details on how pricing / valuations were established for investments in the investment DD reports; the expected costs to NZGIF in executing and administering the investment; and more clarity on the returns from both debt and equity investments against agreed benchmarks.	Agree to consider	NZGIF's investment memos and due diligence reports contain detailed information on pricing and valuation We note that each investment is priced appropriately to the risk involved. The due diligence report for any investment also contains information on any additional resources that will be required to administer the investment. We will consider whether this should be expanded in our forward work programme.

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5.2.2	Use an annual mark-to-market approach for valuing/pricing investments	Agree in principle. Endorses current practice.	<p>For both internal and external reporting purposes NZGIF currently fair values all of our equity investments on an annual basis.</p> <p>For our debt investments, which are unlisted, private credit facilities, for external financial reporting purposes, we record the instruments at amortised cost as we have entered into these transactions with the intention of holding the assets to maturity, as required by the relevant accounting standards.</p> <p>For internal reporting purposes, we are intending to introduce fair value reporting at a portfolio level in 2024, noting that the differences between face and fair value are attributable to fixed-rate investments, whereas the majority of our debt investments are currently floating rate (fair value approximating face value).</p>
5.2.2	A consistent treatment of transactional and overhead costs should be adopted across all investment DD reports and preferably be performance net of costs.	Agree in part	NZGIF's investments are made across a wide variety of investment structures and types, technologies, sectors and for different purposes. The Audit and Risk Committee reviews transaction costs incurred and where they are and are not able to be passed on to counterparties at every Committee meeting. NZGIF currently assesses costs but as with other recommendations in 5.2.2., NZGIF will consider improvements to the consistency of the presentation of cost information in approval documentation in the coming year's work programme.
5.2.2	Report on gaps in meeting benchmark returns, and the reasons.	Agree	There have not been gaps in meeting benchmark returns to date. We report on our performance against the benchmark rate of return at a portfolio level

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			in our Annual Report. If a gap were to manifest, we would provide appropriate commentary on the reasons for that.
5.2.3	Where NZGIF is investing in multiple parts of the capital stack and/or different types of capital, NZGIF should clearly articulate the rationale in investment DD reports and an appropriate risk assessment/justification provided.	Agree. Endorses actions underway	We will look to further articulate the rationale for investing at multiple places in the capital stack in our investment approval documents. While NZGIF has always considered the risks and rewards of investing at different places in the capital stack, we are in the process of evolving our risk operating model and processes, including, for example, enhanced risk assessments performed independently from the investment function.
5.2.4	Disclose detailed "market failure" rationale in case studies published to demonstrate market leadership	Agree in part	Case studies aid in market demonstration where they present information that is wanted/needed by the market, so this will continue to be our focus for public communications. This will involve narrative about how an investment fulfils our purpose to accelerate investment to reduce emissions, and the unique and novel ways that individual transactions solve problems in the market and meet our objectives in different ways.
5.3.1	Establish the position of "Risk Officer" to strengthen governance with reporting directly to the CEO or the Board of Directors.	Agree in part	NZGIF agrees that we are at the state of maturity where enhancing and strengthening our risk function is timely and important, however we note this is a very prescriptive recommendation as to how to achieve the overall goal of an enhanced risk function. Internally, NZGIF continues to enhance aspects of the risk function, including, for example, hiring a Portfolio Manager with oversight of investment risk analysis, monitoring and reporting. The ongoing evolution of the risk function will be a significant part of our coming year's work programme.
5.3.2	Develop a standardised "front sheet" for DD reports to clearly present key information.	Agree	We will implement as appropriate in the coming year's work programme.

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6.1	Consider an increase in NZGIF's capitalisation in order to continue to achieve its objectives and play a substantial role in decarbonising New Zealand.	Agree	We recognise the significant increase in NZGIF's investment capital pool in Budget 23 and thank the Shareholders for their support.
6.2	Retain NZGIF's independence, as having the independent authority to meet its mandate is a key strength of NZGIF's operating model.	Support	We are supportive of this recommendation but note this is a matter for Government. We note that independence is critical to building and maintaining the confidence of the market.
6.3	Investigate coordination mechanisms for NZGIF with respect to other government agencies.	Agree to consider	We are supportive of this recommendation but note this is a matter for Government. We are eager to see greater government coordination on climate change matters, and are willing to contribute to these efforts, noting that this cross-governmental coordination is outside NZGIF's role and mandate. Where our work coincides with that of other agencies such as EECA and MfE, we seek to work with them and will continue to do so.

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5.2.1	Consider extending the Emissions Benefit Report to include all required assumptions to calculate the estimation for each investment.	Agree. Endorses actions underway.	We publish all key assumptions (when these are not commercial-in-confidence) to help the market understand the underpinning calculations in a way that is clear and understandable to non-technical readers. Further enhancements to the Emissions Benefit Report is part of the coming year's work programme as effectively telling an evidence-based story is critical to our market leadership..

5.2.1	Consider publishing the rationale behind any notable differences in the emissions estimation methodology from approaches adopted by the Green Bank Network to improve transparency.	Agree	The Green Bank Network does not have a central methodology for estimating benefits, as each Green Bank can have different goals and objectives, target sectors and financing structures, with fundamentally different jurisdictional needs. Our Emissions Benefits Report sets out our methodology, that is based on the methodology of other institutions in the GBN. We will investigate options for publishing more information about our approach versus others in our upcoming work programme.
5.2.2	Consider identifying how much time in each role is spent on Government policy and reporting, to assist NZGIF in better understanding their underlying commercial performance.	Agree in part	Management has identified the mix of roles required for us to deliver on our purpose and objectives and performance expectations, including obligations to Government and fulfilling our market leadership, demonstration and support functions. We can make estimates for the FTE commitment to this work.
5.2.2	To allow more transparent reporting against this objective, NZGIF could outline how the portfolio level benchmark return was established and the differing return expectations between equity and debt.	Agree in part	<p>The rationale for the benchmark return is publicly available, in the Cabinet Paper establishing NZGIF. We will investigate how to more effectively communicate its purpose and underlying construction in the year's work programme.</p> <p>Because our negotiations with market participants are bespoke to each opportunity and its unique risks, setting general expectations for equity and debt returns would be misleading and non-commercial. We will, however, consider how to improve the information we provide regarding our expected portfolio returns from our investments.</p>
5.2.2	Consider making best estimation of likely exit date for equity investments and likely average rate of return at the time of exit in assessing the total expected rate of return.	Agree. Endorses current practice	We consider the timing of equity exits at the time of making the investment and then on an ongoing basis in regular portfolio reviews. The assumptions and estimates are inputs to our 5-year financial forecast model.

5.2.2	Consider disclosing debt returns with reference to a net interest margin rather than the absolute return.	Agree. Endorses current practice	<p>We disclose a net interest margin for debt positions in the notes to the Financial Statements in our Annual report.</p> <p>We will investigate additional areas in which this can be transparently reported in the coming year's work programme.</p>
5.2.2	Consider investment banking performance hurdles to report on performance.	Alternative view	<p>NZGIF, as a Green Bank acting for the public good, has a very specific organisational form and design, and pure investment banking metrics may not be relevant, or cut against, many others, including non-Investment Bank, corporate and public good measures.</p> <p>Each year, we develop a set of performance measures that best reflect our investment and corporate performance, and we publish these in our annual Statement of Service Performance.</p>
5.3.1	Consider a greater separation of the Board from investment decisions as it matures and establish a separate risk function.	Agree	<p>The current practice of Board approval has been appropriate given the stage of the company and the bespoke nature of its investments; however, as the portfolio grows, we are investigating options to transition decision-making for certain investment types and structures away from the full Board over time and this will be considered in the coming year's work programme. Refer to earlier response (section 5.3.1) on the separate risk function. We also note that the Board is considering the options for establishing a standing Investment Committee with an appropriate delegation from the Board. We have engaged with other agencies to understand broader practice and incorporate that into NZGIF's own considerations.</p>
5.3.1	NZGIF and the Treasury should consider implementing quarterly analysis by The Treasury of financial performance as we consider this an important check and balance on the activities of NZGIF.	Agree	<p>Enhanced shareholder reporting is part of the coming work programme. We accept the need to report in a comprehensive way that enables a clear understanding of performance. With the decisions of Budget 23 our fiscal reporting obligations have changed and we will publish quarterly unaudited financial statements via CFISnet.</p>

5.4	Consider outlining the Board and Management's responsibilities and skillset in more detail in their annual reporting for increased transparency to stakeholders.	Agree	We are happy to provide more information on Board and Management as appropriate. We will consider the most effective channel for communicating this in the coming year's work programme.
5.4	Consider strengthening the organisation's debt expertise, through the appointment of persons experienced in direct, single credit, lending either at an origination and/or governance level, particularly in a New Zealand context.	Alternative view. Endorses current practice	<p>The NZGIF Board and Management possess considerable debt expertise, and we also note that staff at the next level of management (our investment director, two investment managers, our Head of Legal and senior legal counsel) also have extensive debt origination and management experience in the New Zealand market.</p> <p>Overall we note that NZGIF's team are investors first and consider debt investments to be an important tool in our toolbox, rather than being fully analogous to how a commercial bank might look at lending as a banking product. Our people need to be able to look at the needs of an opportunity and appropriately structure the solution to meet them, rather than always assess a singular banking product from a commercial lender's perspective – for this reason we have sought to build an investment team with a broad range of skills and experience from across the private and public debt capital markets. Adding to this mix of skills and experience will be the focus of any future recruitment.</p>
6.2	Cabinet and Treasury should consider reducing the number of specific restrictions that are placed on NZGIF and to rely more heavily on NZGIF's objectives as the guardrails for NZGIF outcomes.	Support	We will address this separately with our Shareholding Ministers over the coming year.