

2022 Review of NZGIF Action Tracking

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Action

	Section	Recommendation	NZGIF Response March 2023	Actions taken or planned	Strategic Initiative	Owner	Status	Expected completion date
1	5.2.1	Development of policies relating to assessing and targeting market failure in relation to NZGIF's market leadership and crowding in objectives.		Update Investment Policy to incorporate investment strategy and reflect settings. Interdependency with Risk Operating model.	Investment Excellence	CIO	Complete <ul style="list-style-type: none"> Investment Policy approved by Board 9 August 2023 	September
2	5.3.1 5.2.2	Development of an independent and suitably resourced risk management function		Risk Operating Model work programme Inc identification of Investment Risk owner	Operational Excellence	COO	Complete <ul style="list-style-type: none"> Updated Risk Operating Model agreed by Board in August 2023. Senior Risk Officer position established August 2023 Credit Analyst position established January 2024 S&P credit rating models adopted Q2 2024 Loan book administration platform and service provider contracted Q4 2024 	September
3	5.3.1	NZGIF and Treasury should identify ways to improve information sharing and monitoring		Develop quarterly reporting mechanism (tbc)	Operational Excellence	CCA	Complete <ul style="list-style-type: none"> Quarterly Reporting agreed and implemented 	September
4	N/A	An assurance from the Board that the entity has sufficient capability to account for further growth		Capability & Capacity work programme Governance [Board, Investment committee; Risk committee; Org; Audit and Org risk committee] Executive [Chief Commercial Officer; Chief Risk Officer] Risk operating model headcount Systems and processes [middle and back office integration] Government Relations	People and Culture Operational Excellence	COO	Complete <ul style="list-style-type: none"> Board letter of assurance provided to shareholders July 2023 	September
5	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 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. However, we constantly seek to refine and improve our documents and will consider this recommendation in the coming year's work programme.	Investment Excellence	CIO	Complete <ul style="list-style-type: none"> DD report template updated in June 2023 to include information about market failure specific to each investment 	September

6	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. Endorses actions already underway	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.	Operational Excellence	COO	Complete <ul style="list-style-type: none"> Risk rating model procured in January 2024 and training for analysts complete All new transactions through IC rated using new models, and independent risk assessment undertaken by independent risk function 	September 24
7	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 the anticipated execution costs and whether additional resources will be required to administer the investment. We will consider whether this should be expanded in our forward work programme. We further note that our return benchmarks are long-term and measured at a portfolio level by design; however, we will consider how to clarify the differences between expected debt and equity returns.		CIO / COO	Complete <ul style="list-style-type: none"> Pricing assessment conducted during IM and DD stages Independent risk function performs independent risk and pricing assessments, provided to IC Net Interest Margin (relative to Benchmark) included in DD reports from June 2024 Deal transaction costs reviewed quarterly by ARC 	Complete
8	5.2.2	Use an annual mark-to-market approach for valuing/pricing investments	Agree in principle. Endorses current practice.	For both internal and external reporting purposes NZGIF currently fair values all of our equity investments on an annual basis. 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. 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	Investment Excellence	CIO	No action required <ul style="list-style-type: none"> Debt assets 'held to sell" (e.g. Solar Programme Warehouse funding) fair valued ('marked-to-market) where applicable from Q4 2024 	Complete

				investments are currently floating rate (fair value approximating face value)				
9	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. NZGIF currently presents 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.	Investment Excellence	COO	Complete <ul style="list-style-type: none"> Revised transaction cost report to be provided to regular ARC meetings. 	Complete
10	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 in our Annual Report. If a gap were to manifest, we would provide appropriate commentary on the reasons for that.	No action required	COO	Complete <ul style="list-style-type: none"> Additional reporting on the Portfolio's 'Effective Interest Rate vs Benchmark' provided for every Board meeting and in each Shareholder Quarterly report 	Complete
11	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 already underway	Although NZGIF has always considered the risk/reward of investing in multiple parts of the capital stack, we now more fully state these rationales in our investment memos. We will continue to refine the presentation of this information in the future.	Investment Excellence	CIO	Complete <ul style="list-style-type: none"> No action necessary 	Complete
12	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 hit our objectives in different ways.	Market Leadership	CCA	Complete	November
13	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	Operational Excellence	COO	Complete <ul style="list-style-type: none"> Senior Risk Officer position established August 2023 with direct reporting line to Audit and Risk Committee 	September

				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.				
14	5.3.2	Develop a standardised "front sheet" for DD reports to clearly present key information.	Agree	We are constantly looking to improve and standardise as appropriate our investment reports, so will consider this recommendation and implement as appropriate in the coming year's work programme.	Investment Excellence	CIO	Complete <ul style="list-style-type: none"> New standardised front sheet deployed in June 2023 	Complete
15	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.	Support	We are supportive of this recommendation but note this is a matter for Government. We note that increased capitalisation would increase the impact NZGIF could have in the market and open additional parts of the market to us.	N/A	N/A	No action <ul style="list-style-type: none"> NZGIF capitalisation increased to \$700m through Budget 2023 	Complete
16	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.	N/A	N/A	No action	Complete
17	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.	Public Sector Engagement	CCA	No action	December

Consider

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18	5.2.1	Consider extending the Emissions Benefit Report to include all required assumptions to calculate the estimation for each investment.	Agree in part	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.	Market Leadership	CCA	Complete <ul style="list-style-type: none"> Additionally, Deloitte engaged in July 2024 to provide review of emissions benefit estimation methodologies 	Complete
19	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.	Market Leadership	CCA	<ul style="list-style-type: none"> Enhanced reporting to be included in upcoming Emissions Benefit Report. Deloitte engaged in July 2024 to test emissions benefit calculation methodologies. 	November
20	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.	Alternative view	We do not believe this would be a good use of our resources or particularly useful analysis to undertake. 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 believe tracking time and reporting on functions performed by team members would be an unwarranted reporting burden.		N/A	No action	
21	5.2.2	To allow more transparent reporting against this objective, NZGIF could outline how the portfolio level benchmark return was established and the	Agree in part	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.	Investment Excellence Operational Excellence	COO / CCA	Complete <ul style="list-style-type: none"> All DD reports include expected Internal Rate of Return (IRR) for investments for both 'base case' and 'downside scenarios' 	Complete

		differing return expectations between equity and debt.		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.			<ul style="list-style-type: none"> NZGIF has now commenced 12 month reviews for all investments, which compares the actual IRR performance against expectations 	
22	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.	Investment Excellence Operational Excellence	COO	Complete <ul style="list-style-type: none"> No action required 	Complete
23	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>	Operational Excellence	COO	Complete <ul style="list-style-type: none"> Implemented in DD reports from June 2024 	Complete
24	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 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>	N/A	N/A	Complete <ul style="list-style-type: none"> From Q2 2024 onwards we have included Net Investment Income and ROE in our monthly Board reporting and Quarterly Shareholders' reports. From June 2024 onwards we are including Net Interest Margin in all DD reports 	Complete
	5.3.1	Consider a greater separation of the Board from investment decisions as it matures and establish a separate risk function.	Agree	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	Operational Excellence	COO	Complete <ul style="list-style-type: none"> Investment Committee established June 2024 	Complete

				programme. Refer to earlier response (section 5.3.1) on the separate risk function.				
	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	How Treasury conducts its monitoring function is outside NZGIF's control. However, in anticipation of our evolving fiscal reporting requirements, we expect to publish quarterly unaudited financial statements via CFISnet.	Operational Excellence	COO	Complete <ul style="list-style-type: none"> Summary financial performance against targets included in Quarterly Reports (P&L, CF, BS), including a performance assessment narrative In line with 'Stream B – Fiscal Reporting requirements' a 5 year forecast is provided to Treasury, twice a year 	Complete
	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.	Operational Excellence	CCA	Complete <ul style="list-style-type: none"> Additional information provided in FY243 Annual report 	Complete
	5.4	Consider strengthening the organisations 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	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 and our Head of Legal) also have extensive debt origination and management experience in the New Zealand market. 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 lenders' perspective – this means our investment professionals in particular need a broad range of skills and experience across the private and public debt capital markets.	N/A	N/A	N/A	Complete
	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 are supportive of this recommendation but note this is a matter for Cabinet/Shareholders. We note that the mandate restrictions have become less relevant to our investment work over time. We would like to brief you separately on this.	Investment excellence	CIO	<ul style="list-style-type: none"> Mandate questions to be addressed through 2024 Strategic Mandate review 	September