

New Zealand Green Investment Finance Limited

Statement of Intent

2019-2023

Presented to the House of Representatives pursuant to the Crown Entities Act 2004.

Introduction	3
Climate Change in New Zealand: the strategic context for NZGIF	4
NZGIF's strategic intentions and functions	6
Impacts to which NZGIF contributes	8
NZGIF's strategy and near-term intentions	9
NZGIF's structure and governance	11
NZGIF's funding, risk and financial management	13
Maintaining an effective and capable organisation.....	16

Introduction

This Statement of Intent (SOI) has been prepared by the Board of Directors (“the Board”) of New Zealand Green Investment Finance Limited (NZGIF or “the Company”) pursuant to the Crown Entities Act 2004. It sets out the intentions of NZGIF for the period from 1 July 2019 to 30 June 2023.

Statement of Responsibility

During the period of this SOI NZGIF will accelerate and facilitate low emissions investment. The Board is responsible for ensuring that NZGIF’s activities are in line with its constitution. The Board is also responsible for the statements contained in the SOI, including the appropriateness of any assumptions.



Cecilia Tarrant

Chair
New Zealand Green Investment Finance Ltd
12 September 2019



David Woods

Director
New Zealand Green Investment Finance Ltd
12 September 2019

Climate Change in New Zealand: Strategic Context for NZGIF

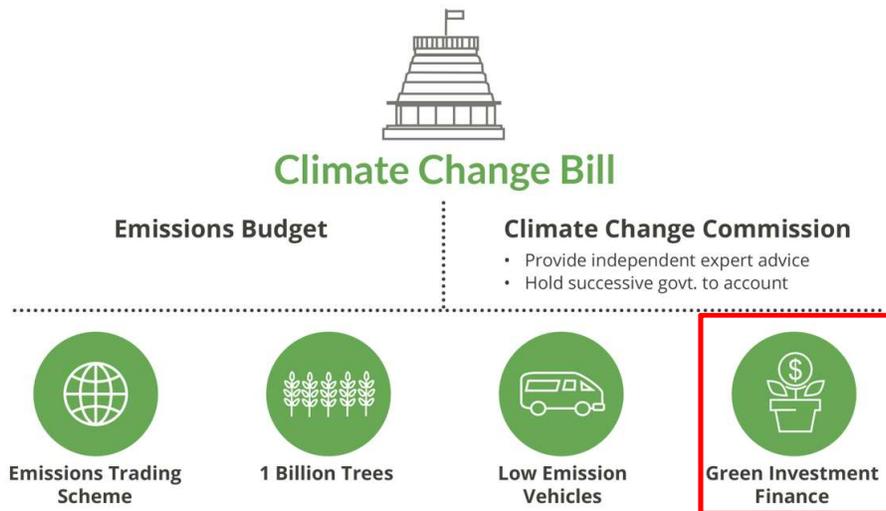
New Zealand is committed to be an active participant in the international response to the challenge of climate change principally by making substantial reductions in its greenhouse gas (GHG) emissions. New Zealand contributes only 0.2% of global emissions but countries like ours make up around 30% of global emissions. New Zealand's emissions are also high per person.

NZGIF is part of a wider climate change policy programme that includes:

- New Zealand's international climate change leadership;
- the Climate Change Response (Zero Carbon) Amendment Bill;
- establishing a Climate Change Commission;
- strengthening of the New Zealand Emissions Trading Scheme (ETS);
- the One Billion Trees Programme; and,
- the Electric Vehicles (EV) Programme.

Figure 1 illustrates the range of initiatives in this policy programme, including NZGIF.

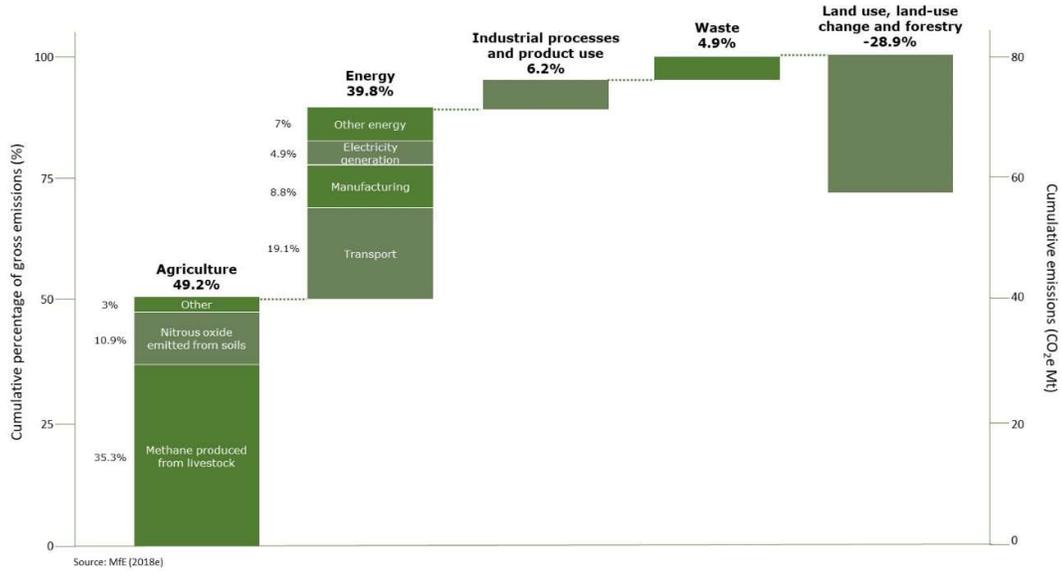
Figure 1: New Zealand Climate Change Policy Programme Initiatives



Lowering domestic emissions will be facilitated by capital being prioritised and channelled towards low emissions projects. Financing can help reduce emissions both directly (such as financing the conversion of coal-fired industrial processes to renewable energy sources), and indirectly (such as financing the development of infrastructure to increase electric vehicle take-up/usage).

To be effective in lowering domestic emissions, finance needs to be directed to projects that help to lower New Zealand's specific emissions profile which differs markedly from other developed countries. Figure 2 below illustrates New Zealand's net emissions profile:

Figure 2: New Zealand net emissions profile, 2017



The need for NZGIF

New Zealand's transition to a low emissions economy requires a major re-orientation of public and private investment away from emission-intensive activities to those that support and catalyse low emissions energy, transport, building and land use and other activities.

Stable and credible climate change policies, including effective emissions pricing, provide a basis for a well-functioning investment system that will finance emissions-reduction opportunities. Yet additional barriers to private sector low emissions investment exist and require attention. The two reasons for 'market failure' for the supply of finance for low emissions investments identified in the scoping stage for NZGIF (May-December 2018) were:

- **missing markets:** private sector low emissions investment is currently quite limited and is typically characterised by low transaction volumes, relatively small transaction sizes and high transaction costs;
- **imperfect information:** low emissions investment is also constrained where investors are not willing to make capital available to match the payback periods of low emissions projects and where secondary markets are underdeveloped, thus increasing exit risk.

NZGIF was established to address these market failures. With the establishment of NZGIF, New Zealand joins the more than a dozen other national and sub-national governments that have established dedicated green investment institutions.

NZGIF's strategic intentions and functions

NZGIF's establishment, purpose and objectives

NZGIF was incorporated as a company in April 2019 and is listed in Schedule 4A of the Public Finance Act 1989. NZGIF's purpose is to facilitate and accelerate low emissions investment. NZGIF has four objectives that underpin its mandate:

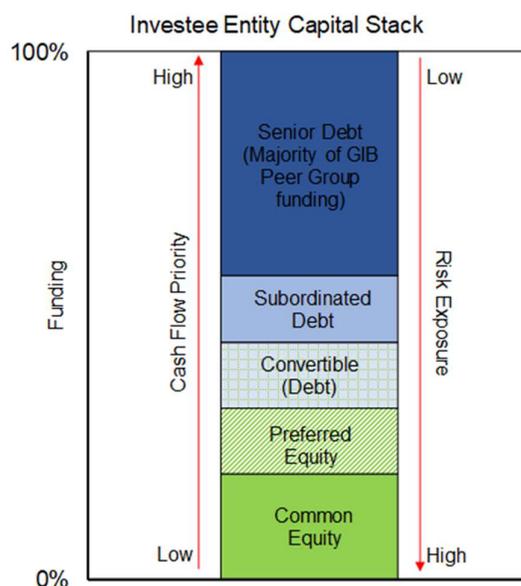
- **lowering domestic emissions**, directly and indirectly through the investments NZGIF makes;
- **'crowding-in'** private finance by making investments in commercially viable projects where a financing gap exists and facilitating third-party financing in transactions;
- **investing on a commercial basis**, achieving a long-term portfolio-level benchmark return of the 5-year New Zealand Government Bond rate plus 2%;
- **exhibiting market leadership** by operating transparently and demonstrating the profitability of investing in commercially viable, low emissions investments.

The nature of NZGIF's investment activities

NZGIF's mandate is to catalyse and accelerate the development of the low emissions investment market. In order to become financially self-sustaining, NZGIF will target investments that repay capital and generate appropriate returns given the level of risk.

NZGIF can invest using a range of financial instruments. This allows NZGIF the flexibility to make direct investments across the capital structure (see Figure 3) depending on the underlying commercial opportunity. NZGIF can also provide financing and credit enhancements to banks, and other intermediaries, to support their low emissions lending and investments.

Figure 3: NZGIF range of permissible investments across a capital stack



The scope of NZGIF's investment activities

NZGIF has a limited amount of investable capital (\$100m). NZGIF will invest to reduce domestic emissions and where there is the greatest need for it based on the existence of

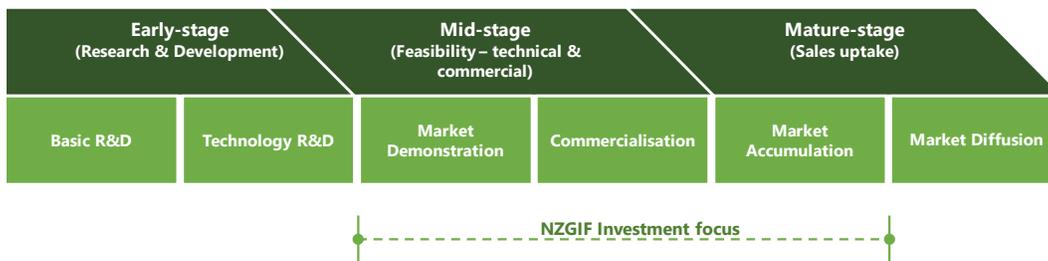
financing gaps and opportunities for crowding-in private finance or 'demonstration effects'. Within these broad parameters, NZGIF has four explicit restrictions¹ and will not invest in:

- large-scale renewable electricity generation (as no evidence of financing gaps exists);
- forestry (due to the One Billion Trees programme);
- carbon capture & storage (as not yet proven);
- Central Government (as other levers exist).

NZGIF will consider investments originating from the private sector and from eligible parts of the Crown estate. NZGIF will invest to lower emissions both directly and indirectly.

Potential investees have different maturity profiles, whether projects or businesses. NZGIF will primarily position itself at the later stages of development and will invest in those projects ready for commercialisation and deployment. At these later stages of development, the relevant investment opportunity will have been proven to be technically feasible and have the capacity to generate a financial return. NZGIF is able to invest in market demonstration projects provided they are commercially viable. Figure 4 below depicts the likely maturity profile of the majority of NZGIF's investments:

Figure 4: NZGIF Investment focus – maturity

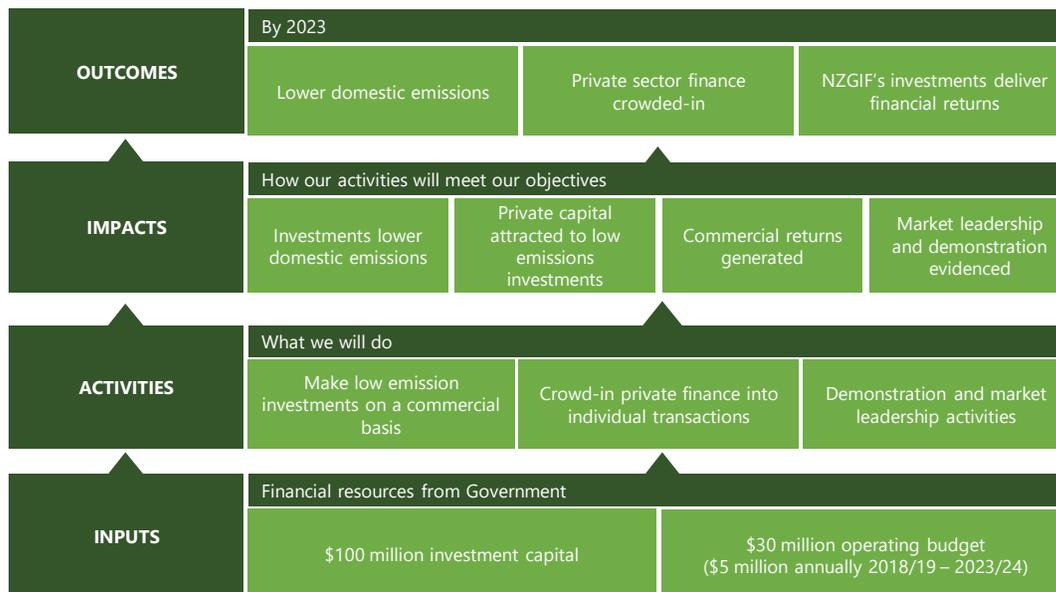


¹ New Zealand Crown Cabinet Economic Development Committee paper, Establishing New Zealand Green Investment Finance Limited, approved 12 November 2018 (DEV-18-MIN-0257 refers)

Impacts to which NZGIF contributes

In NZGIF’s first year it will refine the suite of key performance indicators and outcome and impact measures it will use to evidence its performance against its four objectives. Figure 5 below illustrates the outcomes and impacts NZGIF will create through its investment activities:

Figure 5: NZGIF Intervention Logic



In addition to its statutory financial reporting, NZGIF will develop a performance reporting framework that includes both financial and non-financial indicators, and which, together, will demonstrate the impact that NZGIF makes in catalysing New Zealand’s low emission investment market. Once NZGIF is actively investing, other indicators will be developed particularly in relation to ‘lowering domestic emissions’ where individual investments will have different emission reduction attribution and contribution profiles.

Table 1: NZGIF’s high-level performance framework

NZGIF Objective	Performance Indicators
Lower domestic emissions	To be determined, but likely including aggregate emissions reductions and on a transaction-by-transaction basis
Crowd-in private finance	Financial indicators based on the multiple of NZGIF’s investment ‘crowded-in’ to individual transactions
Invest on a commercial basis	Financial indicators aligned to NZGIF’s objective of achieving a long-term portfolio benchmark return of the 5yr Government Bond rate plus 2%
Market leadership & demonstration	To be determined, but including qualitative measures and non-financial indicators

NZGIF's strategy and near-term intentions

NZGIFs overarching strategy

NZGIF is a specialist investor that deploys capital to facilitate and accelerate low emissions investment.

NZGIF will work closely with project sponsors, businesses, banks and co-investors to facilitate and accelerate low emissions investments that are commercially viable. NZGIF will provide a range of innovative finance solutions, across the capital structure, and tailor its solutions to meet the needs of individual transactions.

NZGIF near term priorities

As a newly established investment entity, NZGIF's near-term priorities are to make initial investments, build its reputation and track-record as a sophisticated investor and to build its governance and organisational capabilities to support its investment function. As a company listed on Schedule 4A of the Public Finance Act 1989 with Shareholding Ministers, NZGIF is committed to providing the highest levels of accountability and transparency for its operations and investment performance.

Investment priorities

NZGIF's near term investment priorities are to:

- deepen its understanding of the unique needs of project sponsors and businesses planning to undertake low emissions projects;
- deepen its understanding of the preferences of banks and co-investors in the investment marketplace;
- develop and refine its investment process;
- build an investment pipeline and commence originating low emission investments.

Governance priorities

NZGIF's Board of Directors (the Board) currently consists of 6 members out of a maximum of 7 allowed under its constitution. The Board's near-term governance priorities are to:

- establish a Board charter;
- establish a governance model including the role of any Board (sub)committees;
- endorse a flexible investment strategy, and related investment decision processes, that can evolve as NZGIF interacts with the marketplace;
- develop high-level guidelines for how NZGIF originates investment opportunities;
- provide governance and oversight over NZGIF's operations.

Operational priorities

NZGIF's near term operational priorities are to:

- complete the recruitment of its executive team;
- complete the recruitment of the core roles within its stakeholder management, investment and operations teams;
- establish core treasury, accounting, human resource, information, compliance and risk management processes and systems;
- develop its financial and non-financial performance measures and internal and external reporting structures;

Stakeholder engagement and industry leadership

As a specialist investor, NZGIF seeks to extend its impact across the economy through research, insights and information.

NZGIF will be a frequent contributor to targeted industry and sector-specific conferences and events. These provide an opportunity to lift understanding about low emissions finance and the role of low emissions technologies in 'decarbonising' the New Zealand economy. NZGIF will produce and publish a range of market-facing guidance on low emissions investments and salient features of its investment approach.

NZGIF plans to issue media releases and other supporting information about its transactions. This as an important means of delivering transparent information about its investments on behalf of taxpayers, and also to help inform and educate the market about the scale and diversity of low emissions investment opportunities.

NZGIF's structure and governance

NZGIF's structure

NZGIF was established as a company and listed in Schedule 4A of the Public Finance Act 1989 to ensure that decisions to make low emissions investments would be made at 'arm's length' from the Government.

NZGIF's governance

Shareholding Ministers

The Minister of Finance and the Minister for Climate Change each hold 50% of NZGIF's issued share capital. Shareholding Ministers are responsible for overseeing the public and Crown's Shareholding interests in NZGIF including by:

- ensuring an effective Board is in place;
- influencing NZGIF's strategic direction; and,
- monitoring and reviewing NZGIF's performance and impact.

Shareholding Ministers do not influence or approve NZGIF's investment decisions².

Board of Directors

All NZGIF's Board members have been appointed by NZGIF's Shareholding Ministers. The Board is committed to the highest standards of corporate governance. The Board establishes all strategic policies and all decisions about operations are made under its authority.

Chief Executive Officer (CEO)

The CEO has delegated responsibility for the day-to-day management of NZGIF's operations. The CEO is accountable to the Board.

NZGIF's Legislative Framework

NZGIF operates within a statutory framework that includes (but is not limited to) requirements under the:

Companies Act 1993: NZGIF is incorporated under the Companies Act 1993. The Board, Directors and Shareholding Ministers have the rights, powers, duties and obligations set out in the Companies Act, except to the extent they are negated or modified in accordance with the Companies Act 1993 by NZGIF's Constitution.

Public Finance Act (PFA 1989) and the Crown Entities Act (CEA 2004): NZGIF listed in Schedule 4A of the Public Finance Act 1989. As such, it is subject to certain sections of the Crown Entities Act 2004. These include obligations to provide information to Shareholding Ministers, to prepare a statement of intent, to be a good employer, to give effect to directions to support a whole of government approach and reporting obligations.

Under the CEA 2004, Crown Entities are routinely restricted from certain activities. To be able to function as a direct investment company, NZGIF is currently seeking approvals from its Shareholding Ministers under §160(1)(b) Crown Entities Act 2004 to:

- acquire financial products (§161);
- enter into borrowing arrangements (§162);
- provide guarantees or indemnities (§163);

²Noting that Shareholding Ministers are required to approve recommendations made by NZGIF's Board regarding investments, where these investments constitute major transactions under the Companies Act 1993. With certain conditions, major transactions are defined as those with a value of greater than half of the assets of NZGIF.

- acquire or use derivatives (§164).

Public Audit Act 2001: under the Public Audit Act 2001, the auditor of NZGIF is the Controller and Auditor General. The Auditor General is in the process of appointing an external auditor to undertake the audit of NZGIF for the period from incorporation to 30 June 2020³, and the financial years 2020/21 and 2021/22 years on his behalf.

Official Information Act 1982 and the Ombudsmen Act 1975: NZGIF is required to comply with each of these acts, which require certain official information to be released on request, subject to commercial sensitivity and other withholding grounds.

³ NZGIF, as an entity established in the last four months of a financial year, has been granted an exemption from producing stand-alone audited financial statements for its first year (April to June 2019) under subpart 1 of Part 5 of the Public Finance Act 1989. Its first audited financial statements will cover the period 13 April 2019 to 30 June 2020.

NZGIF's funding, risk and financial management

Funding of NZGIF's activities

NZGIF is funded through two separate appropriations, both of which are non-departmental capital multi-year appropriations entitled *New Zealand Green Investment Finance Limited*:

- **For investment capital**, the Crown has committed to providing up to \$100 million into low emissions investment through NZGIF, with all of this currently appropriated. The appropriation has been used by NZGIF's Shareholding Ministers to subscribe for uncalled equity in NZGIF. This equity is then called in-advance by NZGIF to provide capital for investment purposes and is used to make low emission investments;
- **For operating capital**, the Crown has committed to providing up to \$30 million for NZGIF's operating costs, until it is financially self-sustaining. All of the \$30 million is currently appropriated. The appropriation has been used by NZGIF's Shareholding Ministers to subscribe for uncalled redeemable preference shares (RPS) in NZGIF. These RPS are then called as required by NZGIF.

The RPS are redeemable after 1 July 2025 and once certain profitability criteria are met. Once these conditions are met, the RPS can be redeemed to the value of 50% of NZGIF's operating profits in each financial year.

Risk management

As an investment entity, NZGIF has a central focus on monitoring, managing and mitigating four types of risk:

- risks associated with investment decisions;
- risks of underperforming portfolio investments;
- liquidity risks with respect to the balance sheet and funding investments; and,
- operational risks.

The general approach NZGIF takes to managing these risks balances its commercial objectives against its public benefit objectives: an investment strategy that is too risk-averse would prevent NZGIF from fulfilling its purpose to facilitate and accelerate low emissions investments. An approach that is too tolerant could lead to excessive capital losses.

Risks associated with investment decisions

NZGIF has instituted a three-phase approach (Figure 6) to managing its investment process, including a staged approvals approach which includes a Management Committee and the Board at various stages. Each stage involves appropriate scrutiny and approval of investment assumptions and draft terms. Its process includes analysing the creditworthiness of investees, the technology, the business case of the proposal, any security on offer, and NZGIF's potential exposure if an investment may not achieve expectations.

Figure 6: NZGIF's three phase investment process:



Individual investment risks are also considered in the context of NZGIF's portfolio and where it will be seeking portfolio diversification to avoid excessive exposure and concentration of risk, including: specific technologies; specific sectors, higher-risk financing structures and single entities.

The three phases of the investment process are:

- **Eligibility Screening**, which including vetting opportunities against the legislated and other selected criteria such as maximum and minimum investment size thresholds;
- **Investment Screening and Selection Approval** which includes analysis and consideration of commercial risk and return modelling and the contribution to non-commercial factors (such as emission reductions);
- **Final Approval and Execution**, in which Board approval is required to initiate and approve technical due diligence, transaction documentation and final deal execution.

Risks of underperforming portfolio investments

Post-investment, the portfolio will be actively monitored to mitigate the risks of underperforming investments. Activities at this stage will include:

- regular reporting and engagement with investees;
- active monitoring of covenants and other conditions of investment;
- representation on investees' Boards for equity investments (depending, *inter alia*, on the materiality of the investment).

In situations where NZGIF is providing project finance, third-party assurance on milestone completion, for example, will likely be sought.

Liquidity risks with respect to the balance sheet and funding investments

NZGIF will call, in advance, sufficient funds for its anticipated investments and operating requirements, including a level of contingency. For reasons of commercial sensitivity, the calls on investment monies will need to be called both in advance and reflecting NZGIF's anticipated aggregate investment requirement over a 12-month period, rather than on a transaction-by-transaction basis.

NZGIF will monitor the portfolio composition with respect to the cash return-profile of investments (interest, principal, and dividends), and reflecting the payment and exit risk associated with different types of investment with varying liquidity profiles, whether debt or equity.

Cash-on-hand placed into term deposits will also be closely monitored, again with respect to the timing of both the investment and operating cash requirements of the company.

Operating risks

NZGIF is establishing a comprehensive and proactive approach to monitoring all non-investment related operational risks. Its approach reflects the broad range of risks it is exposed to outside of specific investments including liquidity, IT security, HR and conduct, regulatory and other factors.

Its approach will include assigning risks to individual staff and officers, and assessing the severity, likelihood, mitigating factors and residual risk of individual items. Risks will be elevated up through the risk management structure, and ultimately to the Board.

Financial management policies

NZGIF's financial statements are prepared in accordance with the requirements of the Crown Entities Act 2004, which includes the requirement to comply with New Zealand Generally Accepted Accounting Practice (NZ GAAP).

NZGIF's financial statements are prepared in accordance with Tier 2 Public Benefit Entity (PBE) accounting standards and disclosure concessions have been applied. The Company has elected to report in accordance with Tier 2 PBE accounting standards as the entity is not large and does not have public accountability as defined in the Accounting Standards Framework.

Under the Companies Act 1993 (§201), NZGIF is required to complete and submit its financial statements within 5 months of its balance date of 30 June. For Fiscal Reporting purposes, NZGIF is required only to submit its annual audited report and accounts to the Treasury, and is not required to provide budget forecast, monthly updates or variance reporting.

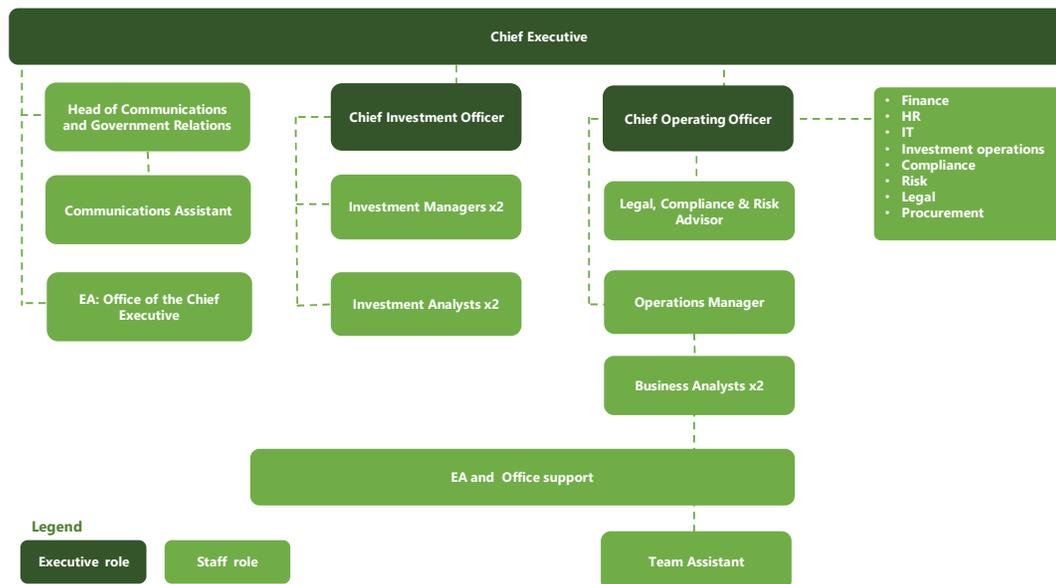
Maintaining an effective and capable organisation

Capability and operations

NZGIF is a relatively small organisation in terms of the number of staff. NZGIF's staff are largely drawn from the finance sector, with financial analysis, investment structuring and investment operations experience, reflecting NZGIF's role as a specialist investor.

NZGIF aims to recruit people with a shared commitment to accelerating New Zealand's transition to a low emissions economy. As of 1 July 2019, NZGIF had 10 FTE including staff, contractors and secondees. NZGIF's target organisational structure is outlined in the diagram below.

Figure 7: NZGIF Organisational Structure



To maintain the people capability it requires, NZGIF will:

- continue to develop and implement recruitment, professional development and remuneration policies commensurate with its mandate as an investment company in order to attract and retain high-performing talent;
- will supplement the expertise of its core team when necessary by using contractors and consultants with specialist expertise.

Through establishment and in its first year from launch, NZGIF will continue to develop and refine its operating model. Its operating model comprises all requisite functions, processes, policies and resources to function as a high-performing investment company. Its operating model is structured into the following categories: finance, HR, IT, investment operations, compliance, risk, legal, procurement and PR and communications. Several functions may be outsourced to 3rd party providers.

Management and the Board will regularly review NZGIF's operating model and resourcing to ensure that these continue to support NZGIF in effectively fulfilling its functions and achieving its strategic objectives. 3rd party input may be incorporated into review processes through the use of external advisors.

Health, Safety and Wellness

NZGIF is committed to ensuring the health, safety and wellness (HSW) of its people. Its People & Culture Committee will meet regularly and will encourage active participation from all employees in maintaining a safe and supportive environment.

NZGIF communicates health, safety and wellness advice to staff on a regular basis, as well as having a full suite of policies and procedures in place. Health, Safety and Wellness performance is monitored by Management and reported to NZGIF's Board.

Ensuring NZGIF is a good employer

NZGIF offers a flexible working environment that enables staff to balance work, family and other commitments. NZGIF supports staff to learn and develop their commercial acumen and leadership capability, according to their individual needs.

NZGIF is committed to upholding its responsibilities as an Equal Employment Opportunities (EEO) employer and creating a workplace that attracts, retains and values diverse employees.

NZGIF has a zero-tolerance approach to all forms of harassment and bullying and has put policies in place to deal with harassment and bullying complaints should they arise.