

STATEMENT OF INTENT **2020-2024**

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

/ CONTENTS

CHAIR'S FOREWORD & STATEMENT OF RESPONSIBILITY	3
NZGIF'S PURPOSE AND OBJECTIVES	4
WHO WE ARE	6
STRATEGIC CONTEXT	
Climate change and NZ's emissions profile	7
What's getting in the way of investment? NZ's green investment environment	9
OUR INVESTMENT APPROACH	11
PERFORMANCE MEASUREMENT AND REPORTING	13
NZGIF'S GOVERNANCE	14
NZGIF'S LEGISLATIVE FRAMEWORK	15
NZGIF'S FUNDING, RISK AND FINANCIAL MANAGEMENT	16
Funding of NZGIF's activities	16
Risk management	16
Financial management policies	17
MAINTAINING AN EFFECTIVE AND CAPABLE ORGANISATION	18
Capability and operations	18
Health, Safety and Wellness	19
Ensuring NZGIF is a good employer	19

CHAIR'S FOREWORD & STATEMENT OF RESPONSIBILITY

The Board of New Zealand Green Investment Finance (NZGIF) is pleased to present our Statement of Intent (SOI) for 2020 – 2024.

The SOI outlines NZGIF's role as a green investment bank helping New Zealand achieve a transition to a lower emissions economy, as part of a global movement to finance ways to mitigate the effects of climate change.

NZGIF's role is to stimulate a market in which private capital flows to investment in activity to reduce our domestic emissions. While this may be happening in some sectors of the economy, the pace of change is not meeting the scale of the challenge; NZGIF's mission is to help accelerate the flow of capital and lead the market in demonstrating not just the greenhouse gas benefits of our investment, but the commercial and other benefits as well.

Having established our company from the ground up and built a team of committed and experienced professionals as a foundation for long-term success, we are pleased to be actively participating in the market.

We look forward to working with a range of partners, including New Zealand's financial markets and investors, banks, private companies, local government and global green banking networks, amongst others, to help create an enduring and viable market for the benefit of all New Zealanders.

Finally, as we prepare this document, we acknowledge that the recent global and domestic response to the Covid-19 pandemic presents an unprecedented level of uncertainty and disruption to all New Zealanders. Although none of us can predict with any accuracy how the future will play out, New Zealand Green Investment Finance remains committed to fulfilling our mission while also supporting the nation's recovery – physically, socially and economically – from the pandemic.

This Statement of Intent (SOI) has been prepared by the Board of Directors (the Board) of New Zealand Green Investment Finance Limited (NZGIF) pursuant to the Crown Entities Act 2004. It sets out the intentions of NZGIF for the period from 1 July 2020 to 30 June 2024.



Cecilia Tarrant

Chair
New Zealand Green
Investment Finance Limited
23 June 2020

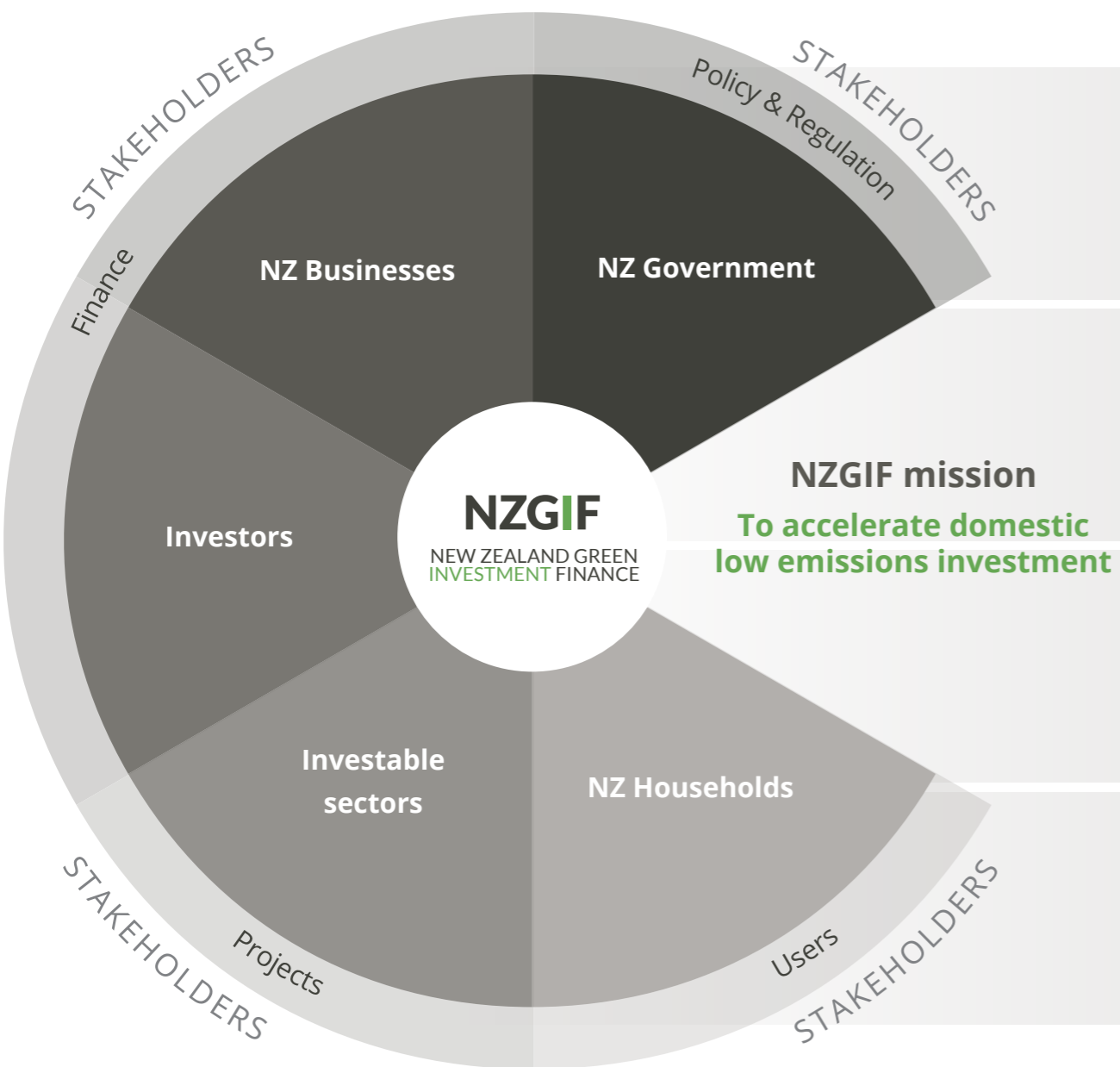


David Woods

Deputy Chair
New Zealand Green
Investment Finance Limited
23 June 2020

NZGIF'S PURPOSE & OBJECTIVES

We are part of New Zealand's response to reducing emissions.



Our objectives guide our work.

Our work to meet our objectives.

- 1.**
Accelerate and facilitate investment in emission reductions

 - Focus on sectors with meaningful emissions reduction potential
 - and
 - Focus on scalable opportunities
- 2.**
Invest on a commercial basis

 - Understand the needs of market participants
 - and
 - Structure transactions, products and programmes to meet those needs
- 3.**
Crowd-in private capital

 - Balance a portfolio of investments to achieve an appropriate risk adjusted return over time
 - and
 - make direct investments on commercial terms
- 4.**
Market leadership and demonstration

 - Demonstrate the feasibility and commercial success of emissions reductions opportunities
 - and
 - Publish and share information to support market creation and growth

WHO WE ARE

New Zealand Green Investment Finance (NZGIF) is a green investment bank established by the Crown to accelerate investment that reduces greenhouse gas emissions in New Zealand.

Set up with initial investment capital of NZ\$100 million, NZGIF is a limited liability company, listed under Schedule 4A of the Public Finance Act 1989.

With a broad and flexible mandate, we can invest via a range of capital structures, from debt to equity, with mechanisms to mitigate risks for our partners. We seek to combine our capital with other investors on a commercial basis, in companies and projects that accelerate emissions reductions.

We make independent investment decisions, informed by a Board and team with expertise in green investment, banking, and financial markets.

Although we are focused on investment in reducing New Zealand's emissions, our horizons extend much further. NZGIF aims to be a global exemplar for green investment, and we are one of a growing community of national and regional green banks which provides a platform for sharing experiences, networks and best practices in green banking worldwide.

A note on New Zealand's response to COVID-19

In 2020, New Zealand is faced with the unprecedented challenge of responding to, and recovering from, the global Covid-19 pandemic. At this time, the wider social and economic impacts of the pandemic are uncertain.

Acknowledging the disruption and challenges the pandemic presents for all sectors of our community, it is not easy to look forward to 2024 with a clear picture of the road ahead for our economy.

Even so, New Zealand Green Investment Finance remains committed to playing our part in the nation's recovery by making and attracting investment to low carbon companies, projects and activities, to ensure a more prosperous, green future as the effects of the pandemic wane.

The OECD defines a green investment bank as a public, quasi-public or non-profit entity established specifically to facilitate private investment into domestic low carbon, climate-resilient infrastructure.

NZGIF is not a registered bank.

STRATEGIC CONTEXT

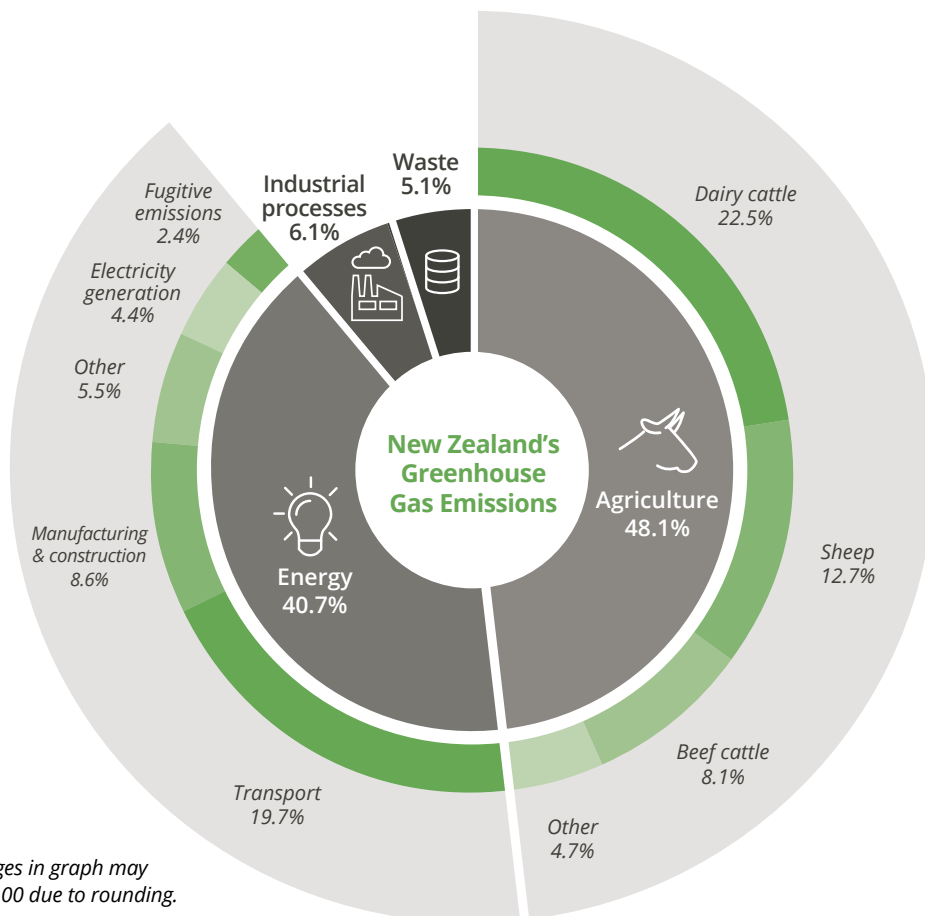
Strategic context – climate change and NZ’s emissions profile

New Zealand’s greenhouse gas emissions profile is unlike many other developed countries. A large proportion of our emissions come from agriculture. Our electricity generation is highly renewable, but in our industrial and transport sectors the fuel mix is dominated by coal and gas, and petrol and diesel used for transport. New Zealand’s opportunities for emissions reductions look different to those in many other countries,

and so we are focused largely on proven technologies in transport, buildings, process heat, distributed energy and agriculture.

New Zealand’s emissions are also increasing, which emphasises the need to not only reduce emissions against baseline, but to accelerate investment to transition New Zealand to a low emissions economy.

New Zealand’s greenhouse gas emissions profile



Note: Percentages in graph may not add up to 100 due to rounding.

Fugitive emissions are from the leaking, burning and controlled release of gases in oil and gas operations as well as escaping gases from coal mining and geothermal operations. Agricultural methane is mainly from livestock digestive systems and nitrous oxide is mainly from manure on soil.

New Zealand's Greenhouse Gas Inventory 1990–2020, published April 2019

Target sectors for investment



TRANSPORT

e.g. electric bus deployment



PROCESS HEAT

e.g. replacing commercial coal boilers



ENERGY EFFICIENCY

e.g. commercial building retrofit programmes



AGRICULTURE

e.g. precision agriculture applications



DISTRIBUTED ENERGY RESOURCES

e.g. renewable energy that replaces fossil fuel systems

Current exclusions



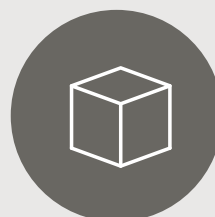
Large-scale, renewable electricity generation



Forestry interventions



State sector investment



Carbon capture and storage

Strategic context – New Zealand’s green investment environment

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

There are, in fact, economic benefits to be captured from the transition to a lower-carbon economy, including resilience, new and growing employment opportunities, and business competitiveness benefits from reduced operating costs.

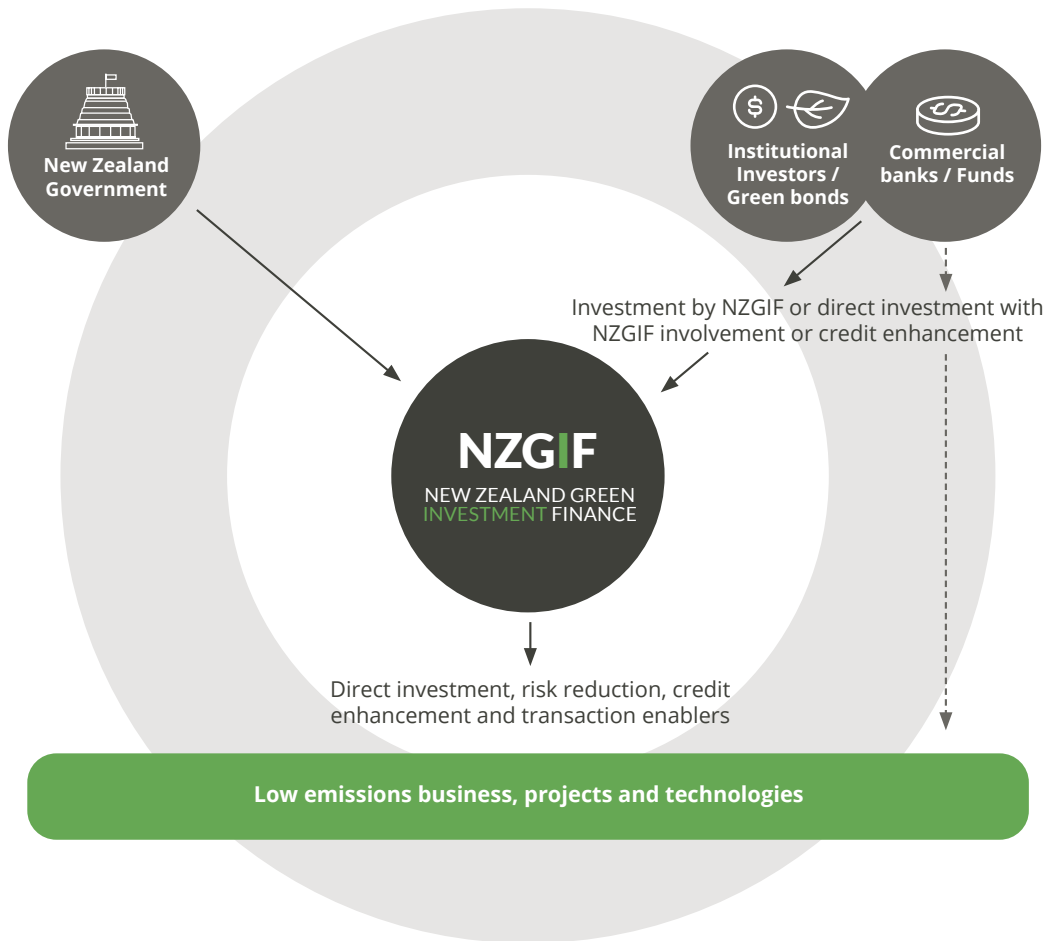
We’re here to overcome clear obstacles in the New Zealand market:

- the New Zealand market is small and characterised by low transaction volumes, relatively small transaction sizes and high transaction costs
- private investors can be constrained by mandate restrictions

- companies, even those with aspirations to lower emissions, may fail to prioritise lower emissions investment in capital planning or may lack capability to identify commercially viable projects and investment
- The investor market lacks the products, programmes and platforms to facilitate direct investment in low carbon activities
- innovative companies can lack access to capital
- low emissions investment can result in longer payback periods than investors want

Cabinet has mandated a review of NZGIF every five years from 2023, which will enable our mandate to be reviewed to ensure it is delivering on the outcomes we seek on the way to a low emissions economy by 2050.

How NZGIF works with the market



Delivering on the Sustainable Development Goals

In 2015, New Zealand, along with every other United Nations member state, joined the 2030 Agenda for Sustainable Development, signing up to 17 sustainable development goals that provide a pathway to a more prosperous world.

To help investors, companies and New Zealanders understand how we align with these increasingly visible global goals, we have identified the following priority goals relevant to our work.

While our mission directly aligns with Sustainable Development Goal 13: Climate Action, we expect to contribute to clean energy (goal 7), sustainable cities and communities (goal 11) – particularly in transport – and industry, innovation and infrastructure (goal 9). Over time, we also expect to deliver on economic growth (goal 8) and partnerships for the goals (goal 17) through domestic partnerships and participation in international networks.



OUR INVESTMENT APPROACH

Working with private capital markets and co-investors

NZGIF has a core objective to accelerate the flow of capital to investment that can reduce emissions. NZGIF has two main approaches to accelerating investment in the market: direct investment; and taking action to enable additional flow of capital, including the creation of products, programmes and platforms.

Direct investment

We are willing and able to use different investment instruments – such as equity, debt and others – as appropriate for a particular investment opportunity.

As a general rule, we are looking for scalable, proven technologies. There are other entities focused on supporting NZ businesses in R+D and pilot demonstration, including Callaghan Innovation, New Zealand Trade and Enterprise and EECA, all of which we work with to identify emerging opportunities over time.

We always consider other key investment parameters, such as the term of investment and its security, in order to maximise the likelihood of success for our investments while seeking an appropriate risk-adjusted return.

Our aim is to limit equity investment exposures to no more than 50% of our total investment portfolio. In addition, we typically will not allocate more than 33% of our capital to any one technology or industry, and no more than 20% of our capital to any one counterparty.

End-to-end direct investment is a process; however, it is not a linear process. Opportunities can change and shift as counterparties are brought to the table on any one transaction, details negotiated, financials analysed and due diligence completed.

The Direct Investment process

The process involves:



Market assessment and engagement, including research



Origination – identifying opportunities and counterparties



Eligibility screening – does the opportunity fit with NZGIF's mandate?



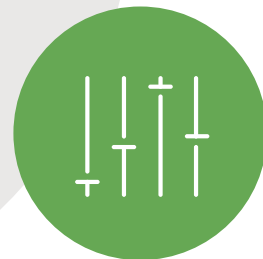
Investment assessment and structuring – including negotiation and analysis



Due diligence – formal assessment to evaluate commercial potential



Final approval and execution



Ongoing monitoring and management

Product and programme development

NZGIF is in the market to use its own capital base for the greatest impact by crowding-in private capital to fill gaps in the market. This means it can build platforms and products to increase capital flows to low carbon activities. Investments may not always be

direct investment in companies, projects and technologies – they could be product offerings. Such platforms and products may, for example, include funds that are open for investment or lending facilities in which other financiers may participate.

Performance measurement and reporting

NZGIF's performance measurement and reporting is centred on delivery against our purpose and four objectives.

Objective	Desired Outcome	Measures
Accelerate and facilitate investment in emission reductions	NZGIF invests in companies, projects and technologies that reduce emissions or enable the acceleration of emissions reductions	Capital is deployed to reduce emissions in New Zealand Estimated lifetime emissions reductions
Invest on a commercial basis	Rate of return established Over time, achieve or exceed the benchmark portfolio-level return of 2% over the 5-year Government bond rate	Return on deployed NZGIF capital, net of transaction and overhead costs
Crowd-in private capital	NZGIF attracts co-investment to its own investments Private capital flows to low emissions investment	Ratio of overall investment to NZGIF investment on a portfolio basis
Market leadership and demonstration	NZGIF demonstrates market leadership by providing the market with information and engaging with market participants	Case studies and market reports published Engagement with market participants to maintain NZGIF's profile

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 have visibility of NZGIF's 'investment pipeline' nor can they influence or approve NZGIF's investment decisions¹.

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 priorities and all decisions about operations are made under its authority.

Committees of the Board:

The Board has established two committees to review and advise the Board on specialist matters:

- The Audit & Risk Committee, which assists the Board in discharging its responsibilities relative to its oversight of enterprise-wide risk management, financial management, financial and non-financial reporting, and legislative compliance
- The People & Culture Committee, which assists the Board in discharging its responsibilities relating to human resources policies and processes, organisational capability and culture, remuneration policies, health and safety policies and compliance with the relevant legislation.

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. The CEO can further delegate certain responsibilities to either the Chief Investment Officer (CIO) or the Chief Operating Officer (COO).

1. Noting 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 (including 'uncalled equity') of NZGIF.

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 or by NZGIF's Constitution.

Public Finance Act (PFA 1989) and the Crown Entities Act (CEA 2004): NZGIF is 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 has been granted conditional approval from its Shareholding Ministers under s160(1)(b) Crown Entities Act 2004 to:

- acquire financial products (s161)
- enter into borrowing arrangements (s162)
- provide guarantees or indemnities (s163)
- acquire or use derivatives (s164)

Public Audit Act 2001: under the Public Audit Act 2001, the auditor of NZGIF is the Controller and Auditor General. The Auditor General has appointed KPMG as external auditor to undertake the audit of NZGIF for the period from incorporation to 30 June 2020², 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.

2. 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 & FINANCIAL MANAGEMENT

Funding of NZGIF's activities

NZGIF is funded through two separate appropriations³, 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 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. To date, NZGIF has called \$40 million of the \$100 million which is invested in very low risk short-term financial instruments ('term deposits') until required for investment purposes
- **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. To date \$6 million has been called for operating purposes, of which approximately \$2 million remains unspent

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



3. In addition to ordinary and redeemable preference share capital, NZGIF received [\$2.8 million] establishment funding in the form of a one-off non-departmental operating appropriation to Vote:Finance. These monies were unspent from the original \$5 million appropriated for the establishment of NZGIF, and have will be used for establishment purposes only, including, but not limited to office fit out and other related expenditure.

Risk Management

NZGIF has developed an approach to risk management that is tailored to its unique characteristics as a Crown-owned green investment bank. This involves both formal risk structures and day-to-day dynamic operational risk management by the Leadership team. We have established effective engagement between Management, the Audit and Risk Committee and the full Board. Management and Board approvals built into the investment process act as an additional operational risk management exercise.

The diagram on page 16 illustrates NZGIF's risk management approach.

Board level risk governance:

The Board is ultimately accountable for ensuring the key strategic risks to NZGIF meeting its four objectives are identified, managed, and to the fullest extent possible, mitigated. The Board fulfils its duties through three processes:

- **Risk Appetite Statement:** each year the board reviews its overall risk appetite, clearly articulating which risks it will not tolerate, which risks it will accept but will seek to minimise, and which risks it will actively manage. As an investment company, NZGIF actively seeks a level of investment risk commensurate with the commercial returns it targets
- **Top 10 risks:** each year the board has a 'deep dive' into the most significant strategic risks facing NZGIF and discusses the mitigating actions that NZGIF should take to manage the residual risk rating
- **Investment risk management:** the Board has ultimate responsibility for approving investment decisions and for maintaining oversight of the performance of the portfolio (e.g. with respect to market, credit and liquidity risks).

Audit & Risk Committee (ARC) & Management risk governance:

Supporting the full board, the Audit & Risk Committee reviews NZGIF's risk approach at a more granular level:

- **Risk Management Framework (RMF):** the ARC reviews and approves the RMF, which sets out the company's approach to risk management, the risk taxonomy, and monitoring & management practices. The RMF contains the company's definitions of risk impact and likelihood levels
- **Risk Register:** at least twice a year the ARC reviews the company's risk register, which includes a detailed summary of the key risks, grouped under strategic, investment, operational and political risks. The register identifies the inherent risk rating for each item and summarises the actions and controls that are applied to each risk, resulting in the residual risk rating
- **Risk workshops:** quarterly, Management conduct risk workshops that include all risk owners and other relevant staff. The workshops are used to discuss existing risks and to 'horizon scan' for any new risks emerging over the quarter.

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.

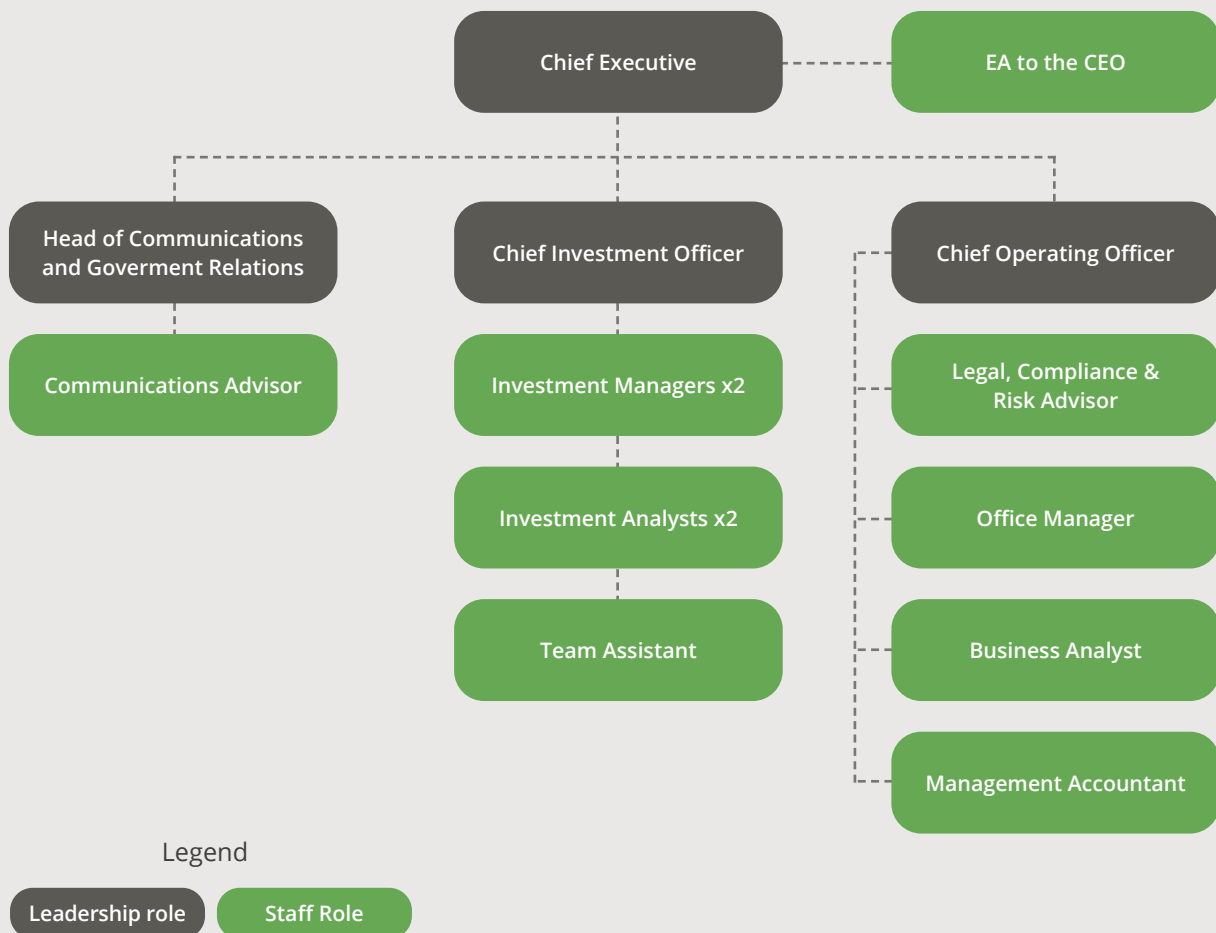
Under the Companies Act 1993 (s201), NZGIF is required to complete and submit its financial statements within five months of its balance date of 30 June. For fiscal reporting purposes, NZGIF is required only to submit its annual audited report and accounts to the Treasury, and is not required to provide budget forecast, monthly updates or variance reporting. NZGIF does provide quarterly updates to Shareholding Ministers.

MAINTAINING AN EFFECTIVE & CAPABLE ORGANISATION

Capability and operations

NZGIF is a 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 financial 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 30 April 2020, NZGIF had 12 FTE including staff and contractors. NZGIF's organisational structure is outlined in the diagram below.



Note: not all FTE roles are filled as at the end of June 2020

To maintain the people capability it requires, NZGIF:

- offers employment terms and remuneration consistent with its mandate as a Crown-owned investment company in order to attract and retain high-performing talent
- supplements the expertise of its core team when necessary by using contractors and consultants with specialist expertise

NZGIF continues to refine its operating model as its operations mature and it makes its first investments. Its operating model comprises all requisite functions, processes, policies and resources to function as a high-performing investment entity. Its operating model is structured into the following categories: finance, HR, IT, investment operations, compliance, risk, legal, procurement and PR and communications. Several functions are outsourced to 3rd party providers.

Management and the Board and its committees 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.

Health, Safety and Wellness

NZGIF is committed to ensuring the health, safety and wellness of its people and encourages 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 via a People & Culture Committee that meets throughout the year.

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.

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- www.nzigif.co.nz
- www.linkedin.com/company/nz-green-investment-finance/



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