

## Board Investment Committee Paper

**Title** Appointment of Te Ahumairangi Investors

**Status** Decision  Information  Quarterly  Monthly

**Meeting Date** 31 October 2019

**Agenda Item** XX

### 1 Purpose

- 1.1 This paper recommends appointment of Te Ahumairangi Investors ("Te Ahumairangi", named after the large hill behind Thorndon) to manage a global equity portfolio for ACC.
- 1.2 Te Ahumairangi is a newly formed company. It is currently wholly owned by Nicholas Bagnall, ACC's Investment Manager, who would resign as an ACC employee to take up the new role. In effect, this amounts to externalising an existing internal mandate. The unique nature of this appointment means that it has been treated a little differently to normal new mandates, with a strong emphasis on probity and avoiding conflicts. Approval for the new mandate is sought from the ACC Board, as well as from the Board Investment Committee which usually handles manager appointments.

### 2 Recommendations

- 2.1 It is recommended that the ACC Board:
- (a) **Approve** execution of the Transitional Services Agreement (TSA) that will lead to establishment of the new mandate with Te Ahumairangi (Appendix 5).
  - (b) **Note** the strong emphasis on probity with this appointment, including the Russell Investment report and independent review of operational readiness to be conducted.
  - (c) s 9(2)(ba)(i)
  - (d) **Delegate** authority to the Chief Executive to vary the final contract text, provided the terms remain substantially similar to those set out in this paper.

Scott Pickering

Chief Executive

### 3 Background

- 3.1 In 2019 the ACC Board Investment Committee (BIC) initiated a wide ranging view of governance processes for the funds that comprise Reserve Assets. The objective was to ensure that all structures were fully fit for purpose and future proof. It was noted that the current structure had grown haphazardly, having changed relatively little as fund size and staff numbers had expanded (Reserves have increased from \$11 billion a decade ago to \$45 billion currently). The review was undertaken by PWC.
- 3.2 One of the recommendations was that there should be a single head of the investment function, reporting to the CEO (currently there are four area heads, all reporting to the CFO). This recommendation has been accepted by BIC. The new position will be titled Chief Investment Officer (CIO). This is a fairly standard structure for large investment organisations.
- 3.3 Nicholas Bagnall, ACC's current Investment Manager, has headed ACC's equity and strategy teams for most of the past 20 years. During this time the performance of ACC's funds has been remarkable. Since 1992 Reserves have returned a compound 10.1%, as against a benchmark return of 8.8%. Moreover, the excess performance has been remarkably consistent (FY19 was the first time in 20 years that performance has been below benchmark). In general, most investment funds underperform their benchmarks over time (investors collectively receive index returns but suffer drag from expenses and taxes). ACC's sustained excess performance is very rare (almost unique) among large funds. Our calculations suggest that this outperformance has cumulatively benefitted levy payers by around \$2.3 billion since 1998.<sup>1</sup>
- 3.4 This backdrop means that Mr Bagnall would have been a natural contender for the CIO role. However, he has indicated that he does not want it. Nor is he interested in any of the other senior roles within the new structure. After 26 years at ACC, he would like to try new pastures.
- 3.5 This is a loss for ACC. Proven talent within securities markets is rare and valuable. However, Mr Bagnall has indicated that he would like to continue managing his current portfolio for ACC.
- 3.6 This seems mutually advantageous. For the past eight years Mr Bagnall has, alongside his wider duties, managed a global listed equity portfolio for ACC. This is currently \$1.55 billion in size, comprising about 3 percent of total reserves or about 20% of ACC's total listed global equity. Performance of this portfolio has been solid. It has added an average of 0.35% p.a. since inception. Performance has been weaker over the past three years, mainly because the portfolio has a pronounced tilt towards "value" stocks. Value has done badly since 2016. This in itself does not concern us. Returns to factors such as value cycle around, and many or most of our external managers have permanent style biases. We both adjust for this when assessing performance, and control exposures at total portfolio level to ensure that we have a mix of manager types and no unintended aggregate style exposures. Rolling three-year value add from ACC's total global equity portfolio has remained continually positive.
- 3.7 The proposal is to transfer the current portfolio, with largely unchanged objectives and portfolio guidelines, from being an internal portfolio to being externally managed by Te Ahumairangi. The balance of this paper describes the proposed terms, the transition path, and the steps taken to ensure that ACC's standards of probity and investment selection have been fully met.

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<sup>1</sup> This figure also includes outperformance by the fixed income and private market teams. On the other hand, it does not include the gains from adjusting benchmark weights over time, which are likely to have been positive, but which are hard to quantify.

## 4 The Transition Sequence

4.1 One priority for ACC is to ensure continuous and smooth operation of the portfolio through the transition. In order to ensure this the transition will occur in stages. This involves two distinct legal agreements. The first is the contract labelled “Transitional Services Agreement” (TSA) in Appendix 5, which will lead to an “Investment Management Agreement” (IMA). The sequence envisaged is as follows:

- a) The first step is that Mr Bagnall will cease being an employee of ACC and instead become a contractor. He will continue to manage the portfolio using ACC systems and software. For this he will initially receive fixed remuneration, roughly equal to his ACC salary.
- b) During this “transition” phase the new Te Ahumairangi operation will be progressively formed. This will involve acquiring staff, premises and systems etc in order to be able to fulfil the mandate obligations.
- c) The TSA includes a step up in fees to cover the cost of staff who commence employment before the IMA is executed. This happens via both increased fees for “Fund Management Services” to cover portfolio managers s 9(2)(ba)(i) [REDACTED], and fees for “Investment Support Services” s 9(2)(ba)(i) [REDACTED] where Te Ahumairangi begins taking over some of the operational services ACC was formerly supplying.
- d) At some point (not longer than nine months, and likely sooner) Te Ahumairangi will indicate that the operation is ready to commence. At that point ACC will commission an external audit to ascertain that all contractual and portfolio management obligations are ready to be complied with. This is extra stage not normally required with established managers but is fairly standard for new start-ups. We have in mind using Mercer Investment Consulting, who offer this service and who we have used before.
- e) Assuming the audit is positive, with any outstanding issues resolved, the Investment Mandate Agreement (IMA – Appendix 6) will then be executed and a normal external manager relationship established.

4.2 Note that the draft IMA is included as a schedule to the TSA. In signing the TSA both parties warrant that will use best endeavours and good faith to execute the IMA within the specified timeframe along the terms outlined.


4.3 In addition, the TSA provides for Mr Bagnall to continue providing ACC with two additional services:

- Continuing to transact futures contracts on ACC’s behalf (“Other Services” in the contract). This is an efficient solution; managing the equity portfolio naturally involves some futures transactions, and it is sensible to combine them with ACC’s other daily flows. These services will be charged at a daily rate
- Consultancy advice. This will enable ACC to draw on Mr Bagnall’s experience if needed. It is charged at an hourly rate. There is no obligation on ACC to use this service.

## 5 The Proposed Mandate

- 5.1 The high level objectives for the mandate were to make the terms and conditions fully commercial and on an arm's length basis, while adapting them where necessary to fit circumstances.
- 5.2 ACC's (and most investment organisations) usual approach is to begin with a standard legal contract and append the specifics of the mandate. That is the case here. The standard contract imposes many seemingly mundane, but in practice vital, standard requirements on client and manager. For example, it establishes requirements on the manager in terms of reporting, related-party transactions, voting shares, indemnifying the client from losses due to improper actions, and confidentiality, to give a few examples.
- 5.3 Distinctive features of this mandate (insofar as they vary from a "standard" mandate) include:

s 9(2)(ba)(i)



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## 6 Proposed Fees

s 9(2)(ba)(i)



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s 9(2)(ba)(i)

6.5 Russell Investments examined these fees (Appendix 1). s 9(2)(ba)(i)

6.6 Russell Investments commented:

6.7 “The terms detailed in the Term Sheet are attractive and the fee arrangement, in particular, is competitive. ... *When contrasted with other global equities mandates this base fee appears to be reasonable and competitive.*” (Page 2 of Appendix 1)<sup>2</sup>

6.8 s 9(2)(ba)(i)

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<sup>2</sup> Note that some of the contract details (not involving the fee schedules) have subsequently evolved since Russell made this evaluation. For example: ACC is not seeking personal guarantees, while the need for the manager to have a trade allocation policy has been addressed. ACC has waived the right to appoint a director, settling for a veto instead. The proposal to risk-adjust performance, which applies to internally managed portfolios but none of our external mandates, has been dropped.

s 9(2)(ba)(i)

6.9 s 9(2)(ba)(i)

## 7 Meeting Probity Requirements

7.1 Throughout this mandate negotiation the need for good and sound process has been front of mind. While ACC has endeavoured to apply its standard disciplines for manager appointments (just as it did earlier when establishing the internally managed portfolio) the following additional steps have also been undertaken.

- 1) Russell Investments was engaged to independently examine the probity aspects. Their report is in Appendix 1 (some of the terms have subsequently evolved, e.g. ACC is not seeking personal guarantees, and the need for the manager to have a trade allocation policy has been addressed). Briefly, the points they raised were:
  - it would be advantageous for the arrangement with the Fund Manager to be truly arm's length
  - the terms detailed in term sheet are attractive and the fee arrangement, in particular, is competitive. Russell commented that the performance fee was low, and emphasised the need to ensure that the manager was economically sustainable
  - Russell emphasised the need for a clear transition path.
- 2) ACC will commission an independent due diligence on Te Ahumairangi's operational readiness before executing the IMA. In general, start-up businesses usually need a more thorough check than do established operations.

s 9(2)(ba)(i)

- 3) ACC's lawyers, Russell McVeigh, who have prepared the legal documentation and reviewed all changes, have attested that they are now fit to sign (Appendix 3)
- 4) ACC staff with reporting lines to Mr Bagnall have been excluded from the recommendation process. This is a key reason for needing the independent due diligence audit; usually this would be done by ACC's middle office.
- 5) A number of contractual clauses that would not appear in standard contracts, and that that favour ACC, have been included

7.2 I am confident that the appointment process would withstand audit should it ever come to that.

## 8 Conclusions

8.1 The underlying motivation for this appointment is NOT to reward the past performance Mr Bagnall has generated, commendable though this is. The dominant reason is about the future. This is a good prospective deal for ACC. The mandate will provide our portfolio with access to a top flight manager, at around half the fees we are currently paying our existing comparable managers.

8.2 This is not a high-risk appointment. Over and above the contractual terms, two key risk mitigants should be kept in mind:

- a) All ACC funds will remain held by ACC's custodian (JP Morgan). In a standard custodial arrangement "hiring a manager" in effect means authorising them to instruct the custodian to accept trades the manager makes. Likewise, terminating a manager simply means having the custodian cease taking manager instructions. The custodian also provides all base data for reporting and performance calculations. By appointing Te Ahumairangi we expose ourselves to their investment performance risk, not custodial risk. We have previously been happy to take this with the same individual for the same portfolio. It is hard to see why this should change.
- b) We have a Plan B. If Te Ahumairangi were to fail, for any reason, it would be straightforward to redeploy the portfolio. The default option would simply be to (perhaps temporarily) redistribute the portfolio between ACC's seven other existing equity managers (see below). This might result in a less than ideal initial risk allocation, and might strike capacity limits with some of them, but these issues should be second-order and correctable.

8.3 Communication of this decision warrants attention. Mr Bagnall has high standing in the market and his departure is bound to draw both market and media attention. Our communications team are managing this (a draft press release is in Appendix 2).

8.4 Taking all the above into account, I have no hesitation in recommending this appointment to the Board.

Scott Pickering

**Chief Executive**



## List of Appendices

- 1) Probity Report from Russell Investments
- 2) Legal signoff from Russell McVeigh attesting that the Transitional Services Agreement (TSA) and Investment Management Agreement (IMA) are ready to be executed.
- 3) Draft ACC press release announcing Mr Bagnall's departure from ACC and awarding of a cornerstone mandate to Te Ahumairangi Investments.
- 4) Covering Letter to Mr Bagnall to accompany draft contracts
- 5) Copy of the Transitional Services Agreement
- 6) Copy of the Investment Management Agreement

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Commercial in Confidence

22 October 2019

Paul Dyer  
Advisor, Investments  
Accident Compensation Corporation  
Justice Centre  
19 Aitken Street  
Wellington

Dear Paul

### Review of proposed Term Sheet

The Accident Compensation Corporation (ACC) is in the process of agreeing the terms of the proposed arrangement with Nicholas Bagnall (the Fund Manager). It is also considering whether there are any transition issues which should be considered or addressed prior to implementation of this arrangement (which may not have already been considered).

In this letter we review the terms proposed by the Fund Manager and make comments on relevant points detailed in the Term Sheet. We also highlight operational aspects of the transition which should be considered by ACC.

Our review of this arrangement is limited to comments on the proposed Term Sheet and the portfolio transition issues relevant to the proposal. We have not been asked to address, nor have we addressed, (1) the investment case for this arrangement, (2) the investment capabilities of the proposed manager or (3) the ongoing operational processes to which the Fund Manager should be subjected.

We make the following general observations:

1. We consider that it would be advantageous for the arrangement with the Fund Manager to be truly arm's length (with the Fund Manager treated like another external manager). We recognise that this is also the preference of ACC and our comments in this letter reflect the spirit of that view. It is important that in this arrangement there are clear lines of accountability and responsibility (this is particularly important given the legacy of the relationship between ACC and the Fund Manager). Where lines of accountability and responsibility are blurred, then there is potential for issues to arise.<sup>1</sup>

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<sup>1</sup> The desire to have a true arm's-length arrangement with the Fund Manager is important as there have been offshore examples of similar arrangements at public funds. Singapore's GIC is such an example where the seeding of former employees' fund management firms led to concerns being raised publicly about those arrangements.

There are aspects of the Term Sheet which are not consistent with the desire for a true arm's-length arrangement (i.e., appointment of a director to the board of the Fund Manager). Our response does not pick out these inconsistencies as we understand it is likely an issue already being discussed by ACC.

2. The terms detailed in the Term Sheet are attractive and the fee arrangement, in particular, is competitive. (This is often the case for investors who seed a manager, which may simply be reflecting the fact that the investor is taking on some risk).
3. While we understand ACC undertakes operational due diligence prior to funding its managers (and on an ongoing basis), it is necessary to emphasise its particular importance in this instance given that ACC will be funding a small, start-up manager. We encourage collaboration between ACC's operational due diligence team and the Fund Manager to ensure that back office support and processes are in place and that there is a programme of continuous improvement. Further, we recommend a robust governance structure be created so that if material issues are discovered, these are reported and subsequently addressed by both the Fund Manager and ACC.

The section titles below reflect those used in the Term Sheet.

#### **Fees**

Base fee is s 9(2)(ba)(i)

When contrasted with other global equities mandates this base fee appears to be reasonable and competitive. The key will be ensuring that the Fund Manager has a sustainable business and we will address this matter later.

#### **Performance fee**

of the risk-adjusted outperformance above the benchmark.

Given the competitive base fee, a performance fee of is not unreasonable. Indeed, this is lower than fees we typically see for similar mandates. Further, the Fund Manager's proposal that fixed management fees be subtracted from raw performance before calculating outperformance is commonly used in performance-fee methodologies.

s 9(2)(ba)(i)

While the base and performance fees are reasonable, the mechanics of the performance fee component are also important as these can lead to behaviours or outcomes that are not in the interests of either party. These behaviours are, for the most part, best managed by monitoring

through an historical lens (i.e., monitoring performance, trading activity, stock concentrations, tracking error and active share etc.)

s 9(2)(ba)(i)

*Performance fee cap*

The Term Sheet specifies a performance fee cap of [REDACTED] per annum, and we assume that there is no carry forward of accrued fees over the cap (as this is not specified). Our experience indicates that this cap is on the low side. As such, the cap is valuable to ACC as it removes the top of the fee distribution (thereby lowering the expected fees paid to the Fund Manager).

We have undertaken some modelling of the performance fee based on the Term Sheet in order to estimate the value of this cap. We have made assumptions as to outperformance and tracking error and undertaken 10,000 simulations in order to calculate expected fees with and without the cap.

s 9(2)(ba)(i)

In summary, the structure of the performance fee as outlined in the Term Sheet is reasonable and the methodology proposed does not generate any red flags that would, in our view, require a change to the model.

*Will the Fund Manager have a sustainable business?*

It is useful to consider whether the Fund Manager's business will be sustainable under different scenarios. Considering whether these fees will cover the cost base will provide an indication into the sustainability of the arrangement. An arrangement that is too challenging for the Fund Manager will simply lead to uncertainty and potential instability.

Our analysis based on a range of scenarios shows that the sustainability of the Fund Manager's business is, naturally, dependent on the level of outperformance and/or the AUM provided by ACC. s 9(2)(ba)(i)

It would therefore be useful to get some insight into the costs the Fund Manager expects to incur to provide comfort that the business will be profitable under a range of scenarios. This might include confirmation of the Fund Manager's estimated break-even AUM. The key point is that reducing ACC's commitment in terms of AUM might lead to a deterioration of the business sustainability of the Fund Manager and as a result the investment outcomes for ACC.

**Term**

s 9(2)(ba)(i)

**Contract**

The use of an industry-standard investment management contract is appropriate.

**The Fund Manager**

*Personal guarantee:* Rather than requiring a personal guarantee, we would suggest the focus be on ensuring adequate insurance coverage is in place. In particular, ACC should ensure sufficient insurance coverage for errors and omission (E&O) is in place. s 9(2)(ba)(i)

*Funds from other clients:* The Term Sheet allows for the Fund Manager to seek funds from other clients after the first year. A question proposed by ACC is whether there needs to be any limits on the size of FUM from future clients. In terms of AUM, we do not see capacity as an issue for global equities mandates such as that being proposed. It would, however, be useful to ask the Fund Manager to give an indication of a capacity limit and hold the Fund Manager to this.

However, a more important issue is likely to be the client servicing constraints that come with operating a fund management firm. The greater the number of clients, the greater the time needed to service clients (and the less time will be available to manage the portfolio). This is particularly important if the Fund Manager were to enter the retail market. Nevertheless, it will likely be several years before this could become an issue for ACC and the investment team should be able to monitor this from time to time.

*Trade allocation policy:* The term requiring the consent of ACC when seeking business from other clients is reasonable.

s 9(2)(ba)(i)

s 9(2)(ba)(i)

### **Transitional**

A key consideration is that the transition to the new Fund Manager be seamless. We now make some observations and provide questions that ACC might want to consider prior to any portfolio transition (some of which ACC may already be addressing as part of its operational due diligence process).

ACC should request that the Fund Manager confirm the transition arrangements as part of the initial discussions. In assessing the response, ACC should ensure that the following, matters (a non-exhaustive list) have been considered.

- System infrastructure in place (servers, ability to access custodian systems)
- Confirmation that the Fund Manager has the ability to instruct on the portfolio (i.e., corporate action notices).
- Formal notification to the custodian advising of the appointment of the new investment manager.
- Confirmation of who will execute and who will confirm trades with the broker (ACC should ensure there is a segregation of duties between the Fund Manager's front and back office teams).
- Confirmation of a business continuity plan and cybersecurity systems.
- Back-up plans should be in place for managing the portfolio should the Fund Manager not be in a position to manage the portfolio (e.g., ACC could have in place a process for the portfolio to be managed to a passive benchmark at short notice).
- There should be a period prior to any transition (of at least two weeks) during which the Fund Manager tests its ability to manage the portfolio in the same capacity as is the case at ACC.

ACC should also consider the following:

- During the transition, what support is ACC providing the Fund Manager?
- Post transition (the week after), ACC should have a process in place to review the Fund Manager's operational set-up.
- It may be worth confirming the date when the performance fee begins, particularly if there is an expectation that trading will be required as part of the transition.

### **Other**

The Fund Manager has offered a defined amount of consulting services to ACC. While such a term provides ACC with what appears to be a cost-free option, such an agreement should be

considered separately in the form of an arm's length relationship. The focus of ACC should be on ensuring that the Fund Manager is best positioned to add value on the assets it manages for ACC.

### Conclusion

Paul, our response does not consider the investment case for this arrangement, nor have we reviewed the investment or operational capabilities of the Fund Manager. We have limited our comments to the Term Sheet proposed by the Fund Manager and how it compares with terms that are typically offered by large, global equities managers.

s 9(2)(ba)(i)

In general, the fee arrangements are competitive and are lower than we typically see in arm's-length arrangements with large, global equities managers. A key focus will be ensuring that the Fund Manager's business is sustainable.

We have also raised a series of matters which ACC should explore as early as possible to ensure the transition of the portfolio to this new arrangement is seamless.

Finally, we emphasise the relatively greater importance operational due diligence will play in this arrangement given ACC is funding a small, start-up manager. We encourage collaboration between ACC's operational due diligence team and the Fund Manager to create a programme of continuous improvement.

Yours sincerely



Julian Darby  
Senior Consultant

22 October 2019

By email

Investment Committee  
Accident Compensation Corporation

Attention: James Miller, Chair of Investment Committee

Dear James and Investment Committee Members

**AGREEMENTS WITH MR NICHOLAS BAGNALL**

1. We have acted for the Accident Compensation Corporation ("**ACC**") in relation to the drafting and negotiation of the following "**Transaction Documents**":
  - (a) the Transitional Services Agreement between ACC and Mr Nicholas Bagnall; and
  - (b) the Investment Management Agreement between ACC and Te Ahumairangi Investment Management Limited ("**TAIML**").
2. It is intended that the Transitional Services Agreement will be entered into by ACC and Mr Bagnall shortly after ACC approves the transaction. However, for the Investment Management Agreement to be entered into, TAIML will need to be incorporated.
3. TAIML (once incorporated by Mr Bagnall) will be at least [REDACTED] owned (directly or indirectly) by Mr Bagnall. However, as TAIML has yet to be incorporated, the Transitional Services Agreement will be entered into only after TAIML has been incorporated. The Transitional Services Agreement requires Mr Bagnall to take certain actions to establish TAIML and to ensure that TAIML has sufficient capability to commence investment management operations. Once those requirements are met to ACC's satisfaction, ACC is obliged to enter into, and Mr Bagnall is required to ensure that TAIML enters into, the Investment Management Agreement.
4. We note that each party has received advice from experienced legal counsel (Mr Bagnall advised by Chapman Tripp and ACC by us) and we understand that the parties are satisfied as to the terms of the Transaction Documents, which are in agreed form following negotiations between the parties.

**Partners**

Frederick Ward  
Brendan Brown  
Malcolm Crotty  
Joe Windmeyer  
Guy Lethbridge  
John Powell  
Ed Crook  
Tim Clarke  
Sarah Keene  
Sarah Armstrong  
David Hoare  
Matthew Kersey  
David Butler  
Craig Shrive  
Deemle Budhia  
Mei Fern Johnson  
Daniel Jones  
Polly Pope  
Allison Arthur-Young  
Christopher Curran  
David Raudkivi  
Tom Hunt  
Kylie Dunn  
Daniel Minhinnick  
Troy Pilkington  
Marika Eastwick-Field  
Ian Beaumont  
Stephen Rendall  
Joe Edwards  
Benjamin Paterson  
Emmeline Rushbrook  
Anna Crosbie  
David Weavers  
Liz Blythe  
Nathaniel Walker  
William Irving

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5. In our opinion:
- (a) the Transaction Documents reflect the instructions we received from ACC (James Miller and Paul Dyer);
  - (b) the Transitional Services Agreement is in order for execution by ACC and will, when properly executed by the parties and dated, be binding on the parties and enforceable in accordance with its terms; and
  - (c) provided that the requirements in the Transitional Services Agreement as to the establishment and capability of TAIML are met to ACC's satisfaction, the Investment Management Agreement is in order for execution by ACC and will, when properly executed by the parties and dated, be binding on the parties and enforceable in accordance with its terms.
6. Our opinion in paragraph 5 is subject to the following:
- (a) we cannot comment or advise on any technical, operational, or financial content, or matters of fact of which we have no knowledge;
  - (b) our opinion that the Transaction Documents are enforceable does not mean that an obligation in either of the Transaction Documents can necessarily be enforced in accordance with its terms in all circumstances. In particular, enforceability may be limited or affected by:
    - (i) general principles of equity;
    - (ii) statutes of limitation, estoppel and similar principles, the doctrine of frustration, laws concerning insolvency, bankruptcy and liquidation or by other laws generally affecting creditors' rights and duties; and
  - (c) our opinion is given in relation to matters of New Zealand law only.
7. Thank you for the opportunity to work with ACC on this matter.

Yours faithfully  
**RUSSELL McVEAGH**



**Mei Fern Johnson**  
Partner

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**Draft media release****...November 2019****Investment Team changes at ACC**

Long-time ACC Chief Investment Officer Nicholas Bagnall is to leave ACC – but will continue to work for the organisation – when he sets up an international funds management consultancy later this month.

ACC will retain Mr Bagnall's services as a cornerstone client of Mr Bagnall's Wellington-based company, Te Ahumairangi Investors. Mr Bagnall will continue his work of overseeing the corporation's global equity securities.

ACC Board Chair Dame Paula Rebstock said Mr Bagnall had made an outstanding contribution to ACC – and to New Zealand – in his 26 years at ACC.

"The work Nicholas has done for ACC and New Zealand has been outstanding. This is demonstrated by the ACC investment fund's performance exceeding benchmarks for 25 of the last 27 years," Dame Paula said.

"When Nicholas joined ACC in 1992, funds under management were less than \$1 billion and the investment team was only six people. Now the investment team has 60 people across a range of portfolios and \$45 billion in funds under management. Every \$100 that ACC invested 27 years ago, has effectively grown to be worth more than \$1350 today."

ACC Board Investment Committee Chair James Miller said Mr Bagnall was regarded internationally as a world-class investment manager.

"Under Nicholas' leadership, the ACC investment team has been extremely successful in earning investment income that has significantly reduced the cost of levies Kiwis have had to pay for accident cover," Mr Miller said.

"ACC is delighted we will keep working with Nicholas in the years ahead."

Mr Bagnall said he was incredibly proud of the achievements of the investment team and the important contribution it had made to the sustainability of the ACC scheme.

"I have thoroughly enjoyed working at ACC and being part of a team that's not only helping Kiwis by reducing the cost of injury cover but, at the same time, investing in New Zealand markets and businesses," Mr Bagnall said.

"I am excited about the challenge of establishing and running my own business and look forward to continuing my close association with ACC."

ACC Chief Executive Scott Pickering said Paul Dyer, a member of the leadership group of the ACC Investment Team for the past seven years has been appointed the Acting Chief Investment Officer.

"Paul is a highly regarded and experienced member of the ACC Investment Team with proven expertise in investment market strategy," Mr Pickering said.

Mr Dyer is a former Chief Investment Officer of both AMP Capital Investors and the New Zealand Superannuation Fund and, before coming to ACC, was Chief Advisor to the Minister of Finance, and an economist with the New Treasury and Buttle Wilson.

**Media contact:** Simon Beattie 021 702 694

[To be printed on ACC letterhead]

[date] 2019

Nicholas Bagnall

[address line 1]

[address line 2]

[address line 3]

Dear Nicholas

**Establishment of your new funds management business**

1. Further to our previous discussions, we wanted to emphasise the value we place on the time you have spent as chief investment officer with us, and the significant contribution you have made, over more than 20 years. We hope that the experience you have gained over that time stands you in good stead with your new venture.
2. We also wanted to acknowledge, and take you up on, your offer to continue managing our global equities portfolio as you transition to being an independent fund manager, as well as continuing to assist us on a transitional basis with the futures trades, historical Official Information Act requests and other matters as may be required from time to time over the next few years.
3. s 9(2)(ba)(i)  
[REDACTED]  
[REDACTED]  
[REDACTED].
4. We expect this support, when combined with your standing as a highly regarded global equities manager, to result in a high demand for your services. As such, we are pleased to enter into the transitional services agreement enclosed, and later the investment management agreement attached to that transitional services agreement, so that you will continue to manage our global equities portfolio, and we will be able to continue to receive the best pricing offered to any of your clients.
5. We see entering into these agreements as a mutually beneficial way to continue our long-standing relationship and reflect the philosophy and governance of the global equities portfolio which you have been instrumental in establishing. Accordingly, if you could please

sign the transitional services agreement and return it to us, that would be appreciated. We will then return a counter-signed copy to you.

7. We look forward to continuing to work with you into the future.

Yours faithfully

Accident Compensation Corporation

Dame Paula Rebstock

Chairperson

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