

TITLE:

NZ Super Fund: Success Factors

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All about us

Investing to help pay for the increased cost of superannuation payments in the future

- Smooth tax burden
- Add to crown wealth
- Best practice portfolio management
- Maximise return without undue risk
- Avoid prejudice to New Zealand's reputation
- Long-term horizon

| <i>NZSF - Quick Facts</i> | |
|------------------------------------|-----------|
| Started investing: | Sept 2003 |
| Funds under management: | \$18.33b |
| Annualised return since inception: | 6.83% |
| Excess return: | 1.57% |
| Withdrawals to begin: | 2029/30 |

As at 31 May 2012

How we do it: capability and culture

A Great Team Building the Best Portfolio

- We define Great and Best, and measure them – including the Board
- Organisational culture key to being a long-term investor
- We emphasise:
 - Collaboration
 - Consistent decision making
 - Transparency and openness
- Staff remunerated for behavior – what you achieve, and how you achieve it
- Strong focus on talent selection, career development opportunities



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How we do it: measuring our performance

The Reference Portfolio: seeking returns in excess of the 'risk-free' rate

- Reference Portfolio
 - Low-cost, passive portfolio which can achieve Fund objective
 - Appropriate degree of risk for long-term investor
- Blueprint and benchmark
 - Able to assess whether we are adding value with active investment

| Asset class | Percentage |
|---|-------------|
| Global equities | 70% |
| NZ equities | 5% |
| Global listed property | 5% |
| Total growth | 80% |
| Total fixed interest | 20% |
| TOTAL PORTFOLIO | 100% |
| Net un-hedged foreign currency exposure | 0% |

How we do it: active investment

Adding value to the Reference Portfolio

- We use our natural advantages (**long horizon, liquidity, and governance**) and clarity around our investment beliefs, strategies, and capabilities

- This leads us to invest in
 - Illiquid assets (e.g. infrastructure, private equity, timber)
 - Attractive sectors (giving us diversification or superior risk-adjusted returns)
 - Skilled investment managers
 - Tilting our portfolio exposure
 - Implementing the portfolio efficiently

How we do it: our investment framework

Focus on opportunities where there is the **strongest link** between our endowments and beliefs, and the underlying investment

- Access opportunities as **directly** as possible:
 - direct, co-investment or transparent external accounts
- Developing and maintaining **internal** investment opportunity identification and implementation **skills**
- Developing **investment themes** and **opportunities** around which our access search efforts can be coordinated
- Accessing external managers to ‘**partner**’ with us in segregated or co-investment activity

How we do it: the slow burners

As a long-term investor, we try to identify lasting economic, social and environmental **investment themes** that are expected to persist through the ups and downs of the economic cycle

- Emerging market segmentation
- Resource sustainability
- Evolving demand patterns

- We view an investment with a thematic “tailwind” more favourably than one without, all else being equal
- BUT - **price** remains the most important factor for any investment, given its direct implication for the expected return

What does this mean for New Zealand?

Older, richer, less isolated, more crowded?

- Rising emerging market incomes and associated ‘Western’ demands for protein and travel
 - Agriculture, fisheries and water - NZ is in a great position – but we need a conscious effort to develop world class brands, add value to our products, and understand and educate offshore markets
 - Strong tail wind for tourism related infrastructure
- Meeting demands from a growing, ageing and ‘greening’ population
 - Need a step change up in infrastructure investment
 - Increased pressure on renewable energy and energy efficiencies

Key points

- Long-term investor
- Adding value to the Crown as well as saving money to fund future National Superannuation entitlements
- Playing to our natural advantages (endowments) and beliefs
- Emphasis on transparency, consistency and clarity of thinking
- Overriding importance of getting the culture right and focusing on your people

Questions