



NZSUPERFUND

*Te Kaitiaki Tāhua Penihana
Kaumatua o Aotearoa*

TITLE:

Amplifying Value: Maximising our Expansion Capital Strategy

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EVENT | PRESENTATION:

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NZ Super Fund - overview

- NZ\$29 billion (US\$21.9bn) sovereign wealth fund to help pre-fund future universal retirement benefits
- Long-term fund – no withdrawals till 2029/30, won't peak till 2080s
- Returned 10.3% p.a. after costs, before NZ tax
- Out-performed the market - exceeded our passive Reference Portfolio benchmark by \$3.2 billion since inception
- Exceeded the NZ government's cost of debt by \$12.8 billion
- Further details available at www.nzsuperfund.co.nz

Our investment approach

- Long-term, global, highly diversified investment fund
- We are firm believers in passive investment and highly disciplined about active investment
 - We work hard to exploit our endowments
 - Separate opportunities from access points
 - Allocate capital to the opportunities we are most confident in
 - Use long-term investment themes to inform decisions
 - Prefer direct, flexible access
 - Integrate ESG throughout the investment process

Defining our endowments

Long
Horizon

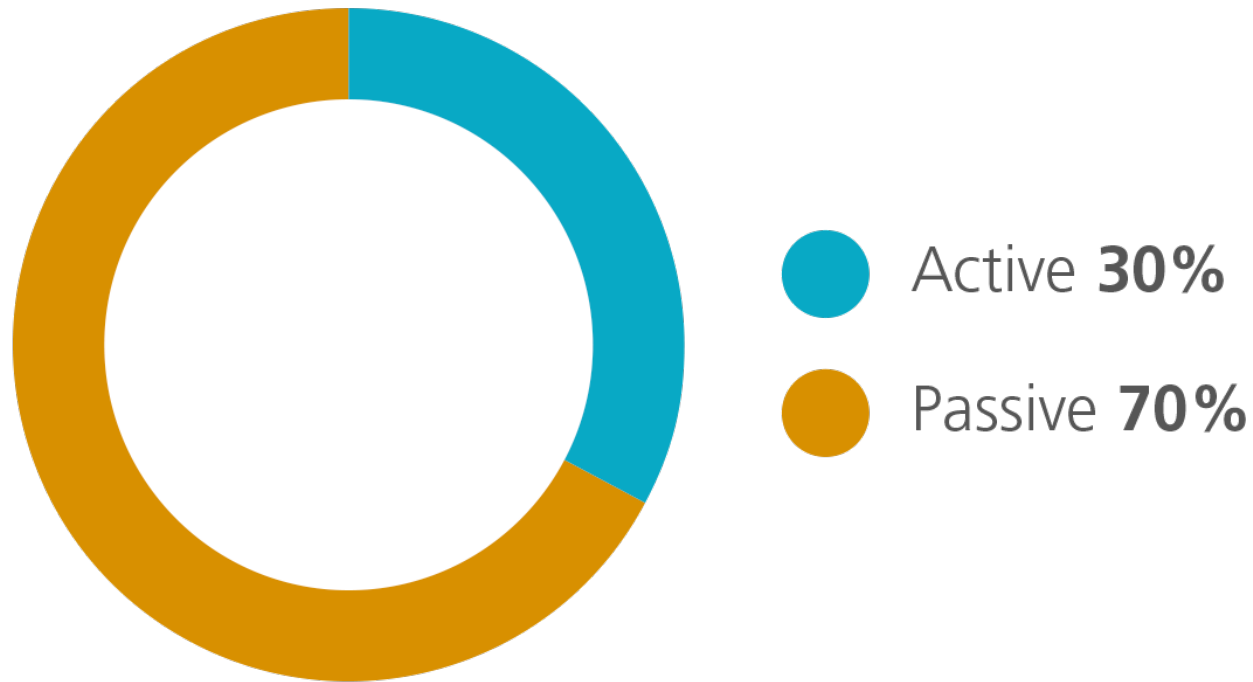
Certainty of
Liquidity

Operational
Independence

Location &
Crown Owner

- We can ride-out short term volatility
- Genuine contrarian investor
- We can invest in private market and illiquid assets
- We pay lower tax in some jurisdictions (sovereign status)
- Favourably regarded as a potential co-investor and business partner

Get broad market exposures cheaply



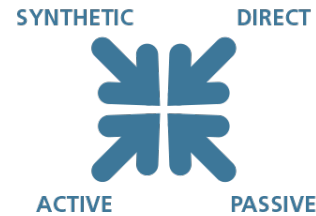
Separate opportunity from access point



Reference
Portfolio



Opportunities



Access points



Actual
Portfolio



See + Articulate
Drivers



Not Hot

HIGHEST CONFIDENCE



Opportunity



Beliefs

Endowments

Expansion capital

- Around 1% of the NZ Super Fund is invested in expansion capital

- What do we mean by expansion capital?
 - Capital investment onto balance sheet of fast growing private companies to support organic expansion
 - Sits between ‘venture capital’ and ‘buyout’

- Why do we like it?
 - Risk/return profile is a good match for growth-oriented investors with a long time horizon
 - Mismatch between supply of and demand for capital – privately owned businesses that have high growth potential but are starved of capital

- Access both directly via in-house team and via external managers

International expansion capital investments

- Currently building a portfolio of direct investments managed by our in-house team
- Investing alongside peers
- Interested in opportunities of NZ\$50 million plus
- To date the focus has been on alternative energy



Ogin Energy



Bloom Energy



LanzaTech

Challenges

- Resource intensity
- Sourcing and partnering – institutional/individual peer relationships
- Reputation / communications
 - Individual investments are a large, visible part of the portfolio
- How do we manage these challenges?
 - Strong focus on developing trusted peer relationships
 - Increased team resourcing
 - Targeting only sizeable transactions
 - Transparency about individual investments and their risk/return profile, while positioning them in context and as part of a broader, appropriate strategy

Expansion capital in New Zealand

- External mandates with Pioneer Capital Partners, Waterman Capital, Pencarrow Private Equity
- Size dictates access point - domestic deal sizes of \$5 million - \$25 million are too small for us to run in-house
- NZ is an under-penetrated, less evolved market than (for example) the US
 - Limited other capital available
 - Growing universe of investible companies
 - Low penetration rates for venture capital and private equity compared to global markets
 - Listed markets are small, inefficient and (at the current time) relatively expensive
- NZ PE managers have outperformed the NZX small cap index by 10% p.a. over last 10 years

Challenges

- Limited manager universe
 - Finding capable managers with sufficient capacity
 - Managers tend to be generalists (e.g. venture + expansion or expansion + buyout)
- Transparency, governance
- Fee structures – less competitive than in more evolved markets
- Flexibility

- How do we manage these challenges?
 - Build deep strategic partnership relationships with managers who can work with us on our terms
 - Highly structured due diligence and conviction process for external managers
 - Separate portfolio management, portfolio intelligence and operational due diligence teams
 - Integration of ESG management

Key points

- Strong believer in passive management
- Only make active investments where we have a high level of confidence that we will get a better risk-adjusted return than the low-cost, passive equivalent
- Targeting expansion capital internationally and in New Zealand as an attractive investment opportunity – a good fit with a long-term, growth-oriented Fund
- International
 - Early days – still building portfolio targeting opportunities of US\$50million plus
 - Focus on alternative energy and investing alongside peers
- New Zealand
 - Capital demand/supply mismatch
 - Growing pool of investible companies
 - Market still immature – conducive to superior returns