NEW ZEALAND SUPERANNUATION FUND

TITLE:

How we think about Emerging Market Private Equity

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Our Investment Framework: Being Opportunistic

Attractiveness
Opportunities where link between our endowments and beliefs, and the investment

↓

Confidence
Access opportunities as directly as possible
Consistent with our target operating model

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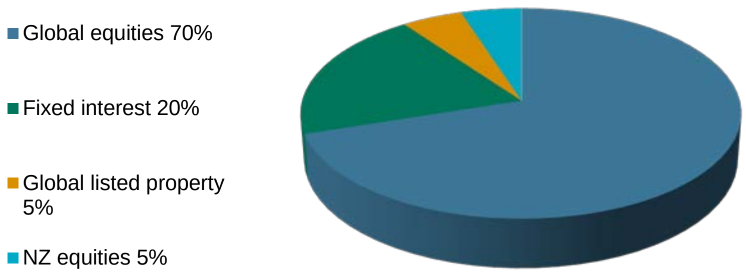
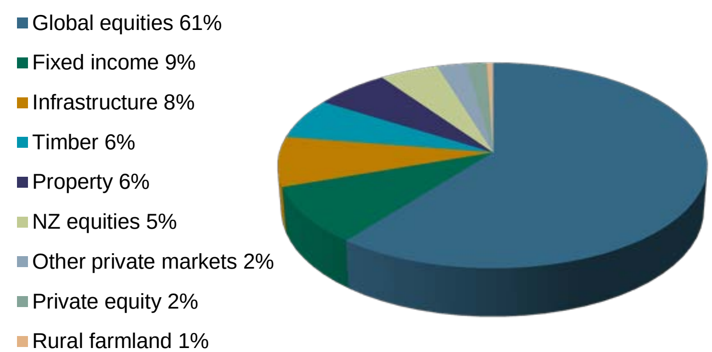
- Maintain internal investment opportunity identification and implementation skills
- Develop investment themes
- Access external managers to ‘partner’ with

How we do it: Opportunity then Access

Reference Portfolio



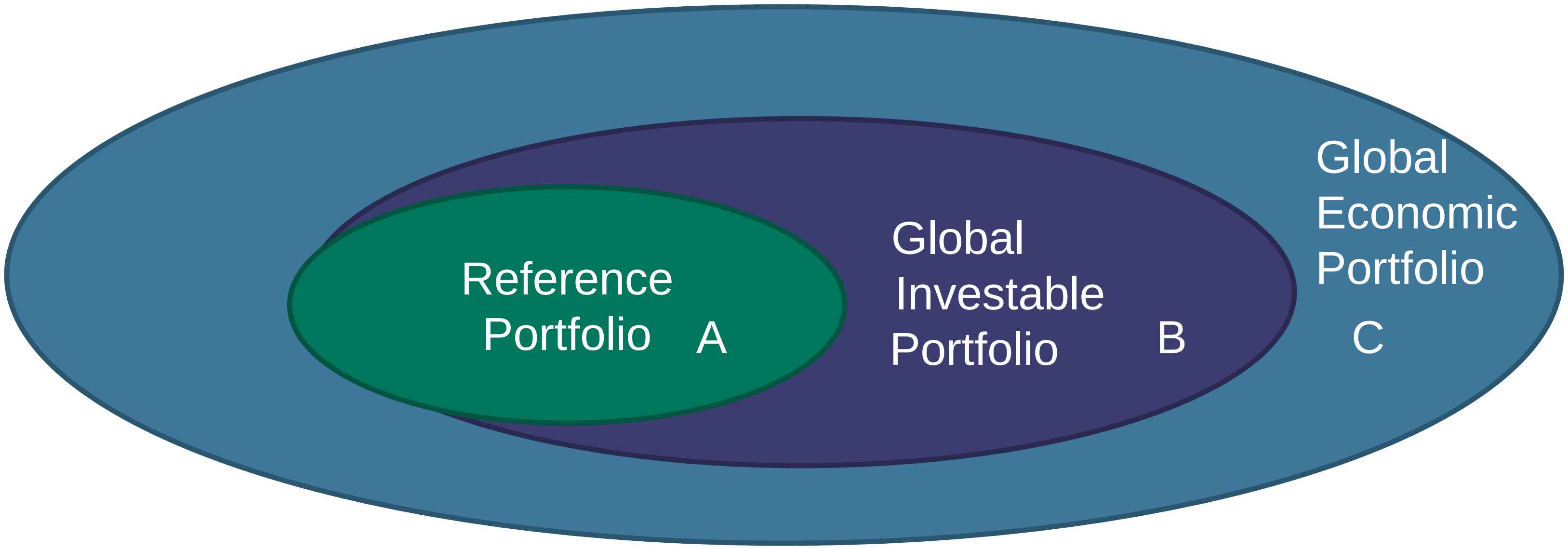
Actual Portfolio as at 31/01/13



Reference Portfolio + **Value Adding Activities** = **Actual Portfolio**

- Strategic tilting
- Active investment strategies
- Portfolio Completion

Where can Emerging Market Private Equity Fit?



Emerging market investments across A, B, C

A = Passive, listed, liquid

B = A + Active Decisions and Tilting (e.g., Private equity)

C = A + B + Active Decisions (e.g., direct investing)

Reference Portfolio – Underweight Emerging market?

- Traditional market cap weightings under value Emerging Market
- New Emerging Market listed indices available – debt, equity, and FX
- Sound rationale for including EM and Frontier Market indices on investment grounds
  - Higher risk premiums
  - More diversified – country specific drivers, demographics, segmentation
  - Better matches economic exposure of Global Portfolio

- **Be aware of economic versus risk versus asset class exposure from outset**

Actual Portfolio and role of Emerging market Exposure

- Actual portfolio = Passive (reference) + Active
- Active investments only if ‘Excess Returns’ available
- ‘Excess’ Returns in Emerging market / Frontier market?
  - ✓ Mis-pricing long-run returns
  - ✓ Segmentation in markets
  - ✓ Risk premia convergence
  - ✓ Higher productivity mis-priced
  - ✓ Diversification
  - ✓ Less Competition

Each potential driver of ‘excess returns’ has significant pros and cons to be considered

Excess Returns in Emerging Markets?

- Prima facie good grounds to be optimistic…..but devil in the detail:
    - Economic exposure vs asset class exposure – how much is enough?
    - Proof of 'excess returns' e.g.
        - Home bias, returns to capital, degree of diversification, ESG issues
        - Best relative 'excess return'
- Best access points
    - Overweight beta?
    - Targeted countries, market segmentation via direct or PE?
- Private Equity is one 'access point' but needs to be related to specific opportunity

Summary

- Passive Reference Portfolio exposure underweighted Emerging / Frontier
- Prima facie case for ‘excess returns’ is strong, but ‘devil in detail’
- Private Equity is an access point however not an opportunity
- Private Equity may be a very good access point in Emerging / Frontier markets due to
  - Search costs
  - Principal agent risks
  - Risk sharing
  - Targeted nature of returns