

Guardians of New Zealand Superannuation:

The importance of beliefs to long-term investment

**Presentation to:
Combined Community Trusts Conference**

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Today's discussion

Agenda

Being a long-term investor

- **Why we exist and what we care about**
- **Discipline to stay the course**
- **Deliberate financial exposure**
- **Communication with stakeholders**

Being a long-term investor

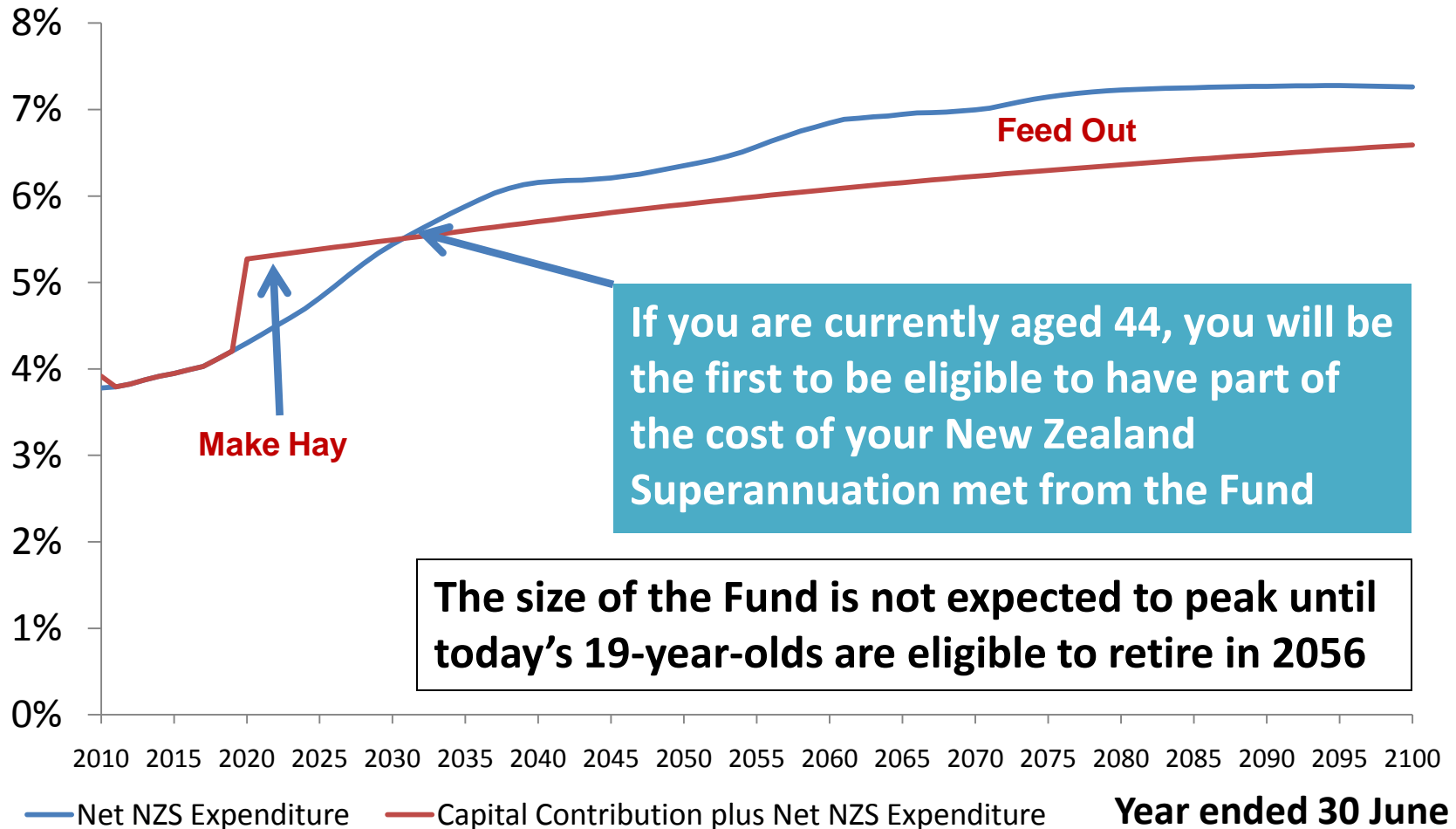
Four priorities in all weathers

- **A clear purpose – why do you exist?**
- **Discipline to stay the course**
- **Deliberate financial exposure**
- **Able to communicate the challenges to key stakeholders**

Why we exist: Intergenerational Transfer

% of Nominal GDP

CONTRIBUTION RATE



Discipline to stay the course: Our Mandate

- **Set out in section 58 of the New Zealand Superannuation Act 2001**
- **We must invest the Fund on a prudent, commercial basis consistent with:**
 - Best-practice portfolio management
 - Maximising return without undue risk
 - Avoiding prejudice to New Zealand's international reputation
- **Legislation does not prescribe what this means – it is up to the Guardians to determine**

Sets the context for all our investments

Discipline to stay the course: Our investment beliefs

Beliefs	Theoretical underpinnings	Investment Strategies	Organisational Capabilities
?	?	?	?

- Beliefs closely held and sternly tested
- Underpin all investment strategies and drive requirements for organisational capabilities
- If an investment opportunity is not aligned with beliefs, strategies or capabilities we do not invest

BUT

- If investment opportunity accords with beliefs and strategies it is maintained regardless of short-term 'noise'
 - As happened in GFC

Deliberate Financial Exposure

We think across decades

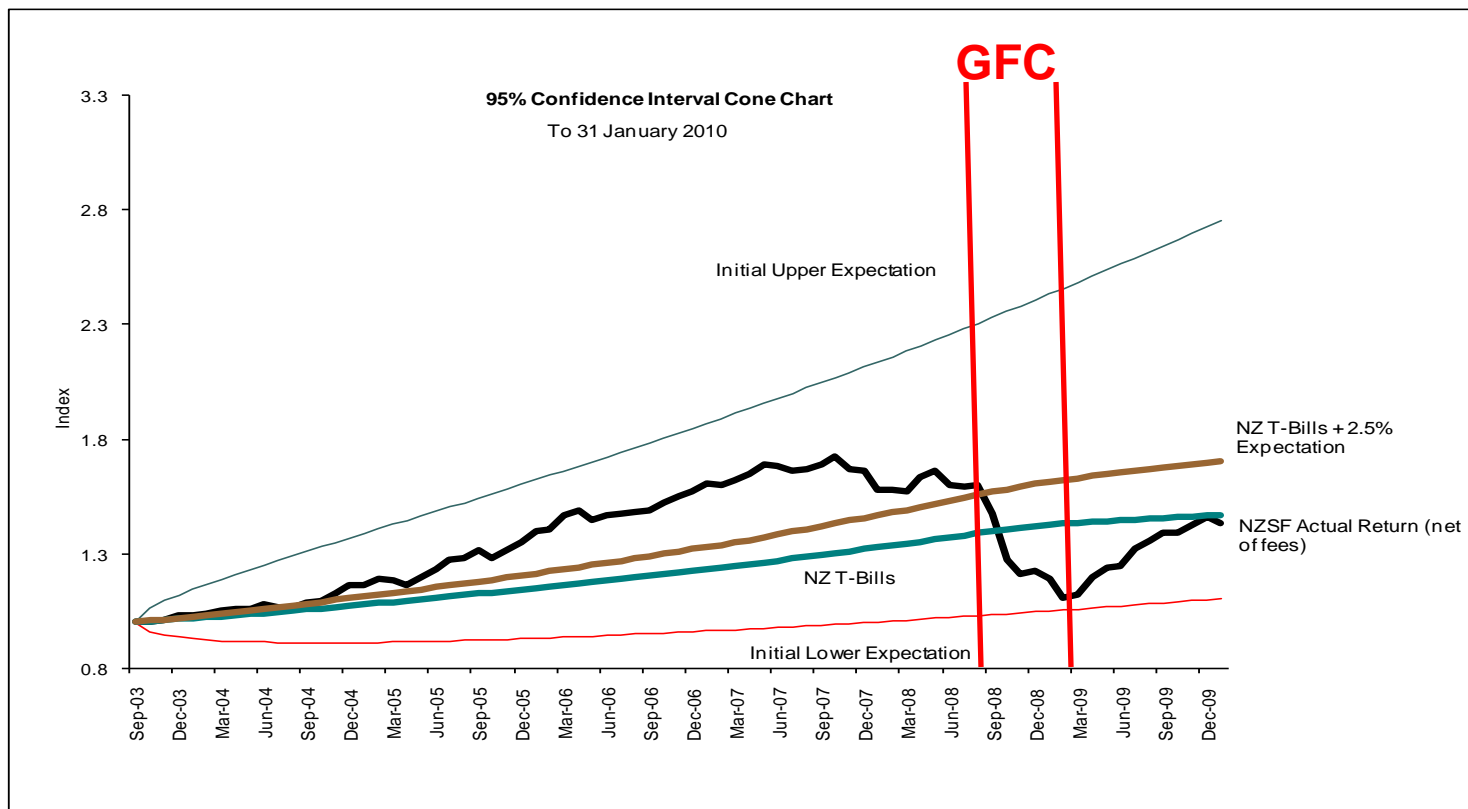
- The long-term return to the Fund net of all costs and foreign taxes is the ultimate measure of fulfilling our mission
- We calibrate a passive Reference Portfolio to our purpose (80:20 growth)
- We then look for value-adding strategies to leverage our endowments
 - Horizon, liquidity, freedom to invest, sovereign status etc
- Based on our portfolio risk profile and our expectation of the value we can add to it, we expect to **outperform** T-bills by at least 2.5% per annum over the long run

We can account for each and all of passive + active = total performance

So What? Performance update

Capturing the Rebound

- -22.1% to 30 June 2009
- +15.08% FYTD (since 30 June 2009)
 - Fund size \$16+ billion



Communicate with Stakeholders: Transparency, transparency, transparency

We are internationally recognised among SWFs for transparency

- In good times we were very clear that what was up was likely to come down
- In tough times
 - we huddled with the Board on our beliefs, strategies and capabilities
 - we kept the Minister and the public informed on what was happening and our reaction to it
- At all times we make it very easy for people to understand
 - Our purpose
 - Why our portfolio is fit for that purpose
 - Why staying our course is the best strategy

Stakeholder clarity about why we exist, what we do and why has reputation and commercial benefit

Summary: Long-Term Investment at the Fund

A clear purpose: reducing future NZers' tax burden

Discipline to stay the course:

- Well-defined organisational and accountability structure
- Structure strategies and incentives to be invariant to short-term market-movements

Deliberate financial exposure:

- Diversification through our asset allocation
- Maintain flexibility to evaluate and buy into new investment opportunities...**ADDING VALUE**
- ... while undertaking thorough diligence and maintaining risk commitments

Communication to key stakeholders

- Proactive, often, in all weathers