

TITLE:

NZ Superannuation Fund Treasury – a case study

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GM Portfolio Completion

EVENT | PRESENTATION:

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Today's presentation

- About us
- Establishment of our treasury
- Move into more value-add activities

Key points

- Establishment from scratch
- Developed a roadmap for treasury
- Significant cost savings and efficiencies achieved
- Improved focus on risk management through internalisation
- Portfolio Completion now seen as an access enabler for other non-treasury investment opportunities

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:	\$19b
Annualised return since inception:	7.05%
Excess return:	1.82%
Withdrawals to begin:	2029/30

As at 30 June 2012

Objectives of Portfolio Completion Strategy

Portfolio Completion Strategy is a set of value-add activities focused on cost-efficient access to market.

- Primary investment belief:

“Managing fees and costs and ensuring efficient implementation can prevent unnecessary cost.”

- Initially about smart execution planning and execution

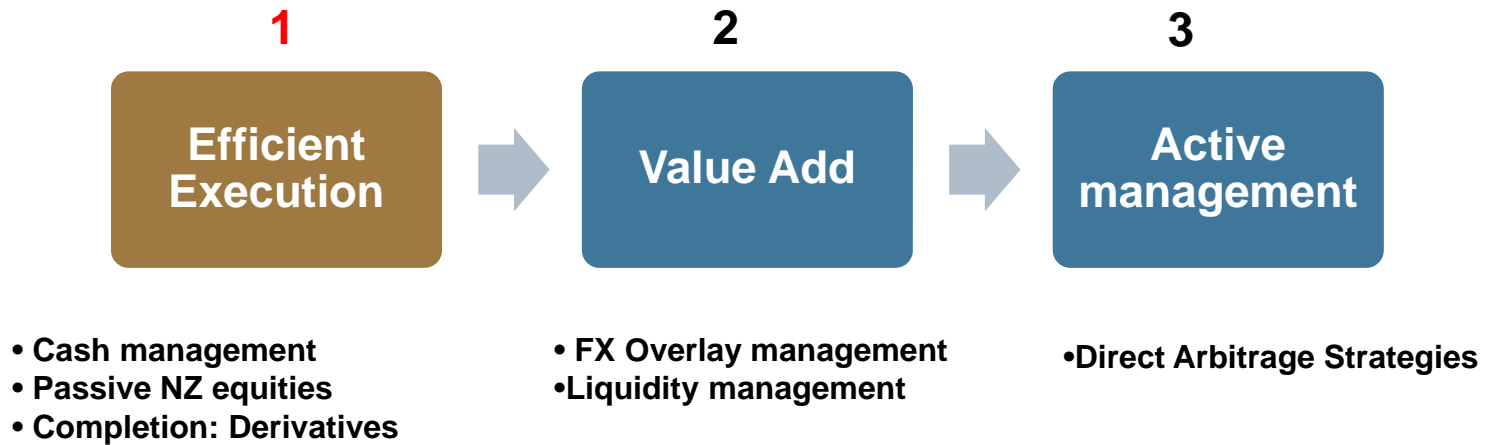
Structure of Portfolio Completion

Rare opportunity to structure and design a treasury from scratch

- We had to start from scratch
 - Hire staff
 - Develop systems and policies
 - Engage external suppliers and business partners

Evolution of Portfolio Completion

Portfolio Completion has evolved over the past 3 ½ years

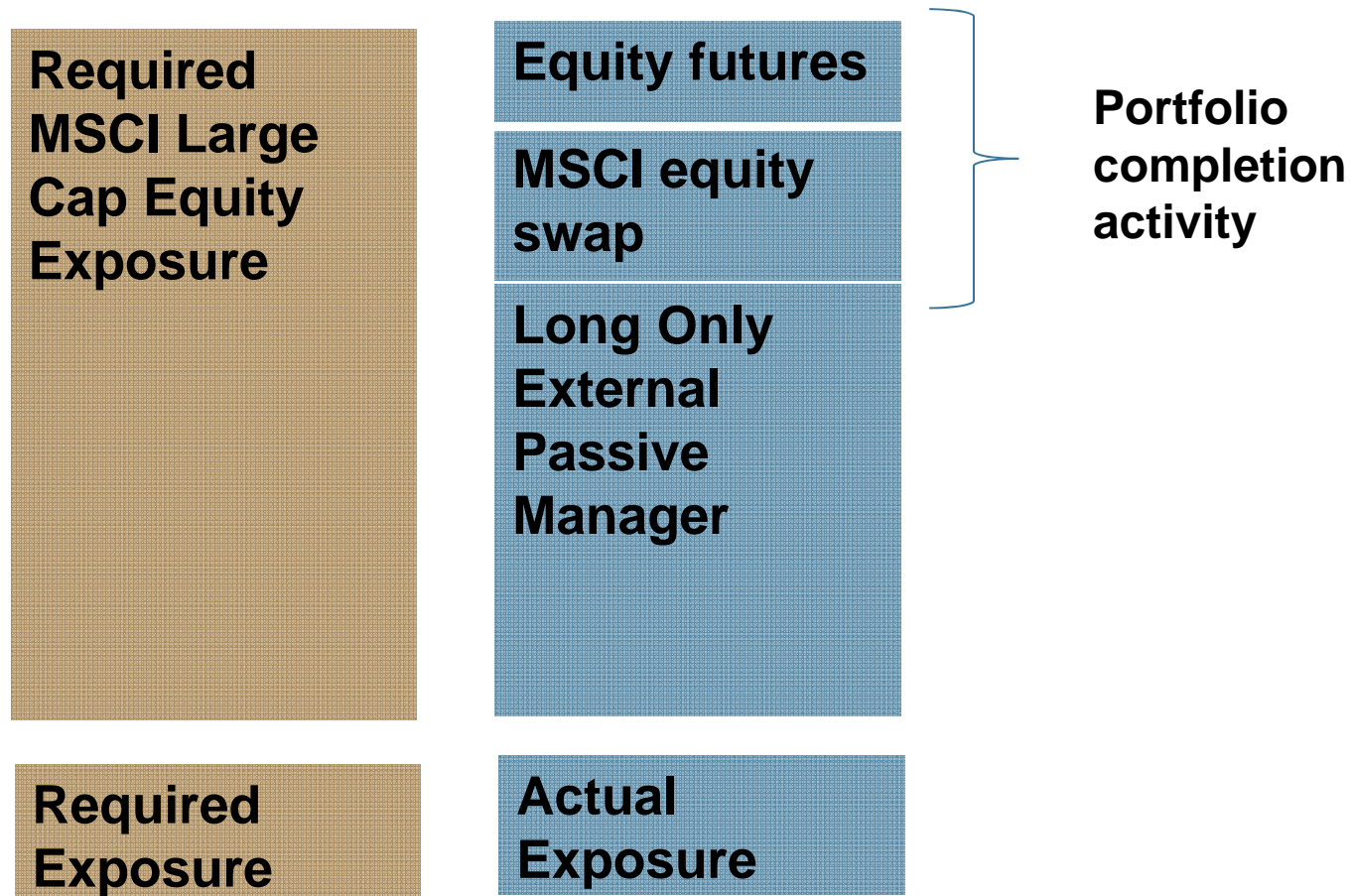


Completion activity

- **Policy objective:** Obtain market exposure as efficiently as possible
- **Exposures:** include equities, credit, REITS
- **Management :**
 - Ensure we have the correct level of market exposure and rebalance
- **Enablers**
- **Reporting and risk management:**
 - Daily reporting of Fund portfolio risk and rebalancing within agreed tolerances

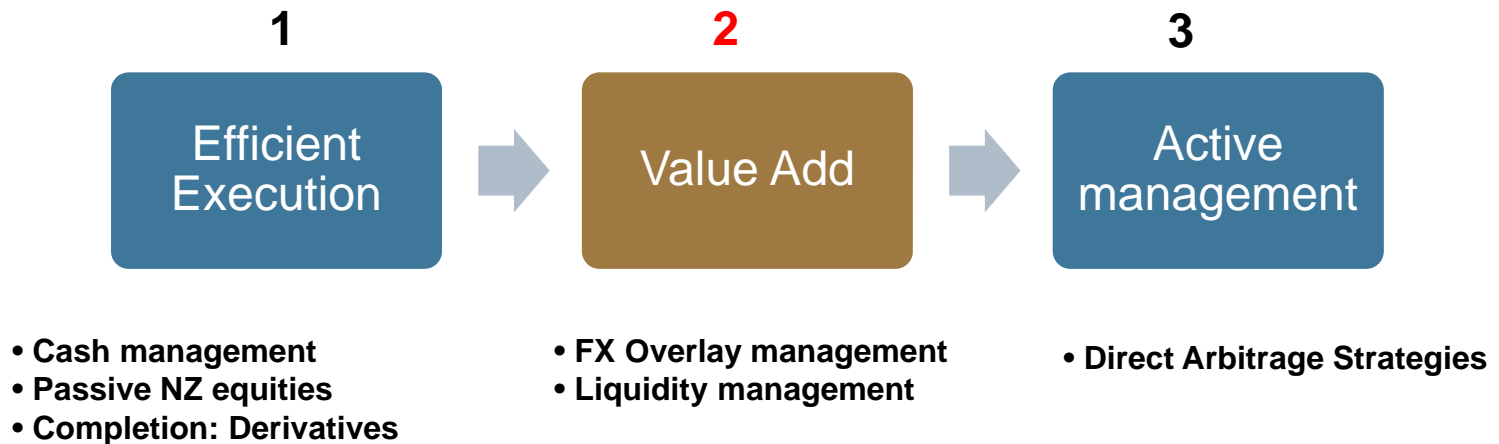
Completion activity

Illustration



Evolution of Portfolio Completion

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Currency Management

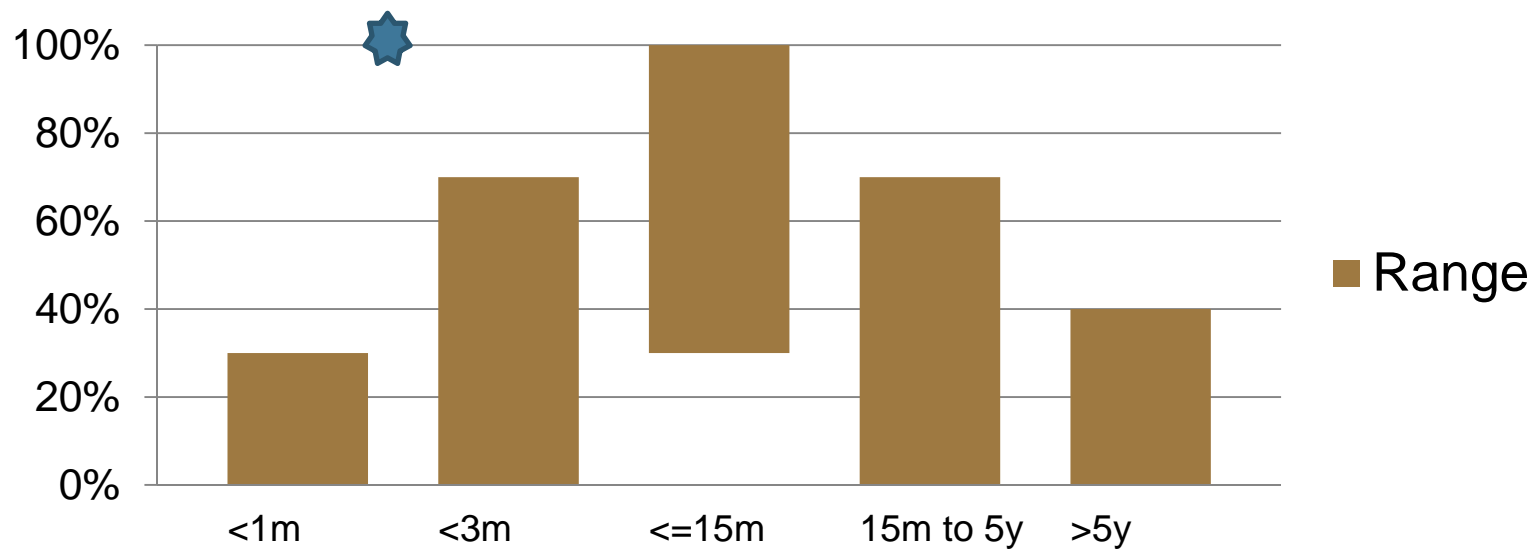
Objective is to efficiently hedge the foreign exposures of the Fund

- **Policy benchmark:** Foreign currency 100% hedged back to NZD
- **Positions:** Exposure to over 30 currencies, current hedge book circa \$11bn
- **Management :**
 - Took portfolio in-house May 2010 and improved the way it had been operated
 - Active views on currency are modeled and recommended by our tilting team
- **Enablers:**
 - Currency rebalancing tool – daily monitoring
- **Reporting and risk management:**
 - Improving tools to improve measurement and attribution of our active decisions

Currency Management

Illustration

FX Hedge Maturity Monitor (no breaches)



Liquidity Management

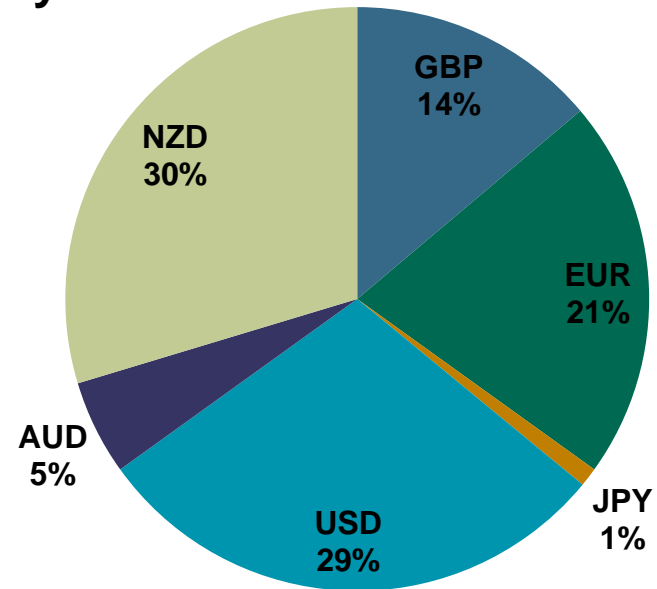
Objective to meet the Fund's day to day payment obligations and minimise the direct & indirect costs of meeting those obligations.

- **Policy benchmark:** Blended bank bill / cash
- **Positions:** Liquidity Pool currently \$7bn comprising a range of liquid exposures
- **Management :**
 - Liquidity Management Framework
- **Enablers:**
- **Reporting and risk management:**
 - Daily reporting of Fund liquidity, minimum liquidity levels set each week

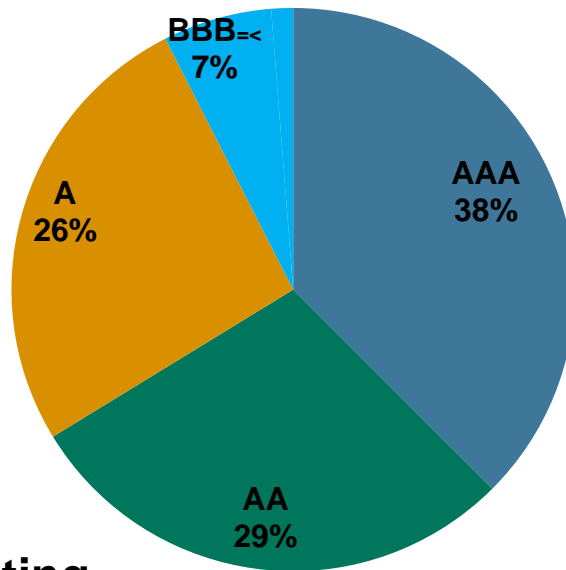
Liquidity Management

Illustration

By Currency

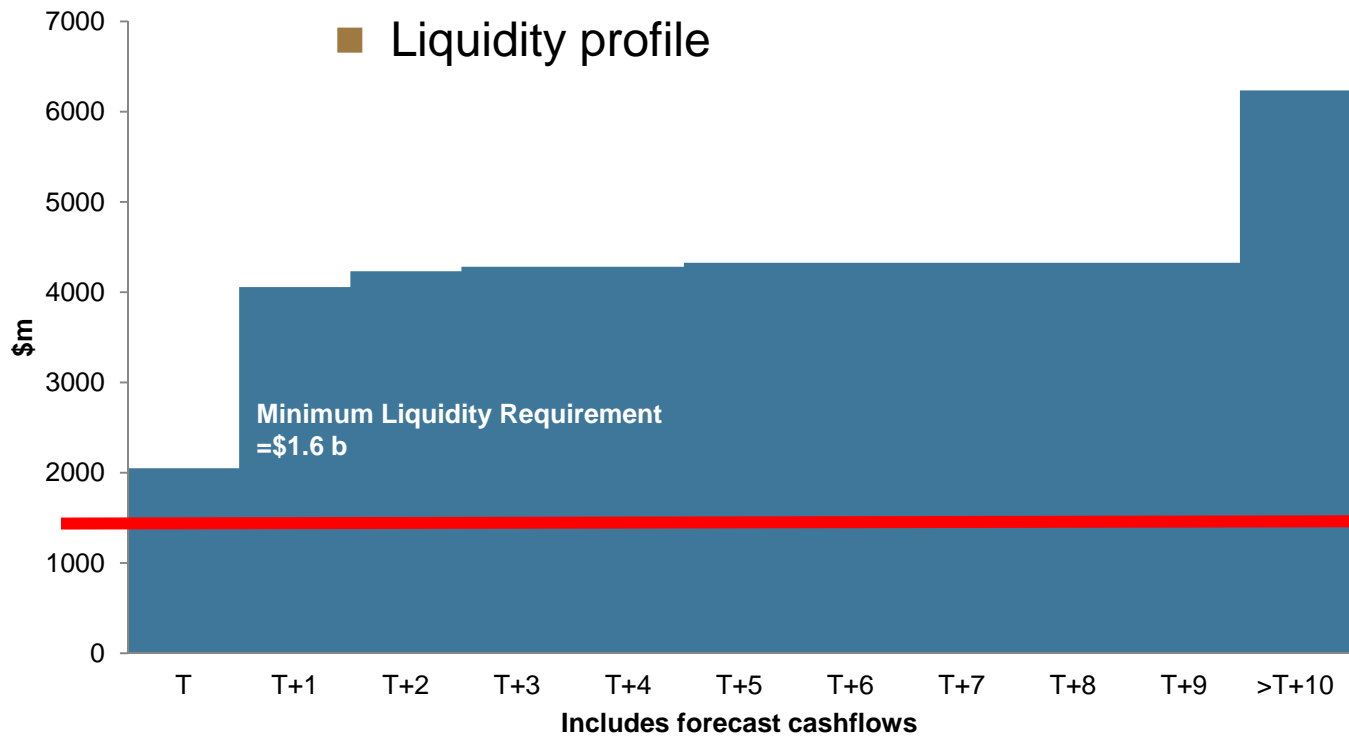


By Credit Rating



Liquidity Management

Illustration



Liquidity Management

Stress tests have become an integral tool for our risk management practices

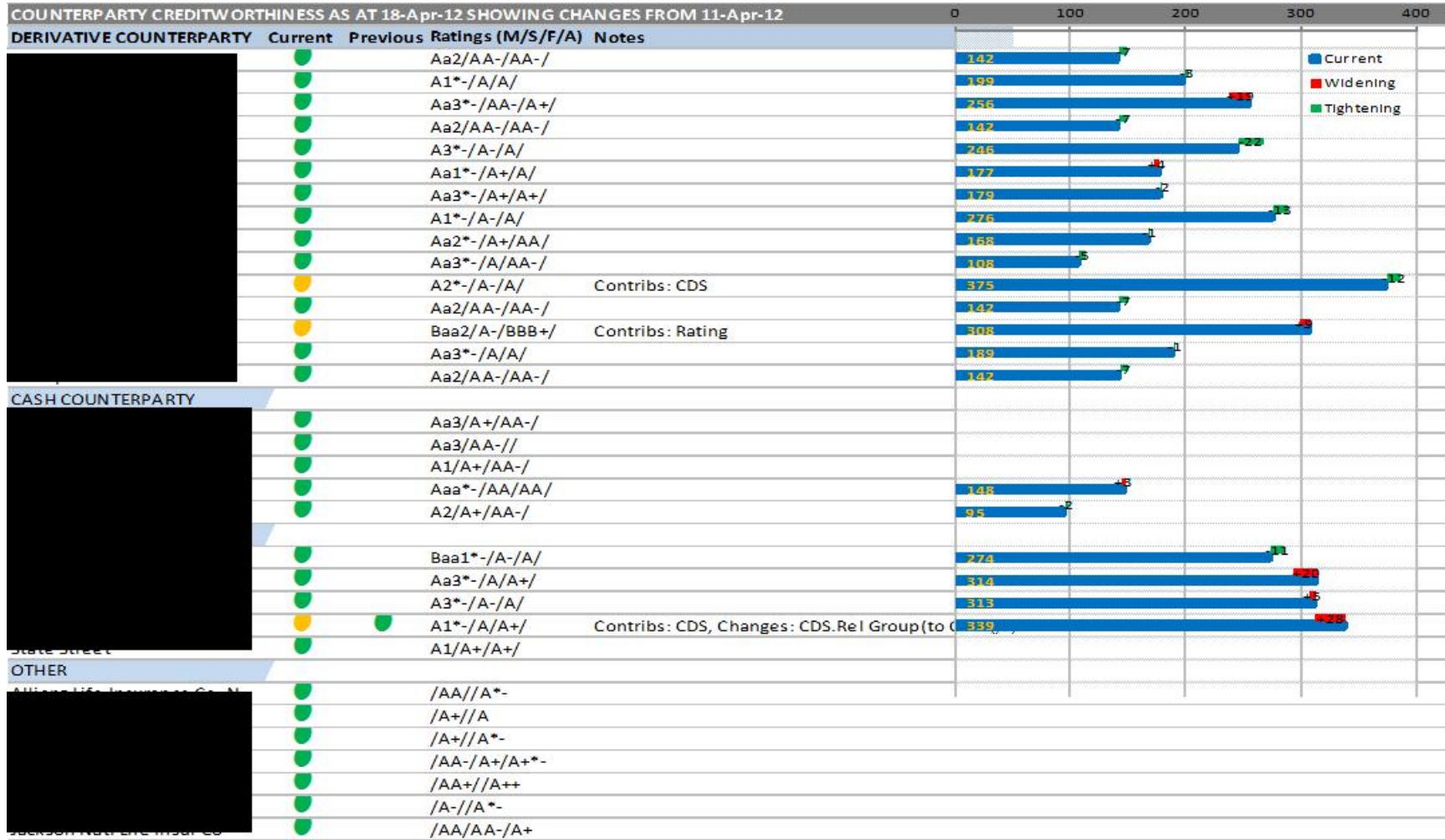
- Systematic framework to shock the liquidity portfolio each quarter
- Our objectives are
 - validation
 - test decision making
 - test infrastructure & network of relationships

Counterparty Risk Management

Counterparty risk is an unrewarded portfolio risk

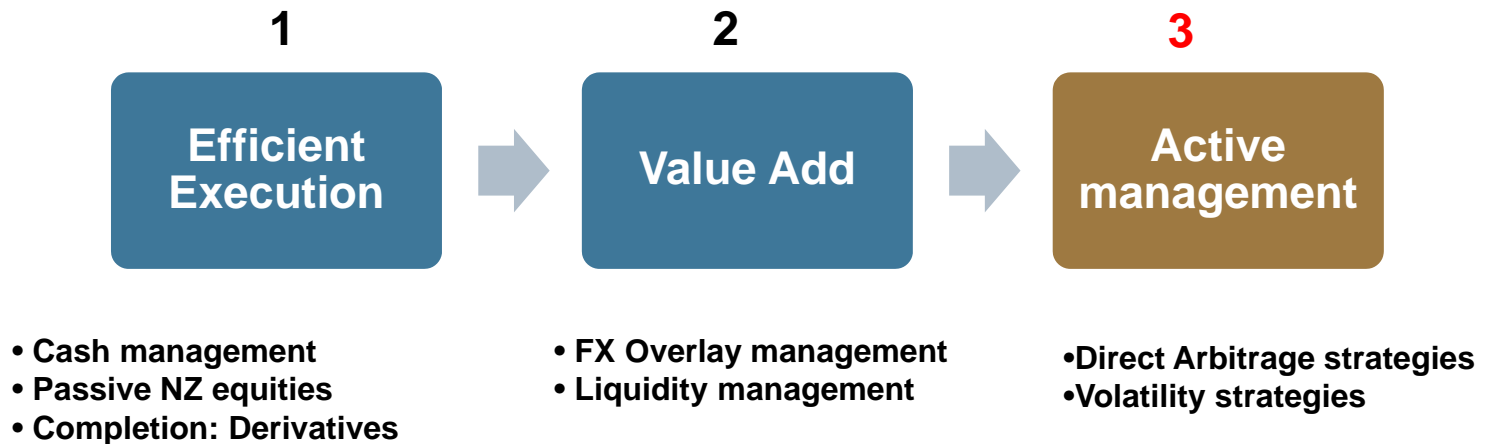
- **Policy objective:** Manage and minimise counterparty risk
- **Exposures:** Exposure to circa 20 counterparties
- **Management :**
 - Developed a Counterparty Creditworthiness Monitor Framework
 - All ISDA's have credit support annexures
 - Collateral management
- **Enablers:**
 - Policy rules classify counterparties as either green, amber or red.
 - Daily collateral management
- **Reporting and risk management:**
 - Daily reporting of exposure, monitoring counterparty creditworthiness

Counterparty Risk Management



Evolution of Portfolio Completion

Portfolio Completion has evolved over the past 3 ½ years



What do we do today?

Wide range of activities and exposure managed in-house

- Cash and liquidity management
- Passive NZ equities
- Portfolio Completion via derivatives
- FX Overlay management
- Direct Arbitrage Strategy
- Volatility Strategy

Lessons

- Staged execution
- Have a clear purpose and roadmap for your treasury
- Take deliberate financial exposures appropriate to that purpose
- Communicate the challenges to the stakeholders who matter to you
- Change management

Looking forward

Best practice portfolio management requires us to keep abreast of changes in our operating environment

- Central clearing of OTC's
- Better performance attribution
- Increasing automation / straight through processing
- Collateral management - outsource

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