Media backgrounder - NZ Super Fund & Energy

About the NZ Super Fund

The NZ$25 billion NZ Super Fund is a long term investment fund designed to help pre-fund the future cost of universal superannuation in New Zealand.

The Fund is managed on a commercial basis by the Guardians of New Zealand Superannuation, a Crown entity at double arm's length from the New Zealand Government. The Guardians manage and administer the Fund in a manner consistent with:

(a) Best-practice portfolio management;
(b) Maximising return without undue risk to the Fund as a whole; and
(c) Avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

Since inception in September 2003, the Fund has returned 9.57% p.a. after costs, before NZ tax. It has exceeded its passive Reference Portfolio benchmark by 1.04% p.a. (NZ$2.5 billion) since inception.

Withdrawals from the Fund are not scheduled until 2029/30 and the Fund will not peak in size until the 2080s. This timeframe and cash-flow certainty means that the Fund is a genuine long-term investor with the ability to invest in growth assets, including illiquid private market investments.

The Fund is a founding signatory of the UNPRI and has a strong focus on responsible investment.

Reference Portfolio

The Reference Portfolio, which is capable of meeting the Fund's objectives over time, is a shadow or notional portfolio of passive, low-cost, listed investments suited to the Fund's long-term investment horizon and risk profile. It has an 80:20 split between growth and fixed-income investments and its foreign currency exposures are 100% hedged to the New Zealand dollar.

Most of the Fund (around two-thirds) is invested passively, in line with the Reference Portfolio. The remaining third of the portfolio is under active management, aiming to add more value than can be achieved by passive market returns.

We only make active, value-adding investments outside the Reference Portfolio when we have a high level of confidence that the Fund will receive a better risk-adjusted return than available through passive investment.

Energy sector

As part of its Reference Portfolio exposure, the Fund is highly diversified across asset classes and geographies, with investments across most global business sectors including oil & gas, mining and utilities.

The energy sector has a high weighting in market indices and as a result in the Fund's passive equity exposures. As well as the Fund's existing exposure to the energy sector, the

Guardians' in-house investment team, and some of its external managers, are targeting the sector as a source of active, value-adding investments.

This is because we see strong macro-economic trends and large capital requirements underpinning growth and attractive long-term returns in energy. There is increasing long-term demand for energy globally, and constraints on its supply.

The energy sector is also changing rapidly. For these reasons the Guardians are moving to broaden and diversify the Fund's exposure to energy, including gaining targeted access to investments associated with North American shale gas and oil, and adding to our portfolio of alternative (renewable) energy assets.

Why have you chosen to focus on North American shale opportunities?

We are focusing on North America due to its proven commercial viability and very large and enduring scale. There is also a mismatch between the need for capital to re-configure energy supply chains and actual capital flows.

Potential shale resources in other parts of the world are large, but there is also large exploration risk and considerable uncertainty whether they can be commercially viable. We are not seeking exploration risk in our active energy investments.

What is the focus of the KKR mandate?

The investment will be in a portfolio of North American energy project developments across upstream natural gas and oil production, midstream infrastructure (e.g. pipelines), downstream facilities (such as gas transport infrastructure facilities) as well as services and equipment companies supporting these types of developments. The common themes to these investments are that they will involve the development and usage of North American shale oil and shale gas resources. These resources are produced through horizontal drilling and hydro-fracture or 'fracking'.

These earlier stage development opportunities are difficult to access solely through listed markets. Partnering with KKR will give us the benefit of their expertise and deep relationships in the energy sector.

For more information about the Guardians and Fund see www.nzsuperfund.co.nz.

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