NEW ZEALAND SUPERANNUATION FUND

TITLE:

The New Zealand Superannuation Fund:

Long-horizon investing in practice

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EVENT | PRESENTATION:

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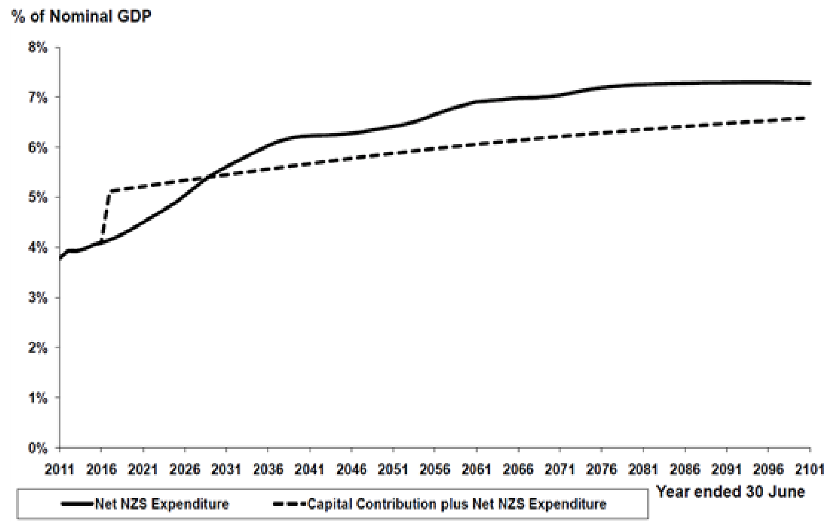
Why we exist – tax smoothing

- New Zealand has a pay-as-you-go pension system
- Smooth New Zealanders’ future tax burden
- Invest **prudently** and **commercially**:
  a) Best-practice portfolio management;
  b) Maximise return without undue risk
  c) Avoid prejudice to New Zealand's reputation as a responsible member of the world community.
- Long-term expected rate of return:
  - New Zealand Treasury bills plus 2.5% p.a. over 20 year rolling periods

Save Now – Support Future



See www.nzsuperfund.co.nz for more information.

Quick Facts

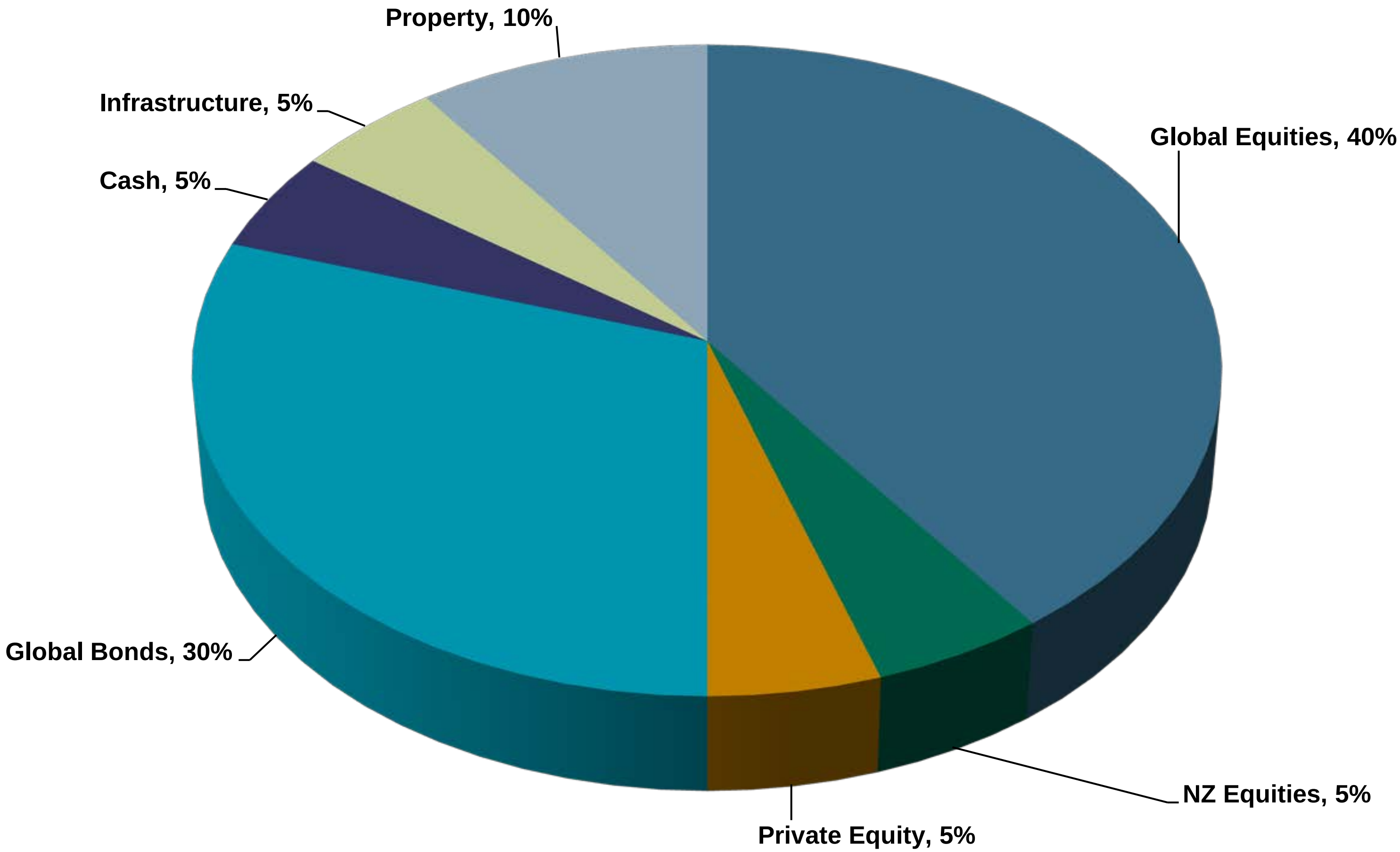
Started investing September 2003
Withdrawals to begin 2029/30

As at 31 March 2014:	
Size of the fund	$25.19 billion
Annualised return since inception:	9.49% p.a.
Excess return (above Treasury bills):	4.73%
Excess return (above Reference Portfolio)	0.98%

What is a Long Horizon Investor?

- “Investing with the expectation of holding an asset for an indefinite period of time by an investor with the capacity to do so” (WEF, 2011)
- “An investor having no specific short-term liabilities or liquidity demands” (Ang and Kjaer, 2012)
- Or “long-run investors are first and foremost short-run investors. They do everything short-run investors do, and they can do more because they have ... a long horizon” (Ang, 2012)

Standard Approach: Strategic Asset Allocation (SAA)



Our Approach: Reference Portfolio

- The Reference Portfolio is our benchmark
  - A low-cost, passive liquid portfolio
  - A level of risk appropriate for a long-term investor
  - Chosen by the Board
- We then undertake a range of strategies to add value over and above the Reference Portfolio.
- Our actual portfolio can be – and usually is – substantially different from the Reference Portfolio.
- We always measure our value-adding activities against this passive, low-cost alternative.

Asset class	Percentage
Growth assets	**80%**
Global equities	*70%*
NZ equities	*5%*
Global listed property	*5%*
Fixed interest	**20%**

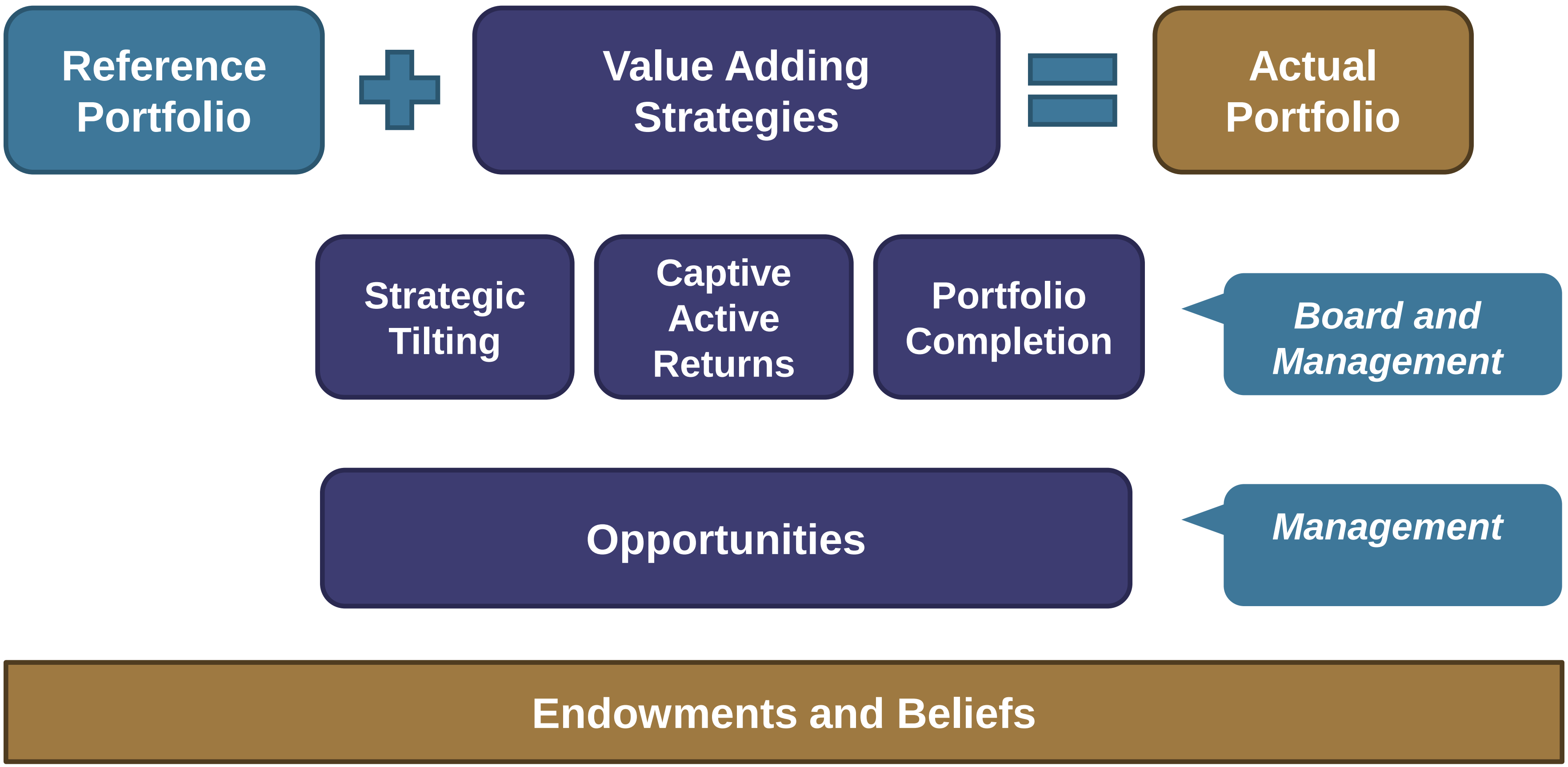
Fully hedged to New Zealand dollars

Our Approach: Opportunities and Access Points

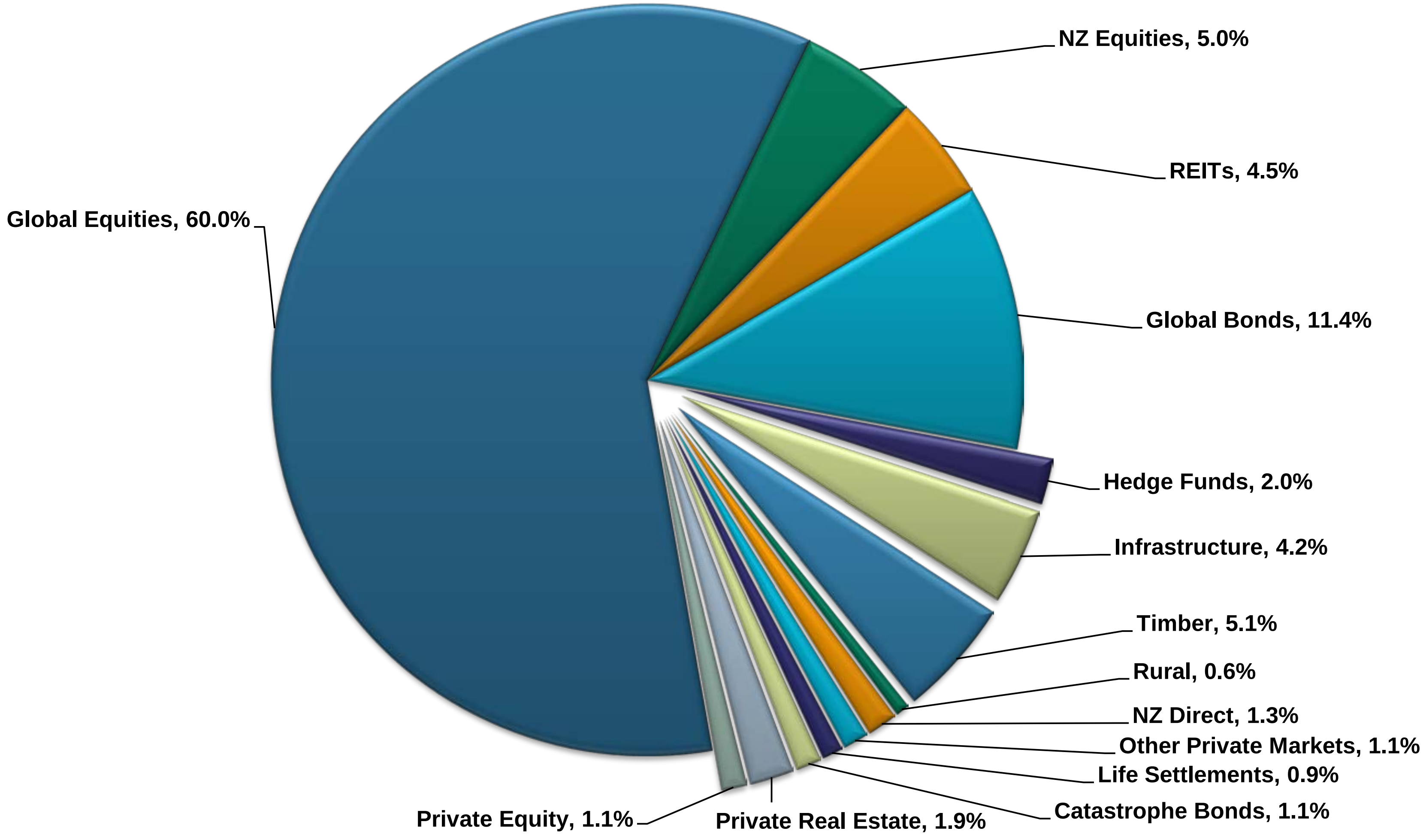
Identify the Opportunities	Accessing the Opportunities
• Transaction efficiency	• Physical Listed - Passive vs. Active - Internal vs. External
• Diversification	• Derivatives - Passive vs. Active
• Mispricing: asset classes, markets & securities	• Physical Unlisted - Internal vs. External

Aim for a single top down view across the widest range of investments & a consistent investment approach

Our Approach: Clarity around Risk, Reward and Governance



Current Portfolio (ex Strategic Tilting)



Strategic Tilting

- Strategic Tilting is a contrarian strategy that relies on our belief in mean reversion
- This belief allows us to have a concept of disequilibrium prices (varying risk adjusted expected returns) that we can tilt into
- This concept allows us to buy markets when prices are low relative to our equilibrium valuations, and sell markets when prices are high
- The nature of the mean reversion process is uncertain
  - Our long time horizon allows us to bear this uncertainty and withstand the inevitable mark-to-market risk of a counter-cyclical strategy
- Tilting is consistent with our endowments
  - long time horizon
  - stable risk aversion

NZ Active Equities Portfolio

- Internal team created in 2013 to actively manage a slice of allocation to NZ listed equities
- Strategy designed to capitalise on our long term nature and to integrate ESG beliefs
- Building relatively concentrated (10-15 stocks) portfolio
- Focus on identifying companies with attractively priced sustainable earnings
- Intention is to create dialogue with portfolio companies focused on medium to long term earnings path and risks around that
- Preparedness to look different than the market, both in composition and short-run returns

Governance matters

- Long horizon investing will struggle in the absence of sound, aligned, governance
- Contrarian strategies inevitably involve periods of discomfort
  - Governance arrangements must be strong enough to avoid prematurely stopping out
- Incentive structures need to be properly aligned
- Ongoing education required
- Transparency and proactive communication support stakeholder alignment

Conclusion

- As a long horizon investor we enjoy all the opportunities a short term investor has, plus a lot more
- A stable risk aversion allows us to exploit short term disequilibrium pricing in markets
- Sound governance arrangements and open and transparent communication ensure we can stay the course