

# ***New Zealand Superannuation Fund: Progress Lap One***

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***Guardians of New Zealand Superannuation***

# The Start 2002

- \$2.5 billion p.a. – paid fortnightly
- Keep it all until 2030
- 7 board members – no staff
- Undeveloped industry in NZ
- Tech bubble
- Lots of free advice

# The Brief

- Prudent and Commercial
- Maximise Return
- Without Undue Risk
- Best Practice
- Avoid Prejudice to New Zealand's Reputation
- Arm's Length

# The Plan

- Long Term view of risk
- Portfolio view of risk
- Range of Advice on Portfolio Construction
- Top Class Executive Team
- Outsource Investment Management

# First Lap – 2010

- \$17+ billion
- 68 Staff
- Global and Growth
- Wide Range Asset Classes
- One Bumpy Ride
  - Contributions Suspended
  - Rollercoaster Performance

# Asset Allocation

- Drives 95%+ of performance
- For long horizon funds
- All roads lead to Rome
- High Growth
- Bolster tolerance to volatility
- And career risk

# Hone Ground Advantage



- Building NZ capital markets
- Is not our job
- Too much-affects transaction prices
- And Limits diversification
- 5% in listed equities
- But building illiquids-12% now
- NZ Timber, Chunky Assets
- Building P/E, Expansion Capital, Infrastructure

# Reference Portfolio

- Low-cost, passive portfolio which can achieve Fund objective
- Appropriate degree of risk for long-term investor (80:20)
- Small over-weight allocation to NZ equities and global listed property
- No allocation to commodities or to foreign currency
- Simple benchmark

Asset class	Percentage
Global equities	70%
NZ equities	5%
Global listed property	5%
<b>Total Growth</b>	<b>80%</b>
<b>Total Fixed Interest</b>	<b>20%</b>
<b>TOTAL PORTFOLIO</b>	<b>100%</b>
<b>Net unhedged foreign currency exposure</b>	<b>0%</b>

# Adding Value

- By investing in illiquid assets (e.g. infrastructure, private equity, timber) that command an investment premium
- By selecting attractive sectors where skilled investment managers can outperform market benchmarks
- By tilting our portfolio exposure toward, or away from, asset classes which we believe are over or undervalued relative to our view of their long-term value
- By executing efficiently (e.g. around cost) –Portfolio Completion

# Strategic Tilting

1. Long-term view – not TAA
2. Lean against the wind
3. Smallish Tilts – bigger to protect downside
4. Currency, Equities, Property, Duration, Credit
5. Driven by
  - Valuation
  - Macro Themes
  - Scenario testing/aftershocks

# Active Management

1. Only some markets/strategies conducive-fertile fields
2. Opportunity sets wax and wane
3. Genuine alpha skills hard to identify
4. Intensely competitive
5. Lots of noise in performance
6. Fees are high-in zero sum game

# Active Management

1. Search for uncrowded fertile fields
2. Compare passive, synthetic-set high hurdle
3. Then skilled aligned manager with reasonable fees
4. Monitor fertile fields and managers
5. Both wax and wane-beware of crowds
6. Refinement of initial strategy
7. Significant rationalisation but rebuilding

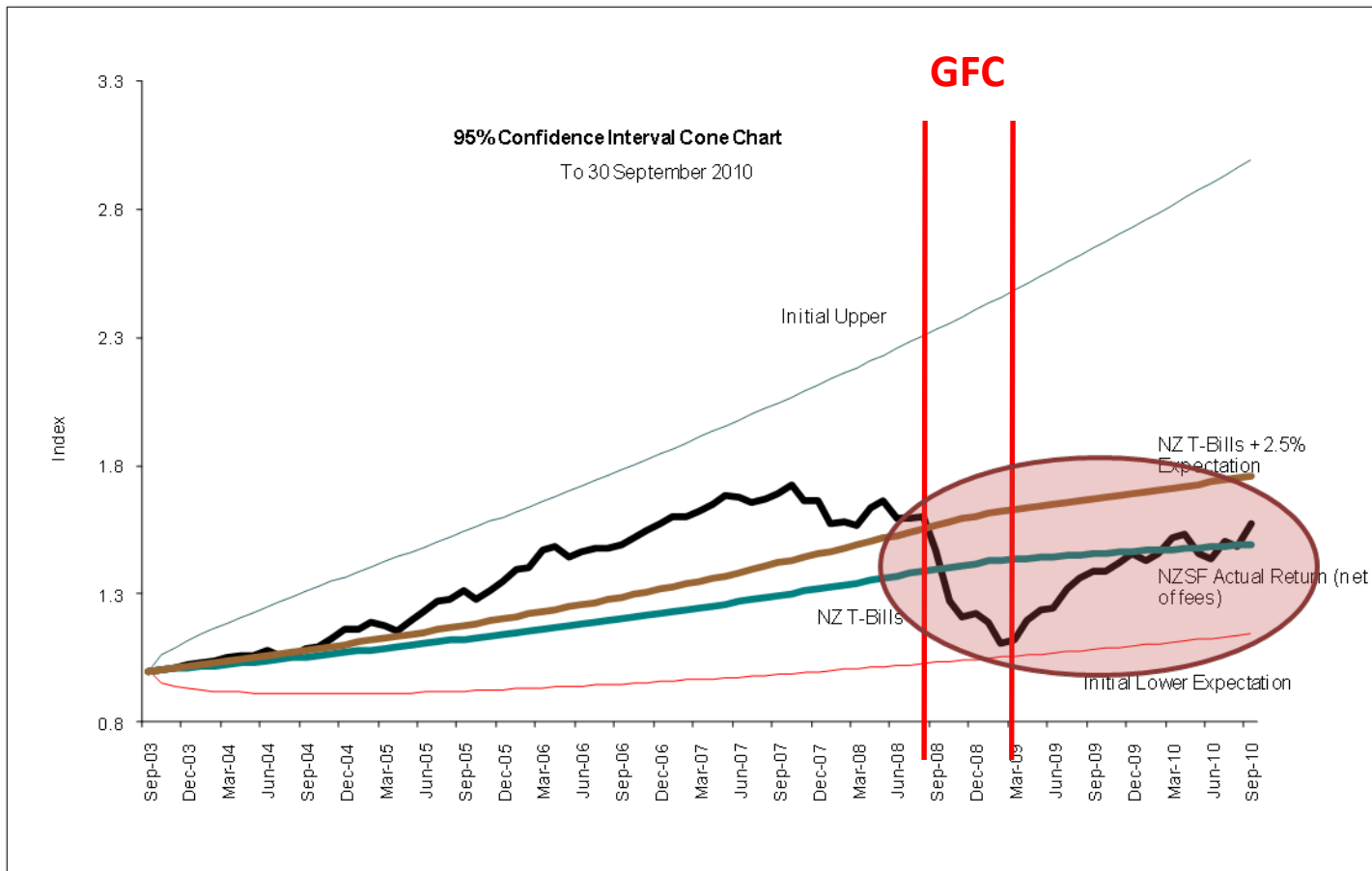
# Illiquid Assets

1. Illiquidity premium is back
2. Major focus but homework needed
3. Manager selection and entry price critical
4. No set allocation to sectors
5. Proxy system to adjust reference portfolio and to measure value-add
6. Forestry 7%, Infrastructure 6%, property 2%, private equity 1%, insurance 2%, NZ direct 2% and rural land next

# GFC

## High growth strategy meant hit hard Captured rebound 2009/10

- FYTD (to 30 June 2010) 15.45%, since inception 5.5%
- FYTD (to 31 October 2010) 12.55%, since inception 7.0%



# GFC and Active Management

- Also hit hard during GFC
- With rebound since

	Fund Return A	Reference Portfolio B	Value Added (A – B)
2004	7.69%	8.07%	-0.38%
2005	14.13%	13.88%	0.25%
2006	19.21%	17.56%	1.65%
2007	14.58%	13.07%	1.51%
2008	-4.92%	-4.73%	-0.18%
2009	-22.14%	-18.25%	-3.89%
2010	15.45%	14.62%	0.83%
2011 FYTD	12.55%	11.09%	1.46%
Since inception	6.99%	7.06%	-0.07%

# After the GFC

## Lessons learned

1. Liquidity management
2. Counterparty exposure
3. Manageable but needed managing
4. Monitor the benign

## Response

- Held our nerve
- Avoided fire sales
- Pursued illiquidity premium
- Fault line/aftershock analyses
- Refined active strategy

# Beliefs and Advantages

1. Developed ,agreed deepened investment beliefs
2. Active, market dynamics ,mean reversion etc.
3. Realistic on comparative advantages
4. We have two.....
  - long horizon
  - New Zealand illiquids
5. ....maybe three
  - attractive coinvestor, partner
6. Anything else must be built or found
7. Pervasive discipline – builds cohesion

# Governance

## *Who makes the calls?*

A: Board

B: Investment committee, consultants

C: Competent executive

1. Board focus is Strategy, Risk tolerance and oversight
2. Clear, real-time, decision-making authority
3. Needs quality staff and leverage and robust internal decision processes

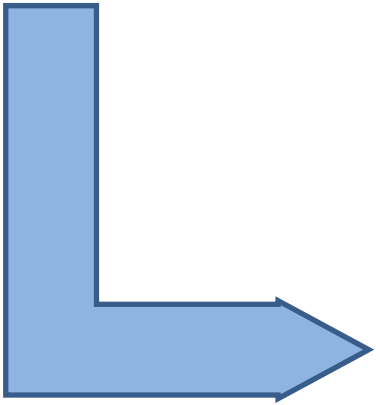
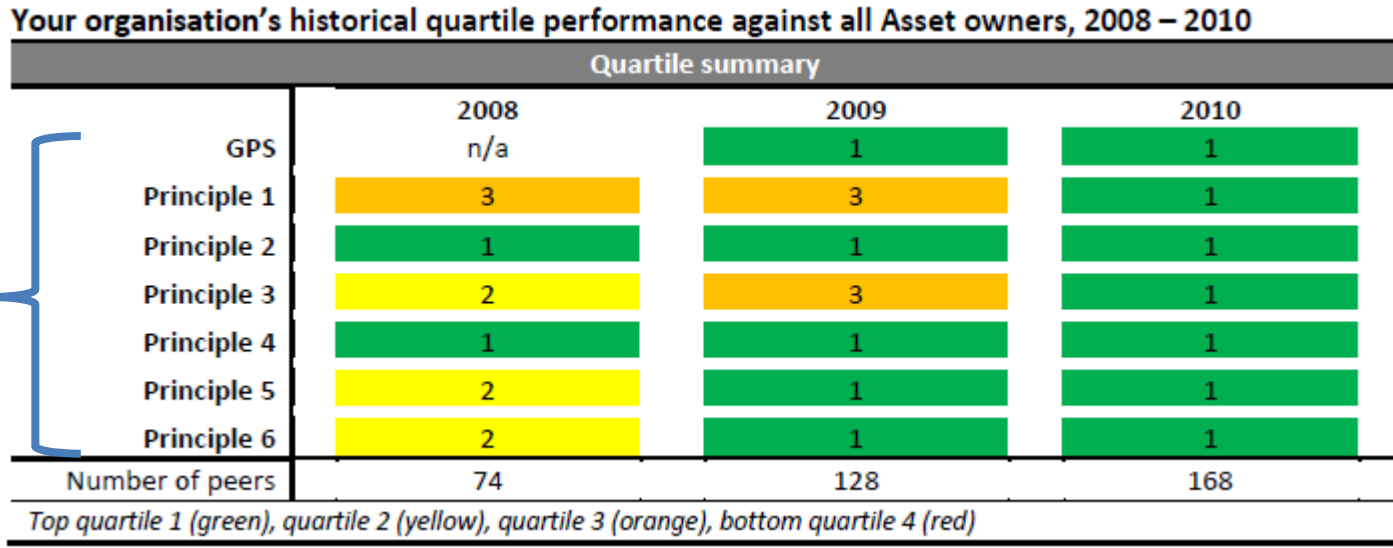
# Responsible Investing

1. Standards: go beyond mandate
2. Objective: UN Global Compact, Crown Actions
3. Implementation: Integration, Engagement, Limited Exclusions
4. Collaboration: UNPRI, Engagement, Principles
5. About: Responsible owner, Influencing behaviour
6. Take seriously and seen to do so

# Responsible Investing

<b>P1</b>	We will incorporate ESG issues into investment analysis and decision-making processes
<b>P2</b>	We will be active owners and incorporate ESG issues into our ownership policies and practices
<b>P3</b>	We will seek appropriate disclosure on ESG issues by the entities in which we invest
<b>P4</b>	We will promote acceptance and implementation of the Principles within the investment industry
<b>P5</b>	We will work together to enhance our effectiveness in implementing the Principles
<b>P6</b>	We will each report on our activities and progress towards implementing the Principles

- UNPRI**
- **Top quartile all categories**
  - Performance relative to all other asset owners continues to improve
  - Demonstrates our integration of ESG



# Peer Funds

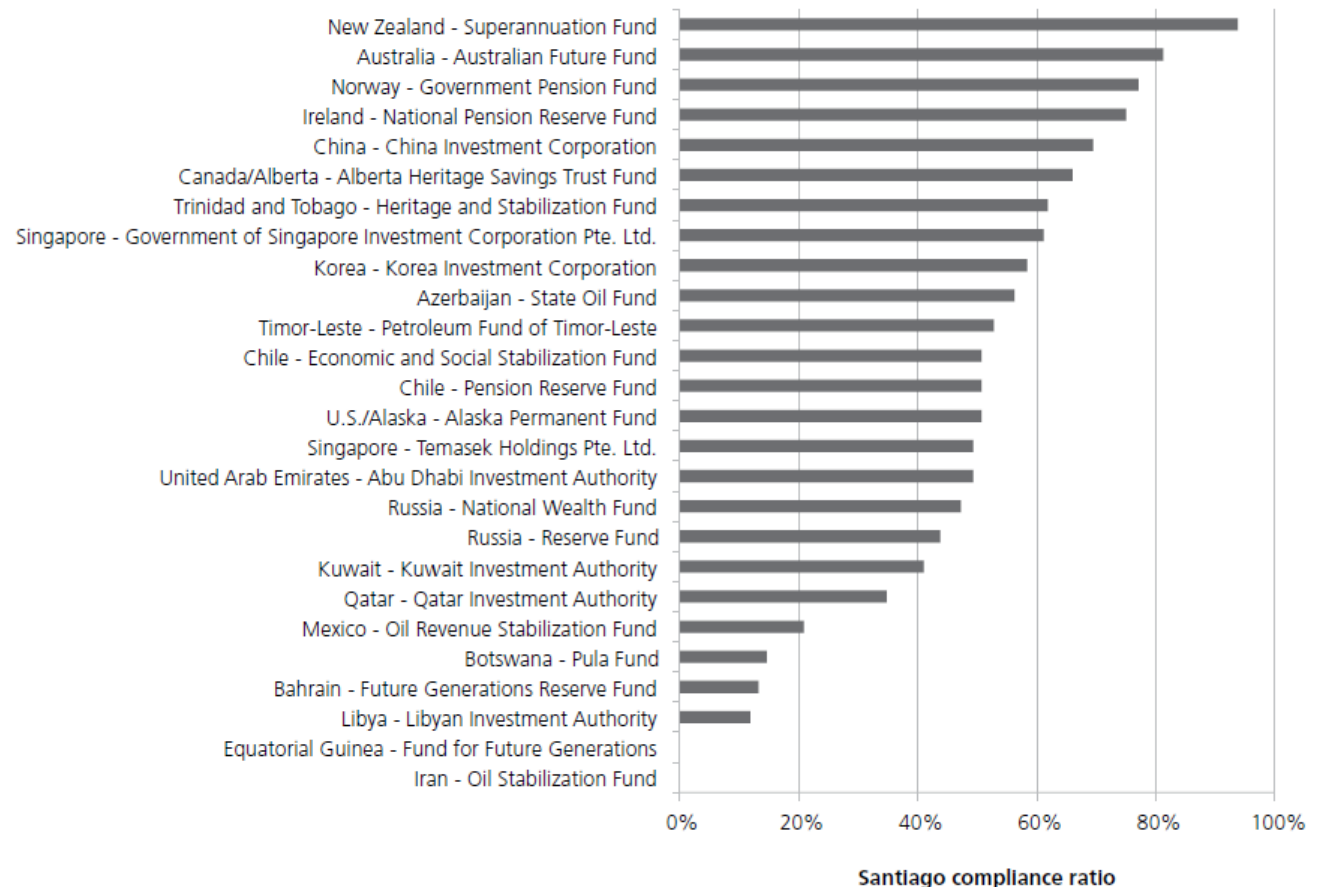
1. Canada, US Endowment, Scandinavia, Ireland, France, Australia, Singapore
1. Best practice-collaboration, coinvestment
2. Heterogeneous group – horses for courses
3. Sovereign Wealth Funds – transparency and governance

# Transparency compared with Peers

Continue to perform in global surveys of Sovereign Wealth Fund transparency

- 10/10 Linaburg Maduell
- Top 3 Petersen Scorecard
- Top in **Carnegie Endowment for World Peace** survey

Figure 1. Santiago Compliance Index as of March 2010



# Politics and Public Scrutiny

1. One directive “identify and consider” NZ opportunities
  - But don’t compromise basic mandate
2. Arms-length in theory
3. And in practice – so far
4. Annual Report and SOI to Parliament
5. Select Committee Annual reviews
6. Two five-yearly independent reviews
7. Auditor General review

# Summary

1. Growth Strategy – Volatility expected
2. And achieved – but held course
3. Model built on beliefs, comparative advantages and strong internal team
4. Illiquid Assets, Tilting, Fertile fields, Portfolio Efficiency
5. Still outsourced investment management
6. Continuously challenging culture
7. And don't kid ourselves