



**Presentation to: Westpac/KangaNews
Speed-Meeting Summit**

Auckland March 7, 2008

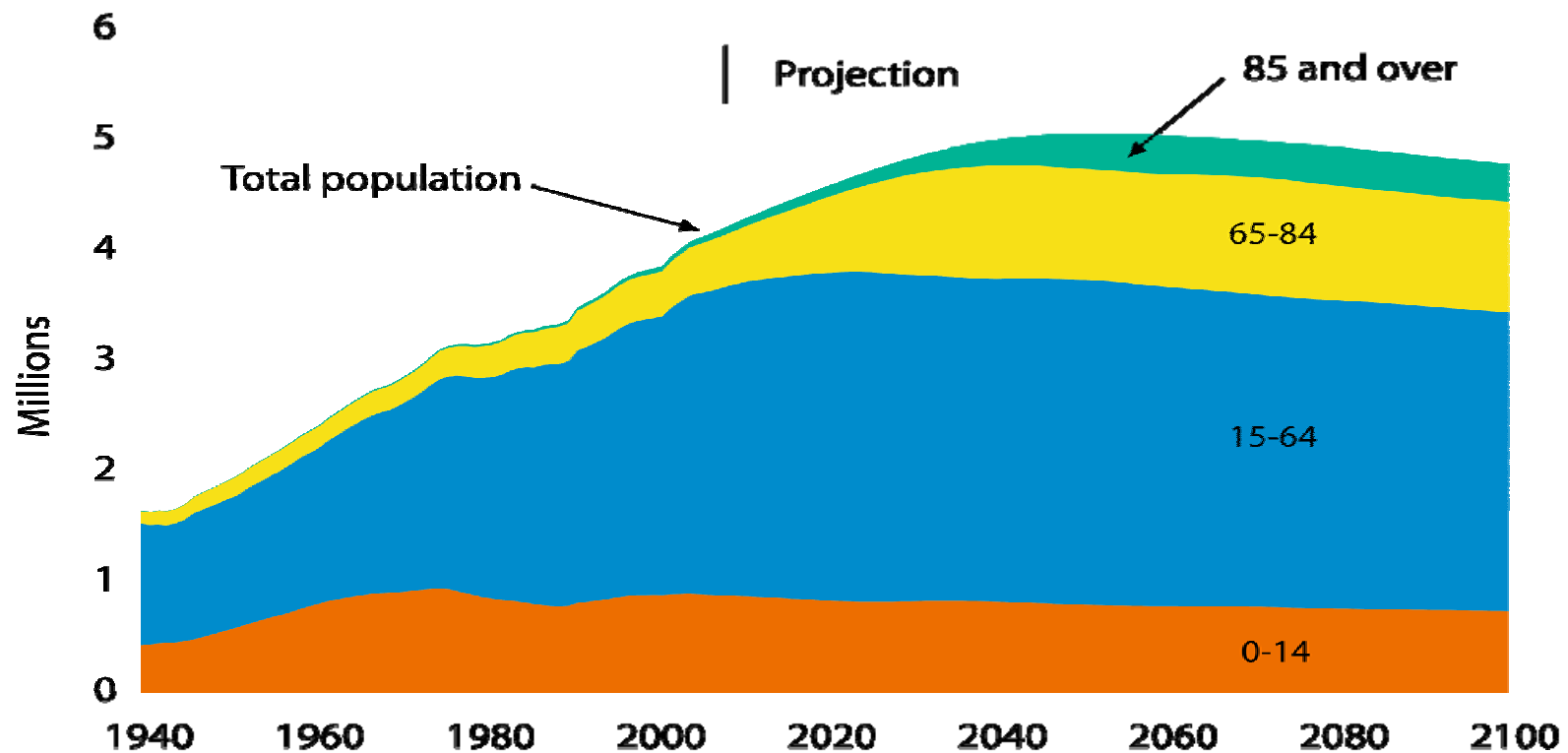
**Adrian Orr
Chief Executive Officer**

Outline for today

- Objectives and structure of the Fund
- Strategic Asset Allocation
- Performance measures
- Challenges Ahead

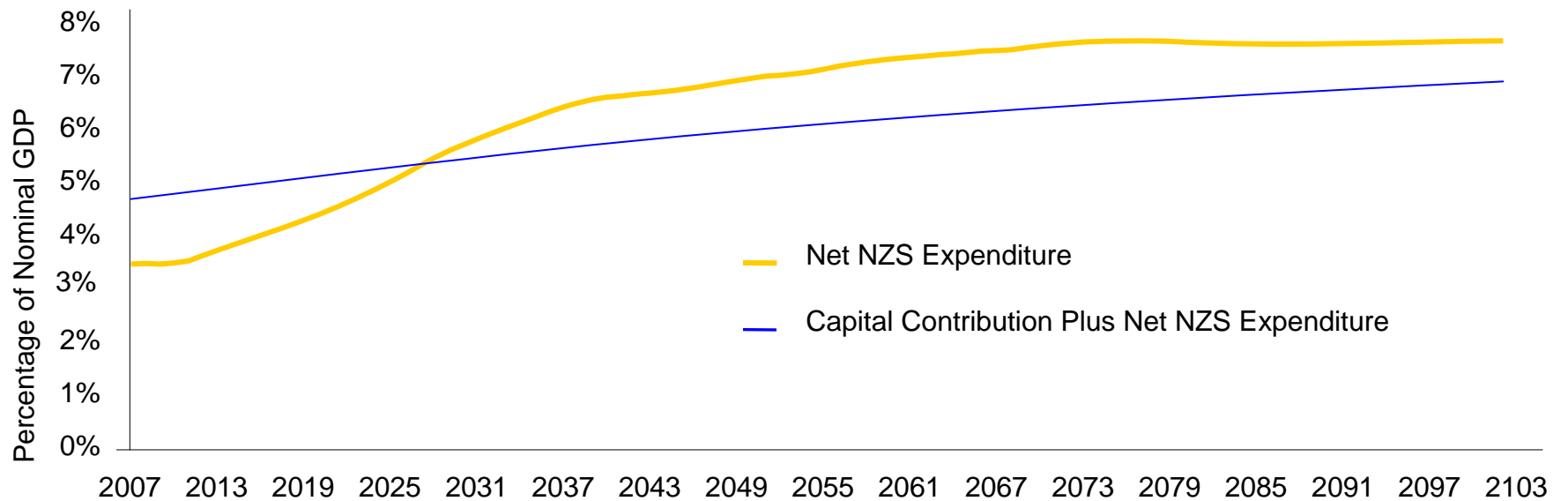
Demographic shift underway

Source: New Zealand Treasury



Smoothing superannuation costs over time

Source: New Zealand Treasury
(Year ended 30 June 2006)



Governance arrangements of the NZSF

- Clearly defined portfolio of Crown financial resources
- Managed by an independent governing body

“The Guardians must invest the NZSF in a prudent, commercial basis, and in doing so, consistent with:

- Best-practice portfolio management; and
- Maximising return without undue risk to the Fund as a whole; and
- Avoid prejudice to New Zealand’s reputation as a responsible member of the world community”

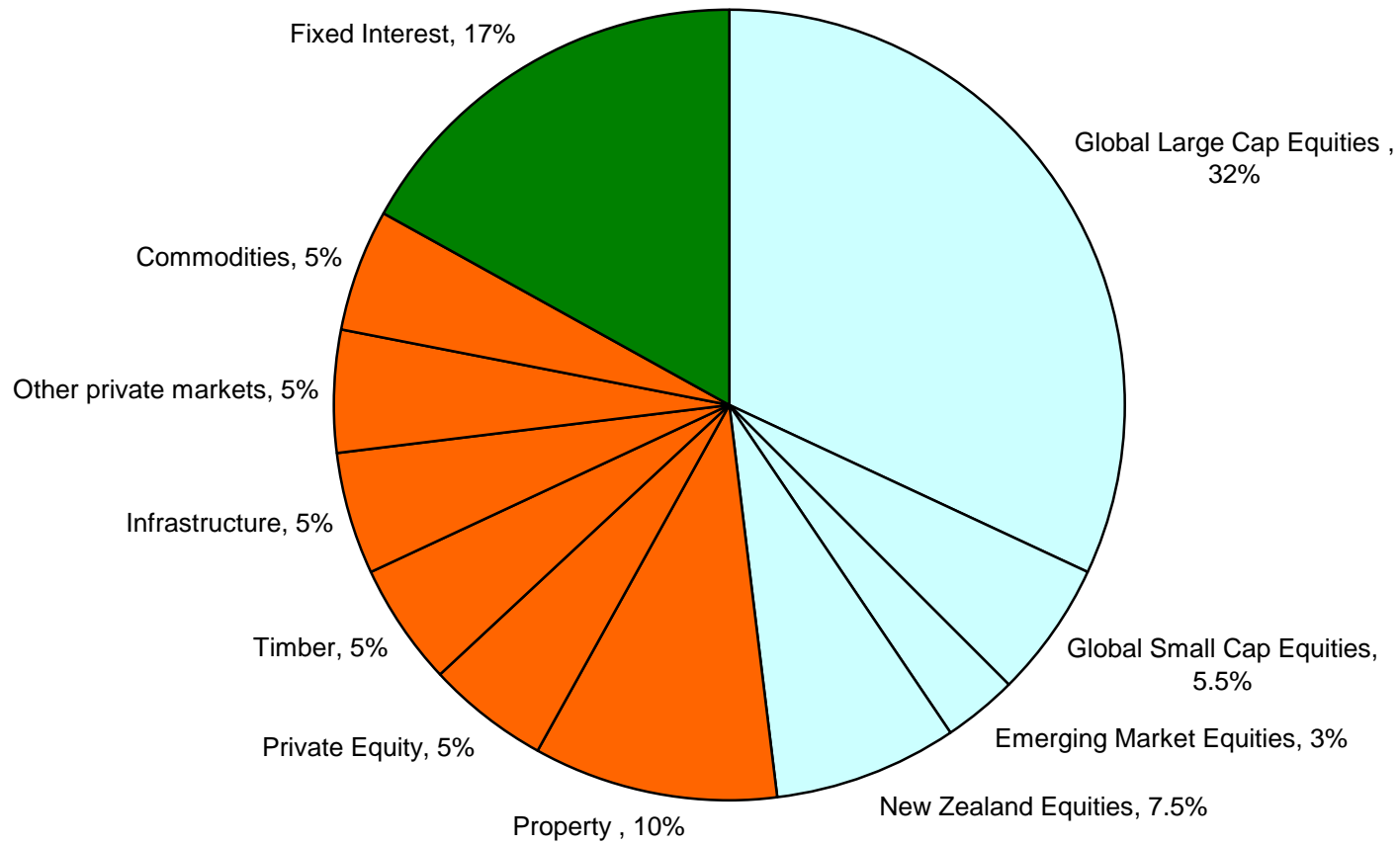
Add-value by returns > risk-free rate

Strategic Asset Allocation

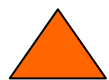
- The Fund's endowments include its:
 - Long-term investment horizon – matching long-term liabilities
 - Ability to invest across the near full range of asset classes globally; and
 - Liquidity risk premium due to no capital withdrawals until at least 2020
- Key decision:
 - Mix of markets and assets that the Fund will on average be exposed to

Strategic Asset Allocation

Fund by Asset Class (%)



Listed Equities



Other Growth Assets

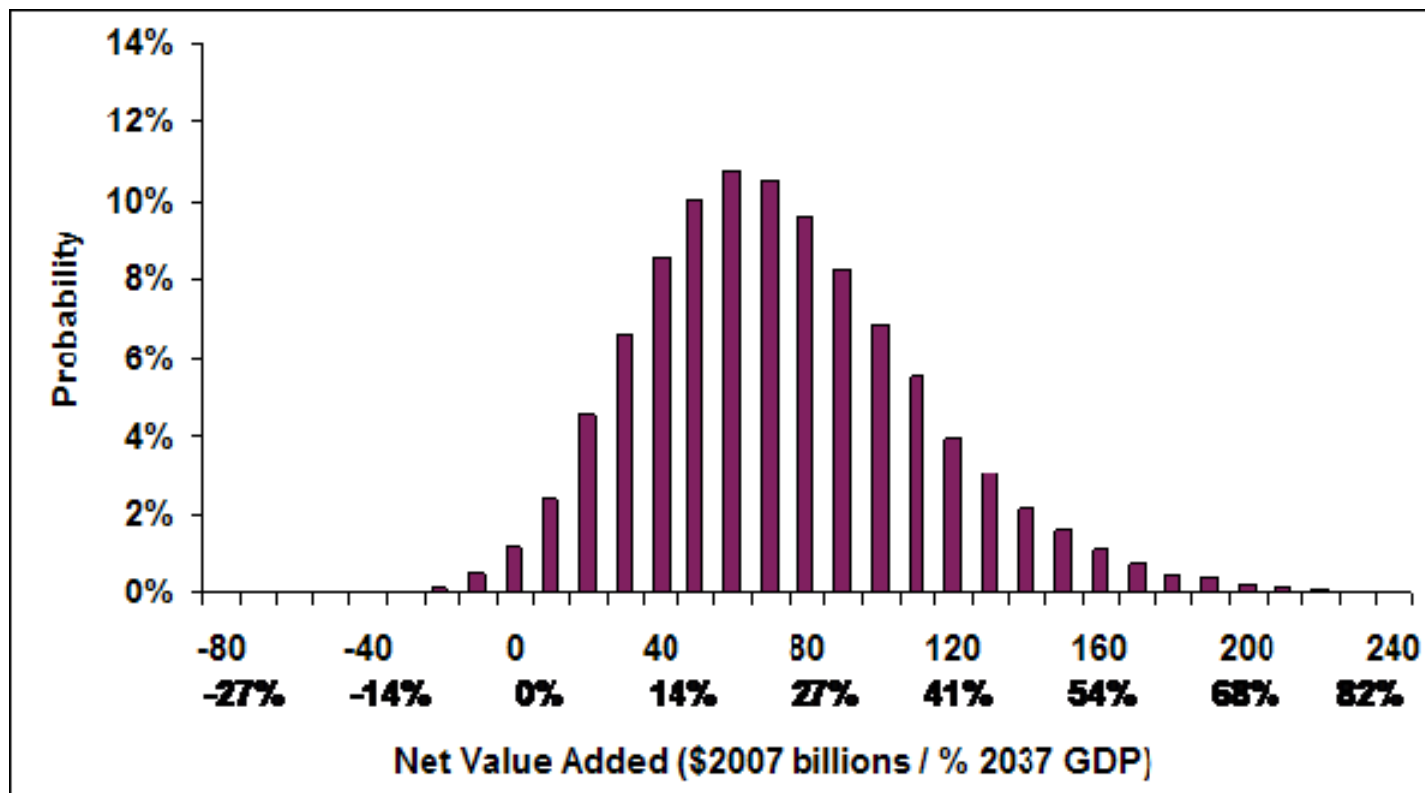


Fixed Interest

Net unhedged currency target is 17.5% of total Fund

Expected return over 30-Year investment horizon

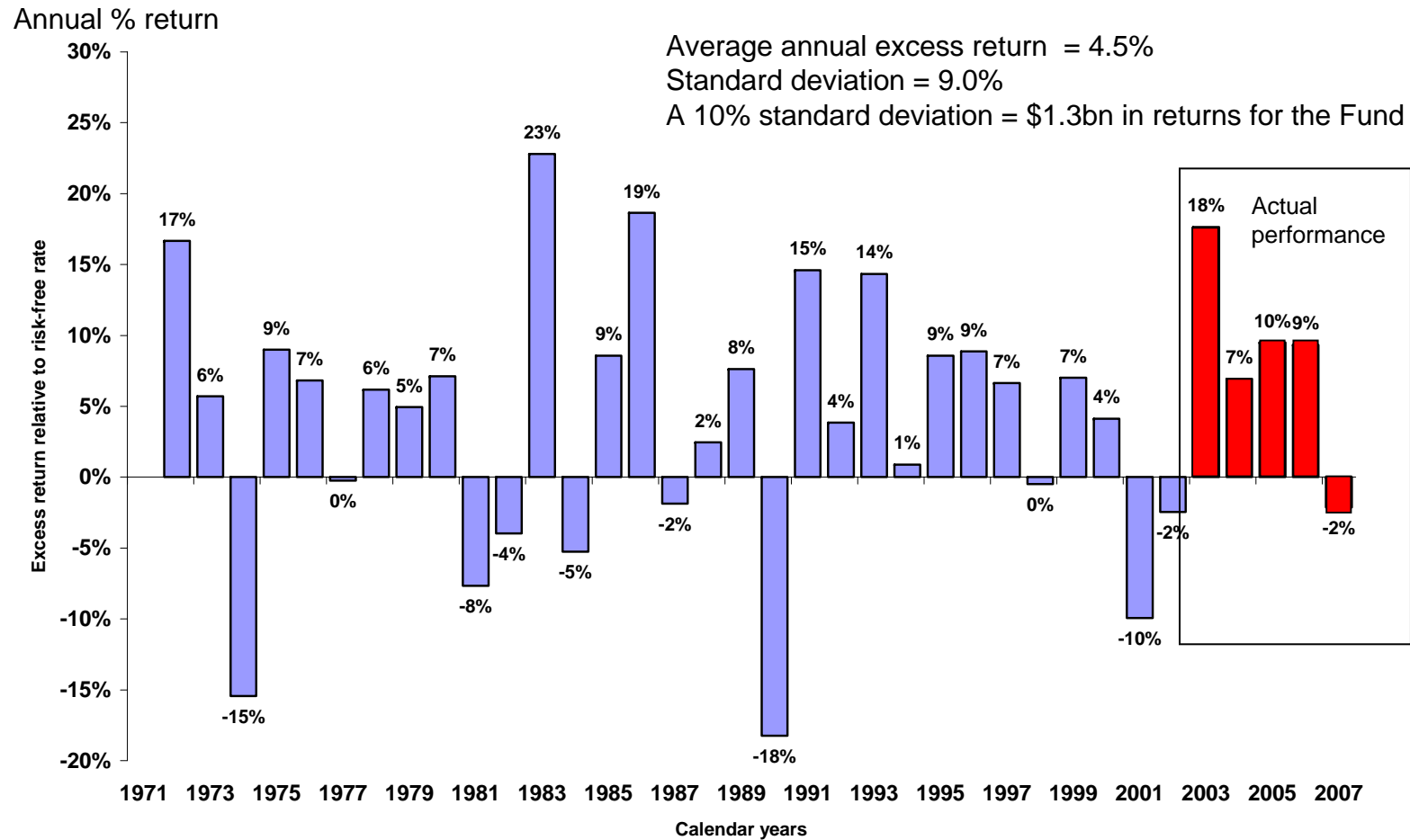
Simulated Value Added relative to Treasury Bills



Probability of negative value added = 1.2%

Excess returns: actual and back-cast

back-cast on historical data pre-2003



Actual investment commenced fourth-quarter 2003

Fund performance

- Risk-taking paid off significantly better than expected in initial investment period (2003-2007)
- Diversification on-track

but, as anticipated a cloud

- Tougher times that would normalise long-term returns

with a silver lining

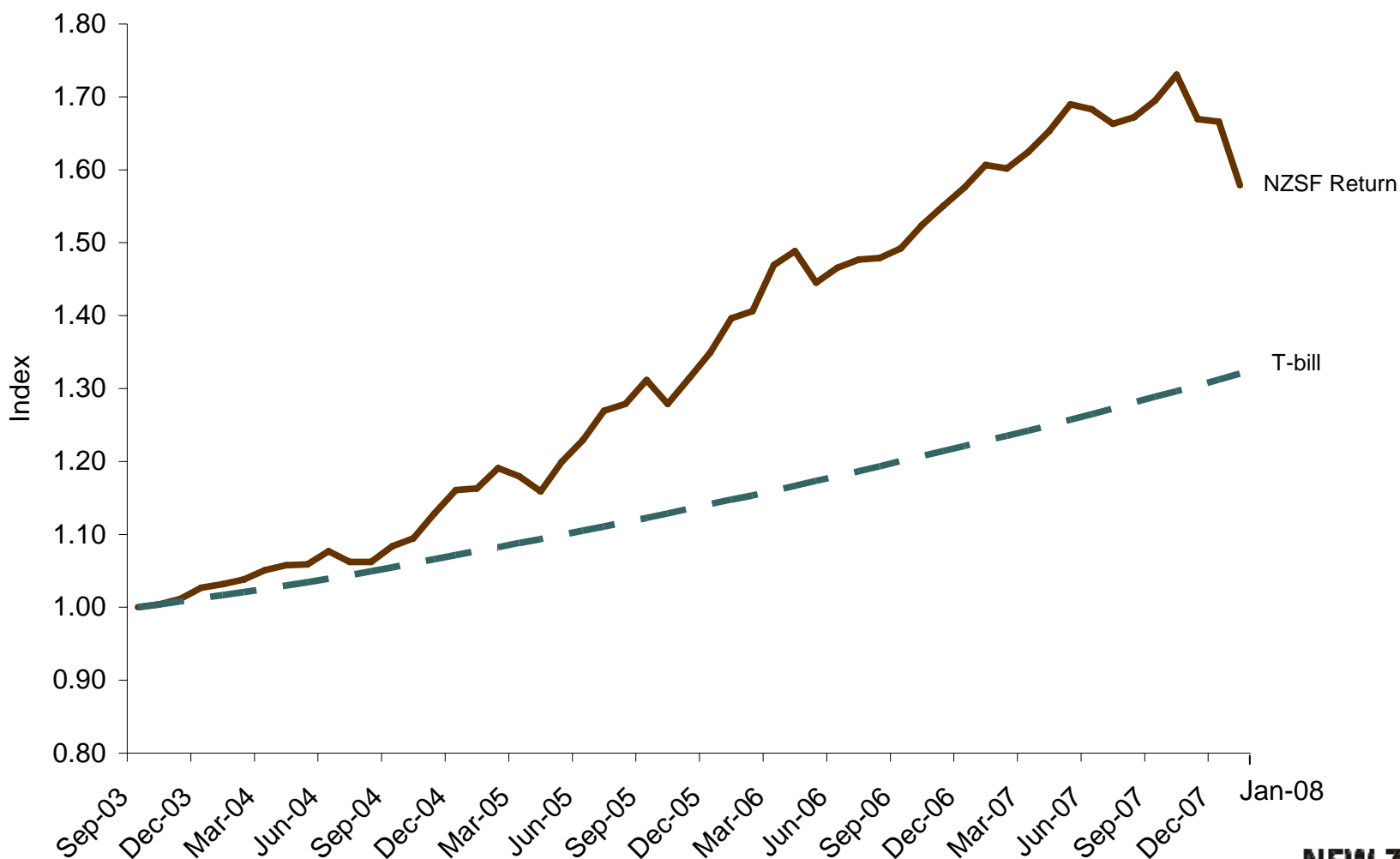
- Asset price corrections mean that equity risk premium has risen - providing better opportunity for long-term investing
- Additional near-term options to exploit volatility being considered
- Communication is major challenge

Fund performance

	Fund FYTD July-Jan 08	Fund Annualised Since Inception- 31 Jan 08
Equities	(12.76)	13.95
Fixed Income	7.23	6.26
Property	(9.25)	12.44
Private Markets	(5.20)	14.36
Commodities	27.98	3.98
Total Fund	(6.18)	11.03

Annualised % return

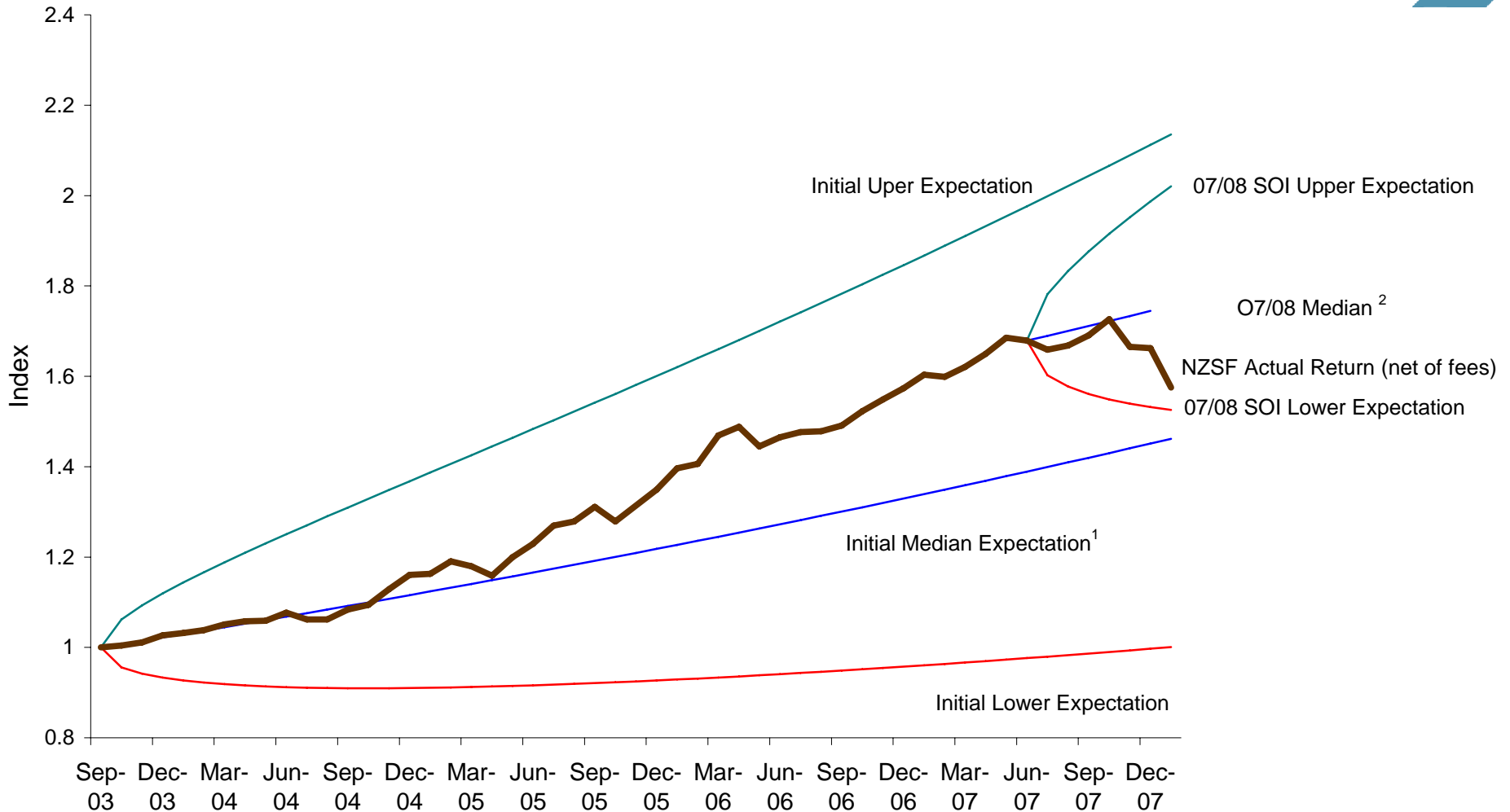
Fund cumulative return compared to risk-free rate*



* Cumulative return net of fees from September 2003 (inception) to January 2008 compared to risk-free (Treasury bill) rate

Actual versus expected cumulative returns and 95% confidence interval

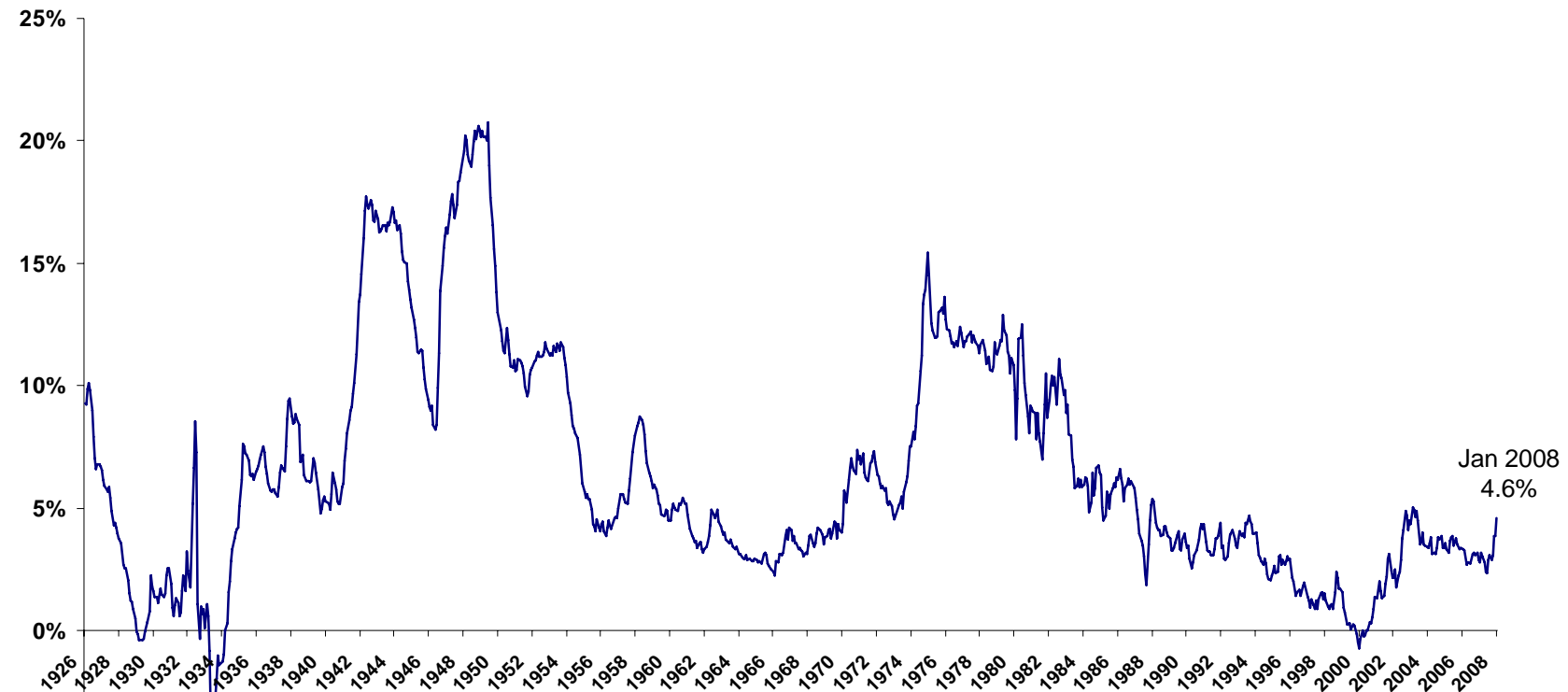
Returns to January 2008



1 Median expectations from SOI 2004 of 9.2% pa
 2 Median expectations from SOI 2008 of 8.1% pa
 Distribution based on volatility of one year return (10%)

Evolving US equity risk premium

prospective premium at level of early-1990s



Equity Risk Premium = expected Nominal Return on Equities – Expected Nominal Treasury Bill Return

Dynamic investment opportunities

Market volatility provides opportunity to consider deviations from “business as usual” Strategic Asset Allocation:

- A) Short-term market timing (i.e., reduce equity weight)
 - Not viable as short-term returns unpredictable
- B) Longer-term strategic tilting (i.e., buy more equities at cheaper entry price and/or higher risk-adjusted returns from foreign credit)
- C) Insurance provider to stressed balance sheets/businesses

Meanwhile continue to invest for long-term = steady hand

Responsible investment

- Continue to focus on best-practice - engagement in concert with other investors
- Guardians' RI decision making framework established
- Reviewing issues with view to setting precedents (e.g., tobacco, cluster munitions, nuclear armaments)
- Working directly with Crown Financial Institutions on investment issues and resource sharing

Managing sustainable growth

- Fund continues to grow in asset type
- Management complexity growing:
 - Investment discovery and assessment (esp. private markets)
 - Deal execution (due diligence, governance)
 - Relationships (number and complexity)
 - Monitoring and compliance (esp. ability to learn from investments)
- Guardians continue to invest in people, systems, and processes and procedures
- Benchmarks include best-practice globally and cost-effectiveness