

TITLE:

Investment Approach and Portfolio Design

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EVENT | PRESENTATION:

Women's Wealth Breakfast, Craig's Investment Partners, 22 August

Overview

- Our purpose
- How we do it
 - Reference Portfolio and Actual Fund
 - Beliefs, Strategies, Capabilities
- Our investment framework

- How does this apply to you ?

Our purpose

- Smooth future New Zealanders' tax burden
- Investing prudently and commercially:
 - Best-practice portfolio management
 - Maximising return without undue risk
 - Avoiding prejudice to New Zealand's reputation as a responsible member of the world community

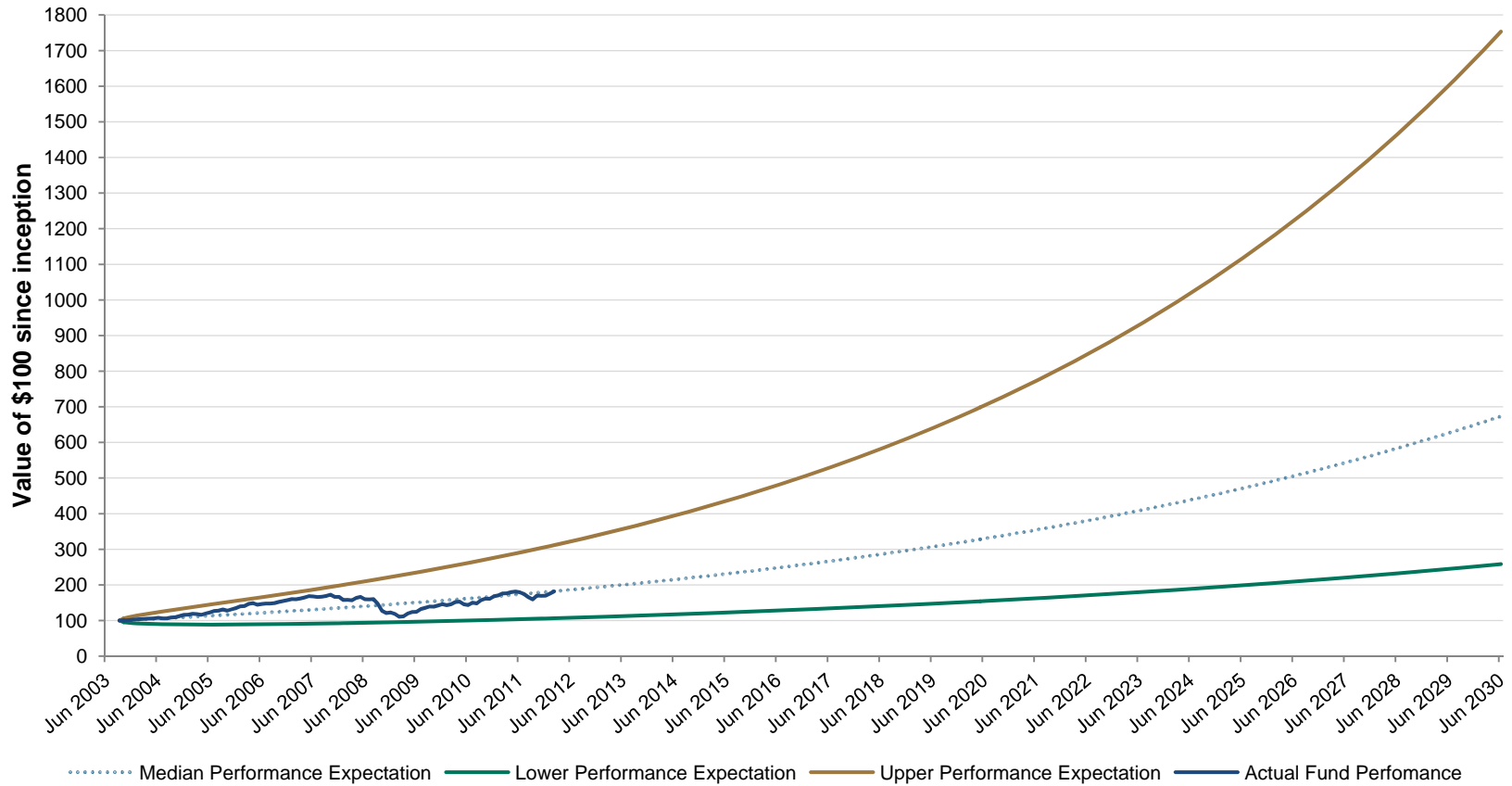
NZSF - Quick Facts

Started investing:	Sept 2003
Funds under management:	\$19b*
Annualised return since inception:	7.37%*
Excess return:	2.02%*
Withdrawals to begin:	2029/30

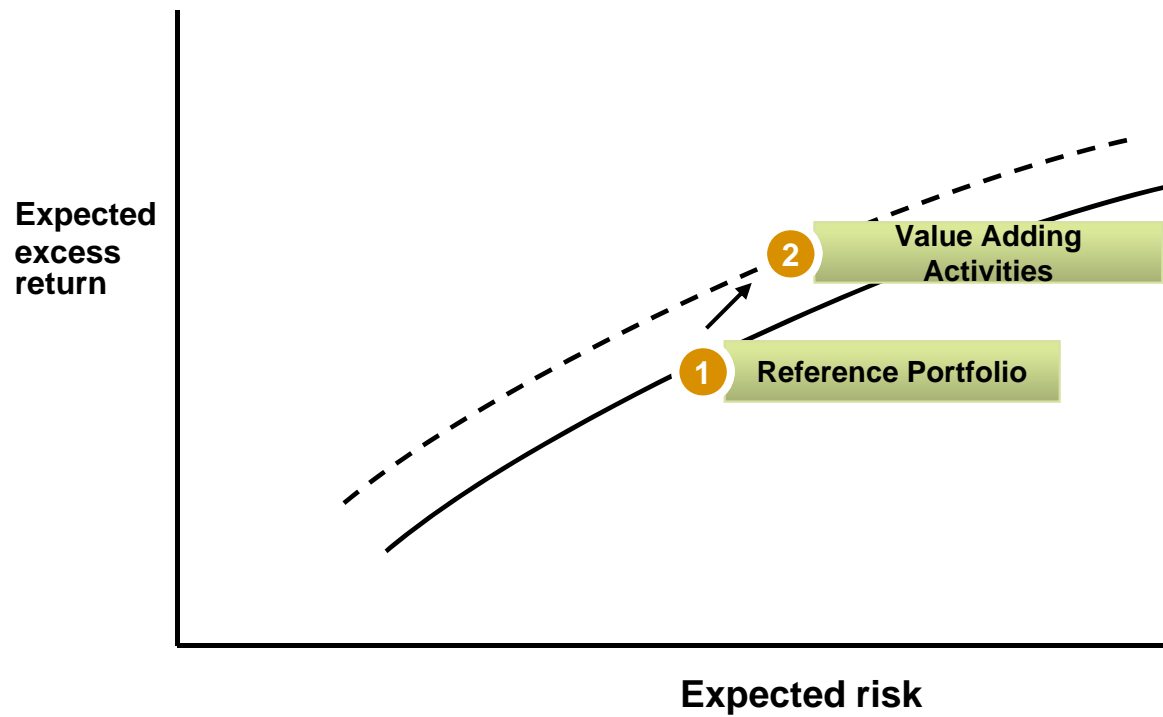
*As at 29 Feb 2012

How are we doing...so far?

Actual & Estimated Fund Returns to 2030



How we do it: Reference portfolio



Note: Based on CPPIB concept

How we do it: Reference portfolio

Seeking returns in excess of the 'risk-free' rate

- Our Reference Portfolio
 - Low-cost, passive portfolio which can achieve Fund objective
 - Appropriate degree of risk for long-term investor
- Both blueprint and benchmark
 - Able to assess whether we are adding value with active investment

Asset class	Percentage
Global equities	70%
NZ equities	5%
Global listed property	5%
Total growth	80%
Total fixed interest	20%
TOTAL PORTFOLIO	100%
Net un-hedged foreign currency exposure	0%

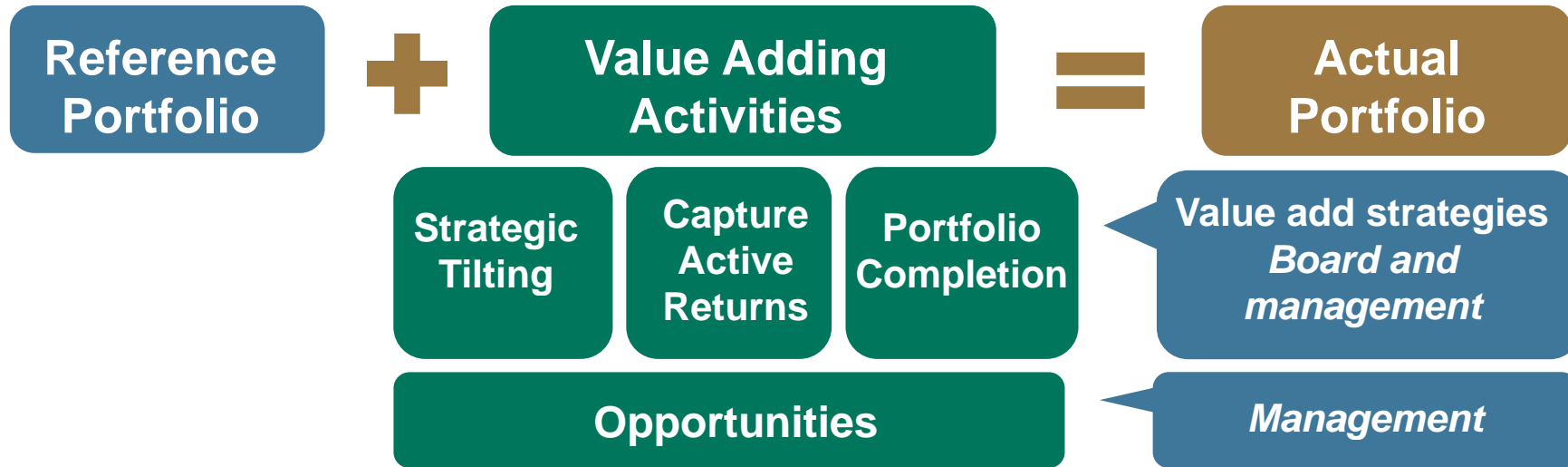
How we do it: Active investment

Aiming to 'add value' to the Reference Portfolio

- We use our endowments (long horizon, liquidity, and governance) and clarity around our beliefs, strategies, and capabilities
- This leads us to invest in
 - Illiquid assets (e.g. infrastructure, private equity, timber)
 - Attractive sectors (giving us diversification or superior risk-adjusted returns)
 - Skilled investment managers
 - Tilting our portfolio exposure
 - Implementing the portfolio efficiently



How we do it: clarity around risk, reward and beliefs



Beliefs

Asset allocation is key.

- A long-term horizon investor can outperform.
- Returns can mean revert.
- Identifying the life-cycle of an investment is important.
- True manager skill is rare

Managing fees and costs can prevent unnecessary cost.

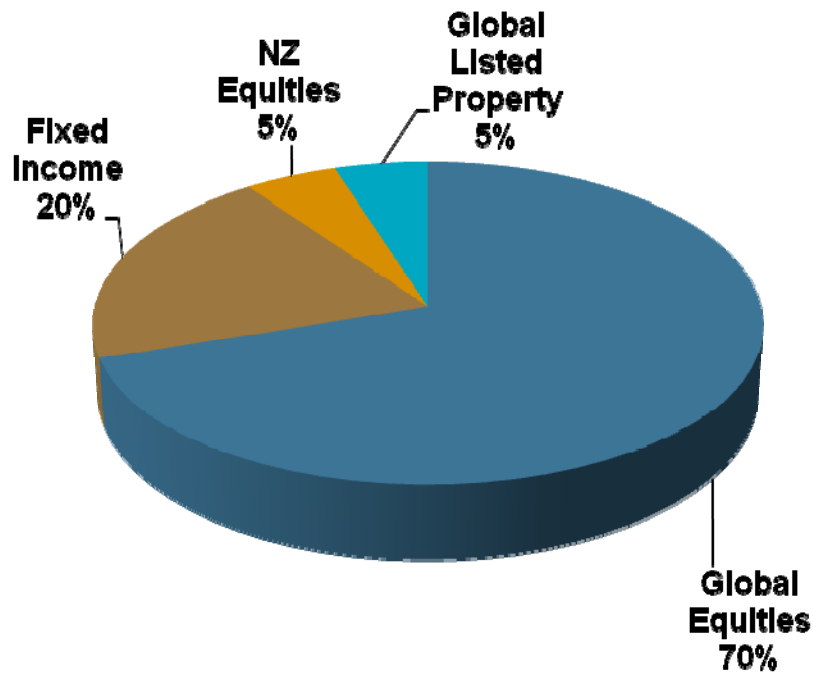
Our investment framework

We add value by:	Identify opportunities:	Consider all potential access points:
Strategic tilting	Inefficiency – both market & security level mispricing	Synthetically
Capturing active returns	Diversification	Passive listed mandates
Portfolio completion		Active mandates
		Direct transactions
		Private market strategies

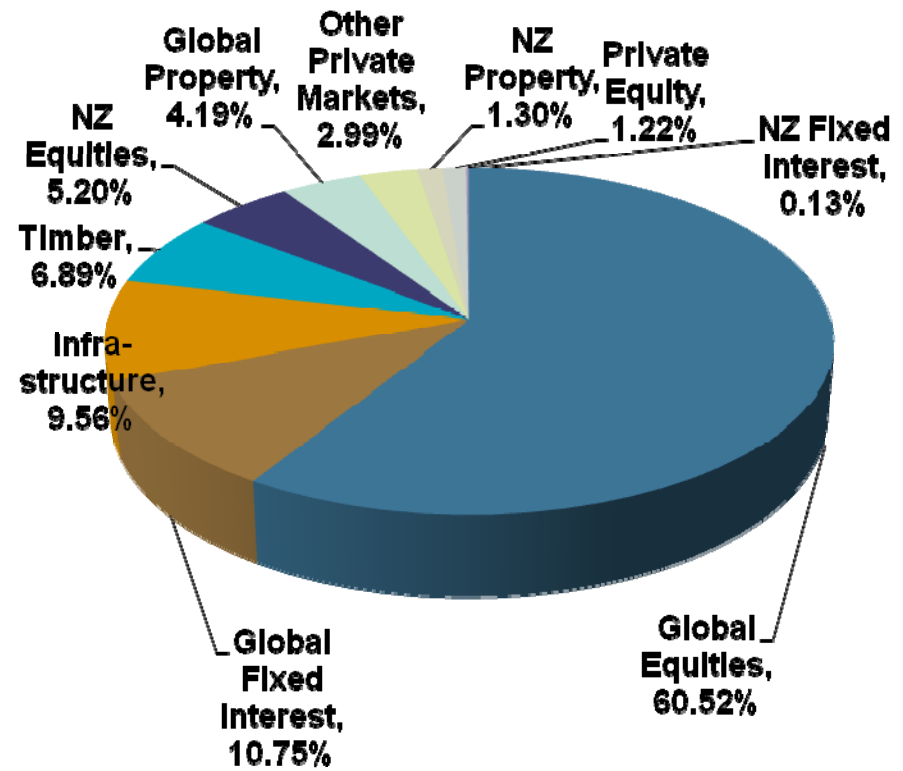
Aim for a single top down view across the widest range of investments & a consistent investment approach

Current allocations

Reference Portfolio



Actual Portfolio



How does this apply to you ?

Issue	NZSF	You
Investment objective	Smooth future New Zealanders' tax burden	What are you trying to achieve? <ul style="list-style-type: none"> •Capital preservation •high income •stable income
Investment beliefs	Clarity of beliefs that support investment strategies	What do you or your adviser believe about capital markets?
Portfolio management approach	<ul style="list-style-type: none"> • Passive portfolio • Active investment strategies 	<ul style="list-style-type: none"> • Asset allocation • Stock selection • Market timing

If you don't know where you are going, you might wind up someplace else (Yogi Berra)

Don Raymond, SVP CPPIB

David Swensen's CIO Yale Endowment