



NZSUPERFUND

*Te Kaitiaki Tāhua Penihana
Kaumatua o Aotearoa*

TITLE:

NZ Superannuation Fund

Investment approach and takeaways

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Head of Asset Allocation

EVENT | PRESENTATION:

February 2015

Overview

- Investment approach

- Takeaways:
 - Decision-making
 - Building a portfolio

Our purpose

- Smooth future New Zealanders' tax burden

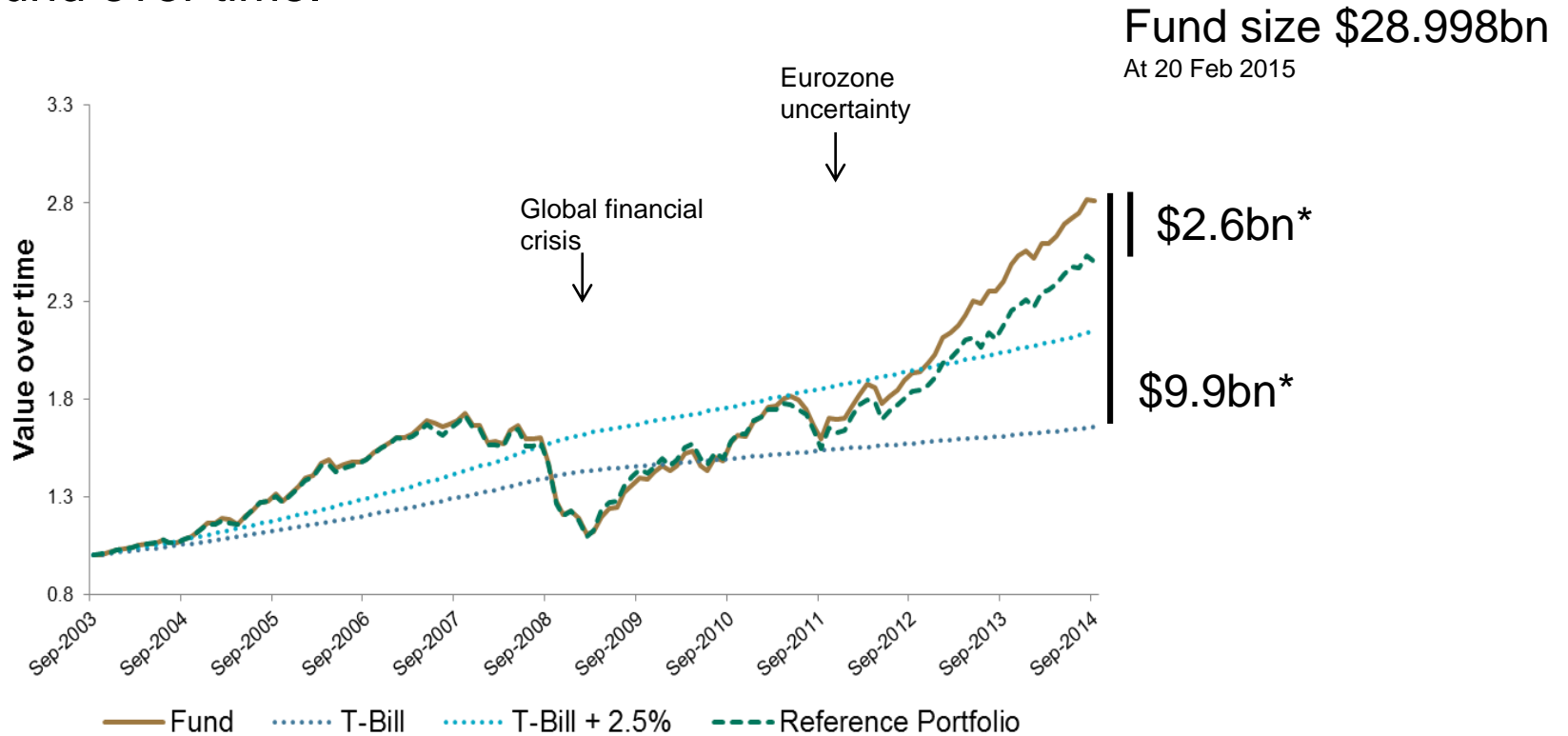
- Investing prudently and commercially:
 - Best-practice portfolio management

 - Maximising return without undue risk

 - Avoiding prejudice to New Zealand's reputation as a responsible member of the world community

Performance since inception

- This graph shows what has happened to the first dollar invested in the Fund over time.

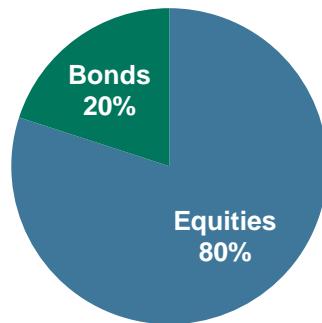


* to 30 June 2014

Reference portfolio approach

Reference portfolio approach (2010)

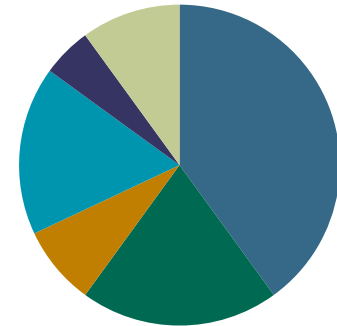
Reference Portfolio



100% currency hedge

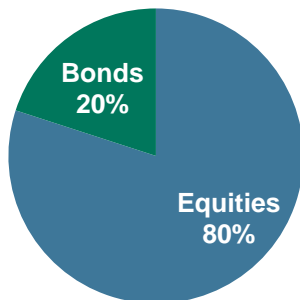


Actual Portfolio



Asset allocation approach (2014)

Reference Portfolio

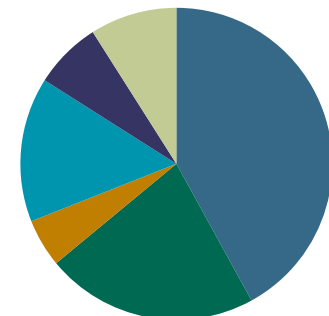


100% currency hedge

Risk Budgets*



Actual Portfolio



Generic investment decisions

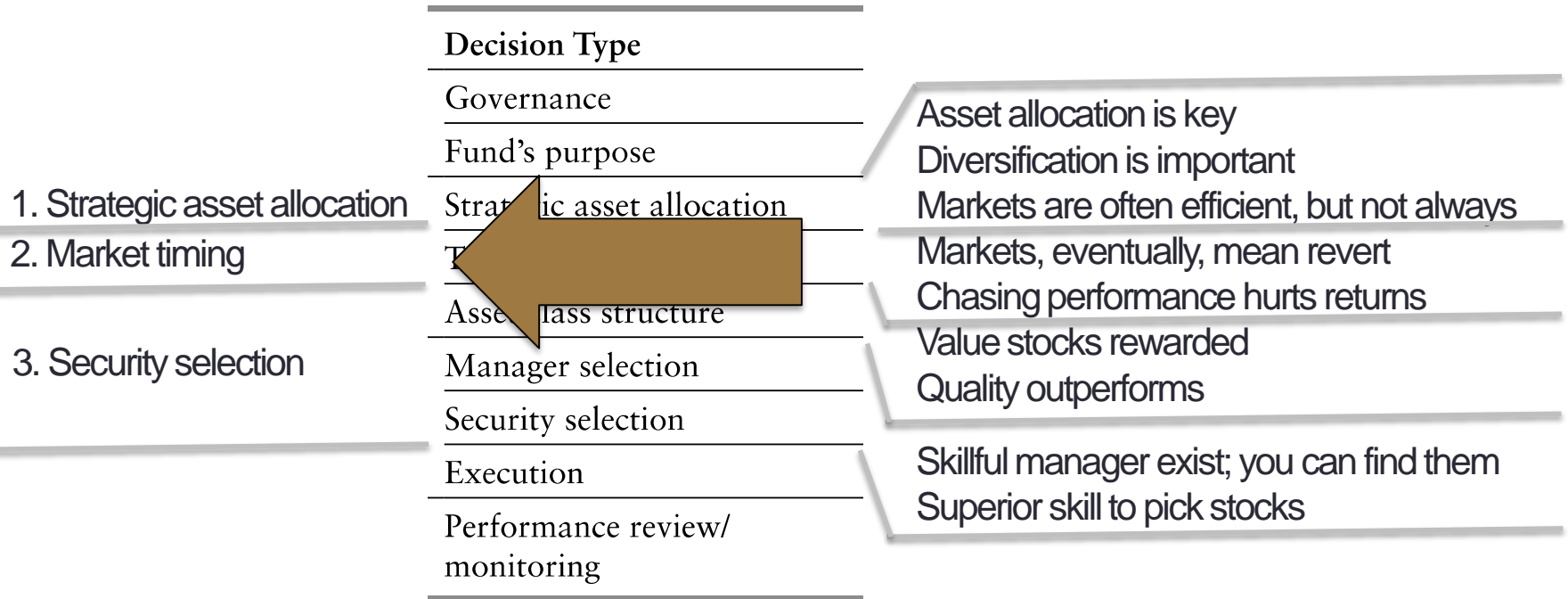
| | Decision Type |
|-------------------------------|-----------------------------------|
| | Governance |
| | Fund's purpose |
| 1. Strategic asset allocation | Strategic asset allocation |
| 2. Market timing | Tactical asset allocation |
| | Asset class structure |
| 3. Security selection | Manager selection |
| | Security selection |
| | Execution |
| | Performance review/ monitoring |

Generic investment decisions

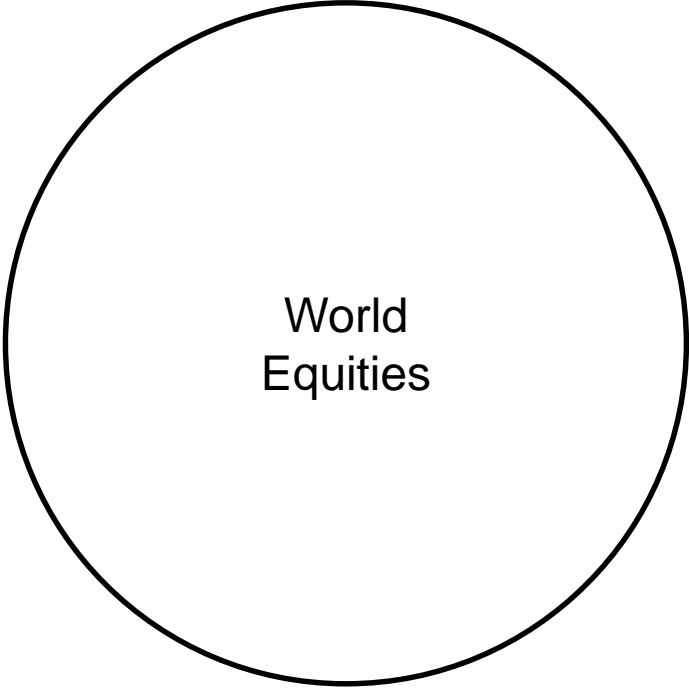
Investment beliefs (generic)

| | Decision Type | |
|-------------------------------|-----------------------------------|--|
| 1. Strategic asset allocation | Governance | Asset allocation is key |
| | Fund's purpose | |
| 2. Market timing | Strategic asset allocation | Markets are often efficient, but not always. |
| | Tactical asset allocation | Markets, eventually, mean revert |
| 3. Security selection | Asset class structure | Chasing performance hurts returns |
| | Manager selection | Value stocks rewarded |
| | Security selection | Quality outperforms |
| | Execution | Skillful manager exist; you can find them |
| | Performance review/ monitoring | Superior skill to pick stocks |

Decisions being made



Building a portfolio

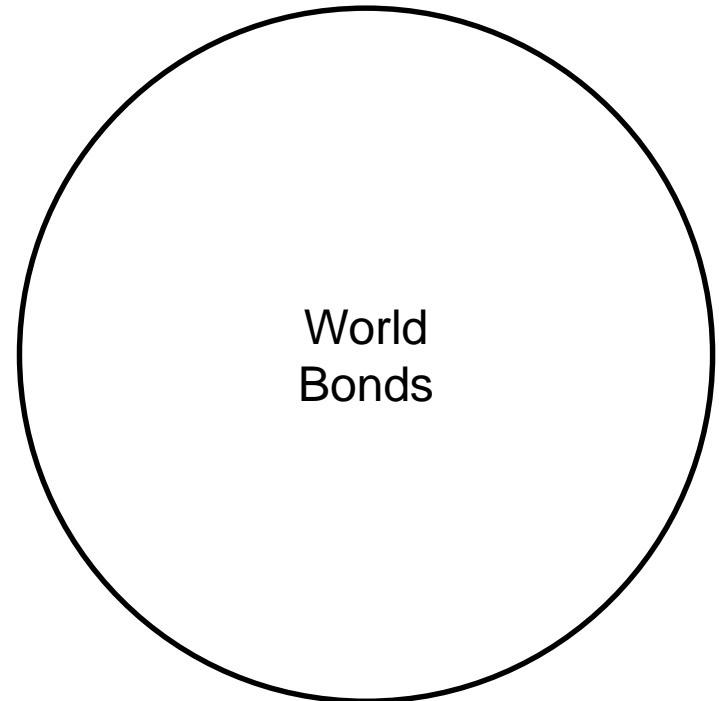
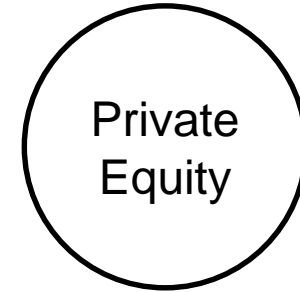
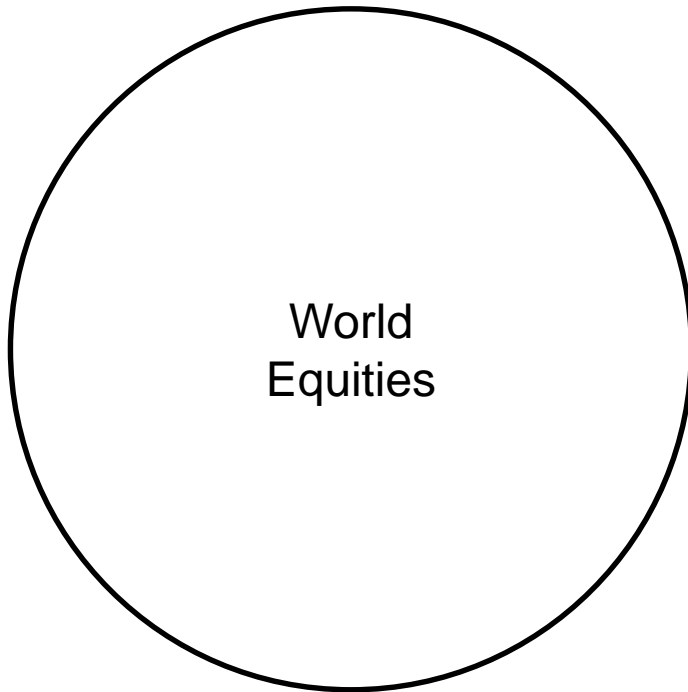


World
Equities

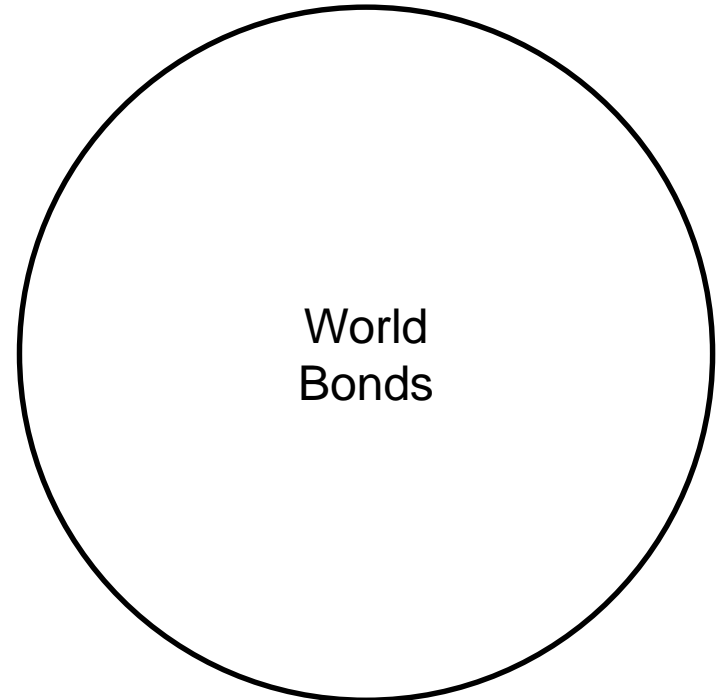
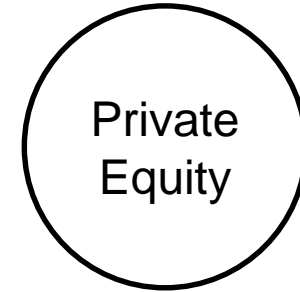
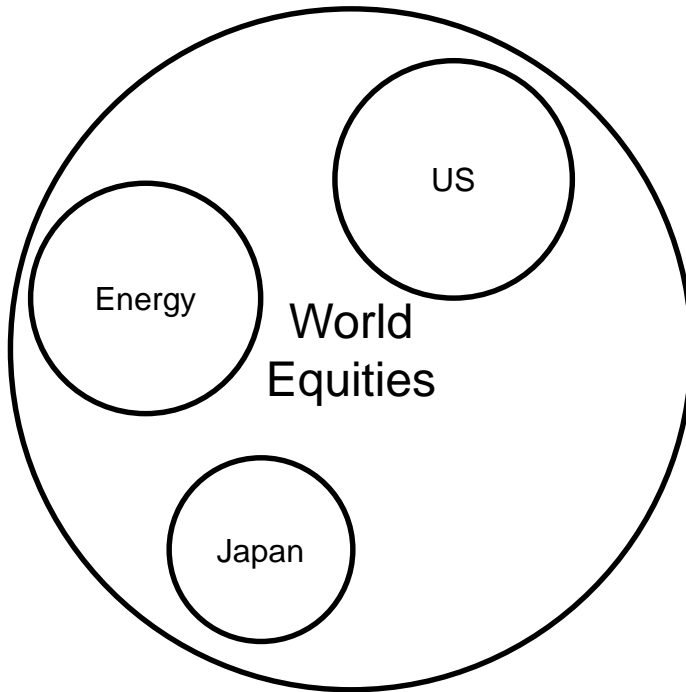


World
Bonds

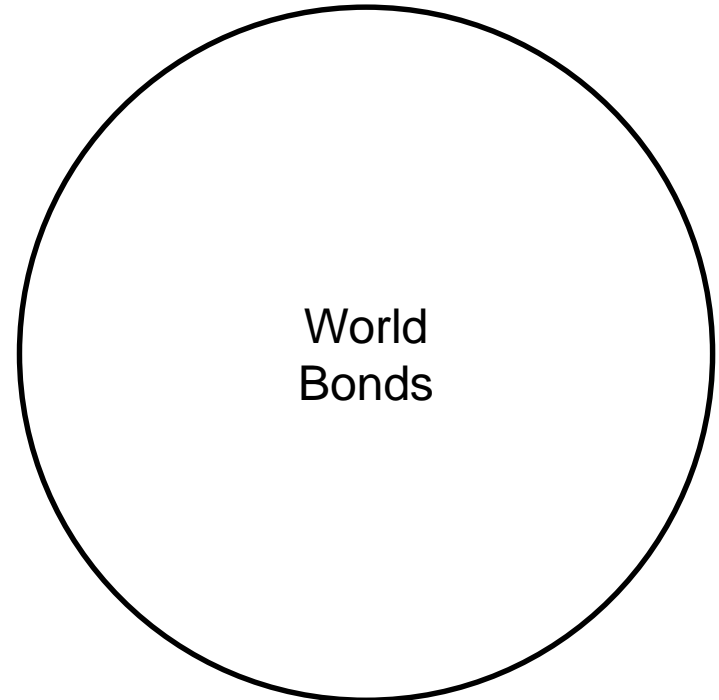
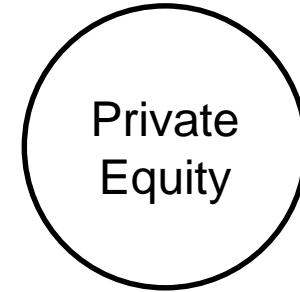
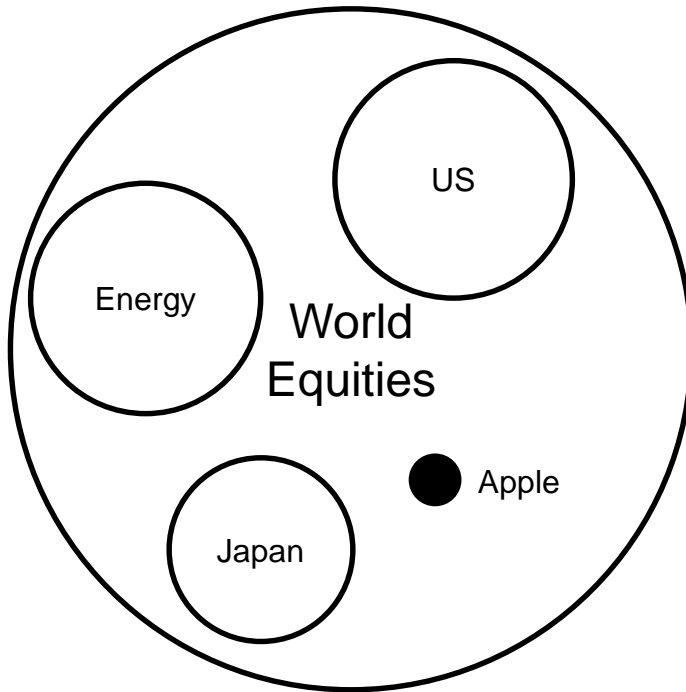
Building a portfolio



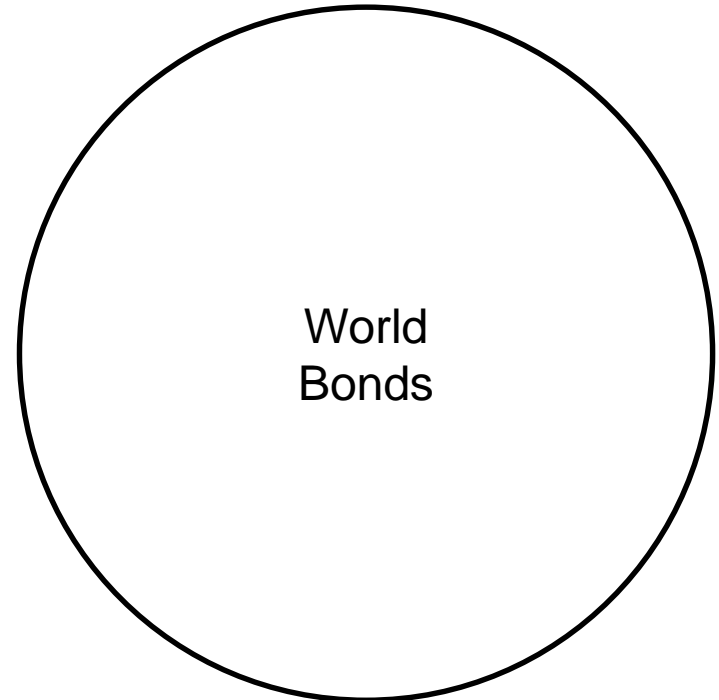
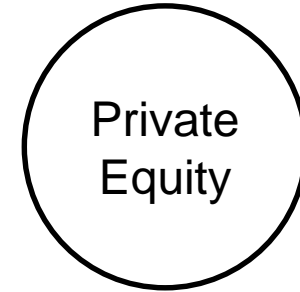
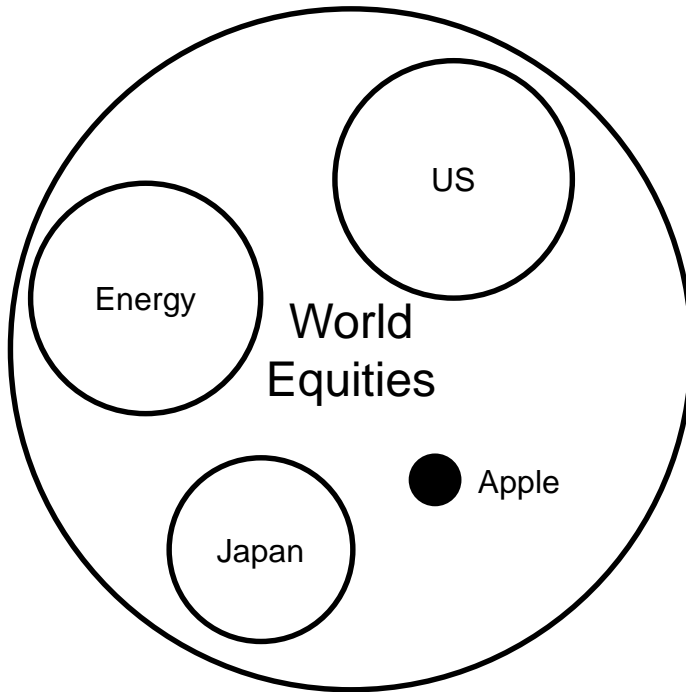
Building a portfolio



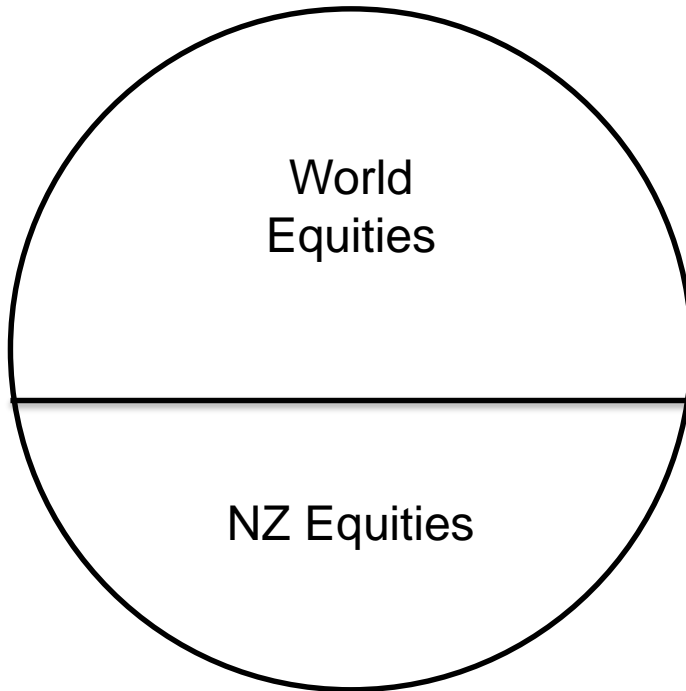
Building a portfolio



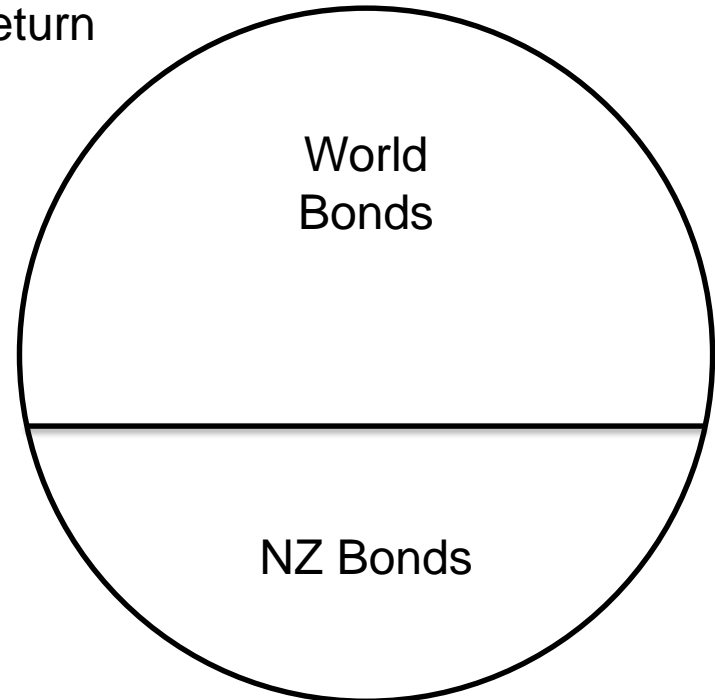
Building a portfolio



NZ investor's perspective



Currency risk
and return



NZ investor's perspective

International equities

| 1988-2014 | Unhedged NZD Returns | Hedged NZD Returns |
|------------------|-----------------------------|---------------------------|
| Average | 7.5 | 11.0 |
| Volatility | 14.1 | 14.3 |

International bonds

| 1999-2014 | Unhedged NZD Returns | Hedged NZD Returns |
|------------------|-----------------------------|---------------------------|
| Average | 2.4 | 7.5 |
| Volatility | 11.6 | 2.8 |

Key takeaways

- Be clear about decisions that are (and need to be) made
- Building a robust portfolio is necessary
 - exposure to sources of returns and risks that link to beliefs

Questions