NZSUPERFUND
Te Kaitiaki Tāhua Penihana Kaumatua ō Aotearoa

TITLE:

View of a Long Term Investor

AUTHOR:

Roland Winn

Manager – Investment Analysis

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Agenda Topics

Being truly long term is an *endowment* of the NZ Super Fund.

- How does the NZ Super Fund operate?
- What does it mean to be truly long term?
- How does our portfolio construction (“Reference Portfolio”) approach differ to others including SAA?

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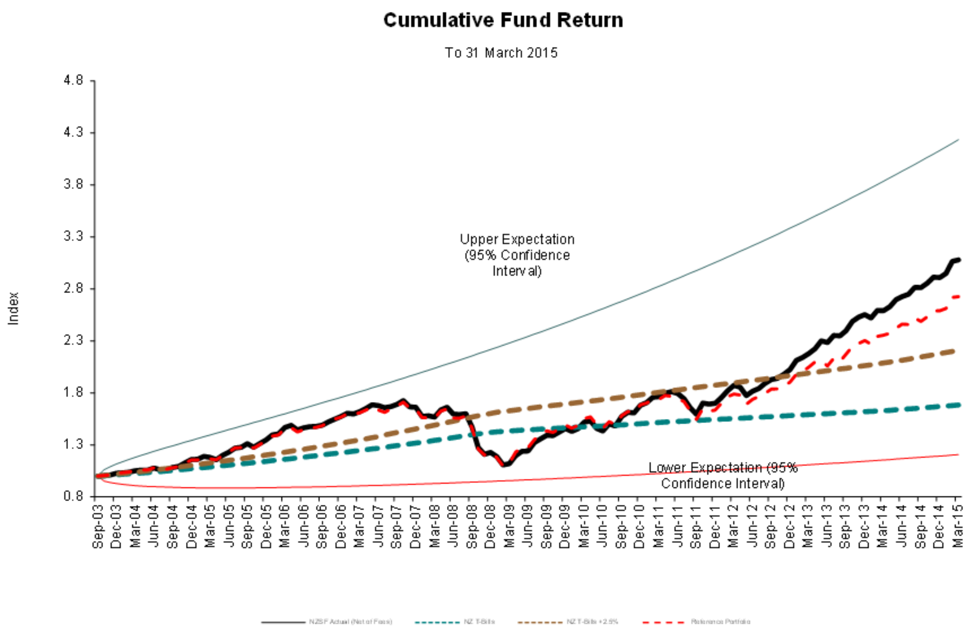
Performance since inception



- NZ$29.3 billion (30 April) sovereign wealth fund to help pre-fund future universal retirement benefits
- Long-term fund – no withdrawals till 2029/30, won't peak till 2080s
- Returned 10.2% p.a. after costs, before NZ tax
- Out-performed the market - exceeded our passive Reference Portfolio benchmark by $3.6 billion since inception
- Exceeded the NZ government's cost of debt by $13.2 billion

Further details available at www.nzsuperfund.co.nz

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)
- A long horizon is helpful.
- But we also need to consider our other endowments, our beliefs and capabilities

Key points

- We are firm believers in passive investment and highly disciplined about active investment
  - We work hard to exploit our endowments
  - Separate opportunities from access points
  - Allocate capital to the opportunities we are most confident in
  - Use long-term investment themes to inform decisions
  - Prefer direct, flexible access
  - Integrate ESG throughout the investment process

Defining our endowments

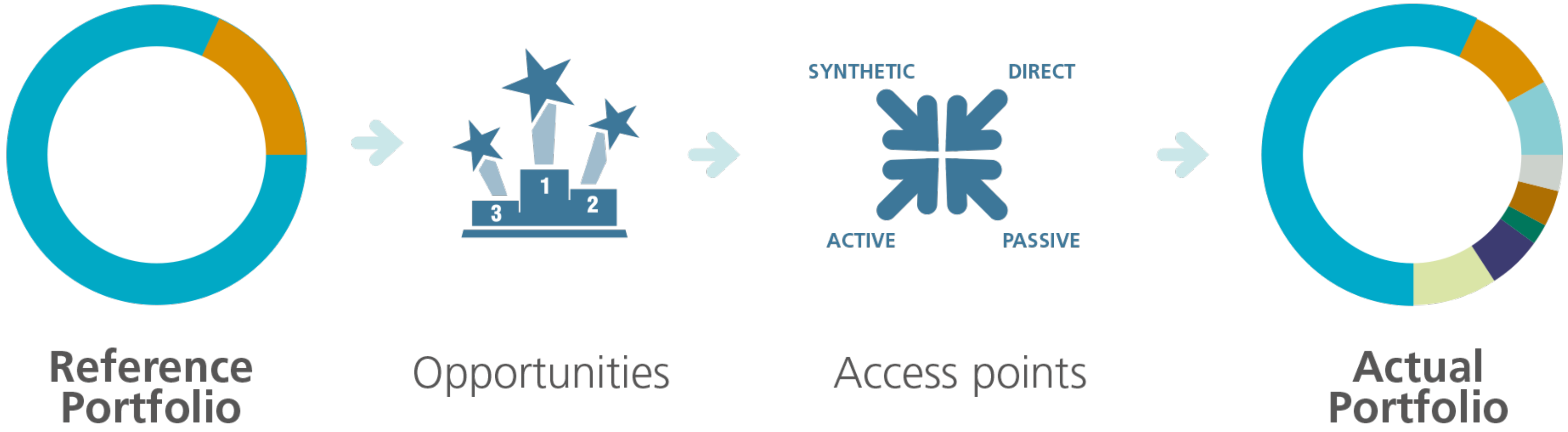
Long Horizon	Certainty of Liquidity	Operational Independence	Location & Crown Owner

- We can ride-out short term volatility
- Genuine contrarian investor
- We can invest in private market and illiquid assets
- We pay lower tax in some jurisdictions (sovereign status)
- Favourably regarded as a potential co-investor and business partner

Reference Portfolio concept: Blueprint and Benchmark

- The RP is a notional, low-cost passive portfolio
- Level of risk in the RP is appropriate for Fund’s purpose and objectives
- Board decides the RP with management input
- Takes Fund’s endowments and relevant beliefs into account
- Long-run (‘equilibrium’) concept
- Our benchmark: Used to evaluate value added in actual fund
- Performance of the RP and value-add reported on a monthly basis
- Relevant horizon for performance assessment is a minimum of five years – our Board and stake-holders understand this.

Separate opportunity from access point




See + Articulate Drivers
Not
Hot
HIGHEST CONFIDENCE
Opportunity
Beliefs
Endowments

Relevance of Finance Theory in Practice

Market Efficiency

What we believe	What we are not sure about
Risk and return are strongly related Some markets are conducive to generating excess returns, but… …manager skill is rare and hard to find	Are there structural inefficiencies in the market? Examples: ▪ Are some markets (such as frontier markets) segmented? ▪ Do active manager incentives distort market pricing?
Manager fees represent a clear hurdle for active management	

Relevance of Finance Theory in Practice

Dynamic Behaviour of Markets

What we believe	What we are not sure about
Risk and return characteristics of financial markets are dynamic	To what extent are these dynamic changes predictable?
Returns ‘mean-revert’ and volatility comes in clusters	What are the best investment strategies to exploit these?

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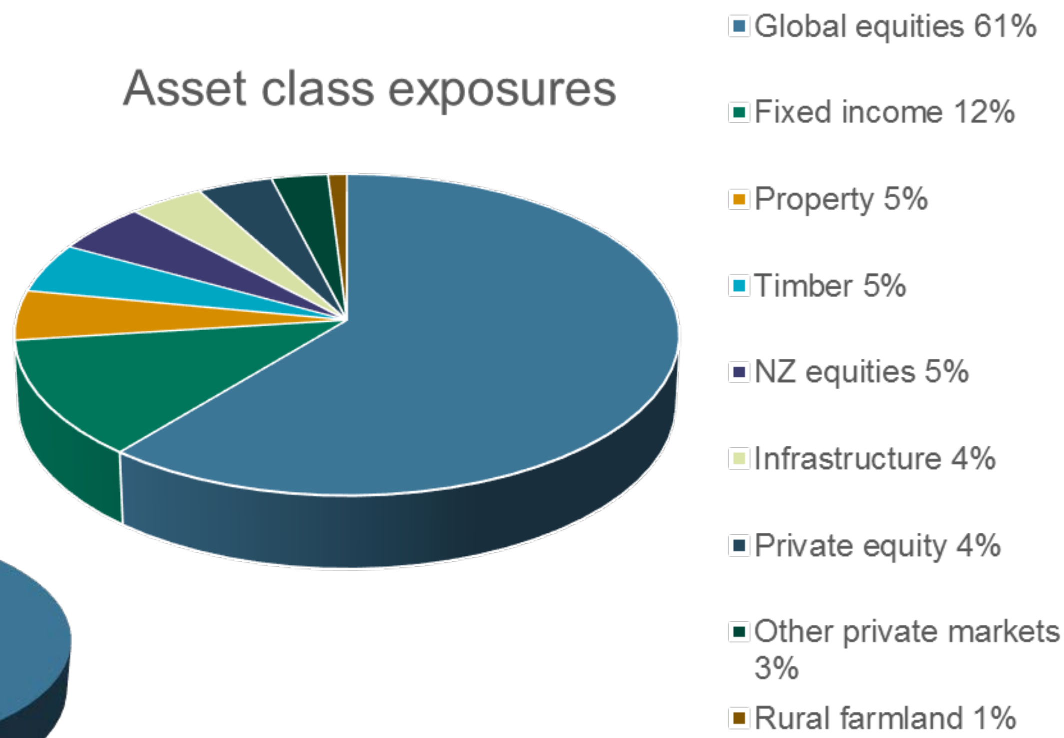
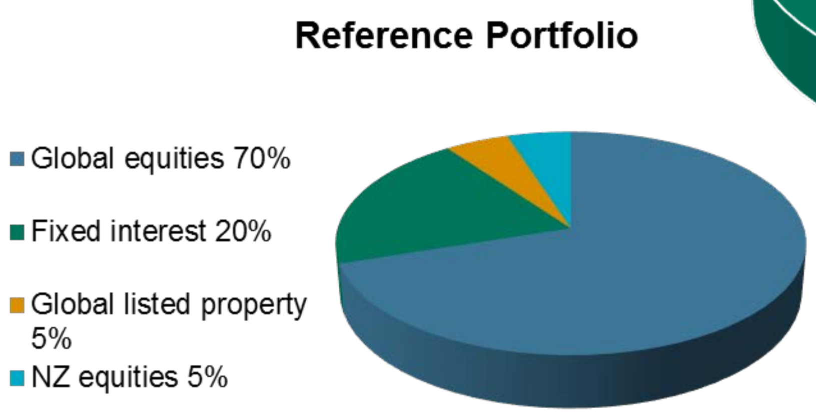
What does the Fund invest in?

Growth-oriented portfolio, majority passive, highly diversified





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