Video transcript – Reference Portfolio and How we Invest

Hi, Matt Whineray, Chief Investment Officer at the NZ Super Fund. I'm going to be talking to you about the reference portfolio and how we invest.

The reference portfolio is where we make our most important investment decision – how much investment risk we want to take.

The reference portfolio is very simple. It is made up of assets that are listed, passive and cost-efficient to access, and which would achieve an acceptable return for the Fund over time.

So, what's in the Reference Portfolio? In short, it's 80% equities, or growth assets, and 20% fixed interest.

The reference portfolio is the benchmark against which we measure whether all of our investment activities have added value.

This 80/20 portfolio is more aggressive than the "standard" 60/40 mix that's often referred to for private investors. That's because we have more tolerance for risk than the average investor (that is, we can withstand bumps along the way). Our time horizon is longer, and we have no payment obligations for at least the next 15 years.

The growth assets are global listed equities, but we have included NZ equities and listed real estate because they suit our objectives well. It's fully hedged to NZ dollars.

So that's the Reference Portfolio, our passive benchmark and the base setting for our investment portfolio

So now to how we invest. Our job is to improve on the performance of the reference portfolio. By investing in asset classes that diversify risk and enhance returns, and using what we call value-adding strategies, we believe that over time we will improve Fund performance compared to the Reference Portfolio.

Some examples include…

- Investing in forests or infrastructure, because they help diversify the portfolio – that is, they behave differently to the other assets in the portfolio.
- Exploiting inefficiencies and mispricing in certain markets.
- And our NZ Direct strategy, which looks for sizeable stakes in unlisted NZ companies where we can be a real strategic partner.

Any investment has to reduce risk, improve returns, or both.

When we're considering a new investment, we ask ourselves a bunch of questions:

What's the opportunity? What's driving it? What risks are we taking on? Are we properly compensated for these risks? How different is it to the Reference Portfolio? What's the best, most cost effective way to access it? Is there liquid, public market alternative? How hard will it be to manage on an ongoing basis? And how confident are we in our answers to all these questions?

We think about these questions over a time horizon relevant to the Fund, which is years rather than months.

We also don't want to spread ourselves too thin. We want to concentrate on the opportunities where we have the highest confidence that they will improve the portfolio.

So, to sum up,

- We make our core investment decision in deciding on the make up of our reference portfolio - this is a broad, diversified portfolio with a wide range of public market assets;
- We look to improve on the returns we can expect from the reference portfolio by pursuing investment opportunities that play to our natural advantages as an investor, such as our long time horizon and our low need for liquidity;
- We hold our feet to the fire by benchmarking ourselves against the Reference Portfolio – there is a very clear measure of our success.