

*Purpose, Governance, Strategy and
Adaptability : the New Zealand
Superannuation Fund Experience*

Petroleum Fund Management Seminar

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Four key issues

- A clear - clearly understood - purpose
- Good governance
- An investment strategy anchored by investment beliefs
- Adaptability

Purpose



- Purpose of the Fund
 - Help meet the costs of New Zealand Superannuation
- Purpose of the Guardians
 - Manage the New Zealand Superannuation Fund
- Ensuring purposes are clearly understood
 - Statement of Intent;
 - Annual Report;
 - Statement of Investment Policies;
 - Website

Governance - I

- Relationship with Government
 - Autonomous; arms length
- The Board
 - Independently chosen based on expertise
 - Small : 5 -7 members
 - Renewable 5 year terms
 - Reference Group to test ideas
- Management
 - Securities management largely outsourced
 - Internal staff drive the strategy

Governance - II

- Decision making

- Board

- Agree risk appetite and Reference Portfolio
 - Agree value adding strategies
 - Agree strategic direction for Guardians
 - Oversee risk management

- Management

- Leadership Team
 - Investment Committee
 - Risk and Portfolio Monitoring Committee
 - Rights and responsibilities supported and aligned

- Independent Review

- Independent; periodic; comprehensive

Governance - recap

- Clear, arms length relationship with Government
- Small, stable, and expert Board
- Internal management focused on where it can add most value
- Clear and appropriate decision making rights
- Periodic independent assurance that all is well

Investment Strategy - I

- Investment Beliefs

- Should be debated and challenged
- Differ from facts
 - Beliefs are open to skepticism
- Cover diverse aspects;
 - Importance of good governance
 - Asset allocation is the key decision
 - Long horizon focus adds value
 - Future returns partly predictable
 - Manager skill is hard to find
 - Markets not equally conducive to adding value
 - ESG factors are important
- Must be your own

Investment Strategy - II



- Risk Preference

- Long horizon naturally leads us to growth assets
- Consider a variety of risk measures

- Reference Portfolio

- Fits to risk preference
- Low cost, readily investable
- Equilibrium concept
- Globally representative but from New Zealand perspective

Investment Strategy - III

- Value adding strategies
 - Strategic Tilting
 - Private markets
 - Public markets
 - Execution efficiency
 - Scalable; measurable; staff incentives aligned
- Investing in New Zealand
 - Reasons to consider home bias
 - Tax status
 - Fertile fields
 - Having regard to Government direction

Investment Strategy - recap

- Establish risk preference
- Build low cost portfolio maximising return for that level of risk
- Add value adding strategies supported by investment beliefs

Adaptability



- Challenges faced
 - Organisational growth
 - Rapid headcount increase
 - Transition from generalists to specialists
 - Global financial crisis
 - Common factors with other investors
 - Pause in capital contributions
 - Change of Government
- Challenges ahead
 - Effective collaboration with our peers
 - Volatile financial markets

Summary

- A clear - clearly understood - purpose
- Good governance
- An investment strategy anchored by investment beliefs
- Adaptability