



# Infrastructure Investment at the New Zealand Superannuation Fund

NZCID Building Nations Symposium  
Auckland  
14 August 2008

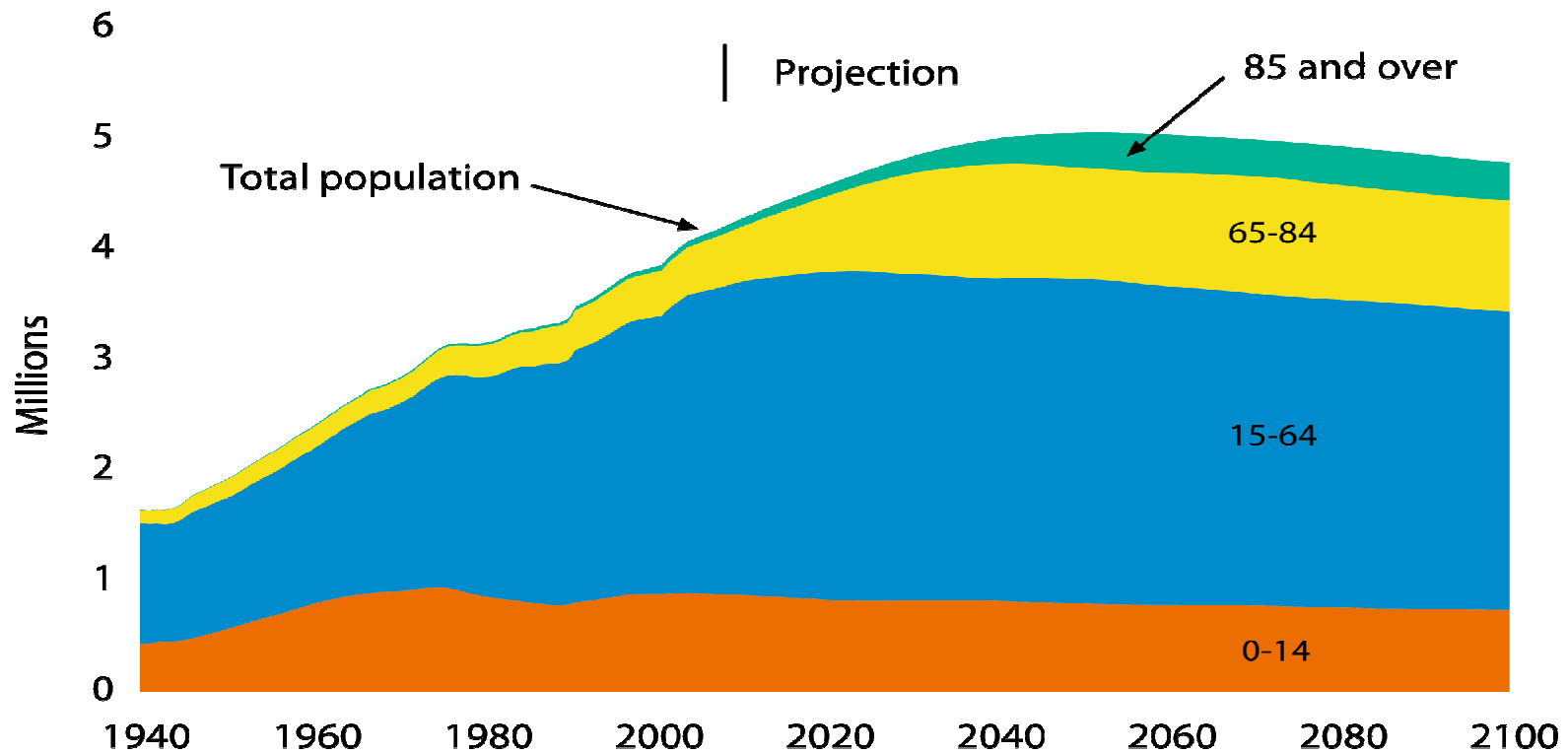
Adrian Orr  
Chief Executive Officer

# Outline for today

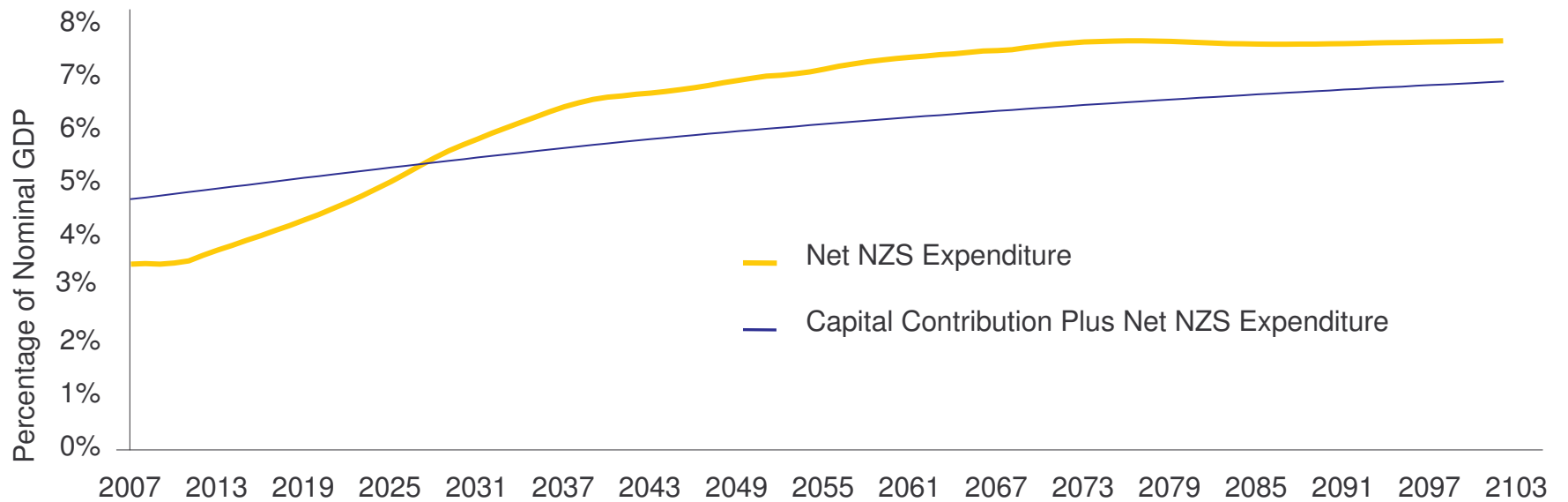
- Our objectives and structure
- Our investment approach in infrastructure
- Our evaluation of new opportunities

# Demographic shift underway

Source: New Zealand Treasury



# Smoothing superannuation costs over time



Source: New Zealand Treasury

# About the New Zealand Superannuation Fund

- Clearly defined portfolio of Crown financial resources
- Managed by an independent governing body
- “The Guardians .... must invest the NZSF in a prudent, commercial basis, and in doing so, ..... consistent with:
  - Best-practice portfolio management; and
  - Maximising return without undue risk to the Fund as a whole; and
  - Avoid prejudice to New Zealand’s reputation as a responsible member of the world community”
- Total assets as at 31 May 2008: \$14.7 billion
  - Infrastructure represents 6% Fund value (= \$900 million)

# Our Strategic Asset Allocation

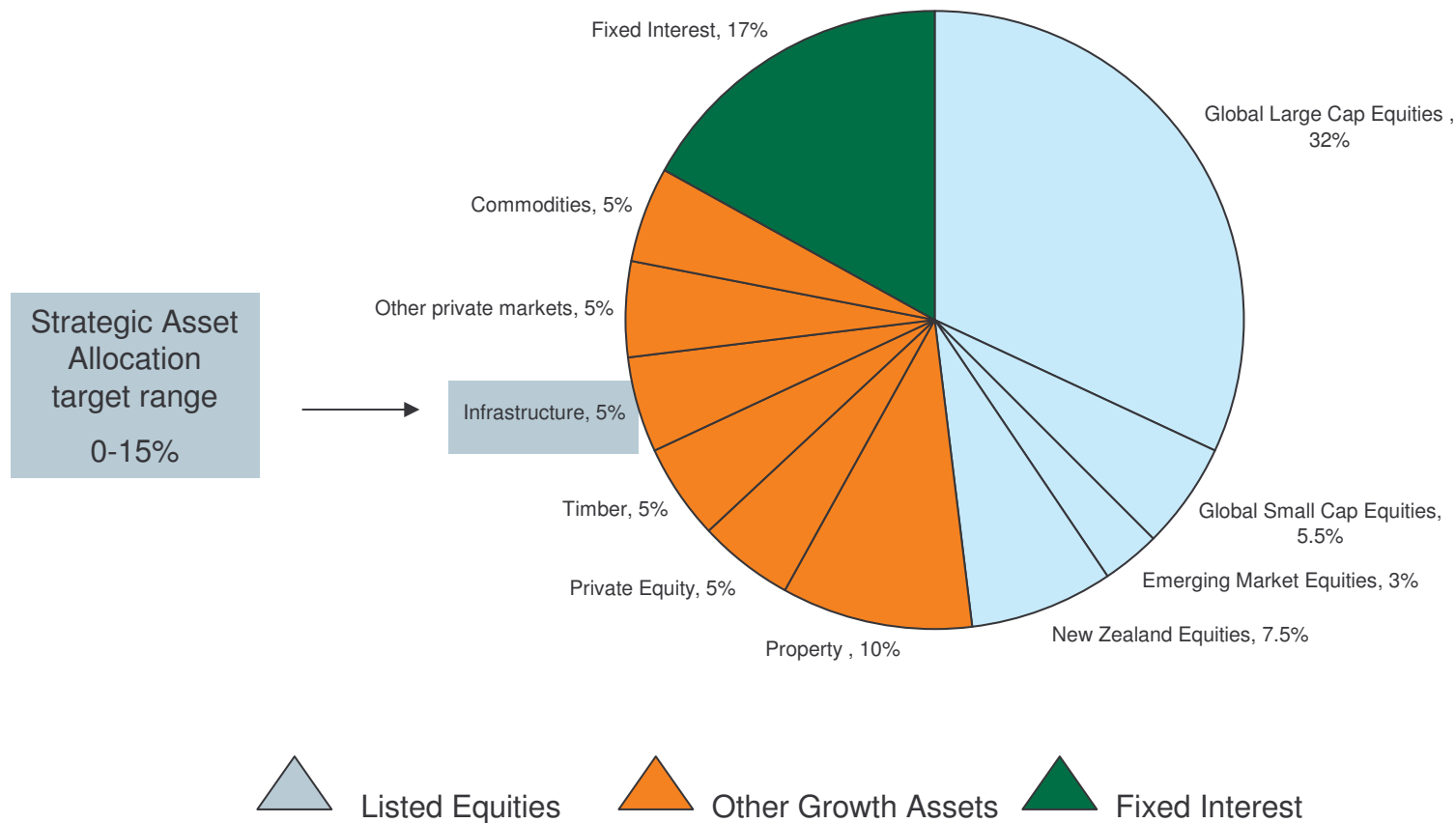
- The Guardians' endowments include their:
  - Long-term investment horizon – matching long-term liabilities;
  - Ability to invest across the near full range of asset classes globally; and
  - Liquidity risk premium due to no capital withdrawals until at least 2020
- Key decision:
  - Mix of markets and assets that the NZSF will on average be exposed to

# How infrastructure fits into our investment perspective

- We are looking for a certain type of cash flow
  - Long term (duration)
  - Stable
  - Inflation-proof
- These suit the NZSF's comparative investment strengths
- Often found in regulated utilities
- We are (fairly) indifferent between listed and unlisted
- No preference to New Zealand over foreign assets, unless deliver on objectives above

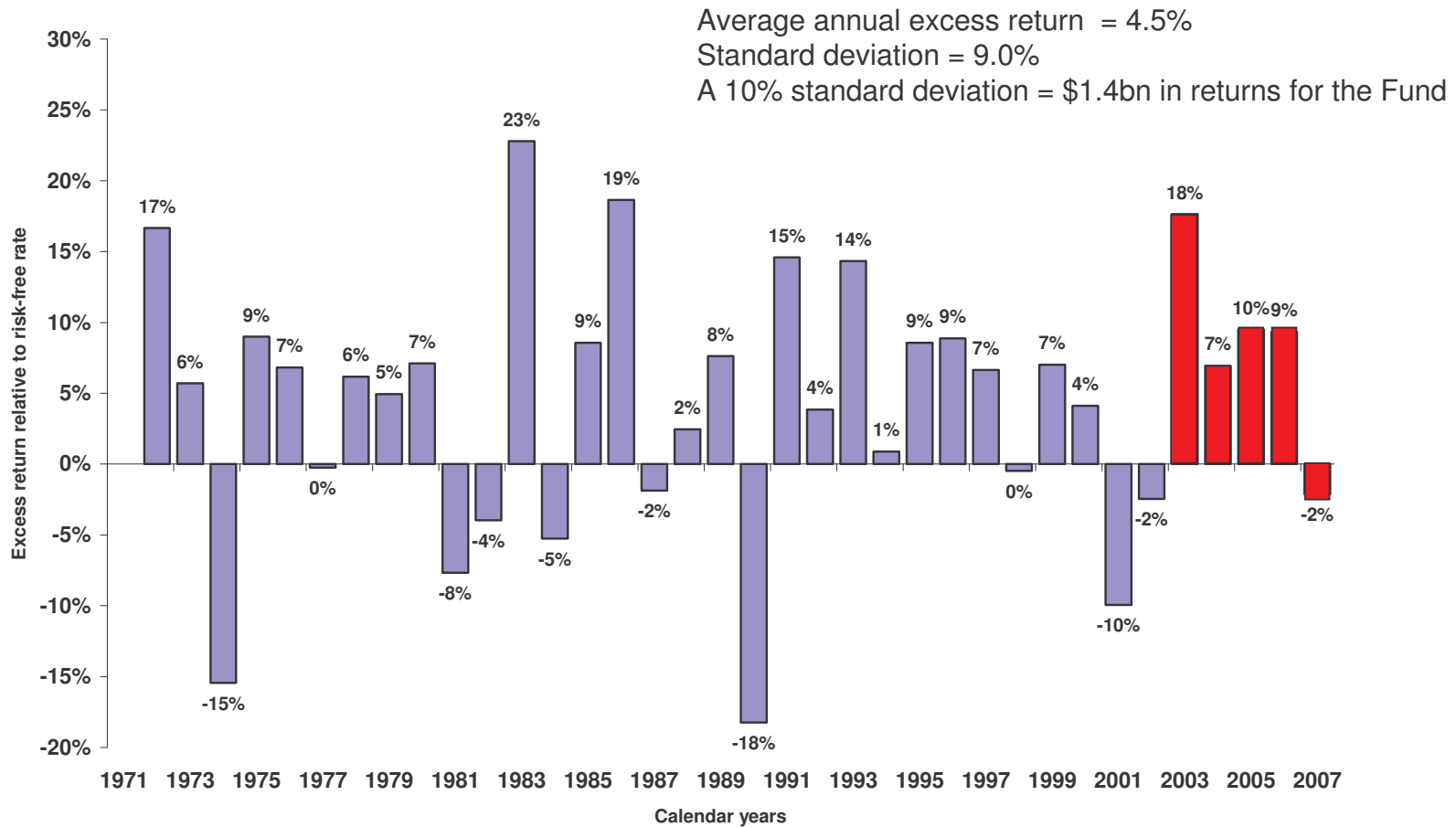
# How we invest in infrastructure

## Targeted Strategic Asset Allocation



# Excess returns: actual and back-cast

back-cast on historical data pre-2003



Actual investment commenced fourth-quarter 2003

# Our performance

- Risk-taking paid off significantly better than expected in initial investment period (2003-2007)
- Diversification on-track

**but, as anticipated a cloud**

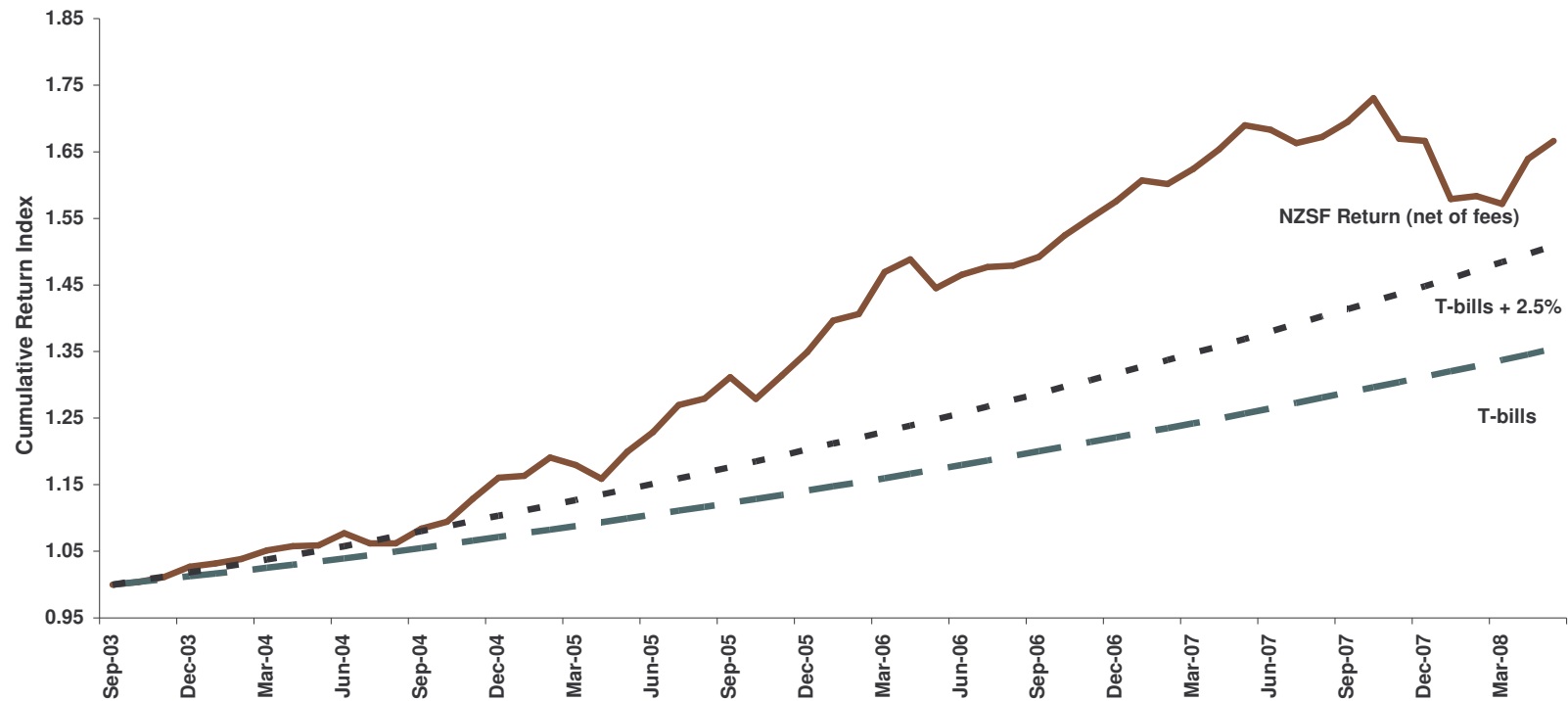
- Tougher times that would normalise long-term returns

**with a silver lining**

- Asset price corrections mean that equity risk premium has risen - providing better opportunity for long-term investing
- Additional near-term options to exploit volatility being considered
- Communication is major challenge

# Fund cumulative return compared to risk-free rate\*

Cumulative Fund Return Compared to T-bills and T-bills + 2.5% (not money weighted)  
To 31 May 2008



\* Cumulative return net of fees from September 2003 (inception) to April 2008 compared to risk-free (Treasury bill) rate

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