

# **Guardians of New Zealand Superannuation: Our Perspective on Property**

**Property Council New Zealand**

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# Today's discussion

## *Background*

- Our mandate, mission and performance

## *How we invest*

- The reference and actual portfolios

## *Major events in FY2009*

- New Zealand investment directive
- Reduction in contributions

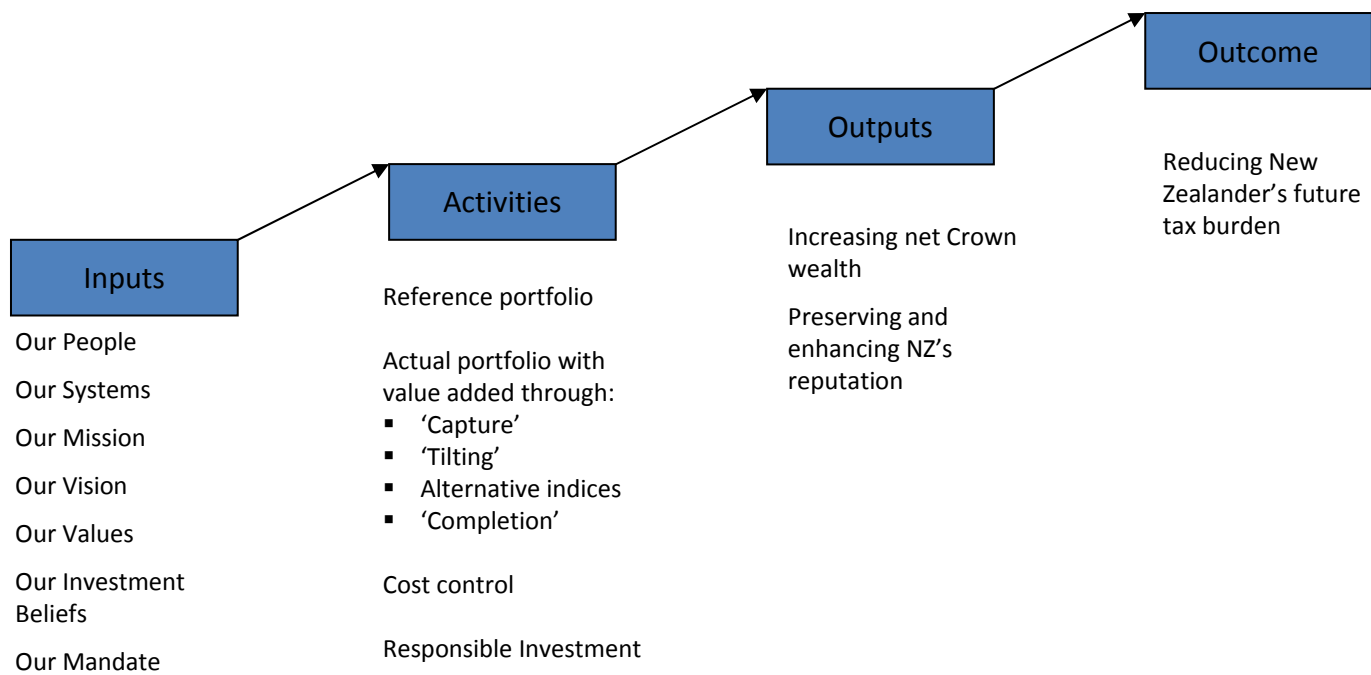
## *The Guardians and property investment*

- Why property?
- Our vehicles and investments
- Property developments in FY09
- Looking ahead

# A Clear Purpose: Our Mandate

- **Set out in section 58 of the New Zealand Superannuation Act 2001**
- **We must invest the Fund on a prudent, commercial basis consistent with:**
  - Best-practice portfolio management
  - Maximising return without undue risk
  - Avoiding prejudice to New Zealand's international reputation
- **Legislation does not prescribe what this means – it is up to the Guardians to determine**

# Mission: To maximize the Fund's return without undue risk so as to reduce New Zealanders' future tax burden



**A Great Team Building  
the Best Portfolio**

**Our values:** Integrity; Inclusiveness; Innovation;

**Our endowments:** The Fund's sovereign status, liquidity profile, investment horizon and breadth of mandate;

**Our investment beliefs:** Shape our investment strategies, set our organisational capability requirements

**Our mandate:** 'Commercial, prudent investment'

# What Matters:

## The absolute return net of all costs

### We think across decades

- The long-term return to the Fund net of all costs and foreign taxes is the ultimate measure of fulfilling our mission
- Current reference point is outperforming 90-day Treasury bill (T-bill) rate
- Based on the reference portfolio and our expectation of the value added in the 'actual' portfolio we expect to outperform T-bills by at least 2.5% per annum over rolling 20-year periods
- It is measured on a time-weighted basis before NZ tax, as tax is a return to the Crown

# Returns since inception

## Fund size at 31 May 2009: \$13.1 billion

Returns	Month to 31 May	FYTD 31 May	Since inception to 31 May
	3.47%	-22.45%	3.83% p.a.

- Global financial crisis saw severe fluctuations in Fund returns over FYTD
  - December 2008 quarter was worst since inception: -16.67%
  - March 2009 quarter was second worst: -8.7%
  - Returns stronger since (April 2009 monthly return of 6.47% strongest since inception)

At 31 May 2009 return since inception is 3.83% p.a. or a net investment gain of \$127 million (net of fees but before tax).

Note: FYTD to June 30 figures published in October

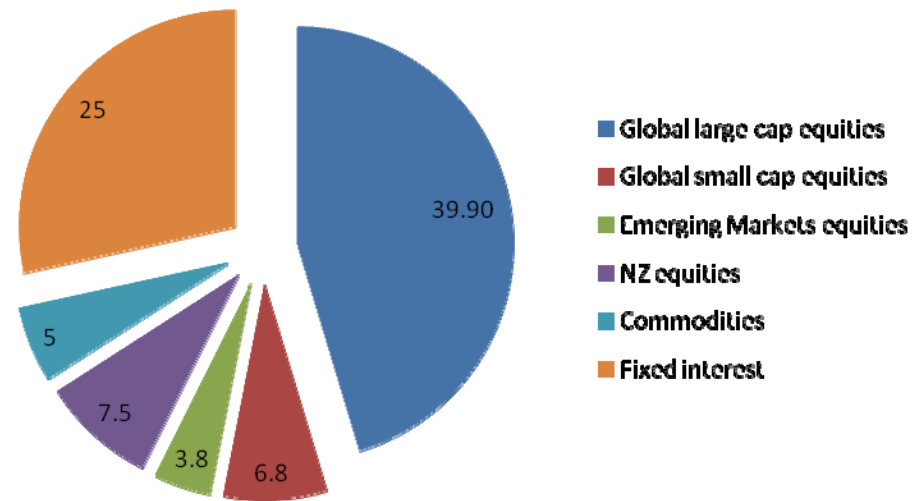
# How we Invest:

## 1. The reference portfolio

**Reference portfolio = a notional, low-cost, equilibrium asset allocation reviewed every couple of years**

- Low-cost implementation of our Strategic Asset Allocation
- We could stop with the reference portfolio and have a simpler, smaller Fund
- However we believe we can add value to that achievable from the reference portfolio, through active management
- The reference portfolio plus exposures added through active management = the 'actual' portfolio

- Portfolio composition at 30 June 2009
- Property 12% (including a high weight to NZ relative to the rest of the portfolio)



# How we Invest:

## 2: The 'Actual' Portfolio

**Reference portfolio + the sum of the exposures added by active management activities**

**Active management activities encompass:**

- 'Capture' excess returns – all activity in public and private markets, via internal and external mandates
- 'Tilting' – opportune leaning into or away from prevailing market winds
- 'Alternative indices' – atypical thematic drivers of investment
- 'Completion' – efficiency and risk management



In Q4FY09 we 'tilted' into property and equities and away from fixed interest

# The New Zealand investment directive

## ***What it says***

- *“It is the Government’s expectation, in relation to the Fund’s performance, that opportunities that would enable the Guardians to increase the allocation of New Zealand assets in the Fund should be appropriately **identified and considered** by the Guardians.”*

## ***What it doesn’t say***

- There is no prescribed Fund minimum, as such it is not inconsistent with our mandate to invest on a prudent, commercial basis

## ***What we are doing***

- We have told the Minister we will look in particular at rural land, SOEs, expansion capital, infrastructure
- Our first full progress report will be in our 2009 Annual Report

# Reduction in funding

## ***What happened***

- Government to reduce contributions to the Fund until the Crown operating balance returns to surplus sufficient to resume
- Treasury estimates this to occur in 2021
- Received a one-off \$250 million contribution in July 2009 but we are assuming zero contributions until 2020

## ***What it means***

- Our investments in property and other asset classes will not be as large as they would have been

## ***What it doesn't mean***

- A change in our diversified approach to manager selection, markets and strategies

# Property investment

## ***Why property?***

- Long-term investment
- Stable, predictable cashflows
- Diversifier for the Fund

## ***What vehicles do we use?***

- New Zealand active and passive equities managers
- Global REITs (passive)
- AMP Property Portfolio (APP)

## ***Other investments with property characteristics***

- Timber (New Zealand and globally)
- Public Infrastructure Partnerships (PIP) with Morrison & Co.

### We like PPPs

- We've invested with Morrison & Co.
- Social infrastructure, alongside Government
- Strong property correlation (i.e. long-term, predictable cashflows)

# Our property investments as at 31 May 2009

**Global REITs**  
**AMP Property Portfolio**  
**NZ LPTs**

**\$914 million**  
**\$288 million**  
**\$32 million**

**TOTAL**

**\$1,234 MILLION**



# Property investment: Major developments in FY09

## *Updating of our Property Strategy*

- Increase exposure to valued-added and opportunistic real estate investment
- Opportunities presented in decline in listed REIT prices – ‘tilt’ into this
- Selected Franklin Templeton as global property advisors
  - Will assist in the development of our global private real estate programme



# Property investment: *Looking ahead*

**This is a good time for more opportunistic investment**

**We will be hunting:**

- **smart managers**
- **unlisted vehicles**



**We will be focused globally and our major activity will occur over the next five years**