

***The New Zealand Superannuation Fund:
Contributing to tax smoothing and
to New Zealand's capital markets***

**Presentation to:
INFINZ Capital Markets Forum**

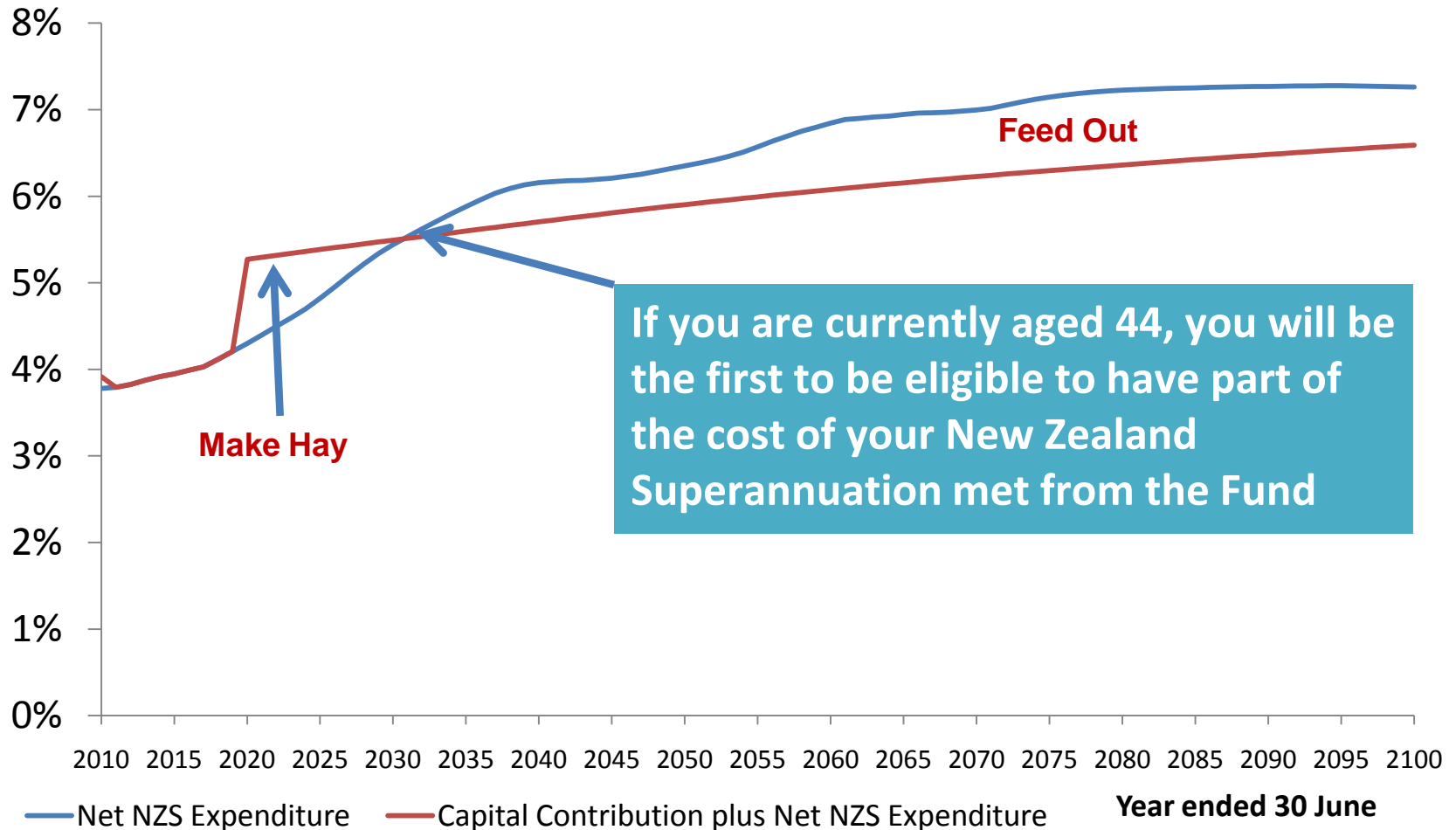
26 May 2010

Adrian Orr, Chief Executive Officer

Why we exist: Smoothing the tax burden

% of Nominal GDP

CONTRIBUTION RATE



Our Mandate

Our Act sets our mandate (s58)

- Best-practice portfolio management
- Maximising return without undue risk
- Avoiding prejudice to New Zealand's international reputation

We have a New Zealand Investment Directive from the Minister

*“...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.”* **NOTE – is explicitly subject to s58**

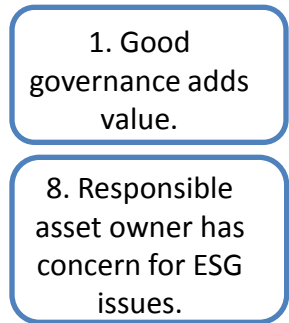
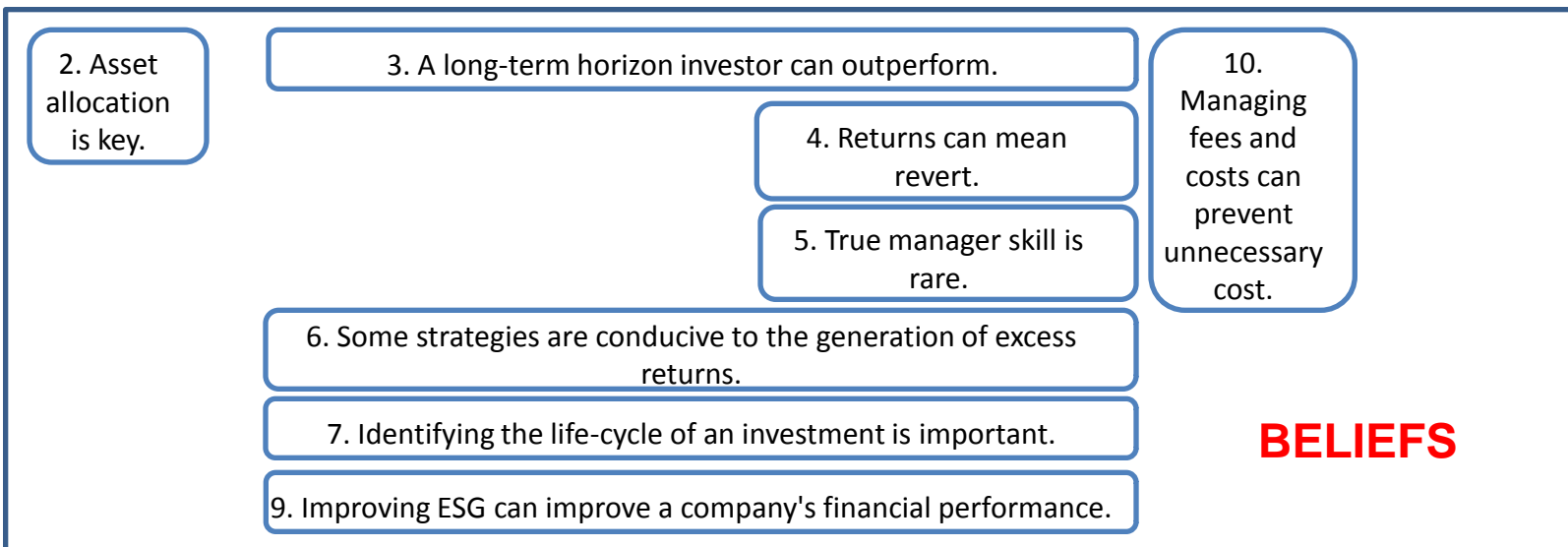
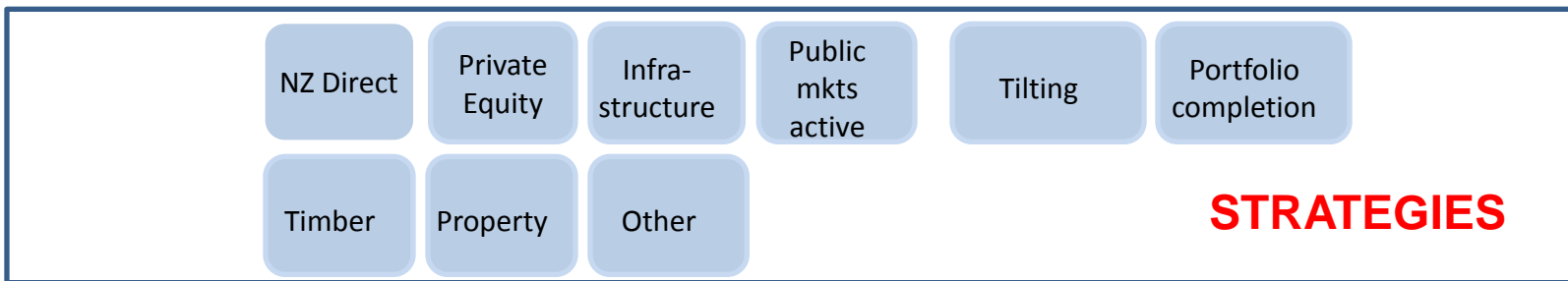
What Matters:

The absolute return net of all costs

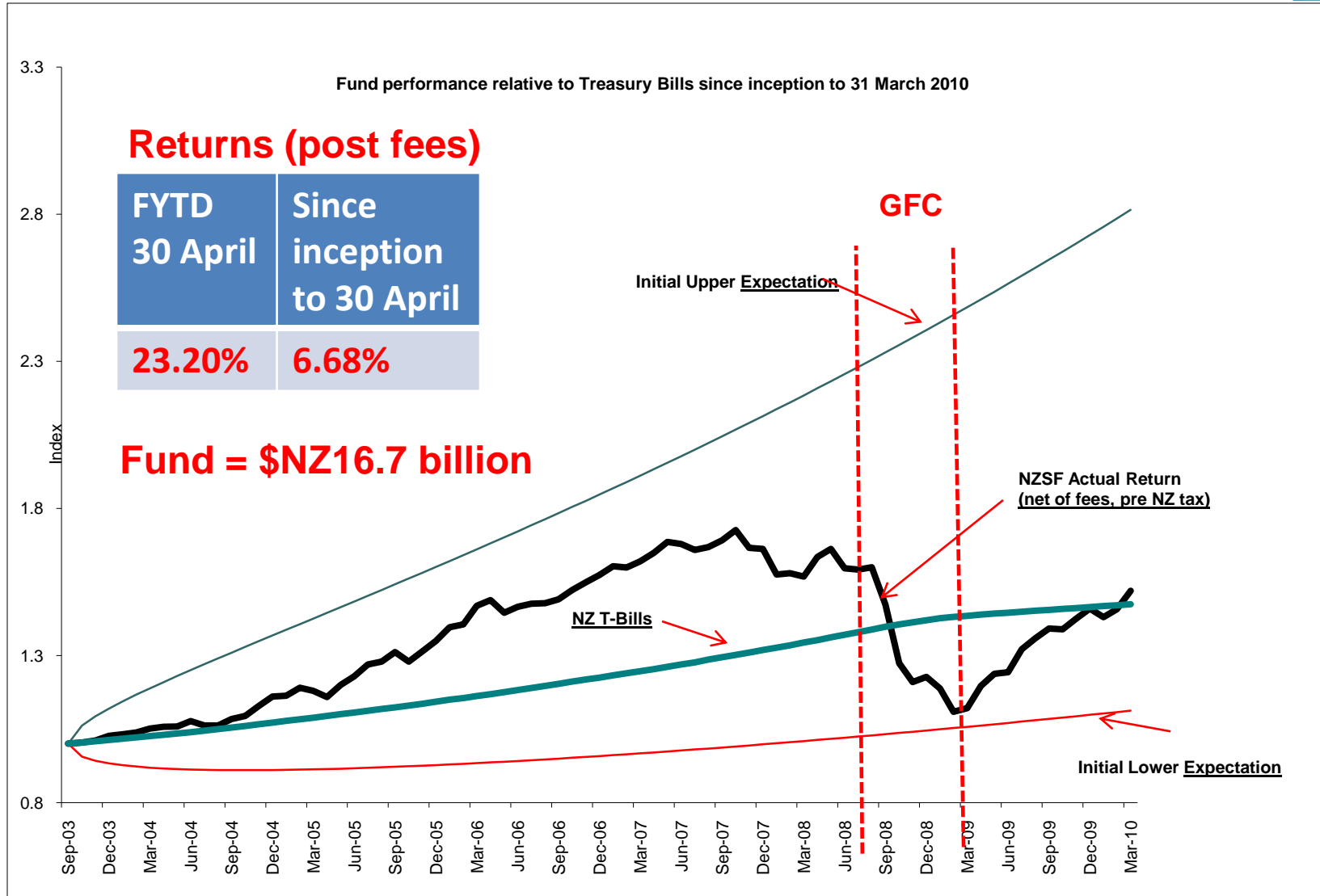
We think **across** decades

- 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 **i.e. the Opportunity Cost**
- Based on our 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
- We measure Reference and Actual Portfolio to assess our value-add

Active investment strategies anchored to beliefs



Performance to 30 April 2010



A present and future dividend to New Zealanders

The Fund pays complementary present and future dividends

- One of New Zealand's few long-term savings and investment vehicles
- Primary beneficiaries are future New Zealanders (oldest beneficiary currently 44)

Meanwhile

- Taxpayer (\$1.35 billion since inception)
- Important additional contribution as a consequence of our activities:
 - Investment capital
 - Liquidity
 - External relationships with global peer funds, SWFs and international managers and institutional investors bringing
 - opportunities
 - capital
 - screening
 - Skills in Fund and partners

Economic benefits for New Zealand

How we contribute

- Focused investment expertise
- Invest in long-dated productive assets
- Build general capabilities and capacity in New Zealand businesses
- Grow capital markets as a consequence through
 - Governance practices
 - New asset classes
 - Depth/breadth of investment activities
- Coinvestment with global best-practice funds

Current New Zealand investment

Strategies

- Direct investment
- Expansion Capital
- Infrastructure
- Rural land
- Listed equities (passive/active)
- Private Equity
- Timber
- Property

Snapshots

As at 30 April 2010 \$3.1 billion (c19%) of the Fund is invested in New Zealand (c32% including cash). Our largest single investment is the Kaingaroa Forest

NZ Direct Strategy

We believe that by utilising our endowments (liquidity, horizon, location) we can access liquidity premiums and diversification.

What do we want?

- Potentially 5-7 investments over time
- Stakes of 20-50% with investment size around \$100m +
- Compatible partners (from our international networks and domestically)
- Ability to take active governance approach
- Defensible competitive advantage
- Able and trustworthy management

Target Audiences

- Private market transactions playing to our competitive advantages with
- Crown/state assets
- Collectively owned (e.g. iwi-based)
- Co-operatively owned

NZ Expansion Capital Strategy

We believe there is a significant pool of smaller high-growth companies in New Zealand constrained by a shortage of long-term equity and a lack of access to skilled investment management

What do we want?

- Enterprise value of \$15-50 million
- Credible growth plan typically >20% compound annual revenue growth
- Investments will primarily support expansion through strategic acquisition, technology upgrades, or market expansion
- Defensible Intellectual Property, ongoing profitability growth and positive cash flow
- Opportunity to add operational value
- Sound governance
- Genuine investment liquidity opportunities over a three-to-seven-year timeframe through Initial Public Offering, trade sale or recapitalisation

Target Audiences

- Mid-sized firms, capital constrained, credible growth plans

Small-medium infrastructure

We believe there is an opportunity to earn sustainable returns from social infrastructure.

What do we want?

- Small to medium projects e.g. schools, hospitals, utilities
- Partnerships with local, regional and central government
- Typically 30+ year concession agreements for design, build, maintenance

Target Audiences

- Central/local government
- State Enterprises
- Government departments (e.g. Health, Education, Energy)
- Other appropriate entities (e.g. collectively owned iwi assets)

We have committed \$100m to the Public Infrastructure Partnerships Fund and are keen to progress PPP opportunities

Rural land

Rural land is a relatively under-developed asset class delivering a range of investment exposures. There is strong scope for adding value through active management (the sector cannot be accessed passively).

What do we want?

- Global focus considering all activities up to the farm gate in major food-producing regions in the developed world
- Expect to invest up to \$300-500m of the Fund over five years
- Potential to add value through active management

Target Audiences

- Vendors of New Zealand rural land of suitable scale or capable of being aggregated to achieve scale
- Capital constrained vendors
- Climatic conditions suitable for high yields

Summary

- **Fund has immediate and future benefits**
- **We are focused on commercial objectives, with tangible positive spin-offs for growth and capital markets**
- **Robust capability and appetite**