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
• **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 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
• **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
• **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