

**Presentation prepared for
Commerce Select Committee
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Challenges and Activities

1. Market performance

- Asset markets performing poorly following a sustained period of growth
- Focus is to continue to diversify the Fund (Strategic Asset Allocation)
- Assessing more dynamic investment strategies that provide opportunities in volatile markets

2. Responsible Investment

- Framework for considering responsible investment issues established
- Guardians working closely with other CFIs on resource sharing on RI issues, as well as international peers

Challenges and Activities

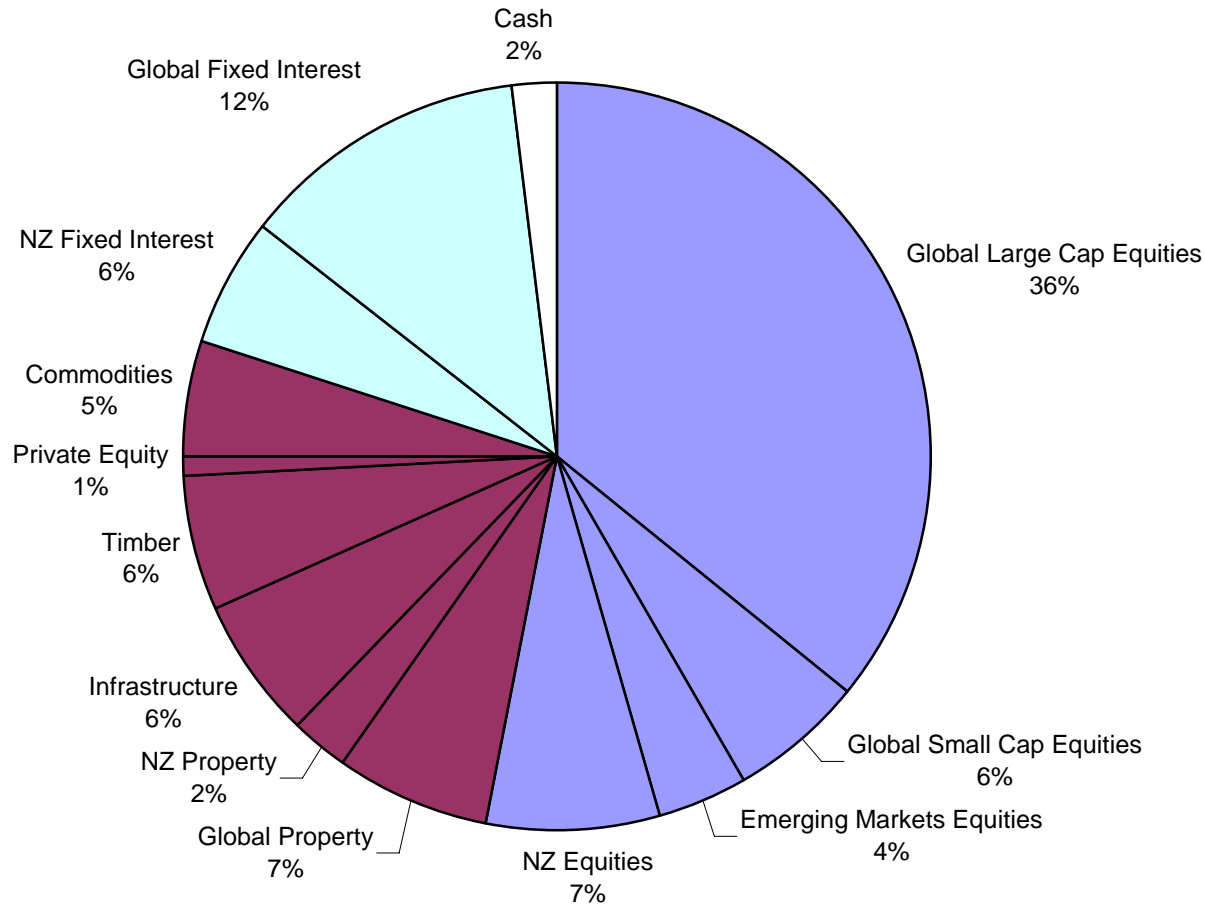
3. Organisation transition

- Custodian transition completed
- More formality entered business processes (e.g., policies, procedures, delegations, business structures)

4. Managing sustainable growth

- Growth in staff experience and systems to match Fund complexity and tasks
- Continued development of benchmarks for cost-effectiveness

Fund by Asset Class (%)



▲ Fixed Interest

▲ Other Growth Assets

▲ Listed Equities

Fund Performance

Long-term returns normalise after strong period

- Risk-taking paid off better than expected in initial investment period (2003-2007)
- Only 10 negative monthly returns in the 51 months of investment 6.08% added over risk-free rate since inception.

But, as anticipated at some point

- We warned of tougher times that would normalise long-term returns
- Recent sub-prime concerns has led to financial market volatility
- 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
- Diversification on-track
- Communication is major challenge

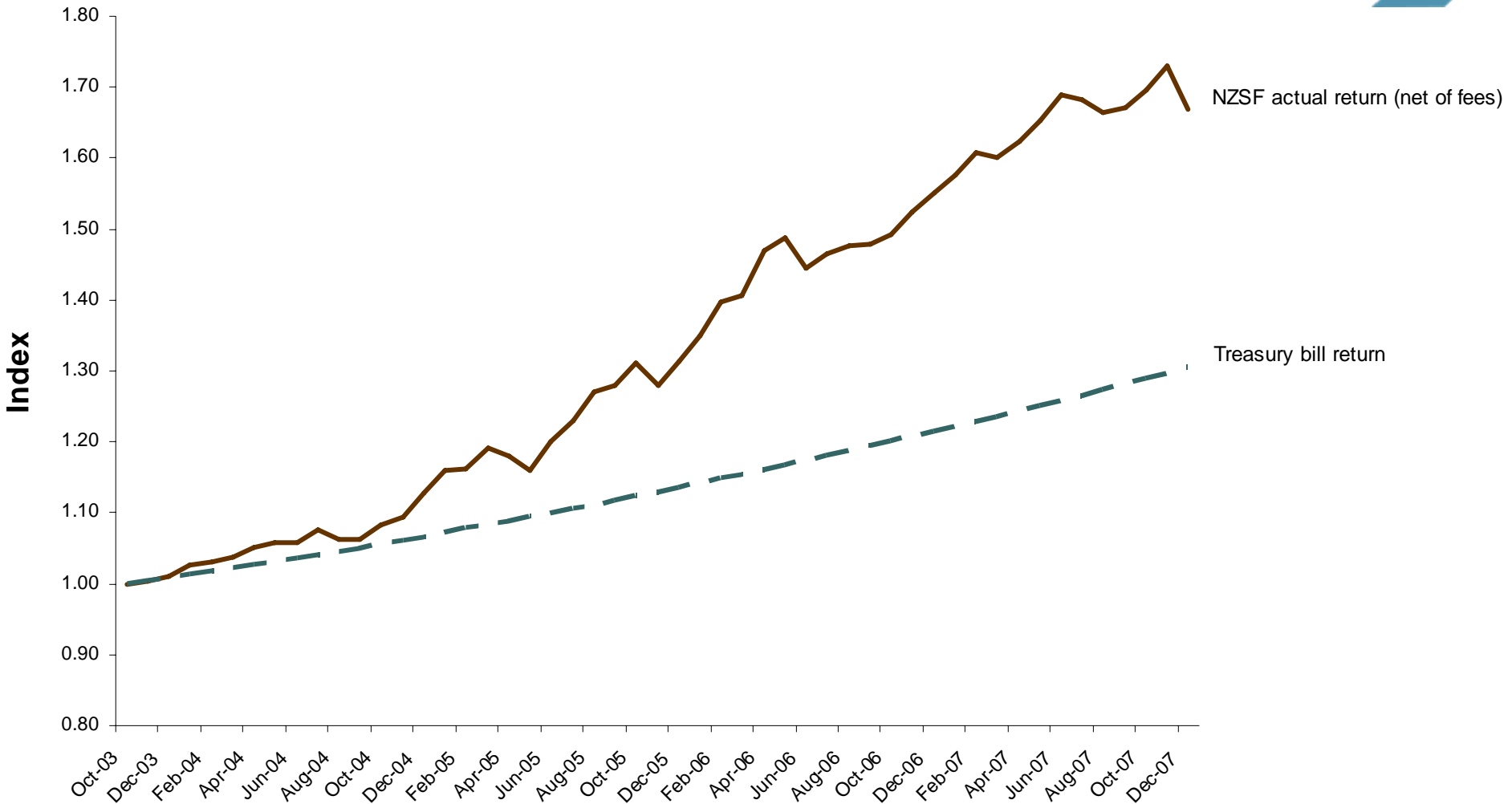
Fund Performance

	Fund FYTD July-Dec 07	Fund Annualised Since Inception 31 Dec 07
Equities	(3.74)	17.04
Fixed Income	4.42	5.73
Property	(7.02)	13.78
Private Markets	(1.70)	16.42
Commodities	27.62	4.0
Total Fund¹	(1.00)	12.68
Value-add \$millions²	(\$635m)	\$1,561m

1 Annualised % return

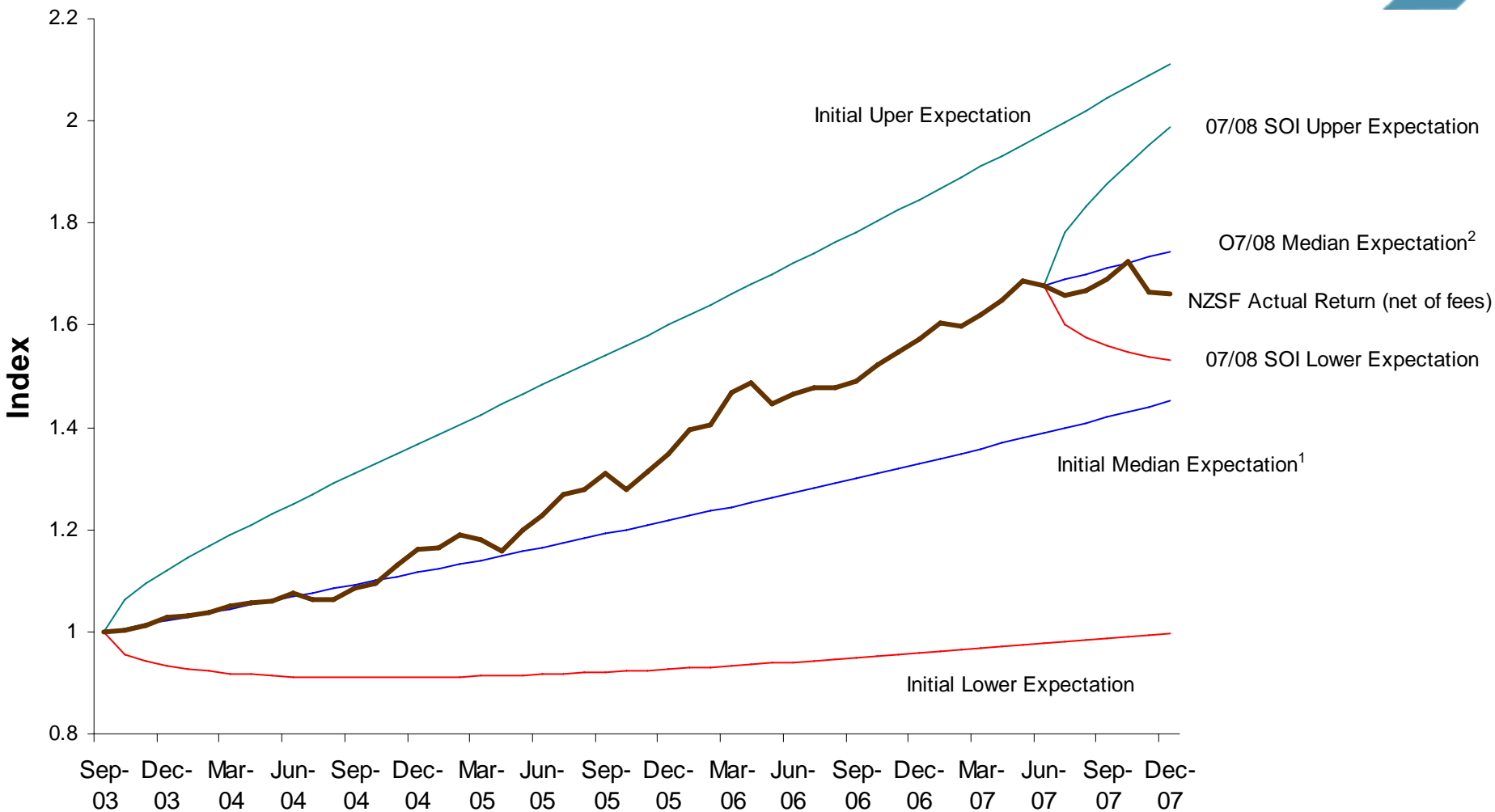
2 \$ million Fund return in excess of Treasury bill return

Cumulative Performance Compared to Treasury-bill Return



Cumulative return from inception to December 2007 6.08% per annum above Treasury-bill return

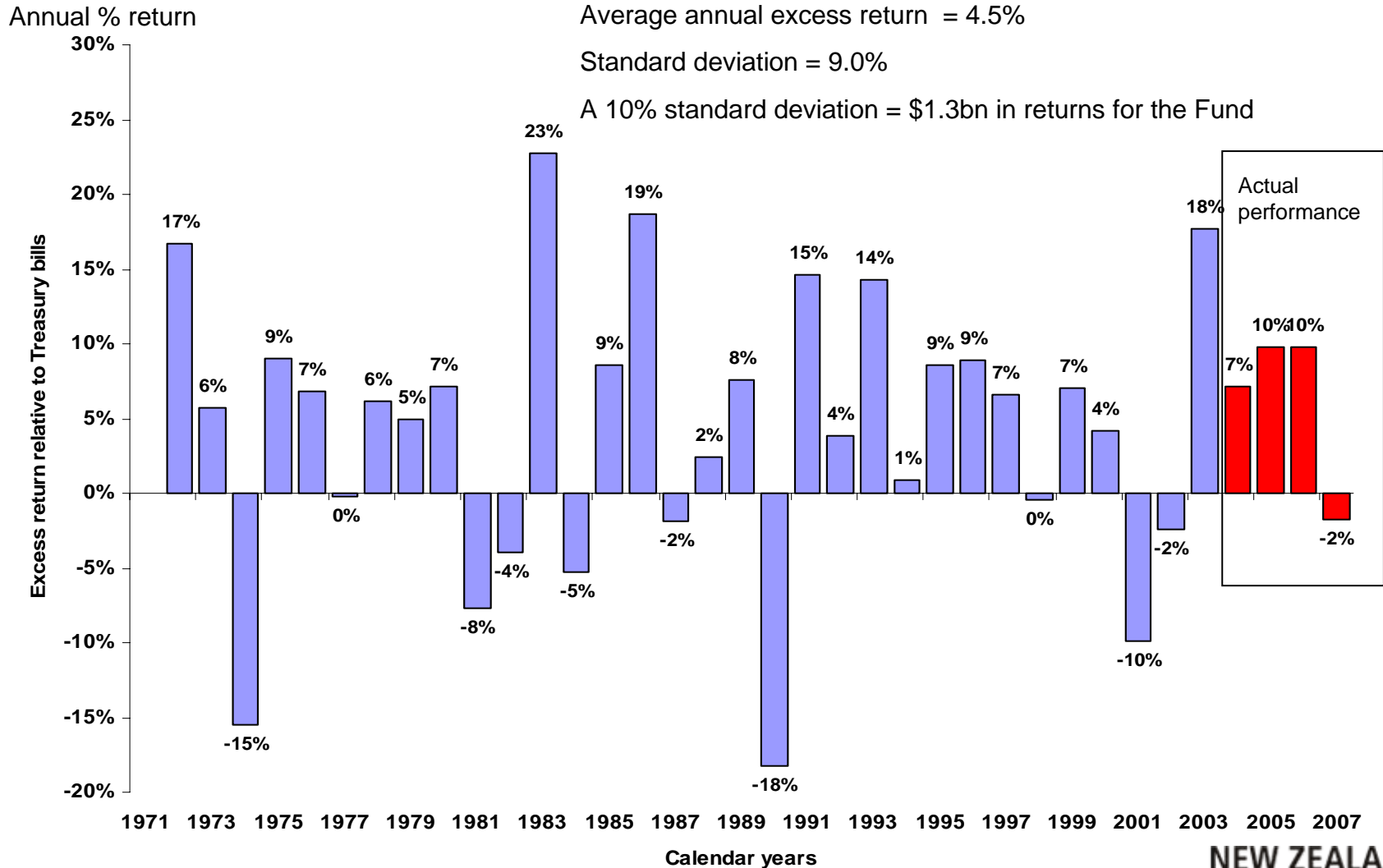
Actual Versus Expected Cumulative Returns and 95% Confidence Interval



¹ Median expectations from SOI 2004 of 9.2% pa
² Median expectations from SOI 2008 of 8.1% pa
 Distribution based on volatility of one year return (10%)

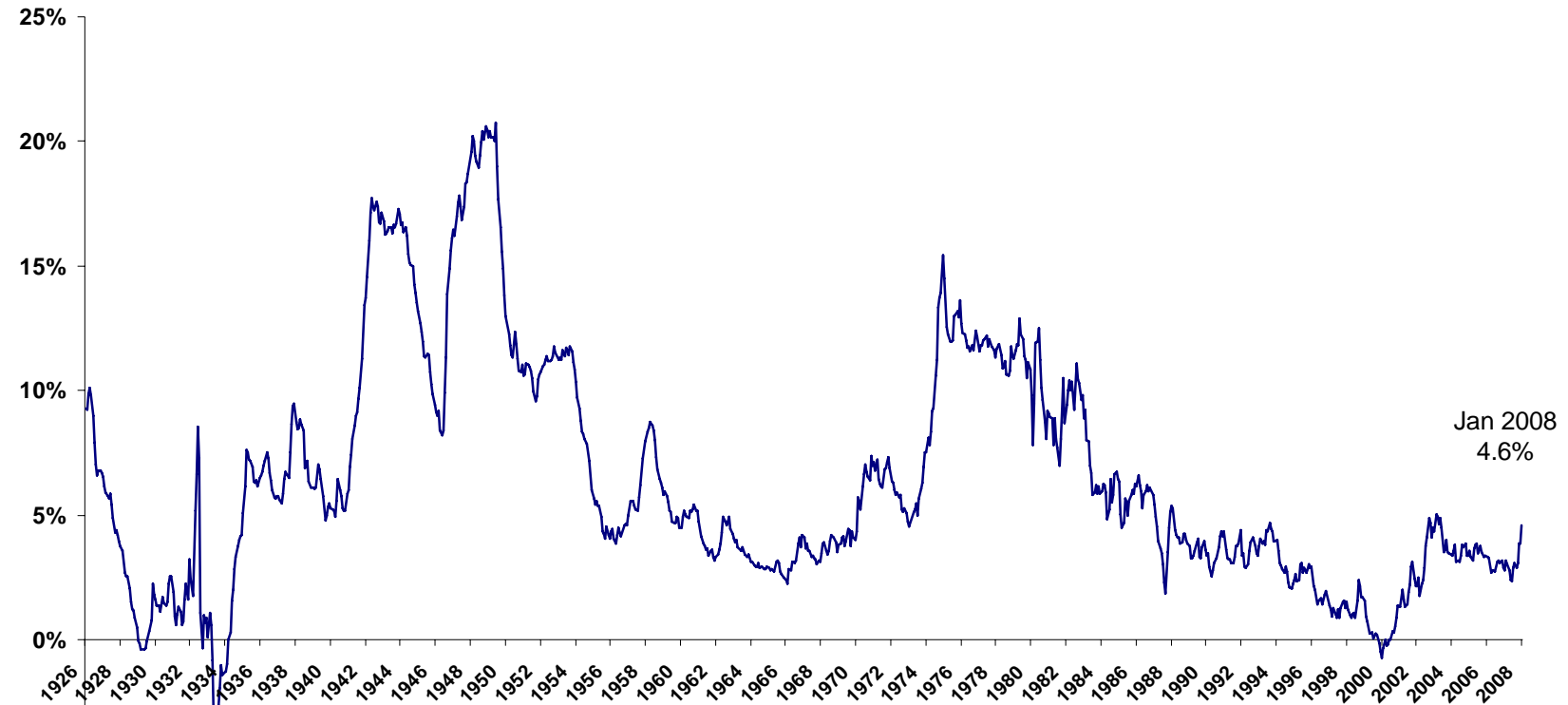
NZSF Returns and Back-cast Returns

Back-cast on historical data pre-2003



Evolving US Equity Risk Premium

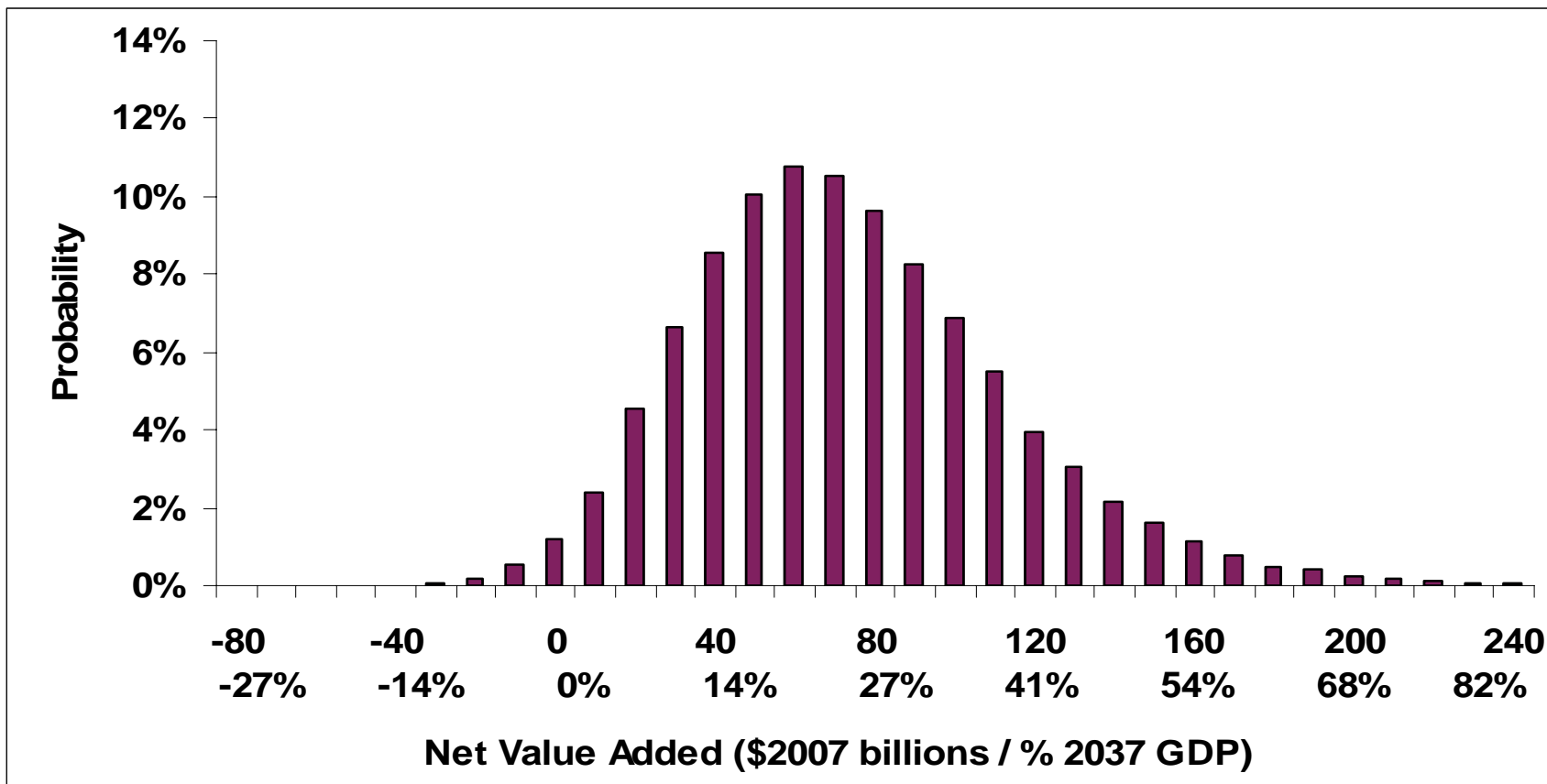
Prospective premium at level of early-1990s



**Equity Risk Premium = Expected Nominal Return on
Equities – Expected Nominal Treasury Bill Return**

Expected Return over 30-Year Investment Horizon

Simulated Value Added relative to Treasury Bills



Average = \$74b in 2007 dollars

Dynamic Investment Opportunities

Market volatility provides opportunity to consider deviations from “business as usual” Strategic Asset Allocation:

- A) Short-term market timing (i.e., reduce equity weight)
 - Not viable as short-term returns unpredictable
- B) Longer-term strategic tilting (i.e., buy more equities at cheaper entry price and/or higher risk-adjusted returns from foreign credit)
 - Potentially viable but additional gains modest
 - Currently considering framework
- C) Insurance provider to stressed balance sheets/businesses
 - Potentially viable
 - Considering framework

Meanwhile continue to invest for long-term

Responsible Investment Framework

- Continue to focus on best-practice - engagement in concert with other investors
- Guardians' RI decision making framework established
- Reviewing issues with view to setting precedents (e.g., tobacco, cluster munitions, nuclear armaments)
- Working with UN on Carbon Disclosure Project
- Working directly with Crown Financial Institutions on investment issues and resource sharing

Responsible Investment Framework

- *RI Standards:* United Nations (UN) Principles for Responsible Investment; UN Global Compact principles; Corporate Governance standards
- *RI Procedures:* portfolio monitoring; sovereign screening; analytical framework; engagement, voting and exclusions; knowledge-sharing and international collaboration
- *Governance:* Board Committee, internal committees, internal due diligence, and reporting

Responsible Investment Framework Carbon Disclosure Project (CDP)

- Guardians are a signatory to CDP, a collaboration of 385 investors, representing \$41 trillion assets under management
- CDP requests information from over 3,000 companies and is largest repository of corporate carbon emissions data
- Aims to improve corporate reporting and investment analysis of climate-related risks and opportunities
- Guardian's membership of Investor Group on Climate Change supports NZX50 coverage

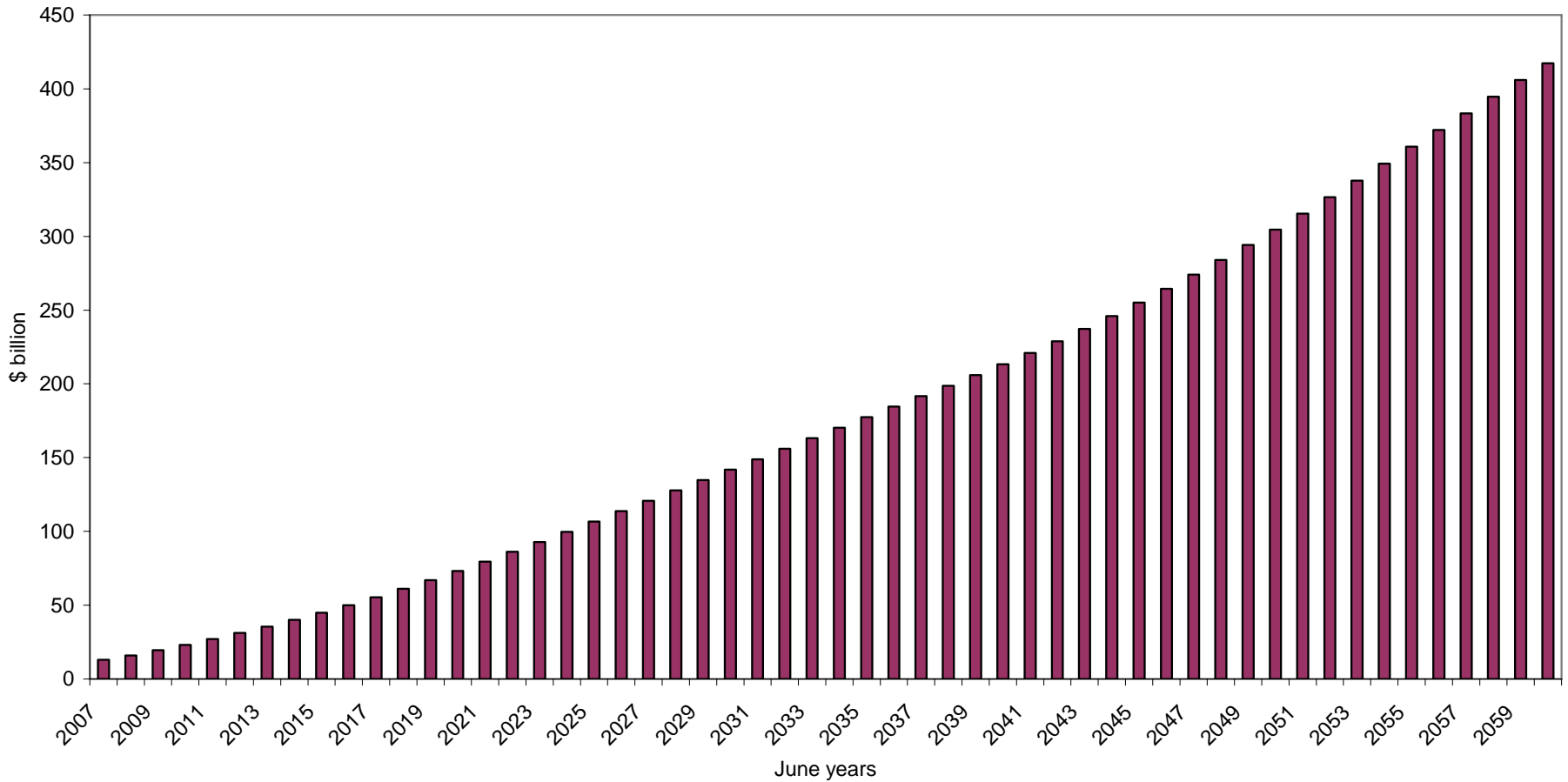
Managing Sustainable Growth

- Fund continues transition to established institution – significant human capital and systems development
- Ongoing review of structure, procedures, policies, and processes as Fund grows in complexity (especially investment and risk management)
- Completed custodian transition
- Benchmarks include best-practice globally and cost-effectiveness

Managing Sustainable Growth

- Fund continues to grow in asset type/diversity
- Management complexity growing:
 - Investment discovery and assessment (esp. private markets)
 - Deal execution (due diligence, governance)
 - Relationships (number and complexity)
 - Monitoring and compliance (esp. ability to learn from investments)

Managing Sustainable Growth Fund Balance



Source: New Zealand Treasury

Managing Sustainable Growth Custodian Transition

Custodian benefits

- Moved assets to Northern Trust Ltd
- Benefits realised include
 - Faster access
 - Increased automation
 - More robust operating model
 - Reduced Fees

Managing Sustainable Growth Securities Lending

Securities Lending

- Fund decided in July 2006 to implement Securities Lending programme
- Guardians' securities are lent to suitable (credit worthy) parties for a fee
- Following a comprehensive selection process, eSecLending was appointed to manage the programme
- Auction model where the securities are awarded to a list of pre-approved borrowers paying the Fund a fee for a one year period

Programme earnings

- In its' first year of operation the programme earned NZD 3.8m
- Projected net income for 2008 is NZD 4.0m

Managing Sustainable Growth

Key Priorities 2007/08 well advanced

1. Fund

- Continuing to invest and diversify (ongoing)
- Exploring more dynamic investing and in-house treasury needs (ongoing)
- Reviewing responsible investment framework (complete)

2. Guardians business operations

- Enhancing reporting and communication to Board and external stakeholders (ongoing)
- Completing custodian transition (complete)
- Reviewing processes and procedures, and organisation structure for efficiency and appropriate benchmarks (ongoing)