

Commerce Select Committee

10 December 2009

David May, Chairman

Adrian Orr, Chief Executive Officer

Agenda

- **Why We Exist**
- **A Growth Portfolio**
- **Investment Performance**
- **Independent Review**
- **Investing in New Zealand**
- **Responsible Investment**
- **Transparency**
- **Your questions**

Why We Exist

Mission

*To maximise returns over the long term, without undue risk,
so as to reduce future New Zealanders' tax burden*

Vision

A Great Team Building the Best Portfolio

How We Invest

*Strongly held investment beliefs anchor our strategies
which we develop our capabilities around*

A Growth Portfolio

The Fund is oriented toward growth assets as they provide longer-term economic reward for taking risk and suit our advantages.

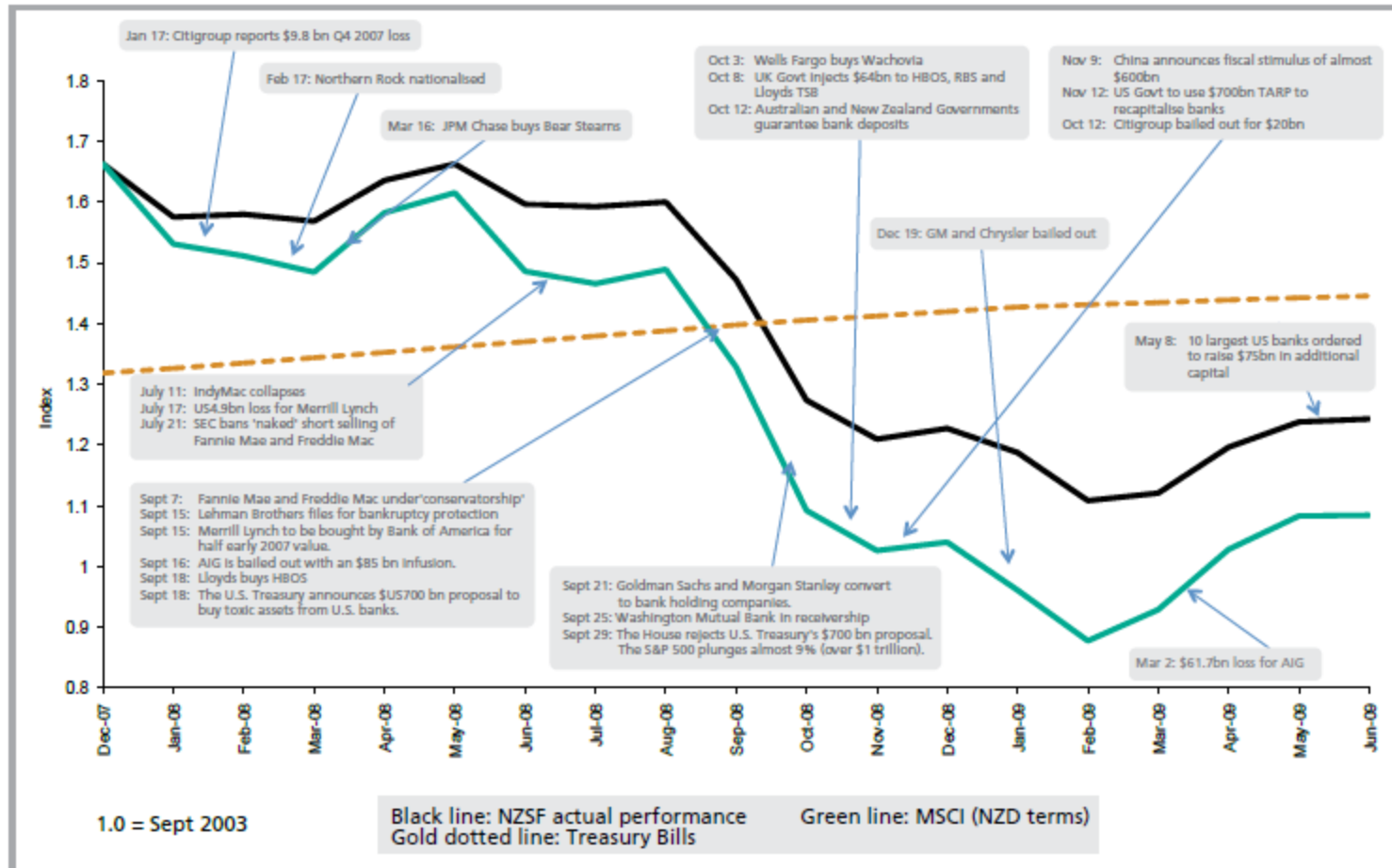
- We are a long-term investor:
- able to gain by holding relatively illiquid assets; and
- manage a higher-than-average tolerance for near-term volatility

We are strongly diversified across asset classes and regions with clear strategies

- Listed equities, property, infrastructure, private markets, forestry, commodities, NZ direct and other

Performance context 2008-09: The worst global financial crisis in 80+ years

Anatomy of Global Financial Crisis December 2007 – June 2009



Performance 2008-09

A difficult year – both absolute and relative performance

- Most external managers performed poorly in uniquely poor conditions
- Marked-to-market losses in securities lending cash collateral pool
- Both frankly discussed in Annual Report

Organisation responded positively

- Maintained long-term focus and captured rebound
- Revised manager selection process and manager-selecting activities
- Temporarily increased growth emphasis into recovery
- Improved in-house capacity to manage risk, improve efficiencies and expand strategies

Biggest challenge

- Maintaining a long-term focus under tight daily scrutiny

After the crisis: Performance update to 30 November 2009

Unaudited post fees, pre-NZ Tax Returns to 30 November 2009

Month to 30 November	FYTD 30 November	Since inception to 30 November
2.6% = \$405m	14.7% = \$2.00bn	5.7% = \$2.10bn

The Fund at 30 November 2009

	Since inception	FYTD
Contributions	\$14.88 billion	\$250 million
Contributions less NZ tax paid	\$13.53 billion	\$250 million¹
Fund size at 30 November 2009	\$15.61 billion	
Fund size relative to contributions	+\$2.08 billion	\$1.75 billion

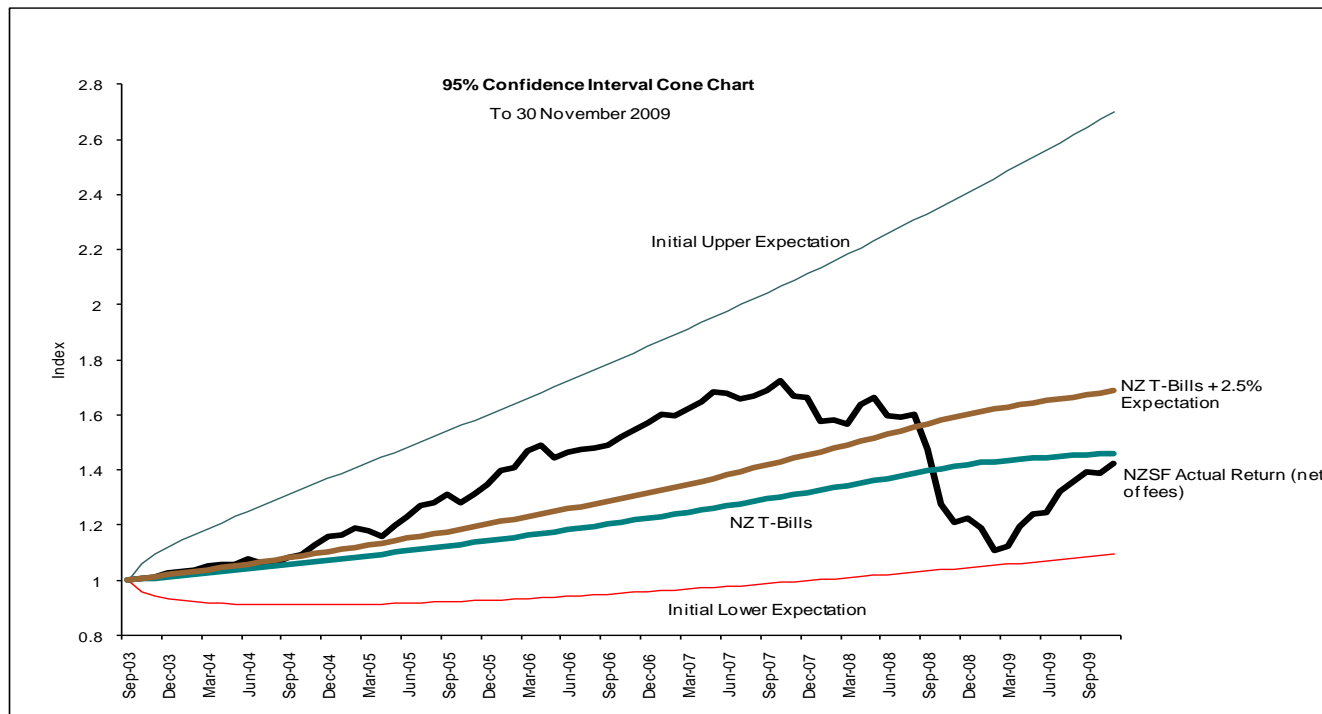
1 Principally because of the impact of the GFC, the Guardians accumulated approximately \$1.6 billion of tax losses, of which only \$300 million remains as a result of more positive market conditions post 30 June 2009.

After the crisis: still on course to achieve our performance expectation (T-Bills + 2.5%)

On course relative to Treasury Bills (see chart)

On course relative to Treasury projections of Fund size (assuming zero contributions from 2008/09 to 2020/21)

- Treasury projections \$14.59 billion end of FY09, \$15.79 billion end of FY10
- Fund \$15.61 billion at 30 November 2009



New Zealand investment

Pre-Direction \$3 billion (23.8%) of Fund was already invested in New Zealand

Relevant strategies since

- NZ Direct
- Expansion Capital
- Small Infrastructure
- Other (e.g. rural land)

Actual investment activity since January 2009

- PIP Fund (\$100 million committed)
- Direct Capital IV (\$50 million committed)
- Ongoing private equity investment
- Due diligence on Shell NZ

Independent Review

Review published in November

- **Five-yearly review with terms of reference set by Minister of Finance (last in 2004)**
- **Strongly supportive of strategy, governance and operations**
- **Vast majority of recommendations are for work either underway or completed**
- **Copy of report has been supplied to Committee**
- **Report and our responses published to our website**

Responsible Investment

- **Strong performance in UNPRI implementation assessment (top quartile in five of seven categories)**
- **Responsible Investment sufficiently matured to be fully business as usual for management and Board**
- **R.I Engagement process now fully publicly transparent**

Transparency

- **First SWF globally to publish response to GAAP for SWFs ('Santiago Principles')**
- **One of two SWFs to have a 10 rating for Transparency on the Sovereign Wealth Fund Institute's 'Linaburg-Maduell Transparency Index'**
- **Significant restructure of website to make it easier to understand:**
 - **Why We Exist**
 - **Who We Are**
 - **What We Do**
 - **Your feedback very welcome**

Summary

- **Strong team and organisation**
- **Clear strategies across diverse asset classes**
- **GFC-hardened organisational backbone**
- **Well placed for future and for current stressed market conditions**