



**NZSUPERFUND**

*Te Kaitiaki Tāhua Penihana  
Kaumatua o Aotearoa*

TITLE:

# **Between Passive and Active Investing: Factors and Alternative Beta**

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EVENT | PRESENTATION:

Presentation to i3 Portfolio Masterclass – March 2016

# Where we fit in

## RETIREMENT INCOME

New Zealand  
Superannuation  
(NZS)

Fund partially  
pre-funds

**NOTE: CONTRIBUTIONS  
SUSPENDED 2009**

Mandatory  
private savings  
accounts



**DOESN'T EXIST IN  
NEW ZEALAND**

Voluntary  
private savings  
accounts

Kiwisaver  
and other

# Key points

- Long-term investor able to look through market cycles
- We believe in passive investment and highly disciplined about active investment
  - We work hard to exploit our endowments
  - Separate opportunities from access points
  - Allocate capital to the opportunities we are most confident in
  - Use long-term investment themes to inform decisions
  - Prefer direct, flexible access
  - Integrate ESG throughout the investment process
- We have out-performed the market and exceeded our passive Reference Portfolio benchmark by \$4 billion since inception – and exceeded the government’s cost of debt by more than \$11 billion

# Defining our endowments

Long  
Horizon

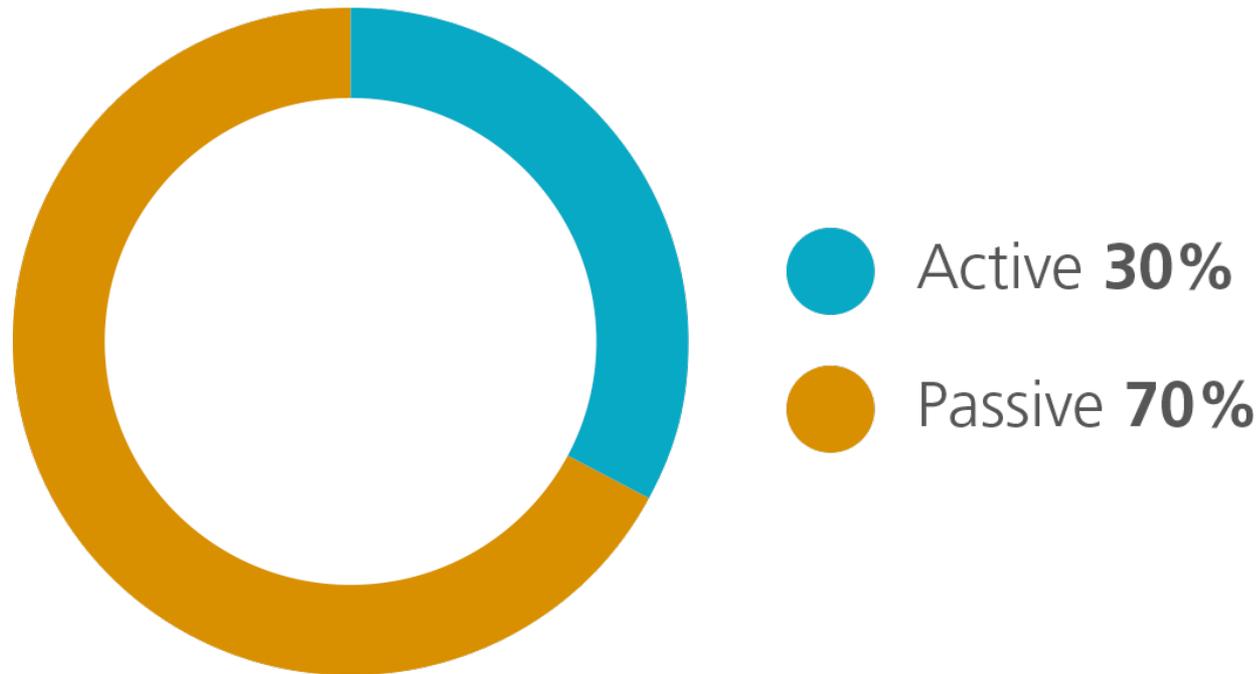
Certainty of  
Liquidity

Operational  
Independence

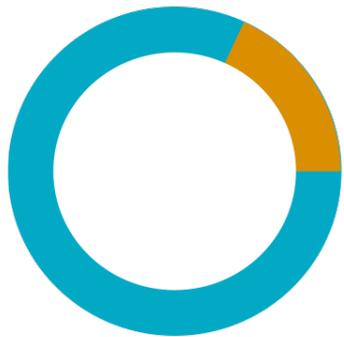
Location &  
Crown Owner

- We can ride-out short term volatility
- Genuine contrarian investor
- We can invest in private market and illiquid assets
- We pay lower tax in some jurisdictions (sovereign status)
- Favourably regarded as a potential co-investor and business partner

# Get broad market exposures cheaply



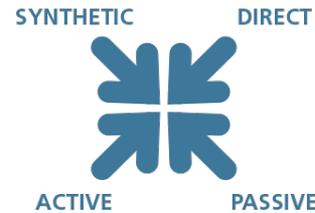
# Separate opportunity from access point



Reference  
Portfolio



Opportunities



Access points



Actual  
Portfolio



See + Articulate  
Drivers



Not Hot

# HIGHEST CONFIDENCE

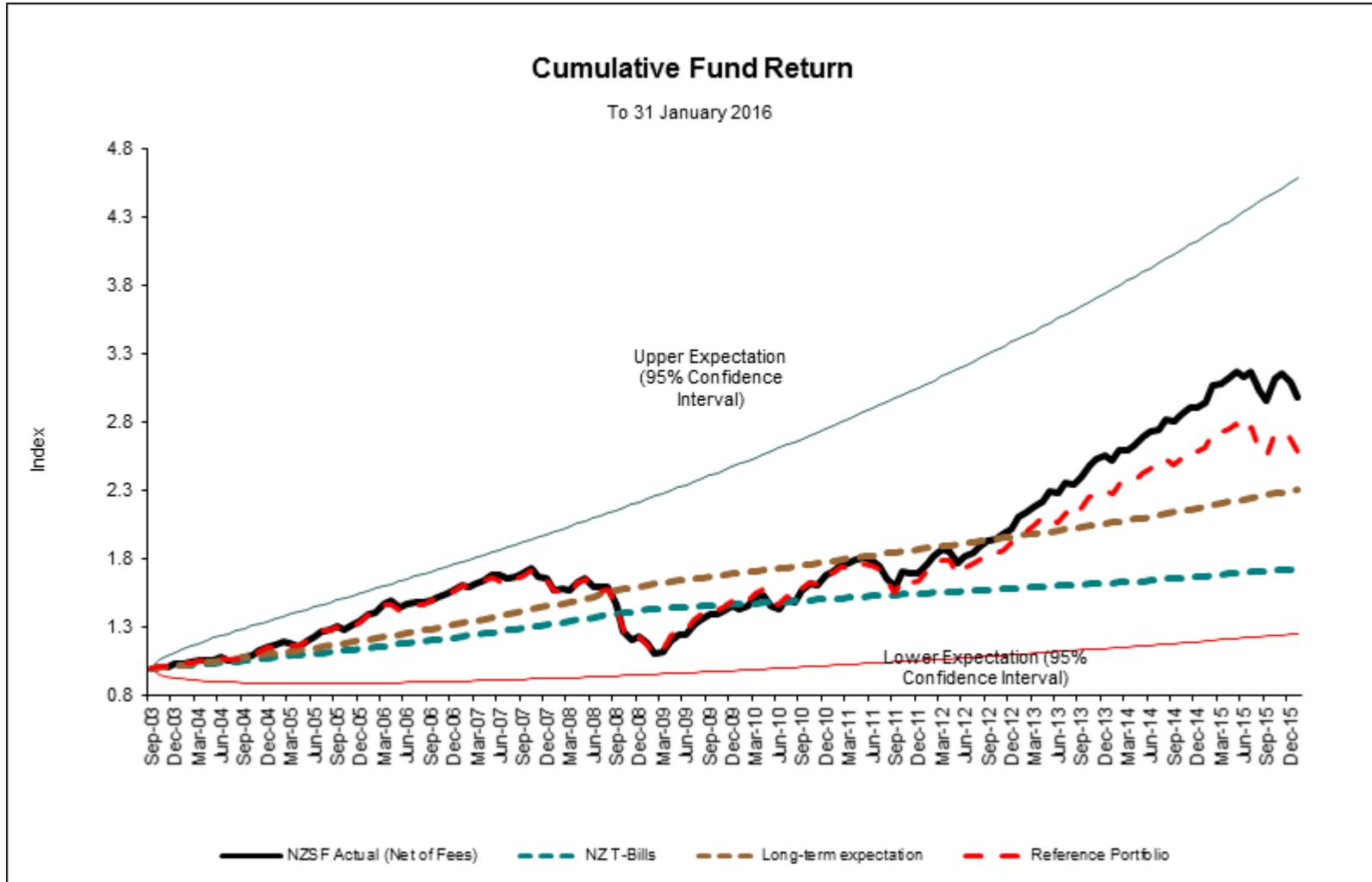


Opportunity

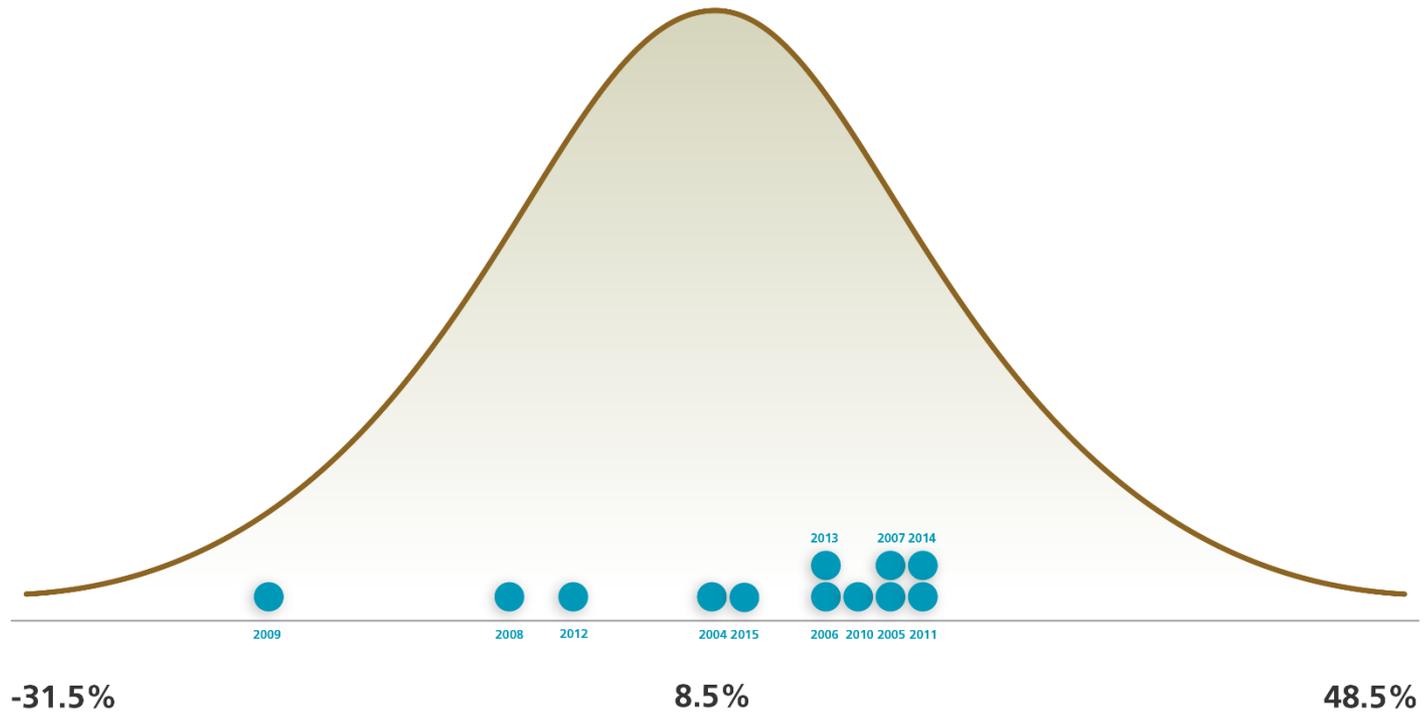


Beliefs

Endowments



# Expected and Actual Reference Portfolio Returns



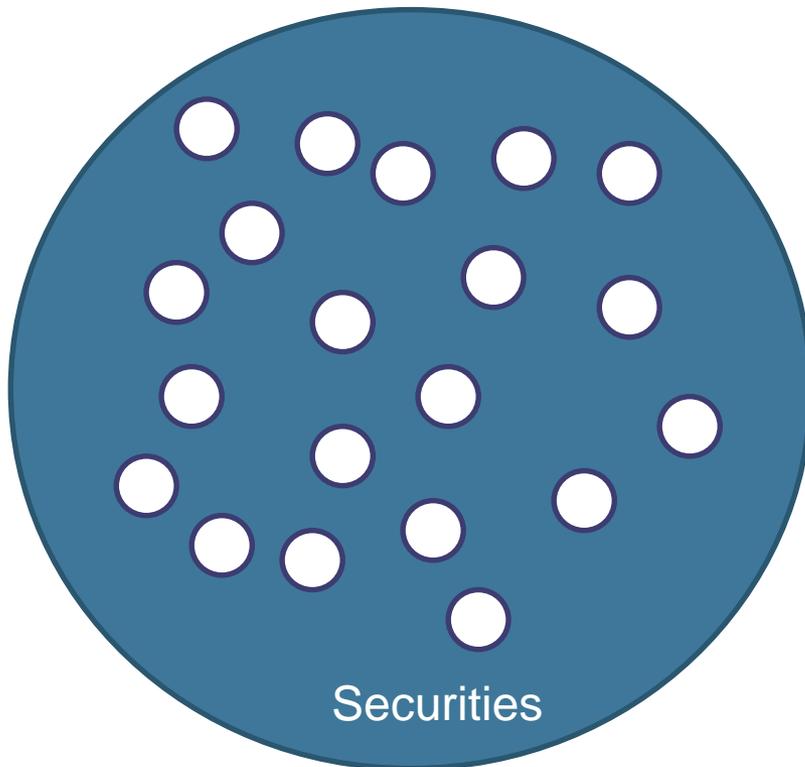
● Historic Reference Portfolio Returns

— Expected Reference Portfolio Returns

# **Systematic Premia: NZS Factors Design Principles**

# Constructing a portfolio of equities

Opportunity set



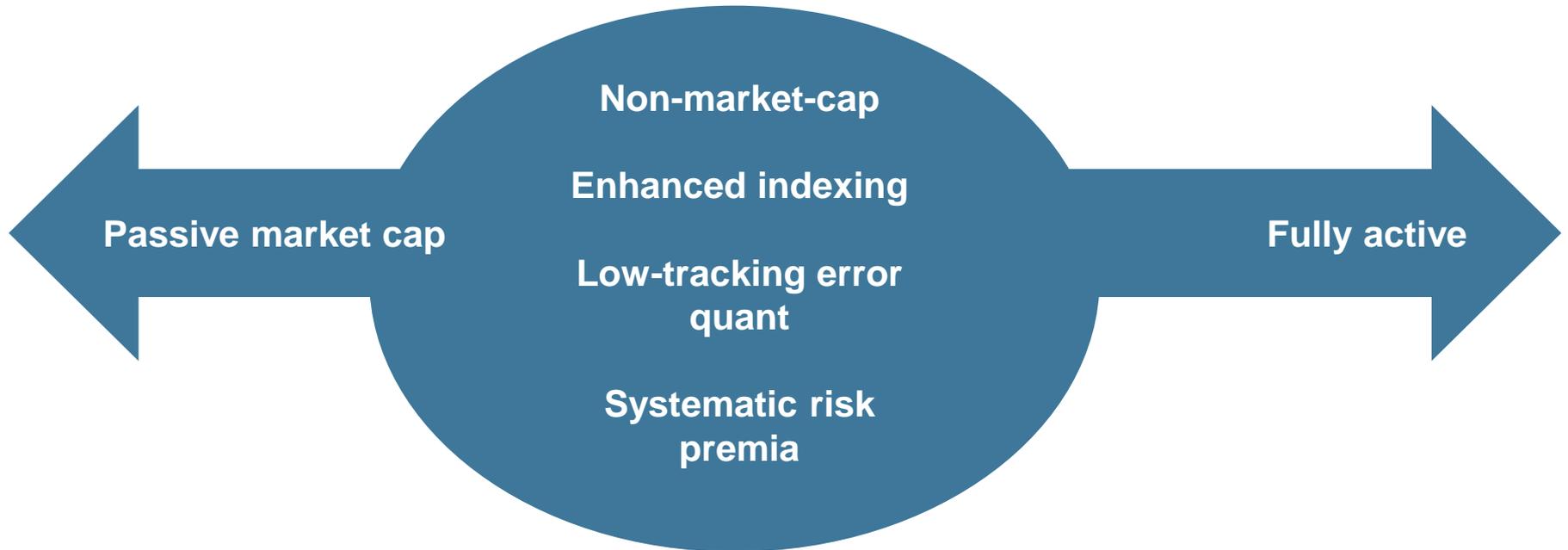
Can weight securities based on...

Attributes

- Business
  - Earnings
  - Dividends
  - Book value
  - Number employees
- Stock
  - Market value
  - Expected return
  - Correlation
  - Volatility
  - Price momentum

# What is non-market-cap investing?

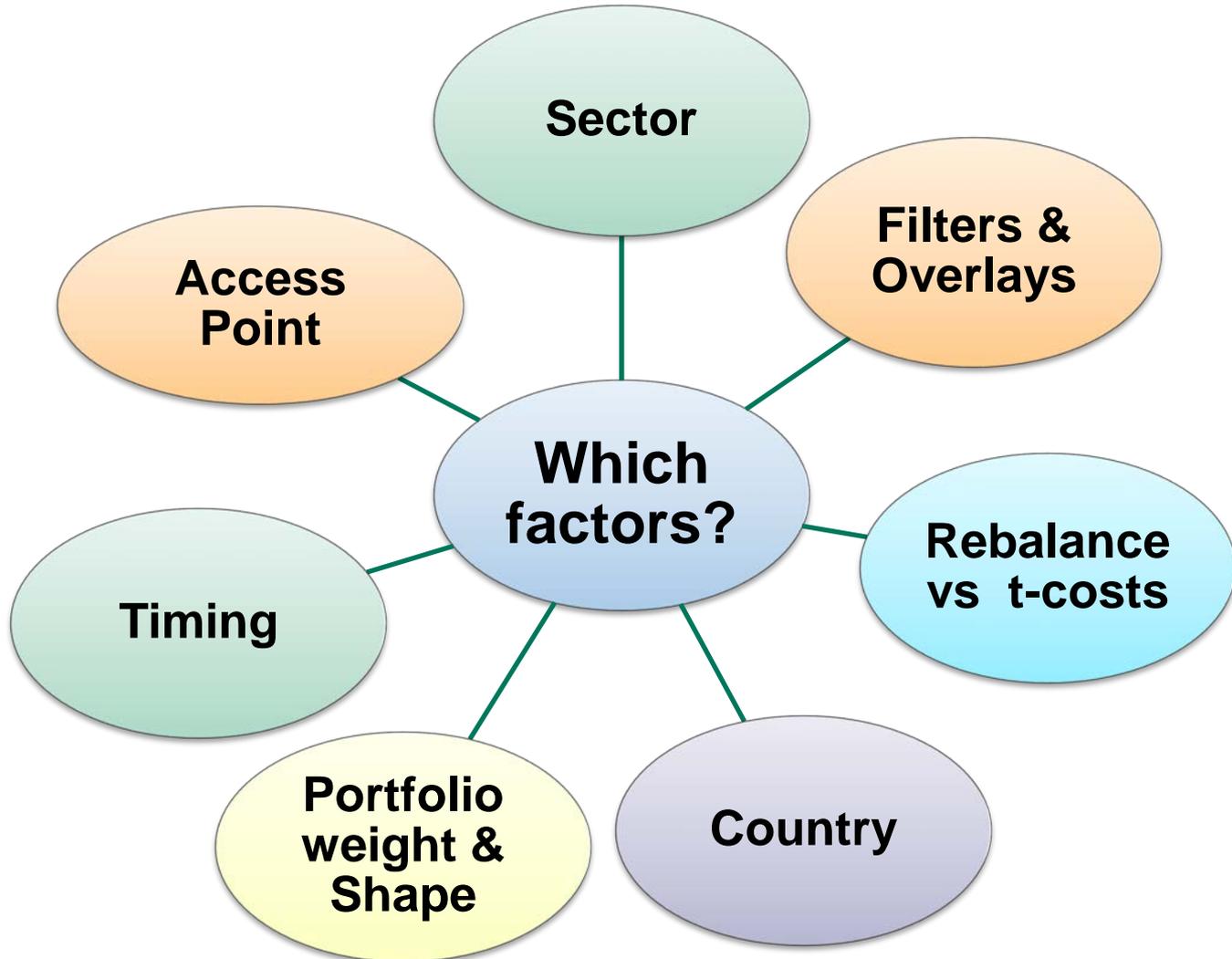
**Spectrum from passive to active**



# How we get confident in a risk factor

- Most published “anomalies” are spurious, e.g. data mining
  
- We have most the confidence that a risk factor is real and is likely to persist when:
  1. It is a risk premium (e.g., value stocks are riskier); or
  2. It has a convincing structural explanation (e.g., leverage constraints); or
  3. It has a convincing behavioural explanation.
  4. The empirical evidence is robust (out of sample, etc.)
  5. It is large
  6. It is consistent with our beliefs

# Choose Your Design Principles Carefully

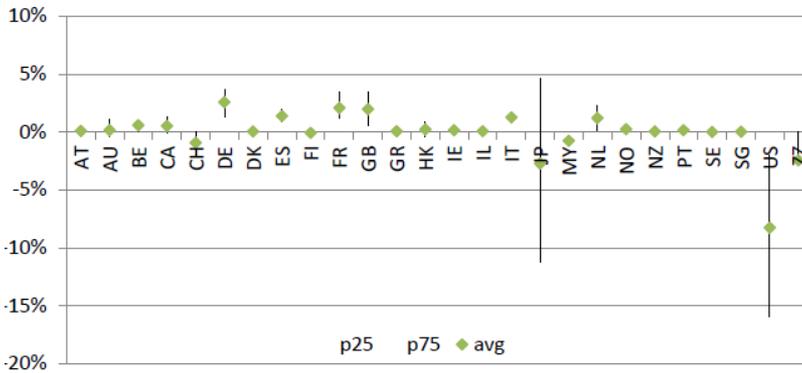


# Expect Biases

## Value

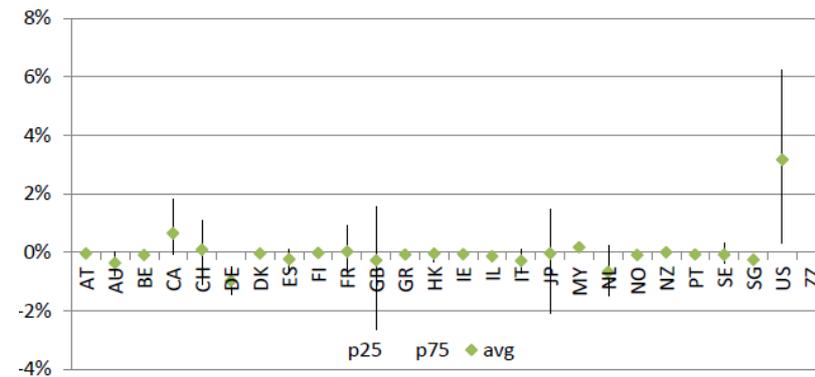
Active Country Weight - Long

Country

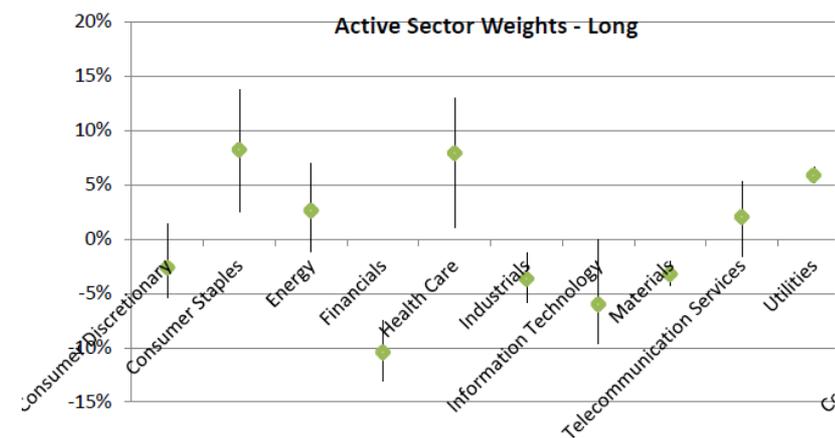
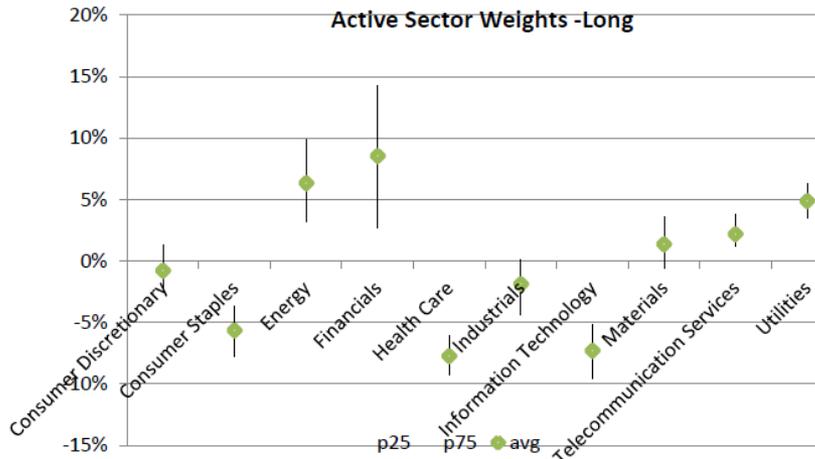


## Beta

Active Country Weight - Long



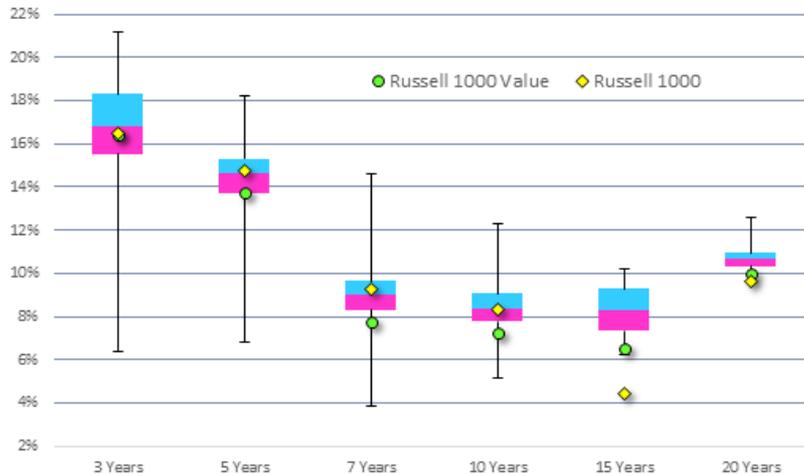
Sector



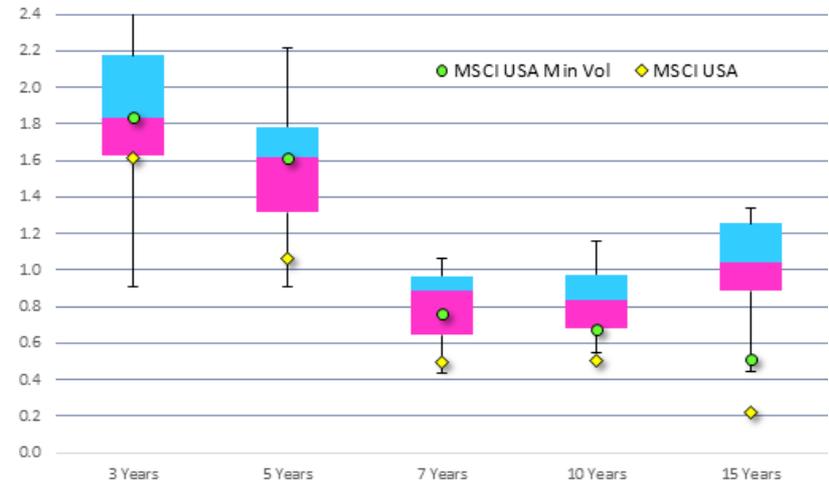
# Long Horizon Required

- The butterfly charts below show the net performance of managers in the value and low-risk space versus the factor benchmark and the market. US data has been used to get the longest manager history possible.
- The managers selected are quantitative (non-stock-picking). Over long time-periods we can see that the median manager comfortably beats the factor benchmark

## US Value



## US Low-Risk



# Key points

- Long-term investor able to look through market cycles
- We are happy to hold passive liquid indices and highly disciplined about active investment
- We have out-performed the market and exceeded our passive Reference Portfolio benchmark by \$4 billion since inception – and exceeded the government’s cost of debt by more than \$11 billion
- We are reviewing systematic premia starting with factors (value and low risk)