

CEO VIDEO STATEMENT - ANNUAL REPORT 2018

Matt Whineray, Chief Executive, Guardians of New Zealand Superannuation

Kia ora

We take investment risk in order to grow the NZ Super Fund over the long-term – over many decades. We need to do this if we are to meet our goal of helping to pay for New Zealand Super in the future.

As a result, the Fund is weighted towards growth assets such as shares – much the same as the growth funds offered by Kiwisaver providers.

Growth assets can be volatile, moving up and down in price.

This means that the Fund will experience losses when markets undergo sharp drops in price. This could be driven by, for example, global financial downturns, political shocks, natural disasters, or war. We accept this risk in order to maximise returns over the long term.

Take the Global Financial Crisis of 2008. The graph you can see on screen shows a simulation of what would happen to the Fund if the Global Financial Crisis were to repeat itself.

We estimate that the Fund could lose \$20 billion, roughly half of its current value.

Fortunately, eventually markets recover.

This means that we expect the Fund would earn back losses suffered in a market crisis. While it is only one example, during the GFC, the Fund recovered all lost value within 20 months.

In fact, it's when financial markets are falling that we get the best opportunities to purchase assets that will deliver strong returns over the long-term.

Because the NZ Super Fund is such a long-term fund, it can weather market swings like this, even stand to gain from them, and still achieve its long term goals.

The expected recovery in the Fund's value, however, is only possible if the Fund has the discipline and resources to stick to its long-term investment strategies through a market cycle.

So, the major risk to the Fund is not that we will experience volatile returns – we know that will happen.

The major risk is that we lose our nerve, close down our positions, and lock in the losses experienced during times of crisis.

Over the next sixty years as the Fund increases in size, it will become an increasingly important asset to New Zealand. So, it's important that we talk about the investment strategy we have chosen, and its implications in terms of the volatility we will experience. We want to make sure that our stakeholders – the New Zealand public – understand how this volatility will play out during times of crisis, and beyond.