

COVID-19

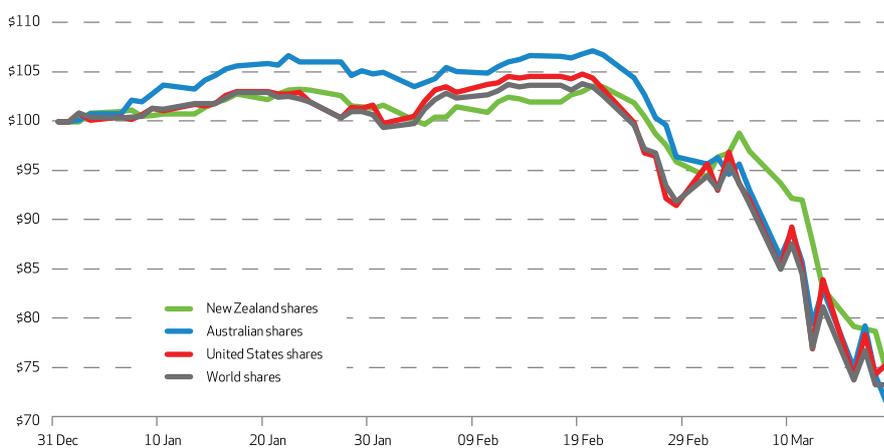
Market update 3 and a record of our actions

Executive Summary

- Global share markets have fallen 26.3% year-to-date.
- NZ Funds implemented its strategy which is a set of rules and protocols to be followed in the next major market downturn.
- NZ Funds' clients have fared much better than global share markets.
- We now enter the third phase of our strategy. We are focused on outperforming when the share market rebounds.
- At current share market levels, we believe shares could have over 40% upside.
- We have implemented a systematic trading strategy to increase our share market exposure.
- The journey will remain volatile. But the median recovery period following a share market fall of 20% or more is only 211 trading days.

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Share markets 2020 year-to-date



Source: Bloomberg, Indices: NZX S&P 50 Portfolio, ASX S&P 200, S&P 500, MSCI All Country in local currency.

Market update 3

Global share markets have fallen -26.3% year-to-date. United States shares are down -24.9% and Australia and New Zealand shares are down -27.3% and -25.4% respectively. Corporate bonds have also come under pressure and commodity prices continue to collapse, with oil trading at prices not seen since 2003.

NZ Funds' clients have fared much better than the market. The average 45-year old KiwiSaver member is down around -14.0% year-to-date and the average 65-year old KiwiSaver member is estimated to be down only -11.5% year-to-date.

Following the share market downturns in 2000 and 2009, NZ Funds developed a strategy with a set of rules and protocols which we would follow in the next major market downturn. In early March NZ Funds implemented this strategy. The following is a record of actions.

10 March 2020 | COVID-19 Special Announcement. Financial markets were struggling to gauge the economic impacts of COVID-19. NZ Funds took steps to mitigate the effect of further financial market volatility on clients' global growth assets.

We hedged 50% of clients' share market exposure. We also purchased options to capture gains should an unexpected share market rally occur.

Of the remaining 50% exposure that was not hedged, 30% was invested in New Zealand shares which have subsequently outperformed global markets.

The final 20% was invested in global shares and overseen by two New York based specialist long/short hedge fund managers who have the tools and instructions to seek to mitigate any further downside, should it occur.

13 March 2020 | COVID-19 Market update 2. NZ Funds' clients had fared much better than the market. We expected global shares to fall further as the impact of a global recession are priced into the market. We wrote that our short-term target for the S&P500 index is 2,300, some 10% lower than where the market was positioned.

In this scenario we estimated clients would be broadly flat, with further downside offset by a combination of a 50% cash-like hedging position on global shares, high exposure to the United States dollar and further mitigation from Universa.

20 March 2020 | COVID-19 Market update 3. We now enter the third phase of our strategy. We are focused on outperforming when global share markets rebound. At current share market levels, we believe shares could have over 40% upside. We have implemented a systematic trading strategy to increase our share market exposure.

We will move to a fully invested position if global share markets continue to sell off. Our trigger is the United States share market (S&P500 Index) falling to 2,000 (currently 2,410). Equally, if markets rebound, we will move to 100% exposure if the S&P500 Index reaches 2,800.

Given the uncertainty around borders, travel and trade, we retain our hedging strategy across both our global and income portfolios. Furthermore, Universa have performed exactly as we expected and remain well positioned to provide further upside should markets fall further.

While the journey will likely remain volatile, the median recovery period following a share market fall of 20% or more is only 211 trading days.

NZ Funds' view that share markets grow in value over time means that the opportunity is right to begin reengaging with the market for the long term.



James Grigor, CFA
Chief Investment Officer

James began his career at NZ Funds in 2000 as an intern, becoming an Equity Analyst in 2004.

Following a deployment with the New Zealand Defence Force to the Middle East in 2009, James relocated to London where he worked in management consultancy and private equity.

James returned to New Zealand in 2015, and following a senior role at Macquarie Bank, returned to NZ Funds in 2017.

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