<u>Statement by Mr. Herman Bril, Director in the Office of Investment Management on behalf of the Representative of the Secretary-General (RSG)</u>

<u>at AFICS/NY Annual Assembly Meeting, New York, 29 May 2019</u>

I am pleased to make this statement on behalf of the RSG, Mr. Sudhir Rajkumar. The RSG regrets he could not participate in the AFICS/NY Annual Assembly meeting today due to some unavoidable scheduling conflicts. You will recall that the RSG participated in this meeting last year, and would be very pleased to do so again next year. You will be happy to know that, taking into account his inability to be here today, he took the initiative to meet with the AFICS Board on 1 May 2019, and was happy to respond to all their queries and questions.

In keeping with my commitment to proactive communication with all stakeholders, I had provided – for the first time ever -- an initial overview of our investment results for 2018 within one month of the close of the year, at end-January 2019. This initial overview was posted on both the OIM website (https://oim.unjspf.org) and the Fund Secretariat's website. This overview was based on the first available numbers, which were very preliminary and subject to significant change. The final 2018 numbers did not become available until late April 2019 (and are now posted on our website), as our third-party independent Master Record Keeper meticulously collected all relevant information and calculated various performance metrics in accordance with industry standards.

In some ways, this is similar to what happens with the preparation of our audited financial statements, which are finalized only by May-June of the following year after the Board of Auditors have reviewed them and provided an opinion on them, and are formally presented to the Pension Board in July.

These are highly specialized and resource-intensive exercises, which have to follow a meticulous process meeting industry standards. Any lapses in this exercise can be severely damaging to our credibility, so it is better to take the time needed to calculate these numbers as accurately as possible. For example: we receive information on the actuarial value of our liabilities – a metric at least as important as asset value information in determining the financial health of a pension fund -- ***only once every two years***. The reason is the resource-intensity of this exercise, and the high cost of creating doubt about the validity of these numbers – as we have ourselves experienced in recent years.

With this background, let me turn to our investment results for 2018 and year-to-date in 2019.

2018 turned out to be a challenging year in global financial markets. Investment returns for global equities were around *minus* 8.7%; the worst performance in any year since the Global Financial Crisis of 2008. Investment returns during December 2018 were the worst for that month in any year since 1931.

Despite these challenges, coupled with increasing market volatility, the market value of the assets of the Fund remained above the 'Actuarial Assets Value' of US$60.4 billion, at US$60.8 billion. This 'Actuarial Assets Value' was used by our Consulting Actuary in their most recent report to determine that the Fund's financial condition is sound.

It is important for the Fund's stakeholders, including our 207,000 current and future beneficiaries, to note that estimations of the Fund's financial well-being are made by external experts using very conservative assumptions, including smoothing the market value of the Fund's assets over 5 years, which adjusts for the expected volatility of global financial markets.

Underlining the fact that volatility is an enduring feature of global financial markets, the market value of the Fund's assets has already bounced back to US$65.2 billion as of 31 March 2019.

I am pleased to share with you that the Office of Investment Management achieved its stated goal of meeting or exceeding the returns of the Policy Benchmark during 2018.

We also continue to exceed by a healthy margin our Long-Term Objective of 3.5% real (net of inflation) return in US dollar terms over 10 and 15-year periods. As I have previously stated at various stakeholder forums -- including the Pension Board and the General Assembly – our goal is to fully discharge all our obligations to current and future beneficiaries. Pension payments are made over decades, and short-term fluctuations in investment returns do not have a material impact on these pension payments so long as the Long-Term Objective is being met.

Financial markets are likely to be volatile over the near-term as they try to gauge and adjust to the future direction of fiscal and monetary policy after a decade of quantitative easing, as well as rising geopolitical risks around the world. At the same time, our fully funded status gives us a certain amount of financial cushion to withstand a period of low investment returns. I am confident that the Office of Investment Management will be able to deal with whatever challenges the markets may present, with the support and encouragement of all our stakeholders.