



New Zealand Harbours Superannuation Plan

Chairman's Newsletter

August 2006

The most recent meeting of Trustees was held on 17 August 2006. The purpose of this newsletter is to bring you up to date on some of the issues discussed by the Trustees.

Investment performance

In contrast to the March quarter when the Plan earned 6.8% net, the 4 months since the beginning of the year have been difficult for investment markets and the result is a net earned rate of just 0.1%.

The local share market has been weak and has dropped 7.5% since March. This is in contrast to overseas markets which in general have held up since the year end.

While the New Zealand cash rate (the OCR) has remained at 7.25%, fixed interest rates have risen with the 2 year bond rate up 70 basis points to 6.7%. Again this is in contrast to overseas, where the 10 year US bond rate has remained around the 4.8% level since March.

Late last year and earlier this year there was an expectation that the NZ economy would slow significantly but this has not been the case and the economy is proving to be more resilient than expected. While the growth rate has fallen, employment levels and consumer confidence remain high. As a result, predictions of the time at which the OCR rate will start to fall have been extended. At the end of last year it was expected to fall in September 2006 at the latest, but now the view is that we will not see a fall in the OCR until June 2007. Should this resilience in the economy continue, we could even see the OCR rise above the current 7.25% rate.

The US Fed decided to halt its run of 17 consecutive increases and left the rate at 5.25% at its last meeting on 8 August. One committee member voted against the pause. The basis for the decision was the cooling of the US housing market and the lagged effects of the increase in interest rates and energy prices. This pause was followed later that week by news that US consumer spending was continuing to increase, up 1.4% on the June month. The Fed has advised that a resumption of rate increases will follow if necessary. Its next meeting is scheduled for 21 September NZ time.

The outlook for investment markets is one of some uncertainty with particular concern over rising inflation. In this scenario investors will be looking to hold cash rather than shares and bonds.

This commentary was written on 23 August 2006.

Plan earning rates

Based on the returns over the quarter, a rate of interest of negative 0.25% after investment fees and expenses was allocated to members' balances for the quarter ending 30 June 2006. Members should not be too disappointed at this result, but rather bear in mind the excellent rate earned over the year ended 31 March 2006. A correction in investment markets was expected and well overdue.

The investment managers project small positive returns for the next quarter to 30 September 2006, and the present situation is that an interim after tax rate of positive 1.50% has been accepted by the Trustees as applying for the balance of the quarter. That interim rate is updated each month and is only used to calculate benefits for members who leave the Plan.

The benefits of long-term savings

Five members retired during the quarter, with between 17 and 20 years' membership. The average benefit paid to retiring members was over \$200,000. The Trustees noted that this gave an excellent example of the value of the Plan to its members.

General information on the benefits available to a member of the Plan can be found from the Plan's website (<http://www.harbourssuper.org.nz>). Specific information about the balances and benefits available to an individual member is held on a secure part of the website, for which members have a password. The Administration Manager should be contacted if a password has been forgotten.



The Trustees have agreed to institute a process of measuring how many 'hits' are made on the website and which areas of the site are being accessed. This will enable us to see whether members appear to be using the site, and to concentrate of further developing the sorts of information that are most interesting. Members' privacy remains assured, in that the Trustees will not be able to track exactly who is logging on.

Changes to the NZ superannuation scene

No doubt members will have read of the "KiwiSaver" scheme being proposed by the Government. KiwiSaver is intended to promote retirement savings, particularly for low- and middle-income earners, by requiring employers to provide access to savings plans by way of salary deductions.

The Government has also made proposals to change some aspects of the tax legislation. Of particular interest to the Trustees was the proposal to change the way the Plan may be taxed, which may benefit any members who earn under \$38,000.

In both matters, Select Committees have received submissions on the Government's original proposals. Details of the final legislation were not known at the time the Trustees met, but once those details are available the Trustees will be considering what if any changes should be made to the Plan.

Subsequent to the Trustees Meeting the KiwiSaver legislation has been passed by Parliament. There have been substantial changes since the initial Bill was introduced and these will need careful evaluation. One key change is that implementation has been delayed until 1 October 2006 so there is a little more time to consider all the ramifications.

Statutory requirements

The Trustees were advised that the Prospectus and the Investment Statement currently comply with the relevant legislation, but will need to be updated within the next few weeks. The current Prospectus and the Investment Statement can be found on the Plan's website and are also held by the Administration Manager, although paper copies can be obtained on request.

Complaints

The Trustees were advised that there are no outstanding complaints. Members should be aware that a complaints procedure is available to them if there are outstanding issues that they do not consider have been dealt with satisfactorily.

David S Stevens
Chairman of Trustees