Chairman's Newsletter **July 2019**

The purpose of this newsletter is to bring you up to date on some of the issues addressed by the Trustee at its most recent meeting held on 13 June 2019.

Investment Markets Overview – Quarter to 31 March 2019

We barely had time to contemplate the losses in the final quarter of 2018 before share markets around the world staged a significant bounce-back. The US S&P 500 Index returned 13.1%, while the tech-heavy Nasdaq did even better with a return of 16.5%. Our own S&P/NZX 50 Index managed 12.1% to keep its rolling five year return above 15% per annum.

Global developed markets were up double digits: the MSCI World rose 12.6% (local currency terms). Emerging Markets trailed somewhat although China's Shanghai Composite Index rose a staggering 25% in the quarter.

A softening turn by central bankers around the world ignited the gains. Through the quarter, policymakers from the US to Europe to Australia and New Zealand either appeared to pause their tightening stances or signal a potential loosening of monetary policy. For instance, the US market now sees a 40% chance that the cash rate will be at least 0.25% lower by the end of the year.

In New Zealand, the March OCR statement indicated that the Reserve Bank's next move in the cash rate would likely be downwards. As a result, bond yields fell. The NZ 10 year Government bond yield cratered at 1.7% near the end of the quarter (down from 2.4% on 31 December). The equivalent US Treasury yield also fell – although not to the same extent. (Both have since recovered from their lows.) The pessimistic talk was not confined to central bankers. The International Monetary Fund's April edition of its World Economic Outlook revised down several key growth predictions. The IMF now forecasts global growth of 3.3% in 2019, down from 3.5% in its January report and 3.7% in its October 2018 report. Falling yields lead to mark-to-market gains on bond investments and the S&P/NZX NZ Government Bond Index rose an impressive 3.1% in the quarter. The FTSE World Government Bond Index rose 2.5%.

Year-end processing

The financial statements have now been signed and filed with the Registrar. A copy is also available on the Plan's website. The Annual Report has been printed and distributed, through the employers, to each member along with their annual benefit statement.

If you have not received your annual report and benefit statement please get in touch with the Plan Manager (Claire Shiels) whose contact details are in the footer to this newsletter.

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Plan Earning Rates

The investment return used to update member balances for the March quarter each year are always based on the audited financial statements. For the quarter ended 31 March 2019 these were a taxable rate of positive 2.82% and a non-taxable rate of positive 5.24%. The equivalent after-tax return is positive 7.77% for members subject to a 10.5% tax rate, positive 7.57% for members with a 17.5% tax rate and positive 7.27% for members with a 28% tax rate.

Annual investment returns for each of the last five years (before deduction of operating expenses) are shown in the table below for both a 28% tax rate and a 17.5% tax rate.

Financial Year	2014-15	2015-16	2016-17	2017-18	2018-19
Plan return (28% PIR)	11.1%	4.5%	7.0%	6.8%	5.3%
Plan return (17.5% PIR)	11.7%	4.9%	7.6%	7.4%	5.8%

Conservative Investment Option for Deferred Members

As noted in the previous newsletter, the new Conservative Investment Option (CIO) fund for Deferred Members has started. The option has been taken up by a few members and we expect its popularity to increase as more members become aware of its existence when they finish work and become eligible for a benefit from the Plan.

As in all cases when considering the investment of your savings, especially the funds already accumulated for your retirement, the Trustee encourages you to seek professional financial advice before making any decisions.

David S Stevens
Chairman