Ports Retirement Plan

Chairman's Newsletter **March 2017**

The most recent meeting of Trustee was held on 23 February 2017. The purpose of this newsletter is to bring you up to date on some of the issues addressed by the Trustee.

Quarterly Investment Markets Overview

The most significant feature of the December quarter was the losses faced by fixed income investors as bond yields were repriced higher. Higher yields lead to losses on bonds and the S&P/NZX NZ Government Stock index fell 3.4% over the quarter while the Bloomberg Barclays Global Aggregate index gave up 2.0% (hedged to the NZ dollar).

While these losses in fixed income were painful, longer term results remain healthy. Even allowing for the December quarter, the domestic and global bond indices have returned 5.5% pa and 7.1% pa respectively over the last three years – well above the result from cash (3.1% pa).

Another feature of the December quarter was the relative performance between the New Zealand and Australian share markets. Over the quarter, the New Zealand share market gave back a significant proportion of its previous gains. This, too, was largely driven by bond yields; the desirability of New Zealand stocks is strongly linked to their relatively high dividends. So, as bond yields rise, investors leave our share market and return to bonds. In contrast, the Australian index rebounded strongly, largely due to its high weight to banking stocks (banks benefit from higher interest rates) and mining stocks (commodity prices increased with the higher inflation expectations).

The New Zealand dollar did rise slightly against its Australian counterpart, which meant that unhedged investors faced a headwind. But nevertheless, the returns over the year are now similar across the two stock markets. The S&P/NZX 50 has returned 10.1% compared to the S&P/ASX 200's 9.2% (NZ dollar terms).

On the global share markets, the MSCI World index returned a healthy 5.3% for the quarter on a fully hedged basis. The New Zealand dollar fell against the U.S. dollar (although it rose slightly against most other major currencies), meaning that on an unhedged basis the MSCI World index did better (up 6.2%).

Plan Earning Rates

The Trustee discussed the report from the Plan's Investment Consultant for the quarter to 31 December 2016. This showed that the Plan's overall investment return over the quarter was negative 0.3%, losing a little bit of value against the Plan's benchmark return of negative 0.2%. On a per annum basis the Plan is ranked in the middle of its peer group for one year and three year periods, and in the top half for the five year and eight year periods. For the eight year period the Plan is ranked 3rd out of 11 funds.

The investment return for the December quarter which was used to update members' accounts comprised a taxable rate of negative 0.4% and a non-taxable rate of negative 0.1%. The equivalent after-tax return is negative 0.5% for members subject to a 10.5% tax rate, negative 0.4% for members subject to a 17.5% tax rate and negative 0.4% for members subject to a 28% tax rate.

For the nine months to 31 December 2016 the investment return which was used to update members' accounts comprised a taxable rate of positive 3.7% and a non-taxable rate of positive 0.3%. The equivalent after-tax return is positive 3.7% for members subject to a 10.5% tax rate, positive 3.5% for members subject to a 17.5% tax rate and positive 3.1% for members subject to a 28% tax rate.

Director Appointments

With the recent resignation of two directors as noted in the previous newsletter, the appointment of their replacements was formally noted as follows:

- Chris Ball was appointed as a replacement director for Roy Cowley, and
- Simon Kebbell was appointed as a replacement director for Sara Lunam.

David S Stevens
Chairman
10 March 2017