Chairman's Newsletter **November 2018**

I have been watching the performance of international markets carefully over the past few weeks and have been concerned at the level of volatility that has developed. The volatility has arisen for a number of reasons and at the current levels I think that it is appropriate to pass on information to members. I have, therefore, asked Ben Trollip the Plan's asset consultant to prepare an information paper to keep members up-to-date with current developments. Ben writes as follows:

"The beginning of October saw a sharp downturn in share markets globally. During the first 16 days of October, New Zealand shares were down almost 6% while developed economies around the world fell 5.5% on average. Rising interest rates in the US and Europe also meant that bond portfolios performed poorly, especially outside of New Zealand. For the remainder of the month, markets continued to show heightened volatility, albeit with some significant positive days interspersed amongst the negative ones.

What happened?

Perhaps the most obvious trigger for this downturn was the decision of central banks in the US and elsewhere to continue to raise interest rates. The European Central Bank has also begun to ease off its quantitative easing programme, which was implemented following the 2008 global financial crisis. The speed of the interest rate hikes unnerved investors, many of whom saw these higher rates as a threat to corporate profits. This encouraged investors to shift money away from stocks in favour of the now-higher interest provided by bond and cash investments.

The strong performance of stock markets in recent years, together with signs of increasing inflation across the world have also contributed to the nervousness of investors. There appears to be little fundamental basis for these concerns, other than the feeling that a market downturn is "overdue" because of the long period of good performance.

Investor concerns have also been mounting around various political difficulties developing over the year. Probably the most important of these is the ongoing trade war between the US and China, and the effect that this has had and may continue to have on corporations that rely on global trade. There are also concerns around Italy's new government which is pushing back on European demands around fiscal policies. More recently, the disappearance and death of Saudi journalist Jamal Khashoggi from his embassy in Istanbul has added to tensions between the west and the Middle East.

Impact on the Plan

With around 55% of the portfolio allocated to shares as a matter of strategy, there is no doubt that the impact on these events have been negative to the Plan's investment portfolio. However, this same share allocation has been responsible for good results experienced in previous years.

The following table shows recent full year results for completed financial years, as well as the developments of returns throughout the 2018-19 year to date (all figures are before fees and tax).

Financial Year	2013-14 %	2014-15 %	2015-16 %	2016-17 %	2017-18 %	2018-19 YTD to Oct* %
Plan return	13.9	9.2	14.5	5.2	9.6	0.5

estimated to 30 October 2018

The results show that the Plan has had very healthy returns despite other bouts of short-term market volatility. The falls seen in October 2018 have been considerable, but the overall return for the 2018-19 year to date remains positive, albeit significantly lower than previous years.

How is the Plan positioned

The Trustee continues to believe that the best strategy to deal with market volatility is for the Plan to continue with its well-diversified investment portfolio. The Trustee believes that taking short-term action, in reaction to market movements, more often than not destroys value over the long-term. The Trustee does, however, regularly review its investment strategy to ensure that it is fit-for-purpose and appropriate for today's markets.

The Plan employs high quality, specialised fund managers in a diverse range of sectors (shares, bonds, property, infrastructure, alternative assets, and cash). Each manager in turn selects a diverse portfolio of securities from within their universe. This spreading of risk greatly reduces the impact of volatile markets. The managers themselves endeavour to identify risks in advance and position the portfolio to protect against excessive losses. With that said, the Trustee remains vigilant of market events and ready to act should the prospects for any of the investment managers deteriorate."

The Directors will continue to review the monthly performance of the Plan and the Chairman will also have regular discussions with the asset consultant.

David S Stevens
Chairman
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