



The purpose of this newsletter is to bring you up to date on some of the issues addressed by the Trustee. The most recent meeting of Trustees was held on 24 August 2017 and I am sorry that this report is late. However, I am keen to get the information to you

Quarterly Investment Markets Overview

The June quarter saw markets (mostly) continue their positive trajectories. Neither the Fed's second rate hike of the calendar year (which was widely anticipated), nor moderating expectations for U.S. growth managed to derail bullish spirits.

Global shares rose 3.0% on a hedged basis in the quarter (but fell slightly in unhedged terms; down 0.7%). Large cap tech stocks continued to drive the market.

In Trans-Tasman markets, arguably the biggest news was the Australian "bank tax" that hit the big four. CBA, the largest, weathered this the best, only falling 4%, but ANZ, NAB and Westpac were each down between 10% and 13%. This, alongside the downward pressure on commodities, meant that Australia was one of the poorer performing regions. It was down 1.6% in local currency terms. Also with the NZ dollar strengthening, unhedged kiwi investors saw their Australian portfolios fall some 5.5%.

By contrast, the New Zealand share market rose 5.9%, making it one of the best performing countries this quarter. A lot of this rise was driven by just two stocks: Xero and a2 Milk.

Turning to bonds, both local and global markets returned reasonable results given the low starting yields. Interest rates mostly moved sideways over the quarter but spiked up in the final days before 30 June to erase a lot of the gains. Extremely tight credit markets are leading to some caution from many investors.

Plan Earning Rates

The Trustee discussed the report from the Plan's Investment Consultant for the quarter to 30 June 2017. This showed that the Plan's overall investment return over the quarter was positive 2.9%, comfortably higher than the Plan's benchmark return of positive 2.2%. On a per annum basis the Plan is ranked at the top of its peer group for one year period, and in the middle of the group for the three year and five year periods. For the nine year period the Plan is ranked 2nd out of 11 funds.

The investment return for the June quarter which was used to update members' accounts comprised a taxable rate of positive 2.4% and a non-taxable rate of positive 0.5%. The equivalent after-tax return is positive 2.6% for members subject to a 10.5% tax rate, positive 2.5% for members subject to a 17.5% tax rate and positive 2.2% for members subject to a 28% tax rate.

New Zealand Election

Following the NZ election in late September a number of our Investment Managers distributed commentary on the possible impacts of the result. With the outcome of the election still uncertain, it seems appropriate to share an excerpt from Harbour Asset Management's (HAM) commentary. HAM manage a portfolio of New Zealand and Australian shares.

After the hard-fought NZ election campaign, markets are still left with some political uncertainty, with no clear government formed on election night.

As the political parties enter coalition negotiations, an eventual National-NZ First Government appears more likely than Labour-Greens-NZ First. However, it is still far too early to call. Consistent with the last 8 MMP elections in NZ, it will likely take some time for a Government to form. This process is not a surprise for local or international investors.



Ports Retirement Plan

Our assessment is that the outcome of this NZ election has minimal implications for Harbour's portfolios, and no changes to portfolio settings are anticipated at this stage. Key structural trends that, in our view, will influence portfolio outcomes in the future will continue regardless of who forms the next Government to the Plan.

By international standards, both National and Labour-led governments appear relatively centrist. Both major NZ political parties have shown solid fiscal responsibility, and the Reserve Bank of New Zealand will remain independent under both parties. These factors should help markets remain relatively calm through this period of uncertainty.

Policy changes that may emerge, regardless of the eventual composition of the government, including further measures to manage migration and residential activity. Residential activity is already slowing, and net migration may have peaked.

We will remain vigilant as the coalition talks continue. In particular we will be watching for any market inefficiencies that may arise as a result of the market over-reacting to the news of which parties will form the NZ Government.

Leonie Stieller, Plan Secretary

At the close of the Board meeting I was privileged to make a presentation to Leonie on her retirement after working for the RMTU for many years. She had been Secretary to the Plan since its inception in 1985.

Over the years Leonie has provided and given outstanding service to the Plan, its members and the Trustees/Directors. She has also given me outstanding support in my role as Chairman.

I know that all Plan members will join me in wishing Leonie a long, happy and well deserved retirement.

It was also with great pleasure that I was able to welcome Debby Green as the new Plan Secretary.

David S Stevens
Chairman
6 October 2017