



New Zealand Harbours Superannuation Plan

Chairman's Newsletter

February 2011

The most recent meeting of Trustees was held on 3 February 2011. The purpose of this newsletter is to bring you up to date on some of the issues discussed by the Trustees.

Investment performance

Sharemarkets continued to rally strongly around the world during the quarter, with double digit index returns for Austria, Norway, Germany and the USA. At the other end of the spectrum Greece and Spain fell significantly while Portugal, Italy and Belgium saw their markets stagnate. Global bond markets were weak as yields continue to rise. Unemployment remains a concern in Europe while the People's Bank of China continues to worry about its economy overheating.

In New Zealand, the GDP for the September quarter came in at negative 0.2%, while the growth for the June quarter was revised down to positive 0.1%. Annual growth, which peaked at 1.8% last quarter, has now fallen back to 1.5%. Although a further quarter with a negative result would mean that the New Zealand economy has slipped back into a technical recession, most commentators believe the December 2010 quarter will register a small positive result.

Plan earning rates

The investment returns over the quarter to 31 December 2010 have allowed the Plan to allocate a return for the quarter of positive 2.0% for members subject to tax at 10.5%, positive 1.9% for members subject to tax at 17.5% and positive 1.7% for members subject to tax at 28%. The total interest that has been allocated in the nine months to 31 December 2010 is positive 4.7% for members subject to tax at 10.5%, positive 4.4% for members subject to tax at 17.5% and positive 4.0% for members subject to tax at 28%. Returns are after deduction of investment fees, expenses and tax.

Based on the monthly investment returns for January and a market view of the returns since that date, interim interest rates for the quarter to 31 March 2011 have been set by the Trustees at positive 5.5% for members who are 10.5% taxpayers, positive 5.5% for members who are 17.5% taxpayers and positive 5.4% for members who are 28% taxpayers. As the interim interest rates are used only for the calculation of benefits for members who leave the Plan, they are recalculated on any change in investment returns.

Because tax is payable when interest is allocated, all the benefits provided from the Plan are tax free.

Investment strategy review

The Trustees have now agreed on a new investment strategy for the Plan which consists of a 55%/45% growth/income mix. This new strategy is intended to meet the Trustees' objective to reduce the investment risk with no material change in the level of future investment returns.

Trustees liability insurance

At the November 2010 Trustees meeting the Trustees agreed to investigate the purchase of liability insurance, to limit the possibility that adverse (but not fraudulent) situations could negatively impact on member entitlements.

The Trustees have now agreed the terms of the insurance policy and are at the final stages of obtaining the indemnity cover.

Amendment to Trust Deed

The ability to offer membership of the KiwiSaver Scheme to people who are not employees of participating Companies, as defined in the Trust Deed was raised by the Trustees during the November 2010 Trustees meeting. The Trustees have now amended the Deed to enable membership to be offered.

As previously resolved by the Trustees, the Trust Deed was also amended to have the KiwiSaver Rules reflect the wording of the KiwiSaver Act 2006 amendments. The Deed of Amendment was signed by the Trustees at the February Trustee meeting.

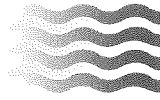
David S Stevens
Chairman of Trustees

Secretary to the Trustees

Level 1, Tramways Building, 1 Thorndon Quay, Wellington. PO Box 4197 Wellington, 6140. Phone (04) 499-2066 Fax (04) 471-0896

Administration Manager

Level 5, AMP Chambers, 187 Featherston Street, Wellington. PO Box 3109 Wellington, 6140. Phone (04) 499-0277 Fax (04) 499-0488



New Zealand Harbours Superannuation Plan

Addendum to Chairman's Newsletter

February 2011

There have been some matters that have arisen in recent days that are of sufficient importance to require an addendum to be provided to update the February Newsletter.

Investment performance

For New Zealand, it was noted that growth for the June 2010 quarter was revised down to positive 0.1% and that annual growth had fallen back to 1.5%. A comment was made that a further quarter with a negative result would mean that the New Zealand economy has slipped back into a technical recession, although most commentators believed the December 2010 quarter will register a small positive result.

While we will not know the result for the December quarter until late March 2011, the recent, tragic earthquake in Christchurch will likely further dent growth for the country in the short term. Early estimates place the cost at some 0.4% of Gross Domestic Product, although the cost of the earthquake will first register in the March 2011 quarterly figures.

Following the earthquake the New Zealand dollar and domestic interest rates fell significantly. It is now likely that the Reserve Bank will delay the upcoming increase in interest rates further. Indeed, immediately following the disaster, interest rate markets moved to price in a 70% chance of the Official Cash Rate being reduced in June. This is now unlikely, especially as Governor Bollard's statement on 23 February did not make mention of lowering the rate.

It is still too early to know exactly what the long-term impact of the February earthquake will be. After the September 2010 earthquake, commentators believed that the long term impact of the rebuilding activities would be positive for the country's Gross Domestic Product. However, the severity of this latest earthquake prevents any such analysis at this stage.

Trustees liability insurance

At the February 2011 meeting, the Trustees agreed that it would be appropriate to purchase liability insurance, to provide insurance to cover members against adverse situations that could negatively impact on member entitlements. The liability insurance is designed to allow for the recovery of a loss in the Fund that might arise from issues such as errors, misstatements, omissions or breaches of duty.

It is important for members to be aware that the liability insurance will not protect member entitlements against a fall in the rates of return obtained on the investments of the Fund. As has been mentioned before, the focus of the Trustees is on the performance of the Fund and on the Fund's investment strategy. It is that focus which continues to provide members with investment returns that in the longer term have significantly exceeded inflation.

Amendment to Trust Deed

The Plan now has the ability to offer membership of the KiwiSaver Scheme to people who are not employees of participating Companies, as defined in the Trust Deed.

However, membership of the KiwiSaver Scheme is required by legislation to be restricted to employees and associated persons of Employers associated with the Rail and Maritime Transport Union, the sponsor of the New Zealand Harbours Superannuation Plan.

David S Stevens
Chairman of Trustees

Secretary to the Trustees

Level 1, Tramways Building, 1 Thorndon Quay, Wellington. PO Box 4197 Wellington, 6140. Phone (04) 499-2066 Fax (04) 471-0896

Administration Manager

Level 5, AMP Chambers, 187 Featherston Street, Wellington. PO Box 3109 Wellington, 6140. Phone (04) 499-0277 Fax (04) 499-0488

www.harbourssuper.org.nz