



New Zealand Harbours Superannuation Plan

Chairman's Newsletter

February 2007

The most recent meeting of Trustees was held on 15 February 2007. The purpose of this newsletter is to bring you up to date on some of the issues discussed by the Trustees.

Investment performance

Equity markets produced strong returns during the quarter ended 31 December 2006. Many markets recorded all-time highs. The major US indexes rose each month, returning in excess of 6% for the quarter. The MSCI world index gained 6.7%, the Australian share market rose 10.9% and the New Zealand share market rose 13.4%. The New Zealand market was helped by high levels of mergers and acquisitions.

Global bonds finished on a high note, with the US bond rate rising slightly and the Japanese Government rate remaining flat. The 10-year New Zealand Government stock rate reached 5.92%. The quarter was volatile, being particularly influenced by the US markets where unemployment rates were low and inflationary pressures eased.

Listed property stocks have strengthened with the new Portfolio Investment Entity (PIE) legislation, which will increase their after-tax returns. The actual property market has continued its strong performance, with annual returns in the 15% to 20% range.

The New Zealand dollar gained more than 8% over the US dollar and more than 2% over the Australian dollar. The New Zealand Reserve Bank has stated that the official cash rate (presently at 7.25%, where it has been all year) may have to be increased, and the US Fed has stated that it cannot rule out further interest rate rises. The strength of the New Zealand dollar continues to adversely impact on overseas returns when they are bought back to local currency.

The outlook for investment markets is mixed. Global economic growth is not likely to shift too far from its long term average. Domestic growth is likely to be sluggish and there is an expectation that there will be a fall in the New Zealand dollar. Overall, investment returns are expected to decline.

Plan earning rates

Based on the returns over the quarter, a rate of interest of positive 2.0% after investment fees and expenses was allocated to members' balances for the quarter ending 31 December 2006.

Indications are that the investment managers expect there to be positive, but small, returns for the next quarter, to 31 March 2007. As the January returns were somewhat better, an interim after tax rate of positive 2.5% has been accepted as appropriate by the Trustees. The interim rate, which is updated each month, is only used to calculate benefits for members who leave the Plan.

KiwiSaver and the Harbours Plan

Following correspondence with the Union, the Trustees have agreed to give further consideration to adding a KiwiSaver section to the Plan. This would allow current and future members the opportunity to receive the benefits of the KiwiSaver legislation using the existing Plan. Alternative solutions are also being considered, with a view to making a final decision on the best way forward within the next two months.

Statutory requirements

The Trustees were advised that the Prospectus and the Investment Statement comply with the relevant legislation. The current Prospectus and the Investment Statement can be found on the Plan's website and are also held by the Administration Manager, although paper copies can be obtained on request.

Complaints

The Trustees were advised that there are no outstanding complaints. Members should be aware that a complaints procedure is available to them if there are outstanding issues that they do not consider have been dealt with satisfactorily.

David S Stevens
Chairman of Trustees