Ports Retirement Plan

Chairmans Newsletter – December 2022

Performance from 1 April 2022

The first eight months of the Plan's financial year have been turbulent for investors with most asset classes experiencing significant volatility and negative returns.

The war in Ukraine has exaggerated the effects of inflation, which had already been rising since mid-2021. This has become particularly acute in recent months as inflation has reached its highest annual rate in three decades both in New Zealand and overseas. As a consequence, central banks across the globe have swiftly changed course and begun raising interest rates with an intensity not seen since the 1970s (with the notable exception of China, which is fighting a battle to keep Covid-19 at bay).

Rising interest rates have led to falls in investments because they (1) reduce the present value of future revenue and (2) have increased concerns that the global economy is heading for a "hard landing" – that central banks will not be able to tame inflation and slow overheating economies without engineering a recession and raising unemployment.

Technology companies have particularly struggled, as this sector had been one of the key beneficiaries of "easy money" and cheerful investor sentiment. Stock prices dropped universally amongst tech companies, with many laying off large numbers of employees to cut costs. Technology companies make up a large proportion of the global share market, accounting for approximately 28% of the US S&P 500 index, and this has therefore been a key driver of the poor performance from international equities.

Fixed income, traditionally a defensive asset class, has unfortunately not come to the rescue. Fixed income investments also suffer in a rising interest rate environment since the coupon payments they provide suddenly look less attractive relative to the new (higher) interest rates on offer. On the positive side, though, higher prevailing interest rates suggest fixed income returns will be better into the future because these securities are now offering significantly higher yields.

We are in the unusual environment where global equities and fixed income are down by similar amounts (roughly 10% for the Plan's financial year to date). There has been "nowhere to hide".

With that said, New Zealand investors have been insulated somewhat from the turmoil in global markets. The local share market, with its lower exposure to technology companies, has fallen less than most global markets, and New Zealand fixed income has outperformed its global peers. The falling New Zealand dollar also helped offset the losses seen offshore share investments. (As the New Zealand dollar depreciates, the value of offshore investments rises in New Zealand dollar terms.)

The Plan also benefitted from its small exposure to alternative assets (hedge funds). These strategies are more complex than traditional investments, aiming to provide returns which are less correlated to the ebbs and flows of share and fixed income markets. Pleasingly, the Plan's exposure to this sector has performed exactly the role intended from it, falling just 2% for the financial year to date – much better than traditional markets.

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Overall, it is a weak picture for the first eight months of the Plan's financial year. The Balanced portfolio, which most members are invested in, has fallen 6.4% (after fees and tax at 28%) for the period 1 April 2022 to 30 November 2022. The Conservative portfolio, available to deferred members, is slightly better, down 4.2% (after fees and tax at 28%) in the same period.

It is an unfortunate fact that in order to achieve good long-term returns, investors often have to accept volatility in the short-term. So, while the recent experience has been painful, we should not lose sight of the recent very good returns: over the previous five years, the Balanced portfolio returned 5.8% per annum after fees and tax at 28% (over 32% cumulative).

It is important to remember that members' retirement savings are long-term in nature. Therefore, these ups and downs, which occur from time to time, are to be expected. In due course, traditional investment market dynamics will reassert themselves, and we can be confident in achieving good returns.

In this vein, there are glimmers of good news, with October and November showing strong positive results as investors become more optimistic that inflation may be past its peak.

	Month ended	Month After tax at 28% PIR	Month After tax at 17.5% PIR	Year to date After tax at 28% PIR	Year to date After tax at 17.5% PIR
Balanced Fund					
	30 April 2022	-2.3%	-2.5%	-2.3%	-2.5%
	31 May 2022	-1.5%	-1.4%	-3.7%	-3.9%
	30 June 2022	-4.1%	-4.3%	-7.7%	-8.0%
	31 July 2022	4.4%	4.5%	-3.7%	-3.9%
	31 August 2022	-2.0%	-2.1%	-5.6%	-6.0%
	30 September 2022	-5.0%	-5.3%	-10.4%	-10.9%
	31 October 2022	2.8%	2.8%	-7.9%	-8.4%
	30 November 2022	1.6%	1.9%	-6.4%	-6.7%
Conservative Fund					
	30 April 2022	-2.1%	-2.3%	-2.1%	-2.3%
	31 May 2022	-0.6%	-0.6%	-2.6%	-2.9%
	30 June 2022	-1.9%	-2.1%	-4.5%	-4.9%
	31 July 2022	2.9%	3.1%	-1.7%	-1.9%
	31 August 2022	-1.9%	-2.0%	-3.6%	-3.9%
	30 September 2022	-2.7%	-3.0%	-6.2%	-6.8%
	31 October 2022	1.0%	1.0%	-5.2%	-5.8%
	30 November 2022	1.1%	1.3%	-4.2%	-4.6%

Trustees Review

The Trustee continues to closely monitor investment performance. The Directors meet quarterly to consider the performance of the investment managers versus market indices and peers, and action will be taken where concerns are arising. Pleasingly, the Plan continues to perform well over the medium- and long-term.

The Trustee's investment beliefs include the view that trying to pick the direction of markets in the short-term is not something that can be done successfully. As such, the Trustee's approach is to ride out market volatility, accepting that while we may see losses from time to time, over the long-term our members will benefit from better returns and higher retirement balances.

Paul Drummond

Chair