Chairman's Newsletter **December 2018**

The purpose of this newsletter is to bring you up to date on some of the issues addressed by the Trustee at their most recent meeting of Trustee which was held on 15 November 2018.

As advised in our November newsletter the markets have experienced some instability in the period since 30 September 2018 affecting interest rates. While the recent negative returns are unwelcome, they are not unexpected. Over the medium/long-term (arguably even over the short-term last 12 months), the returns from the Plan are good. We expect the portfolio to have a negative return one in every 6 to 7 years (about 15% probability in any one year).

The Directors are in regular contact with the investment consultant to keep abreast of what is developing in investment markets.

Quarterly Investment Markets Overview

While the events since 30 September 2018 have already been addressed in our November newsletter it is important to formally record the investment issues discussed by the Trustee for the quarter ended 30 September 2018.

The September quarter saw the New Zealand market continued its winning streak. The S&P/NZX 50 Index rose 4.9% (including imputation credits), to keep its rolling three year return above the 20.0% pa mark. Several key large companies drove the result this quarter including Ryman Healthcare and Spark. a2 Milk and Fletcher Building were notable detractors.

In the US, the S&P 500 rose 7.2% for the quarter, the best quarterly gain since the fourth quarter of 2013. Blue chip technology stocks (e.g. Apple, Microsoft) again were standouts. Interest rate sensitive sectors, like utilities, real estate and infrastructure, were weaker over the quarter in the face of rising bond yields.

Other major markets tended to trail the US with the notable exception of Japan's Nikkei, which rose 8.1%. The UK's FTSE 100 was down 1.7% for the usual reasons (i.e. Brexit) and Europe suffered similar malaise particularly as anti-EU rhetoric ramped up in Italy.

Emerging markets continue to come under pressure. The MSCI Emerging Markets Index was more or less flat for the quarter (on an unhedged basis) and so was significantly behind the developed markets index. China, while a large economy, remains a small part of share market indices and so its fall (down 1.7% over the quarter) had limited impact.

The US dollar continued to strengthen, and the New Zealand dollar slipped a further 2.1% this quarter against the US dollar. This boosted results for unhedged investors and over the one year period unhedged global shares have outperformed hedged global shares by 7.8%.

Global bond markets were weaker. While New Zealand interest rates fell, globally the trend continues to be upwards. This means the New Zealand bond market outperformed the global bond market, the latter being flat over the quarter. Mark-to-market losses from rising interest rates largely cancelled out running yields for global bond investors.

The US ten year treasury yield touched 3.2% in recent weeks, double where it was two years ago (it was 1.6% as at 30 September 2016).

However, shorter term interest rates have been even more elastic, following the Federal Reserve's policy rate upward. They lifted the cash rate for the third time this calendar year and are highly likely to make the promised fourth hike come the December meeting.

Plan Earning Rates

The Trustee discussed the report from the Plan's Investment Consultant for the quarter to 30 September 2018. This showed that the Plan's overall investment return over the quarter was positive 2.1%, slightly under the Plan's benchmark return of positive 2.2%. For the year to September 2018 the Plan's returns ranked in the bottom quarter of its peer group, mainly due to the Plan having a smaller proportion of equities compared to the peer group. On a per annum basis the Plan is ranked in the top half of its peer group for the three year and five year periods and second in its peer group for the ten year period.

The investment return for the September quarter which was used to update members' accounts comprised a taxable rate of positive 0.3% and a non-taxable rate of positive 1.4%. The equivalent after-tax return is positive 1.9% for members subject to a 10.5% tax rate, positive 1.9% for members subject to a 17.5% tax rate and positive 1.8% for members subject to a 28% tax rate.

Updated Plan earnings to end of November

The following table was provided in our November newsletter and shows recent full year results for completed financial years, as well as the developments of returns throughout the 2018-19 year to date, updated to include an estimate for November 2018 (all figures are before fees and tax).

Financial Year	2013-14 %	2014-15 %	2015-16 %	2016-17 %	2017-18 %	2018-19 YTD to Nov* %
Plan return	**9.2**	**14.5**	**5.2**	**9.6**	**9.1**	**1.8**

*Performance for November 2018 is estimated. There is not enough data to include estimates for December 2018

The results continue to show that despite the considerable falls seen in October 2018 the overall return for the 2018-19 year to date remains positive, albeit significantly lower than previous years.

Information on members' account balance

A reminder that account balances are credited with the Plan earnings each quarter and updated benefit statements showing the value of members' retirement savings are uploaded to the Plan's website (https://portsretirement.org.nz/) once the earnings have been credited.

Members are also able to call the Plan's administrator (0800 728 370) to get an up to date account balance over the phone anytime.

David S Stevens
Chairman
13 December 2018