



# New Zealand Harbours Superannuation Plan

**Chairman's Newsletter**

**February 2012**

The most recent meeting of Trustees was held on 22 February 2012. The purpose of this newsletter is to bring you up to date on some of the issues discussed by the Trustees.

## **Investment markets**

Three broad themes drove markets over the December quarter; the worsening situation in Europe, broadly improving data from the United States, and the fear of a lower than expected growth prospects in developing nations (China, in particular). The financial saga in Europe seemed to roll from one piece of gloomy news to another. Noteworthy events over the quarter included the establishment of a new financial support fund, with the European Central Bank (ECB) cutting interest rates twice in the quarter by 0.25% in response to the deepening financial and economic crisis.

The quarter was broadly positive for the United States, the world's largest economy. Helped by record Thanksgiving weekend sales, consumer confidence soared over November and the Leading Economic Indicators index rose.

The Reserve Bank of New Zealand (RBNZ) maintained extremely low interest rates over the quarter. Governor Bollard noted that while "economic activity continues to expand, though at a modest pace" worsening global conditions have caused him to delay tightening of monetary policy. In Australia, the Reserve Bank of Australia (RBA) cut interest rates twice over the quarter (by 0.25% each time, taking the rate to 4.25%) in order to stimulate a weakening economy. Governor Stevens stated the RBA's view that "the inflation outlook afforded scope for a modest reduction in the cash rate".

## **Plan earning rates**

The Trustees discussed the report from the Plan's Investment Consultant for the quarter to 31 December 2012, which showed that the Plan's overall investment return over the quarter was strong, placing the Plan's return in the top half of its peer group. As a result, the allocated return for the quarter was positive 3.2% for members who are 10.5% taxpayers, positive 3.1% for members who are 17.5% taxpayers and positive 3.0% for members who are 28% taxpayers. Those returns are after deduction of investment fees, expenses and tax.

Based on a market view of the investment returns since the end of the 2011 year, the Trustees have currently accepted interim interest rates for the quarter to 31 March 2012 of positive 2.9% for members who are 10.5% taxpayers, positive 2.8% for members who are 17.5% taxpayers and positive 2.5% for members who are 28% taxpayers. Because interim interest rates are used only for the calculation of benefits for members who leave the Plan, the rates will be recalculated whenever there is a change in investment returns.

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

## **2012 Outlook**

After the better results in the December quarter, the fund managers have indicated that it is not hard to approach 2012 with some sense of optimism. Of course, the market results over the next 12 months will depend on how world and New Zealand economies actually perform. The markets will have priced in certain expectations for the world and if reality turns out rosier, we can expect an improved outcome. Conversely, negative news would lead markets to take a turn for the worse.

Risks still abound. The Euro crisis will probably roll on until it reaches tipping point, giving political leaders the mandate to take drastic steps. The US is also susceptible to a shock and downturn in the economy. New Zealand cannot expect to be immune to what is happening in the rest of the world. It seems most likely that we should prepare for a slow, low growth recovery with continued volatility.

David S Stevens  
Chairman of Trustees

### **Secretary to the Trustees**

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

### **Administration Manager**

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