New Zealand Harbours Superannuation Plan

Chairman's Newsletter **November 2011**

The most recent meeting of Trustees was held on 24 November 2011. The purpose of this newsletter is to bring you up to date on some of the issues discussed by the Trustees.

Investment markets

In the quarter to 30 September 2011 the acceleration of the financial and economic crisis in the Euro zone adversely impacted on investment markets. The perceived inability of European governments and central banks to act speedily, decisively and cohesively to avoid disaster together with infective leadership form the US cause enormous volatility and downward pressure on investment markets... The demonstrations and strikes in Greece and Italy created additional worries, as did the protests around the world following the 'Occupy Wall Street" movement. While all markets fell, emerging markets fared worse than developed markets, with China having a particularly poor result. As any slowdown in China is likely to have a strong after-effect on the Australasian economy, that could flow through quite quickly to New Zealand both directly and indirectly.

The credit rating of New Zealand government debt was downgraded from AA+ to AA in the quarter, with New Zealand's financial condition being weakened by the spending pressures that had arisen as a consequence of the Government's response to the Christchurch earthquakes. The New Zealand dollar had a mixed ride, dropping against the US dollar, Japanese Yen and UK pound, while holding steady against the Euro and rising against the Australian dollar. The Reserve Bank left the Official Cash Rate at 2.5% over the quarter.

Fixed interest markets rallied as interest rates fell, which increased the investment returns. The combination of lower world-wide growth prospects, expectations of further monetary stimulus and concern over money flows to countries considered to be safe havens, has depressed the real yields on debt issues of those countries.

Plan earning rates

Due to the factors mentioned above the Plan experienced a poor result for the quarter to 30 September 2011. As a result the Plan has allocated a return for the quarter of negative 4.6% for members who are 10.5% taxpayers, of negative 4.6% for members who are 17.5% taxpayers and of negative 4.6% for members who are 28% taxpayers. Those returns are after deduction of investment fees, expenses and tax.

Based on the monthly investment returns for October and a market view of the investment returns since that date, interim interest rates for the quarter to 31 December 2011 of positive 5.3% for members who are 10.5% taxpayers, positive 5.2% for members who are 17.5% taxpayers and positive 5.1% for members who are 28% taxpayers have been currently accepted by the Trustees. As 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 return.

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

Investment portfolio changes

Earlier this year TOWER announced that it would disestablish its Australian share fund. Following discussion with the Plan's asset consultant, the Trustees agreed that the AMP Capital Investors fund was the best available option to maintain exposure to the Australian share market. In August 2011 the Plan's investment in Australian shares was moved from Tower Asset Management to AMP Capital Investors.

The Trustees have also made changes to the management of the Plan's Global Shares portfolio, following consideration of a report from the Plan's asset consultant. TOWER Asset Management is to be replaced by Marathon Asset Management (with 33% of the portfolio) and OnePath (with 67% of the portfolio). These investment changes will happen during December 2011, with the expected objective that, over time, the combination of the new managers will result in improved returns without increasing the risk and volatility of those returns.

In view of the current difficult financial developments in Europe and with the likelihood that investment markets will remain volatile for some time ahead the Trustees asked the asset consultant if the current asset allocation strategy remains appropriate. After discussion it was confirmed that the current benchmark allocations remain appropriate and that the strategic ranges around each benchmark allow the investment managers to take any short term decisions to overweight or underweight any asset class in the best interests of the Plan. This was subsequently confirmed with the investment managers.

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Chairman of Trustees

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