



# New Zealand Harbours Superannuation Plan

**Chairman's Newsletter**

**September 2010**

The most recent meeting of Trustees was held on 2 September 2010. The purpose of this newsletter is to bring you up to date on some of the issues discussed by the Trustees.

## **Investment performance**

Share markets performed poorly over the quarter, with concerns over the US and Europe economies. In contrast fixed interest returns picked up. There is renewed caution in global markets, the possibility of a contraction in the US with low levels of new home sales giving rise to thoughts about further US government intervention. Leaders in the most industrialised nations have pledged to slash government deficits.

The Reserve Bank of New Zealand raised interest rates in June, increasing the Official Cash Rate to 2.75% from the previous 2.50% record low. The Bank expects long term growth to be as low as 2%, indicating a more subdued recovery than had earlier been expected.

Despite the growing uncertainty, financial markets have generally shown some resilience. A continuing recession will reduce demand for New Zealand exports, but could lower the value of the New Zealand dollar, which would be positive for exports but constrain domestic-led growth

## **Plan earning rates**

Based on the investment returns over the quarter to 30 June 2010, the Plan has allocated a return for the quarter of negative 3.6% for members subject to tax at 12.5% or 21.0% and has allocated a return of negative 3.7% for members subject to tax at 30%. Those returns are after deduction of investment fees, expenses and tax.

Based on the monthly investment returns for July and a market view of the investment returns since that date, interim interest rates for the quarter to 30 September 2010 have been set at positive 4.3% for members who are 12.5% taxpayers, positive 4.2% for members who are 21.0% taxpayers and positive 4.0% for members who are 30% taxpayers have been currently accepted by the Trustees. However, 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 strategy review**

The Trustees considered a report from the Plan's asset consultant that summarised the need to review the investment strategy of the Plan, noting that the last review was held in July 2007 and that there had been considerable change in investment markets since that time. After discussion the Trustees decided to undertake the review, which will concentrate specifically on the appropriate position for the Plan in respect of investments in New Zealand and global bonds, alternative assets, currency and cash. Initial recommendations from the asset consultant will be considered at the Trustees November meeting and any approved changes should be implemented by March 2011.

As an interim measure, the Trustees have decided to transfer 20% of the Plan's current global bonds investment from PIMCO to Wellington Management Company. The action was taken to reduce the risk that had arisen with too much of the Plan's investments being held by a single sector manager.

## **Change of Trustee**

Matthew Ballard resigned as a Trustee of the Plan following his acceptance of an overseas position. He has been replaced as a Trustee by Sara Lunam, Corporate Services Manager at Port of Tauranga. Sarah previously served as a Director of New Zealand Post and as a Trustee of the New Zealand Post Superannuation Scheme.

David S Stevens  
Chairman of Trustees