New Zealand Harbours Superannuation Plan

Chairman's Newsletter **February 2008**

The most recent meeting of Trustees was held on 21 February 2008. The purpose of this newsletter is to bring you up to date on some of the issues discussed by the Trustees.

Investment performance

During the quarter ending 31 December 2007, fixed interest investments achieved positive returns which were more than offset by the negative results from shares and property, with global property as the worst performing asset. Over the quarter the New Zealand sharemarket had a 5% loss and the Australian sharemarket had a 3% loss.

The Plan investments experienced an overall negative 1.1% return for the quarter ended 31 December 2007. Even with this return, each of the Plan's investment managers, ING and Tower Asset Management, did achieve investment results that were better than their benchmark requirement.

Markets remain volatile, primarily reflecting the problems of the sub-prime mortgage difficulties in the USA and the resulting credit crisis. As a consequence, the availability of funds for both private and commercial borrowers is limited and expensive. However, certain industry sectors world-wide are still performing well and the longer term view for investment markets is still considered to be favourable.

Plan earning rates

With the new PIE (Portfolio Investment Entity) tax regime starting on 1 October 2007, a revised method had to be found to calculate the interest rates that are used for allocation of interest to member accounts. The revised method, which has been considered and agreed to by the Trustees, produces two separate rates of interest, a taxable rate and a non-taxable rate for each period under consideration.

Based on the investment returns over the quarter, a taxable rate of positive 0.5% and a non-taxable rate of negative 2.1%, each after investment fees and expenses, was allocated to member balances for the quarter ending 31 December 2007. In total, these rates equate to a return of negative 1.7% for members subject to tax at 19.5% and a return of negative 1.8% for members subject to tax at 33%.

The investment returns for January continued to be poor and the investment managers are not anticipating a significant improvement for the remainder of the quarter. Using the January returns and the managers expectations, a taxable interim interest rate of positive 1.7% and a non-taxable interim interest rate of negative 6.3% has been accepted by the Trustees as applying for the balance of the quarter. The equivalent after tax rates are negative 5.0% for members who are 19.5% taxpayers, and negative 5.2% for members who are 33% taxpayers. Those interim interest rates will be updated each month, to be used only for the calculation of benefits for members who leave the Plan.

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

KiwiSaver

A significant number of members have taken up the KiwiSaver option within the Plan. The Trustees have been advised that some 30 of the members who initially applied to become KiwiSaver members were incorrectly allocated by Inland Revenue to default providers, rather than to the Plan. Inland Revenue have confirmed that the information provided to them was satisfactory, but have acknowledged that they were not loaded properly into the Inland Revenue computer systems. Inland Revenue are working to correct the position and to have the member and employer contributions redirected to the Plan.

Apart from the issues with those 30 members, the Trustees were advised that the KiwiSaver processing is working satisfactorily. It is intended that the KiwiSaver information will be placed onto the Plan website with the next update as at 31 March 2008.

Statutory requirements

The Trustees were advised that a refresher prospectus was registered on 13 December 2007. The Prospectus and the updated Investment Statement can be found on the Plan's website. Copies are also held by the Administration Manager and can be obtained on request.

David S Stevens
Chairman of Trustees