



New Zealand Harbours Superannuation Plan

Chairman's Newsletter

December 2008

The most recent meeting of Trustees was held on 26 November 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 30 September 2008, global economic activity continued to slow. Sharemarkets generally weakened - by 2.6% in New Zealand, 10.4% in Australia and 11.3% in the rest of the world. The market value of New Zealand Government bonds rose by 4.2% and world markets rose by 2.3%, while the value of the New Zealand dollar fell by 5% in the quarter.

The economic outlook is still grim. In the USA the primary housing index is 19.5% below its July 2006 peak and unemployment rose by 160,000 in September. Most central banks have cut their prime lending rates in a bid to stimulate their economies. In New Zealand there is a concern that the lack of credit will hurt larger projects, resulting in Government statements about the use of the New Zealand Superannuation Fund (the Cullen Fund) for infrastructure development. Internationally the concern is to avert a recession, replenish liquidity and restore investor confidence.

Plan earning rates

The actual gross investment return on the assets of the Plan (before tax, fees and expenses) for the quarter ended 30 September 2008 was negative 1.9% from ING, negative 3.4% from Tower and negative 2.9% from Tyndall. After allowance for fees and expenses, the return for the Plan had a taxable component of positive 1.5% and a non-taxable component of negative 4.5% and those rates were allocated to member balances for the quarter. Overall, the rates equate to a return of negative 3.3% for members subject to tax at 19.5% and a return of negative 3.5% for members subject to tax at 33% for the quarter.

With the constant stress in the investment markets and the change to three investment managers, a new approach to the calculation of interim interest rates was needed. The resulting methodology uses a combination of known investment returns and an analysis of the expected future performance of the market by asset sector. As at the date of this newsletter, a taxable interim interest rate of positive 0.9% and a non-taxable interim interest rate of negative 14.6% have been accepted as applying for members of the Plan. The equivalent after-tax rates are negative 13.9% for members who are 19.5% taxpayers, and negative 14.0% for members who are 33% taxpayers. These interim interest rates will be used only for the calculation of benefits for members who leave the Plan and will be revised each time a benefit payment is to be made. Because tax is payable when interest is allocated, all the benefits provided from the Plan are tax free.

Member Investment Option

On 6 October, members were sent information about the additional investment option being considered for the Plan and were asked to review the information and provide a response, to enable the Trustees to consider the matter further and make appropriate decisions. There have been responses from 31 members, which can be summarised as:

- 20 members would use a conservative fund at some time and would immediately change to a conservative fund,
- 7 members would use a conservative fund at some time, but would not be willing to immediately change, and
- 4 members would not use a conservative fund at any time.

In making a determination, the Trustees took into consideration the limited member response, the probability that most members will live for some 20 years after their retirement at age 65 and that the Plan has a draw-down facility that allows retired members to leave their benefit invested in the Plan and take cash sums from time to time. On balance, the Trustees decided that there was not sufficient reason to subject the Plan to the costs of adding a member investment option choice. Consequently, no investment choices will be made available at this time, although the Trustees have decided that this aspect of the Plan will be considered each year, with all prior member comments being taken into consideration as appropriate at that time.

Website

All the information on the website has been updated in recent weeks, including the individual member benefit statements which currently show the member balances position as at the end of September 2008.

David S Stevens
Chairman of Trustees