



# New Zealand Harbours Superannuation Plan

**Chairman's Newsletter**

**March 2009**

The most recent meeting of Trustees was held on 5 March 2009. The purpose of this newsletter is to bring you up to date on some of the issues discussed by the Trustees.

## **Investment concerns**

During the quarter, the Trustees commissioned two reports from the Plan's Investment Advisor. The meeting was primarily directed to discussing those reports and the recent investment performance of the Plan.

The first report was a Review of the ING (NZ) New Zealand Bond Performance, as ING were reported as having some poor performing domestic bond investments. The report looked comprehensively at ING and considered the options to move the bond investment to another manager. On balance, given the costs of change and the historical performance of the managers in the market, the Trustees decided to retain ING but keep them under surveillance.

The second report reviewed the Strategic Asset Allocation that had previously been set by the Trustees, in the light of the current economic market turmoil. The report showed that overall the current allocation remains valid for the medium to long term and the investment managers are performing as required. The Trustees decided to allow each of the Plan's investment managers more freedom as to the amounts they could invest in each asset sector. Currently the Plan is reducing its exposure to New Zealand property and holding the proceeds in cash.

## **Investment performance**

During the quarter ending 31 December 2008, economic activity continued to slow. Everywhere sharemarket indexes reflected this, falling 9.6% in the UK, 19.1% in the USA, 18.2% in Australia and 11.9% in New Zealand. However, fixed interest returns improved, with the value of both New Zealand Government bonds and world bond markets rising by some 5%. The fall of the New Zealand dollar by 12.5% in the quarter helped cushion the fall in the Plan's exposure to the global share markets.

The difficulties in the credit markets have mainly impacted on the Plan's Fixed Interest bond managers through institutional investors who have been forced sellers of otherwise good investments. Early in the 2009 year corporate bonds staged a rally relative to Government Debt, which has helped most bond managers.

Unfortunately the economic outlook has not yet started to improve. Interest rate cuts by the central banks of New Zealand, Australian, Europe, USA and Japan have been a very public way that the Governments of those countries have tried to stimulate their economies. In New Zealand there have now been three quarters of reduced growth, the first time that this has happened since 1998. Consumers have been cautious in the light of the poor economic environment. Sales over Christmas were down, although the lower petrol prices which helped to ease the pain may not be a permanent feature in New Zealand.

## **Plan earning rates**

The actual gross investment return on the assets of the Plan (before tax, fees and expenses) for the quarter ended 31 December 2008 was negative from all managers (being negative 7.2% from ING, 7.9% from Tower and 11.5% from Tyndall). After allowance for fees and expenses, the final outcome to members was an allocated return of negative 8.4% for members subject to tax at 19.5% and an allocated return of negative 8.6% for members subject to tax at 33% for the quarter.

As at the date of this newsletter, interim interest rates of negative 6.5% for members who are 19.5% taxpayers, and negative 6.6% for members who are 33% taxpayers have been set for the Plan. Those interim interest rates will be used only for the calculation of benefits for members who leave the Plan and are 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.

## **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 December 2008.

David S Stevens  
Chairman of Trustees