New Zealand Harbours Superannuation Plan

Chairman's Newsletter **August 2009**

The most recent meeting of Trustees was held on 20 August 2009. 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 June 2009, there was a strong up-turn in both New Zealand and overseas investment markets. There is some evidence that confidence has been restored in investment markets and the fall into a global recession seems to have been averted.

Market uncertainty is still evident, particularly as some of the larger world economies still look weak. There is a view that the New Zealand dollar needs to fall and the economy needs to move from consumer spending to export led production.

Overall it can be expected that there will continue to be volatility in investment markets going forward.

Plan earning rates

Based on the investment returns over the quarter ending 30 June 2009, a taxable rate of positive 2.2% and a non-taxable rate of positive 5.6%, each after investment fees and expenses, was allocated to member balances for the quarter. In total, these rates equate to a return of positive 7.4% for members subject to tax at 19.5% and a return of positive 7.1% for members subject to tax at 33%.

Based on the monthly investment returns for July and a market view of the investment expectations for the balance of the quarter to 30 September, a taxable interim interest rate of positive 0.8% and a non-taxable interim interest rate of positive 4.5% has been accepted by the Trustees as applying for the balance of the quarter. The equivalent after tax rates are positive 5.1% for members who are 19.5% taxpayers, and positive 5.1% for members who are 33% taxpayers. Those interim interest rates are 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.

Movements in the Value New Zealand dollar

The Plan has investments in overseas shares which are priced in overseas currencies and have to be converted to New Zealand dollars to determine the Plan's investment returns. As part of the management of those overseas shares the Trustees act to try and mitigate the impact on the Plan of changes in the value of the New Zealand dollar. Currently 70% of the overseas shares are maintained in overseas currency and thus exposed to changes in the value of the dollar. This level of exposure, which is greater than our benchmark, has adversely impacted on the Plan's recent performance due to the strength of the New Zealand dollar against other currencies.

The Trustees have been provided with advice to show that the level of overseas shares exposed to overseas currency should be decreased to 50%. However, the timing of the reduction must be carefully managed.

Movements in the value of the New Zealand dollar are difficult to predict and it can move dramatically and quickly. The advice received by the Trustees is that the dollar is over fair value and that it can be expected to decline in value in the medium term. Calculations show that, with the dollar at its current levels, when it does fall it will deliver a one-off return of some 2% to members, while the ongoing cost of maintaining the current level of exposure will result in a 0.25% pa on- going reduction in returns.

The Trustees have weighed up the benefits/costs to the members of changing the currency exposure now and of changing it later and have decided to leave the currency position unchanged at this time. This will remain under active review.

David S Stevens
Chairman of Trustees