



The Presbyterian Church Property Trustees

Presbyterian Investment Fund (PIF) returns for parishes

The Trustees have received several questions from parishes about the reduced returns for PIF invested funds in recent months. Some treasurers tell us they are considering alternative investment options for their funds and are also asking why the PIF does not offer other options apart from on-call investments.

Background

The context for such queries is the declining interest rate offered by PIF over the past 12 months. This decline reflects the general decline in interest rates that probably reached its low point in late 2016. PIF rates declined from 5% in Dec 2014 to the current 3% in December 2016. At the same time the Reserve Bank benchmark Official Cash Rate (OCR) declined from 3.5% to an historic low of 1.75% in December 2016. Trustees recognise the impact that this reduced income is having on parishes that rely on investment income to support their mission and work. There are several aspects to consider when responding to the questions raised.

Tougher banking regulations

First is the reality that the market has changed considerably as new regulation of financial markets comes into full force and stricter rules on deposit taking by banks and other financial institutions take effect. One very important practical effect is that it is now much more difficult to break a bank term deposit (TD) without incurring penalty fees. This means money invested in a TD of 12 months cannot be accessed until the term has ended. Therefore, caution is necessary for parishes investing in such a TD, as the money cannot be drawn down "in an emergency". One of the advantages of the PIF continues to be its on-call nature. Parishes can withdraw funds at any time. Comparing PIF on-call returns with a locked-in term deposit is not comparing "like with like".

The PIF is an on-call, low risk investment

The other "like for like" that is important is the riskiness of the investment. The PIF is invested in very high quality assets where the risks are considered to be low. There are other investments around that pay higher interest rates, but by definition, they carry more risk. This might be the risk of being stuck in a TD when new rates are higher (opportunity cost) or a higher risk of default.

Secondly, real interest rates (i.e. after taking account of inflation) are still good in historical comparison, because inflation has also been very low over recent years. So, the real return on PIF deposits, after taking account of inflation, remains very good.

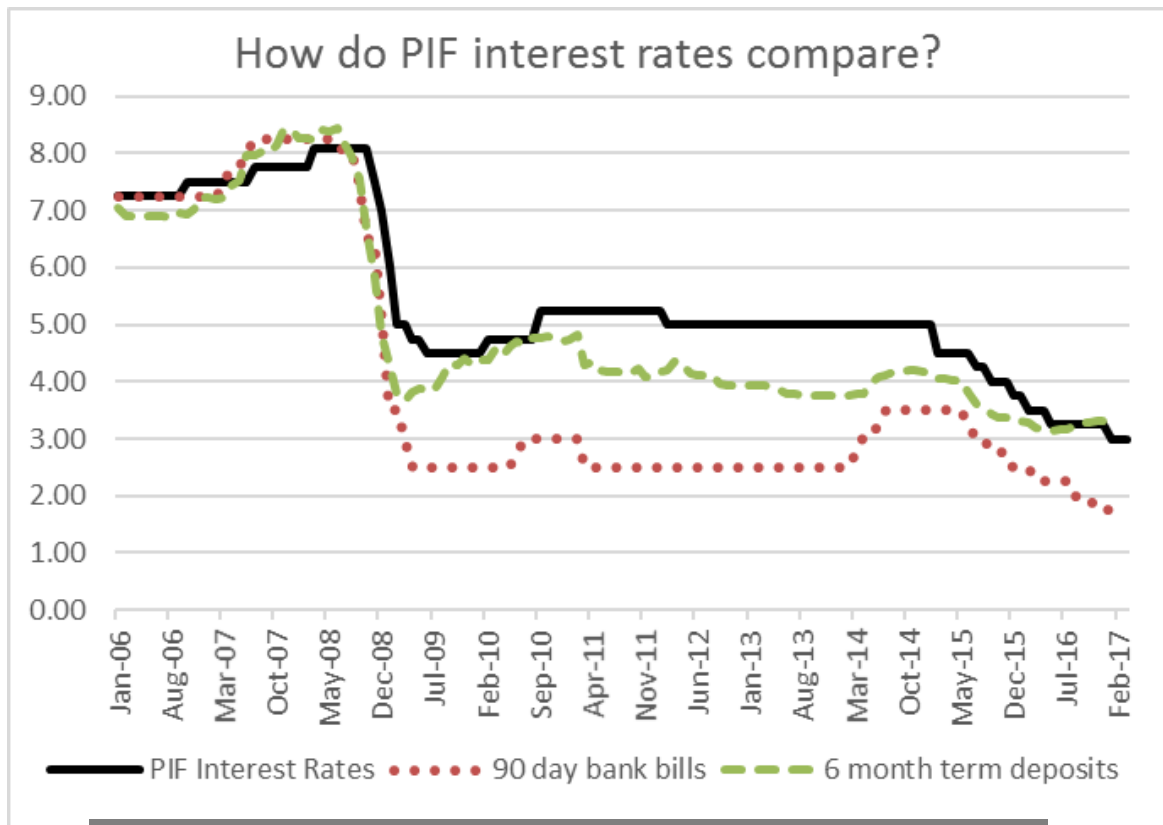
Extra returns from the PIF

Thirdly, over recent years the PIF has been able to offer interest rates well ahead of the market on call deposits and indeed competitive with bank term deposit rates for 6 – 12 months. (See the graph). In particular, between December 2010 and December 2016, the PIF interest rate consistently returned between 0.4 % - 1.2% more than 6-month bank term deposits. This meant that over this time the PIF paid out to parishes an average of between \$400 - \$1,200 more each year for every \$100,000 invested. In the long run, we think the investment policy used by the PIF is in the best interests of the parishes, but this not the case all the time, and this is one of the times when the margin is low.

How much more has PIF paid?

If, on 1 Jan 2006, your parish had invested \$1,000 in each of the PIF, a 90-day bank bill, and a 6-month term deposit, then added the interest to the deposit, on 28 Feb 2017, the balance would have been:

PIF	\$1,609.21
90-day account	\$1,445.42
6-month term deposit	\$1,547.77



The PIF rate is consistently higher than comparable alternatives

Negotiating a changing interest rate environment

Lastly, changing market conditions mean that this benefit has diminished in recent months. The market is currently in a transition point. It appears that longer term interest rates are rising, but the picture is unclear with a great deal of uncertainty and associated risks. This in turn means it is a complex process to adjust investments to take advantage of the best returns that can be achieved and minimise the risk of losses. For example, the PIF could invest in some longer term assets that pay a higher rate of interest, but if interest rates do rise, the PIF could miss out on even higher rates.

The PIF has generated reserve income that is now being utilised to smooth returns and hold them above on-call market rates and on par with 6 month bank term deposit rates to benefit parishes during this adjustment period.

Future options

Trustees have been working with professional investment company, Harbour Asset Management, in recent months. We are currently exploring options for short to medium term alternative investments with appropriate levels of risk that may be able to generate higher returns for funds not required in the short term (up to 1 – 2 years). It is not expected that such alternatives will be available to parishes until after the middle of 2017.

A full description of the PIF fund is available on the PCANZ website

<http://www.presbyterian.org.nz/for-parishes/church-property-trustees/presbyterian-investment-fund-pif>

Please contact us if you have further questions.

A reminder that PIF statements are no longer being posted

As advised in our October 2016 newsletter, due to the rising cost of printing and postage, we are no longer posting out the quarterly PIF statements which can be accessed electronically.

A big thank you to the many parishes that have responded so well and are using the login access provided to their Authorised PIF account User.

This allows the User to view or print statements at any time and to process their own transactions if they choose. Many parishes also have the advantage of internet banking that allows them to direct credit deposits to the PIF account - which is much more convenient than banking a cheque.

Interest is credited each calendar quarter and shows in the PIF account by about the 10th day of the month following the end of the quarter.

We've had a large number of parishes updating their contact details and requesting login access for their Authorised Users. If your parish has yet to do this, contact Pat at pat@presbyterian.org.nz and she'll let you know what's needed to get you set up.

Instructions for accessing your parish's PIF account to view and print your statements are attached to this newsletter.

Changes to the Beneficiary Fund

Parishes will be aware of the 2016 General Assembly decision to accept a proposal to make significant changes to the Beneficiary Fund to achieve a more sustainable retirement fund for the Church's ministry leaders into the future. Central to this is the winding up of the defined benefit section of the Fund. This means that contributing members and annuitants will receive a lump sum pay out. In the case of annuitants, this lump sum will replace the annuity currently paid to them or their surviving spouses.

The decision followed many months of work by the Beneficiary Fund Workgroup in preparing the proposal and its subsequent presentation at 17 workshops throughout the country prior to the General Assembly taking place.

The Beneficiary Fund will continue to exist and a new Defined Contribution Scheme is currently being developed that will be very similar to Kiwisaver in its structure. Members will have the choice of investing their retirement savings in a limited number of funds according to their financial requirements and risk appetite. Members will have the opportunity to obtain financial advice as to which type of investment might best suit their individual needs and goals.

The development of the new scheme is a complex project currently being undertaken by the Trustees and the new fund is planned to be in place by 1st July this year. Running alongside this, a specialist group appointed by the Council of Assembly is working on the terms of reference for a Charitable Fund to be established from money that will be left after all members and annuitants have been paid their entitlement from the wind-up. It is envisaged that the Charitable Fund will be available to provide assistance in cases of financial hardship. However, the details of the Fund are still in the early stages of design.

During this transition period, Fund members are being kept up to date with regular newsletters from the Trustees and are able to send queries to a dedicated email address.

While the changes primarily affect active and retired ministers and their spouses, there is a flow-on consequence to parishes in that the level of stipend paid to ministers will rise. The parish will also be required to fund the Church's contribution for each minister. To offset this, a reduction in the Assembly Assessment was also agreed and is anticipated to take effect from 1st July 2017 to reflect the shift in payments by parishes. In the meantime, and until advised by the Assembly Office, it is "business as usual" in terms of ministers' stipend deductions and payment by direct debit to the Fund.

For further background about why changes to the Beneficiary Fund are being made, you may wish to read the attached booklet that was produced for sessions and parish councils prior to the 2016 General Assembly at

http://www.presbyterian.org.nz/sites/public_files/Sessions_16pg_lores.pdf



The Presbyterian Church Property Trustees

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PIF STATEMENT ACCESS INSTRUCTIONS


USER ID & PASSWORD

- As the Authorised User for your parish PIF account you will be given a user ID and password when you are set up.
- **If you forget this:**
Email trustees@presbyterian.org.nz or phone (04) 381-8290.

LOG IN

- Go to www.presbyterian.org.nz, click on the Find Something Fast tab at the top of the screen, then select Church Property Trustees.
- Click on the link under Presbyterian Investment Fund (PIF) in the left column, then click on the log-in access in the centre column
<https://bfs.booster.co.nz/Account/Logon.aspx>

VIEWING AND PRINTING STATEMENTS

- Click on Reports (Cash Transactions) on the bar under the logo at the top

- Enter the start and end dates required (format: dd-mmm-yyyy, eg. 01-Oct-2016)
- Enter your Client ID (i.e. PIF account number) and click **Add**
- The **Action** button need to be set at either "View" or "Download" (depending on your computer setup) and the **Format** will be "PDF"
- Click **Generate Report**
- To print your report, click on the **printer** icon on the toolbar above the report or right click on the page and select Print

FOR ASSISTANCE:

If you have any difficulty accessing your statement, please contact Pat Griffin at the CPT office on (04) 381 8290 or toll free on 0800 559 874 or by email at

trustees@presbyterian.org.nz or pat@presbyterian.org.nz