Presbyterian Beneficiary Fund

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Members' Newsletter – September 2020

In this newsletter:

A message from the Chairperson

Welcome to the latest Beneficiary Fund newsletter, which includes some important information about the Fund's investments. Despite all the challenges created by Covid-19, we're pleased with how the investments are performing. We were also delighted that members did not panic in the early stages of the pandemic and switch their investment options. You have been rewarded with a strong recovery in returns and as a result, decent returns over the last year. The Cash Fund returned 1.1% for the year to 30 June (after all fees), the Conservative Fund 4.2%, the Balanced Fund 4.2%, and the Growth Fund 4.0%.

However, you might know the old investment adage, past performance is no guarantee of future returns.

Our investment manager, Mercer, has advised that future long-term investment returns are likely to be lower. In order to try to deliver our targeted returns, they will slightly increase the level of growth assets held by the Balanced and Growth Funds. This also increases the risk profile of these options, though these Funds remain 'true to label' as balanced and growth funds. Your directors have fully discussed these changes with Mercer, and are comfortable with them. However, even once this is done, due to changed economic and market conditions, the targeted returns will still be lower than we have been used to receiving – as you will see in the table on page 4. On the plus side, inflation is also expected to be lower.

While we expect lower returns, no one seems to have told sharemarkets about this. Despite a very uncertain economic future, markets are at all-time highs. The market update on page 2 might help explain why.

You should receive a member statement as at 30 June 2020 with this newsletter, and the Fund's Annual Report next month.

Finally, as always, I'd like to take this opportunity to thank you for your support of the Fund and wish you all the best as we all get increasingly familiar with life under Covid.

Best wishes

M. N. Galt

Margaret Galt

Investment Market Update

Investment markets have confounded almost everyone with the strength of their rebound following sharp falls in the first quarter of the year. It was not surprising to see share prices fall quite steeply in March of this year as the Covid-19 pandemic took hold. As everyone went into lockdown, economic activity plummeted, and so did share prices.

However, investment markets like to look ahead. As governments and central banks stepped in to support economies and work on vaccines kicked into gear, markets began to look beyond the current crisis and think about the recovery. What's more, it became apparent that this was not your normal recession. In a typical recession, economic activity declines across the board. In this case, however, there were some real winners, particularly the information technology sector as we moved our lives online. Instead of going to the shops, we purchased online. Instead of meeting in person, we Zoomed together. Instead of going to the movies, we subscribed to Netflix. It is not surprising then, that technology companies have been leading the charge on the sharemarket.

And there were other companies that benefited, like NZ's own Fisher and Paykel Healthcare, which manufactures respiratory devices, and A2 Milk, which produces milk with the A2 protein (as consumers went into panic buying and pantry-stocking mode). So, while sharemarkets are indeed reaching new highs, it is not a rising tide that raises all boats. The new highs are being led by a relatively small number of companies and there are plenty of companies that are struggling.

That said, the recovery of sharemarkets around the globe has been underpinned by low interest rates everywhere. Here in NZ, the Reserve Bank lowered the Official Cash Rate to 0.25%. In the US and Europe it is 0%, in the UK 0.1% and in Australia 0.25%. Low interest rates are typically designed to encourage savers to take their money out of the bank and invest it elsewhere, and to encourage businesses to borrow more to keep growing. And it's working. Savers are moving into the sharemarket, pushing up prices. What's more, there are more investors. Technology platforms, like Sharesies here in NZ, are allowing investors with very small sums of money to buy shares, adding to demand.

But there are risks. No one knows what the path to economic recovery looks like, how long it will take, and what the post-Covid business world looks like (who the winners and losers will be). If vaccines take longer to develop or prove ineffective, investor optimism might turn to pessimism. On the other hand, central banks can keep interest rates low as long as inflation is low. If prices start to rise and banks have to raise rates, investors might abandon sharemarkets and flood back to term deposits.

There are always uncertainties when it comes to investing, but it feels like we face more than normal right now. However, as we have seen already this year, when it comes to investing, it's seldom a good idea to respond to the latest news, whether good or bad. The chart on page 3 shows just how important it is to not sell in times of trouble. As markets recover, so do investment funds.

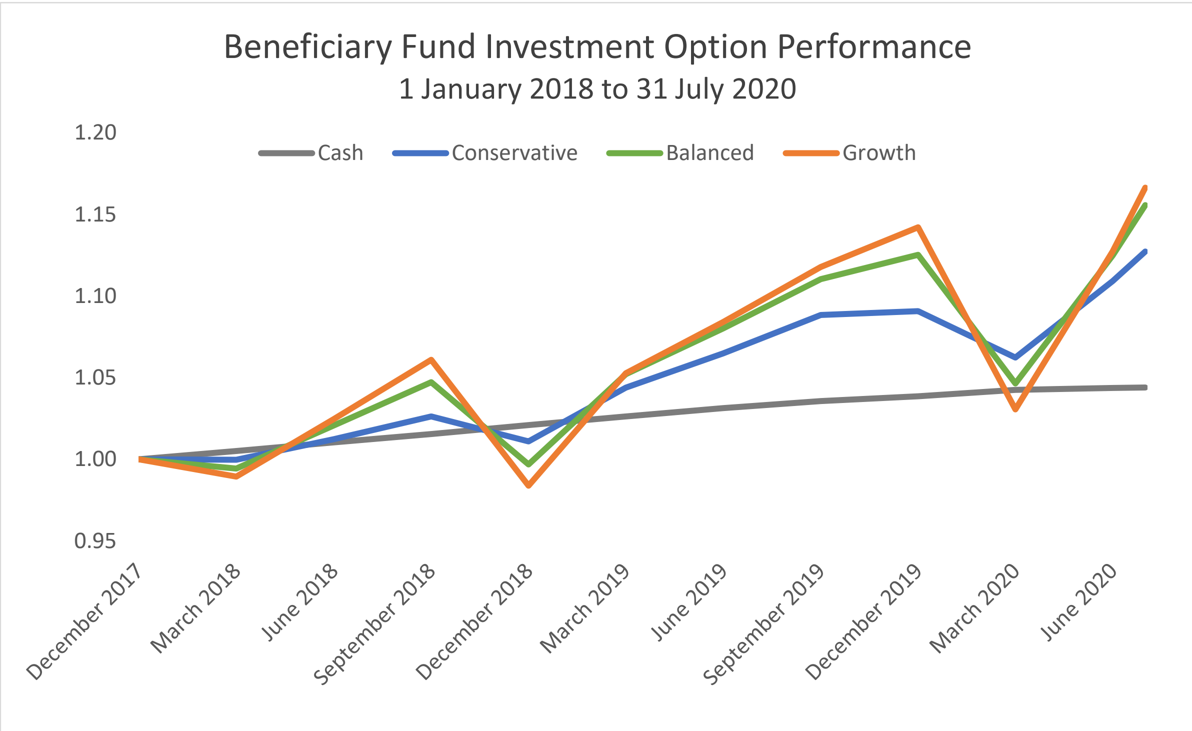
The Beneficiary Fund offers a range of risk profiles that are designed to provide different levels of return. Our Manager, Mercer, is making some small changes to these options to address the challenges of investing today. Please read the Investment Fund Changes section of this newsletter to find out more.

How has the Fund performed?

Returns for each investment option (net of all fees and charges) for the year to 30 June 2020 are set out in the table below.

	Cash	Conservative	Balanced	Growth
One year return	1.1%	4.2%	4.2%	4.0%

The chart below shows how the different investment options within the Beneficiary Fund have performed since the 1st of January 2018 through to 31 July 2020 (before admin fees). The grey line shows the slow, but steady returns from the Cash Fund. In contrast, the orange line shows the more volatile, but substantially higher, returns from the Growth Fund. After allowing for administration fees, the returns over this period are: Cash Fund 4%; Conservative Fund: 12%; Balanced Fund 15%; Growth Fund 16%. Had members in the Growth Fund decided to switch to another Fund in December 2018 or March 2020, they would have missed the strong subsequent returns.



Markets have swiftly recovered from the initial Covid-19 induced falls earlier this year

The unit prices for each investment option are:

New Benefits Section	Cash	Conservative	Balanced	Growth
Unit Price at 30 June 2020	1.5668	1.1095	1.1894	1.1273
Complying Section	**Cash**	**Conservative**	**Balanced**	**Growth**
Unit Price at 30 June 2020	1.5668	1.1095	1.1894	1.1273

Return information, along with unit price information for other periods, is available by calling the Fund's Administrator, Melville Jessup Weaver, on 0800 266 787.

Investment Fund Changes

Lower interest rates mean lower returns

Expected returns from investment assets have been trending downwards over the last three years. You will have noticed that interest rates are now very low. Interest rates are low as Central Banks are trying to encourage investors to take their money out of the bank and invest into more productive assets, all in an effort to boost economic growth. Global economic growth had not fully recovered from the Global Financial Crisis – and now we have the Covid pandemic, which is expected to strangle economic growth for some time. As a result, interest rates are expected to remain low for an extended period of time.

Low interest rates means low returns from investment assets across the board. This means that, all things being equal, a specified mix of investment assets is expected to deliver a lower return now than it was three years ago.

In order to achieve the same level of return, investors now need to increase the amount of risk they take. This means increasing the allocation to shares and property assets, collectively called growth investments. They're called growth assets because they are expected to grow in value – as opposed to defensive assets, like fixed interest securities, which are not expected to grow, but instead better hold their value in times of trouble.

Growth assets are more risky, because in times of trouble, they are more likely than defensive assets to fall significantly in value, as we saw during the recent market falls in March.

What are the changes?

Our Fund Manager, Mercer, has decided to increase the allocation to growth assets within the Balanced and Growth Funds by 5% in each Fund. There is no change to the growth/defensive mix of assets in the Conservative Fund. Even at these higher levels, the Balanced and Growth funds are still very similar to other balanced and growth funds in the market.

Despite these changes, the expected returns from the Conservative, Balanced and Growth Funds have all fallen (and of course the Cash Fund return is already much lower, reflecting low short term interest rates).

The changes are set out in the table below:

Changes to the asset allocation mix and performance objectives

Investment Option	Allocation to Growth Assets		Recommended Investment Timeframe		Investment Objective p.a.	
	New	Old	New	Old	New	Old
Cash	0%	No Change	Short Term	No Change	3 Month Term Deposit	No Change
Conservative	20%	No Change	3 Years	No Change	Inflation + 1%	Inflation + 1.25%
Balanced	60%	55%	8 Years	7 years	Inflation + 3%	Inflation + 3.5%
Growth	80%	75%	10 Years	8 years	Inflation + 4%	Inflation + 4.25%

The allocation to growth assets is increasing for the Balanced and Growth Funds

What does this mean for you?

There are two key outcomes. The first is that returns are expected to be slightly lower than before. The second is that if you are in the Balanced or Growth Funds, the day to day returns from your investment are likely to fluctuate moderately more than before, with more risk of negative returns over the short term. As a result, the recommended time horizon for these Funds have also increased.

What do you need to do?

You do not need to do anything if you remain comfortable with your choice of investment option. However, if you are concerned that your selection may now be more risky than you would like, you are able to switch your investment option by contacting MJW, the Fund's Administration Manager, and obtaining an investment switching form. Please note, you are able to spread your savings across multiple investment options, e.g. 70% in the Balanced Fund and 30% in the Conservative Fund (which would give an overall allocation to growth assets of 48%).

As always, we recommend that you seek professional financial advice if you have any questions about your investments. Neither the Trustees nor MJW are able to provide you with personal financial advice.

How you can find out more or get help

If at any time you need to make a withdrawal, change your investment option(s), find out information about your account balance or update your personal details, please contact the Fund's Administrator (Melville Jessup Weaver) at:

Phone: 0800 266 787
Email: presbyterian@mjw.co.nz

Melville Jessup Weaver
PO Box 1096
Wellington 6142

For all other enquiries please contact the Trustee at:

Phone: (04) 381 8296
Email: trustees@presbyterian.org.nz

Attention: Russell Garrett
PO Box 9049
Wellington 6141

You can also get additional information about the Fund at companiesoffice.govt.nz/disclose or on our website at presbyterian.org.nz/for-parishes/church-property-trustees/beneficiary-fund.