Presbyterian Beneficiary Fund

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Members' Newsletter – December 2020

In this newsletter:

A message from the Chairperson

Welcome to the final Beneficiary Fund newsletter for 2020, which not only provides an update on how your savings are performing, but also how your savings are invested for good.

As the Investment Market Update on page 2 explains, economies have been more resilient than expected – and investment assets have performed better than almost everyone expected. The Beneficiary Fund Investment Options (and members) have benefited from this strong performance (see page 3). The Conservative Fund has returned 5.4% for the first eleven months of the year (after all fees), the Balanced Fund 7.6%, and the Growth Fund 8.6%. Only the Cash Fund (0.5%) has struggled, which is not surprising given that the Official Cash Rate is 0.25% p.a.

However, you might know the old investment adage, past performance is no guarantee of future returns. We are not out of the woods yet when it comes to Covid, and we would not be surprised to see more ups and downs in investment markets over the next twelve months.

And of course, Covid is just one of the challenges we face. Climate change and sustainability are critical challenges for the global community. The Investing for Good piece on page 4 highlights some of the good work of one of the companies you invest in through the Beneficiary Fund.

We have been very fortunate here in Aotearoa that we have navigated 2020 without the extensive disruption witnessed in many other countries. That said, I suspect we are all looking forward to renewed life in 2021. While Easter is more often associated with a new life in Christ, what could speak more of new life than the gift of a baby? And speaking of new life, all the best to the two members who have just withdrawn money from the Fund to help buy their first house!

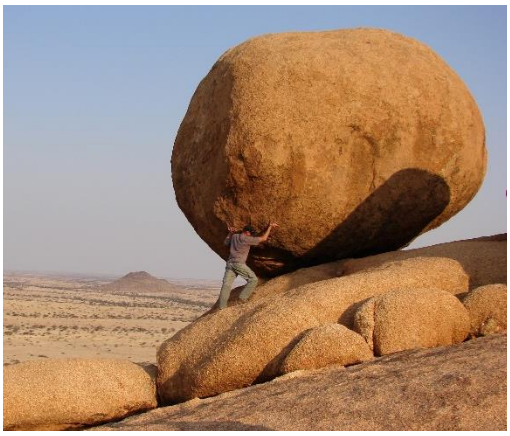
So, on behalf of everyone involved in the Beneficiary Fund, I'd like to wish you and your loved ones a blessed Christmas and the gift of new life in the New Year.

Best wishes

M. N. Galt

Margaret Galt

Investment Market Update



Share price highs

It has been a great time to be invested in shares. Since their lows earlier in the year during the height of the pandemic panic, share prices have climbed strongly, reaching all-time highs. There are three key drivers of these returns:

1. Low interest rates
2. Better than expected company profits
3. The promise of a vaccine

First, Central Banks have kept interest rates at record lows to encourage savers to take money out of their bank accounts and invest it elsewhere. In an ideal world, this money would support new productive businesses and stimulate economic growth. In the real world, it has pushed up investment asset prices, including houses and shares.

Secondly, most economies have weathered the pandemic better than many feared they would. While there have been significant losses in sectors like tourism, other parts of the economy have performed better in 2020 than they did in 2019. Of course, in many cases, the good results were aided by substantial Government financial support via wage subsidies and other spending.

Lastly, sharemarkets like to look ahead, and good news from vaccine manufacturers has provided icing on the share price cake as investors look forward to a return to normality. The end result is double digit returns from sharemarkets in the first eleven months of the year (+10% for global shares and +12% for NZ shares).

Property and Infrastructure doldrums

Property and Infrastructure assets have not performed as well, with some of these assets adversely affected by the pandemic. For example, airports, once major economic hubs, have struggled with the fall in travel. Office buildings and big retail shopping centres have found it difficult as workers and shoppers stay home and work/buy online (particularly elsewhere around the world).

Bonds and Cash

The final piece in most diversified investment portfolios is bonds and cash. Cash returns, like term deposits, have flat-lined as Central Banks keep rates low. This is clear from the return of the Fund's Cash Investment Option, which has only earned 0.5% for the year to date. Bonds have performed surprisingly well, returning around 5% - 6% year to date, benefiting from rising bond prices early in the year (as investors sought a safe-haven). While share investors are optimistic about the future, bond investors remain cautious. If this caution turns to optimism, we might see falls in bond prices (as investors decide they no longer need the safe haven offered by bonds), which could lead to losses.

Not out of the woods yet

The end result is that the Beneficiary Fund's Investment Options have performed well over the year to date, with the exception of the Cash Option (anchored as it has been by very low interest rates). The next section – How has the Fund performed - provides more details about the Option returns.

That said, we have seen how quickly things can turn. There are still a number of uncertainties around the path to life without Covid. Will the vaccines really prove effective? Will low interest rates and Government spending lead to inflation? What will happen if and when interest rates rise? How will Governments reduce the huge debt they have taken on? Will life after Covid look like life pre-Covid? We are not out of the woods yet, but you are encouraged to seek advice if you are considering major changes to your investment strategy.

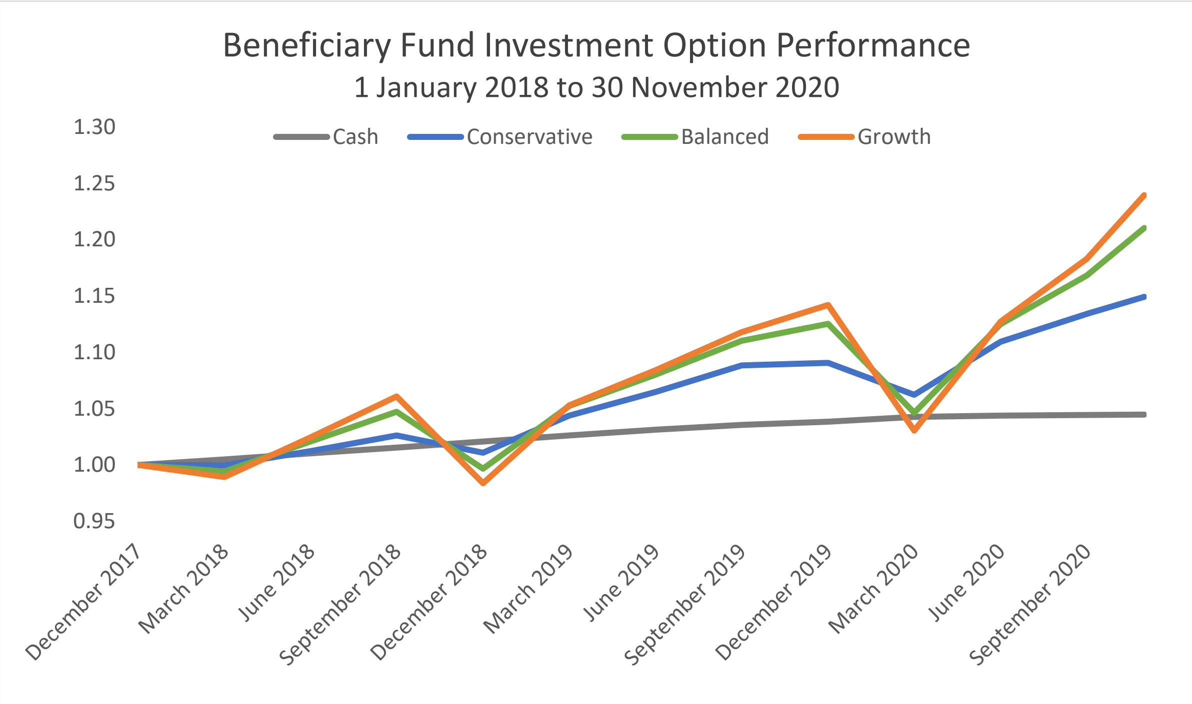
How has the Fund performed?

Returns for each investment option (net of all fees and charges) for the calendar year (from 1 January 2020) to 30 November 2020 are set out in the table below.

	Cash	Conservative	Balanced	Growth
2020 return (to November)	0.5%	5.4%	7.6%	8.6%

The Trustees are pleased to note that these returns are ahead of the market benchmarks set by Mercer (the Investment Manager) and compare favourably with other funds.

The chart below shows how the different investment options within the Beneficiary Fund have performed since the 1st of January 2018 through to 30 November 2020. 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 (35 months) are: Cash Fund 4%; Conservative Fund: 15%; Balanced Fund 21%; Growth Fund 24%. 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 November 2020	1.5683	1.1495	1.2749	1.2394
Complying Section	**Cash**	**Conservative**	**Balanced**	**Growth**
Unit Price at 30 June 2020	1.5683	1.1495	1.2749	1.2394

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** or emailing them at **presbyterian@mjw.co.nz**.

Investing for Good

The Beneficiary Fund investment options all include a focus on socially responsible investing. Many funds that claim to invest in this fashion do so solely by excluding certain companies, for example tobacco producers and those involved with fossil fuels. Yes, the Beneficiary Fund also does this, but it also focuses on investing in 'good' companies and by lifting standards of corporate behaviour right across the board (sometimes quite literally by focussing attention on the actions of boards of directors).

For example, the Fund invests (via Mercer) in Xylem, a water technology solutions based in the UK. Xylem's products and services help move, treat, analyse and monitor water. You might even use one of their irrigation systems in your garden at home. In 2019, the company's 16,000 employees worked with communities in more than 150 countries, generating around NZ$8b in revenue.

How does Xylem work for good?

Xylem is focused on six of the United Nations Sustainable Development Goals: 3 - Good Health and Well-being; 5 - Gender Equality; 6 - Clean Water and Sanitation; 9 - Industry, Innovation and Infrastructure; 11 - Sustainable Cities and Communities; and 13 - Climate Action.

Xylem's water meter systems are used by local authorities around the world to reduce water loss. For example, the city of Dallas in Georgia (USA) recently eliminated 12 million gallons of lost water in its first year. The city hopes to reduce water loss from 47 million gallons each year to 10 million gallons (or around 20 Olympic size swimming pools).

Xylem's technology has been used by a team of field researchers measuring the Greenland ice melt. The ice sheet is 2,400km long (1.5 x the length of New Zealand) and includes 2.8 million cubic kilometres of ice. As the ice melts, it forms rivers across the glaciers that make up the ice sheet, much like rivers on land. The team wanted to answer questions like: How quickly is meltwater running into the ocean? How is the meltwater speeding or slowing the movement of the glaciers? The answers help with the modelling of glacial melting during climate change.

Not only are Xylem's products and services focused on better use of water, but the company itself is committed to sustainability. For example, Xylem installed solar panels on the roof of its Dubai facility, reducing its CO_2 emissions at the facility by 426 megatons in 2019. It also reduced its own water use at the facility by 17% through the introduction of water flow meters and frequent leak tests.

Finally, for soccer fans, Xylem partnered with Manchester City, Manchester City Women and New York City FC to increase awareness about water. You can check out a three-minute video they have made here: https://www.xylem.com/en-nz/about-xylem/partnerships/man-city/