Presbyterian
Beneficiary Fund

NEWSLETTER

MAR 2021

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Message from the Chair

Greetings from 2021, a year we hope will be much improved on 2020. It has been a cautious start, with the exciting promise of vaccines offset by recent community outbreaks.

Who would have thought that I would be writing to you declaring 2020 a great year for Beneficiary Fund returns? Certainly not me! As it turned out, however, returns were surprisingly strong, particularly given the sharp falls early in 2020. As the table on page 3 shows, the diversified fund returns for 2020 ranged from 6.1% for the Conservative Fund to 11.2% for the Growth Fund. These good returns led to pleasing average annual returns since we launched the new-look Fund at the end of 2017 (as the table shows).

The *Investment market update* (page 2) endeavours to explain what has driven the good returns, and what to look out for this year. We have already seen that markets have fallen in the first two months of 2021. Hopefully, you will know by now that this is not, of itself, cause for concern. The *Investment returns chart* on page 3 illustrates the ups and downs already experienced. There will be more of these I'm sure.

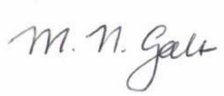
If you have any questions about your account or how to access your savings, please call the Fund's Administrator, Melville Jessup Weaver, on:

0800 266 787

The 2020 experience is a not-so-subtle reminder as to just how hard it is to predict what investment markets will do. Even if we had predicted a global pandemic, no one would have imagined that returns would have been so good. This reinforces the suggestion that members focus on the long term and review their investment strategy from time to time as their circumstances change, such as getting closer to retirement. *How much do I need to retire?* on page 4 briefly examines this age-old question.

Thanks again for your membership.

Best wishes



Margaret Galt

Investment Market Update

It was a confident end to 2020. Investors were buoyed by three key factors: 1) The start of the global vaccine roll-out; 2) The surprising resilience of many economies, including New Zealand's; and 3) Ongoing Central Bank and government support. The latter was reinforced by Biden's victory in the US election and Democrat control of the Senate, boosting expectations of a large financial Covid package.

This investor confidence translated to further share price rises. Both local and global sharemarkets rose by double digits in the fourth quarter of 2020. In contrast, NZ Bonds actually fell in value as investors started to worry about what might happen when interest rates rise. The end result was strong returns for funds dominated by shares, but more modest returns for those with lots of bonds.

But it's not all roses. Just as low interest rates have boosted property prices here in Aotearoa, they have also provided fuel for share prices, leading to all-time highs on markets around the globe. Investors have become used to low interest rates – and use these low rates to justify paying more and more for investment assets. However, investors are now caught in a dilemma: they want the pandemic to end and for economies to return to normal growth – but they don't want this to happen too quickly, in case Central Banks have to raise interest rates too quickly (to stem inflation). In fact, there is a risk that investors have become so addicted to low rates, that any interest rate increases will spook them.

We last saw this in 2013, when the market reacted with (short-lived) collective panic to news from the US Federal Reserve (the equivalent of our Reserve Bank) that it would begin to reduce its support. Markets have sold off early in 2021 as investor confidence has turned to worry: what if things are so good that interest rates rise more quickly than we would like? It's a good problem to have, but as a result, we might see markets see-saw in 2021 as governments work out how to turn off the support tap – and investors try to get to grips with what a return to a post-Covid world looks like.

How has the Beneficiary Fund performed?

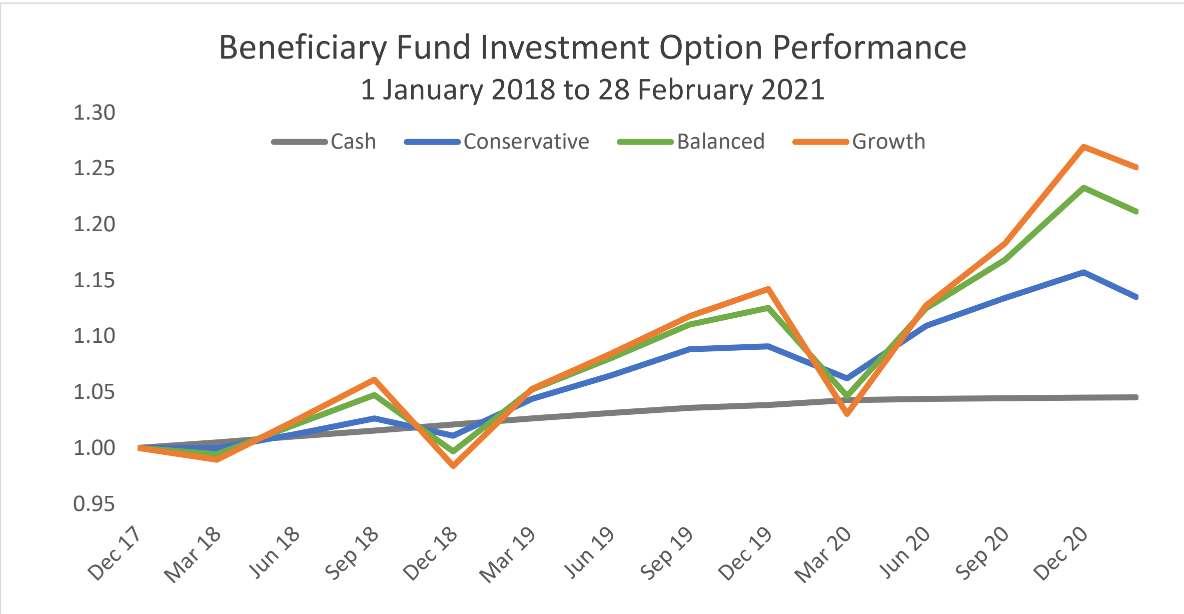
Returns for each investment option (net of all fees and charges) for both the calendar year (from 1 January 2020) and three years (per annum) to 31 December 2020 are set out in the table below. The three year returns illustrate the average annual return over this period.

Returns to 31 December 2020	Cash	Conservative	Balanced	Growth
1 year	0.5%	6.1%	9.6%	11.2%
3 years (p.a.)	1.4%	5.0%	7.3%	8.3%

The table highlights just how surprising investment returns were for the year. Who would have thought that we would see such strong returns from a period in which we experienced a global pandemic that put many parts of the global economy into lockdown? However, it's worth remembering that much of this good performance has been generated by governments stepping in to support businesses and households, and that at some point, they will need to step back in the hope that economies can stand on their own two feet.

The chart below shows how the different investment options within the Beneficiary Fund have performed since the 1st of January 2018 through to 28 February 2021. 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.

The chart illustrates just how strong the returns were in 2020, but that it has been a nervous start to 2021, with investors worried about the potential impact of rising interest rates.



Markets swiftly recovered from the initial Covid-19 induced falls – but where to next?

The unit prices for each investment option are:

New Benefits and Complying Sections	Cash	Conservative	Balanced	Growth
Unit Price at 28 February 2021	1.5690	1.1353	1.2759	1.2509

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.

How much do I need to retire?

Some say it might be easier to answer, how long is a piece of string? After all, we are all different: we have different families; we live in different places; we have different lifestyles; and we have different life-spans. Fear not, help is at hand. The Westpac Massey Fin-Ed Centre publishes the **New Zealand Retirement Expenditure Guidelines**. These Guidelines are based on actual levels of expenditure by New Zealanders who have already retired. While the Guidelines can't account for all our differences, they do break expenditure down into two lifestyles: a no frills budget that reflects a basic standard of living; and a choices budget that represents a more comfortable standard of living, with some luxuries or treats. The Guidelines are also split into two geographic groups: Metro, for those living in Auckland, Wellington or Christchurch; and Provincial, for those living in the rest of the country. Finally, they add a further split, with expenditure outcomes for both one-person and two-person households. For example, the Guidelines note that a two-person household in Provincial NZ with a comfortable standard of living (Choices budget) spends $1,135.70 a week.

The table below provides a snapshot of the 2019 Guidelines. You can find them online at:

https://www.massey.ac.nz/shadomx/apps/fms/fmsdownload.cfm?file_uuid=18330758-8D36-4EF6-A79B-92C86889BFAB.

The New Zealand Retirement Expenditure Guidelines as at 30th June 2019

	ONE-PERSON HOUSEHOLDS		TWO-PERSON HOUSEHOLDS	
WEEKLY NZ SUPER RATES After tax	$411.15		$632.54	
Total Weekly Expenditure	Metro	Provincial	Metro	Provincial
No Frills budget	$602.11	$574.35	$898.73	$639.90
Choices budget	$1190.37	$830.54	$1436.00	$1135.70

But, how much will I have in retirement?

We are fortunate in Aotearoa to have a universal (everyone gets it for as long as they live) superannuation entitlement. This provides a solid foundation for life in retirement. Current rates can be found online at: https://www.workandincome.govt.nz/products/benefit-rates/benefit-rates-april-2020.html#null. By way of example, a couple, who both qualify, receive $652 each week, while a single person (living alone) receives $424. However, in almost all case, NZ superannuation will not be enough, which is where the Beneficiary Fund comes in. Check out your quarterly Beneficiary Fund statement or contact MJW on 0800 266 787 or presbyterian@mjw.co.nz for your latest balance.

Putting it all together

To see whether you might have enough to retire on, go to: https://sorted.org.nz/tools/retirement-planner. This is an excellent and easy to use tool. It highlights some of the decisions you'll need to make about retirement, like when to stop working, and some things you'll need to guess, like how long you expect to live for. The tool highlights that there are at least three things we can do to ensure we have enough to retire on: 1) Save more each week; 2) Retire later; and 3) Increase the risk profile of your savings. As always, we recommend you consult a financial adviser for more advice.