Presbyterian
Beneficiary Fund

NEWSLETTER

AUG 2021

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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

Message from the Chair

Greetings from a very cold and wintry Wellington. I hope that you are safe and warm, wherever you are.

Temperatures outdoors might be cold: investment returns are anything but. As the table on page 3 shows, the diversified fund returns for the 2021 Fund year (to 30 June) ranged from 5.0% for the Conservative Fund to 20.7% for the Growth Fund! These good returns led to pleasing average annual returns over the last three years - as the table shows - from 4.8% p.a. for the Conservative Fund to 9.9% p.a. for the Growth Fund.

The *Investment market update* (page 2) endeavours to explain what has driven the good returns, and what to look out for in the coming months. We would be surprised if returns continued at the same pace. In fact, it would not be surprising if we saw some market losses. 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.

The directors spend a significant amount of time monitoring investment performance. On the one hand, it's easy to compare one performance number against another. On the other hand, it's important to look beyond the headline number. It's not just a case of highest wins. The piece *How do the Trustees monitor performance* on page 4 provides some insight into the way the directors look at performance numbers.

Finally, you will have noted that your statements from the Fund's Administration Manager, Melville Jessup Weaver (MJW), have been password protected. Cyber security is something all of us have to grapple with. We have seen some high profile failures of late, with substantial costs. The directors have asked MJW to continue to adopt best-practice when it comes to keeping your personal financial information both private and secure.

Thanks again for your membership.

Best wishes

M. N. Galt

Margaret Galt

Investment Market Update

The global economy is growing rapidly as consumers resume normal economic activity, although the re-opening of economies is by no means complete, with levels of international travel still well below the levels seen prior to the COVID-19. Nonetheless, the unleashing of consumers in many large economies has led to a sharp increase in overall economic activity.

This growth (and expectations that things will continue to return to normal) provided more fuel to the fire that has been stoking share prices for some time now. Global share prices rose by over 7% in the June quarter. In contrast, NZ share prices stuttered to a 1% increase and have actually fallen so far in 2021. But to be fair, NZ shares had a great run up to the end of 2020.

While this growth is good for share prices, there is a concern that it might also lead to higher inflation, not helped by global supply shortages and constraints. We have all noticed prices going up! Most economists believe inflation will be short-lived and economies will soon return to some sort of equilibrium. Under this scenario, equities remain favoured as growth should continue for at least a couple of years, which will help the rally in company earnings to continue. Provided interest rates don't rise too quickly, bond returns should remain positive (but only just) so investors in Conservative Funds should be prepared for modest gains.

The risk is that inflation persists and central banks have to increase interest rates to restrictive levels, which would not be a good outcome for either shares or bonds. Investors have received strong returns over the last three years and cannot expect that to continue indefinitely. The longer-term challenge for investors is that high equity valuations and low interest rates may mean low future returns on diversified portfolios across the board.

Our Investment Manager, Mercer, has just committed to a net-zero carbon emissions target by 2050 for all investment options. To achieve this, Mercer expects to reduce portfolio carbon emissions by 45% by 2030 (from 2020 baseline levels). It's off to a great start: the carbon footprint of our global equity portfolio is only half that of the broader market.

How has the Beneficiary Fund performed?

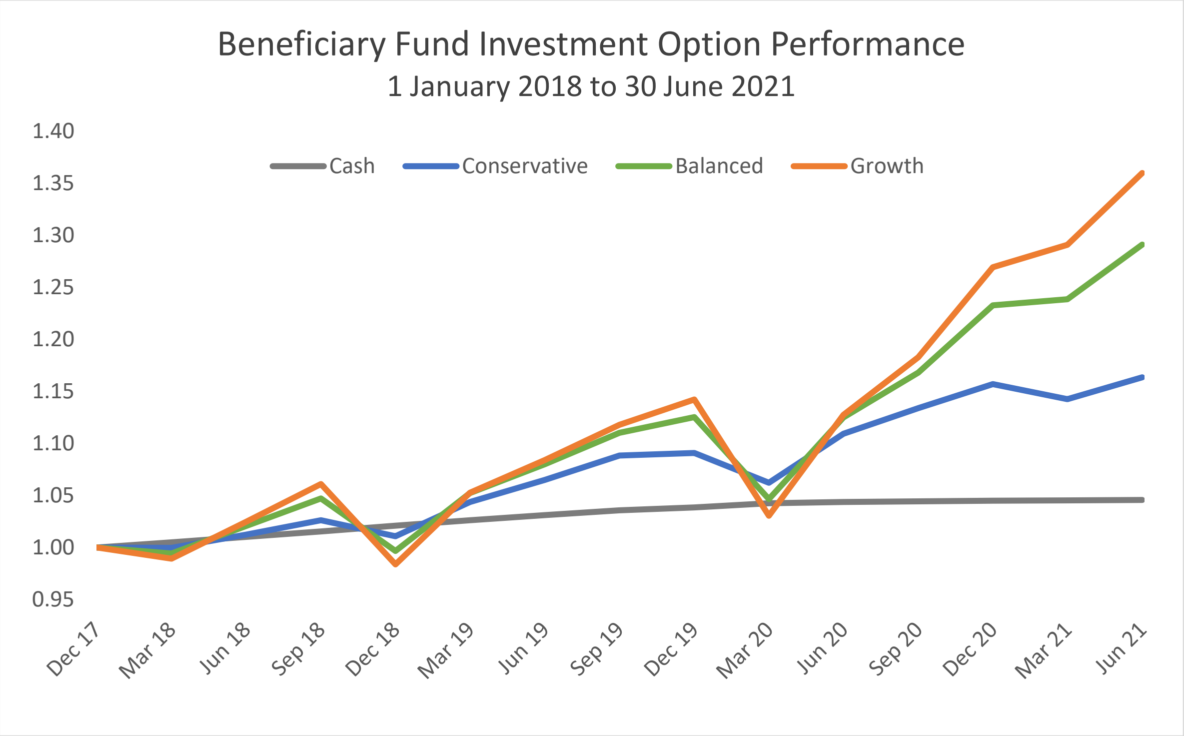
The annual returns and average annual returns for the last three years to 30 June 2021 for each investment option (net of all fees and charges) are set out in the table below.

Returns to 30 June 2021	Cash	Conservative	Balanced	Growth
1 year	0.1%	5.0%	14.8%	20.7%
3 years (p.a.)	1.0%	4.8%	8.2%	9.9%

The chart below shows how the different investment options within the Beneficiary Fund have performed since the 1st of January 2018 through to 30 June 2021. The grey line shows that returns from the Cash Fund have plateaued with interest rates at record lows. In contrast, the orange line shows the more volatile, but substantially higher, returns from the Growth Fund.

It illustrates just how strong share prices have been, pushing up the Growth and Balanced options.

The chart also shows that it has been a struggle for the Conservative Fund of late. For instance, earlier this year, the Conservative Fund fell while the Growth Fund rose. Even though the Conservative Fund is mostly made up of bonds and cash, these assets, like shares, can fall in value, particularly when interest rates start to rise (as investors sell bonds in favour of those paying a higher rate of return).



Rising share prices have continued to drive strong Growth and Balanced Fund returns

The unit prices for each investment option are:

New Benefits and Complying Sections	Cash	Conservative	Balanced	Growth
Unit Price at 30 June 2021	1.5697	1.1637	1.3597	1.3595

Return information, along with unit price information for other periods, is available by calling the Fund's Administration Manager, Melville Jessup Weaver, on **0800 266 787**, emailing them at presbyterian@mjw.co.nz, or posting to PO Box 1096, Wellington 6140.

How do the Trustees monitor performance?

The Trustee directors monitor the performance of the Fund's investment options when they meet each quarter (and more often if required). They look at performance through three main lens:

1. Performance against the objective of each investment option – each option has a long-term objective, usually an annual return target over inflation. The trouble is, these objectives usually apply over a lengthy period of time, say 5 or 10 years, so other performance measures are helpful.
2. Performance against the market benchmark – the performance of any given investment fund is predominantly driven by its exposure to different types of assets or investment markets. The performance of a fund that is made up mostly of global shares will perform largely in line with global shares. That said, sometimes the market is not always the best judge over the short-term – for example, those investors that gleefully chased dotcom stocks up in 1999 were not so sanguine when the share prices collapsed in 2000.
3. Performance against peers – just as the market might not always be the best yardstick over short periods, care must also be taken when comparing against other funds.

Comparing apples with apples

Two funds that look similar at first glance, might be quite different on closer attention. For example, two funds with the same allocation to shares, might have differing amounts invested in NZ versus invested globally. While share prices tend to move together, that's not always the case. Sometimes NZ shares outperform global shares, and vice versa. Often, if one outperforms one month, it will underperform the next. Sometimes that outperformance will persist for several months or even years, only for a similar period of underperformance to follow.

To allow for this, the directors make their assessment over a reasonable period of time. Comparisons over one month or a quarter, or even a year, are often not helpful. There is a saying about investing: *it's not about timing the market, but about time in the market.* Patience is an investment virtue.

Diversification produces smoother returns

The directors have chosen to invest in well-diversified investment portfolios in the expectation that they will produce a more consistent return over time. Sometimes the Beneficiary Fund's returns might not keep up with returns from other funds that are concentrated in assets that have hit a purple return patch. Purple patches tend not to last and while concentration can pay off, it can also cost a fund dearly. Multiple sources of risk and return, when combined properly, should produce a better outcome over the long term.

Performance Tips

1. Your objectives are the best measure – don't be swayed by someone else's objectives or fund.
2. There's more to it than just who has the highest number – it's important to understand how much risk has been taken. It looks great when a big risk comes off – but not when it doesn't!
3. Compare apples with apples – compare balanced funds with balanced funds (but remember that even similar funds can have quite different compositions).
4. Choose a suitable time period – monthly or even quarterly returns are typically not meaningful.
5. Don't forget – the special nature of the Beneficiary Fund means you don't pay tax on investment income.
