Presbyterian
Beneficiary Fund

NEWSLETTER

DEC 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 (MJW), on:

0800 266 787

Message from the Chair

Christmas greetings to you and your loved ones.

It's been another long year. I hope you get the opportunity over the holiday season to reconnect, recharge and renew. I suspect we will all need reserves of energy, grace and compassion to navigate old and new challenges in 2022.

Despite the challenge of 2021, the Board has been pleased with the way the Beneficiary Fund has performed this year. Once again, we are grateful to Melville Jessup Weaver (administrator), Mercer (investment manager), Gregg Dell (adviser), and DLA Piper (solicitor) for their contributions to the good investment results and smooth operation of the Fund. I'm also thankful for the diligence of our Board members. Hopefully we will be able to meet in person at least once in 2022, to complement those Zoom meetings!

Investment returns over the last six months have been more volatile, particularly for the Conservative Fund, which has been adversely affected by rising interest rates (see the Market Update). As the table on page 3 shows, the diversified fund returns for the 12 months to 30 November 2021 ranged from 1.8% for the Conservative Fund to 13.6% for the Growth Fund.

While the Board monitors investment returns each quarter, it may be that you do not pay much attention to returns on a regular basis. This is understandable, after all, retirement saving is a long-term endeavour (and some of us are retired for a lengthy period). However, we recommend that, periodically, you review your choice of investment fund to ensure it is appropriate for your circumstances. We have attached Mercer's Fund Selection tool to assist in this process, but encourage you to seek financial advice as appropriate. You do not need to do anything, but if you wish to amend your investment selection, please contact MJW.

Finally, we know concern about climate change is top of mind for some members. The Board recently received an update from Mercer about its actions in this space. We have highlighted some of these on page 4 of this newsletter.

Thanks again for your membership.

Season's Greetings

M. N. Galt

Margaret Galt

Investment Market Update

Investment markets have been quite volatile of late. Of course, is not entirely surprising as COVID-19 continues to create significant uncertainties. Just when it seemed that the world's major economies were beginning to heat up, along comes Omicron.

Up until the emergence of Omicron, the dominant investment concern was the risk of inflation. Whereas, just a few months ago, most commentators thought that price-rises would be transitory, economists are now concerned about the risk of more persistent inflation. Vast amounts of financial stimulus from government spending and extended low interest rates, pent-up consumer demand, and supply chain challenges have all conspired to push up prices.

While some of these pressures, such as supply chain challenges, should subside, there is a risk that we embark on a succession of circular price-wage hikes (albeit that wages have consistently fallen behind over the last three decades). In response, the NZ Reserve Bank has already increased interest rates, with more increases expected in 2022, as it attempts to stem inflationary pressures.

This leads us back to the arrival of Omicron, which threatens to dampen economic growth (although it's worth noting that Europe appeared to be struggling with a fourth wave of Covid even before this). These conflicting events resulted in negative returns for shares over the last three months, with NZ shares down nearly 4% over this period. Global share losses were more modest, down just 0.5%. However, because the NZ dollar also fell over the period, this meant that returns for NZ investors were positive.

Bond prices continued to struggle in the face of rising interest rates. When interest rates rise, the value of existing bonds falls as investors can now earn a higher rate of return elsewhere. For the year to 30 November, NZ Government bonds have fallen 7.5% in value.

These market movements help explain why the Balanced and Growth Funds continued to generate reasonable returns, whereas the Conservative Fund return has lagged somewhat (see page 3). We expect market volatility to continue. While past returns have been good, this does not mean things will continue in the same vein – there are too many uncertainties in play at the moment.

How has the Beneficiary Fund performed?

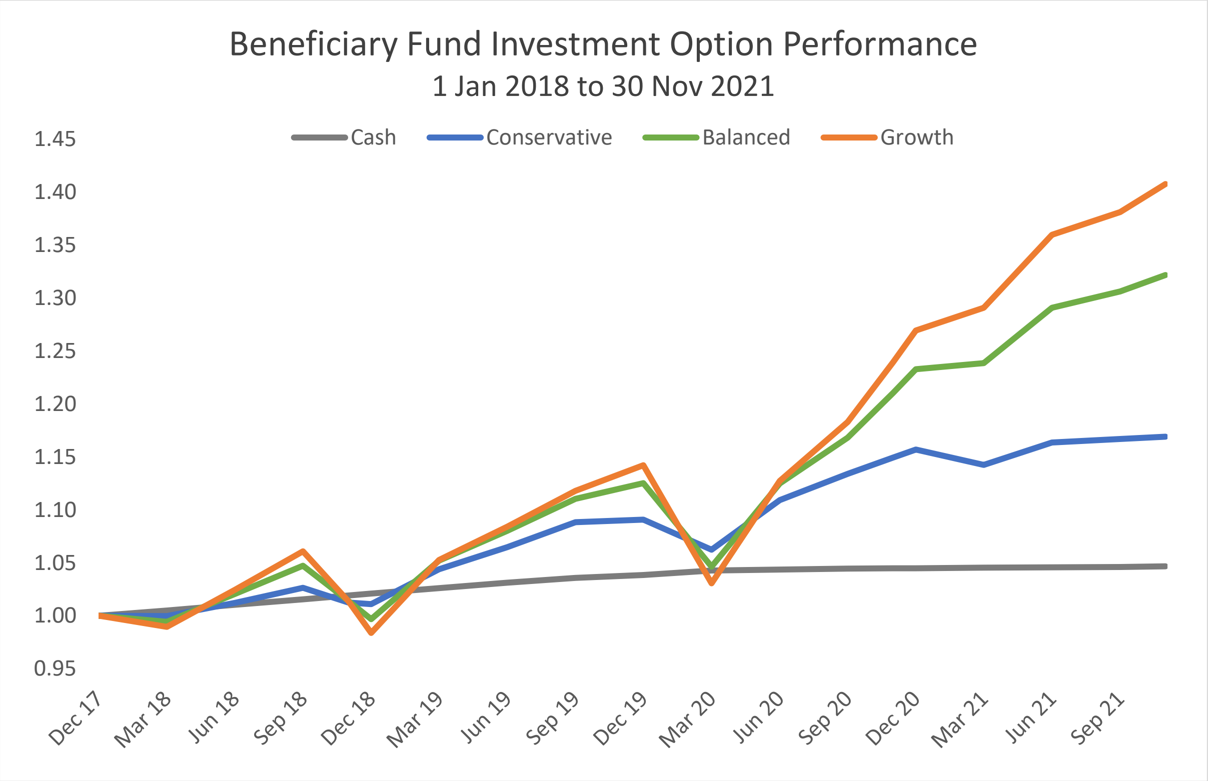
The annual returns and average annual returns for the last three years to 30 November 2021 for each investment option (net of all fees and charges) are set out in the table below.

Returns to 30 November 2021	Cash	Conservative	Balanced	Growth
1 year	0.1%	1.8%	9.3%	13.6%
3 years (p.a.)	0.8%	5.0%	9.3%	11.6%

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 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 November 2021	1.5712	1.1693	1.3921	1.4074

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.

Your investments and climate change

Strong socially responsible investment credentials were a key criteria considered by the Board in selecting an investment manager for the Beneficiary Fund. The Board recently asked our investment manager, Mercer, to provide an update on its responsible investment activities, with a particular focus on climate change.

Mercer groups its activities into five areas

1. Environmental, social and governance (ESG)

Mercer selects specialist managers for different assets classes, but each must demonstrate that ESG considerations are core to their investment management processes.

2. Impact for good

Some of the specialist managers are selected because they focus on investing for positive social and environmental impact. This includes major investments in renewable energy, life sciences, water treatment, resource optimisation, and electric vehicle companies. These managers use the United Nation's Sustainable Development Goals to guide their activities.

3. Active ownership

Owning shares in a company entitles the Beneficiary Fund to influence what the company does (more so than simply not holding any shares). Mercer ensures it uses these votes to promote good corporate behaviour. This includes voting more women onto boards and supporting climate-critical resolutions.

4. Less carbon

Mercer has committed to a net-zero carbon footprint for its investment portfolios by 2050, with a 45% reduction in carbon emissions by 2030 (from a 2020 baseline). This will be achieved by encouraging companies owned by the Fund to make changes, allocating funds to more sustainable companies, and avoiding the most egregious emitters. The portfolio currently has a carbon footprint that is a third smaller than the average portfolio.

5. Exclusions

The portfolio excludes companies that own coal, oil or gas reserves, derive (at least 15% of their) revenue from exploration or extraction, or are involved in providing equipment and services to coal, oil and gas industries. There are also exclusions for companies involved in adult entertainment, alcohol, controversial weapons/armaments, gambling and tobacco.