Presbyterian
Beneficiary Fund

NEWSLETTER

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

0800 266 787

Message from the Chair

Happy New Year! Welcome to 2022!

Yes, it's a new year, but after a much-welcome summer holiday break, we are, once again, subject to Covid-induced restrictions. I hope that, wherever you are, you are able to find joy in each day.

In the December 2021 newsletter, I noted how investment returns over the previous six months had been more volatile. Just as we are experiencing a sense of deja vu with Covid, so it is with investment markets. After a positive December, sharemarkets seesawed sharply up and down in January – mostly down - although they finished the month on the up again.

This newsletter provides some comment on what happened and what we might expect from 2022. Have we been here before? Yes and no. Even in the short life of the new-look Beneficiary Fund, we have seen periods of negative returns before – only for markets to bounce back even stronger. But each time is different.

You will see from the chart on page 4 that each of the Fund's investment options (except Cash) fell in January, and fell quite sharply too. However, you will also see that these falls come after some strong returns, particularly for the Balanced and Growth Funds. We hope you've taken on board that investment markets will go up and down over time.

Our December newsletter also reminded you to periodically review your choice of investment option in the context of your objectives and circumstances. You are able to switch your investment option, but it is seldom a good idea to do this simply in response to market volatility.

The Board was pleased to see the prudent way members responded to market losses in March 2020 and we hope you continue to demonstrate patience and a focus on your long-term objectives. As I write, market volatility has continued into February, with markets up a little. We don't know what will happen over the coming days, weeks or even months. While the Board continues to monitor markets and stay in touch with our fund manager, we believe our well-diversified investment options, managed by specialists with a responsible investment approach, will deliver over the long term. We will not be reacting hastily to short-term market volatility: we know its part and parcel of investing.

This newsletter should arrive with your December statement, along with a projection statement designed to give you an indication of what you might expect from your savings in retirement. It is a guide only, underpinned by a number of assumptions, but helpful, I hope, as you assess your long-term financial position and planning.

Yours in Christ

M. N. Galt

Margaret Galt

Investment Market Update

What happened in January?

It once was a rule of thumb on Wall Street that January set the tone for the year. By that measure, the forecast for stocks in 2022 would be downbeat, and subject to wild swings.

The S&P 500 Index, a broad measure of US company share price performance, ended the month down 5%. This was its worst monthly performance since March 2020, which saw stomach-churning drops in the early days of the Covid-19 pandemic.

It would have been even worse if not for strong rallies on the last two days of the month that pushed prices up. This was in keeping with some hefty daily moves — some up, but mostly down — since the start of the new year, as investors reassessed their assumptions about markets and the economy.

Over the past two years, the market has defied the uncertainty of the world outside Wall Street. Stocks quickly recovered from declines in the early days of the pandemic and are now up more than 90% from their 2020 low. Many investors feared missing out on the seemingly unstoppable gains, especially in technology stocks and other risky companies, and piled in.

But it was technology stocks that fared worst in January, producing some of the biggest swings. At one point during the month, the tech-heavy Nasdaq index was down by more than 16%. Once again, price increases at the tail end of the month reduced its losses in January to 9% following strong earnings announcements from companies like Apple and Microsoft.

And it wasn't just US sharemarkets that had a tough month. NZ share prices also fell 9%. Bonds suffered losses too. We often see bond prices rise when investors get nervous about share prices and move money from the more risky shares to the perceived safe-haven or less risky bonds. But not this time, as rising interest rates pushed bond prices down.

Maybe the only good news – in terms of investment returns at least – was that the NZ dollar fell in value, as it can do when sharemarkets suffer losses. A fall in the NZ dollar cushions the impact of falling global share prices (pushing the value of the share price up in NZ dollar terms).

So what's going on?

Inflation has been the main cause of market turbulence. Government support and low interest rates designed to help economies through the Covid pandemic have been very successful. Arguably too successful. Economies have performed better than expected. This success, combined with a shortage in supply, has pushed up prices.

Central banks are now starting to respond. We've already seen the Reserve Bank of NZ lift interest rates, and their global counterparts are starting to follow suit. The question on investors' minds is, can the bankers increase rates and stem inflation without damaging the economy? Increase too quickly and you might choke growth entirely. Increase too slowly and we might end up with stubborn inflation that's hard to budge.

Of course, investors' nerves are not helped by ongoing Covid uncertainty and the geopolitical tension surrounding Ukraine. As well as being a potential humanitarian disaster, the conflict increases the likelihood of further economic sanctions on Russia, with a potentially significant impact on energy, food and metals prices. All of these are already rising, so the Ukraine situation threatens to deepen the inflationary challenge.

In effect, we're in a period of transition. We've been used to low interest rates for some time now. What will it mean to have higher rates? Until we get more clarity about inflation and interest rates, we can expect to see more market volatility, including some losses.

It's all relative

We thought you might like another perspective on market volatility. Facebook shares fell over 25% on Thursday 3 February after the company announced a drop in the number of people using the social media platform. The fall wiped $350 billion NZ dollars off the value of the company and reduced Chief Executive, Mark Zuckerberg's net worth by around $50 billion. His drop in personal wealth was equivalent to the annual gross domestic product of Estonia.

How has the Beneficiary Fund performed?

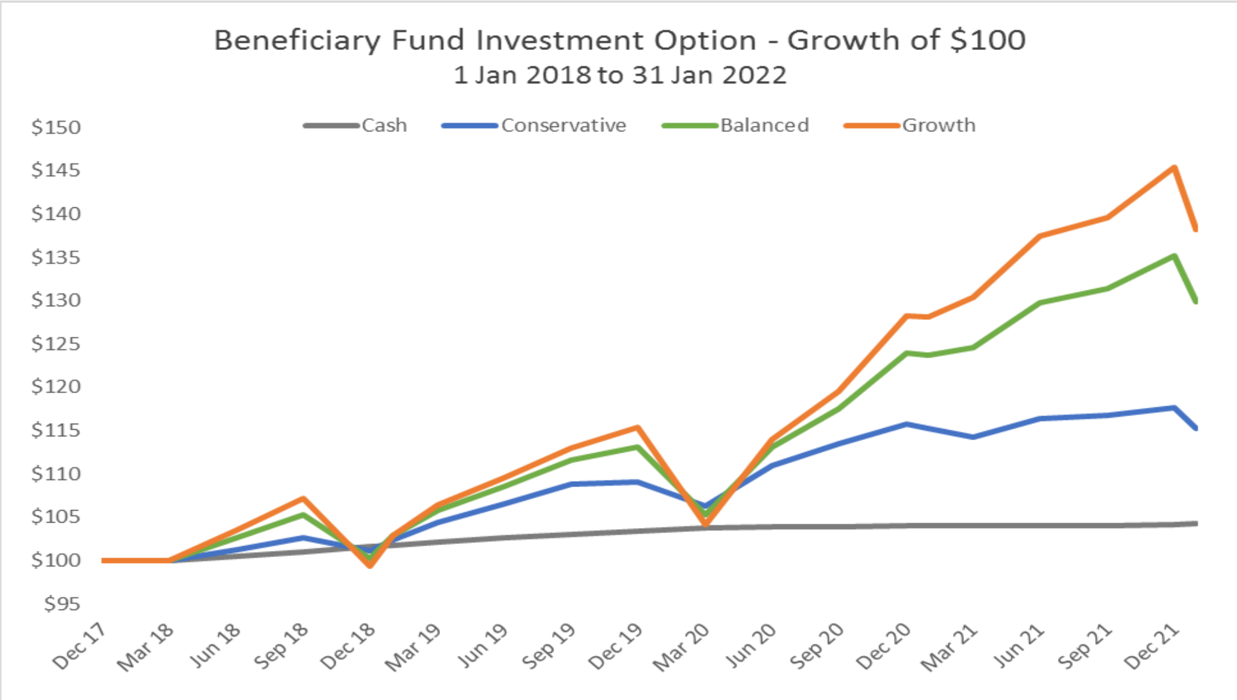
The annual returns and average annual returns for the last three years to 30 November 2021 for each investment option (net of all fees and charges) are set out in the table below.

Returns to 31 January 2022	Cash	Conservative	Balanced	Growth
1 year	0.1%	0.1%	5.1%	8.0%
3 years (p.a.)	0.7%	4.1%	8.1%	10.4%

The chart below shows how the different investment options within the Beneficiary Fund have performed since the 1st of January 2018 through to 31 January 2022. 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 – and how quickly they can fall too. 2022 is off to a rather rocky start.

The chart also shows that it has been a struggle for the Conservative Fund of late. 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 interest rates are not good for bond prices – and might not be good for share prices either



2022 has got off to a rather to a rather rocky start after a good 2021

The unit prices for each investment option are:

New Benefits and Complying Sections	Cash	Conservative	Balanced	Growth
Unit Price at 31 January 2022	1.5728	1.1530	1.3602	1.3677

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.