Presbyterian
Beneficiary Fund

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NEWSLETTER

In this issue:

Message from the Chair

Winter greetings!

After what felt like a mild but wet autumn, winter is finally here. I trust you're keeping warm wherever you are, whether indoors with a good book, or outside enjoying a bracing walk. I hope this newsletter is warming too. It brings good news about investment returns and Fund developments.

After an extremely challenging 2022, investment markets appear to have stabilised somewhat. As a result, returns for 12 months to 30 June 2023[1] are pleasing (see page 3). The Growth Fund returned 9.0% and the Balanced Fund 6.7%. Reflecting higher interest rates, the Cash Fund returned 3.9%. The Conservative Fund, which returned 3.2%, continues to struggle somewhat, but now that interest rates seem to have reached their peak, we expect this option to perform better.

I'm delighted to inform you that the Presbyterian Benevolent Fund has agreed to provide an annual fee subsidy of $150,000 each year to members of the Beneficiary Fund for the next five years. This new subsidy replaces the former subsidy established when the Defined Benefit section was wound up. The subsidy, when combined with the investment tax advantage enjoyed by members, makes the Beneficiary Fund a low-cost, low-tax way for ministers to save for their retirement.

I am also pleased to let you know that the Board has decided to add a new investment option for members. A new Moderate Fund, which will sit between the Conservative Fund and Balanced Fund (on an expected risk/return basis), will be available within the next few months. The addition means that members will be able to select from investment options more evenly spread across the risk / return spectrum. More details will be available when the new option is launched (but please see page 4 for a little more information).

Yours in Christ

M. N. Galt

Margaret Galt

[1] All returns quoted are after fees and expenses.

Investment Market Update

It would seem we're winning the war against inflation.

Interest rates have risen a long way in a very short space of time. After sitting at record lows of zero percent, or close to it, during the pandemic, key Central Banks around the globe have increased rates to between 4% and 6%. This is not to say that rates will not increase further from here, but most Central Banks have indicated that any future changes will be more about fine-tuning than substantive moves.

This dramatic move in interest rates has been all about fighting inflation. Inflation in the US (the world's largest economy) for the year to June 2022 was just over 9%. Twelve months on and after all those interest rate increases, inflation in the US for the last twelve months was only 3%. Inflation in NZ didn't quite reach the levels seen in the US or UK, but still peaked at just over 7%. It's coming down, albeit more slowly than in the US. We don't yet know what the June 2023 number looks like for NZ, but here's hoping the downward trend continues.

How have investments performed?

2023 has been good for shares, at least so far. Global share prices have risen by around 15% for the first six months of the year, although not all shares are created equal. The market has been led by a small number of very large technology companies, with a major focus on AI or Artificial Intelligence. Some experts believe that we're on the cusp of an AI revolution that could reshape technology. By way of example, Nvidia's share price has risen by over 150% so far in 2023! Nvidia makes AI chips, which are tiny slivers of silicon designed to simplify and speed up the development of artificial intelligence systems.

NZ shares are up by around 4% so far this year. Good, but nowhere near as strong as global shares. This is not surprising as we have very few technology stocks in our market. Instead, our market is dominated by more 'boring' companies, including a number of utility companies, such as Contact Energy and Meridian Energy.

Bond returns have also been positive, rising around 2% so far in 2023, but they have a bit of catching up to do after such a tough 2022. Higher interest rates should been good for cash and bond returns.

Where to next?

Of course, there's no such thing as a free lunch. Yes, we might be winning the war against inflation, but higher interest rates also come with a cost. The purpose of raising rates is to slow the economy down. In fact, most Central Banks believe that a recession is needed to get inflation back under control. They're hoping for a 'soft-landing' or a mild recession, but that's not easy to manage. The risk is that we end up with a "hard landing", or a deeper and protracted recession.

A meaningful recession usually means significant unemployment, lower company profits and falling share prices. This would not be good for share prices, but would be good for bond returns, as Central Banks would then cut interest rates. Falling rates push bond prices, and returns, up.

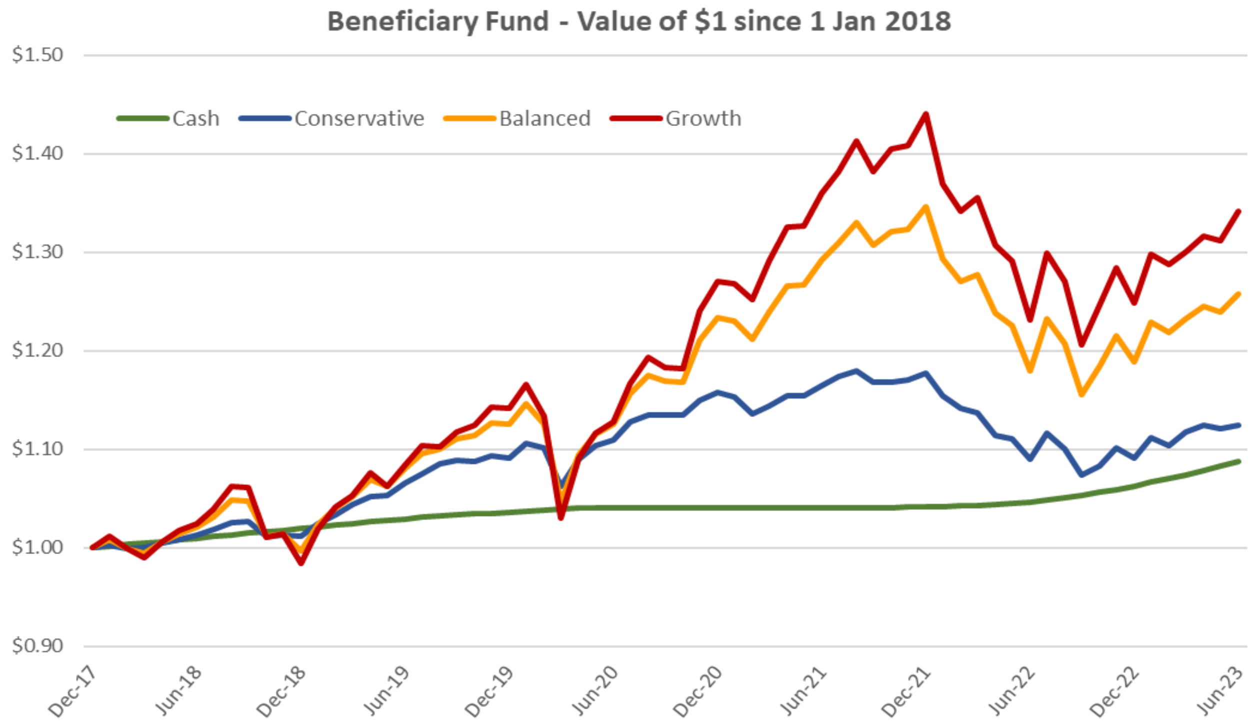
Even a mild recession or soft-landing presents risks, as some companies are better placed to weather tough times. The sustainable nature of the Fund's investments tend to have a longer term focus, recognising that it can take time to bring about change. We think this is ideal for our Fund, not only because we believe it's the right thing to do, but because saving is a long-term exercise too.

Fund Returns

The chart below illustrates the value of $1 invested in the various investment options available in the Fund since 1 January 2018 (after fees and expenses). It shows returns peaking at the end of 2021 after an amazing period following the initial Covid shock.

After that, returns fell to what we hope is the low point at the end of September 2022.

Since June last year, while returns have continued to be volatile (down one month and up the next), the overall trend is now upwards. The Growth Fund returned 9% over the last 12 months, with the Balanced Fund returning 6.7% over the same period. After a lengthy period of hardly any return, rising interest rates are flowing through to better returns from the Cash Fund, which generated a return of nearly 4% over the last year. The Conservative Fund has continued to struggle, returning 3.2% for the last 12 months as it works to turn around losses from 2022.



Returns continue to bounce back from 2022 lows

The table below provides annualized returns after fees for each investment option for periods to 30 June 2023.

Presbyterian Beneficiary Fund – investment option returns per annum to 30 June 2023				
	Cash	Conservative	Balanced	Growth
1 year	3.9%	3.2%	6.7%	9.0%
3 years	1.5%	0.4%	3.8%	6.0%
5 years	1.5%	2.1%	4.3%	5.5%

The table below provides unit prices for each investment option as at 30 June 2023.

Presbyterian Beneficiary Fund – unit prices as at 30 June 2023				
	Cash	Conservative	Balanced	Growth
Unit Price	1.6441	1.1212	1.3215	1.3386

New Developments

New Fee Subsidy

Good news!

The Presbyterian Benevolent Fund has decided to make a special one-off grant to the Presbyterian Beneficiary Fund by way of a fee subsidy. The Benevolent Fund will subsidise Beneficiary Fund members' fees to the tune of $150,000 per annum for the next five years.

The subsidy will meet around 65% of the Fund's annual administration costs (excluding investment management fees). The Fund's administration costs include audit, legal, trustee, insurance, administration, consulting and regulatory fees.

The new Presbyterian Benevolent Fund fee subsidy replaces a similar fee subsidy that was made when the Defined Benefit Section of the Beneficiary Fund was wound up. Some funds were provided at that time to be used as a fee subsidy, but this money has now been used up.

The Benevolent Fund was also created when the Defined Benefit Section of the Beneficiary Fund was wound up. Its purpose is to provide financial support to ministers and their families, as detailed in our February 2023 Beneficiary Fund newsletter.

A big thank you to the Benevolent Fund Trustee from the Beneficiary Fund members and Board.

New Investment Option: Moderate Fund

The Trustee Board has decided to add a new investment fund to the range of investment options available to members. A new Moderate Investment Option will complement the existing options: Cash, Conservative, Balanced, and Growth.

The Moderate option will have a 40% exposure to growth assets (shares, property and infrastructure). It will sit between the Conservative (20% growth) and Balanced (60% growth) options on an anticipated risk/return spectrum and will suit those who are uncomfortable with the risk associated with the Balanced Fund, but feel the Conservative Fund is too conservative for them.

Like the other options, the Beneficiary Fund Moderate option will invest in Mercer's Socially Responsible Investment Funds. We will let you know when the new option is available, expected to be within the next few months, along with more details.

Switching your investment option

You are able to switch your choice of investment option up to twice a year at no cost. Contact the team at MJW (see below) to action. As always, we recommend you seek advice from a licensed financial advice provider when making important investment decisions.

Information about your account balance and Fund details are available by calling the Fund's Administration Manager, Melville Jessup Weaver (MJW), on **0800 266 787**, emailing them at **presbyterian@mjw.co.nz**, or posting to PO Box 1096, Wellington 6140.
