



Presbyterian Beneficiary Fund Trustee Limited

PO Box 9049, Marion Square, Wellington, 6141
275 Cuba Street, Wellington, New Zealand
Tel: 04 381 8296
Email: trustees@presbyterian.org.nz

Members' Newsletter – February 2019

A message from the Chairperson

My name is Russell Garrett and I'm the new Chair of the Fund's Trustee – taking over from Ian Russon, in December. We are fortunate to have a very capable board and while Ian has passed the Chair to me, he will continue to be closely involved as a director and the Fund's Licenced Independent Trustee. It's fantastic that he's remaining to share his wealth of experience and wisdom with us.

Who am I? I'm a member of St Ninian's Uniting Parish in Karori, Wellington, married to Mandy with two teenage sons. Some of you may recall my name from my time as National Youth Co-ordinator (about 30 years ago). Now my working days are kept pretty busy as the Head of Institutional Wealth at Mercer New Zealand (which comes in handy for navigating our journey with the Fund), but in my spare time I enjoy playing Masters football for the Fabulous Turtles. I've been a Presbyterian Church Property Trustee since 2012.

On to more pressing matters

As some of you may be aware, investment markets dropped in the final quarter of 2018 – offsetting the positive returns the Fund had generated up until that point. As a result, returns for the Fund's investment options for the year ranged from low (but positive) to mildly negative. While this is not ideal, it was probably not a surprise to those familiar with how investment markets work. I hope it hasn't been a cause of too much concern for you.



The other directors and I would much prefer positive returns all the time, but we know that investing for the long term means accepting both the ups and downs delivered by investment markets. While we have engaged an investment manager that works hard to insulate the Fund from the downs, it's not possible to enjoy the ups without experiencing some of the downs. We are confident that the ups will outnumber the downs so that the investment options in the Fund will provide you with reasonable returns over the medium to long term. We experienced this first-hand during the Global Financial Crisis in 2008, when the Fund fell in value, but then regained the losses and (much) more. By remaining true to the chosen investment strategy, the Fund benefited from the strong returns that followed. And we have seen this already this year, as markets have bounced back in January, leading to the following investment returns for the Fund's investment options for the month: Cash +0.2%, Conservative +1.3%, Balanced +2.6%, Growth and +3.5% (free of tax and net of all fees).

What's in this newsletter:

- An update from Mercer
- Fund performance report
- Responses to questions raised
- Spouse nomination request
- How to stay informed

Staying the course

We hope you have taken the time to ensure your investment choice(s) meet your needs and appetite for risk, and that if you are in the Balanced or Growth options, you are not overly concerned. Market volatility in and of itself is not usually a reason to change your investment strategy. More often than not, investing is simply a matter of staying the course despite the inevitable ups and downs, such as the period we have just experienced.

To assist your understanding of these issues, in this newsletter we've provided an update on investment markets and each investment option's performance. We've also addressed two questions we've had from some members concerning unit prices and whether they should review their investment options. Our investor questionnaire and a summary of each of the Fund's investment options are included if you wish to double-check you are comfortable with your current investment option(s).

We hope you find this edition of our newsletter informative, but in the meantime, I'd like to thank you for letting us manage your retirement savings and wish you well for the year ahead.

Best wishes



Russell Garrett



PS. Some of you may have noted that I work for Mercer, and Mercer is the investment manager for the Fund. Mindful of conflicts of interest, I played no part in the selection process, which was carried out by the Board with the help of an independent advisor. The Board monitors any conflicts of interest as part of its regular processes. We want experienced people on the Board, but that can mean conflicts arise from time to time, which we either avoid or actively manage.

An update from the manager of your savings – Mercer New Zealand

Market Commentary

The December quarter was a turbulent one for global markets, with all major equity markets suffering significant losses. On the back of concerns over slowing economic growth in China, rising interest rates and continued global trade tensions, equity markets suffered from what was widely dubbed “the worst month in ten years” in October. While November brought some relief, even Christmas couldn't protect equity markets in December, as they rounded off the quarter with another large decline. The quarter finished with developed market shares falling 13%, erasing gains made earlier in the year and leading to the first negative calendar year return since 2011.

Dragged down by the volatility of the broader global share market, New Zealand shares fell 6% over the December quarter.

Among the biggest losses was Fletcher Building Ltd (down 25%). Across the Tasman, Australian shares



fell even further, losing 8%. The Australian share market was dragged down by the financial sector, with the ongoing Royal Commission inquiry continuing to weigh on big bank valuations.

Central Bank activity and ongoing trade tensions between the US and China played a prominent role again in the December quarter. While the interest rate increases by the US Federal Reserve in September and December were widely expected, they arguably contributed to some of the market volatility. Investors are worried that if rates move too high, economic growth will stall completely and company earnings will fall. The European Central Bank also announced it was ending its quantitative easing programme, which has provided support for investment prices over a long period of time. Without this support, some investors are concerned that prices will not hold up.

The NZ economy was relatively benign by comparison, the Reserve Bank of New Zealand (RBNZ) leaving the Official Cash Rate (OCR) unchanged at 1.75% in its November review, while reiterating its intent to keep rates unchanged through to 2020. Q3 economic growth did, however, fall short of RBNZ expectations, raising speculation that the bank could possibly reduce the OCR further in 2019.

Market Outlook

The World Bank released a report in January forecasting global economic growth for the medium term to reduce relative to previous forecasts, but to remain positive, projecting global growth of 2.9% in 2019 and 2.8% in 2020-2021. The growth projections are supported by improving employment data across the US and Europe, including evidence of real wage increases in the US. Economic growth is usually a precursor to positive investment returns.



There are, however, risk factors associated with the current global environment. Despite some recent improvements in the relationship between the United States and China, there is still potential for disruption to global trade. Furthermore, as Central Banks continue to reduce their support, pressure on corporate earnings growth could see equity markets remain unsettled for some time. Political risks associated with the (partial) US government shutdown and ongoing Brexit negotiations also remain elevated, adding to investors' concerns. However, despite these risks, we believe global growth remains relatively robust and that equities are still supported by relatively strong fundamentals.

In New Zealand, despite lower than expected economic growth in Q3, 2018 was a relatively strong year for the New Zealand economy. Growth continues to be underpinned by population growth, government spending, accommodative monetary policy and trading partner growth. These factors, coupled with expected increases in net exports and strengthening residential investment, should continue to support a robust domestic economic environment in 2019.

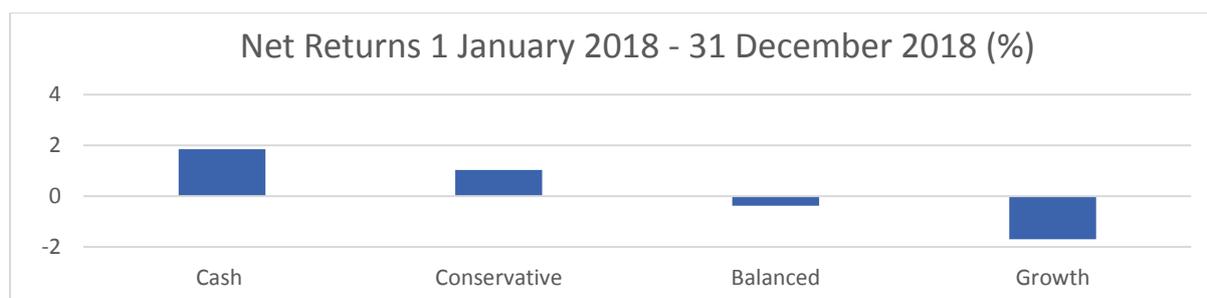


How has the Fund performed?

The tables below show how the Fund's investment options have performed since 1 January 2018.

Actual returns for each investment option (net of all fees and charges) for the year to 31 December 2018 are set out below.

	Cash	Conservative	Balanced	Growth
One year return:	+1.9%	+1.0%	-0.4%	-1.7%



Return information for other periods along with unit price information is available by calling the fund's administrator, Melville Jessup Weaver, on 0800 266 787.

Some members have asked...

Recently some members have asked us questions about the Fund. We thought that if these members wanted to know about these things, others might as well, so we've taken the opportunity to share our responses to these questions along with other questions we thought might be of interest.

My balance has gone down, what should I do?

In an ideal world, the value of our investments would go up all the time. Unfortunately, if we want our savings to earn more than a very low rate of return, we must take some investment risk and invest in assets that do not offer a guaranteed return.

As a result, while we target investments that we expect to rise in value, sometimes they don't. Sometimes they even fall in value – for a whole variety of reasons, some more rational than others. This is particularly the case with 'growth assets' like shares and property (which make up most of the Balanced and Growth investment options). While we are confident that over the medium term (say 5-7 years) these investments will rise more than they fall (and investors will be rewarded), over shorter terms, this is not always that case.

Because financial markets go through ups and downs, members like you end up with fluctuating savings' balances. After a period of relatively stable price rises (markets going up), we have just experienced some sharp falls in share prices (markets going down). This has resulted in some member balances falling.

However, there is no need to panic or take any urgent action.

One way to look at a fall in your Fund balance is to consider this a paper loss, i.e. it's not a realised loss until you cash it in. As we have noted, asset prices go up and down. A loss today can turn into a gain tomorrow – and we fully expect that the investments of the Fund will **rise over the long term**.

So, while the recent price falls have resulted in falling balances, particularly for members in the Balanced and Growth Funds, we would be concerned if this led to members suddenly changing their investment strategy. The risk being that markets may recover quickly and you could lock in the losses. For example, we have already seen January returns bounce back.

However, it is important to understand your investments. It is also important to understand your saving goals, your needs and the level of risk you are prepared to take as these things will direct which Fund investment option is right for you. We've enclosed a brief fund information summary and investment option questionnaire in case you want to review your investment choice.

Finally, we note that the Fund's investment manager, Mercer, endeavours to mitigate the impact of market ups and downs by diversifying across a wide range of assets and geographies. We are pleased to see that this helped us navigate the recent falls (many other funds fell even further).

What are unit prices and what do they mean?

As we've discussed previously, the investment options provided by the Fund operate quite differently to bank accounts or term deposits. They do not have set interest rates, but instead the value of your savings rises or falls in value depending on changes in the prices of the investment assets your particular investment option owns. Unit prices are used to help track the changes in the value of those investment assets.

Each investment option in the Fund is divided into a number of equal units. When you invested in one of the Fund's investment options, you were issued a number of "units" that (collectively) represent your proportionate share of that investment option.

To determine the unit price (or value of each unit) the total value of the assets in each investment option are divided by the total number of units. So, for example, if the net assets of an entire investment option were valued at \$1,200,000 and there were 1,000,000 units issued to members, the unit price would be \$1.20 per unit. Therefore, if Mary held 10,000 units in that investment option, the value of her savings would be \$12,000. If Sam held 20,000 units, the value of his savings would be \$24,000.

If the total value of the investment option's assets rose by 10%, they would be worth \$1,320,000 and the unit price would also go up to \$1.32. Mary's savings would then be worth \$13,200 (being 10,000 units x \$1.32 per unit).

So, by tracking the unit price, you can tell whether the investments are going up or down in value (because the unit price will rise and fall too). Of course, you can track how things are going by looking at movements in your savings' balance – but this might change because of withdrawals or contributions – so the unit price moves will tell you how the investment option is performing.

The unit prices for each investment option are:

New Benefits Section	Cash	Conservative	Balanced	Growth
Unit Price at 31 January 2019	1.5354	1.0242	1.0777	1.0185
Complying Section	Cash	Conservative	Balanced	Growth
Unit Price at 31 January 2019	1.5354	1.0242	1.0777	1.0185

We need your help – Nominated Spouse Forms

All continuing members who elected to join the New Benefits Section of the Fund following the wind up of the old fund and who were married as at 30 June 2017 should by now have received a letter requesting them to complete and return a Nominated Spouse Form.

The reason for this is that the rules of the New Benefits Section in the Fund allow a continuing member to nominate the person who was his/her spouse as at 30 June 2017 to take over his/her New Benefits Section account in the event of their death. The surviving spouse can therefore continue to benefit from the tax-free status of the Fund's investment returns.

Nominations are not compulsory, however if you are one of these members and you don't make a nomination, on your death any balance in your New Benefits Section account will pass to your estate and will not be able to be paid out directly to your spouse or remain invested in the Fund.

If you are an eligible member and still need to send us a Nominated Spouse Form we've provided one with this newsletter for you to complete and send to the Administration Manager.

Keeping you informed

We understand that that you need to be kept informed about the Fund and your retirement savings. With that in mind we'll be sending you the Fund's Annual Report in November. We'll also send you a personalised member account statement twice a year and newsletters (like this one) at least four times throughout the year.

You can also get additional information about the Fund at companiesoffice.govt.nz/disclose or on our website at presbyterian.org.nz/for-parishes/church-property-trustees/beneficiary-fund.

If at any time you need to make a withdrawal, change your investment options, receive information on your account balance or update your personal details please contact the Fund's administrator at:

Melville Jessup Weaver
PO Box 11330
Wellington 6142

Phone: 0800 266 787
Email: presbyterian@mjlw.co.nz

For all other enquiries please contact the trustee at:

Attention: Kos van Lier
PO Box 9049
Wellington 6141

Phone: (04) 381 8296
Email: trustees@presbyterian.org.nz