Newsletter to Members

August, 2020

The year ended 31 March, 2020 has been extraordinary as the Fund has been buffeted by the effects of the Covid-19 pandemic on world financial markets.

We are pleased to report that during the lockdown in February and March, and since then, the Fund has been able to operate with full functionality and fulfil all its obligations to members during these difficult times. The Trustees have expressed appreciation, on behalf of members, to our Administrator, Melville Jessup Weaver, for the services they continue to provide "in all weathers".

Investment Returns

For the first time in many years the Fund incurred financial losses last year. Net of tax (at 28%) and fees, the Balanced Portfolio incurred a loss of 3.7 percent and the Conservative Portfolio incurred a loss of 0.4 percent. While these losses are disappointing they are not total unexpected given that, as set out in the Fund's Statements of Investment Policies and Objectives, the Balanced Portfolio is expected to incur a loss of one year in four and the Conservative Portfolio is expected to incur a loss one year in seven.

These losses were due entirely to significant losses during the last quarter of the year. In this period, the Balanced Fund suffered a loss of 11.2 percent and the Conservative Fund experienced a loss of 4.8 percent. Since then, in the first quarter of the current financial year (to 30 June, 2020), it is pleasing to report that the Balanced Portfolio returned 9.4 percent and the Conservative Portfolio returned 5.1 per cent, both net of tax at 28% and fees. Taking account of the returns of the Balanced and Conservative Portfolios for the month of July of 2.3 percent and 1.6 percent (net of tax at 28% and fees) respectively, both portfolios have now fully recovered the losses incurred in the last quarter of last year.

Asset Allocations and Investment Choices

During the last six months, ie, during the last quarter of the last financial year and the first quarter of the current financial year, when markets have been very volatile, the Trustees have stuck to their investment beliefs that it is generally unwise to change asset allocations in response to market movements or market outlooks. The effect of changing asset allocations when markets decline is generally to lock in losses and forego gains when markets recover.

On a similar note, the Financial Markets Authority urged investors to consider carefully before switching funds, as they will, on occasion, see major ups and downs in balances and switching funds during market turbulence forces the sale of investments at lower prices and gives up the prospect of gains when those investments start to recover. It was pleasing to see most of our members follow this advice and benefit from the recent recovery in markets.

Members will be aware that the outlook for the world economy and for world financial markets remains very uncertain with another bout of financial losses a possibility. Members nevertheless need to determine for themselves individually which portfolio they wish to be invested in taking into account their personal financial circumstances and their appetite for incurring periodic losses.

Members are reminded that, while a balanced portfolio generally has a higher risk of incurring losses, over the medium and longer term, the expected returns of a balanced portfolio are expected to be significantly higher than the expected returns of a conservative portfolio.

The Balanced Portfolio in the Fund has an expected average return net of tax and fees of 4.1 percent (or 2.1 percent real after inflation), and the Conservative Portfolio in the Fund has an expected average return of 2.4 percent (or 0.4 percent real after inflation).

The Trustees cannot provide members with advice as to suitability of a portfolio for their individual needs so members who wish to obtain such advice should consult an Authorised Financial Advisor.

Financial Planning

Following our practice in recent years, attached are two brochures. These brochures have been updated to take account of the latest projections by our Investment Consultant of average investment returns.

The first brochure entitled *Financial Planning for Retirement* is designed to assist members determine a savings target and a contribution rate necessary to achieve their target. The tables in the brochure provide an indication of the savings required depending on the lifestyle to which members aspire in retirement, the age members plan to retire and their life expectancy.

As a broad indication, most financial commentators suggest a savings target in the range of $500,000 to $1M. Since the typical earnings of seafarers and waterside workers are significantly above the New Zealand average, members should generally be setting a target at the top end of this range.

This second brochure entitled *Regularly Deferred Benefit Payments* is designed to assist members in retirement or as they approach retirement determine the rate at which they can draw down on their retirement savings. Members are reminded of the option offered by the Fund for retiring members to defer withdrawing some or all of their benefits and make regular (monthly) withdrawals to meet their normal living expenses. Members who defer their benefits can also make occasional lump sum withdrawals.

Investments

Both the Balanced and Conservative portfolios are invested in managed funds. The Balanced and Conservative portfolios are split 60:40 and 20:80 respectively between equities (shares) and bonds (and cash). Equities are split between global and Australasian shares and bonds are split between global and New Zealand stocks.

The Trustees closely monitor the performance of the various funds in which the Fund is invested and meet with most managers quarterly. No changes have been made to fund managers in the last financial year except that the Fund has divested a small investment in a hedge fund.

Tax

Members are reminded of the importance of providing the correct Prescribed Investor Rate (PIR) so that the correct tax is deducted. IRD is now matching PIRs with member earnings and is invoicing members if the amount of tax deducted is too low. In cases where a PIR of 10.5% or 17.5% was declared and the correct rate which should have been declared was 28%, members will be invoiced for the shortfall in tax at 33%. Hence it is strongly in the interest of members to declare the correct rate. If members have declared the wrong rate or are uncertain what rate they have declared they should contact Maria Kane at Melville Jessup Weaver, email maritime@mjw.co.nz, or 0800 947 357.

An amendment has been made to the Trust Deed to enable the Fund to make benefit payments to cover any liability members have for additional tax payment resulting from incorrect PIRs. Members who wish to satisfy the tax liability in this manner are required to provide a copy of the IRD tax invoice setting out the additional tax to the Administrator together with a statutory declaration that the tax invoice relates solely to a shortfall in the tax deducted by the Fund as a result of the member declaring an incorrect PIR.

Congenital Illnesses

Tax legislation has recently been enacted enabling KiwiSaver members with congenital illnesses and who, as a consequence, have a life expectancy of less than the age of eligibility for national superannuation, to withdraw their benefits. KiwiSaver members applying for Congenital Illness Benefit payments must provide a medical certificate specifying the nature of the congenital illness and that, as a consequence, the member has a life expectancy of less than 65 years of age.

Administration and Fund Management Fees

The Trustees are mindful of the concerns expressed by the Financial Markets Authority at the high fund management fees charged on New Zealand so it is pleasing to report that the fees being incurred by the Fund have been steadily reducing.

The overall costs of administration and fund management in the year ended 31 March, 2020 amounted to 0.86 percent for the Balanced Portfolio and 0.73 percent for the Conservative Portfolio which compares favourably with the costs of administering and managing KiwiSaver which are generally in the range of 1.06 to 1.25 percent.

Member Details and Email Addresses

Members are reminded to check their details that are printed on their annual member benefit statements that were recently distributed. If any of the details are incorrect then members should contact Maria Kane at Melville Jessup Weaver, email maritime@mjw.co.nz, or 0800 947 357 and advise of the corrections.

The Trustees continue to look for ways to reduce the operating costs for the Fund. One area identified is the end of year publications that are distributed to all members. Approximately 65% of the membership that have now provided an email address so that the end of year annual reports and brochures and benefit statements can be emailed rather than printed and posted. If you have received this newsletter in a paper copy and would like to receive future publications by email, please contact Maria Kane at Melville Jessup Weaver, email maritime@mjw.co.nz, or 0800 947 357.

Governance

The Fund is governed by a Board of Trustees comprising an independent Chairman, a Licensed Independent Trustee, four trustees appointed by the Maritime Union of New Zealand, two trustees appointed by Stevedoring and Ports Inc to represent the employers of waterside workers and two trustees appointed by the Trustees to represent the employers of seafarers.

During the year, Jimmy King was appointed by MUNZ in place of Gary Horan and since the end of the financial year Brodie Stevens has been appointed by the trustees in place of Clive Glover to represent employers of seafarers.

I would like to acknowledge the commitment of all members of the Board to the governance of the Fund. I would also like to thank the management and staff of Melville Jessup Weaver for their continuing focus on serving our members and for their effective management of the Fund.

Kind regards

David Young
Chairman of Trustees

Joe Fleetwood
Deputy Chairman