2022 Mid-Year Newsletter

Governance

At the recent Annual general Meeting of the Fund, David Young was re-elected Chairman, Craig Harrison was Re-elected Deputy Chairman and Simon Brodie was re-appointed as the Fund's Licenced Independent Trustee.

Since the AGM, Deepthi Swarnapuri of Ports of Auckland has retired as a trustee representing the employers of waterside workers. Deepthi was appointed by the Ports Industry Association which has not yet appointed a replacement trustee. Deepthi made a valuable contribution to the governance of the Fund, and the Trustees have been sorry to see her go and have wished her well.

Fund Performance

Investment markets experienced a turbulent year to 31 March 2022. The first nine months delivered strong equity market returns, but these rapidly unwound in the March quarter following a large shift in market expectations for central bank action. The anticipation of rising interest rates (to combat multi-decade high levels of inflation), combined with the outbreak of war in the Ukraine, saw sizeable equity market losses in the last three months of the Fund's financial year.

Fixed interest markets, on the other hand, experienced consistent losses over the year as interest rates generally trended upwards. (Bond prices fall as interest rates rise.) While these losses were small relative to equity markets, they were significant for the fixed interest market which tends to be more defensive.

The performance of Fund in the last three years has been above average with the Balanced Portfolio returning 6.7% per annum and the Conservative Portfolio returning 2.9% per annum. The returns of these two portfolios last year were 1.7% and -1.1% respectively, and in the first quarter of the current year the returns have been -7.5% and -4.3%. All these figures are net of fund management fees, administration costs and tax at 28%.

While recent market returns have been weak, this comes following a period of exceptionally strong returns. Therefore, it is natural to expect some reversion back to long-run average rates of return. Moreover, with equity and fixed interest markets having "re-priced" lower to a significant degree, the outlook for future returns is now more optimistic.

In the last few weeks markets have already recovered significantly to the extent that the estimated returns for the September quarter to date (as at 26 August) are 6.5% for the Growth Portfolio, 5.0% for the Balanced portfolio and 2.0% for the Conservative Portfolio (all before fees and tax).

The returns of the Fund are helped by the Fund's comparatively low administration and fund management costs. The expenses ratio of the Balanced Portfolio is 0.65% whereas the expenses ratio of KiwiSaver schemes are typically in the range of 1.07% to 1.43%.

The Fund's Trustees continuously monitor the performance of the Fund and, while the recent falls in value are not welcome, over the long-term the portfolios continue to perform as expected with the higher risk portfolios providing greater long-term results despite their short-term volatility. It is the Trustees' policy not to alter the asset allocations of the Fund's portfolios in response to market movements which would have the effect of locking in losses and missing out on market recoveries. For the same reasons, the general advice to members is not to switch portfolios unless your personal financial circumstances have changed.

Member Investment Choice

The Trustees now offer members three investment options, having recently added a Growth Portfolio to the previous options of Balanced and Conservative Portfolios. The Trustees have also decided to treat the Growth Portfolio as the default option for new members. These decisions recognises that the Fund is primarily for long-term savings and the expectations that the Growth Portfolio will significantly outperform the other portfolios with a low risk of the Growth Portfolio underperforming over the long term. The Trustees emphasise to members, firstly, that the returns of the Growth Portfolio are likely to be more volatile and secondly, that especially in the short term, there is a greater risk of the Growth Portfolio incurring losses.

The expected real (after inflation) returns of the three portfolios net of tax at 28% are 4.2% for the Growth Portfolio, 3.4% for the Balanced Portfolio and 1.6% for the Conservative Portfolio. While these differences may seem a small in the short term, they are significant over the long term. For example, over 30 years the Growth Portfolio is expected to outperform the Balanced Portfolio by nearly 25% and, over the same period, the Balanced Portfolio is expected to outperform the Conservative Portfolio by over 70%. Even over the medium term of 5 and 10 years, the Balanced Portfolio is expected to outperform the Conservative Portfolio by 10% and 20% respectively.

It is of continuing concern to the Trustees that 20% of members' account balances are in the Conservative Portfolio. Ultimately however the choice of investment option is a matter for members.

Attached to this newsletter is a revised Member Investment Choice brochure to assist you make your investment choice based on your own personal circumstances.

Financial Planning for Retirement

Your attached member statement provides information to assist you plan for your retirement.

If you are a member of both MRS and MKS you previously received separate member statements for the two schemes. You are now receiving a single statement which combines your current and projected account balances as well as showing your balances for the two schemes separately. The statement also shows the monthly income your projected account balances will support up to age 90 (assuming you retire at age 65).

Financial planning commentators typically suggest a retirement savings target of about $800,000. This target is based on the income required to give retirees (minimal) life-style choices in retirement, eg, the choices of owning a car, eating out regularly and taking an occasional overseas holiday.

This is a broad guideline and your personal financial plan for retirement should take account of your own circumstances and aspirations. How much retirement savings you need for your retirement years depends on a range of factors?

When you retire is a key factor affecting how much savings you will need for your retirement. The average age at which men now retire is already nearly 70. You may plan to work beyond age 65 which will increase your retirement savings whereas, if you retire early, you will have less time to save.

Another key factor is how long to plan for your retirement savings to last. You don't want your retirement savings to run out before you do and, if you have an average life expectancy (which for NZ males is 86 at age 65), you have a 25% chance of living to age 91 and a 10% chance of living to age 95.

In considering how long your savings will need to last, another key factor is whether you are married or have a partner and, if so, whether they are financially independent. You may wish to (perhaps should) plan to leave them with some savings in case they live longer than you. Women typically live longer than men and, if you are male, often your wife or partner will be younger than you.

Apart from considering the standard of living to which you aspire in your retirement, other factors which you may wish to consider in setting a savings target are:

- where you plan to live in retirement (it costs more to live in major metropolitan centres and less to live in provincial centres)
- whether you own your own home and whether you have a mortgage on your house
- whether you plan to downsize thereby releasing some funds to add to your retirement savings
- whether you have other savings or income earning assets for your retirement.

Apart from deferring your retirement, the other option you have for boosting your retirement savings is to increase your contribution rate.

The tables in Fund's Retirement Planning Brochure make assessments of the effect on account balances of increasing your member contribution rate and deferring your retirement to age 70. From these tables you will see that the effect on your projected account balance if you increase your contribution rate and the effect on your account balance if you defer your retirement are both significant.

The trustees are currently revising and simplifying the brochure we provide to assist members plan for retirement.

To obtain individual financial advice, you may wish to consult a licenced financial adviser and you are free to contact the Chairman, David Young on 021 0748524. Please note that David is out of the country for the month of September.

David Young
Chairman
26 August 2022