

Newsletter to Members of the

Maritime Retirement Scheme and the Maritime KiwiSaver Scheme

The Annual Report for the year ended 2022/23 financial year is attached.

Market Returns

The three portfolios all achieved positive returns for the first quarter of the 2023/24 year. The growth portfolio realised a return of 4.5% for the three months ended 30 June 2023, offsetting a negative return for previous financial year of -2.8%. Similarly, the balanced portfolio and conservative portfolios realised returns of 3.6% and 1.3% respectively for the quarter, offsetting negative returns in the previous year of -2.8% and -2.2% respectively, net of fees and tax (at 28%).

Market Commentary

Investment markets have turned positive in recent months, following a challenging period in 2022. Investors appear to be anticipating central bankers' victory over inflation, while keeping economies and employment levels relatively unscathed. That is, despite inflation currently running higher than target, there are signs that it is beginning to ease. And despite the brutal interest rate hiking regime, many companies' earnings have held up and unemployment has remained at relatively low levels.

With that said, it has not been a universally positive story. The share market gains we have seen recently have been disproportionately shared – companies close to the current A.I. mania have seen their share prices rise astronomically, while results from others have been more mixed. Moreover, rising interest rates have continued to mute returns from fixed income investments. (Fixed income securities see their market value erode as interest rates rise.) While fixed income investments can be expected to earn a better yield going forward, the historical results have been modest at best.

Overall, the outlook for investment markets is more optimistic than it has been for some time. However, risks remain. While there are early signs that inflation may be abating, it still remains uncomfortably high. Most commentators believe we are at (or near) the end of the rising interest rate cycle, but this may turn out to be incorrect if inflation does not come to heel. Likewise, the assumption that economies will continue to be resilient in the face of the higher interest rate environment will surely be tested.

Member Choice

Also attached is the Member Choice brochure to assist members with the choice of investment portfolio. The Schemes operate three portfolios (growth, balanced and conservative) which are designed to meet the differing needs of members. Broadly speaking, the growth portfolio is designed for those with a long time horizon and the conservative portfolio for those who need certainty in the short term. The Trustees encourage all members to consider their investment choice regularly.

The expected returns of the growth, balanced and conservative portfolios net of fees and tax, based on a 3 percent inflation rate, are shown in the table. As explained in the brochure, the returns of the growth portfolio are expected to be the most volatile and hence this portfolio is generally most suited to members with a time horizon of more than 10 years while the returns of the conservative portfolio are expected to be the least volatile and hence this portfolio is most suited to members with a time horizon of less than 3 years. Retirement savings should generally be invested for the long term, at least until members are approaching retirement and, for this reason, the growth portfolio has been adopted as the default option for new members. Members should note that the expected

returns of the conservative portfolio are significantly lower than the expected returns of the other portfolios and this may make a significant difference to account balances over the long term.

Responsible Investing

The Trustees have adopted the following responsible investing policy which has now been incorporated in the Fund's Statements of Investment Policies and Objectives:

The Scheme generally invests in pooled funds and hence the Trustees have limited ability to influence the investment, and the voting and other engagement activities of the Scheme's underlying fund managers. Nonetheless, the trustees have an expectation that fund managers will invest responsibly to avoid or mitigate environmental, social and governance (ESG) risks.

The trustees' criteria for assessing the ESG policies of fund managers are their:

- processes for integrating ESG risks in their investment decisions
- exclusions of companies which have material activities in the manufacture of controversial weapons including cluster munitions, anti-personnel mines, and biological/chemical weapons, the manufacture and distribution of tobacco products, or activities that are banned under New Zealand law or by international treaties to which New Zealand is a signatory
- ESG policies on proxy voting and engagement with companies with whom they invest.

Trustee Appointments

At the Annual General Meeting held on 25 July 2023 to adopt the Annual Reports and Annual Financial Statements, the Trustees appointed Philippa Dury in place of Simon Brodie as the Fund's Licenced Independent Trustee.

Simon was appointed as an independent trustee to the Waterfront Industry Superannuation Fund in February 2012 and was appointed as the Fund's Licenced Independent Trustee in 2016 when WISF and SRF were merged to form MRS (and MKS). During the 11 years Simon served as a trustee, Simon provided very valuable advice to the trustees on investment matters and served on the Investment Committee.

Philippa is a Licensed Independent Trustee and already serves on the board of two other schemes. She will shortly be retiring as the General Manager, Schemes for the National Provident Fund and the Government Superannuation Fund where she has been responsible for managing their liability to members, legal and statutory compliance, the management of service providers and member communications. Philippa has extensive governance experience and a good understanding of the Fund's regulatory responsibilities.

At the AGM, Brodie Stevens and Walter Rushbrook were re-appointed as trustees representing the employers of seafarers.