Newsletter to Members of the

Maritime Retirement Scheme and the Maritime KiwiSaver Scheme

Recent Performance

The Scheme's return for current financial year to date (the nine months ended 31 December 2023) are estimated as 7.8% for the Growth portfolio, 7.1% for the Balanced portfolio and 4.7% for the Conservative portfolio (after fees/expenses and tax at 28%).

Recent months have largely been positive as investors moved to price in interest rate cuts in 2024. Through the latter half of 2023, it appeared that inflation rates in most major economies, while still high, were beginning to decrease. As such, optimism grew that central bankers would be able to lower cash rates sooner than previously expected. This was most notable in the US, with the Federal Reserve appearing to deliver on its much-anticipated "pivot" at its last meeting of the year. As such, US stocks have had a stellar run. The S&P 500 index has risen 16.1% in the Scheme's financial year to date, while the tech-heavy NASDAQ index did even better, at 22.8%. (All market index returns are quoted gross of fees/expenses and tax.)

On the other hand, New Zealand equities trailed with our local index roughly flat over the period. Australian stocks, particular those in the mid-cap "growth" areas of the market, did well. However, the headline Australian index only rose around 9%, and so trailed the US and other large stock markets.

Fixed income markets were subdued over the period. The local bond and global bond indices rose 3.7% and 3.8% respectively over the period. This partly reflects some mark-to-market losses earlier in the period as interest rates rose. (Rising interest rates decrease the market value of fixed income investments.) However, these losses were recouped later in the period as interest rates took a volatile ride. To take one statistic to demonstrate: the yield on 10-year US Treasury bonds started the period at 3.5%, peaked at 5% in October 2023, and fell back to be around 3.9% at the close of the calendar year.

Market Outlook

We begin 2024 in a positive fashion, with most economists anticipating a relief from high interest rates on the horizon. However, risks remain, with inflation rates still above central bankers' target ranges in most economies. If inflation proves "sticky" it may be that the longed-for interest rate cuts do not materialise as soon as hoped. This could see investment markets "trade sideways" for a time, as investors jostle to position for the correct environment in the short-term.

Being a long-term investor, this does not concern the Scheme as much. The portfolios remain well-positioned to provide the desired risk/return profile for members in their different risk-categories. Over the medium and long-term, one can continue to expect the Growth portfolio to offer the highest total return (but with the most bumps along the way), while the Conservative portfolio will be the most stable (but with a lower return).

KiwiSaver survey

Looking at competitor KiwiSaver funds (as seen in the MJW Investment Survey - https://mjw.co.nz/InvSurvey-Dec23), the Scheme compares well, with the portfolios generally materially above the average retail KiwiSaver fund. The figures below are annualised returns after fees, before tax, for recent periods ended 31 December 2023.

	One year		Three years (per annum)	
	Scheme	Survey median	Scheme	Survey median
Growth	15.0%	13.7%	n.a*	3.6%
Balanced	13.7%	11.5%	2.9%	2.2%
Conservative	9.4%	8.4%	0.4%	0.4%

Scheme returns are estimates. Actual results will differ due to the deduction of tax.

* The Growth portfolio does not yet have three years' history.

It is notable that growth funds have provided better returns than balanced funds, which in turn have outperformed conservative funds.

Investment Managers

For some years the Scheme's allocation to New Zealand bonds and about half of its allocation to global equities have been invested in ANZ managed funds. These investments have recently been switched to equivalent funds managed by Nikko Asset Management.

Nikko, previously known as Tyndall and Guardian Trust Funds Management, has a long history of serving institutional investors in New Zealand. Its legacy as a fund manager for insurance companies means that it has a strong pedigree in bond and cash management, however it also has good capabilities in other asset classes such as equities. The New Zealand subsidiary is owned by its similarly named parent headquartered in Japan. Globally, Nikko is a large asset manager with some US$210 billion under management.

Member Benefits

Members of the Waterfront Fund are currently entitled to a terminal illness benefit. This benefit was a carryover from the Waterfront Industry Superannuation Fund when this fund was merged with the Seafarers Retirement Scheme in 2016 to form the Maritime Retirement Scheme.

Following a recent review of member benefits, the Trustees have decided to extend the terminal illness benefit to members of the Seafarers Fund. It is envisaged that a trust deed amendment will be enacted at the next meeting of Trustees on 20 February to give effect to this decision.

This benefit is to enable members who are diagnosed as having a terminally illness with a life expectancy of six months or less and who are continuing to work in the industry to withdraw up to half the benefits they are entitled to at the time. These benefits are paid from and debited to member's account.

The Trustees' policy is to require a medical certificate to support a claim for a terminal illness benefit payment setting out the nature of the illness and the member's life expectancy. The Trustees reserve the right to require an independent medical opinion.

While superannuation is seen as being for the benefit of the dependents of members as well as members themselves, the terminal illness benefit recognises terminally illnesses can result in reduced earnings and increased living costs, especially for medical treatment. The early payment of up to half on their benefits may also enable terminally ill members to engage in some pursuit that they may not otherwise be able to afford.

The right for members to withdraw their retirement benefits at age 65 while they are still working has also been extended to members of the Seafarers Fund

Additional Death Benefit Entitlements

Members of the Waterfront Fund are entitled to an additional death benefit funded primarily by waterfront employers.

Members who suspend their contributions to MRS are ineligible to the additional death benefit unless they are granted a "period of grace" by the Trustees. When the Administrator becomes aware that a member has ceased contributing, the member is advised that they are no longer eligible to their additional death benefit.

The additional death benefit is based on member contribution rates up to 7% and the years and months remaining before the member reaches age 65. Members who are contributing less than 7% are forfeiting some of the additional death benefit entitlement.

While contributions to MKS are considered in the determination of the entitlement of members to the additional death benefit, contributions to other KiwiSaver schemes are not taken account. Members of the Waterfront Fund who belong to a KiwiSaver scheme other than MKS, and who are contributing less than 7% to MRS are also forfeiting some of their additional death benefit entitlement. These members may wish to consider switching to MKS to maximise their additional death benefit entitlement. Members who wish to obtain further advice should contact Maria Kane, Administration Officer, MJW, 0800 947 357 or maritime@mjw.co.nz

David Young
Chairman of Trustees