Quarterly Newsletter

30 June 2018

SUPERLIFE
a Member of the NZX Group

Welcome

Welcome to the June quarterly newsletter.

Thanks to those members who provided some feedback on the last news. In response, we have now added a printable version to the website for those who prefer to print and read. We welcome your feedback on information you would like to read here. If you have any questions, please contact the SuperLife team.

This quarter we provide an update on market activity, in particular where equity markets overall bounced back from the losses in the March quarter.

Our regular My Future Strategy update is designed to provide information (but not advice) on what to think about when considering future strategy.

We encourage you to view the full news at www.superlife.co.nz for more information on the update to the Statement of Investment Policies and Objectives (SIPO), details on how to get the maximum government KiwiSaver subsidy, and how to get a rainy day fund started with SuperLife Invest.

To receive the full newsletter by email, please register with our team on 0800 27 87 37 or at superlife@superlife.co.nz.

SWITCH TO EMAIL TODAY TO GET THE DETAILED NEWS

Phone us on 0800 27 87 37 or email **superlife@superlife.co.nz** to make the change

Smartshares Limited is the issuer of SuperLife Invest, the SuperLife KiwiSaver scheme, the SuperLife UK pension transfer scheme and the SuperLife workplace savings scheme. The Product Disclosure Statements and Fund Updates for these schemes are available at www.superlife.co.nz/legal-doc.

Market Update

The following comments are written by Aaron Drew, Principal, MyFiduciary. Aaron's industry experience includes the New Zealand Superannuation Fund where he was a member of its investment committee, the Reserve Bank of New Zealand and the OECD in France.

Overall, equity markets bounced back from their March quarter losses in the period to the end of June and reached a record high in New Zealand dollar terms. However, some markets performed very well, and some poorly. The New Zealand dollar fell against most currencies, and this boosted the return on offshore equities and property (on an unhedged basis). The June quarter highlighted the importance of maintaining a well-diversified portfolio – enabling it to benefit from strong markets, and to be cushioned from markets not doing so well.

Australian equities returned around 8.2% in Australian dollar terms, bouncing strongly back from their poor performance earlier in the year. Overseas shares in developed markets returned around 1.7% in their home currency terms, and 8.5% in New Zealand dollar terms. This much stronger New Zealand dollar return to overseas shares occurred because the Kiwi fell by around 6.5% against the US dollar in the period, and the size of US equity markets is huge, comprising well over 50% of global equity markets.

Emerging markets were resilient to the sell-off seen at the start of 2018 but suffered a reversal of fortune in the June quarter, falling by around 3%. The Chinese market had a particularly poor quarter, and this was largely attributed to the escalation in trade tensions following the decision of the US Administration to impose steel and aluminium tariffs on China and many other countries.

SuperLife's NZ bond fund returned around 1% for the quarter and 3.5% for the year. This return is well ahead of short-term cash rates, indicating that NZ bonds have offered a good premium. International bonds returns were softer for the quarter at around 0.2%, bringing the annual return to around 1.6%. As discussed in the March quarter news, international bonds have been hit over the year by interest rates increasing at a faster pace than what had been expected.

The NZ equity market deserves special mention as it again had a strong quarter, with the S&P/NZX 50 portfolio index returning around 7.5%. Over the past 5-years our market is a stand-out performer, returning around 15% per annum. This pleasing result is, however, heavily influenced by a handful of stocks that have performed exceptionally well, most recently A2 Milk.

The chart below shows that this is a feature of our market (and others) over longer time periods too. The distribution of company returns is not evenly balanced. Some companies have returned over 1000%, while others have failed. This means the middle or median New Zealand listed company return (around 4% p.a. over the past 15 years) is much lower than the average return across the market (around 7.5% over the period).This pattern in equity markets also helps to explain why most active equity managers fail to consistently beat the market – they miss out, or are underweight, the small handful of stocks that do extremely well over their full time on the market. In contrast, to the extent a passive fund tracks the market, it will hold the exceptional performers.

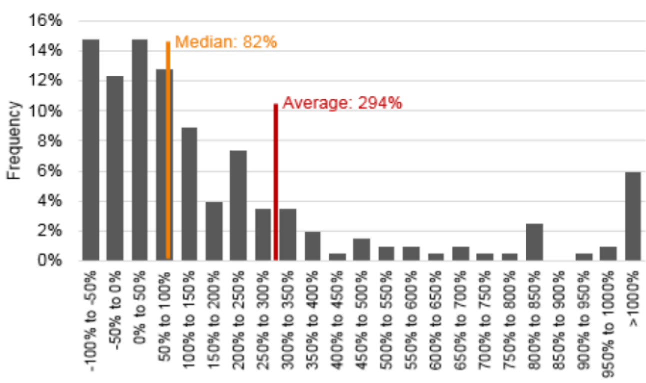

Chart source: S&P Dow Jones Indices LLC, Fact Set. Data is for the NZX all companies index from May 31, 2003 to May 31, 2018

My Future Strategy

The following comments are written by Aaron Drew, Principal, MyFiduciary.

For investors with long-term horizons, staying the course with your present investment strategy is usually the best option, subject to your goals, objectives and cash needs remaining broadly the same as when your strategy was established. Ideally, this is something you should consider, but not necessarily amend, annually, or when there is a material change in your financial position.

For investors with short-term cash needs, or who have taken more risk than they are normally comfortable with, it might make sense to increase cash holdings or move to a lower risk portfolio. The run-up in markets over recent years has been exceptional, and while the global economic growth environment is expected to remain robust, there is no doubt that risks to global growth have increased following the US Administration's decision to place steel and aluminium tariffs on most economies.

For investors concerned with performance over a medium-term horizon (the next 3 – 5 years or so), there may also be an opportunity to enhance returns by updating your longer-term allocation to cash, bonds, equities and property stocks as follows:

- Holding less in bonds, and therefore more cash and shares. This reflects the view that interest rates may still increase more quickly than is currently factored into bond prices given the strength of global growth and employment conditions, and the potential for this to increase inflation faster than expected. Tariffs and the potential for disruptions in global supply chains if tensions escalate also raise prices.
- Favouring non-government (corporate) bonds over government bonds, given government bonds tend to be issued at a longer term (or maturity date) than corporate bonds. This means they are more sensitive to the risk of interest rates increasing at a faster pace than is expected.
- Favouring value, emerging markets, Australian and European stocks compared to US stocks and New Zealand stocks. These markets are broadly assessed to offer more value.
- Maintaining holdings of property stocks at around your long-term allocation.
- Maintaining the currency hedge on overseas shares at around your long-term allocation (this is a change in the view from March and reflects the decline in the New Zealand dollar over the previous few months).

This strategy does not take account of individual circumstances.

As with all investment decisions, what might be the right strategy over the medium term may not be right over the short term.

Update of Statement of Investment Policies and Objectives (SIPO)

We have recently completed our annual review of investment strategy and have updated the SIPOs for each of the SuperLife schemes to reflect the outcome of that review.

You can read more about the review, and the changes, by reading the full news at www.superlife.co.nz.

Information on SuperLife's 41 investment options and the returns can be found online by visiting www.superlife.co.nz.

Returns after tax, costs and fees

SuperLife workplace savings scheme, period ended 30 June 2018

Where returns are not shown, the investment option was not available for the full period. The quarterly investment news includes returns for an investor in the SuperLife workplace savings scheme not making contributions. For investors in SuperLife Invest, the SuperLife KiwiSaver scheme and the SuperLife UK pension transfer scheme, and for investors in the SuperLife workplace savings scheme making contributions, the returns may vary slightly.

Fund	Last quarter	1 year	3 years % p.a.	5 years % p.a.	7 years % p.a.
NZ Cash	0.46%	1.87%	2.07%	2.37%	2.46%
NZ Bonds	0.81%	3.47%	3.53%	3.95%	4.18%
Overseas Bonds	0.20%	1.63%	3.74%	3.45%	3.69%
Overseas Non-Govt Bonds	-0.21%	-0.98%	2.87%	3.15%	3.66%
Property	8.14%	9.76%	6.93%	9.21%	9.91%
NZ Shares	4.64%	5.93%	13.43%	12.75%	12.82%
Australian Shares	8.18%	11.36%	7.93%	7.07%	4.89%
Overseas Shares (Currency Hedged)	4.09%	7.93%	8.14%	10.77%	10.14%
Overseas Shares	8.47%	15.62%	7.50%	11.64%	10.58%
Emerging Markets	-3.67%	8.34%	2.93%	6.10%	2.27%
Gemino	-13.56%	-22.91%	-6.43%	-1.12%	-2.13%
UK Cash	-0.71%	6.41%	-4.06%	-0.02%	
SuperLife Income	0.34%	1.76%	3.42%		
SuperLife 30	2.03%	4.11%	5.21%	5.61%	5.39%
SuperLife 60	3.30%	6.17%	6.72%	7.75%	7.36%
SuperLife 80	4.12%	7.86%	7.53%		
SuperLife 100	4.93%	9.36%	7.89%		
Ethica	2.80%	5.00%	5.90%	7.63%	7.31%
NZ Cash ETF	0.46%	1.85%			
NZ Bond ETF	0.85%	3.56%			
Global Bond ETF	0.19%	1.60%			

Fund	Last quarter	1 year	3 years % p.a.	5 years % p.a.	7 years % p.a.
NZ Dividend ETF	6.88%	2.43%			
NZ Top 50 ETF	7.89%	15.93%	15.38%		
NZ Top 10 ETF	8.57%	14.28%			
NZ Mid Cap ETF	6.13%	16.42%			
NZ Property ETF	5.93%	8.17%			
Australian Top 20 ETF	11.23%	12.01%			
Australian Dividend ETF	8.78%	6.00%			
Australian Financials ETF	6.03%	2.12%			
Australian Property ETF	12.16%	13.64%			
Australian Resources ETF	19.01%	42.89%			
Australian Mid Cap ETF	7.54%	14.95%	14.14%		
Total World ETF	7.69%	16.38%			
US 500 ETF	11.60%	20.29%			
Europe ETF	4.40%	9.23%			
Asia Pacific ETF	4.12%	15.17%			
US Large Growth ETF	14.59%	25.07%			
US Large Value ETF	9.08%	16.24%			
US Mid Cap ETF	10.63%	17.94%			
US Small ETF	14.67%	23.26%			
Emerging Markets ETF	-3.66%	9.99%			