Quarterly Newsletter

30 June 2019



Welcome

Welcome to the June quarter news.

In this issue we discuss how markets continued their rally over the quarter ended 30 June 2019. All asset classes, including government and corporate bonds, property stocks and equities, enjoyed strong returns over the year-to-date, erasing the paper losses investors experienced last year. Some equity markets, including the NZ equity market, are at an all-time high.

Our regular My Future Strategy update continues to remind us that it is important not to be spooked by the market volatility.

Details of our new online withdrawal facility are in this issue, and also how Inland Revenue is checking your PIR.

In the detailed News available by email or online at www.superlife.co.nz:

- Following on from our article last quarter on Socially Responsible Investing and the power of engagement, we feature SuperLife's socially responsible fund Ethica
- KiwiSaver for the over 65s and over 60s
- Check the dates of the remaining seminars for 2019 at www.superlife.co.nz.
- Did you get your maximum KiwiSaver government contribution?

We welcome your feedback on the News. If you have topics you'd like us to cover please let us know.

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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

Markets continued their rally over the quarter ended June. All asset classes, including government and corporate bonds, property stocks and equities, enjoyed strong returns over the year-to-date, erasing the paper losses that investors experienced last year. Some equity markets, including the NZ equity market, are on an all-time high.

There's an old investment mantra: "Don't fight the Fed". The Fed in this case is the US Federal Reserve which sets monetary policy and interest rates in the US. Historically, investors have done well when they align with how the Fed sets its monetary policy and this pattern has repeated over the past six months. The Fed has now completely backed off increasing rates in response to a slowing global economy and heightened trade war risks. Instead, there is speculation the Fed will likely cut interest rates in line with cuts that have already taken place in New Zealand and Australia. In response, markets and the range of Superlife funds have rallied strongly. Investors and active fund managers who reduce allocations to risky assets in response to the slowing economy fighting the Fed – have missed out on this rally. See the box below for further discussion on the link between economic growth and equity returns.

International equities

International developed markets increased by around 5.3% over the quarter, implying a 6.2% return for the year ended June 2019 (FTSE Developed All Cap Index in NZ dollar terms). NZD hedged equity returns were also solid, returning 3.9% for the June quarter.

Emerging markets

Emerging market stocks have borne the brunt of the slowdown in global trade

and trade war fears. Despite this, emerging market equities returned around 3.6% in the quarter (FTSE Emerging Markets All Cap Index), sufficient to bring the annual return back into positive territory at around 6.1% for the year ended June 2019.

Trans-Tasman equities

Trans-Tasman equity markets also enjoyed a strong quarter. Australian shares returned 8.1% in the June quarter (S&P/ASX 200 Index). New Zealand shares returned 6.8% in the quarter and 17.5% over the year to June 2019, a very strong performance both in absolute terms and compared to offshore equity markets (S&P/NZX 50 Index).

Bonds

Global bonds returned 2.7% in the quarter and 7.3% in the year to June 2019 (Bloomberg Barclays Global Corporate Bond Index NZD hedged). New Zealand investment grade bonds returned 1.8% for the quarter and around 6.8% for the year.

SuperLife Funds

Given the strong performance of markets, Superlife Fund returns were positive across the board in both the quarter and over the year to June 2019. SuperLife Income, which has no exposure to equities, had a positive return of around 1.7% over the quarter and 5% over the year (all figures in this paragraph are after fees and tax at the highest rate).

The SuperLife Balanced fund returned around 3% in the quarter and 6.4% over the year, while the SuperLife High Growth fund, which largely invests in equities and property stocks, increased 3.7% in the quarter and 6.9% over the year.

SuperLife Ethica, which invests into funds that have strict sustainability criteria, also performed well, returning 3.4% over the quarter and 7.1% over the year to June 2019.

Economic growth and investment returns

Currently, global economic growth is slowing, with the Trump Administration's trade war being cited as the main culprit. World trade volumes before the trade wars were running around 5% per annum and global growth around 3.5%. Today, global trade volumes are flat and global growth has fallen closer to 3%. Looking forward, macro forecasters expect global growth to mildly decline further, conditional on how the trade wars evolve from here. What does this uncertainty mean for long-term equity returns? The short answer? Likely not a lot for investors holding broadly diversified portfolios, as the range of SuperLife funds are designed to be.

My Future Strategy

As our reports have stressed, it is important not to be spooked by market volatility. Time and time again, history suggests markets recover from periods of weakness. The risk of permanent capital loss is minimal given this pattern, along with SuperLife funds being broadly diversified across New Zealand and offshore markets.

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.

Investors concerned with performance over a medium-term horizon (the next three to five years or so) may see an opportunity to enhance returns by tweaking your 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 equity markets offer better value, while for bonds there is risk that interest rates may increase more quickly than is currently factored into bond prices given how low rates have now fallen.
- Favouring value, emerging market, Australian and European equities compared to US and New Zealand

equities. These latter markets are broadly assessed to offer less value (upside return potential) than other markets.

 Maintaining holdings of property stocks at around your longer-term allocation.
 Maintaining the currency hedge on overseas shares at around your longerterm allocation. Our interest rates are still slightly higher than foreign rates on a global market capitalisation (e.g. MSCI World Index) basis. This means hedging global equities will still earn investors a positive "carry".

This strategy does not constitute financial advice and does not take account of personal circumstances; rather, it is designed to illustrate possibilities. As with all investment decisions, what might be the right strategy over the medium or longer-term may not pay off over the very short-term. No one can consistently predict what'll happen over the short-term.

Online withdrawal facility now available

If you have set up online access to your SuperLife account, you can now request a withdrawal online.

Once you have logged in, click "Withdrawal" at the top of the page and complete your details. If you have made a withdrawal before, your bank account details will already be there. You can also add a new

bank account by following the instructions. Note that if you are a member through your employer, payments will only be made under the rules of your scheme.

KiwiSaver members can also contribute online by clicking "Contribution" at the top and following the instructions.

If you don't have online access, you can register now at www.superlife.co.nz.

Inland Revenue is checking your PIR

It is now more important than ever to make sure that you are on the correct PIR (prescribed investor rate). This is because Inland Revenue's new system can now identify all income including wages and salary and investments. From this information, they can tell which PIR you should be on.

If you have paid too much tax, you will not get a refund from Inland Revenue.

However if you have underpaid, you will be hit with a bill to pay at the end of the tax year.

Inland Revenue is contacting investors, including KiwiSaver members, if they believe they're not on the correct PIR. If you are advised to change your PIR, you need to contact us or you can do it online.

You can also check your PIR at www.superlife.co.nz

Returns after tax, costs and fees

SuperLife workplace savings scheme, period ended 30 June 2019

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	3	years	5 years	7 years	Fund	Last		3 years 5 year7 years
	quarter 1 y	ear %	ра	%ра	% pa		quarter 1	l year	%ра %ра%ра
NZ Cash	0.47% 1	1.83%	1.92%	2.22%	2.33%	NZ Top 50	6.67%	16.87%	15.24%
NZ Bonds	1.44% 4	4.87%	3.49%	4.34%	4.03%	NZ Top 10	5.72%	15.25%	12.44%
Overseas Bonds	1.88% 4	4.79%	3.09%	3.93%	3.21%	NZ Mid Cap	7.07%	17.87%	17.38%
Overseas Non-government Bonds	2.25% 5	5.71%	2.10%	3.11%	3.36%	NZ Property	11.77%	30.70%	12.76%
Global Property	3.23% 14	4.44%	8.12%	10.55%	10.70%	Australian Top 20	8.93%	7.39%	11.66%
NZ Shares	5.55% 17	7.08%	11.79%	12.44%	15.68%	Australian Dividend	5.15%	1.77%	7.87%
Australian Shares	6.81% 6	5.84%	12.21%	9.16%	6.88%	Australian Financials	10.48%	2.31%	7.97%
Overseas Shares (Currency Hedge	d 2.95% 3	3.66%	11.44%	7.69%	11.16%	Australian Property	3.26%	12.53%	8.18%
Overseas Shares	4.38% 3	3.80%	12.29%	10.56%	11.73%	Australian Resources	5.36%	9.50%	24.76%
Emerging Markets	2.82% 4	4.19%	9.85%	6.29%	5.36%	Australian Mid Cap	4.95%	-1.68%	10.83%
UK Cash	-1.21% -1	1.73%	-0.07%	-0.41%	-0.57%	Total World	4.47%	3.85%	12.26%
SuperLife Income	1.74% 4	4.96%	2.98%	3.75%		US 500	5.32%	8.93%	14.99%
SuperLife Conservative	2.28% 6	5.00%	5.49%	5.64%	5.84%	Europe	5.04%	0.65%	10.20%
SuperLife Balanced	2.96% 6	5.46%	7.77%	7.25%	8.13%	Asia Pacific	2.19%	-3.79%	9.04%
SuperLife Growth	3.24% 6	5.59%	9.32%	8.31%		US Large Growth	6.01%	8.47%	17.06%
SuperLife High Growth	3.67% 6	5.89%	10.60%	9.02%		US Large Value	4.70%	8.10%	12.84%
Ethica	3.44% 7	7.20%	5.98%	8.04%	8.01%	US Mid Cap	5.02%	5.68%	12.98%
NZ Cash ETF	0.43% 1	1.76%	1.86%			US Small	2.88%	-0.09%	13.19%
NZ Dividend	8.95% 23	3.00%	12.46%						