Quarterly Newsletter

30 September 2019

SUPERLIFE
a Member of the NZX Group

Welcome

Welcome to the September quarter news.

I am pleased to report that in our recent customer satisfaction survey, half of respondents gave us a 9 or 10 out of 10 when asked how likely they'd be to recommend us. A further 36% scored us 7 or 8 out of 10. We're delighted with the results and we have noted suggestions from members on how we can do better. We appreciate the feedback and thank all who responded.

One of the comments in the survey was about wanting to speak to a real person – not just email. We totally agree and we have a friendly and knowledgeable team ready to assist – just call 0800 27 87 37 to talk to one of the team.

The market update and our new section "Thoughts on investment strategy" are provided by Smartshares' Chief Investment Officer, Stuart Millar, who is responsible for overseeing the investment of all funds managed by Smartshares Limited.

This quarter proved turbulent for both equity and bond markets but despite this ended on a positive note.

In "thoughts on investment", we note that the strong returns we have seen in the 12 months to date are a stark reminder that it is "time in the markets" rather than "timing the markets" that helps us achieve our long-term investment objectives.

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

- "Funds for Everyone"- the Financial Markets Authority (FMA) guide to investing
- SuperLife's five Diversified Funds
- How KiwiSaver can help you get into your first home

Hugh Stevens
CEO, Smartshares

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

This quarter proved turbulent for both equity and bond markets but despite this ended on a positive note. Global property was the strongest performing asset class with falling bond yields driving demand for equities paying high dividends and stable cash-flows. Global equity returns for unhedged NZ based investors were strongly positive as well, helped by the falling NZ dollar as economic concerns edged up. The Reserve Bank of New Zealand surprised markets with a 50bp rate cut in an attempt to spur economic growth. Together with the global demand for yield, this assisted local equities and property.

Global economic growth has been pressured by intensifying trade tensions and an increase in tariffs between the US and China. Global multi-national companies had been holding out for a trade agreement that would relieve them of the need to re-arrange supply chains. However, that was not the case and business sentiment globally has continued to deteriorate.

This resulted in action from the US Federal Reserve, where Chairman Jerome Powell has cut interest rates on two separate occasions this year. The Bank of China also responded by lowering the reserves required to be held by banks and allowed the Yuan to depreciate to assist exporters. We are yet to see substantial fiscal stimulus from the Chinese government but do suspect that this will be required if trade tensions continue to weaken economic growth.

As a small open economy, New Zealand is sensitive to worsening global economic conditions and business confidence has continued to weaken. The surprise move by the Reserve Bank to cut rates as much as they did may have created even more fear among business owners. However, the Reserve Bank does not have any more information that what is already publicly available.

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International equities
International developed markets increased by around 7.0% over the quarter, lifting the annual return to 30 September 2019 toward 5.8% (FTSE Developed All Cap Index in NZ dollar terms). NZD-hedged equity returns were less attractive but were up 0.8% in the third quarter and over one year.

Emerging markets
Despite on-going trade tensions between the US and China, emerging market equities were up 2.6% in the quarter (FTSE Emerging Markets All Cap Index), with an annual return around 6.3% to the end of the September quarter.

Trans-Tasman equities
Easier monetary policy and global demand for higher yielding assets lifted New Zealand and Australian shares. The S&P/ASX 200 Index was up 3.1% in the third quarter and is now up 12.1% in the 12 months to 30 September 2019. The S&P/NZX 50 Index was up4.6% during the quarter, showing a stellar 17.2% over the 12-month period.

Bonds
Global bonds continue to defy low return expectations and have delivered 2.6% this quarter and are up 10.0% in the 12-months to 30 September 2019 (Bloomberg Barclays Global Corporate Bond Index NZD hedged). New Zealand investment grade bonds returned 2.2% for the quarter and around 7.8% 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 30 September 2019. SuperLife Income, which has no exposure to equities, had a positive return of around 1.5% over the quarter and 6.0% over the year (all figures in this paragraph are after fees and tax at the highest rate).

The SuperLife Balanced fund returned around 2.4% in the quarter and 6.1% over the year, while the SuperLife High Growth fund, which largely invests in equities and property stocks, increased 2.6% in the quarter and 5.3% over the year.

SuperLife Ethica, which invests into funds with strict sustainability criteria, also performed well, returning 3.4% over the quarter and 7.4% over the year to 30 September 2019.

Thoughts on investment strategy

The strong returns we have seen in the 12 months to date, despite the escalation in trade tensions and fears of recession, are a stark reminder that it is “time in the markets” rather than “timing the markets” that helps us achieve our long-term investment objectives.

Investors who stuck with their investment strategies through the volatility in the fourth quarter last year will now be a step closer to achieving their long-term investment goals having accumulated assets at a discount throughout this period.

Market corrections will occur from time to time and knowing exactly when to exit the market is almost impossible. A portfolio that combines both equities and bonds will complement each other through cycles and help smooth the bumps and dips in your portfolio returns over time.

That said, and depending on your individual willingness and ability to take risk, it is possible to adjust your investment strategy to best position your portfolio based on your outlook for various asset classes. Here are a few ideas to consider,

- If trade tensions and global economic growth persist then a more conservative fund that holds more cash and bonds than shares and listed property will likely outperform.
- NZ equities have shown defensive characteristics relative to global equities when trade concerns were a key source of concern for markets. If a resolution for trade between the US and China is made, then global equities and emerging market equities could do better than local markets.
- If global growth and uncertainty remains high, then the return on cash and bonds could be quite low but stable going forward. As long as global growth does not falter, then corporate bonds and listed property are asset classes that can deliver a higher return with less sensitivity to global growth than broader equities.
- The fall in bond yields has also resulted in strong returns in fixed interest and cash. High yielding markets such as corporate bonds and listed property have also performed well. If bond yields start to move higher again then these markets could underperform equities.

These thoughts on investment strategy do not constitute financial advice and do 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.

How KiwiSaver can help you get into your first home

Being in KiwiSaver gives you two opportunities to access funds towards your first home purchase.

One is the First Home Withdrawal where you can apply to your KiwiSaver provider to make a withdrawal from your KiwiSaver Account towards your deposit.

If you are eligible to make a withdrawal, you can withdraw everything in your KiwiSaver Account except $1,000. Being able to access the employer contributions and government contributions is a significant boost to the money available to help buy your first home.

The second is the First Home Grant which provides additional funds between $3,000 and $5,000 for an existing house, and between $6,000 and $10,000 for a new home, subject to meeting the criteria.

The First Home Grant is managed by Kāinga Ora – Homes and Communities (the new agency that includes Housing New Zealand and KiwiBuild).

Full details are available at kaingaora.govt.nz/home-ownership.

Returns after tax, costs and fees

SuperLife workplace savings scheme, period ended 30 September 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 quarte	1 year	3 years % p a	5 years % p a	7 years % pa
NZ Cash	0.46%	1.85%	1.88%	2.15%	2.30%
NZ Bonds	1.68%	5.64%	3.62%	4.34%	4.08%
Overseas Bonds	1.27%	5.94%	2.91%	3.71%	3.17%
Overseas Non-government Bonds	1.84%	7.26%	2.37%	3.22%	3.25%
Global Property	6.31%	19.94%	9.74%	11.17%	10.92%
NZ Shares	2.70%	14.81%	10.06%	12.27%	13.14%
Australian Shares	1.54%	7.75%	9.54%	9.22%	6.17%
Overseas Shares (Currency Hedged	0.98%	-0.42%	9.00%	7.40%	10.15%
Overseas Shares	6.07%	3.26%	12.64%	9.85%	11.93%
Emerging Markets	1.04%	3.38%	7.64%	4.86%	4.71%
UK Cash	2.20%	-1.06%	1.96%	-0.65%	-0.08%
SuperLife Income	1.48%	6.00%	3.01%	3.76%	
SuperLife Conservative	2.13%	6.72%	5.21%	5.63%	5.50%
SuperLife Balanced	2.35%	6.16%	6.95%	7.16%	7.58%
SuperLife Growth	2.56%	5.68%	8.30%	8.14%	
SuperLife High Growth	2.63%	5.35%	9.26%	8.69%	
Ethica	3.43%	7.43%	5.95%	7.84%	7.87%
NZ Cash ETF	0.41%	1.74%	1.83%		
NZ Dividend	3.92%	22.26%	10.95%		

Fund	Last quarter	1 year	3 years % p a	5 year % p a	7 years % pa
NZ Top 50	4.33%	16.50%	14.32%		
NZ Top 10	3.67%	15.15%	10.77%		
NZ Mid Cap	3.34%	15.65%	16.18%		
NZ Property	8.48%	34.06%	14.89%		
Australian Top 20	3.15%	9.57%	9.98%		
Australian Dividend	3.30%	7.07%	6.40%		
Australian Financials	5.28%	8.23%	6.88%		
Australian Property	6.24%	17.76%	10.74%		
Australian Resources	-1.72%	7.21%	17.96%		
Australian Mid Cap	5.57%	0.62%	9.26%		
Total World	5.96%	3.59%	12.50%		
US 500	7.68%	7.29%	16.48%		
Europe	4.16%	0.57%	9.55%		
Asia Pacific	5.72%	-1.97%	8.33%		
US Large Growth	7.69%	6.37%	18.23%		
US Large Value	7.32%	5.82%	14.32%		
US Mid Cap	6.93%	6.04%	13.57%		
US Small	5.15%	-1.20%	12.56%		