Quarterly Newsletter

31 December 2019



Welcome

Welcome to the December quarter news.

I am delighted to let you know that Smartshares has exceeded \$4 billion funds under management (FUM) – an increase of 35% or \$1 billion-plus over the past years.

This is a win for SuperLife members and the best advertisement for the broad range of low cost, index tracking funds available to you through your membership of one or more of the SuperLife schemes.

SuperLife fund returns were positive across the board over the year to December 2019. Highlights were the SuperLife Balanced fund returning 14.8% and the SuperLife High Growth 21.1% (after tax and fees) for the year.

In "thoughts on investment", our view is that the global economic outlook should gradually improve in 2020, despite short term impacts from coronavirus and politics in New Zealand, the US and Europe.

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

- What's your goal for 2020 and beyond?
- Managing your SuperLife managed income.

Enjoy the read.

Hugh Stevens CEO, Smartshares

Do it online at www.superlife.co.nz

Or email superlife@superlife.co.nz

Or call

0800 27 87 37

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

Global share markets ended the year in stellar form as US-China trade tensions eased and monetary policy stimulus started having a positive impact on some key global leading economic indicators. It even seems that the UK and Europe will be able to agree an exit plan early this year. Some strength in the NZD towards the end of the guarter took some of the gloss off returns in global shares for unhedged investors. On the flipside, the gradual easing in geopolitical concerns and improving outlook for global growth resulted in meagre returns for fixed income investors during the quarter.

Both the Federal Reserve in the US and the RBNZ backed away from further easing, suggesting that enough had been done for now and further evidence of economic weakness would be required to cut rates further. Global growth is far from out of the woods, even though there have been signs of improvement. The US ISM manufacturing index showed that manufacturing activity continues to contract in the region, although the services index within the same survey remained strong as did employment. China's business activity slipped in December after expanding throughout most of the year.

Improving expectations of a trade deal between the US and China also lifted the outlook for global economic growth and had the biggest influence on share markets during the quarter. While we doubt this is the end of the stand-off between the world's two largest economies, the deal removes prospect of companies having to pay higher tariffs into 2020. Interestingly, the US's own NBER (National Bureau of Economic Research) released a working paper showing that U.S tariffs have been passed on entirely to US importers and consumers.

The NZ share market continued its unabated trend due to low interest rates. NZ shares remain relatively attractive exhibiting defensive characteristics amid a turbulent geopolitical environment. Arguably,

stocks appear quite expensive but with easy monetary policy the hurdle rate for investment is low and earnings growth is sustainable. The fourth quarter showed a lift in NZ house prices, further underpinning household sentiment and consumption.

International equities

International developed markets increased by around 2.1% over the quarter, lifting the annual return to 31 December toward 27.8% (FTSE Developed All Cap Index in NZ dollar terms). NZD hedged equity returns were up 8.9% in the fourth quarter and 28.5% over one year.

Emerging markets

Despite on-going trade tensions between the US and China, emerging market equities were up 4.4% in the quarter (FTSE Emerging Markets All Cap Index), with an annual return around 20.6% to the end of the December quarter.

Trans-Tasman equities

Easier monetary policy and global demand for higher yielding assets lifted NZ and Australian shares. The S&P/ASX 200 Index was up 0.7% in the third quarter and is now up 23.4% in the 12 months to 31 December. The S&P/NZX 50 Index 5.2% during the quarter and showing a stellar 30.4% over the 12-month period.

Bonds

Global bonds have delivered -0.6% this quarter and are up 7.6% in the 12-months to the end of December (Bloomberg Barclays Global Corporate Bond Index NZD hedged). New Zealand investment grade bonds returned -1.1% for the quarter and around 5.3% for the year.

SuperLife Funds

SuperLife fund returns were positive across the board in both the quarter and over the year to December 2019. SuperLife Income, had a return of around -0.4% over the quarter and 5.1% over the year. The SuperLife Balanced fund returned around 1.7% in the quarter and 14.8% over the year, while the SuperLife High Growth fund increased 3.2% in the quarter and 21.1% over the year.

Ethica, which invests into funds that have strict sustainability criteria, also performed well, returning 2.7% over the quarter and 18.2% over the year to December 2019.

Thoughts on investment strategy

In our view, the global economic outlook should gradually improve in 2020, despite short term impacts from coronavirus and politics in New Zealand, the US and Europe. This will be aided by easing geopolitical concerns with a trade deal between the US and China in place and the UK and Europe agreeing an exit plan for the UK to leave the European Union. Capital spending and business confidence weakened throughout 2019 as a result of these uncertainties and a reversal in this trend will be helpful going forward.

The second half of 2019 was strongly positive for risky asset classes, particularly NZ and other developed market equities. The negative sentiment resulting from US-China trade negotiations that weighed on global economic growth and the returns in these markets has now been priced out, meaning returns in 2020 will be lower than they were in 2019. As evidence unfolds and proves that companies can grow returns around the expected pace of global economic growth, we should see a period of stability in equity markets.

The returns on cash and bonds will be low in 2020 with central banks committed to supporting this outlook for growth.

On the proviso that global economic growth resumes as we expect, developed

market equities will outperform cash and bonds. That said, the hurdle to outperform cash and bonds is low and recent geopolitical events show that we should expect some volatility this year. Investors with some risk tolerance may see relatively good opportunities in emerging market equities and bonds where valuations are more attractive.

We are also starting to see evidence that the easing in monetary policy in NZ and other parts of the world is having a positive influence on economic growth.

However, there is no doubt the geopolitical risks will persist through 2020. Our research shows that geopolitical events can have negative implications for risky asset classes such as shares and a positive influence on safe assets such as fixed income and cash, particularly in the short-term.

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.

Managing your SuperLife Managed Income

SuperLife's managed income lets you set up a regular withdrawal, of an amount you choose, to be paid on a regular basis. The balance of your savings can continue to be invested with SuperLife.

KiwiSaver members can set up withdrawals from age 65. SuperLife Invest members can set up withdrawals whenever they like, and for members in workplace savings arrangements it will depend on their employer's rules.

You can change your managed income at any time (up or down, or stop). You can also take out a lump sum at any time and for any reason. This way you can spend your savings when you need to.

If you are making regular withdrawals, there are some things to think about, especially if you have a My Mix investment strategy in place, i.e. you have chosen your own mix of investment funds.

Instead of reinvesting your return in each fund you are in, you can choose to invest it in the NZ Cash Fund.

You can choose regular withdrawal rebalancing to reduce the risk of withdrawing money from funds that invest in shares and property at a time when the value of those funds has fallen; and/or to maintain a minimum level of Cash or Bonds.

Find out more in the detailed News available online at www.superlife.co.nz.

Returns after tax, costs and fees

SuperLife workplace savings scheme, period ended 31 December 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		
	quarte	1 year	%ра	%ра	% pa		quarter	1 year	%ра	%ра%	ра
NZ Cash	0.36%	1.76%	1.84%	2.07%	2.26%	NZ Top 50	4.04%	28.29%	18.37%		
NZ Bonds	-0.71%	3.96%	4.13%	3.84%	3.75%	NZ Top 10	5.77%	32.93%	15.98%		
Overseas Bonds	-0.06%	5.82%	3.38%	3.42%	3.01%	NZ Mid Cap	4.19%	23.85%	19.91%		
Overseas Non-government Bonds	-0.07%	6.79%	2.91%	2.91%	3.02%	NZ Property	-0.62%	30.48%	17.90%		
Global Property	-1.12%	21.27%	11.50%	9.36%	9.95%	Australian Top 20	-3.67%	17.13%	6.57%		
NZ Shares	3.23%	22.88%	12.37%	12.48%	12.59%	Australian Dividend	-2.12%	21.63%	4.19%		
Australian Shares	-1.41%	17.62%	7.40%	9.40%	4.99%	Australian Financials	-9.61%	10.03%	0.11%		
Overseas Shares (Currency Hedge	5.23%	21.71%	9.15%	7.83%	10.53%	Australian Property	-3.73%	17.05%	10.43%		
Overseas Shares	1.27%	23.76%	10.87%	9.57%	11.79%	Australian Resources	1.18%	22.26%	16.01%		
Emerging Markets	4.16%	16.96%	9.89%	6.43%	4.50%	Australian Mid Cap	-1.16%	18.68%	9.45%		
UK Cash	-0.18%	1.93%	2.22%	-0.18%	-0.19%	Total World	1.80%	24.16%	11.01%		
SuperLife Income	-0.37%	5.14%	3.49%	3.37%		US 500	1.99%	29.51%	13.66%		
SuperLife Conservative	0.47%	9.90%	5.58%	5.40%	5.12%	Europe	2.13%	21.64%	9.41%		
SuperLife Balanced	1.70%	14.81%	7.44%	7.13%	7.28%	Asia Pacific	-0.12%	14.67%	7.87%		
SuperLife Growth	2.44%	18.00%	8.68%	8.32%		US Large Growth	2.97%	35.00%	17.31%		
SuperLife High Growth	3.15%	21.14%	9.93%	9.03%		US Large Value	0.99%	23.76%	9.91%		
Ethica	2.66%	18.22%	7.56%	7.78%	7.80%	US Mid Cap	-0.22%	28.94%	10.50%		
NZ Cash ETF	0.21%	1.52%	1.74%			US Small	1.12%	25.42%	8.76%		
NZ Dividend	-3.31%	19.29%	11.22%								