

## Welcome

Welcome to the September quarter news.

This quarter we provide an update on market activity where investment returns echoed the previous June quarter. Some equity markets, including New Zealand's, performed well, while some performed poorly.

In recent weeks, both local and overseas equity markets experienced volatility, which may have impacted the value of your investment depending on your chosen strategy. At the end of each month, you can view our funds and their performance at [www.superlife.co.nz/investment/allfunds-and-fees](http://www.superlife.co.nz/investment/allfunds-and-fees) or log in to the website any time to see how your own investment strategy has performed.

In our regular My Future Strategy section find out more about what investors with long term goals, and those with short term goals, should be thinking about.

There's a section on how to work out the right investment option for you.

Finally, in the detailed News available by email you can learn how to turn your savings into a managed income in retirement - and stay invested.

Hugh Stevens  
CEO, Smartshares

Get the detailed News by email

Email:  
[superlife@superlife.co.nz](mailto:superlife@superlife.co.nz)  
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](http://www.superlife.co.nz/legal-doc).

## Market update

While noting the increased volatility of the past three weeks, investment returns in the September quarter echoed the previous June quarter. Some equity markets, including NZ's, performed well, while some performed poorly.

The NZ dollar again fell over the quarter, boosting the return on offshore equities and property (on an unhedged basis). The box below discusses currency and how this is managed in SuperLife portfolios.

Like equities, fixed income (bond) performances were also mixed. NZ bonds performed well, whilst offshore bonds had a weak quarter. The best way to benefit from such mixed performances is maintaining a well-diversified portfolio – enabling it to benefit from strong markets, and to be cushioned from markets not doing so well.

Overseas shares in “developed” markets returned around 5% in their home currency terms (on a MSCI world index basis), and 7.5% in NZ dollar terms given the decline in our currency.

Australian equities in the September quarter returned around 1.5% (S&P/ASX 200 Index), while NZ equities returned around 4.5% (S&P/NZX 50 Index). Property market performances were also generally solid over the September quarter.

The NZ market was the standout, as reflected in the 5.7% return to the Smartshares NZ Property ETF. Emerging Market equity performances were weaker, with the MSCI EM index returning around 1% on a NZ dollar basis.

SuperLife's NZ bond fund returned around 1% for the quarter and 3.5% for the year. International bonds returns have been weaker, with the annual return around 1%. They've been hit over the year by (forward) interest rates increasing at a faster pace than expected. A lot of this has come down to the US economy performing very strongly.

In contrast, expectations of future interest rate rises in NZ have fallen over the past year helping to boost NZ bond returns.

## Currency management considerations

At around present levels the RBNZ estimates our currency is in the “goldilocks zone” - it's supporting exporters and household spending and keeps our trade balanced. Through this lens the NZ dollar should stay put. But should is not the same as will – no one knows for sure where the currency will go from here. On the plus side our terms of trade (the price we receive for exports divided by the price we pay for imports) have climbed to record highs, and normally the New Zealand dollar follows this. However, the US cash rate is now 2.25%, well over our 1.75% overnight cash rate. Higher US rates favour currency speculators selling (shorting) the NZ dollar to buy US dollars, which could cause our currency to fall further.

While no one can accurately forecast short term currency movements, currency volatility can certainly be managed through currency hedging. In SuperLife portfolios much of the currency risk in offshore equity and fixed income holdings is reduced through currency hedging. An important reason for this is that most KiwiSaver investors probably care about the value of their portfolios in NZ dollars, and its ability to support a NZ-based retirement. Hedging offshore holdings helps ensure that, in the long run, investors will earn a premium over NZ cash from their investments, building up an asset base that can well-support a NZ retirement.

## My Future Strategy

For investors with long-term horizons, staying the course with your present investment strategy is usually the best option. This is subject to your goals, objectives and cash needs remaining broadly the same as when your strategy was established.

For investors with short-term cash needs, or who have taken more risk than they are normally comfortable with, the run up in markets over recent years presents an opportunity to increase cash holdings. While the global economic environment is currently robust downside risks are material. The International Monetary Fund recently cut its global growth outlook for the next two years given rising trade tensions and evidence this is starting to impact growth in China and elsewhere.

For investors concerned with performance over a medium-term horizon (next three to five years or so) there may also be an opportunity to enhance returns by tweaking 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 global growth and the potential for this to increase inflation faster than expected. Rising fuel prices and cost pressures present upside inflation and interest rate risk in NZ.

- Favouring corporate over government bonds, given the risk of faster interest rate increases is more material for government bonds.
- Favouring value, EM, Australian and European stocks compared to US and NZ stocks. These latter markets are broadly assessed to be more richly priced.
- Maintaining holdings of property stocks at around your long-term allocation.
- Maintaining the currency hedge on overseas shares at around your long-term allocation.
- We note that while short-term interest rates in the US are now higher than ours, NZ rates are still 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".

The strategy above doesn't take into account an individual's personal situation.

Also, as with all investment decisions, what might be the right strategy over the medium term, may not be right over the very short term. We really don't know what will happen over the short term.

## Are you in the right investment option for you?

The right investment option or mix of investment options is unique to you. How you implement your investment strategy depends on your situation - in particular, how you feel about risk and volatility (ups and downs in the value of your investments), when you plan to spend the funds and what you might use them for (e.g. retirement or for a first home deposit).

The Government's Sorted website includes an "investor kick-start" page to help you think about what type of investor you are.

After you've thought about your investment strategy, you could then review SuperLife's investment options and the returns which can be found online by visiting [www.superlife.co.nz](http://www.superlife.co.nz).

## Returns after tax, costs and fees

SuperLife workplace savings scheme, period ended 30 September 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			3 years % p a	5 years % p a	7 years % p a	Fund	Last		
	quarter	1 year						quarter	1 year	
NZ Cash	0.44%	1.84%	2.00%	2.32%	2.43%	NZ Dividend ETF	4.55%	7.68%	12.46%	
NZ Bonds	0.95%	3.46%	3.32%	4.1%	4.04%	NZ Top 50 ETF	4.66%	17.38%	17.94%	
Overseas Bonds	0.17%	0.94%	2.92%	3.59%	3.30%	NZ Top 10 ETF	3.76%	18.83%	16.30%	
Overseas Non-government Bonds	0.37%	-0.39%	2.39%	3.14%	3.45%	NZ Mid Cap ETF	5.32%	15.23%	18.50%	
Property	1.44%	9.40%	7.98%	9.9%	10.8%	NZ Property ETF	5.76%	14.9%		
NZ Shares	4.73%	11.20%	15.49%	11.64%	14.43%	Australian Top 20 ETF	1.10%	10.42%	7.44%	
Australian Shares	0.68%	9.24%	9.28%	6.38%	6.62%	Australian Dividend ETF	-1.81%	3.47%	2.45%	
Overseas Shares (Currency Hedged)	5.12%	10.73%	13.49%	10.5%	13.17%	Australian Financials ETF	-0.48%	-1.12%	5.31%	
Overseas Shares	6.63%	18.48%	10.78%	12.48%	13.35%	Australian Property ETF	1.52%	11.72%	8.50%	
Emerging Markets	1.82%	3.37%	6.74%	5.99%	4.90%	Australian Resources ETF	0.39%	28.32%	20.28%	
UK Cash	1.50%	4.40%	-4.60%	0.38%		Australian Mid Cap ETF	3.16%	17.52%	16.23%	
SuperLife Income	0.48%	1.6%	3.03%	3.64%		Total World ETF	6.22%	18.39%	10.44%	
SuperLife 30	1.45%	4.48%	5.76%	5.5%	5.82%	US 500 ETF	9.33%	26.48%	13.78%	
SuperLife 60	2.64%	7.23%	8.48%	7.57%	8.55%	Europe ETF	4.25%	8.94%	6.16%	
SuperLife 80	3.44%	9.19%	9.93%	8.03%		Asia Pacific ETF	3.76%	15.17%	9.16%	
SuperLife 100	4.13%	10.97%	11.04%	9.42%		US Large Growth ETF	9.82%	32.50%	14.59%	
Ethica	3.20%	6.70%	6.96%	7.88%	8.37%	US Large Value ETF	9.63%	22.22%	13.04%	
NZ Cash ETF	0.44%	1.85%				US Mid Cap ETF	6.57%	22.33%	11.25%	
NZ Bond ETF	0.93%	3.47%				US Small ETF	6.33%	25.71%	13.01%	
Global Bond ETF	0.17%	0.9%				Emerging Markets ETF	1.94%	4.63%	7.03%	