

Lifestages KiwiSaver Scheme: Income & High Growth Funds Update

As at 31 March 2017

Funds Administration New Zealand Ltd ("FANZ")
is the Manager of the Lifestages range of funds.

Welcome to your Investment Commentary for the Lifestages Income Fund and the Lifestages High Growth Fund for the period ending 31st March 2017. The last six months have been memorable in terms of both economic and political terms. We have seen compelling and cringeworthy (at times) viewing coming out of the United States, as their new President, Mr. Trump, took centre stage. We also saw one of New Zealand's most popular Prime Ministers, John Key, resign from Parliament.

Say what you will about President Trump (Trump), he certainly has been active in pursuing an agenda very much in line with what he said he would do. At some level, the strong performance coming out of the United States share market since November last year is a reflection of the fact that 'Wall Street' believes the fiscal policy to be pursued by Trump will be positive for US company earnings as well as involving less regulation for US banks and financial services organisations. This narrative of a strong and growing US economy has also been supported by the US Federal Reserve which recently began to raise interest rates so as to ensure that inflation will not return. This decision was on the back of strong employment growth numbers and growth in the US economy. We are likely to see a few more interest rate increases from the United States over the next 18-24 months as the US economy is predicted to perform strongly. This rise in US interest rates has also had an upward impact on long term New Zealand interest rates as well as continued increases in long term New Zealand bonds. However, as we noted in our September commentary, even when interest rates begin to rise, the nominal rates they reach will be nowhere like they were in 2007. Structurally, we are in a new investment paradigm. For investors this means that holding a lot of cash is probably not going to deliver the income stream you may need to keep the wheels on your lifestyle and/or achieve your financial goals.

There is no doubt that Trump's day to day activities will make for interesting, entertaining and potentially scary viewing. As with many things in life, the underrated ability to 'do' or 'get things done' will potentially be one of Trump's downfalls. The inability to repeal and then pass the new Health Care package legislation, despite controlling both the Congress and the Senate is a good example of this. March 2017 saw John Key depart Parliament after almost 12 years. It will be interesting to see how history views John Key. While hugely popular, the list of achievements that Mr. Key put forward in his valedictory address to Parliament, and that he was proudest of after ten years at the top, was interesting.

What does all this mean for investors? Once again, a well-diversified portfolio was the key to successfully traversing recent markets. Investors in the Lifestages High Growth Fund have enjoyed strong returns over the last three, six and 12 month periods. Investors in the Lifestages Income Fund had a muted level of returns over the same periods as rising interest rates saw long dated bond's value fall as yields rose. Over the medium to long term this should be a positive for investors. This is because the higher running yields associated with rising interest rates should

underpin the performance of the portfolio in the future. We should not lose sight of the reason why interest rates will rise. Fundamentally, interest rates rise as a result of strong growth rates in the economy and are used to slow down a stronger than expected increase of inflation. It means that the economy is growing and that this growth will be reflected in, over time, stronger earnings in companies which (as a result of restructuring during the GFC) now have lower debt levels. Over the medium to long term this is a good thing!

As many of you will be aware you can mix and match the Lifestages Income and High Growth Funds to deliver different investment strategies. The performance information on the next page also provides investment returns for investors with different mixes of the Lifestages Income and High Growth Funds as well as returns for each Fund. Many investors will also be pleased to know that we have recently hard coded changes to these Funds to ensure that their investments have no exposure to cluster munitions, anti-personnel mines, or nuclear armament manufacturers. We have posted a video explaining these changes on the Lifestages website and this can be viewed at www.lifestages.co.nz/media-centre/insights/social-responsible-investing/

We recently received a number of excellent questions from investors. To answer these questions we have created a series of instructional videos that have been placed on the Lifestages website. Whilst we apologise for the presentation quality and capabilities of the presenter, we do believe that each video clip contains information that will hopefully be of use and interest to you.

1. For information on investing in and the value of bonds in a portfolio go to www.lifestages.co.nz/media-centre/insights/recent-investment-market-performance/
2. For information on portfolio rebalancing and how we manage a mix of the Lifestages Income and High Growth Funds go to www.lifestages.co.nz/media-centre/insights/portfolio-rebalancing/

Happy viewing!

Once again, let us express our gratitude for your support. Your financial goals, and helping you achieve them, is what drives our business and we look forward to being of service to you in the future. Please do contact us or any one of our Advisory team should you have any questions.

Funds Administration New Zealand Limited is the issuer of the Lifestages Kiwisaver Scheme.
The product disclosure statement for the Lifestages Kiwisaver Scheme is available at www.companiesoffice.co.nz/disclose (search for 'Lifestages Kiwisaver Scheme').

Disclaimer

This information is of general nature only and has not been prepared with regard to the needs of any investor. Investors should be aware that future performance may not reflect the historic performance of either fund, and that repayment of any capital or any particular rate of return are not guaranteed. Details are current as at the date of preparation and are subject to change. For further information visit www.lifestages.co.nz, phone 0800 502 442 or contact your financial adviser. You can also write to the manager at C/- PO Box 835, Invercargill. A disclosure statement for each of our authorised financial advisers is available, on request and free of charge.

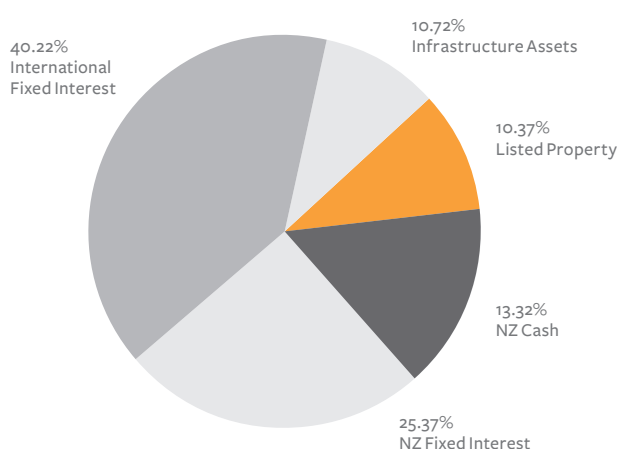
Lifestages KiwiSaver Scheme: Income & High Growth Funds Update

As at 31 March 2017

Funds Administration New Zealand Ltd (“FANZ”) is the Manager of the Lifestages range of funds.

Lifestages Income Fund

The Lifestages Income Fund aims to provide a low risk investment option. It is generally suitable if you want to have a ‘low risk’ investment portfolio which invests solely in income producing assets.



Performance

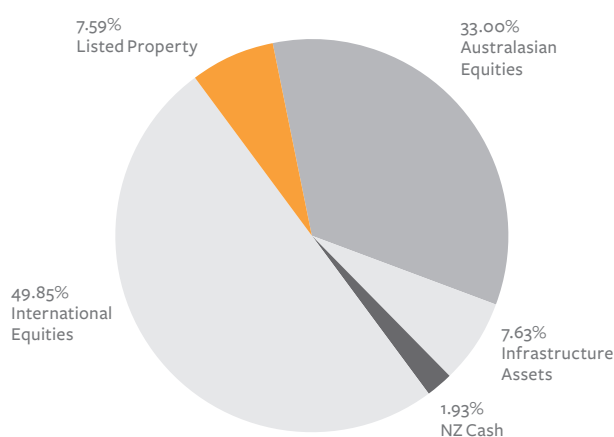
Investors in the Lifestages Income Fund will have noted that the Fund produced a positive performance over the last three months but struggled over the past six months. This is due to rising interest rates negatively impacting on the performance of bonds over this period. The positive aspect of this trend is that the bonds within the Fund now have a higher running yield and this should support investment performance over the coming 12 months.

3 months	6 months	12 months	Unit Price (31/3/17)
1.49%	-0.28%	2.41%	1.0485

These figures are stated before tax and after fees

Lifestages High Growth Fund (is also the Auto Option 0-34)

The Lifestages High Growth Fund aims to provide capital growth over the long term. The majority of the Lifestages High Growth Fund is invested in a broad spread of New Zealand and international growth assets.



Performance

Investors in the Lifestages High Growth Fund will have noted that the Fund produced an excellent performance over all parts of the reporting period. This performance trend has been in spite of volatile periods due to political uncertainty and a long term rising interest rate environment in the United States and in New Zealand. The prognosis for the next 12 months appears a little more uncertain and will be dependent on the United States’ economy’s growth promise being delivered and a reduction in world political uncertainty.

3 months	6 months	12 months	Unit Price (31/3/17)
5.90%	8.71%	12.82%	1.1244

These figures are stated before tax and after fees

30/70 (High Growth/Income) mix
Auto Option age 55+

50/50 (High Growth/Income) mix
Auto Option age 45 – 54

70/30 (High Growth/Income) mix
Auto Option age 35 – 44

3 months	6 months	12 months	3 months	6 months	12 months	3 months	6 months	12 months
2.82%	2.42%	5.53%	3.70%	4.22%	7.61%	4.58%	6.01%	9.70%

These figures are stated before tax and after fees