

Lifestages KiwiSaver Scheme: Investment Commentary

As at 31 March 2019

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

Welcome to your report for the period ending 31st March 2019. Investors reviewing their 12 month Lifestages KiwiSaver Scheme returns will have noted a year that has produced a healthy rate of return. However, the 12 month return number masks a quarter by quarter series of returns that was volatile!

Global stocks in the December quarter staged their worst quarterly performance in more than seven years after tighter US monetary policy, tensions between China and the US, key resignations from the US administration, and political uncertainty in Europe fanned doubts about the global economic outlook. During the quarter, 10 of the 11 sectors fell in US-dollar terms. Energy (-22%) and IT (-17%) fell most, while utilities (+0.5%) rose. US stocks slumped as political uncertainty intensified, and the US Federal Reserve (Fed) disappointed those who hoped the central bank would end its rate increases when it delivered an expected increase in December.

Fed policymakers introduced a new buzzword on 4th January 2019, saying that they could be “patient” as they saw how data evolved in 2019. This language indicated that both the economy and markets believe that the Fed has indeed arrived in the zone where policy is broadly neutral and thus neither stimulating nor hindering the economy. Not surprisingly, as this narrative began to be told markets responded. The adage of when “central bankers coo, sharemarkets fly” has seen a strong recovery in portfolio performance over the March quarter. That has long been the story over the last ten years since monetary policymakers took responsibility for keeping the global economy afloat following the GFC.

In order to thrive, equity markets need some combination of attractive valuations, positive earnings momentum and abundant liquidity. After the abrupt sell-off of late 2018 and in response to the heightened

financial market volatility and growing downside risks to the global economy, the Fed paused its tightening cycle in late January. The ECB slashed its growth forecasts, re-implemented term loans to the banking sector and pushed out the timing of potential rate hikes. China’s central bank also moved to stimulate its domestic economy by announcing further stimulus plans, including increased government spending, lowering taxes, cutting official interest rates and reducing Reserve Ratio Requirements. In March interest rates around the world plunged and the NZD became well supported. This fueled risk appetite, and drove markets and performance up in 2019. The NZ stock market outperformed its global peers, due to higher weighting to defensive interest-rate sensitive stocks.

To put some context into the above, the Lifestages High Growth Fund returned 10.13% for the recent March quarter, -10.85% for the previous December quarter, 4.22% for the September quarter and 6.44% for the June quarter. All four numbers are large, indicating greater volatility in markets but in the end delivering a healthy 8.91%.

By the end of March central banks were changing course, to a more dovish policy stance, NZ’s GDP growth had shifted down a gear and the peak in the economic cycle is now well behind us. New Zealand government stock yields have fallen to record low levels as the Reserve Bank acknowledged the weaker global economic outlook and the ensuing risks to the domestic economy. Lower interest rates are a near certainty and we could see a fall in the kiwi dollar.

Lifestages KiwiSaver Scheme Improvements

We wrote to you last year about improvements to the Lifestages KiwiSaver Scheme and the introduction of a mobile friendly web site. This new service allows you to:

1. View your balances in a simpler format
2. Change your tax rates and address online
3. View performance data and returns
4. Use our Calculator to plan different savings scenarios.

The response to this service has overall been very positive and we plan to extend the services available over time. If you would like to use this service, please go to www.lifestages.co.nz/tools/mobile-app and follow the instructions.

Two other changes to KiwiSaver are also worth noting. The first one is that from 1st April 2019 members will be able to make contribution rates of 6% and 10% of their salaries (in addition to the existing contribution levels). The second change is that from 1st July 2019, New Zealanders over the age of 65 will be able to join KiwiSaver. We welcome both of these changes as we believe that they will increase the flexibility of KiwiSaver, better enable members to achieve their retirement targets and provide them savings for longer periods.

We look forward to being of service to you in the future. Please contact us if you have 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.disclose-register.companiesoffice.govt.nz (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 a 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 727 2265 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.



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Lifestages KiwiSaver Scheme Performance

Fund	3 months	6 months	1 year	3 years (p.a.)
High Growth	10.13%	-1.82%	8.91%	9.42%
Income	1.78%	2.84%	3.49%	2.47%
Capital Stable*	2.96%	0.07%	3.67%	3.82%
Auto Option 0-34	10.13%	-1.82%	8.91%	9.42%
Auto Option 35-44	8.43%	-0.83%	7.90%	7.54%
Auto Option 45-54	6.74%	0.13%	6.85%	6.16%
Auto Option 55-64	5.08%	1.06%	5.77%	4.76%
Auto Option 65+	3.83%	1.74%	4.93%	4.23%

The performance above is after deductions for charges but before tax and member fees, and as at 31 March 2019.

Information on the Funds’ current asset allocations, benchmarks and top 10 holdings can be found in the latest quarterly fund update.

These are available on the Lifestages website under KiwiSaver and Document Library. (www.lifestages.co.nz/kiwisaver/kiwisaver-document-library)

*The Lifestages Capital Stable Portfolio is closed to new investors.