

Lifestages KiwiSaver Scheme: Investment Commentary

As at 30 September 2019

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

Welcome to your Lifestages KiwiSaver Scheme Report for the period ending 30th September 2019.

The six-month period truly has been like watching the All Blacks versus Australia this year. One moment under-performance and disappointment, the next moment periods of soaring performance. Overall the six months has produced a positive result for members although there have been trying (no pun intended) moments along the way! The table below details the actual fund performance over the period.

Fund Information as at 30 September 2019

Fund	Unit Price	6 Months	1 Year	3 Years p.a
High Growth	1.4296	9.99%	7.98%	11.55%
Income	1.1359	3.13%	6.06%	2.61%
Capital Stable*	3.0989	3.32%	3.40%	4.21%
Lifestages Auto				
Option 0-34		9.99%	7.98%	11.55%
Option 35-44		8.62%	7.72%	9.29%
Option 45-54		7.25%	7.38%	7.50%
Option 55-64		5.87%	7.00%	5.71%
Option 65+		4.84%	6.67%	4.85%

The performance above is after deductions for charges but before tax and member fees. The returns are not the returns individual KiwiSaver Members would have received as this will depend on the prices at which units are purchased on the date that contributions were received for each KiwiSaver member. Please note that past performance is not necessarily indicative of future returns. Returns can be positive or negative, and returns over different time periods may vary. No returns are promised or guaranteed.

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

What is driving these returns?

As we noted in our last report the New Zealand 10-year bond traded at a record low of under 2%, a far cry from its record high of 19.2% in May 1985. Perhaps the key observation from all of this is that monetary policy appears to be running out of ideas or “puff”.

If economic growth has been below-trend since the GFC, how is it that asset prices – from US tech stocks to Auckland houses – have exploded in value over the past 10 years? The answer, of course, can be found in the extreme monetary policies of central banks. Over the years, and at various times to varying degrees, policymakers have pushed down official rates and interfered in bond markets to hold down longer-term yields. They flooded the world’s financial centres with cheap money to stimulate economic demand and consumer price inflation. Low rates are great for share markets in a couple of ways. Investors struggling to get income from safer asset classes, such as bonds or cash,

are herded into equity markets in an effort to replace that income. Additionally, analysts can apply a lower “discount rate” to companies’ expected future cash flows, making them more valuable and so increasing the price investors are willing to pay for the stocks.

We believe that the most important question “true” investors should be asking is what happens to interest rates, not whether the market is expensive. If interest rates stay within historically low levels, then equities are not as expensive as the record highs global benchmarks are trading at imply and when looking at long term PE ratios.

The disruptive risks discussed above, combined with stretched valuations, have created a difficult investment environment that we believe favours yield, caution, flexibility, and liquidity. Equity markets may see lower absolute returns and more volatility.

Positive Changes to KiwiSaver

I wanted to share with you some of the positive changes to KiwiSaver that happened over the last six months! The first one is that New Zealanders aged over the age of 65 can now join KiwiSaver. This will mean that KiwiSaver will appeal to a wider range of investors. The second one is that personal contribution rates have been expanded to allow members to contribute 6% or 10% of their salaries, along with the existing 3%, 4% and 8% options. This gives members more flexibility and control over their savings.

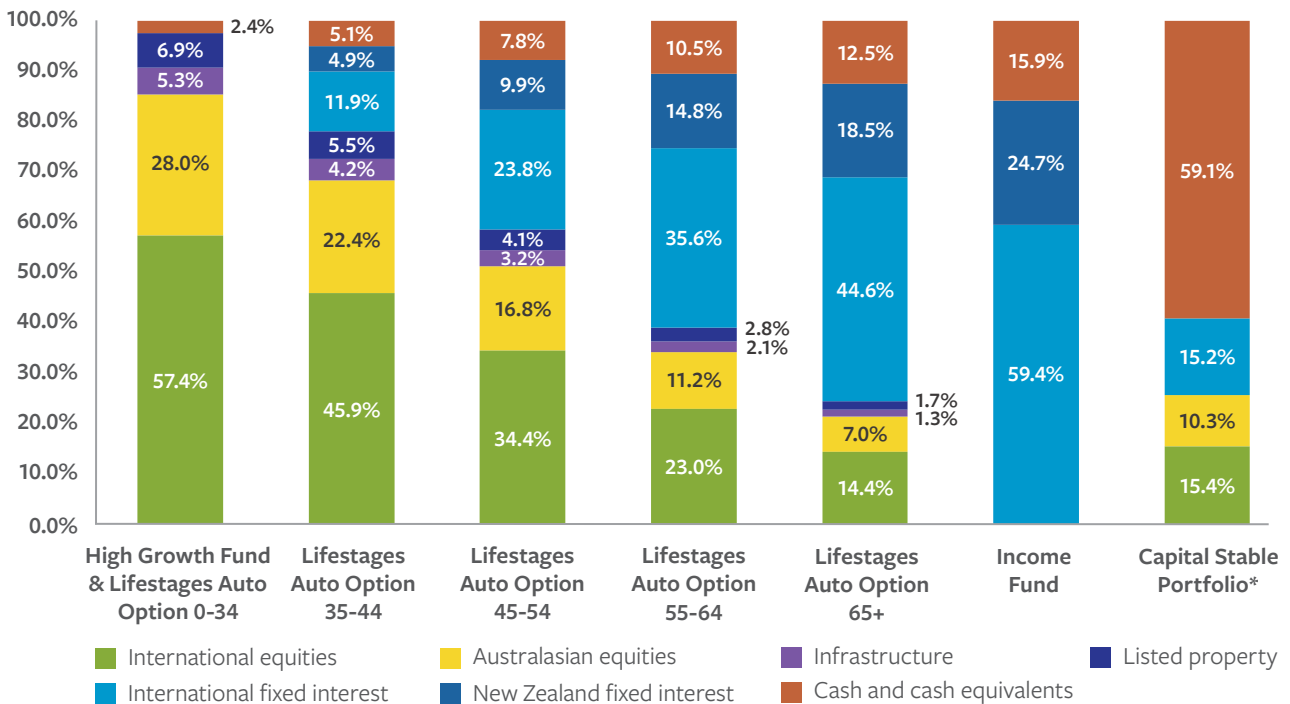
Feedback from many New Zealanders has been that the gap between 4% and 8% is too large, so they feel stuck on the lower rates. Others want the ability to save even more for their retirement.

Government contributions

In July the Government paid eligible contributing members up to \$521 of free money. This is the annual Government Contribution, which rewards those members that have contributed \$1,042 throughout the twelve months to 30 June.

What is Your Fund invested in?

Your Fund or Lifestages Auto age profile is diversified across the following asset classes.



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More on the Scheme’s investments, guidelines and investment policies can be read in the Scheme SIPO, found on our Lifestages website www.lifestages.co.nz/kiwisaver/lifestages-kiwisaver-scheme/ under Documents.

Once again, thanks for the opportunity to work alongside you to help you achieve your financial goals. We appreciate your support and look forward to being of service to you in the future. Please do contact us if you have questions at all.

Kind Regards,

Graham Duston, Executive Director
FANZ
Subsidiary of SBS Group

Disclaimer

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