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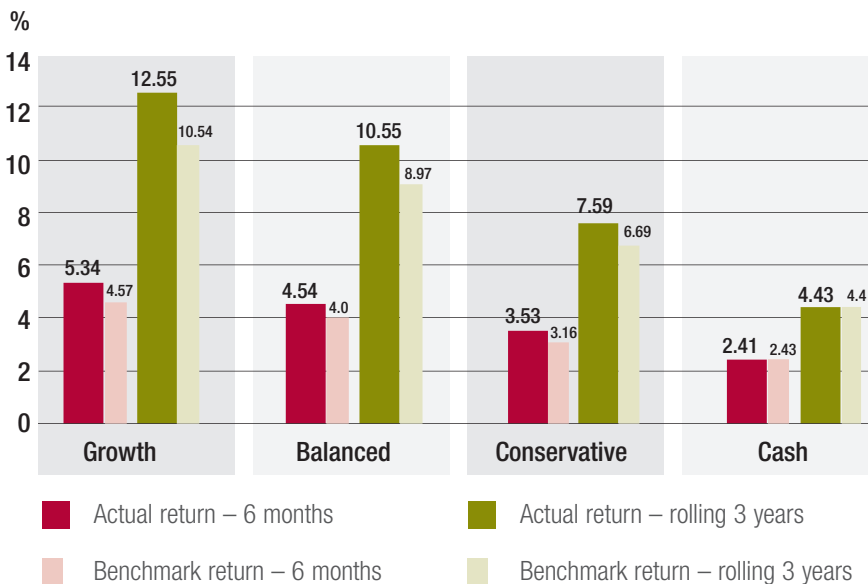
Fund news



**Investment roundup –  
six months to 31 December 2006**

**Investment options' performance – six months to 31 December 2006**

The graph below shows the performance of each of the Fund's investment options compared to its respective benchmark for the six months and three years to 31 December 2006. The benchmark returns have been adjusted to take into account an estimate for tax and fees in order to provide a realistic comparison with the Fund investment option returns.



**Please note:** past performance is not indicative of future performance. These returns are net of investment management fees and tax.

Source: Mercer Human Resource Consulting Limited.

**Market news**

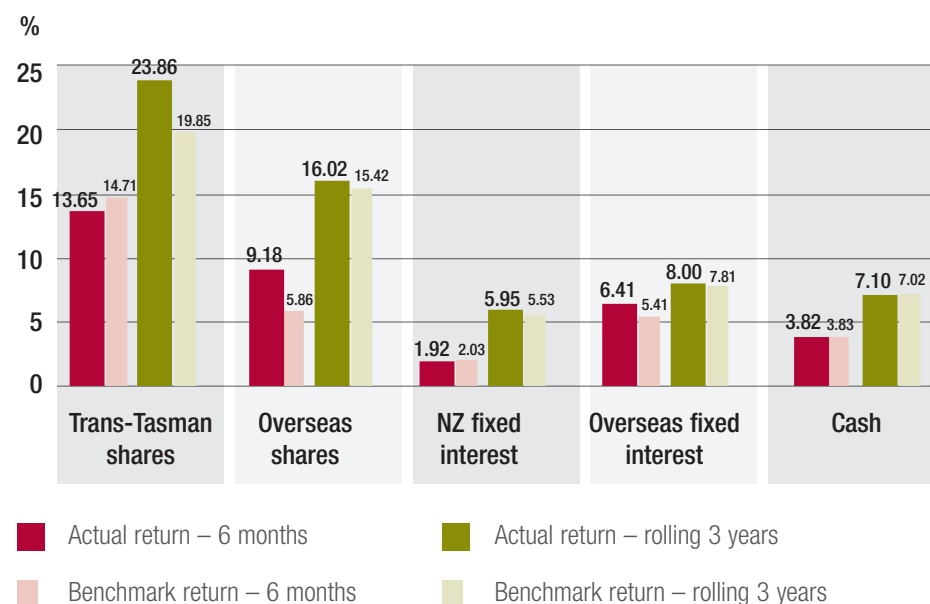
Strong first-half returns from sharemarkets boosted returns to members, particularly those invested in the Fund's Growth and Balanced investment options.

Overall, sharemarkets rose strongly over the half-year, despite an early sell-off. Private equity led merger and acquisition activity together with strong reporting results and hopes for US interest rate cuts all helped drive sharemarkets higher.

Trans-Tasman shares had a weak first quarter but then rebounded strongly as the New Zealand sharemarket performed well. This was despite the strong New Zealand dollar, weaker than expected corporate profits and downgrades to future earnings expectations.

It was a volatile half-year for international fixed interest securities. Interest rates fell over the September quarter due to softer than expected US economic data and easing inflation concerns, before rising from their lows towards the end of the half-year due to the then improving economic data. Returns from New Zealand fixed interest securities were more moderate, particularly in the second quarter as stronger than expected employment and inflation data reduced the likelihood that the Reserve Bank would reduce short-term interest rates.

Fund asset class performance - 31 December 2006



The graph above shows how the Fund's investments have performed against their benchmarks. All figures shown are for the six months to 31 December 2006. **The returns shown do not allow for investment management fees or tax.**

# Super news

Some important legislative changes with implications for Fund members will take effect during 2007.

These include:

- the introduction of KiwiSaver
- changes to the taxation of employer contributions
- the implementation of the new PIE (portfolio investment entity) taxation regime and
- changes to the taxation of some overseas investments

## KiwiSaver

You may have heard KiwiSaver mentioned in the news over the last few months. KiwiSaver is a voluntary savings scheme that will start on 1 July 2007. Its aim is to encourage New Zealanders to save for their retirement.

One of the principles of KiwiSaver is to ensure long-term retirement savings, so except under special circumstances, benefits are 'locked in' until the later of New Zealand superannuation age (currently 65) or completion of five years' KiwiSaver scheme membership.

As an existing member of the Fund you will not be directly affected by KiwiSaver (unless you change jobs or if you elect to join KiwiSaver as well as the Fund). However, some changes will be made to the Fund, partly to accommodate new employees and also to harmonise with the KiwiSaver legislation (for example, to provide access to a tax exemption for members who choose to lock-in some of their contributions in a manner equivalent to KiwiSaver – see *Tax exemption*, below).

## Tax exemption for employer contributions that comply with KiwiSaver

Currently, employer contributions made for most Fund members are subject to withholding tax at 33%. Shortly before Christmas, the Government announced a tax exemption for some employer contributions to qualifying registered superannuation schemes (which is what the Fund intends to be under KiwiSaver). The exemption will apply to employer contributions matched by up to 4% of the employee's contributions (that is, made from the member's *gross* salary), which are made on an after-tax basis.

The tax exemption was introduced to bring the tax on employer contributions to registered superannuation schemes (where members agree KiwiSaver-equivalent "lock-ins") into line with KiwiSaver schemes. The KiwiSaver 'lock-in' described earlier applies to exempt employer contributions and the matching member contributions to superannuation schemes. This means that if you elect to take advantage of the tax exemption, you cannot receive these 'locked-in' amounts until the later of your

reaching New Zealand superannuation age (currently 65) and the date when you complete five years of Fund membership.

Therefore, if for example, you decide that you are prepared to 'lock-in' superannuation contributions to gain a tax exemption, then when you contribute 4% or less (e.g. 2%) of your gross salary (after tax), your employer's matching contributions would be exempt from tax. Based on the Fund's employer contribution of 10% of salary<sup>1</sup>, if you elected to contribute 4% of your gross salary after tax, tax would only be payable on approximately 6% of your employer's contributions, so the percentage of your salary to be credited to your company account would be calculated as:

$$4\% + (6\% \times 67\%) = 4\% + 4\% = 8\%$$

rather than the 6.7% (i.e. 10% x 67%) that applies at present. Therefore, you gain a tax saving of approximately 1.3%, which is stored as additional retirement savings, if you accept a 'lock-in'.

## To be or not to be a PIE

From 1 October 2007, another piece of legislation, the new PIE (portfolio investment entity) taxation regime, comes into effect. While adopting the new PIE regime would be an advantage to members of superannuation schemes on the lower tax rates, such a change would also involve significant additional administration costs for a scheme.

Instead of becoming a PIE, a superannuation scheme can elect to gain some key advantages by investing through a PIE. The advantage of this option is that it allows the superannuation scheme to benefit from a capital gains tax exclusion on investments in New Zealand and some Australian listed shares without the additional cost involved in becoming a PIE. This option is expected to be in the best long-term interests of many superannuation scheme members.

At the time this newsletter was finalised, the Trustees were looking very closely at this issue. Since there are very few members on the lower tax rates, it appears that investing through a PIE is likely to be more beneficial for the Fund membership as a whole.

<sup>1</sup>Ignoring differences between gross and base salary

## Out with the 'grey list' and in with 'FDR'

Changes to the taxation of overseas shares come into force during 2007. The 'grey list', which gave preferential treatment to shares from some countries, is to be abolished and a new 5% FDR (fair dividend rate) introduced. The change has been made to create a fairer system and remove a tax advantage previously enjoyed by some other investments.

## What does all this mean?

During December a working party was established by the Company and the Trustees to provide recommendations about the best approach to KiwiSaver. The working party formulated a set of recommendations which was presented to the full Board of Trustees at their meeting on 28 February 2007.

More recently the Company and the Fund have established a KiwiSaver implementation team which is working on how these changes will affect members. There are a number of finer details to consider in relation to KiwiSaver which are presently being worked through.

Further information and details of changes to the Fund and their implications for members will shortly be published on the web and in a further newsletter. The Fund is also planning information sessions to cover changes to the Fund and explain these to members.



# Fund news

## Fund information sessions... coming your way soon!

Feedback from the focus groups and survey conducted during 2006 told us that members were interested in education about investments and saving for retirement.

As a result, the Fund will be running on-going information sessions to educate members about investments, saving and super in general. The first information sessions will cover the legislative reforms including KiwiSaver (the government's new workplace retirement savings scheme) and some tax changes affecting superannuation schemes, which are scheduled to take effect during 2007. The sessions will also explain the changes that will be made to the Fund as well as their impact on members. See the previous page for more information about KiwiSaver and the tax changes.

It is expected that the sessions will be presented by a team of superannuation experts including the Fund Secretary, Brett Grant and Merv Chan, a financial education consultant with the Fund's administrator, Mercer Human Resource Consulting. Merv is well qualified to give advice in this area having had wide involvement with the financial services industry since the mid-80s.

Look out for details of the Fund information sessions on site noticeboards.

## Fund name change

To align with the unification of Rio Tinto's aluminium businesses in New Zealand and Australia, in December 2006 the Trustees agreed that the Comalco New Zealand Retirement Fund should be renamed the Rio Tinto New Zealand Retirement Fund.

This newsletter is the first communication to reflect the name change; other changes will be made in due course.

## New Fund website launched

If you have visited the Fund's website [www.comalco.superfacts.co.nz](http://www.comalco.superfacts.co.nz) recently, you will have noticed some changes. To access the website just enter your member number and personal identification number (PIN) (which were sent to you by mail). If you are having trouble finding these details, call the Fund Member Helpline 0508 266 787 for assistance.

## The website now allows you to:

- view the interest rates for each investment option over the past four quarters
- check your current benefit entitlements and see how your contributions and benefits are accumulating
- read the latest news on super and other general financial and investment issues, and
- view your personal details held by the Fund (including the person or people you have nominated as the recipient(s) of your benefit should you die while you're a member of the Fund).

The site also includes a webinar (short online seminar) on budgeting and debt management.

## At your service: the Fund Member Helpline ...0508 266 787

The Comalco New Zealand Retirement Fund Member Helpline is serviced by a team of superannuation consultants who can answer your enquiries on a range of matters including:

- understanding your benefits in the Fund
- the insurance and investment choices available to you
- general advice about choosing investment options

- options and procedures when you leave employment
- help with accessing the website, and
- updating your PIN

The helpline is available between 10.00am and 9.00pm (New Zealand time) on business days.

## Trustees on the move

Two of the Fund's trustees are moving up to Boyne Smelters to take up new roles and so we wish them well with this next stage of their careers! Sean Gallagher has decided to retain his membership of the Fund at present and will continue on as a member-elected trustee until the next election is held. Brian Cooper will stay on until the end of March when the new General Manager of Operations Paul Hemburrow will join NZAS and become a trustee.



Sean Gallagher



Brian Cooper

## Member elections ... coming soon

It's nearly election time again! Member elections will be run in the second half of this year. Look out for more information coming your way in July.