

MESSAGE FROM THE TRUSTEE

Welcome to the July 2018 Fund newsletter.

In this issue we have included your feedback from the latest member survey and information to help you maximise your savings. Also our regular feature on how investment markets and investment portfolios are performing, along with other useful news and information.

We always welcome your feedback, which you can share with us by calling the Helpline on 0508 266 787.

THE MARKETS

After a somewhat rocky start to 2018, we are continuing to see politics impacting investment returns as investors are feeling uneasy about what's going on around the globe.

The first quarter saw the stampeding bull market of recent years run right into the china shop, twice. Following a positive start in January, February saw share markets sharply affected by long-simmering fears of inflation and interest rate rises boiling over. In March, investors were further spooked by the possibility of a trade war between the US and China.

Markets recovered somewhat during April as trade war fears receded and following the release of generally positive economic and earnings data. In May, however, it wasn't all good news. Strong returns in the US and UK were partly offset by falls in Europe, Japan and Emerging Markets. While market sentiment improved mid-month following a joint statement from the US and China confirming that no new tariffs would be imposed against each other, by month end the US had announced further tariffs, not only on Chinese, but also on Canadian, European and Mexican goods. Understandably, the market reacted negatively.

Despite the first quarter volatility, both the Balanced and the Growth funds outperformed their respective benchmarks over the three months to 31 March. The Conservative and Cash portfolios performed roughly in line with their benchmarks.

INVESTMENT OPTION RETURNS

The below table shows returns (after tax and investment-related costs) for each of the Fund's four investment options for periods ended 31 May 2018.

	Cash	Conservative	Balanced	Growth
Fund year-to-date (11 months)	1.4%	4.7%	7.4%	10.6%
1 year	1.5%	4.6%	7.3%	10.7%
3 years (p.a.)	1.8%	4.6%	6.6%	8.8%
5 years (p.a.)	2.1%	5.5%	8.1%	10.9%
10 years (p.a.)	2.5%	5.6%	6.6%	7.3%

FROM QE TO QT IN THE LATE CYCLE

Two terms, 'quantitative tightening' and 'late cycle', are increasing in importance as the investment world ponders what lies ahead after almost a decade of increasing economic growth.

Quantitative tightening: Perhaps the most popular buzz phrase in investment circles since the Global Financial Crisis has been quantitative easing (QE). QE involves major central banks such as the US Federal Reserve, the Bank of England and the European Central Bank purchasing government or other market securities in order to lower interest rates and increase the money supply and therefore investment.

In recent months, however, QE is taking a back seat as quantitative tightening (QT) becomes the new focus. Some banks (the Bank of Japan is one exception) have started gradually increasing interest rates and therefore reducing the availability of money. The pace of the shift from QE to QT will be critically important for investment markets in 2018 and beyond.

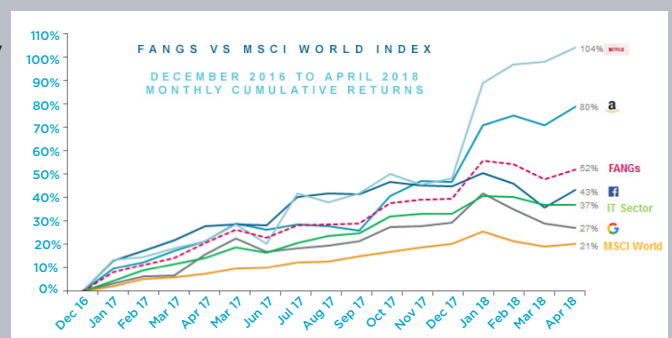
Late cycle: The late cycle is the last of the three phases that make up a credit cycle. After the early-cycle and mid-cycle phases, during which interest rates are initially low and money supply is more relaxed, the late cycle phase sees a reduction in the availability of funds as interest rates rise and lending rules become tougher. This is when inflation rises and the investment environment can become more challenging. Many market commentators believe the world economy is currently heading into the late-cycle phase, during which both bond and share market returns are likely to struggle.

NOT ALL GIANTS HAVE "FANGS"

Over the last few years, many global investors have been closely following the outstanding performance of the world's technology companies. Standing out among these have been the 'FANGs' - Facebook, Amazon, Netflix and Google (now Alphabet).

The FANGs have provided their shareholders with spectacular returns. As you will see in the following chart, over the period December 2016 to April 2018 the FANGs (collectively) have clearly outperformed other technology stocks, as well as the broader-based MSCI World Index.

As a member of NZAS you currently have access to these companies. Don't forget to watch the next edition of the *Investment Insights* video where more information will be provided on the FANGs and their impact on you as an investor.



MEMBER SURVEY

As mentioned in the March newsletter, there was an encouraging response to the latest Fund survey, with 41% of members (including retirement account members) participating. This was an outstanding result and a big thank you to all of you who took time to provide feedback!

We would like to share some of the survey's key findings below:



Most respondents said they had given some thought to preparing for their retirement, with almost 30% saying that they had some ideas about a plan but not the details, and a further 25% saying that they were working on the details. About three-quarters of respondents said that their benefit from the Fund would make up around half or more of their retirement income (excluding NZ Super). It is pleasing to see so many of you thinking about and preparing for retirement and that the Fund's savings will help you achieve your goals. You may find the Commission for Financial Capability's website also useful when considering your own and your family's plan. Access information and tools here www.cffc.org.nz/retirement.



Although 67% of respondents were aware that NZAS contributes more than the compulsory employer contribution to KiwiSaver, almost 30% weren't sure. Similarly, 60% of respondents were aware that NZAS pays the costs of running the Fund (aside from the investment-related and member insurance costs). See the next article that provides additional information about the expenses NZAS pays.



Overall, respondents believed that the Fund's current investment options met their needs. To access more information about the current options, select Fund information on the Documents and forms page of the Fund's website after you sign in to your account at www.realsuper.superfacts.co.nz.



While some of you responded that you use the Helpline to help you with queries about the Fund, to help you access the website or to find out how to maximise your membership, 63% of respondents had never called the Helpline. Only 12% (39 respondents) had called it in the last 12 months. Feedback on the Helpline was positive, with 86% of respondents who had called rating their experience as either good or excellent.



Most respondents (65%) said that they access the Fund's website via a desktop. However, slightly over 20% of respondents did not visit the website, mainly because they'd forgotten their member number and/or PIN. See the last article about how to access the Fund's website.



The generally positive feedback from the 31% of respondents who had attended one of the Fund seminars was overshadowed by the 65% who had never been to a seminar. It was much the same for the investment videos, with almost 25% of respondents rating them good or very good, while 60% of respondents hadn't watched one. You can view the current Investment Insights video at vimeo.com/271391080/1fc8935d81.



Online was definitely the most commonly preferred way of receiving Fund information. This was followed by face-to-face seminars - something of a surprise given that 65% of respondents hadn't been to a seminar.



The most preferred alternative to either print or online information was text messaging, followed by blogging. We are exploring options in this space.

PAYING THE FUND'S EXPENSES

Among the benefits of belonging to the Fund is the fact that, in addition to the generous contributions made on your behalf, NZAS also pays all administrative costs incurred by the Fund. The only costs which you meet are:

- investment-related (i.e. investment management, investment consulting and investment advisory) costs; and
- Death, Total Disablement and Ill-Health insurance charges.

Workplace savings schemes such as the Fund are expensive to manage. NZAS meets all Financial Markets Conduct Act-related and other regulatory expenses, along with the Fund's administration management, secretarial, actuarial, legal, audit and taxation advisory costs and statutory liability insurance charges and levies (though catastrophe insurance premiums are deducted from the Fund's insurance account). The fact that your employer provides for all those administrative costs is a large saving for you and, as such, provides a solid boost to your retirement savings. In the year ended 30 June 2017, New Zealand Aluminium Smelters Limited incurred \$610,770 (excluding GST) in costs in relation to maintaining the NZAS Retirement Fund, which works out to be \$863 per member.

Investment-related costs, and expenses, and investment consulting and advisory fees are deducted from the Fund's investment income before earnings rates are determined. Death, Total Disablement and Ill-Health insurance charges are deducted from your company account each year and paid into the Fund's insurance account.

ACCESSING THE FUND WEBSITE

The Fund's website, www.realsuper.superfacts.co.nz, is a vital source of Fund-related and other retirement savings information as well as important details relating to your Fund account.

One of the more interesting findings from the Fund survey was that many of you don't access the website because you've forgotten your member number and/or your PIN (Personal Identification Number). This doesn't have to be a problem.

To reset your PIN online, or to request a PIN to use the website, you will need your member number and date of birth, and to have a valid email address registered in our system. Simply access the website and click on the *Reset your PIN* link displayed on the home page as shown here:

If you don't have all of the above information, or if you are having trouble using this service, you can call the Fund Member Helpline on **0508 266 787**, Australia **03 8681 1849** and outside New Zealand and Australia on **+61 3 8681 1849**.