reAl SUPER

Fund newsletter
2 June 2008 issue

In this issue…

Interest rate correction

The Trustees have recently been made aware of an outstanding tax liability of approximately $2.6 million for the Fund resulting from taxable foreign currency hedging gains on the Fund's passively-managed international share investments.

The tax liability has now been paid to the Inland Revenue in full. However, as the tax payment should have occurred for the year ended June 2007, adjustments to members' account balances as at the start of the current Fund year (i.e. 1 July 2007) are now required. .

Since the tax liability related to the Fund's investments in international shares, the adjustments to balances have been calculated differently depending on the proportion of assets each investment option holds in international shares. This means that members' accounts will be adjusted as at 1 July 2007 (by way of deemed "negative contributions" as at that date) except where members have chosen the Cash investment option.

The following table shows what the relevant crediting rates as at 30 June 2007 would have been had Trustees known of the tax liability:

	Conservative	Balanced	Growth
2007 Crediting Rate	6.88%	10.06%	12.59%
Adjustment	-1.53%	-2.92%	-3.85%
2007 Crediting Rate Post-Adjustment	5.35%	7.14%	8.74%

Please note that these adjustments will not be applied to the accounts of those members who joined after 1 July 2007.

It is very important that members be aware that this is a tax liability that was always payable, but unfortunately was not known about by Trustees until recently. The above rate adjustments are necessitated by last year's overstated year-end interest rates.

The only actual losses to the Fund result from:

- the overpayments made to approximately 45 members who left the Fund during the current Fund year and received benefits based on overstated interest rates (this is a cost of approximately $131,000); and

- the cost of the shortfall between the penalty interest imposed on the tax liability and the Fund's earnings from these assets while the tax was outstanding (this is a cost of approximately $137,000).

The Trustees have expressed very strong disappointment with the tax advice provided to the Fund on this issue. The Company and the Trustees are reviewing options in respect of the total $268,000 loss to the Fund.

This matter has also resulted in a delay in implementing the administration of the investment option switches which came into effect at 1 April 2008. However these switches will shortly be implemented with retrospective effect.

The adjustments for interest rate corrections will be made to individual members' accounts by 20 June 2008, and members will be able to see this in their accounts by logging onto the Fund's website www.realsuper.superfacts.co.nz, and viewing their personal account details.

Changes to the RTNZRF investments

Important changes to the taxation of superannuation schemes' investments have been introduced by the Government which impact on how best to structure the Fund's investments into the future. These include changes to the rules on the taxation of offshore portfolio investments, which took effect on 1 April 2007, and the new portfolio investment entity (PIE) tax regime which took effect on 1 October 2007.

As a result of the new tax regime, the Trustees have adopted and are in the process of implementing a number of changes to the structure and management of the Fund's investments.

Asset allocation changes

Based on the existing asset mixes for the Fund's diversified options, the introduction of the PIE tax regime slightly alters the risk/return profile of these options. The PIE changes are expected to marginally increase the future returns for the three diversified investment options and also, as a consequence, increase the level of risk (i.e. the likelihood of an investment option producing a negative return) to a similar extent.

To maintain the Conservative and Balanced options' risks and returns at levels similar to those before the introduction of PIE, the Trustees have decided that:

- the allocation to growth assets (shares and property) is to be reduced by 3% for the Conservative option and 5% for the Balanced option; and

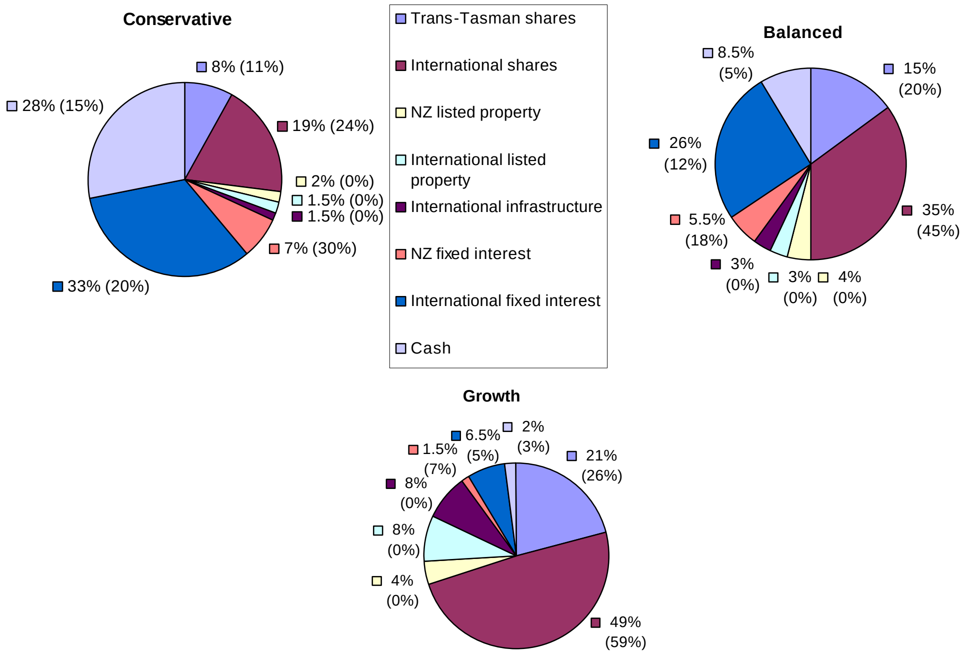
- the allocation to defensive assets (cash and fixed interest) is to be increased by 3% for the Conservative option and 5% for the Balanced option.

In contrast, the Trustees consider that members who invest in the Growth option are likely to be more concerned with returns than with risk, so the Growth option's allocation to growth assets is to be increased to 90% (from 85%), leaving 10% invested in defensive assets. This equates to a modest increase in the overall risk for the Growth option.

However to provide additional diversification, with the aim of reducing risk, three new asset classes being New Zealand listed property, international listed property and international listed infrastructure, are to be introduced to the investment options. To accommodate this diversification, the percentages of assets held in Trans-Tasman and international shares will be reduced.

In view of the limited fixed interest investment opportunities available within New Zealand, all three diversified investment options' holdings in New Zealand fixed interest are to be reduced significantly, with reallocations to cash and overseas fixed interest.

The following charts show the revised asset allocation for each investment option. The previous asset allocation is also shown in brackets for comparison.



Appointment of new managers

Part of the PIE changes meant that the tax advantage previously enjoyed by investing in passively-managed international shares (that is, portfolios invested in the same way as a named index) was removed effective 1 October 2007. As a result, the Fund's investments in passive international shares are to be reallocated to actively managed portfolios (that is, portfolios where the manager selects stock and changes them with the aim of improving returns).

In reviewing the Fund's investments in international shares, the Trustees agreed to appoint new managers with an active investment style who are considered more likely to perform better in the future (MFS Investment Management and AllianceBernstein). These two managers replace State Street Global Advisors Australia (a passive manager) and Capital International.

Under the new structure, changes are to be made to the management of the Fund's investments in Trans-Tasman shares. The percentage of this portfolio managed by Brook Asset Management Limited is to be increased from 30% to 50%, and the balance of the portfolio (previously managed by Fisher Funds Management Limited and Tyndall Investment Management New Zealand Limited) will be managed by ING New Zealand Limited.

Brook Asset Management is also to be appointed to manage Trans-Tasman listed property (which is invested solely in listed property trusts). LaSalle Investment Management is to be appointed to manage international listed property and Lazard Asset Management will be appointed to manage the Fund's listed international infrastructure portfolio.

The following table summarises what the new investment management structure will be, once the full implementation has been completed.

Asset Class	Manager
Trans-Tasman shares	Brook Asset Management Limited (50%)
	ING New Zealand Limited (50%)
International shares	MFS Investment Management (40%)
	AllianceBernstein (60%)
Trans-Tasman listed property	Brook Asset Management Limited
International listed property	LaSalle Investment Management
International listed infrastructure	Lazard Asset Management
NZ fixed interest	AMP Capital Investors
Overseas fixed interest	AMP Capital Investors
Cash	AMP Capital Investors

The Trustees believe that the changes described above position the Fund to make best use of the opportunities provided by the new taxation regime.

Responsible investment

As part of recent legislative changes, the Fund's investment statement must now include a statement telling investors whether or not responsible investment is taken into account in its investment procedures and policies.

Responsible investment, including environmental, social and governance considerations, is taken into account in the investment policies and procedures of the Fund. An explanation of the extent to which responsible investment is taken into account in the Fund's investment procedures and policies will shortly be available on www.realsuper.superfacts.co.nz.

Other legislative changes

Further legislative changes affecting superannuation were finalised in late 2007 and have commenced recently.

Compulsory employer contributions

Since 1 April 2008, employers have been required to contribute to KiwiSaver schemes for their employees' benefit if employees join and contribute to such schemes, except (subject to conditions) where:

- those employers were already contributing before 1 April 2008 for an employee's benefit to an existing scheme such as the Fund; or
- as is now the case for the Fund, the contributions otherwise payable to a KiwiSaver scheme for a new (post-March 2008) joiner are allocated by agreement to an existing scheme on a KiwiSaver-consistent locked-in basis.

The Company's contributions to the Fund for each member's benefit discharge its compulsory employer contribution obligations, so you will not receive any additional employer contributions if you join KiwiSaver.

First home buyer criteria

If you are in a similar financial position to a first home buyer, you may now be eligible in due course for the home deposit subsidy. To qualify, you must have been contributing at the rate of at least 4% of salary to a KiwiSaver scheme or another authorised scheme (which includes the Fund) for at least three years since 1 July 2007.

Tax on investment income

On 1 April 2008, the rate of tax on the Fund's investment income reduced from 33% to 30%.

New investment adviser legislation

New disclosure laws requiring more information to be given to investors, especially about fees and remuneration, came into effect from 29 February 2008. Investment advisers must now provide a written statement before investment advice is given to investors or money is received for investment from members of the public.

The new rules are intended to make sure that investors receive the information they need about their investment advisers. In particular, investors must be given more information about fees, commissions and other remuneration. This includes any benefits received by the adviser, whether from the investor or from another source, and includes "soft" commissions and indirect benefits.

Fund changes

New members

By agreement between the Company and the Trustees, members joining the Fund on or after 1 April 2008 are required to lock in on KiwiSaver-consistent terms both their own standard contributions and the portion of the Company's contributions equal to 4% of gross salary or wages, to benefit from KiwiSaver-equivalent member tax credit contributions and from a contribution tax exemption on those of the Company's contributions that are locked in. Other members can elect a lock-in, by downloading and completing the form available on www.realsuper.superfacts.co.nz (in so doing they will also download a copy of the Fund's current Investment Statement, describing the effects of a lock-in).

Unit pricing

While unit pricing was initially intended to start on 1 May 2008, because of the impact that the PIE tax legislation has had on obtaining information from investment managers for daily unit pricing, and considering the increased operational difficulties that arise from this, Trustees have decided that the introduction of unit pricing needs to be postponed. However in order to advance to a more modern approach and to provide greater flexibility, Trustees have now agreed 'in principle' to move to monthly crediting rates and are currently seeking additional advice on the most suitable method for implementing this approach. It is intended that the Fund will move from the present quarterly approach to monthly early in the next Fund year (i.e. after 1 July 2008) and further information about this will be provided to members at that time.

Trust deed amendments

The trust deed has recently been amended, partly to reflect recent changes to legislation and also to expand and clarify some of the provisions relating to members with Locked-In Accounts.

- **Contributions by a member who qualifies for NZ Superannuation but has not completed five years' membership of a KiwiSaver scheme or complying superannuation fund[1]**.

If a member with a Locked-In Account reaches New Zealand Superannuation age (currently 65) but has not yet reached the date of completing five years' KiwiSaver scheme or complying superannuation fund membership (the "Locked-in Payment Date"), his or her own and the Company's contributions to the Locked-In Account will each continue at the rate of 4% of gross salary or wages (unless the member suspends his or her contributions - see below) until the member's Locked-in Payment Date.

- **Company contributions to the Fund may be reduced**

If for any reason the Company is contributing to a KiwiSaver scheme for a member's benefit, the Company's contributions to the Fund for the member's benefit may be reduced commensurately with those KiwiSaver contributions. Total contributions to the Fund by and for the benefit of the member may not be less than 4% of the member's salary.

[1] A section within a registered superannuation scheme that has been approved by the Government Actuary as having met certain criteria similar to KiwiSaver, e.g. KiwiSaver lock-in rules and portability.

- **Member contributions to Locked-In Accounts**

A member who is a member of a KiwiSaver scheme when joining the Fund need not start contributing to his or her Locked-In Account until the earlier of 12 months after joining the Fund and when he or she completes 12 months' KiwiSaver membership.

By completing the appropriate form, a member may suspend (for a period of between 3 months and 5 years) or resume contributions to his or her Locked-In Account. Unless the member and the Company agree otherwise, if a member suspends contributions to his or her Locked-In Account, the Company's contributions to the Locked-In Account will also be suspended. However, the Company's standard rate of contributions to the Fund will continue (with those contributions being paid on a non-locked-in basis) and the member is also required to resume (or commence) contributing on a non-locked-in basis.

Members may make voluntary contributions to their Locked-In Account.

Fund administration moved to Melbourne

From 1 April 2008, the Fund's day-to-day administration has been moved to the Melbourne office of the Fund's administration manager, Mercer. This move will not affect members in any way. For example, members can continue to call the Fund's tollfree helpline 0508 266 787 in the usual way.