Teachers Retirement Savings Scheme

NEWSLETTER

February 2017

Planning tomorrow's retirement today

Welcome to the latest issue of TRSS News,

which includes an update on the Teachers' scheme's investment performance and general news about superannuation and saving. If you have topics you would like covered in future newsletters, please let us know by calling the helpline **0508 4 TEACH (0508 4 83224)** or email **teachersretire@mercer.com**.

INVESTMENTS

Returns to 31 December 2016

The final quarter of 2016 made a slow start with all asset classes finishing down in October as investors worried about the outcome of the US election and potential interest rate changes. The remainder of the quarter brought strong returns for most share markets as investors were encouraged by some of President-elect Trump's campaign promises, while the European Central Bank's (ECB) decision to extend its quantitative easing programme (effectively keeping interest rates artificially low) for an extra nine months gave European share markets a boost.

Returns from global fixed interest fell over the quarter as interest rates surged after the US election, reflecting many investors' belief that President Trump's fiscal promises will prove inflationary in the near term.

Indicative returns after tax and expenses

	Scheme year-to-date (6 months) to 31 December 2016	12 months to 31 December 2016	12 months to 30 June 2016
Cash Fund	**0.8%**	**1.8%**	**2.0%**
Stable Fund	**1.3%**	**4.2%**	**4.1%**
Balanced Fund	**3.6%**	**6.4%**	**2.6%**
Growth Fund	**5.2%**	**7.6%**	**1.2%**

Changes are afoot

Even without a crystal ball, 2017 promises to be an interesting year for countries, markets, businesses and investors. We have a new and very different President of the US, while the UK will continue to grapple with Brexit and its impact. Continuing on the European theme, elections are due in the Netherlands (March), France (April/May) and Germany (October). The focus of these elections will be how well anti-European Union parties perform.

It is expected that growth will pick up modestly in 2017 led by emerging markets such as Brazil, China, India, Russia and South Africa. Market commentators are expecting the US Federal Reserve to raise interest rates at least twice in 2017, while the ECB may start to consider reducing its quantitative easing programme as the year develops.

Locally, the Prime Minister recently announced that this year's election will be held on 23 September 2017. The economy continues to grow thanks to record net migration, solid levels of consumer confidence, low unemployment, and record-low interest rates. Indicators from the fourth quarter of 2016 suggest that the economy remains on track to grow at a strong annual rate for the full year. Consumer confidence rose to an almost two-year high and business confidence improved in the December quarter.

Only time will tell how 2017 pans out but what does seem certain is that the current volatility in financial markets is unlikely to disappear any time soon.

Are rising interest rates good news for all asset classes?

Interest rates, which recently hovered at their lowest in 40 years, are rising. This must be good for investors, right? The answer is not always.

Let's look at bonds (or fixed interest securities) first. Since a bond retains the interest rate attached to it at the time of purchase, prices for bonds go up when interest rates fall but generally drop when interest rates go up. If you are invested in the Teachers' scheme's stable fund, which invests 50% in bonds, this could result in low and possibly negative returns, at least until interest rates settle at a more realistic level.

Share markets are adversely affected when central banks such as the US Federal Reserve or our Reserve Bank lift interest rates because it increases the cost banks pay to borrow from a country's central bank. When banks increase loan, credit card and mortgage rates to compensate, consumers have less money to spend, so businesses see smaller revenues. Borrowing also becomes more expensive for businesses. They don't borrow as much, and must pay extra interest on their loans. They spend less, causing profits and growth rates to fall. If a company cuts back on growth spending and makes smaller profits, its estimated future cash flows will drop. This then lowers share prices, which could potentially cause share markets to fall.

While cash can and occasionally does outperform shares and bonds over shorter timeframes, history shows that over the longer term, diversifying investments over shares and bonds pays off over all but the shortest timeframe.

Sustainable investment

Sustainable investment describes an investment process that incorporates environmental and social factors when selecting investments, in addition to the objective of achieving a competitive financial return. It's also known as SRI (socially responsible investing) and ESG (environment, social, and corporate governance). Mercer, the scheme's investment manager believes in taking an investment view that goes beyond traditional financial analysis and considers a wide range of risks and opportunities. This approach includes factors that support sustainability such as good governance, consideration of environmental and social impacts on assets, as well as the associated policy and regulatory implications. Go to **www.mercer.com.au** and search 'sustainable investment' for further information.

SCHEME NEWS

Legislative changes

Transition to the Financial Markets Conduct Act regime

Our 2016 annual report referred to the transition of the Employee Retirement Plan (ERP) to the new Financial Markets Conduct Act (FMC Act) regime. We are pleased to advise that the ERP transitioned on 30 November 2016 and from that date, the requirements of the FMC Act began to apply.

Most of the changes required to align the ERP with the new regime are operational and do not directly affect you. One change you may notice is that from this year's annual review onwards, the time frames for preparing and issuing the annual review documentation have been shortened significantly. Refer to the Notice of transfer to the FMC Act regime attached for further details.

Anti-money laundering legislation

Amendments have recently been made to the Employer Agreement to allow the Teachers' scheme to rely on a Ministerial exemption from anti-money laundering legislation. The most significant change for members is that from 1 March 2017, most voluntary contributions (regular and lump sum) can only be accepted through the Ministry's payroll system. The exception is contributions made to cover a period of unpaid leave of absence which, subject to restrictions on the frequency and amount, can be made to the Teachers' scheme's administration manager, Mercer, as well as through the Ministry.

For further details, refer to the AML Exemption Notice attached

The legislation also requires you to provide confirmation of your identity and residential address before you can make a withdrawal from the scheme. To speed up payment, we suggest you arrange this as soon as you can, rather than waiting until you apply for a benefit. Simply complete and return a Confirmation of identity and residential address Form 11 available from Documents & forms on **www.trss.superfacts.co.nz**.

Member booklet

One of the requirements of the FMC Act is that all registered superannuation schemes accepting new members must issue a Product Disclosure Statement in place of their existing investment statement and prospectus (if required). This requirement does not apply to the Teachers' scheme as it does not accept new members. However, the Teachers' scheme does have a member booklet, which includes information about contribution and investment options and the benefits payable. The booklet is currently being updated and will shortly be available on **www.trss.superfacts.co.nz**.

Need free budget advice?

It's happened to most of us, the car and the fridge have broken down simultaneously and there is very little (or no) money in the kitty. Once over the immediate crisis, it's easy to slip back into old spending patterns but a more pro-active response could be to do a budget.

Did you know that your local Citizens Advice Bureau (CAB) can help you find a budgeting service that suits your situation, and offers a free service in some areas? Call the CAB on **0800 367 222**. Another option is the New Zealand Federation of Family Budgeting Services, which provides free, confidential and personalised budgeting advice from trained budget advisers. Call **0508 BUDGET** or **0508 283 438** for further information or visit **www.familybudgeting.org.nz**.

JARGON BUSTERS

Employer agreement

The Teachers' Retirement Savings Scheme (or Teachers' scheme) is a sub-plan of the Employee Retirement Plan (ERP) which is a master trust arrangement intended to provide superannuation for different entities. The ERP is governed by trust deed and the terms and conditions specific to the Teachers' scheme are set out in a separate employer agreement. Copies of the employer agreement are available from the companies office website.

Quantitative easing

One of the main tools central banks and governments have to control growth is raising or lowering interest rates. Lower interest rates encourage people or companies to spend money, rather than save. But when interest rates are at almost zero, central banks need to adopt different tactics - such as pumping money directly into the financial system. This is known as quantitative easing.

How this works is that a country's central bank creates new money electronically to buy financial assets, like government bonds, which increases the overall amount of useable funds in the financial system. It can also push interest rates lower across the economy, even when the central bank's own rates are just about as low as they can go. This in turn should allow businesses to invest and consumers to spend more, giving a knock-on boost to the economy.

US Federal Reserve

The Federal Reserve is the central bank of the United States. The Fed, as it is commonly known, regulates the US monetary and financial system. It is considered to be independent because its decisions do not have to be ratified by the President or any other government official. However, it is still subject to Congressional oversight and must work within the framework of the government's economic and financial policy objectives.

To find out more about anything mentioned in this newsletter
Call: **0508 4 TEACH (0508 4 83224)** Email: **teachersretire@mercer.com**
Visit: **www.trss.superfacts.co.nz**