Teachers Retirement Savings Scheme

NEWSLETTER

February 2018

WELCOME

Welcome to the first issue of TRSS News for 2018, which includes an update on the Scheme's investment performance, the indicative returns for each of its four investment funds and general news about the Scheme and your membership.

If there is anything you would like to see covered in future newsletters, please let us know by calling the helpline 0508 4 TEACH (0508 4 83224) or email teachersretire@mercer.com.

INVESTMENTS

Global share markets maintained their upward trend in the final quarter of 2017, with many markets reaching record highs. Investor optimism pushed through into January, before receiving a wake-up call in early February.

Although rising inflation remains a possible threat, positive sentiment has continued to support the global economy, with most developed markets now experiencing sustained economic growth. The Trump administration's promised overhaul of US tax policy was signed before Christmas. However, Europe faces challenges from tense Brexit negotiations, the struggle to form a coalition government in Germany and Catalonia's intention to secede from Spain.

The New Zealand and Australian share markets both recorded a strong quarter to top off another solid annual performance. The local share market took the new Ardern-led Government in its stride, although the announcement of a Labour-New Zealand First coalition, with assistance from the Greens, did contribute to a weaker New Zealand dollar.

Returns to investors in the Cash and Stable funds were more modest but still sound as the US Federal Reserve again increased interest rates in December, to 1.5%, well ahead of most other major central bank rates. There are some concerns over the growing divide in monetary policy between the US and its trading partners because even small changes in US financial conditions have a significant bearing on currencies, bonds, shares and other financial assets, as well as economies, around the world.

In New Zealand, our share market continued to perform well. Interest rates on fixed interest securities (bonds) fell, reflecting a slight drop in business confidence following the general election. At both its November and February reviews the Reserve Bank left the Official Cash Rate at 1.75%, where it has been since the end of 2016.

SCHEME RETURNS

The following table shows the indicative returns for each of the Scheme's funds for the seven months ending 31 January 2018 and the 12 months to that date, along with a comparison with last Scheme year returns.

Indicative returns after tax and expenses			
	Scheme year-to-date 7 months to 31 January 2018	12 months to 31 January 2018	12 months to 30 June 2017
Cash Fund	**0.9%**	**1.5%**	**1.6%**
Stable Fund	**3.2%**	**5.8%**	**3.9%**
Balanced Fund	**6.9%**	**11.5%**	**8.1%**
Growth Fund	**9.3%**	**15.2%**	**11.1%**

Could the Cash fund outperform the Stable fund?

In the current market environment of increasing interest rates, there is potential for the Cash fund to outperform the Stable investment fund because of the latter's allocation to fixed interest.

While they are generally seen as less risky than other asset classes, fixed interest securities (bonds) can still deliver negative returns. The primary cause is an increase in interest rates. When rates go up, existing bonds lose value. This is because the existing bond return is 'locked in' at a lower interest rate than what newly issued bonds are offering.

In contrast, the Cash fund's short-term cash investments are not affected by increasing interest rates. They therefore have the potential to outperform the Stable fund over short periods when interest rates are rising faster than expected.

However, over the long term, the Stable fund's fixed interest investments are expected to outperform cash as they tend to offer higher interest rates to compensate for additional risks.

Taking a break from work could affect your eligibility for a KiwiSaver HomeStart grant

A recent newspaper article about a woman who initially missed out on a KiwiSaver HomeStart grant highlights the need to have contributed regularly to a KiwiSaver scheme or to an 'exempt employer' scheme (such as the Scheme) for at least three years in total. Periods when you are temporarily away from work (such as on parental leave) do not count unless you contribute the applicable minimum amount during those periods.

To qualify for the grant, a person is expected to have contributed for at least three years at a rate at or above the minimum allowable rate, which is currently (as applicable):

- 3% of gross income; or
- 3% of the gross adult minimum wage (which currently equates to around $20 a week) for non-earners; or
- 3% of the annual benefit for beneficiaries.

Just contributing the minimum $1,042.86 needed to be eligible for the maximum annual government contribution is not automatically considered enough to qualify for a HomeStart grant.

The amount of the grant varies, depending on whether you are purchasing an existing home or a new home (or land on which to build a new home). For someone purchasing an existing home, the grant is worth a minimum of $3,000 and a maximum of $5,000, and for someone purchasing a new home or land to build a new home on, it is worth a minimum of $6,000 and a maximum of $10,000.

The grants, which are administered by Housing New Zealand, are subject to qualifying criteria including income and house price caps. More information about the grant is available **http://www.kiwisaver.govt.nz/new/benefits/home-sub/**. Any queries about KiwiSaver HomeStart grants should be directed to Housing New Zealand and not to the Scheme Secretary or the Trustee.

Asset classes' changing fortunes

While shares have clearly provided the best investment market returns over the past year or more, it certainly hasn't always been the case. Surprisingly, of the 15 asset classes the Scheme invests in, there have been nine different top annual performers across the past 10 years.

It's also remarkable how the poorest performer one year can be the best just 12 months later. Take commodities, for example, which in 2015 recorded a loss of almost 23%, but in 2016 hit top spot with a gain of more than 13%.

During 2008, in the midst of the global financial crisis, every asset class finished in negative territory. Contrast this with 2016 and 2017 when all of them provided a positive return.

Source: Mercer Periodic Table of Investment Returns.

To find out more about anything mentioned in this newsletter
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