



Medical Assurance Society  
KiwiSaver Plan



## MONTHLY INVESTOR UPDATE

May 2017

### KiwiSaver Plan returns as at 31 May 2017 Unit prices are after fees but before tax

PORTFOLIO	UNIT PRICE	1 MONTH	3 MONTHS	6 MONTHS	12 MONTHS	2 YEARS P.A.	3 YEARS P.A.	4 YEARS P.A.
Cash	1.1460	0.24%	0.64%	1.25%	2.50%	2.89%	3.24%	3.32%
Defensive	1.2702	0.22%	1.87%	3.80%	4.91%	3.98%	5.99%	5.89%
Conservative	1.3374	0.05%	2.15%	4.81%	6.17%	4.08%	6.88%	7.09%
Balanced	1.4103	-0.32%	2.46%	6.21%	6.91%	4.38%	7.82%	8.26%
Growth	1.4732	-0.57%	2.76%	7.66%	5.87%	5.03%	8.68%	9.35%
Aggressive	1.5276	-0.88%	2.94%	8.58%	9.91%	5.10%	9.36%	10.21%
Global Equities	1.5622	-1.01%	3.24%	9.66%	11.47%	5.19%	9.73%	10.73%

### What happened in the investment markets in May and how did this affect the portfolios in the Plan?

Global equities gained over 2% in offshore currency terms in May, continuing the strong trend of the past six months. It was a mixed month for sectors, with US Technology and European Telecommunications performing well on the back of a strong earnings reporting season. In contrast, US Banks were decidedly weak. Investors became concerned that some of President Trump's promised economic reforms might not be acted on as fully or soon as previously expected. This caused bond yields to fall, adversely affecting the profit outlook of the banks, as they are less likely to be able to raise their lending margins. Previously they had been big beneficiaries of the President's expected debt-financed infrastructure spending and deregulation.

European shares were out in front in May, following the favourable outcome in the French presidential election early in the month leading many investors to soften their pessimism around the 'euroskeptic' movement. In addition there is a supportive central bank and an earnings reporting season delivering the strongest positive earnings surprises in nearly a decade. Being overweight to this region has served the portfolios well, particularly through the exposures to European Telecomms and Pharmaceuticals.

The Australian share market had a poor month, falling by nearly 3% in local currency terms. The banks were a very weak sector with a decline of around 10% for the Banks index for the month. A key reason is that the Australian budget contained a surprise levy on the four major banks' balance sheet liabilities. The strong rise of 3.8% in the New Zealand dollar further dampened returns for New Zealand investors, to a severely negative 6.4%. As a result of being partially hedged against NZ dollar strength, the Australian equity portfolio outperformed the benchmark with a return of -5.8%.

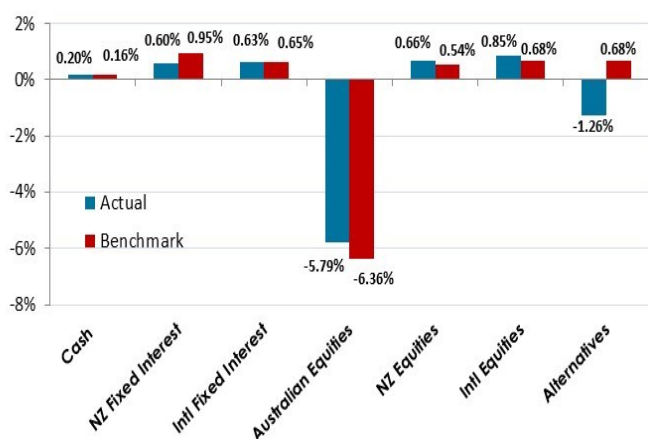
Despite being expensive (trading on a high earnings multiple), the New Zealand share market put on a modest return of 0.5% in May. Fisher & Paykel Healthcare, Air New Zealand and Port of Tauranga were leading gainers. Otherwise, there were no particular themes making their presence felt during the month and there was a fairly even mix of gainers and losers.

## Primary drivers of returns in May 2017

<b>CASH</b>	The Official Cash Rate (OCR) remained at its record low of 1.75% in the month, keeping returns from cash investments very low.
<b>NZ FIXED INTEREST</b>	Domestic bond yields fell during the month. As this occurred, bond prices rose and capital gains were generated, lifting the total return on bonds. The New Zealand corporate bond portfolio lagged the benchmark return.
<b>INTERNATIONAL FIXED INTEREST</b>	United States bond yields fell. Bond prices rose, generating capital gains which boosted the month's total return on US and other international bonds.
<b>AUSTRALIAN EQUITIES</b>	The Australian share market had a poor month, with particularly severe falls in the share prices of banks. Retail companies also struggled. The 3.8% rise in the New Zealand dollar dampened returns for New Zealand investors, although partial currency hedging gave some protection. The Australian portfolio outperformed the benchmark.
<b>NZ EQUITIES</b>	The NZ share market recorded a small gain, building on an excellent return in April. Fisher and Paykel Healthcare, Air New Zealand and Port of Tauranga were prominent gainers for the month.
<b>INTERNATIONAL EQUITIES</b>	The US and international share markets built on recent months' gains, with the MSCI benchmark index rising by just over 2% in May in offshore currency terms. The more than 3% rise in the New Zealand dollar dampened the return, although the portfolios' partial currency hedging helped cushion the adverse impact on New Zealand investors. The international portfolio outperformed the benchmark.
<b>ALTERNATIVES</b>	It was a weak month from hedge funds/absolute return strategies.

*It is important to understand the main driver of return is asset allocation. For example the percentage invested in Growth assets, such as shares, relative to Income assets, such as bonds, is a far greater driver of returns than simply the percentage invested in shares or bonds of an individual company.*

## Performance in May



Returns are before fees and tax. Balanced Portfolio sector returns are used as a proxy. For comparative purposes we use a 50% hedged international equity benchmark.

As the graph shows, the dominant feature was the very poor month had by the Australian share market, particularly in NZ dollar terms. The actual Australian portfolio outperformed the market, largely due to being partly hedged against NZ dollar strength.

The New Zealand and international equity markets were relatively subdued but the actual portfolio holdings slightly outperformed the benchmark.

Fixed interest returns were solid, assisted by capital gains as bond yields fell (investors were prepared to pay more for bonds).

Please note that asset class returns and portfolio returns can vary quite a lot when measured over the short term. Strong returns one month can be followed by negative returns the next. What matters is long term returns and whether you are in the right portfolio for your circumstances.

## Plan allocation

### HIGHLIGHTS OF ASSET POSITIONING IN THE PORTFOLIOS

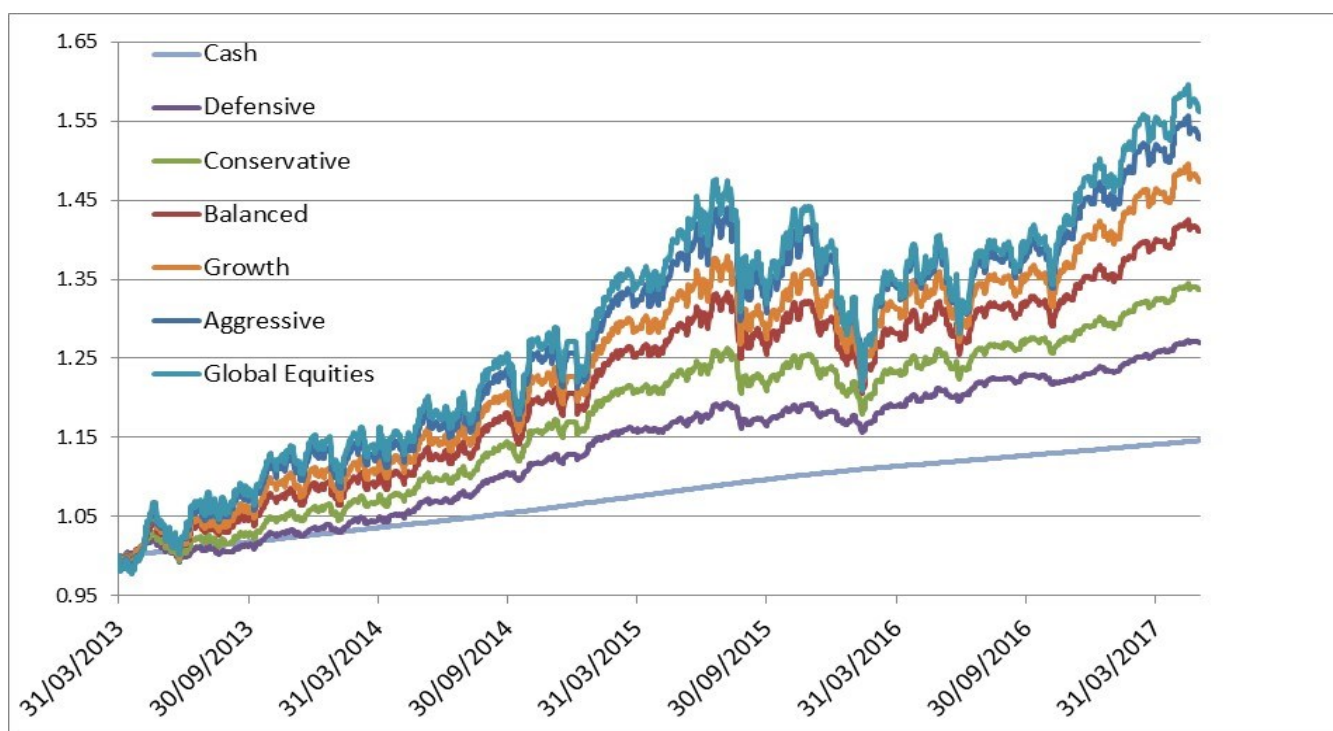
**Australian Equities – Neutral:** The market is placing a premium on a very narrow group of growth stocks which, in the absence of cyclical earnings growth in banks, consumer discretionary and telecomms, is likely to continue. We are also likely to see further interest in companies with European exposures as European economic growth continues to improve.

**International Equities – Neutral:** We continue to be positive about Europe's economic and company earnings prospects. There is a supportive central bank keeping interest rates very low, and the favourable outcome in the French presidential election is positive for political stability in the Eurozone.

We are underweight to fixed interest assets, particularly international bonds, but we are looking to increase exposure especially given the current shortage of attractively valued New Zealand bonds.

We are overweight to cash assets.

## Performance - unit prices



Unitisation of the portfolios started from 31 March 2013.

## Further information

You can also obtain the Product Disclosure Statement for the Medical Assurance Society KiwiSaver Plan and some additional information from the offer register at [www.business.govt.nz/disclose](http://www.business.govt.nz/disclose).

Disclaimer: Unit price returns are after fees and before tax. Cash flows mean they do not relate to individuals' returns. Investments are not guaranteed. The information provided is for general purposes only and does not take into consideration the personal circumstances of any individual. The information contained herein is subject to change at any time. Past performance is not necessarily indicative of future returns.