



Medical Assurance Society Retirement Savings Plan **MONTHLY INVESTOR UPDATE**



August 2017

Retirement Savings Plan returns as at 31 August 2017 Unit prices and returns 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	1.1466	0.18%	0.64%	1.32%	2.62%	2.60%	2.97%	3.11%
Defensive	1.2823	0.92%	1.75%	3.54%	5.84%	4.89%	5.29%	6.28%
Conservative	1.3627	1.12%	1.70%	3.93%	7.48%	5.36%	6.59%	7.63%
Balanced	1.4228	1.32%	1.84%	4.27%	9.04%	5.62%	7.22%	8.43%
Growth	1.5160	1.49%	2.13%	4.99%	11.56%	7.33%	8.44%	9.92%
Aggressive	1.5511	1.82%	2.10%	5.11%	12.91%	6.98%	8.77%	10.19%
Global Equities	1.5952	1.93%	2.10%	5.27%	14.19%	7.36%	9.30%	10.88%

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

The world share market index in local currency terms rose by a marginal 0.4%, however a sharp fall in the New Zealand dollar meant the index rose an impressive 5.1% for New Zealand investors. The company earnings reporting season in both the US and Europe wrapped up during the month and we are pleased with the general corporate outlook. Both US and European companies remain on track to deliver earnings growth this year in line with our expectations, namely around 10% in the US and 15% in Europe.

Economic data continues to suggest that a synchronised global economic upswing is underway for the first time in a decade. This is absorbing spare labour in all the major advanced economies. Against that, wage inflation remains muted, leaving some analysts to assume the link between pressure on resources and inflation has changed. Influences such as Amazon on the retail sector, artificial intelligence, robotics, and globalisation are all cited as reasons why inflation no longer has a place in the modern economy. We acknowledge these long-term structural trends, but see ample evidence that the inflation cycle is still a force to be reckoned with.

Markets aren't prepared for a rise in inflationary

pressure or rising interest rates. We see scope for a 'reality check' over the coming months, especially if the Trump administration makes progress on tax cuts (which we think likely). United States banks would be a direct beneficiary of any lift in interest rate expectations. Banks have been a drag on our performance this year, but we continue to see plenty of scope for strong returns from this sector.

The Australian share market index in New Zealand dollar terms was up 4.7% in August, mostly driven by the sharp fall of some 4% in the NZ dollar. The Australian portfolio lagged the index with a return of 1.9%, as it was adversely affected by being partly currency hedged. While the growing tension between North Korea and the US occurred in the background, locally the Australian market, like New Zealand's, saw investors pre-occupied with the corporate reporting season.

The New Zealand equity portfolio returned 2.8% in August, well above the market index's 1.6%. The market was one of the better performers globally, and continues to be one of the more expensive.

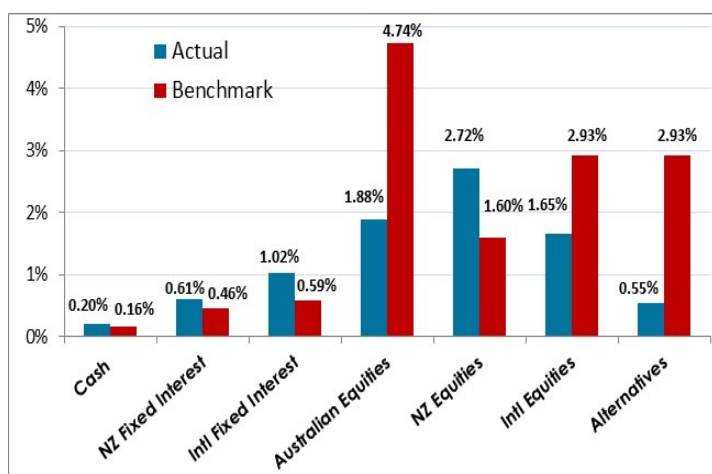
International and local bond market returns were solid as bonds' capital values rose. In addition, there was good outperformance by the bond portfolios relative to their benchmark returns.

Primary drivers of returns in August 2017

CASH	The Reserve Bank kept the Official Cash Rate (OCR) at its record low of 1.75% in the month, which continues to restrain the returns from cash investments.
NZ FIXED INTEREST	Domestic bond yields fell slightly during the month. While not positioned for capital gains arising from lower yields, the MAS bond portfolio exceeded the benchmark return due to good corporate bond selection.
INTERNATIONAL FIXED INTEREST	Bond yields fell slightly in the key United States bond market, causing bonds' capital values to rise and boosting total returns. As has been the case in recent months, the MAS portfolios solidly outperformed the benchmark.
AUSTRALIAN EQUITIES	The Australian share market was strong in August in New Zealand dollar terms. The sharply lower New Zealand dollar, down by some 4%, helped boost returns for New Zealand investors. The fact that the portfolios are partially currency hedged meant the full positive impact of the currency on the portfolios was not felt.
NZ EQUITIES	The NZ share market recorded yet another strong gain, building on excellent returns in the previous few months. It continues to trade at expensive levels. The MAS portfolio, boosted by Metlifecare, Fisher & Paykel Healthcare, and the surging A2 Milk, outperformed the market benchmark.
INTERNATIONAL EQUITIES	US and international share markets had a slightly positive month, rising 0.4% in offshore currency terms. The large drop of 4.5% in the New Zealand dollar significantly boosted the return for New Zealand investors, although the portfolios' partial currency hedging dampened the positive impact. The international portfolio underperformed the benchmark in the month.
ALTERNATIVES	It was a weak month from hedge funds/absolute return strategies, however the portfolios have already sold almost all these investments.

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 August asset classes



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 on the left shows, the standout feature for the month was the excellent gain achieved by the portfolios' holdings of New Zealand equities (the blue column third from right).

The Australian and international equity markets recorded good gains in NZ dollar terms, although the MAS portfolio holdings under-performed.

Fixed interest returns were solid, assisted by moderate capital gains as bond yields declined. For yet another month the MAS portfolios outperformed the local and international bond benchmarks.

Please note that asset class returns and portfolio returns can vary 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. To review your risk profile, go to mas.co.nz/savings-and-investment/risk-profiler.

Plan allocation

HIGHLIGHTS OF ASSET POSITIONING IN THE PORTFOLIOS

New Zealand Equities – Neutral: The market continues to reach new record highs. Overall it is expensively valued, and an election is upon us. A positive offset to this is the market's relatively generous dividend yield.

Australian Equities – Neutral:

Despite the economy appearing quite robust, the company earnings outlook in Australia is not especially encouraging. Analysts have adopted a more cautious tone relative to the good earnings growth achieved last year.

International Equities – Neutral: The portfolio is positioned for ongoing rising United States interest rates and a rising US dollar. With increased turmoil in the White House, these 'drivers' have recently lost momentum and the portfolio has lagged the benchmark.

International Equities cont.

However, we are confident that the US economy will continue to create jobs and that wages will continue to rise. Interest rates and the US dollar should follow, with higher lending margins benefiting US banks.

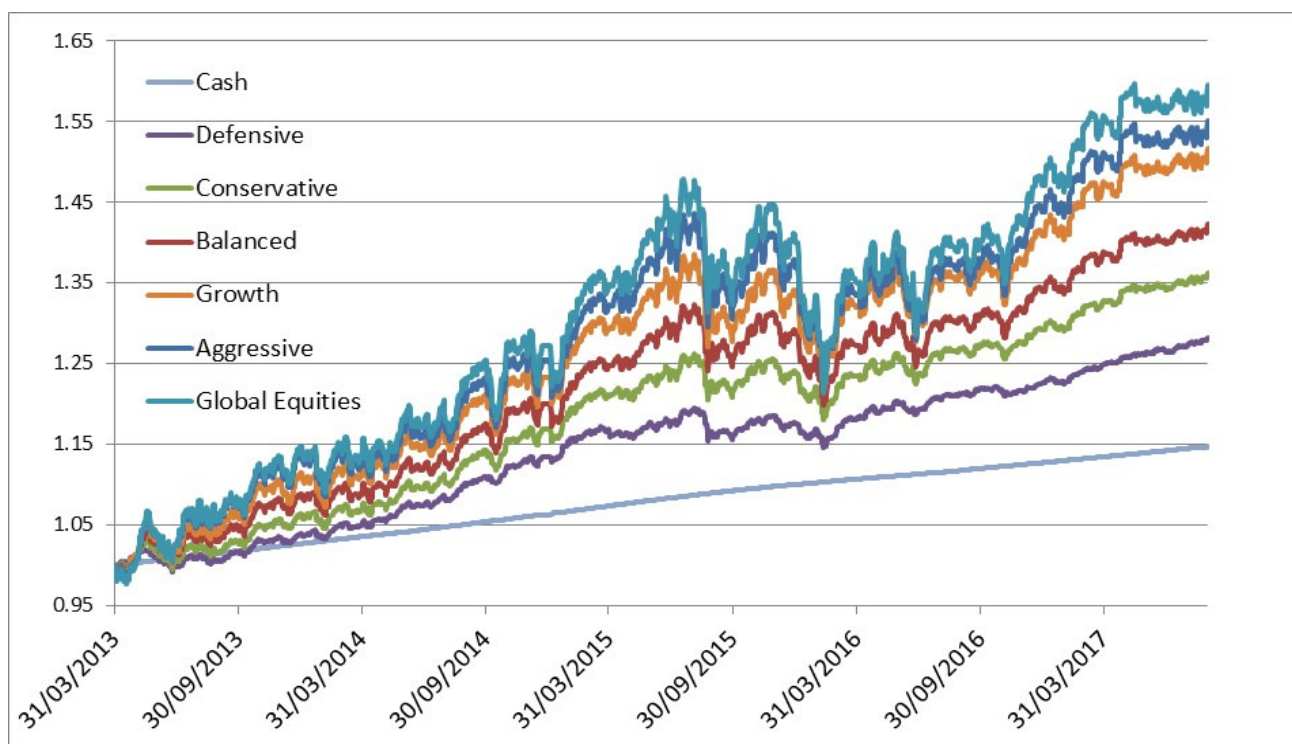
Fixed interest – Underweight

We are underweight to fixed interest assets, particularly international bonds, but are increasing the latter's exposure towards a 'neutral' position especially given the current shortage of attractively valued New Zealand bonds.

Cash – Overweight

We are overweight to cash assets.

Performance - unit prices



Unitisation of the portfolios started from 31 March 2013.

Further information

You can obtain the Product Disclosure Statement for the Medical Assurance Society Retirement Savings Plan and some additional information from the offer register at 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.