



Medical Assurance Society
Retirement Savings Plan
MONTHLY INVESTOR UPDATE



October 2017

Retirement Savings Plan returns as at 31 October 2017

Unit prices and returns are after fees but before tax.

PORTFOLIO	UNIT PRICE	1 MONTH	3 MONTHS	12 MONTHS	3 YEARS P.A.	4 YEARS P.A.
Cash	1.1508	0.20%	0.55%	2.55%	2.88%	3.05%
Defensive	1.3010	1.17%	2.39%	6.87%	5.06%	6.01%
Conservative	1.3968	1.95%	3.65%	10.04%	6.54%	7.43%
Balanced	1.4719	2.71%	4.81%	12.94%	7.27%	8.21%
Growth	1.5866	3.53%	6.22%	17.20%	8.86%	9.66%
Aggressive	1.6315	4.07%	7.10%	19.04%	9.17%	10.04%
Global Equities	1.6887	4.63%	7.90%	21.30%	9.83%	10.81%

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

The international share market index (in offshore currency terms) finished October up over 2%, however a falling New Zealand dollar significantly enhanced these returns for New Zealand investors. Technology and Materials were the top performing sectors during a month in which corporate earnings largely beat expectations.

The broad theme of synchronised global economic growth and strong corporate earnings has continued. Economic data in the US, Europe and Japan continues to show signs of strength; there has been a good start to the US earnings season (particularly for Technology stocks); and an expectation of a win for President Trump on tax reform. These factors have helped many share markets push on to new record highs.

In New Zealand, October was dominated by the formation of the new Labour-NZ First coalition government, with support from the Greens via confidence and supply. October continued the recent theme of the ongoing outperformance of a select group of names. As an eye-opening example to put this into perspective, since 30 June 2017 the NZX 50 is up around 6%. Stripping just Xero and A2 Milk out of the index leaves the index up only around 2%. October finished with 30 positive

returns and 20 negative returns, but the index finished up a solid 2.7%, again led higher by double digit returns from a small number of names. The New Zealand portfolio had another strong month with a return of 3.9%.

Fletcher Building (-5%) represented the largest detractor from performance during the month, delivering yet another earnings downgrade.

The Australian share portfolio gained 5.4% versus the market index return of 7.3%. The portfolio's underperformance was due to its Australian dollar currency exposure being partially hedged in a month when the NZ dollar fell sharply against the AUD, so the positive impact of our weaker currency was not fully realised. Macquarie Group was again a star performer, rising a further 8% following a solid half-year result which saw strong contributions from performance fees and cost management.

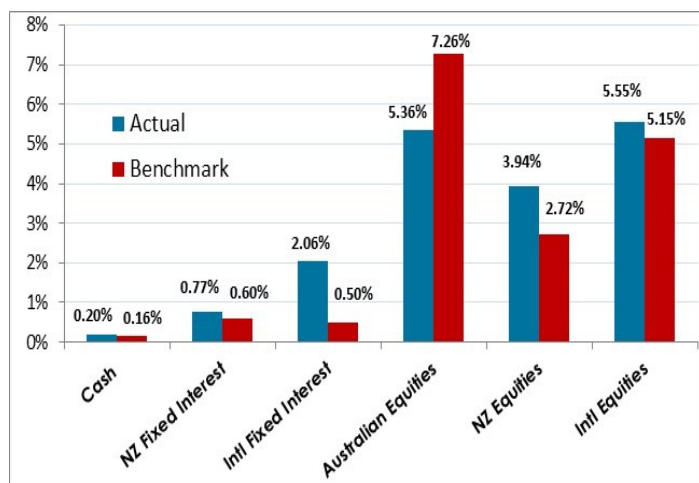
On the other hand, ANZ Banking Group (+1%) and Wesfarmers(+1%) were key detractors from portfolio performance during the month. ANZ underperformed the broad market, following a soft full-year result. The bank saw both revenue and earnings fall, with the revenue outlook becoming more challenging.

Primary drivers of returns in October 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 rose slightly during the month, resulting in some loss of capital values. The MAS bond portfolio exceeded the benchmark return due to good corporate bond selection.
INTERNATIONAL FIXED INTEREST	Bond yields rose moderately in the key United States bond market, causing bonds' capital values to fall and thereby reducing total returns. The portfolio appeared to outperform the benchmark significantly in October, however this was due to the correction of a distribution timing issue that we noted last month.
NZ EQUITIES (SHARES)	The NZ share market enjoyed yet another strong month, building on excellent returns in the previous few months. It continues to move to more expensive levels. In the portfolio, the top performing stocks during the month were A2 Milk (+35%), Port of Tauranga (+10%), Fonterra (+6%) and Tegel (6%). On the other hand, Fletcher Building (-5%) was again a detractor.
AUSTRALIAN EQUITIES (SHARES)	The Australian share market rose in October by 4% in local currency terms, with strength more or less across the board. In New Zealand dollar terms it was up even more due to the sharply lower New Zealand dollar. The fact that the portfolios are partially currency hedged meant the full beneficial impact of the currency on the portfolios was not felt, in contrast to the unhedged benchmark.
INTERNATIONAL EQUITIES (SHARES)	US and international share markets had another strong month, rising 2% in offshore currency terms. The fall in the New Zealand dollar boosted the return for New Zealand investors, although the portfolios' partial currency hedging limited the positive impact. The international portfolio outperformed the benchmark in the month.

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 October 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 and a 0% hedged Australian equity benchmark.

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

International fixed interest returns appear very strong compared to benchmark this month, but this was due to the reversal of the distribution timing issue that we noted last month.

The Australian portfolio underperformed relative to the Australian market index, due to its Australian dollar exposure being partially hedged in a month when the NZ dollar fell.

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. A risk is that if interest rates rise, some interest rate - sensitive areas of the market would face a strong headwind. There is a positive offset from the market's very attractive dividend yield.

Australian Equities – Neutral: The economy is in good shape, and we remain comfortable with the strategy of maintaining a high quality portfolio of companies that we believe will deliver over the medium term.

International Equities – Neutral: The portfolio has been significantly restructured as part of the move to a Socially Responsible Investment mandate. The 'core' exposure is closely modelled on the MSCI World Index,

International Equities cont.

but with the exclusion of those companies with exposure to activities that we wish to avoid. There is also a tactical ('tilt') exposure to sectors we favour, for instance US technology companies and US banks.

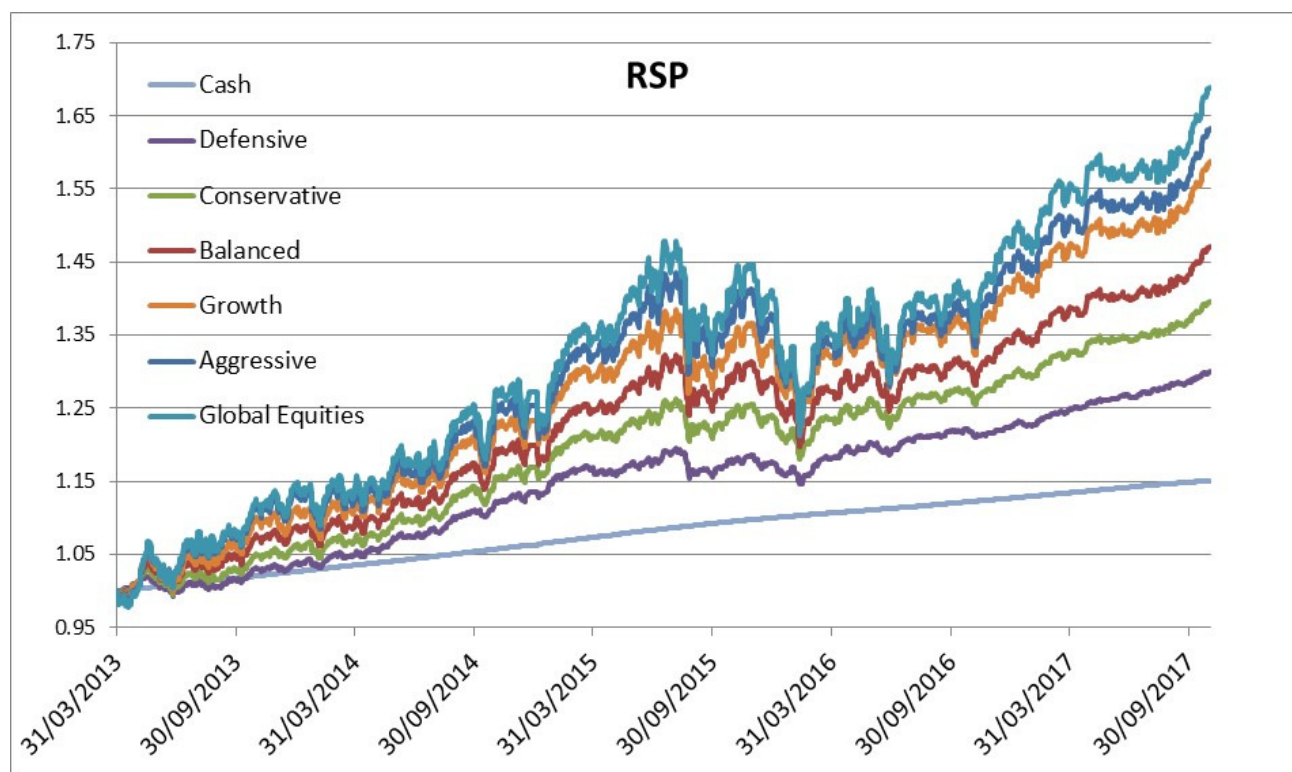
Fixed Interest – Underweight

We are underweight in fixed interest assets due to the potential for higher interest rates in the future (and resultant capital losses). However, we are increasing the exposure towards a 'neutral' position in international bonds, especially given the current shortage of attractively valued New Zealand bonds.

Cash – Overweight

We are overweight 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.