



Medical Assurance Society
Retirement Savings Plan
MONTHLY INVESTOR UPDATE



November 2017

Retirement Savings Plan returns as at 30 November 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 | 1.1529 | 0.18% | 0.55% | 2.53% | 2.85% | 3.03% |
| Defensive | 1.3072 | 0.48% | 1.94% | 7.45% | 5.00% | 6.02% |
| Conservative | 1.4061 | 0.67% | 3.18% | 10.16% | 6.53% | 7.40% |
| Balanced | 1.4850 | 0.89% | 4.37% | 12.77% | 7.45% | 8.23% |
| Growth | 1.6050 | 1.16% | 5.87% | 16.58% | 9.26% | 9.80% |
| Aggressive | 1.6529 | 1.31% | 6.56% | 18.04% | 9.66% | 10.07% |
| Global Equities | 1.7141 | 1.50% | 7.45% | 20.08% | 10.40% | 10.88% |

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

Investors' focus this month was on the passage of tax reform legislation in the US – which would become the first legislative win for the Trump administration. We see a good chance of a deal by the end of the year – if not early next year. Against a backdrop of broad based global growth, 'friendly' central bank policies, and company earnings growth (which would be further boosted by tax reform), we expect another positive year for share markets in 2018 – though a repeat of 2017's high performance seems unlikely.

Elsewhere in the world, both Europe and Japan continue to look attractive from an economic recovery, earnings and valuation perspective. Progress finally seems to have been made in 'Brexit' negotiations, with the UK and EU agreeing on a "divorce bill" of £50bn.

The positive ride continues for the NZ share market, rising for the eleventh straight month and finishing a further 0.5% higher. The NZ Equities portfolio had another solid month versus benchmark, with a return of 0.75%. Not since 2014, a year when there was only one month of negative performance, have investors enjoyed a track record of such consistency. Furthermore, the market looks poised to finish its sixth straight year of double digit returns, an outcome not seen in a lifetime for current

market participants. It certainly has been a year of record breaking, which is why we are concerned about its sustainability.

A key feature of the month was the inclusion of Fisher & Paykel Healthcare in the global MSCI index, causing automatic buying, and other changes which saw massive volumes of stock trade on the last day of the month. November continued to see a large dispersion in announcements from companies at annual general meetings. By and large, globally-facing companies were more optimistic in their view of prospects while there was a more cautious tone among domestic-oriented companies.

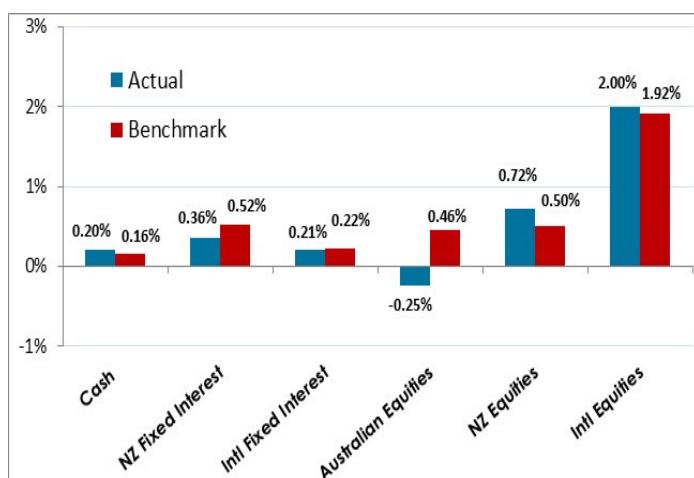
The Australian equity portfolio returned -0.24% versus the unhedged index return of 0.46%. The portfolio was adversely impacted by its large exposure to the banks. Despite conducting strategic reviews, the banking sector is clearly out of favour. Banks have been rocked by scandals following potential breaches of anti-money laundering practices by Commonwealth Bank. This continues to dominate sector sentiment, with any other more positive news effectively ignored. This is why a joint letter by all the major banks to seek a formal enquiry was circulated– its aim is to restore confidence and reduce uncertainty.

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 drifted down during the month, resulting in bonds registering modest capital gains. The MAS bond portfolio lagged the benchmark return due to some weaker-performing corporate bonds. |
| INTERNATIONAL FIXED INTEREST | Bond yields were slightly lower in the key United States bond market, causing bonds' capital values to firm and thereby lifting total returns. The international portfolio return was close to the benchmark return. |
| NZ EQUITIES (SHARES) | The NZ share market enjoyed yet another positive 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 Z Energy (+5.8%), Metlifecare(+4.3%), and Freightways(+4.3%). On the other hand, Fletcher Building (-5.8%) was yet again a detractor. |
| AUSTRALIAN EQUITIES (SHARES) | The Australian share market rose in November by 1.6% in local currency terms. Strength was fairly widespread, with the major exception of the banks. Three banks are among the portfolios' four largest Australian equity holdings, and all three fell by at least 5% in the month. In New Zealand dollar terms the portfolio return (-0.2%) was behind the benchmark return (+0.5%). |
| INTERNATIONAL EQUITIES (SHARES) | US and international share markets had another strong month, rising 2.0% in offshore currency terms, coincidentally exactly the same gain as the previous month. The international portfolio's return was marginally ahead of the benchmark return. |

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 November 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 strong returns from international equities.

New Zealand fixed interest returns were weak relative to the benchmark return.

The Australian portfolio underperformed relative to the Australian market index, due largely to its high exposure to the major banks which are under regulatory scrutiny at present.

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 – Underweight: The market continues to reach new record highs. We have reduced exposure in November by selling into strength, as we are aware of headwinds the market will be facing in 2018, e.g. slowing economic growth, coupled with very stretched valuations against international and Australian share markets.

Australian Equities – Neutral: The economic growth outlook has improved noticeably, and earnings growth of around 5% for 2018 looks achievable. Companies with offshore earnings continue to appeal as a 'theme', and remain as core portfolio positions.

International Equities – Neutral: Europe will be an important theme in 2018. The economy is improving and company earnings growth is

International Equities cont.

now in double digits. The North American technology sector remains a key holding for us, notwithstanding the high returns that have already been achieved this year.

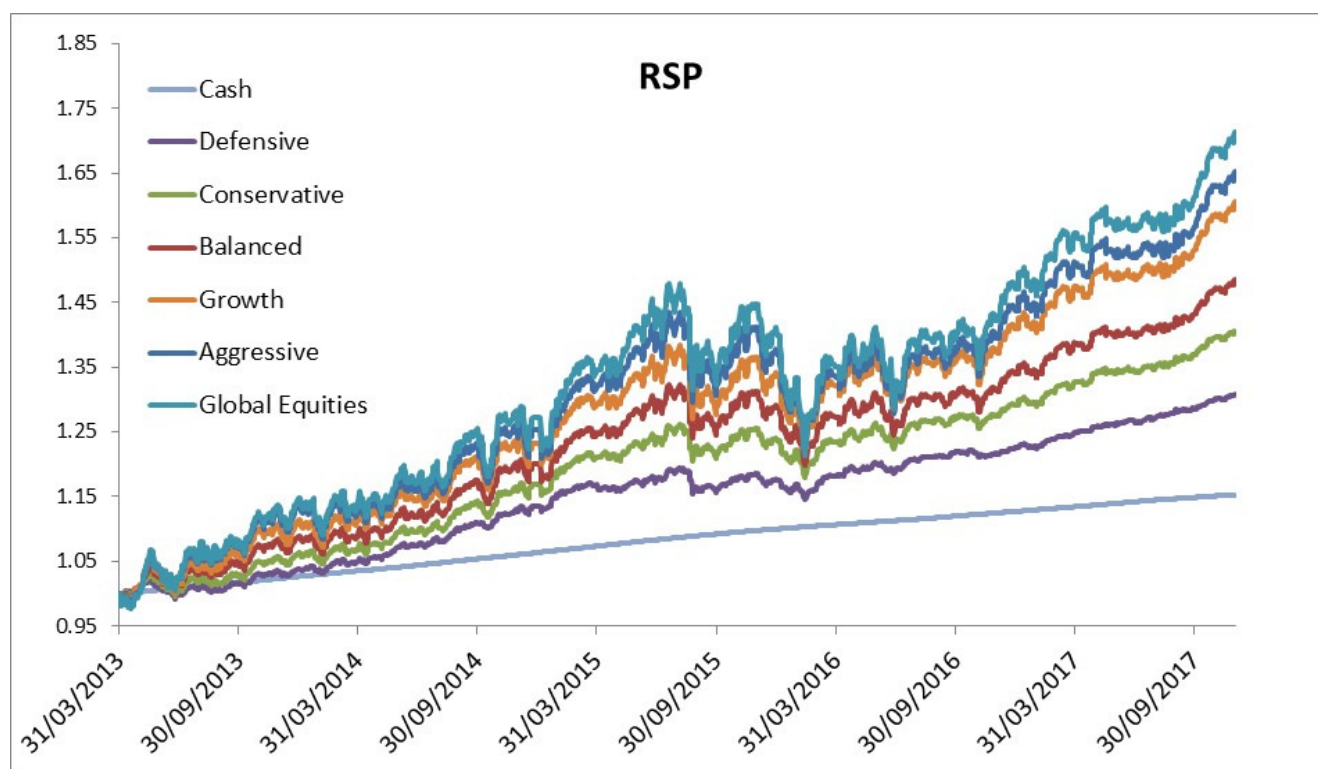
Fixed Interest – Underweight

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.