



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



September 2017

Retirement Savings Plan returns as at 30 September 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	1.1485	0.17%	0.60%	1.25%	2.57%	2.55%	2.91%	3.07%
Defensive	1.2859	0.28%	1.72%	2.99%	5.51%	5.31%	5.03%	6.13%
Conservative	1.3701	0.54%	2.17%	3.22%	7.69%	6.19%	6.25%	7.52%
Balanced	1.4330	0.72%	2.53%	3.31%	9.47%	6.84%	6.85%	8.27%
Growth	1.5325	1.09%	3.68%	3.96%	12.44%	9.02%	8.16%	9.74%
Aggressive	1.5677	1.07%	3.26%	3.77%	13.71%	8.92%	8.36%	10.03%
Global Equities	1.6139	1.17%	3.42%	3.70%	15.16%	9.63%	8.80%	10.76%

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

The world equity (share) market index in local currency terms finished September up by a strong 2%. However a rise in the New Zealand dollar meant the index rose a more muted 1% for New Zealand investors. Markets are becoming somewhat de-sensitised to the ongoing 'playground battle' between Trump and Kim, and are focusing more on economic and corporate fundamentals, which broadly remain strong. It appears the US President will achieve a 'win' on his tax reforms, a factor helping to buoy market sentiment in the month. Some markets are pushing new record highs, and given stretched valuations there is a high bar for significant further gains from here.

This month, as part of our move to a Socially Responsible Investment (SRI) mandate, our international share portfolio transitioned from being solely invested in Exchange Traded Funds (ETF's) to being mainly a 'core' portfolio of directly held companies that broadly follows the international markets, and a smaller 'tilt' portfolio that attempts to add value via a limited number of ETF 'themes'. All holdings pass the screening process to exclude those earning revenue from weapons, tobacco, and fossil fuels, according to our SRI criteria.

The Australian share portfolio had a strong month relative to the ASX200 index in New Zealand dollar terms. In a month of New Zealand dollar strength (up some 2%), currency hedging contributed to outperformance versus the unhedged benchmark, but good stock selection also contributed. Financial shares were key contributors in September, with the recent portfolio addition, Macquarie Group, a highlight.

The New Zealand equity portfolio returned 0.6% in September, below the market index's 1.5%. Meridian, Metlifecare and Z Energy were drags on relative performance, as was Fletcher Building which remains susceptible to endless rumours about the potential for further downgrades in construction-related projects. On the positive side, A2 Milk continued its outstanding run, now up around 250% this year. This is for a company that a few months ago had just become profitable. There is no denying the company has developed a product with increasing appeal, but at current price levels we are watching our exposure closely.

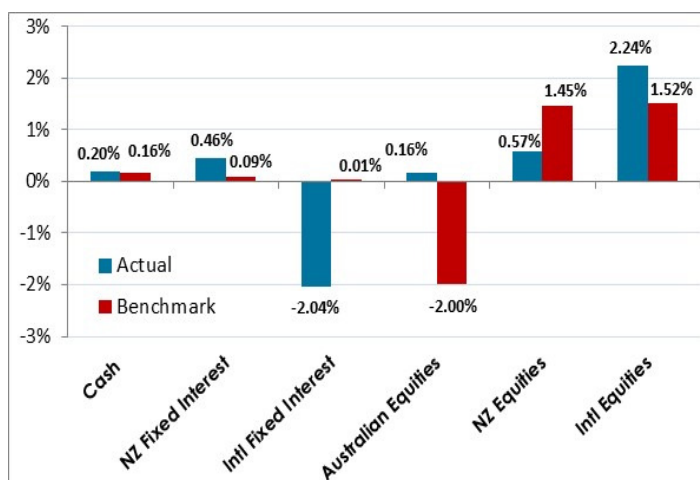
International and local bond market returns were weak as yields rose and consequently bonds' capital values declined.

Primary drivers of returns in September 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 underperform the benchmark in September, however this was due to the timing of a distribution from the underlying fund. This will be reversed next month.
NZ EQUITIES	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. The MAS portfolio, restrained by Metlifecare, Meridian Energy and Z Energy, underperformed the market benchmark. This was despite another excellent return from A2 Milk and Fisher & Paykel Healthcare.
AUSTRALIAN EQUITIES	The Australian share market was flat in September in local currency terms, not helped by severe weakness in the iron ore price. In New Zealand dollar terms it was down 2% due to the sharply higher New Zealand dollar. The fact that the portfolios are partially currency hedged meant the full adverse impact of the currency on the portfolios was not felt, in contrast to the unhedged benchmark. Lend Lease and NAB were strong contributors in stock selection.
INTERNATIONAL EQUITIES	US and international share markets had a strong month, rising 2% in offshore currency terms. The rise in the New Zealand dollar pared back the return for New Zealand investors, although the portfolios' partial currency hedging limited the adverse 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 September 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 international equities (the blue column on the far right).

International fixed interest returns appeared very weak (-2%) compared to benchmark this month, but this was a timing issue due to a distribution pay-out. This will be reversed in October.

The Australian portfolio recorded solid outperformance relative to the Australian market index, which was down by 2%.

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 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 has been significantly restructured as part of the move to a Socially Responsible Investment mandate. It is now largely passive, closely modelled on the MSCI World Index, but with the exclusion of those companies with

International Equities cont.

exposure to activities we wish to avoid. There is still a tactical ('tilt') exposure to sectors we favour, for instance US technology companies and US banks.

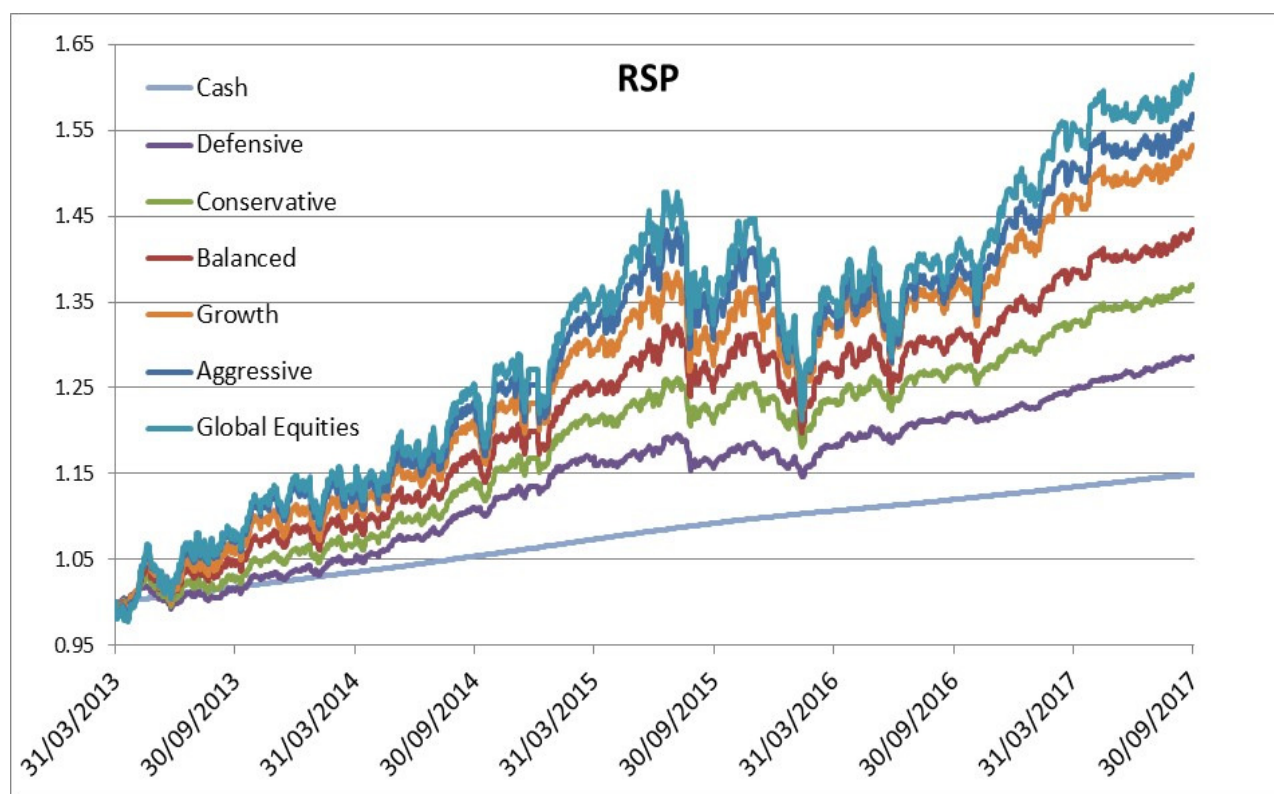
Fixed interest – Underweight

We are underweight in fixed interest assets but 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.