



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



July 2017

Retirement Savings Plan returns as at 31 July 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	1.1445	0.25%	0.70%	1.34%	2.66%	2.65%	3.01%	3.14%
Defensive	1.2706	0.51%	1.03%	3.75%	5.25%	3.24%	5.46%	5.98%
Conservative	1.3476	0.49%	0.60%	4.47%	6.94%	3.55%	6.82%	7.27%
Balanced	1.4043	0.47%	0.17%	5.15%	8.26%	3.35%	7.45%	8.07%
Growth	1.4937	0.50%	0.00%	6.42%	10.78%	4.29%	8.77%	9.57%
Aggressive	1.5234	0.34%	-0.56%	6.48%	11.80%	3.54%	9.03%	9.82%
Global Equities	1.5650	0.29%	-0.86%	7.02%	13.05%	3.48%	9.60%	10.45%

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

The international share market benchmark index rose by a strong 2.8% in offshore currency terms. However, continued appreciation of the New Zealand dollar meant the index rose a more modest 0.4% for New Zealand investors. The portfolios' partial currency hedging of around 50% helped limit the adverse effect of the Kiwi dollar's rise. The Technology sector was the index's top performer during July. Despite reporting generally solid earnings, healthcare stocks provided the largest drag on index performance during the month as healthcare reform turmoil continued within the US Congress.

The quarterly earnings reporting season is largely complete in both the US and Europe. On the evidence so far we are comfortable that US and European companies are in good shape and on track to deliver earnings growth this year in line with our expectations of 10% -15% in the US and Europe respectively. At the sector level in the US, Healthcare, Financials and Technology have all reported very strong earnings. We are seeing solid earnings growth particularly among medical device companies and among those leading the "transition to the cloud" (Microsoft, Amazon, and Alphabet).

In Europe, earnings have broadly beaten expectations across a range of market sectors. European banks in particular continue to report results ahead of expectations. It is especially pleasing to see positive earnings beginning to flow through, following a long focus on balance sheet repair and strengthening.

Overall, in local currency terms the Australian market was flat. However, it was up a solid 1.6% in July in terms of the weaker New Zealand dollar, with MAS's Australian portfolio returning 1.2%. This was a difficult month, with daily index movements of 1% being quite frequent as investors grappled with alternating positive and negative market news.

July was another strong month for the New Zealand equity market, and the MAS portfolio again outperformed the index in July with 1.7% versus the NZX50's 1.1%. Despite the good overall tone, Fletcher Building issued a profit warning, its third this year.

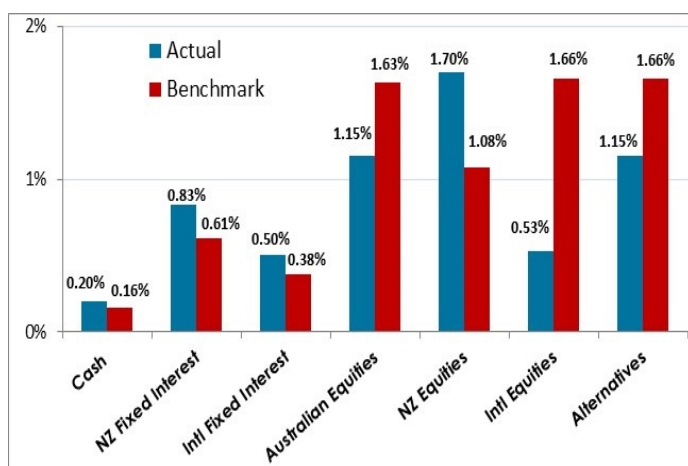
International and local bond market returns were solid as bonds' capital values rose. In addition, there was modest outperformance by the bond portfolios relative to their benchmark returns.

Primary drivers of returns in July 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	There was little movement in the key United States and other major bond markets, where very low yields prevail. Again, however, the MAS portfolios solidly outperformed the benchmark.
AUSTRALIAN EQUITIES	The Australian share market was flat overall for July in Australian dollar terms, despite a lot of day-to-day volatility. The weaker New Zealand dollar, down by some 1.6%, helped boost returns for New Zealand investors. The portfolio's large position in banks and BHP Billiton helped, while CSL was a distinct drag on performance relative to the ASX index.
NZ EQUITIES	The NZ share market recorded yet another strong gain, building on excellent returns in the previous three months. It continues to trade at demanding levels. The MAS portfolio, boosted by Metlifecare, Infratil and A2 Milk, outperformed the market benchmark.
INTERNATIONAL EQUITIES	US and international share markets had a strong month overall, rising 2.8% in offshore currency terms. The near 2.5% rise in the New Zealand dollar significantly dampened the return for New Zealand investors, although the portfolios' partial currency hedging helped cushion the impact. The international portfolio underperformed the benchmark.
ALTERNATIVES	It was a solid 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 July 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 shares.

The Australian and international equity markets recorded good gains at over 1.6% each, although the MAS portfolio holdings under-performed this month.

Fixed interest returns were solid, assisted marginally by capital gains as bond yields declined. For yet another month the MAS portfolios outperformed the 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 ('priced for perfection'), and an election is looming with some significant changes to leadership among the centre-left parties.

Australian Equities – Neutral:

Economic data for Australia remains strong, with business condition indicators at their highest level since early 2008.

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.

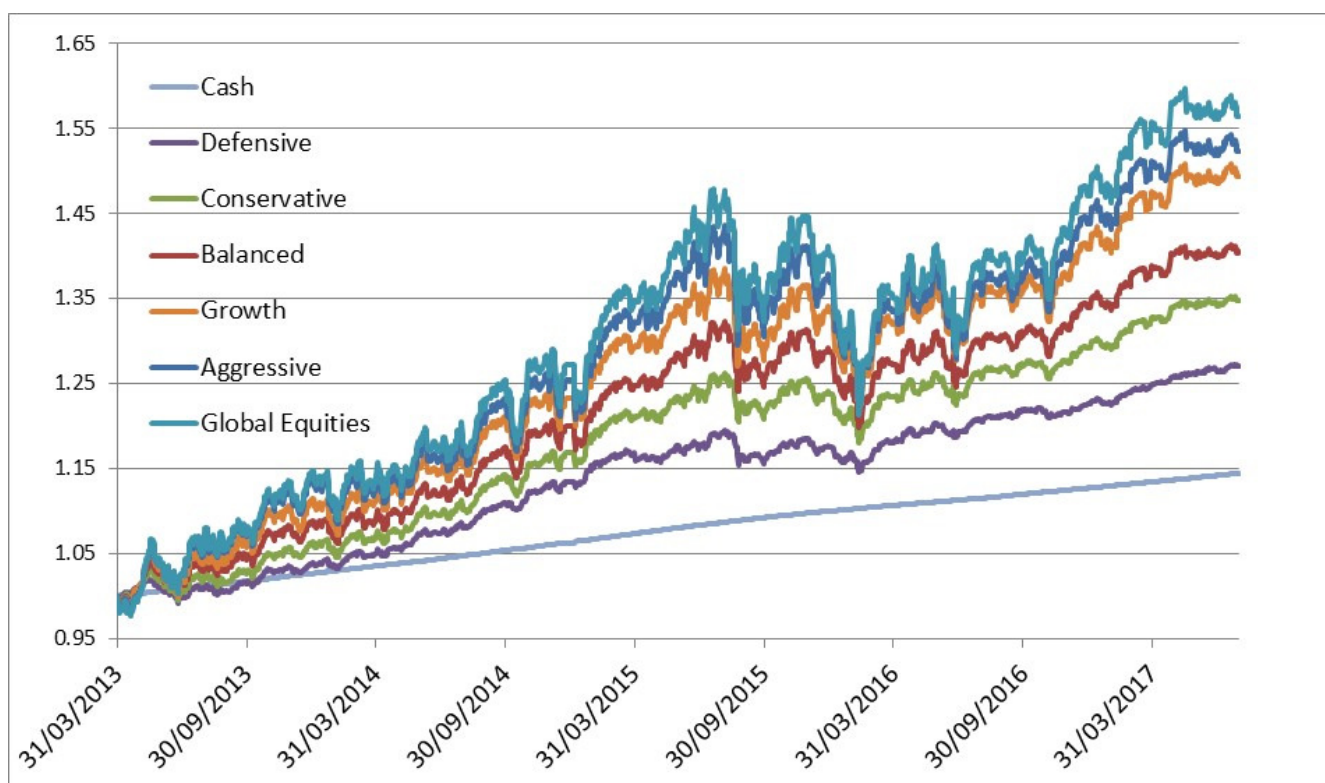
Fixed interest – Underweight

We are underweight to fixed interest assets, particularly international bonds, but are increasing the latter's exposure 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.