



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



June 2017

Retirement Savings Plan returns as at 30 June 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	1.1417	0.21%	0.65%	1.32%	2.60%	2.67%	3.03%	3.15%
Defensive	1.2642	0.32%	1.25%	3.12%	5.99%	3.75%	5.59%	6.08%
Conservative	1.3410	0.08%	1.03%	3.78%	8.34%	4.24%	6.98%	7.50%
Balanced	1.3977	0.04%	0.76%	4.30%	10.35%	4.20%	7.71%	8.36%
Growth	1.4863	0.13%	0.83%	5.49%	13.66%	5.33%	9.12%	9.97%
Aggressive	1.5182	-0.07%	0.50%	5.61%	15.40%	4.74%	9.42%	10.03%
Global Equities	1.5605	-0.12%	0.27%	6.07%	17.34%	4.87%	10.30%	11.05%

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

The strongly rising New Zealand dollar pulled back offshore equity gains in June. Partial currency hedging helped the portfolios to avoid some of this effect on returns, and in addition good sector selection (a high exposure to US banks) helped the portfolios exceed the return of the international equity benchmark (50% hedged).

Most major international equity sectors fell in New Zealand dollar terms during the month, with the exception of financial stocks. It was a particularly tough month for European shares following comments from the European Central Bank that seemed to indicate an ending of 'quantitative easing' (money printing) that has been a support to the markets for so long.

The North American technology sector saw investors take profits in June after very large gains. There are increasing concerns around valuations and fears of 'Tech Bubble 2.0', particularly that the 'FAANG' stocks (Facebook, Amazon, Apple, Netflix, Alphabet/Google – and Microsoft) are in stretched valuation territory. However, we are comfortable with the prices we are paying for very strong sales and earnings growth. The sector is trading at 20 times earnings whereas at the height

of the tech bubble in 2000 it was trading vastly higher - at 60 times earnings.

The Australian share market had mixed results, with daily movements shifting between positive and negative ahead of the profit reporting season. The banks recovered after a very weak May, while the Healthcare sector was the market leader with strong returns from Resmed and Healthscope. The portfolio outperformed the flat benchmark with a return of 0.6%.

Despite being expensive (trading on a high earnings multiple), the New Zealand share market was far and away the leading asset class in June. Fisher & Paykel Healthcare, Air New Zealand, A2 Milk, and Z Energy were leading gainers. Tegel Group was a particular highlight with a huge gain of 19% for the month. The portfolio outperformed the benchmark with an excellent return of 4%.

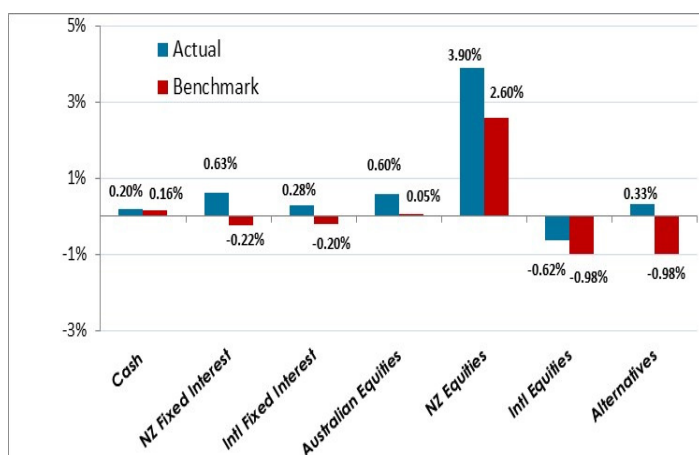
International and New Zealand bond market returns were weak as bonds' capital values declined. However, there was good outperformance by the portfolios relative to their benchmark returns. Both international and local bond returns were positive.

Primary drivers of returns in June 2017

CASH	The Reserve Bank kept the Official Cash Rate (OCR) at its record low of 1.75% in the month, keeping returns from cash investments very low.
NZ FIXED INTEREST	Domestic bond yields rose during the month. While generally prices fell and capital losses were generated, the MAS corporate bond portfolio exceeded the benchmark return with strong positive gains.
INTERNATIONAL FIXED INTEREST	As with domestic bonds, benchmark bond prices fell, generating capital losses which reduced the month's total return on US and other international bonds. Again, the MAS portfolios strongly outperformed the benchmark, leading to positive gains.
AUSTRALIAN EQUITIES	The Australian share market saw little movement for the month overall. However, banks enjoyed a solid month, while healthcare-related companies were leading performers in the market. The MAS portfolio outperformed the benchmark, with its holdings in CSL, Resmed and Healthscope being significant contributors.
NZ EQUITIES	The NZ share market recorded yet another strong gain, building on excellent returns in April and May. The market has made successive new record highs and is now trading at historically high levels. The MAS portfolio strongly outperformed the market benchmark.
INTERNATIONAL EQUITIES	US and international share markets had a quiet month overall, rising 0.5% in offshore currency terms. While the more than 3% rise in the New Zealand dollar dampened the return to a negative figure for New Zealand investors, the portfolios' partial currency hedging helped cushion the adverse impact. The international portfolio outperformed 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 June 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 New Zealand share market. In addition to the index returns, the MAS New Zealand portfolio outperformed the market partly due to large positions in Z Energy and Fisher & Paykel Healthcare.

The Australian and international equity markets were subdued, but the portfolio holdings solidly outperformed the respective benchmarks.

Fixed interest returns were weak, hampered by capital gains as bond yields rose (investors were prepared to pay less for bonds). Again, the MAS portfolios outperformed the 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 has been making consecutive new record highs. There seems to be no stopping the local market and its price-earnings ratio is now at an all-time high. Uncertainty around the September election outcome doesn't appear to be priced into the market yet.

International Equities – Neutral: We continue to be positive about Europe's economic and company earnings prospects. In addition, its shares appear attractively valued and there is a supportive central bank keeping interest rates very low. In the United States we remain positive about the leading technology stocks, despite concerns in some quarters about share prices becoming excessive.

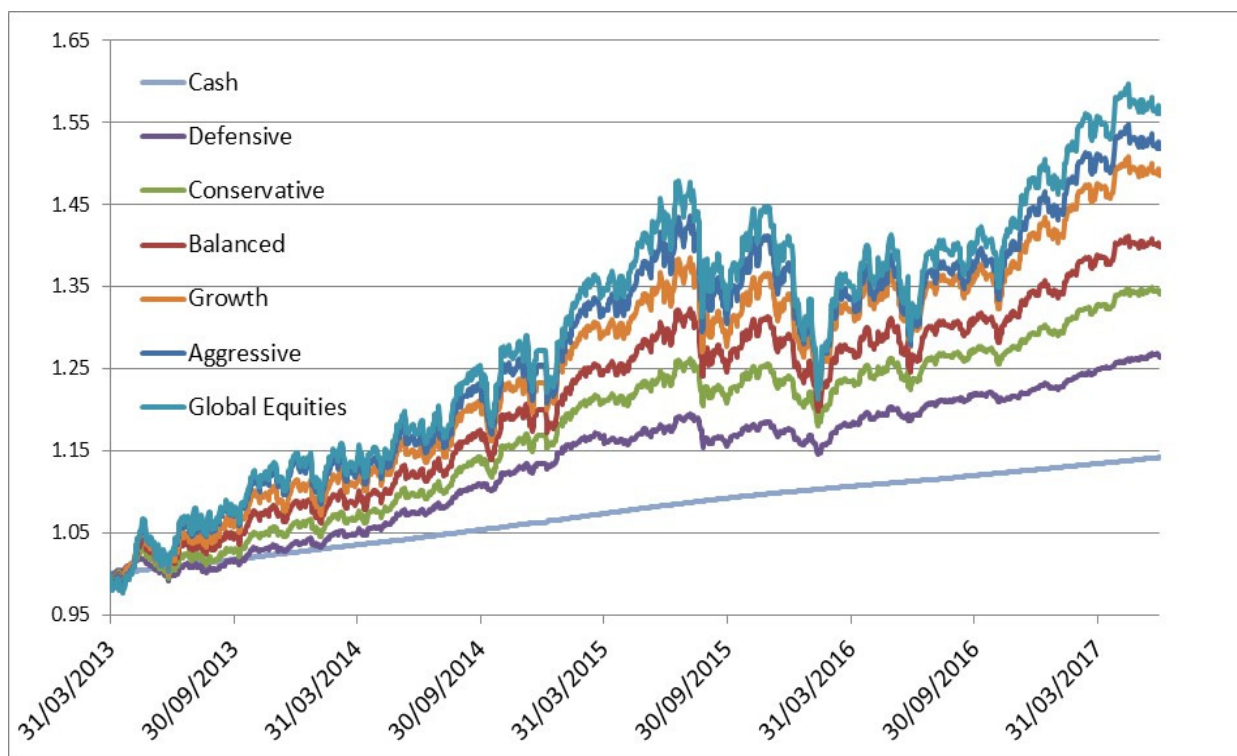
Fixed interest – Underweight

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/

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.