Quarterly Newsletter

31 December 2018

SUPERLIFE
a Member of the NZX Group

Welcome

Welcome to the December quarter news. From all the team here at SuperLife, we wish you a successful and peaceful 2019.

This quarter we provide an update on market activity where global and New Zealand equity markets suffered large declines in the December quarter.

Since the end of the quarter the markets have already started to recover.

The section on volatility in investment markets reminds us that while no investor likes a negative return, it is important to keep in mind that the market volatility of the past few months is not unusual.

Our regular My Future Strategy update reminds us not to be spooked by the recent market volatility. Time and time again, history suggests markets recover from periods of weakness.

We feature how SuperLife's lifecycle investment option, SuperLife$^{\text{AgeSteps}}$, works and how SuperLife is different from other providers.

In the detailed News available by email or online at superlife.co.nz:

- Coping with market volatility – a member's story
- Changes to Fund updates
- SuperLife managed funds' name change to SuperLife Diversified Funds

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Smartshares Limited is the issuer of SuperLife Invest, the SuperLife KiwiSaver scheme, the SuperLife UK pension transfer scheme and the SuperLife workplace savings scheme. The Product Disclosure Statements and Fund Updates for these schemes are available at www.superlife.co.nz/legal-doc.

Market update

Global and New Zealand equity markets suffered large declines in the December quarter.

Interest rates rose in the US, Brexit was deadlocked, trade tensions between the US and China continued, and there was a partial US government shutdown. There were some weaker than expected corporate earnings for bell-weather stocks such as Apple. We also saw the potential for global recessionary conditions to emerge over the near future. Equity market volatility is not historically unusual, and it's a key reason why investors earn a higher return on equities than cash over long-term horizons. This is explored further in the box below.

International equities
International developed market equities fell by around 15.5% over the quarter, implying a 4.5% return for the 2018 year (FTSE Developed All Cap Index in NZ dollar terms). Within global equities, the decline was larger in "growth" and small cap stocks which are more sensitive to changes in perceptions of the economic environment.

Emerging markets
In contrast, Emerging Markets, which are also normally more sensitive to a major downturn, fell by only 7.9% in the quarter (FTSE Emerging Markets All Cap Index). This partly reflects them earlier bearing the brunt of trade war fears. It may also reflect a view by many equity analysts that Emerging Markets now offer particularly good-value for investors.

Trans-Tasman equities
These markets did not escape the sell-off. Australian equities declined around 11.7% (ASX 200 Index), with small caps being hit harder in line with the international experience. NZ equities were relatively robust to the global sell-off, falling by around 5.5% (S&P/NZX 50 Portfolio Index). This left the 2018 calendar year return for the NZ equity market at around 5.2% - a strong result compared to most other equity markets.

Bonds
These offered some respite to the equity markets sell-off, as should be expected in times of market stress. NZ bonds returned around 1.3% for the quarter and 4.4% for the year (S&P/NZX A-Grade Corporate Bond Index). This return is well ahead of short-term cash rates and term-deposits, indicating that NZ bonds have offered a good premium. International bonds also returned 1.5% over the quarter (Bloomberg Barclays Global Aggregate Index).

The fortunes of these different markets are reflected in SuperLife's fund returns. SuperLife$^{\text{Income}}$, which has no exposure to equities, had a positive return of around 0.4% over the quarter. The moderate risk SuperLife^{30} fund fell around 2.4%, while the high risk SuperLife^{100} fund fell 10.3%.

Volatility in equity markets

No investor likes a negative return, but it is important to keep in mind that the market volatility of the past few months is not unusual. We have seen as large or larger declines in markets regularly in the past, including 2011, during the GFC in 2008/2009, the early 2000s and in 1987. (US post-WW2 data suggest that the US equity market has a decline of 10% or more on average every 18 months).

We also know that investors across most equity markets, including New Zealand's, have historically been amply rewarded for bearing such short-term market volatility.

Monthly data for the US equity market since 1972 shows that at a 10-year holding period, most returns are tightly clustered around the average return (of around 13%), and that even the worst 2.5% of returns at this horizon are still positive. We see similar patterns in other equity markets.

This higher long-term return has also been enjoyed by long-term SuperLife investors. Read the full article at superlife.co.nz.

My Future Strategy

As discussed in the Market Update section, it is important not to be spooked by the recent market volatility.

Time and time again, history suggests markets recover from periods of weakness. The risk of permanent capital loss is minimal given this pattern, along with SuperLife funds being broadly diversified across NZ and offshore markets. This means that even if some companies fail within an equity market, it will not materially impact your returns.

For investors with long-term horizons, staying the course with your present investment strategy is usually the best option, subject to your goals, objectives and cash needs remaining broadly the same as when your strategy was established.

Investors concerned with performance over a medium-term horizon (the next three to five years or so) may see an opportunity to enhance returns by tweaking your allocation to cash, bonds, equities and property stocks as follows:

- Holding less in bonds and, therefore, more cash and shares. This reflects the view that with the sell-off, equity markets are now cheaper, while for bonds there is still risk that interest rates may increase more quickly than is currently factored into bond prices.
- Favouring value, Emerging Market, Australian and European equities compared to US and NZ equities. These latter markets are broadly assessed to offer less value (upside return potential) than other markets.
- Maintaining holdings of property stocks at around your long-term allocation.
- Maintaining the currency hedge on overseas shares at around your long-term allocation. Our interest rates are still slightly higher than foreign rates on a global market capitalisation (e.g. MSCI World Index) basis. This means hedging global equities will still earn investors a positive “carry”.

This strategy doesn’t take account of personal circumstances; rather it is designed to illustrate possibilities.

As with all investment decisions, what might be the right strategy over the medium or long-term may not pay-off over the very short-term. No one can consistently predict what’ll happen over the short-term.

The lifecycle approach to investing

This quarter we highlight how SuperLife’s lifecycle investment option, SuperLife^{AgeSteps}, works and what makes SuperLife different from other providers.

SuperLife is one of the few KiwiSaver providers whose “default” investment option is a lifecycle one. The “default” option with most providers is a conservative strategy investing in low risk low return options. SuperLife^{AgeSteps} provides our members with an investment strategy aligned with their age. This ensures that they don’t miss out on the potential higher returns that can be achieved from being invested in growth assets.

Under the SuperLife^{AgeSteps} option, your savings are invested in a mix of assets according to your age.

As you age, the proportion of your investment in more volatile growth assets (shares/property) reduces automatically, lowering the expected size of the ups and downs in the value of your investment. You don’t have to worry whether you are in the right mix of growth and income assets for your age – we do that for you. Find out what the mix of income and growth assets at your age (and different ages) would be at superlife.co.nz.

Returns after tax, costs and fees

SuperLife workplace savings scheme, period ended 31 December 2018

Where returns are not shown, the investment option was not available for the full period. The quarterly investment news includes returns for an investor in the SuperLife workplace savings scheme not making contributions. For investors in SuperLife Invest, the SuperLife KiwiSaver scheme and the SuperLife UK pension transfer scheme, and for investors in the SuperLife workplace savings scheme making contributions, the returns may vary slightly.

Fund	Last quarter	1 year	3 years % p a	5 years % p a	7 years % pa	Fund	Last quarter	1 year	3 years % p a	5 years % p a	7 years % pa
NZ Cash	0.45%	1.81%	1.96%	2.28%	2.41%	NZ Dividend ETF	-0.91%	4.47%	9.12%		
NZ Bonds	0.89%	3.31%	3.73%	4.17%	4.01%	NZ Top 50 ETF	-5.52%	4.58%	11.80%		
Overseas Bonds	0.05%	0.40%	3.09%	3.66%	2.90%	NZ Top 10 ETF	-8.37%	3.66%	10.08%		
Overseas Non-govt Bonds	0.37%	-0.28%	2.06%	3.09%	3.34%	NZ Mid Cap ETF	-2.71%	4.51%	13.19%		
Property	-2.20%	0.15%	5.67%	9.45%	9.79%	NZ Property ETF	2.11%	10.10%	7.99%		
NZ Shares	-3.55%	2.56%	9.64%	8.64%	14.54%	Australian Top 20 ETF	-9.89%	-7.03%	3.31%		
Australian Shares	-9.67%	-9.81%	5.05%	5.77%	3.90%	Australian Dividend ETF	-13.84%	-17.06%	-1.51%		
Overseas Shares (Hedged)	-13.91%	-9.72%	5.26%	6.10%	9.69%	Australian Financials ETF	-11.08%	-15.41%	-1.05%		
Overseas Shares	-15.51%	-6.65%	4.54%	7.38%	9.69%	Australian Property ETF	-3.15%	-0.24%	6.90%		
Emerging Markets	-7.93%	-10.99%	5.47%	4.11%	3.59%	Australian Resources ETF	-11.27%	-2.46%	20.45%		
UK Cash	-3.10%	-0.78%	-3.44%	-0.80%		Australian Mid Cap ETF	-16.20%	-13.01%	8.61%		
SuperLife Income	0.44%	1.33%	3.07%	3.60%		Total World ETF	-15.06%	-6.89%	4.75%		
SuperLife 30	-2.43%	-0.58%	4.26%	4.78%	5.24%	US 500 ETF	-15.52%	-2.20%	7.15%		
SuperLife 60	-5.96%	-3.26%	4.99%	5.74%	7.11%	Europe ETF	-15.56%	-11.99%	1.08%		
SuperLife 80	-8.25%	-4.89%	5.51%	6.34%		Asia Pacific ETF	-14.62%	-10.73%	3.54%		
SuperLife 100	-10.29%	-6.52%	5.71%	6.58%		US Large Growth ETF	-18.87%	-1.50%	7.32%		
Ethica	-6.70%	-4.45%	3.26%	5.97%	6.79%	US Large Value ETF	-13.65%	-3.38%	6.62%		
NZ Cash ETF	0.42%	1.77%	2.15%			US Mid Cap ETF	-17.94%	-7.24%	4.21%		
NZ Bond ETF	0.89%	3.36%	3.64%			US Small ETF	-20.35%	-6.99%	5.54%		
Global Bond ETF	0.05%	0.39%	3.03%			Emerging Markets ETF	-8.15%	-10.70%	5.62%		