

DAIRY INDUSTRY SUPERANNUATION SCHEME NEWSLETTER

December 2015

MARKETS RECOVER LOST GROUND

A tough September quarter...

Global markets displayed real signs of uncertainty in the September quarter, with investors particularly concerned about impending headwinds facing the world economy.

The slowdown in the Chinese economy continued to keep pressure on commodity prices, leading to a knock-on effect for global trading activity. This, together with growing uncertainty about US interest rate increases, caused a spike in market volatility during the quarter.

Global equity markets provided their worst performance in nearly four years, falling 10%. The US Federal Reserve (the Fed) again delayed its much-anticipated rates rise. Markets focused negatively on comments from Fed Chair Janet Yellen, who blamed an unsettled world economic outlook for the decision to delay the rise.

New Zealand shares also lost ground, but to a much lesser extent than their offshore counterparts. The local market was protected by support for income-earning shares.

Domestically, the New Zealand economy started to show signs of weakness, with declines in consumer and business confidence, as well as forecast growth. The Reserve Bank cut rates twice during the quarter (to 2.75%), with further cuts anticipated.

...followed by a very strong rebound in October

A change of month was enough to create a change of heart among investors. After the sharp losses on global share markets in the September quarter, developed markets regained almost 8% during October; even emerging markets made solid ground, while, locally, New Zealand shares were up 7% in a broad-based recovery.

Despite ongoing concerns, markets were helped along by the likes of the European Central Bank, which indicated it may extend its quantitative easing programme and cut interest rates. Better-than-expected earnings reports out of the US also boosted investor confidence.

Global bonds crept higher as the US Federal Reserve kept rates unchanged, although expectations are for movement to occur in December.

New Zealand bond yields also moved higher as the Reserve Bank left interest rates unchanged following earlier cuts. The feeling among analysts is that there is likely to be another 0.25% reduction in December.

For detailed information about the Scheme's investment performance, see the quarterly investment update, which is available on the investments page of the Scheme website dairysuper.superfacts.co.nz.

Returns for each investment option after tax, fees and expenses to 31 October 2015

	Cash	Cash/ Conservative	Conservative	Conservative/ Balanced	Balanced	Balanced/ Growth	Growth
Scheme year to 31 March 2015	2.4%	4.6%	6.9%	8.6%	10.3%	11.1%	12.0%
Periods to 31 Oct 2015							
Scheme year-to-date (7 months)	1.2%	1.3%	1.5%	1.4%	1.4%	1.5%	1.5%
12 months	2.4%	3.4%	4.4%	4.9%	5.3%	5.6%	6.0%
3 years (average pa)	2.1%	3.8%	5.5%	7.3%	9.2%	10.3%	11.3%
5 years (average pa)	2.2%	3.6%	5.1%	6.3%	7.4%	8.1%	8.7%
10 years (average pa)	3.0%	3.7%	4.3%	4.6%	4.8%	4.8%	4.9%
12 years (average pa)	3.2%	4.0%	4.7%	5.0%	5.4%	5.5%	5.7%

Fund returns are determined monthly. Reported returns take into account the effect of compound interest and are rounded to one decimal point.

Fonterra scheme winding up

As we mentioned in the last newsletter, the Fonterra Superannuation Scheme (FSS) will be winding up with effect from 31 December 2015. In most circumstances, the wind-up will not have any direct effect on the members of the Dairy scheme.

However, if in future your terms of employment change from waged to salaried, you will no longer be able to transfer out of the Dairy scheme into the FSS, and will become an elective member of the Dairy scheme.

When you become an elective member, your existing account balances and benefits (and access to them) will remain the same. However, your employer will no longer make employer contributions.

You need to complete a *Change Membership Basis* form, which transfers your membership basis from employee to elective. You can also use the form to indicate what contributions, if any, you intend making to the Scheme.

It is important to remember that, if you wish to retain your existing death and permanent incapacity insurance benefits, you must continue contributing to the Scheme.

KiwiSaver membership can affect your insurance cover

A significant number of members are now members of both the Dairy scheme and a KiwiSaver scheme.



To see how contributing to both schemes could affect your insurance cover, we will use the example of a fictitious member, Keith.

Keith, who is 48, has been a long-time employee member of the Dairy scheme, and is considering also joining KiwiSaver. As contributions to the Dairy scheme and a KiwiSaver scheme can be deducted from his pay, Keith sees this as a good way to further boost his retirement savings.

With a wife and three school-aged children, Keith is also aware of the importance of having adequate death and permanent incapacity insurance cover through the Dairy scheme. He has been contributing 6% of his wages to the Dairy scheme for some years, so currently has the maximum cover (50 x member contributions of 6% for the 12 months prior to any insurance claim).

However, contributing to a KiwiSaver scheme may reduce the value of these insured benefits. If he joins a KiwiSaver scheme and doesn't increase the amount currently being

deducted from his wages, Keith and his family would see the insurance cover reduced by up to half. This is because only half of the 6% would be credited to his Dairy scheme Member's Account, with the rest being forwarded to his KiwiSaver scheme.

To ensure Keith's insurance cover remains the same, he would need to make an additional 3% in deductions from his pay. These would be directed to KiwiSaver and the balance (6%) to his Member's Account, thus providing him with the same level of death and disablement protection as he already has.

Note: Rather than joining KiwiSaver, Keith may want to consider taking advantage of the Scheme's complying superannuation fund status.

Cutting through the jargon

Some of the terms used in Scheme communications are specific to superannuation, estate planning or investments.

Emerging market: The term emerging market relates to a country or region where the economy is becoming more advanced, usually through rapid growth and industrialisation.

Emerging markets include politically influential nations such as China, India and Russia, along with other parts of Asia, eastern Europe, Africa and Latin America.

Emerging markets make up around 20% of the world's economies and contain 75% of the global population.

Christmas greetings

The directors of the Trustee would like to take this opportunity to wish Scheme members and their families a very merry Christmas and all the best for the New Year.

Looking for information about the Scheme?

The Scheme website, www.dairysuper.superfacts.co.nz, includes a wealth of information. If you have any questions about the Scheme or your membership, we encourage you to make it your first port of call.

Did you know...

You can choose how information about the Scheme is sent to you. If you haven't done so yet, let us know by signing in to dairysuper.superfacts.co.nz and select either 'Update my preferences' or click on the 'Personal details' tab at the top of the 'Your super' page.