Presbyterian Beneficiary Fund

JAN 2024

NEWSLETTER

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Message from the Chair

Happy New Year!

The summer holidays are often a good time to reflect on what happened last year and look forward to the year ahead, even if you're not prone to New Year resolutions. This is also the case for our financial affairs. It can be a good time to ask, 'what state are my finances in?' and 'should I be doing anything different this coming year?' If you're expecting changes this year, now is a good time to consider whether those changes might impact your financial situation.

Each of you will need to consider your own position, but we can help by reviewing returns for 2023. As the chart on page 3 illustrates, it was another volatile year (when is it not). Fortunately, there were more ups than downs, resulting in strong returns for 12 months to 31 December 2023[1]. The Growth Fund returned 11.2%, the Balanced Fund 9.4%, the Conservative Fund 6.6%, and the Cash Fund returned 5.1%. These returns more than made up for losses incurred in 2022. The new Moderate Fund was introduced in the final quarter of the year and we are pleased to see some members are already using this option.

As the Board gets set for 2024, we are delighted to welcome a new director. Graeme Thomlinson has enjoyed a long career in funds management and we look forward to benefiting from his wisdom and experience. You can read a little more about Graeme on page 4.

Finally, in keeping with our looking forward theme, we revisit some suggestions as to what you can do to make sure things run smoothly when you need others to assist manage your finances.

All the best for 2024.

Yours in Christ

M. N. Galt

Margaret Galt

[1] All returns quoted in the Chair's Message are after fees and expenses.

Investment Market Update

Returns in 2023 ended up being better than most expected. Twelve months ago, investors were not exactly optimistic. Most expected the sharp increase in interest rates – designed to curb inflation – would likely result in a recession. After all, that is the usual outcome.

As it happens, the US economy (which remains the largest and most influential global economic engine) was remarkably resilient, even as inflation began to moderate. Commentators are now largely predicting we will avoid a global recession, achieving what is called a 'soft landing'. Central banks have been able to pause their interest rate hikes, confident that inflation will return to within an acceptable range.

How have investments performed?

After a tough third quarter of 2023, global shares bounced back strongly in the last three months of the year, rising nearly 10% to be up 23% for the calendar year. That sounds great, but it's worth noting that the strong performance was mostly down to a few technology companies, known as the magnificent seven: Amazon, Apple, Facebook, Google, Microsoft, Nvidia, and Tesla. The downside to this sort of market leadership is that investors are forced to take more concentrated risks to keep up. Then, when, as tends to happen, the leaders fall back into the pack, investors sustain losses.

That said, other investments also did well over the quarter. Global property (+13%) and infrastructure (+9%) also performed well as the prospect of falling interest rates in 2024 boosted asset prices. NZ shares were also up over the quarter, but by a more modest 4%. In fact, NZ shares only rose 4% over the whole of 2023 (our market does not have big tech companies).

Bonds also benefited from expectations that interest rates will begin to fall in 2024, with global bonds up 6% over the quarter and NZ government bonds up over 7%. Like NZ shares, the calendar year returns for bonds were made up almost entirely in the final quarter of the year.

Where to next?

Of course, having highlighted that investors' predictions are not always accurate, we should take extra care when there appears to be a consensus emerging. We might think we're headed for a 'soft landing', but as Sherlock Holmes once said, "There is nothing more deceptive than an obvious fact".

Still, central banks are expected to start reducing interest rates at some point in 2024 (to help keep economies on track). All things being equal, falling interest rates will be good for both shares and bonds. Bonds, which make up the lion's share of the Conservative Fund, will benefit from price increases - as the interest rate paid on existing bonds will be higher than that paid on future bonds.

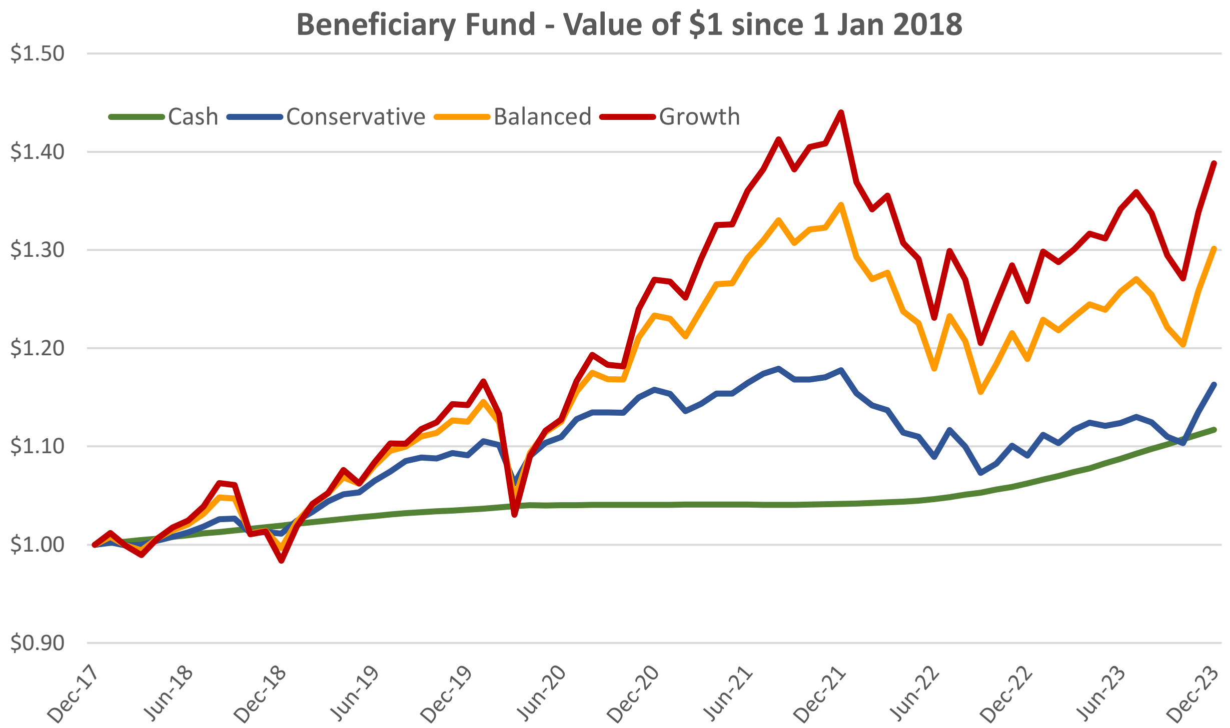
Shares, which make up the majority of the Growth Fund, will also benefit as dividend payments will start to rival returns from fixed interest investments (and it will cost companies less to service debt). Whether this translates into across-the-board returns remains to be seen. As we saw in 2023, market returns were driven by a small number of companies and just a few months of the year.

As always, we need to be alive to the prospect that things will not turn out as expected. We adopt a diversified investment strategy across all our funds because it's impossible to pick ahead of time which assets will perform well over which periods of time.

Fund Returns

The chart below illustrates the value of $1 invested in the various investment options available in the Fund since 1 January 2018 (after fees and expenses). It shows returns peaking at the end of 2021 after an amazing period following the initial Covid shock. After that, returns fell to a low point at the end of September 2022. Since then, returns have been quite volatile, with rises outnumbering falls.

Things were looking pretty bleak at the end of October last year after some hefty falls in August, September and October. Fortunately, there was a major shift in investor sentiment with November and December recording very strong returns. This pushed the Growth Fund return for 2023 to over 11% and to 7.1% p.a. for the last five years (after fees). The Conservative Fund, which has struggled, also benefited to return a healthy 6.6% for the year. The Cash Fund provided its best return over the last five years, reflecting high interest rates (although this might be the peak for this option).



Markets took off in November and December 2023

The table below provides annualised returns after fees for each investment option for periods to 31 December 2023 (we will include the Moderate Fund once it has reached one year of returns).

Presbyterian Beneficiary Fund – investment option returns per annum to 31 December 2023				
	Cash	Conservative	Balanced	Growth
1 year	5.1%	6.6%	9.4%	11.2%
3 years	2.4%	0.2%	1.8%	3.0%
5 years	1.8%	2.8%	5.5%	7.1%

The table below provides unit prices for each investment option as at 31 December 2023.

Presbyterian Beneficiary Fund – unit prices as at 31 December 2023					
	Cash	Conservative	Moderate	Balanced	Growth
Unit Price	1.6896	1.1599	1.0178	1.3666	1.3844

New Director: Graeme Thomlinson

Graeme began his 40+ year career as an audit and tax accountant in Tauranga before taking up a number of accounting roles in London. Following his return to NZ, he has spent time in a variety of roles in the investments and fund management industry. For the last 20 years, Graeme has been a member of the ANZ Investments team, largely working with Boards of all shapes and sizes, including superannuation scheme boards, charitable trusts, local councils, and iwi authorities. He is now keen to develop his own governance experience and use his skills and experience to 'give back'.

Graeme lives in Auckland with his wife Jane. He especially looks forward to Sunday evenings when his three grown children join them for dinner.

Getting ready for help

In our February 2023 newsletter we outlined some of the things you might like to consider in or nearing retirement. There are some key things you can do to make it easy on your family if you need help managing your finances, or to access your funds once you're gone. These include:

- ***Nominated Spouse*** – if you have a nominated spouse, when you die, any balance remaining in your Fund account immediately belongs to your spouse. In this event, they will be contacted by MJW and will be able to treat the funds as their own.
- ***Power of Attorney*** – if you are worried about not being able to manage your account at any point, you are able to appoint a Power of Attorney *for property* who can make decisions about your Fund account on your behalf. You can also appoint a Power of Attorney *for personal care and welfare* to give someone the power to make decisions about your health and welfare if you're unable to. However, please note you need to ***regularly update any Power of Attorney***. We suggest you do this each year to ensure there are no issues when it comes to implementation.
- ***Will*** – if you do not have a nominated spouse, when you die, any balance remaining in the Fund becomes part of your estate and will be dealt with as determined by your will. We strongly recommend you keep your will up to date. Please note, there is still a process to be followed before anyone can access an estate. Under the Administration Act, we are able to pay a sum of up to $15,000 before probate has been granted. The main purpose for this is to meet the costs of funeral arrangements (and we are likely to pay these directly to the provider).

For information about your account balance and Fund details, or to request a withdrawal or investment switch, please call the Fund's Administration Manager, Melville Jessup Weaver (MJW), on 0800 266 787, emailing them at presbyterian@mjw.co.nz, or posting to PO Box 1096, Wellington 6140.
