Beca Super Scheme Autumn Update

This update reports on the investment performance of the Scheme for the seven months to 31 March 2020. In addition, it discusses the significant recent events in the investment markets and considers the outlook for the rest of the year.

Comment from the Chair on behalf of the Trustee Board

This update was first drafted earlier this month, just weeks after the Coronavirus Pandemic brought economies around the world to a near-standstill. However, events have moved rather quickly and at the time of publication New Zealand has shifted to Alert Level 3 - a welcome relief for many, albeit with much caution, distancing and other restrictions. The Coronavirus Pandemic has seen unprecedented disruption to the New Zealand and World economies, bringing a destructive end to the longest bull-market run in history.

We report below on investment performance for the seven months to 31 March 2020. Although an unusual reporting period we wanted to appraise you of recent performance as best we could.

Our investment committee & team remain in regular contact with our expert advisers and fund managers with the aim of protecting asset values, minimising losses and positioning the Scheme for renewed positive income and hopefully capital growth going forward.

These are difficult times but you can be assured that your Trustee Board is closely monitoring developments. We will keep you informed of relevant future developments.

In the meantime, stay in your “bubble” and stay safe.

With best wishes,

Chye Heng
Chair of the Trustee Board
BGS Trustee Limited
23 April 2020

Investment Performance for the 7 months to 31 March 2020

Performance Summary for the 7 Months to 31 March 2020
The Scheme’s assets generated an after-tax and expenses investment loss of 4.10%
The Scheme’s net assets decreased by 2.28% to $68.3 million.
Benefits totalling $2.4 million were paid to members.

These figures have not been audited (or reviewed by an auditor) and as such are subject to change.

The Scheme generated an after tax and expenses investment loss of $2.9 million or 4.10% for the 7 month period to 31 March 2020. This result compares to a gain of $1.9 million or 2.94% in the same period during the previous year.

The loss in the month of March alone was $3.7 million or 5.22%. This compares to preliminary advice from our advisers and other unaudited data indicating that in March most New Zealand balanced funds lost between 7% and 11%, and most growth funds around 10% to 15%. While a loss is disappointing, we have been well-served by the move over the past year toward a slightly more defensive asset allocation.

Asset Allocation as at 31 March 2020

The Scheme's asset allocation as at 31 March 2020 (compared with the asset allocation as at 31 August 2019) was as follows:

Asset Allocation	As at 31 March 2020	As at 31 August 2019
Australasian Equities	19%	20%
Global Equities	22%	22%
Fixed Interest Securities	39%	41%
Alternative Assets	5%	6%
Cash & Short-Term Deposits	15%	11%
TOTAL	**100%**	**100%**

During the period the Trustee made some tactical adjustments to the asset allocation which were in compliance with the ranges disclosed in our Statement of Investment Policy and Objectives (SIPO). The Scheme's overall allocation to more conservative income-oriented assets (Cash & Short-Term Deposits and Fixed Interest Securities) increased by 2%. The allocation to growth-oriented assets (Australasian Equities, Global Equities and Alternative Assets) decreased by the same amount.

Our tactical asset allocation has been deliberately positioned toward a slightly more defensive (but still balanced) mix since last year based on the investment team's research and advice from our external advisers. We consider this approach to be prudent given the signs of uncertainty and the risks of slowdown in our major trading partners.

Investment Markets

After the extended bull market run and initial indifference to the growing spread of COVID-19 over the first two months of 2020, global markets severely reversed direction in late February. By 9 March they had entered Bear Market territory (usually defined as a fall of 20% or more). Official declaration of a Pandemic on 11 March by the World Health Organisation heightened the decline. After a modest rally late in the month, by the end of March the NZX 50 was down 13%, the US S&P 500 down 12% and the Australian S&P/ASX200 down 21%. These changes have seen a general rush to quality and to cash.

Since reaching a low point around 23 March, most equity markets have fluctuated daily but with a general upward move during the month of April. In the main this has been in reaction to the enormous fiscal stimulus packages announced by governments. For example, the US Government passed a US$2.0 Trillion package in late March (about 10% of GDP) and has since added another US$700 Billion, the Australian Government has to date announced total support of around A$219 Billion (about 13% of GDP) and the New Zealand Government over NZ$22 Billion (about 7% of GDP). Most commentators expect more stimulus to come.

After a plunge of about 35% from their February high point to their lows around 23 March, Global and Australasian shares have had a 15 to 25% rally. During the crash and immediately after its low point there were significant liquidity issues dominated by a "sell everything" market where equities, bonds, property, gold and alternative assets were all sold. The Federal Reserve and other Central Banks had to step in to provide much needed liquidity and confidence. Markets are now much more stable but still vulnerable.

Exacerbating all this was an “Oil War” which broke out between Saudi Arabia and Russia, just as demand for oil plummeted due to the Coronavirus. This caused oil prices to crash by 54% in early March, falling to about US$20 per barrel. By mid-April oil had another plunge with May futures hitting minus US$37 as buyers could not take delivery and with oil storage reaching capacity in the US. Trump has pledged a lifeline to US oil producers who have been hit hard, as most had high operating costs and highly leveraged balance sheets.

Outlook

Our move since late 2019 (in compliance with our SIPO) to move some growth assets into more conservative fixed interest and cash, together with improving the quality of our bond holdings and equities, have helped cushion the negative effect on the Scheme. Early action taken to reduce investments identified as being particularly exposed to the Pandemic (such as retail, travel, leisure, hospitality & entertainment) has also helped significantly. Remaining equities are mainly in strong well capitalised companies in less vulnerable industries. Our bias towards holding cash is strong currently at around 15% of total assets.

Beca Group Ltd (BGL) shares are still our largest single equity holding ($9.7m, or 8.5% of total funds, as at 31 March 2020). Although BGL is expected to be well-placed to weather the turmoil compared to most businesses, it cannot escape the overall large hit to the NZ and world economies due to the Pandemic shock. We have been communicating with BGL directors and management and are aware that they are taking proactive steps to navigate their way through this very difficult period. We will continue to monitor the situation carefully.

Governments will continue to mitigate the effects with stimulus packages as noted above. However, government stimulus buys time and at a cost to the future and even governments have a limit - especially those that are already heavily indebted. Our government is fortunate to start from a low level of debt (around 20% of GDP) which is much better than most other countries. Some estimates of the size of government borrowing put NZ net debt at 50% of GDP by 2021. No doubt this will take years for the government to pay down.

However, the NZ government’s low level of debt and ability to enact quantitative easing to keep interest rates low place NZ in a good position for a stable recovery, especially taking into account our “can do” innovative approach to solving problems.

Westpac is forecasting an unemployment rate of 9% while ANZ sees it going up to 11%. Other economists have noted that the unemployment figure could be as high as 15% and at least one has suggested 30%. They also forecast that many businesses will fail and those that do survive will have borrowed heavily. These businesses would need to focus on rebuilding their balance sheet but not at the expense of employment and business investment.

The next six months will be rough for the global economy, financial markets and investors. Most listed companies will cease paying dividends and share buy-backs. There will be profit warnings and large losses. Many businesses will close, and unemployment will rise to record levels.

Governments will become even more indebted. Liquidity will again be king. There is little doubt that there will be a global recession - the questions now are how long and how deep?

It is not exaggerating to say that the Coronavirus has wreaked havoc on markets and economies, destroyed jobs and lives, and affected humanity.

IMF Managing Director Kristalina Georgieva has noted that "*This is way more serious than during the global financial crisis, and some countries are highly dependent on commodities exports. With prices collapsing, they are hit yet again… The same way that the virus hits vulnerable people with medical preconditions hardest, the economic crisis hits vulnerable economies the hardest".*

We believe our Scheme continues to be sound and financially in good heart. Our results demonstrate that we have been wise to adopt a more conservative approach (in compliance with our SIPO) in the past 6 to 9 months. Ultimately the Scheme's performance depends on the severity and longevity of the Pandemic and the ability of markets and economies to recover. While governments (at least, in the richer countries) are softening the blow to their economies through the largest stimulus packages in living memory, this cannot continue indefinitely. In this environment it is best to be in a more defensive mode and be prepared for potential further market volatility until the recovery comes about.

But, even in the eye of the storm all is not doom and gloom. Early glimmers are starting to emerge in several countries (including New Zealand) that the lockdowns are slowing the rate of infection growth. The first victim of the Pandemic, China, is starting to open for business again.

In time more businesses will open up, new opportunities will arise, and people will innovate and adapt to new ways of working. A number of potential vaccines are already undergoing human trial, though it is not expected that a vaccine will be available for 12 to 18 months. Recovery won't be easy, but in time it will happen. The world continues to desire our high quality food, be it milk, meat, fish or fruits. We are very fortunate to have a great foundation to start the recovery process!

In the meantime, we (backed up by our expert advisers and fund managers) will continue to closely monitor and proactively respond to developments and opportunities. We expect to provide you with another brief update on investments in the third quarter of this year or earlier if developments require it.

Addition of Benefit Deferrals Facility

Prompted by recent and ongoing investment market fluctuations, the Trustee Board intends adding to the Scheme and the Beca Group Superannuation Plan a facility to enable certain members to defer receiving their balances (or transferring them to KiwiSaver as applicable) for a period after leaving service. This change will require Trust Deed amendments and Financial Markets Authority consent, and the detailed terms and conditions are still being finalised. However, it is expected to be put in place in the near term.

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Queries?

If you have any queries relating to this update, then do not hesitate to contact our Scheme Administrator, MJW (attention Karen Vernon) at becasuper@mjw.co.nz or any of one our trustee board directors at pensiontrustee@beca.com

For any Trustee related matters please email: pensiontrustee@beca.com

Any queries regarding your superannuation savings should be directed to Melville Jessup Weaver. The relevant contact details are noted below:

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