Beca Super Scheme – Mid-Year 2022 Update

Outline

In this update the Trustee Board:

- reports on the **investment performance** of the Scheme over the eight month period 1 September 2021 to 30 April 2022
- updates members on some recent revisions to the Trustee's **investment policy**
- reports on the Scheme's actual **asset allocation** as at 30 April 2022
- comments on the **investment markets** and the **investment outlook** more generally, and

Contents

Beca Super Scheme – Mid-Year 2022 Update

Update from Chair on behalf of the Trustee Board

Dear Members

As we emerge from the disruption of COVID-19, new challenges have presented themselves. The war in Ukraine is not only deeply saddening on a humanitarian level - from a financial perspective it has impacted significantly on investment markets, which have become markedly more volatile.

At the same time, there has been a substantial shift in central bank policy as inflation accelerates. This is placing pressure on households and has given central bankers a strong social mandate to aggressively rein in inflation. We have seen increases in interest rates in most markets, with our own Reserve Bank lifting the Official Cash Rate by 0.50% at each of its two most recent meetings.

Rising interest rates provide challenges for many investment sectors. However, on the whole, the Plan continues to fare well relative to market indices and other similar investors. While it is never pleasing to see negative results in the short term, the long-term results continue to validate the diversified, balanced approach that has been taken.

The Trustee Board extends to you and your family best wishes and we hope you all stay in good health.

Ngā Mihi and Kind Regards

Chye Heng
Chair
For and on behalf of the Trustee Board
BGS Trustee Limited
30 May 2022

Investment performance - 8 months ended 30 April 2022

During the 8-month period ended 30 April 2022*****:

- the Scheme generated an **investment gain (after tax and expenses) of -1.58%****, and
- the Scheme's **net assets increased by 1.11% to $87.5 million**.

The Scheme's net investment return of -1.58% for the 8-month period ended 30 April 2022 (an investment loss of $1.38 million) compares to a net investment return of 7.4% (an investment gain of $5.5 million) over the 8-month period ended 30 April 2021.

*****These figures have not been audited (or reviewed by an auditor). As such they are subject to change.

The Scheme is not a portfolio investment entity (PIE**) for tax purposes. This means it is currently taxed at the rate of 28% on all taxable investment income less deductible expenses. Members are not required to include Scheme income in their personal tax return.

Beca Super Scheme – Mid-Year 2022 Update

Investment commentary

The content of the following investment commentary has been supplied by the Trustee's Investment Consultant, Ben Trollip of Melville Jessup Weaver.

Revisions to investment strategy

Following a recent review of the Trustee's Statement of Investment Policy and Objectives (**SIPO**), the benchmark (or target) asset allocation mix and permitted investment ranges for the Scheme were amended by the Trustee Board effective 17 November 2021.

The Scheme's target asset allocation mix and permitted investment ranges are now as follows:

Asset Class	Benchmark/Target	Range
Australasian equities	17.5%	7.5% - 27.5%
International equities	22.5%	12.5% - 35%
Alternative assets*	10%	0% - 17.5%
Total growth assets	**50%**	**20% - 80%**
New Zealand Fixed interest	20%	10% - 30%
International Fixed Interest	15%	5% - 22.5%
Cash and cash equivalents	15%	5% - 27.5%
Total Income Assets	**50%**	**20% - 80%**

***Alternative Assets** means investments which do not fall within any of the other asset classes described in the SIPO, but which the Trustee considers appropriately reflect the intended risk profile of the Plan and will contribute to meeting the Plan's investment objectives. Examples of these include:

- equity investments which offer underlying exposures to (for example) commodities, property and infrastructure assets; and
- managed investment products which do not fall within (or predominantly within) any other asset class or classes.

The most significant changes made to the SIPO were:

- a slightly lower allocation to Australasian equities (down to 17.5% from 20%) and a slightly higher allocation to alternative assets (up to 10% from 7.5%)
- the introduction of international fixed interest (at 15%), reducing New Zealand fixed interest from 35% to 20%
- adjustments to the allowable ranges to allow for the effective management of the above changes

Beca Super Scheme – Mid-Year 2022 Update

Asset allocation as at 30 April 2022

The Trustee is currently making a tactical tilt away from fixed interest and towards equity investments.

The Scheme's actual asset allocation as at 30 April 2022 (compared with 31 August 2021) was as follows:

Actual asset allocation	30 April 2022	31 August 2021
Australasian equities	18%	18%
International equities	30%	28%
Alternative assets	17%	10%
Total growth assets	**65%**	**56%**
New Zealand Fixed interest	17%	21%
International	7%	1%
Cash and cash equivalents	11%	22%
Total income assets	**35%**	**44%**

The SIPO allows the Trustee to adjust the Plan's actual asset allocation mix away from the benchmark mix from time to time (subject to the permitted investment ranges) in order to pursue tactical investment opportunities or seek to protect asset values during periods of market volatility.

In view of recent lower bond yields, since 31 August 2020 the Trustee has made a tactical adjustment to the Plan's asset allocation whereby for the time being it has:

- tilted away from lower-yielding fixed interest investments, and
- increased the weightings towards Australasian and international equities, and alternative assets (chiefly listed infrastructure securities).

Additionally, within fixed interest, the Trustee retains a tilt towards fixed interest securities with shorter-term maturities, so as to help reduce the risk of future capital losses if interest rates continue to rise in the medium term.

Investment markets

There have been few safe places in recent months as almost all asset sectors saw negative results. While this was perhaps unsurprising given the outbreak of war in Ukraine, the primary cause appears to have been the more hawkish behaviour observed from central bankers.

Since the start of the calendar year the Reserve Bank of New Zealand has progressively raised its Official Cash Rate from 0.75% to 2.0%, and announced a gradual sale of its bond holdings starting in July (an end to "quantitative easing"). Similarly, the US Federal Reserve has raised its target rate by 0.75%, the Bank of England has lifted its policy rate to 1.00%, and the Reserve

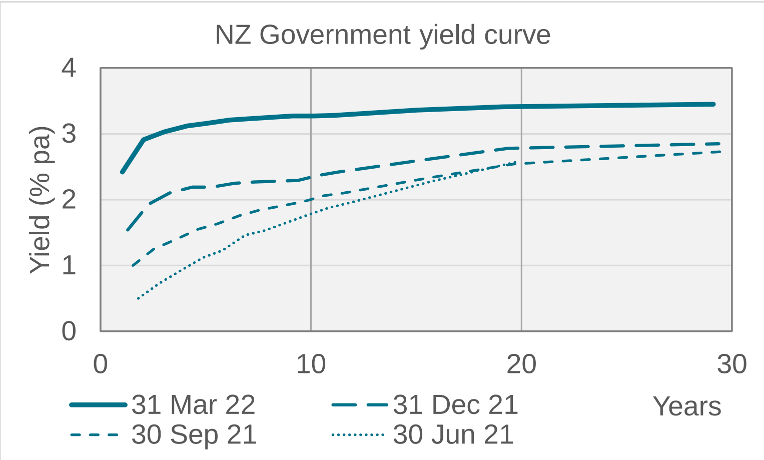
Beca

Beca Super Scheme – Mid-Year 2022 Update

Bank of Australia has lifted its cash rate target to 0.35%.

The European Central Bank has so far held its cash rate steady, but quantitative easing measures have begun to be wound back.

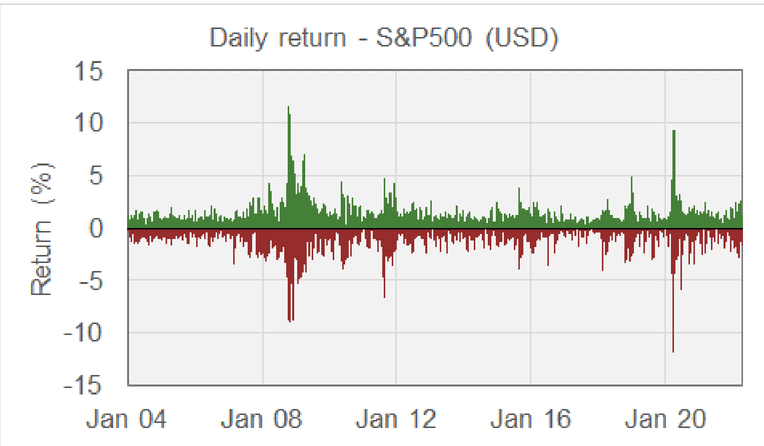
While interest rates have been rising, this has been mainly at the short-term end of the bond yield curve. Cash and short duration bond yields have risen substantially, while longer duration bonds have been less responsive. Thus, we have seen a significant flattening of the yield curve, a feature that often foreshadows a recession.



This is, of course, in response to a surge in inflation. In the year to March, inflation hit 8.5% in the US and 6.9% in New Zealand. Both are multi-decade highs.

The inflation highs reflect both supply chain pressures, which have been inflationary throughout 2021 and into this year, and the outbreak of war in Ukraine (which triggered significant upwards movements in the oil price, as well as the price of agricultural commodities such as corn and wheat).

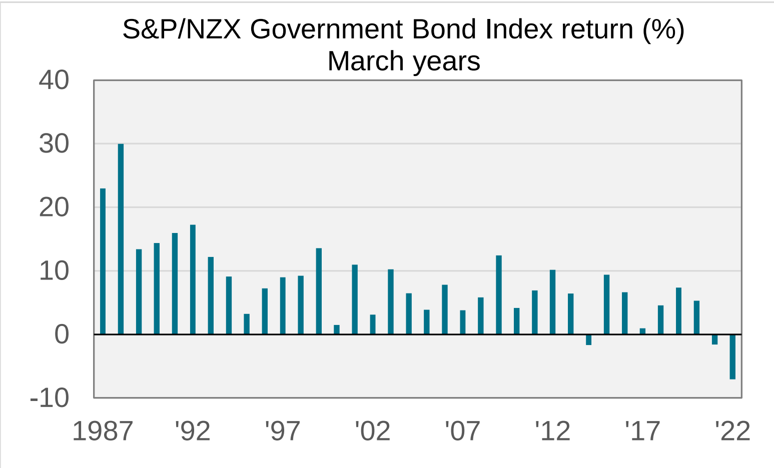
Volatility in share markets has also increased as investors seek to divine future monetary policy decisions. However, volatility levels remain well below the peaks seen during the 2020 COVID-19 sell-off and the 2008 global financial crisis, as illustrated in the following chart which shows daily movements in the main US stock market index, the S&P500:



Beca Super Scheme – Mid-Year 2022 Update

Perhaps most interesting is that the rising interest rates environment has disproportionately hurt investors in high growth companies. Growth investors tend to favour companies which have distant earnings streams (and which are, perhaps, unprofitable today). In a low interest rate environment, it is "cheap" to buy these distant earnings – there is little opportunity cost. However, as interest rates rise, the future earnings become less valuable today.

Turning to fixed income, the pain has continued for bondholders. Interest rates have continued their march upwards, causing further losses in bond portfolios. The return for the S&P/NZX New Zealand Government Bond Index was -7.1% for the 12 months ended 31 March 2022. When considering March years, this is the index's worst result in more than 30 years. Pleasingly, the Plan has done much better with its bond portfolio, reflecting the cautious approach adopted last year of shortening up the portfolio's duration exposure



While we may have some way to go to get to "normal" interest rate levels, it is heartening that running yields have improved off their recent lows. Now at least one can enjoy a modestly higher level of income from their bond portfolio.

Investment outlook

Uncertainty is heightened and calls for a thoughtful, balanced approach to investments.

Inflation measures were always expected to spike, given the re-opening of economies after the COVID-19 lockdowns. However, the extent of the increases has surprised many. With the increasing cost of living hurting the "person on the street", inflation-targeting looks set to become a key political issue. Many expect sharply rising interest rates in the near term as central bankers look to rein in inflation. This would be negative for long duration fixed income investments.

For the time being, global growth expectations remain positive: the International Monetary Fund now forecasts 3.6% real global growth over the 2022 calendar year. While down from the 4.4% it predicted before Russia invaded Ukraine, this still represents reasonable growth. (Note that real growth is growth over and above inflation which, as mentioned, is high at the moment).

However, the potential for a "black swan" event to cause a major shock to markets is high. The war in Ukraine and the ongoing lockdowns in some major Chinese cities are obvious risks, but fragilities exist in many pockets of the market as years of monetary policy stimulus is unwound.

Beca Super Scheme – Mid-Year 2022 Update

In contrast to the above, this would suggest *increasing* one's exposure to fixed income and other defensive assets.

Of course, an investor could simply "cash up", removing investment risk. However, this would lock in the still meagre cash rate of return. In an environment of high single-digit inflation, this is unpalatable because the real value of one's investments would be guaranteed to be going backwards at a reasonably fast clip.

Rather, a judicious approach balancing inflation-protecting assets (such as infrastructure) with growth-seeking assets (such as equities), complemented by defensive assets (such as bonds) is called for. The Trustee Board continues to follow this approach in a dynamic manner, adding to or reducing asset classes to ensure the portfolio remains well-positioned for prevailing market conditions.

Queries

If you have any queries relating to this update or your superannuation savings, please do not hesitate to contact our Scheme Administrator Melville Jessup Weaver (attention: Karen Vernon) at beca.super@mjw.co.nz.

Telephone: 09 980 0531 or 0800 728 370

Address: BGS Trustee Limited
c/- Melville Jessup Weaver
Administration Manager
Beca Super Scheme
PO Box 4014
Auckland 1140

Attention: Karen Vernon

Email: beca.super@mjw.co.nz

Trustee Board

Alternatively, you may contact any member of our Trustee Board at pensiontrustee@beca.com.