

Wealth Management Adviser

Winter 2009

NZ Super Fund suspension inevitable

When the Government saw the true fiscal position, it simply had no choice but to suspend contributions to the New Zealand Superannuation Fund. And quite clearly, its predicament has been made even more uncomfortable by the length of time - 10 years - forecast before contributions are likely to begin again.

The saving grace is that the Government was never intending to use the fund much before 2031 anyway.

By way of some reassurance, it's important to remember that the Cullen fund isn't the only funding source for our superannuation, most of it is provided from the general accounts. It was always meant to be a safety net and now with \$13 billion + invested, the Guardians can still take advantage of market opportunities as they arise simply by re-allocating existing capital. They will still get \$250 million of new funding this year, but that will be it until the economy improves.

Virtually all asset prices have reduced following the impact of the credit crunch and over the next couple of years some very good opportunities to acquire good quality, non impaired assets, at exceptional prices, will become available – adding to the already solid foundation

that has been established.

Now is the time to maximise investment returns. The Guardians of New Zealand Superannuation must take some investment risk using a sound asset allocation strategy to capitalise on the growth opportunities that exist now and over the next few years.

The message that this Budget sent is all too clear. More than ever we must take increased responsibility for funding our own retirement, whether it be through KiwiSaver or some other option. We cannot rely on the Government to totally foot the bill. A more active retirement, increased life expectancy and continual healthcare improvements mean we are all living longer, so the problem just keeps getting bigger.



Issue 37

Will the NZ Super Fund play ball?

In a pre-election pledge the Government was eager to direct 40% of the New Zealand Super Fund (NZS) investments into local New Zealand assets.

This however presents both practical and legislative difficulties for the Guardians.

Without some changes to the funds commercial objectives as outlined in the Government Superannuation Fund Act 1956, Guardian Chairman David May and Chief Executive Officer Adrian Orr, continued overleaf...

Contents

- 01 NZ Super Fund suspension inevitable
- 02 Will the NZ Super Fund play ball?
- 03 Investment themes
- 04 You've got to dig for the opportunities
- 05 Seeking emerging market exposure? Brazil is worth a look

recently indicated in a letter to Finance Minister Bill English that reaching the desired 40% may be difficult.

Further more, given the relatively small scale of the New Zealand market, any sizable investment could quite likely see the fund taking a controlling interest, a position that Section 59 of the Act states that the Guardian must use their best endeavours to avoid.

As at 31 May the fund held 27% of its assets in New Zealand including a cash weighting of 9%.

Investment themes

The Global market for oil will be an interesting one to watch as inflation heats up and some of the “green” energy ideas struggle to become commercially viable. It is likely that global demand for oil will rebound far more rapidly than production

increases, putting upward pressure on prices. You should consider allocating a portion of your portfolio to this sector.

You've got to dig for the opportunities

A senior portfolio manager with over 15 years experience, Ken Applegate manages the International Fund for Fisher Funds. The International fund has a small cap focus and looks for businesses with growing earnings which are either misunderstood or undiscovered. The fund invests globally but Ken particularly favours opportunities in China from the recently implemented Government stimulus packages.

So far this year Kens' fund has produced a positive return of over 23%, whereas many global indices are running flat. Emerging markets and also Brazil have been showing some promising

returns.

We are fortunate to have secured Ken to speak to a number of our clients on his recent trip to China.

Investment seminar

Tuesday 21 July, 5pm, Level 4, Grant Thornton House. Seats are limited. If you would like to join us please contact Anna – Lisa Tombolato on 09 308 2471 to make a reservation.



A disclosure statement is available on request, free of charge. If you require further information on any of these topics please contact:

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Seeking emerging market exposure? Brazil is worth a look

A debt-ridden, bureaucratic country of the past, Brazil has come a long way. Years ago, the country restructured its finances and has resisted the temptation to use economic crises, as an excuse to default on its obligations.

Brazil is now a country well positioned for the future. Since 2003 it has maintained fiscal and trade surpluses. Their highly capable central bank has followed a very strong monetary policy, maintaining high levels of real interest rates, which have prevented the economy from overheating and creating an over-expansion of credit.

In late April 09, the Brazilian central bank cut interest rates from 11.25% to 10.25%, leaving plenty of room for further cuts if necessary, to stimulate their economy.

Brazil has long pursued a strategy of achieving energy independence from foreign oil. Brazil started

its own ethanol program – based on its rich sugar crop, and offshore oil exploration using deep-sea drilling methods. It's achieved a remarkable degree of energy self-sufficiency – again setting it apart from much of the rest of the world.

Another factor working in Brazil's favor is the huge amount of money that the US Federal Reserve is pumping into the financial system, which will eventually produce a lower purchasing power for the U.S. Dollar.

This lower purchasing power has already begun to fuel a rally in commodity prices. And Brazil – a major producer and exporter of many commodities – is perfectly positioned to take advantage of it.

One of the easiest ways for investors to participate in the Brazilian growth story is to use **iShares MSCI Brazil Index Fund**. This fund contains 72 of Brazil's largest companies and provides an easy way to play two major themes, emerging markets and commodities, with one investment. This fund has a heavy weighting to oil giant Petrobras (over 24%) and mining giant Vale de Rio (over 16%).