

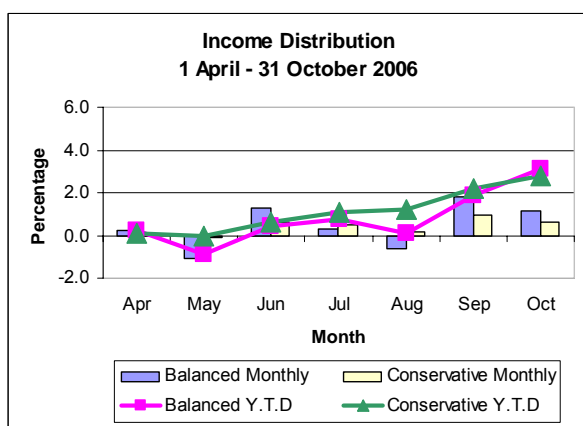


# **WATERFRONT INDUSTRY SUPERANNUATION FUND**

## **Investment Performance**

Investment Performance for the first five months of the year was relatively flat but has started to pick-up since the end of August. The Fund has recorded the following net returns to the end of October:

Balanced Strategy           3.10%  
 Conservative Strategy       2.80%



- uncertainty about further interest rate rises in USA and Europe
- strong broad-based global growth
- weakening housing market in the USA offset by lower inflation and continuing investor confidence
- rising consumer confidence in Europe, lower unemployment and the fastest economic growth rate in that region in 5 years
- rising land prices and weak inflation in Japan.

### **Australasian Shares**

Gross return YTD (to 31.10.06) 8.13%

Despite predictions that the New Zealand sharemarket would flatten out or fall this year it has continued to earn a positive return. The NZX50 has risen 3.31%. Performance in the Australian sharemarket has been much stronger at 7.39% but in NZD terms this reduces to 6.40%. The Fund's portfolio which includes selected Australian shares has performed very well.

In New Zealand domestic demand appears to have bottomed out around the middle of the year and is now rising again as are retail and housing activity. This is occurring despite the high real interest rates currently in place. A lot of the rise in the New Zealand sharemarket has been the result of merger and acquisition activity.

In Australia the strong sharemarket performance has come primarily from the resource and financial sectors.

### **Property**

Gross return YTD (to 31.10.06) 17.82%

The performance from the property sector over the last 7 months has been quite extraordinary. Improved market rents and higher capitalisation rates have resulted in

## **Overseas Shares**

Gross return YTD (to 31.10.06) 1.93%

The major overseas sharemarkets with the exception of Japan have generally had positive returns since the beginning of the year. However, the NZ dollar recovered from its initial falls and has risen against most currencies with the notable exception of the £UK. Like last year this means that when the shares are valued in NZ dollars the returns are significantly lower.

For example for the period 1.4.06 to 31.10.06

	<b>Local Currency</b>	<b>NZ dollars</b>
USA	+6.42%	-2.86%
UK	+2.76%	+3.14%
Japan	-3.87%	-11.62%
Australia	+7.39%	+6.40%

The Fund's 50% currency hedge continues to reduce the impact of the rising New Zealand dollar.

The performance of overseas sharemarkets reflects:

- volatile oil prices

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general valuation gains. There has continued to be a significant amount of investment activity and a high level of demand for space from the government sector.

### **Bonds**

Gross returns YTD (to 31.10.06)

Global Bonds +4.75%

NZ Bonds +2.87%

Cash +4.37%.

Bond (or fixed interest) returns have continued to be affected by rising short term interest rates around the world. In contrast the New Zealand cash rate has remained steady at 7.25% but a further rise is possible or at least a delay in any rate cuts because of the strong employment growth and robust housing market.

Global long-term bond rates rose steadily in the June quarter and then fell in the September quarter. The next move is expected to be further rises which will flow on to New Zealand ten year interest rates.

Rising interest rates unfortunately mean capital losses for the bond portfolio. □

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### **Website**

As you know the Fund launched its website [www.wisf.co.nz](http://www.wisf.co.nz) in late September. The Trustees are now very pleased to announce the completion of phase 2 of our website project – online access to member's account balances.

Accompanying this newsletter you will find a letter explaining how to access your account balance including the password to use the first time you login. □

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### **Introducing our New Trustee**

As a result of the recent MUNZ elections Russell Mayn has been appointed a Trustee of the Fund. Russell is the new MUNZ Assistant General Secretary and is also Secretary of Local 13 in Auckland. We welcome him on board. □

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### **And Farewell to an Old Trustee**

Russell replaces one of our very longstanding Trustees – Terry Ryan. Terry has been a Trustee for 16 years and has made a large contribution to the governance of the Fund over those years. We will miss his experience, wisdom and general good humour at our meetings. □



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### **Taxation of Investment Income**

This is still a “watch this space” topic. The taxation bill was due to be reported back to parliament from select committee on 24 November. At the time of writing we are still waiting.

#### *What do we know?*

The current proposals include:

- a “flow through” model where investors in managed funds (including superannuation fund members) pay tax at their own marginal tax rate not the flat 33% currently paid
- the tax rate will be capped at 33% so those members on a 33% or 39% tax rate will pay at the same rate as they currently do
- removal of the capital gains tax on most listed Australasian shares
- taxation of overseas shares at a fair yield rate of about 5%. This is very controversial and the subject of a lot of discussion.

#### *What does it mean?*

- members on the lowest marginal tax rate of 19.5% would benefit from the “flow through” model as their share of the Fund's investment income will be taxed at a lower rate
- the Fund will pay less tax on its Australasian shares
- the Fund's passive global share investments will lose their tax advantage and the Fund will pay more tax on its global shares. □



The KiwiSaver Act 2006 was passed by parliament on 30 August 2006, KiwiSaver starts on 1 July 2007 so it is safe to say that from early next year we will all be hearing more and more about KiwiSaver.

### Key Features

The major features of KiwiSaver are:

- employers will be required to provide access to an approved KiwiSaver product, unless they have an existing scheme that qualifies as an exempt scheme
- new employees over the age of 18 will be automatically enrolled but can opt out within 8 weeks of joining
- existing employees can choose to join
- contributions will be either 4% or 8% of gross base wages with contribution holidays of up to 5 years at a time allowed after an initial contribution period of 12 months
- employers may make contributions. Contributions which match their employees up to a maximum of 4% will be exempt from superannuation withholding tax.
- contributions will initially be paid to the IRD which will forward them to the selected provider
- savings will be locked in until the age of eligibility for NZ Superannuation or 5 years after the first contribution, whichever is later. A member may withdraw on permanently emigrating.
- employees will have a choice of providers and investment options with default options where no active choice is made. Employees can transfer between products.
- the government will make an upfront contribution of \$1,000 to each account and will partly subsidise fees
- after a minimum of 3 years of contributions a home ownership subsidy of up to \$5,000 will be available

to eligible savers (targeted through income and house price limits)

- an optional mortgage diversion scheme may be made available after 12 months of contributions
- a member may withdraw funds (excluding the \$1,000 government contribution) in the event of serious financial hardship.

### Why Should I be Interested?

You might well ask what interest KiwiSaver will be to you as you are already members of an excellent superannuation scheme with additional benefits. The simple answer is the increased savings available from the government subsidies and tax incentives.

*Use government incentives to increase your savings!*

### What Is the Trustees' Response?

The Trustees intend to establish a KiwiSaver section within the Fund. They see this as an opportunity to offer a "best of both worlds" scenario to members. With the majority of our members contributing at least 7% of their earnings, there is an excellent opportunity for them to have part of those superannuation contributions paid into a tax-incentivised (locked-in) account, while the rest of their savings would still be available on retirement, redundancy, withdrawal etc from the waterfront industry before the age of eligibility for NZ Superannuation.

Rest assured it will be your choice. You may choose not to take this additional benefit because, for example, you do not want any part of your savings locked-in. No-one will be forcing you to make any changes to your superannuation.

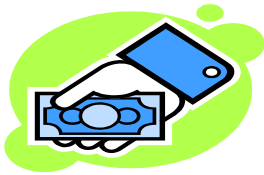
However, the additional savings provided by the tax incentive are significant and we are confident many of you will want to take advantage of them.

We will be keeping you up-to-date with KiwiSaver developments as they evolve. □

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## Spending Your Retirement Savings

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Retired members often talk to the Fund's Trustees and staff about how they "rely" on the Fund's

distribution each year for their income. When the Fund has a small return they feel that times are indeed hard and they can't make any withdrawals. When the Fund has a big return they feel able to spend freely.

The Fund's distribution rate for its balanced strategy is certainly uneven. Over the last ten years it has ranged between -9.84% and +15.50%. The good years more than make up for the bad years giving the Fund its long-term average of over 5.6%.

The Trustees message is that you don't need to rely on the Fund's income distributions alone. Your savings are there to be used to enhance your retirement – not to be hoarded until death.

*Remember there are no pockets in your shroud!*

Of course, we don't advise reckless spending, but there are simple ways to realistically use your savings over a period of time. If you have a reasonable amount of savings to start with, you can spend money in excess of the annual income distributions and still make your savings last.

Nearly three years ago the Trustees introduced the option of regular monthly payments for retired members. This is not to be confused with a pension. The member decides the amount to be paid each month (subject to a minimum amount of \$100 per month) and can stop, start or change the amount as he or she wishes. On the other hand the payment is not guaranteed, as a pension would be. When the member's account runs out, the payments stop.

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## How can this work for you?

Let's say:

- you're 62 and have a superannuation account of \$250,000 invested through the Fund's balanced strategy.
- you've worked out that your regular expenses are about \$1,250 per month.

If you have \$1,250 paid to you each month, with the normal expected return for the balanced strategy, your account balance will actually continue to increase. However, if you increase the regular payment to \$2,000 per month your savings will run out in about 16 years.

Now let's say:

- you're 70 with \$50,000 invested in the conservative strategy
- your average life expectancy is about 12 years

You could withdraw \$450 per month for 12 years or you could supplement your monthly income with a payment of about \$300 per month for the next 20 years.

Even if you are receiving a regular monthly payment you can still:

- make up to two part withdrawals a year for amounts of \$5,000 or more. This will of course shorten the time that your regular payments will last.
- close your account and withdraw all your remaining benefits.

*You can still make additional lump sum withdrawals.*

There are any number of variations you could have.

If you are thinking about retirement or are already retired and would like more information on regular benefit payments contact Susan or Kirstie at the Fund office. □



*Merry Christmas and a  
Happy New Year from the  
Trustees and Staff*