Lifestages KiwiSaver Scheme: Capital Stable Portfolio & Growth Portfolio Investor Update

As at 31 March 2016

Funds Administration New Zealand Ltd ("FANZ") is the Manager of the Lifestages range of funds.

Welcome to your Investment Commentary for the Lifestages Capital Stable Portfolio and the Lifestages Growth Portfolio for the period ending 31st March 2016. I know that many of our investors tell me that when they receive their reports they go straight to the performance and valuation reports before reading the investment commentary. If you are one of those investors we are sure that you were surprised by the numbers: on the upside hopefully! That is one of the key lessons from this reporting period. Sometimes investment markets seem impervious to geo-political events and media reports.

The 2016 year began badly with equity and bond markets faring badly in response to falling oil and commodity prices generally. Indeed the first ten days of January 2016 saw United States equity markets produce their worst ever performance to the start of a year. This performance saw Central Banks respond positively worldwide, led by the Federal Reserve to postpone interest rate increases in response to the bad start to the year.

The Central Bank response was also felt in New Zealand when the Reserve Bank of New Zealand (RBNZ) cut the Official Cash Rate (OCR) to 2.25%. The RBNZ said that this was driven by a number of factors. These included;

1. Ongoing modest trading partner growth,
2. The impacts of net immigration on the modest capacity and inflation pressures,
3. Inflation expectations remaining anchored around 2%, despite some measures falling recently, and
4. Moderating house price inflation and strong consumption growth.

A weaker global outlook was a secondary key driver of the RBNZ's move. In particular, annual trading partner growth was revised downwards to 3.4%p.a., on top of the revisions over the past two years. Similarly, the downside risks to global growth have increased as reflected by heightened market volatility since the December monetary policy statement. The RBNZ also highlighted the challenges facing the dairy sector. This point was hit home by Fonterra's 2015/16 milk price forecast cut to $3.90/kg (down from a high of $8.65/kg a few years ago) of milk solids earlier this week. In terms of forecasts, the RBNZ expects milk powder prices to remain largely flat this year, before recovering to long-run average levels.

Investment markets in New Zealand produced a strong period of performance in response to the drop in the OCR in New Zealand. Equity markets rallied with interest sensitive stocks, such as property stocks, performing well. In addition to this, bonds rallied and produced a strong performance as they responded to a fall in interest rates. This mirrored a similar performance in global markets. As a result, your investments enjoyed a strong period of performance leading up to the 31st March 2016. This is despite a wide range of economic news that may not be supportive of markets in the long term. As the famous economist, John Maynard Keynes once said, "The markets can remain irrational longer than you can remain solvent" (he was of course referring to losses incurred from his currency trading). However, irrespective of the circumstances that caused this remark to be made it does hold a fundamental truth about markets. They can often be irrational in terms of timing, direction and also performance.

While the current economic expansion is aging, it is important to remember that expansions don't die of old age – they are usually ended by a combination of serious imbalances and significant central bank tightening. Right now, none of the typical signals of imminent collapse are flashing: no over-consumption, no over-investment, no over-heating, and no monetary policy tightening.

To that end, we believe that there are three main swing factors for the global economic and financial market outlook this year: China, commodities, and central bank policies. Depending on different paths for each of these "three Cs," it is easy to imagine different shades of darker or brighter economic and market outcomes this year than in our baseline scenario. And given that we cannot know for sure which scenario(s) will come to pass, it makes sense to take a very careful approach in portfolio construction.

What does it mean for investors? Frankly, you are in the "horns of a dilemma". Lower interest rates (and for longer) mean cash and term deposits are looking less like the investment answer. In an uncertain world, a diversified portfolio is looking more and more like the correct "answer" and approach for most investors.

Once again, let us express our gratitude for your support. Your financial goals, and helping you achieve them, is what drives our business and we look forward to being of service to you in the future. Please do contact us or any one of our AFA team if you have any questions.

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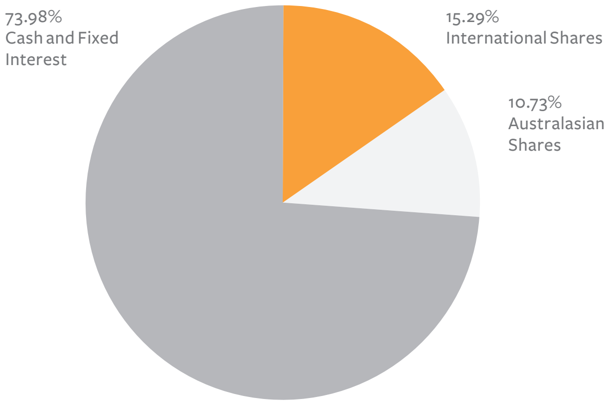
Lifestages Capital Stable Portfolio

The Lifestages Capital Stable Portfolio aims to provide a low risk investment option. It is generally suitable if you want to have a 'low risk' investment portfolio which has the majority of its assets invested in cash and fixed interest investments. The Lifestages Capital Stable Portfolio has a lower exposure to growth investments than the Lifestages Growth Portfolio and as such is expected to provide a more stable return. The Lifestages Capital Stable Portfolio is closed to new investors. Current exposures are:



Performance

The performance for the Capital Stable Portfolio was positive over the last year. This was a solid performance given the last 12 months has seen investment markets move widely in what has been a "risk on, risk off" type of investment market.

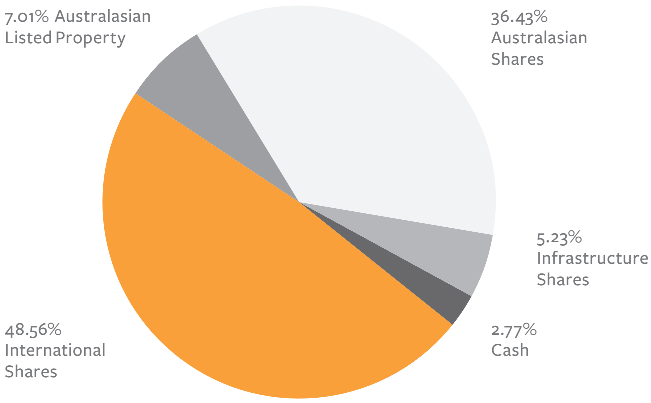
6 months	12 months	2 years	3 years	5 years
2.36%	2.46%	4.19% p.a.	4.44% p.a.	4.03% p.a.

Unit price as at 31 March 2016: 2.689859

These figures are stated before tax and after fees

Lifestages Growth Portfolio

The Lifestages Growth Portfolio aims to provide capital growth over the long term. The majority of the Lifestages Growth Portfolio is invested in shares and as such its return is likely to fluctuate in line with sharemarkets worldwide. The Lifestages Growth Portfolio is likely to have greater volatility in its return than the Lifestages Capital Stable Portfolio. The Lifestages Growth Portfolio is closed to new investors.
Current exposures are:



Performance

Investors in the Lifestages Growth Portfolio will have noted that the fund produced a positive (albeit modest) performance over the last 12 months. The performance trend has been volatile as investment markets responded negatively to falling commodity markets over the last 12 months and then responded positively as Central Banks responded with a range of monetary responses. This "risk on, risk off" environment has meant that markets overall have produced a positive performance albeit being somewhat of a roller coaster type ride.

6 months	12 months	2 years	3 years	5 years
4.22%	2.39%	7.10% p.a.	7.91% p.a.	5.72% p.a.

Unit price as at 31 March 2016: 1.373591

These figures are stated before tax and after fees