

A message from Ranfurly Strategic Limited

The concern many of you are feeling in response to the recent decline in the value of your superannuation fund is understandable and something which Ranfurly Strategic is taking very seriously. We are considering a number of options to address the situation without losing sight of the fact that superannuation is a long-term investment strategy.

In times of uncertainty, it is natural to take a short-term view of your finances but with any investment, withdrawing your superannuation at the wrong time can be costly. The recent performance losses will be of great concern, particularly to those of you who are nearing retirement age, and your first reaction may be to withdraw from the scheme for fear of losing more money. However, to do so would only crystallise any losses you have already incurred and deprive you of any opportunities that could arise when the market recovers, as we saw happen in 2009 and 2020.

This same principle is one that Ranfurly Strategic needs to be mindful of as we navigate a response to the current market conditions. For example, if we decide to divert funds from Baillie Gifford, our underlying investment manager, we run the risk of missing a bounce when share prices begin to increase again. It is for this reason we are not responding with a knee-jerk reaction but rather considering a number of options before deciding how to proceed. We can assure you though that one thing we are not doing, is sitting on our hands while we hope for the best.

In the meantime, we would like to provide some context to the recent downturn in the market and provide some commentary received from each of the Baillie Gifford teams who manage the underlying funds in which the Ranfurly Superannuation Scheme invests.

Background to the weakness in returns.

Concerns about quantitative tightening, sharp increases in commodity prices and inflation, Omicron, Chinese regulation, as well as supply chain disruption have resulted in significant volatility across major stock and bond markets since the beginning of the year. In addition to these economic disruptions, concerns over the Ukraine crisis, Russian sanctions and resultant increases in oil prices have seen significant falls in bond and equity markets.

Baillie Gifford is a growth stock investor, investing in companies that their analysis determines, on a bottom-up basis, has good fundamentals and high probability of long-term growth. 2020 and first three quarters of 2021 saw very strong growth in growth stocks and the Ranfurly funds benefited from that. Q4 of 2021 saw a shift in the markets from investing in growth stocks to investing in yield stocks, as the world economies were freed from the restrictions of Covid-19 and inflation concerns increased. Consequently, the Baillie Gifford funds were impacted by this switch of investment approach. Market concerns grew in early 2022 and the impact of the Ukraine crisis caused major market disruption and a flight to traditional stocks and safe-haven investments.

How is the Baillie Gifford Managed Fund responding?

Baillie Gifford's focus is on the continual review of holdings in the Managed Fund and answering the question of whether, from today's starting point, they can meet their return hurdles over the next 5 years. They are thinking carefully about what growth looks like in a sustained period of higher inflation and looking to ensure that the companies in which they invest can sustainably grow business, demonstrate pricing power and resilience in the face of higher inflation and ultimately, significantly increase earnings. The agility and resilience of the portfolio are key, and if they come together, then share price outperformance should follow. On this basis Baillie Gifford is optimistic about the long term.

Baillie Gifford advise that they continue to look for and find diverse growth ideas across a range of industries.

The strength of conviction in their process leads them to the conclusion that this is the best way to maximise the probability of delivering tangible value from savings over the next five years and beyond.

How is the Baillie Gifford Long Term Global Growth Investment Fund responding?

The Baillie Gifford Long Term Global Growth Investment Fund is witnessing the second-largest absolute drawdown and the biggest relative drawdown in its history. The causes appear to be a harsh combination of worries about inflation, Chinese regulation, supply chain disruptions and the tragic conflict in Europe

with far-reaching geopolitical shockwaves. While the Ranfurly Balanced and Growth Funds only have a 10% allocation to the Baillie Gifford Long Term Global Growth Investment Fund, this has translated into an up to 5% impact on total performance.

In this environment, the Long Term Global Growth team are focusing investment on the few companies capable of extreme long-term growth. The premise to which the team are committed is that the share price of a company will ultimately reflect its operations performance over the long term. It may not happen in the space of a few months, or even a few years (Baillie Gifford considers that investing over such a short horizon seems entirely speculative), but they believe share prices tend to follow business fundamentals over the time horizon of five years. Therefore, Baillie Gifford seek those companies with the most impressive fundamentals so that they can deliver the most attractive returns for clients over five years and beyond.

The focus of the Long Term Global Growth Investment Fund is to stick to investing in the world's future giants and to ride the ups and downs along the way.

How is the Baillie Gifford Sterling Aggregate Bond Fund responding?

Sterling bonds produced negative return over the March quarter as the UK government bond yields rose markedly. The Bank of England raised interest rates twice during the period as inflationary pressures continue to build. This has been exacerbated by the invasion of Ukraine by Russia, which has led to a sharp rise in commodity prices.

The financial and economic backdrop in 2022 will be distinctly different to anything witnessed over the last few decades. Inflation has become a major problem for governments and central banks and for the moment its control is the key priority. High levels of excess savings from the combination of fiscal stimulus and restrained spending, during the pandemic, means consumers can keep spending despite higher prices. Therefore, Baillie Gifford don't expect significant economic weakness, but growth will be much slower than had been initially expected for 2022. This means that inflation will continue to be elevated until central banks can tighten policy more significantly.

Fixed income asset classes are still at risk from further central bank tightening, but Baillie Gifford believe most of the weakness has now occurred.

Where to from here?

We have posted some links to recent literature and webinars received from Baillie Gifford on the scheme website <https://www.ranfurlysuperannuation.com> and we will continue to add future correspondence we receive from them.

To assess possible future changes to the investment strategy of the Ranfurly Superannuation Fund, we are currently engaging with Baillie Gifford to further probe their investment strategies, and specifically the impact on the members of the Ranfurly Superannuation Scheme. We are currently arranging a Q&A session with the Baillie Gifford managers, at this stage likely to occur around the end of May, and we invite you to lodge any specific questions that you would like us to present to Baillie Gifford on your behalf with your financial adviser who will liaise with us on your behalf.

We appreciate that this is a worrying time for scheme members, particularly those members nearing retirement. Looking ahead, we are confident the markets will recover given time and that this will be reflected in the Baillie Gifford portfolio. These are unprecedented times, and our expectation is for higher volatility in markets over the rest of this year with a possibility of further markets shocks before all the risks are priced in, however we do believe that the markets have largely already done so.

We thank members for their continued support of the Ranfurly Superannuation Scheme.