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<http://www.scoop.co.nz/stories/BU1010/S00715/nz-funds-launches-intelligent-kiwisaver-scheme.htm>

NZ Funds launches "Intelligent" KiwiSaver scheme

Friday, 22 October 2010, 4:54 pm

Press Release: NZ Funds

22 October, 2010

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The opening of the NZ Funds KiwiSaver Scheme contrasts to a recent trend of KiwiSaver scheme closures with NZ Funds' Principal David van Schaardenburg saying now is an opportune time to enter the KiwiSaver market.

"With KiwiSaver now having greater scale, and individual balances beginning to reach more meaningful amounts, we believe a KiwiSaver scheme adopting a disciplined asset allocation and risk management style will be highly appealing to the more discerning individual."

The NZ Funds KiwiSaver Scheme provides a more tailored approach to the management of retirement savings than those provided by default schemes, or the suite of traditional diversified funds offered by most existing providers.

"We expect individuals to increasingly make deliberate decisions on where and how they invest their hard earned savings in KiwiSaver, as opposed to investing by default which is too often the case today".

KiwiSaver statistics indicate that around half of those currently enrolled have not yet made a conscious decision as to which KiwiSaver scheme to invest in. As a consequence, KiwiSaver investors are being allocated to a default option, usually with one of the default providers, which NZ Funds believes is a simplistic and generally unduly conservative investment option.

Based on prevailing interest rates and the current asset allocations of the default options, van Schaardenburg believes investors in these funds are likely to earn only 3-4 per cent per annum after tax and costs over the long term, barely ahead of the likely rate of inflation.

NZ Funds' research shows that individuals going into a default fund are likely to accumulate less in wealth at retirement than they would likely achieve by utilising a dynamic, more growth oriented asset allocation.

"That is a very meaningful opportunity cost, both for the individual and the economic prosperity of our country" he noted. "There is little logic to a 30 year old having the same asset allocation as a 60 year old. But the majority of investors in default KiwiSaver schemes have done just that."

To combat this one size fits all approach, NZ Funds' KiwiSaver scheme uses a proprietary asset allocation approach to automatically review and, when appropriate, adjust each member's portfolio mix on an annual basis. Each member's portfolio will be automatically tailored according to where they are up to in their working life.

"If history is any guide to the future, what we expect to witness in the KiwiSaver space is for many investors to habitually chase the highest recent returns or, at the other extreme, just 'default' and then forget their portfolio. Both these behaviours may lead to significant disappointments at retirement".

NZ Funds have conducted extensive research into the creation of “intelligent” asset allocation methodologies for long term savers. From that research they have developed what they refer to as LifeCycle Portfolio Management, an approach which reviews and resets each member’s portfolio mix in a disciplined manner. This process is unique in the KiwiSaver marketplace and ensures younger members are allocated more toward growth assets and then, as they approach retirement age, are progressively rebalanced to relatively more stable, income oriented investments.

This is achieved by each member, dependent on their age, owning different proportions of up to three purpose built portfolios offered within the NZ Funds KiwiSaver Scheme. These three portfolios are the Growth Strategy, the Inflation Strategy and the Income Strategy.

Each portfolio also benefits from NZ Funds’ proprietary ARMOR investment management process. ARMOR stands for Absolute Return through the Mitigation of Risk. It is a systematic risk management framework developed over a number of years by NZ Funds which aims to protect each member’s retirement capital from large market declines.

“Behavioural finance research tells us investors are more concerned about losing money than they are stimulated by gain. The dual protections of our dynamic asset allocation and our proprietary ARMOR processes are designed to enable members in the NZ Funds KiwiSaver Scheme to save and invest with confidence, irrespective of their age or the prevailing market environment”.

To foster additional understanding and confidence NZ Funds will publish a full breakdown of virtually every security owned in each portfolio, every month to enable members of the NZ Funds KiwiSaver Scheme to understand exactly what their retirement portfolio is investing in.

To learn more about the NZ Funds KiwiSaver Scheme please go to www.nzfunds.co.nz/kiwisaver (please note that NZ Funds’ KiwiSaver website will only be functional from 3pm Friday 22 October).

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