



HOW THE TRUSTEES MANAGE YOUR RETIREMENT SAVINGS

VERSION 1
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WHY THIS BOOKLET?

Recently, we (the FireSuper Trustees) commissioned a survey to find out what you value about the scheme and how communication about the scheme can be improved.

Amongst other comments, your feedback indicated that you want:

- more detailed information about the processes involved in investing your savings,
- “transparency” particularly about investment performance, and
- comparisons of the scheme’s performance with other similar schemes.

THIS PUBLICATION:

- Explains the processes used to invest members’ funds and
- Looks at recent fund performance against various measures.

Please note:

- This booklet describes the processes we use to manage FireSuper’s investments. It is not financial advice.

INVESTING YOUR MONEY: THE FIVE STEPS

STEP ONE GET GOOD ADVICE!

We (the Trustees) have overall responsibility for the scheme's management, including the investment of your funds.

We appoint **investment managers** to invest the assets and an **investment consultant**, which is usually a specialist firm with strong finance market analytical capability, to advise on the allocation of the scheme's investments and oversee the performance of the investment managers.

Last year the investment consultant role was put out to tender, and a new investment consultant, Russell Investment Group Limited, was appointed. Russell is the New Zealand subsidiary of a global firm of financial analysts, consultants and fund managers.

INVESTING YOUR MONEY: THE FIVE STEPS

STEP TWO CLARIFY THE OBJECTIVES

As the old saying goes, 'if you don't know where you are going, you have a good chance of not getting there!'

All investments carry risks. Even banks can go broke, and the proverbial money under the mattress is eroded by inflation. The skill is to balance risk and return. If we seek higher returns, in general we have to take on more risk and invest in assets that might also end up making bigger losses.

The scheme offers a choice of one or a combination of two or more of four investment options, each with a different mix of assets. The options which are expected to provide higher longer-term returns tend to have a greater risk of achieving a negative return in the shorter term. This is sometimes referred to as the expected risk/return profile.

In conjunction with the investment consultant, we set objectives for each investment option. This is a formal process, documented in a Statement of Investment Policies and Objectives 'SIPO' which is adopted as Trustee policy. The SIPO is available at www.firesuper.co.nz. The objectives are also published in the Trustee Annual Report.

The objectives are mostly measured against the increase in the Consumers' Price Index (CPI), because at the end of the day it is not the dollar amount in your accounts that matter, but what those dollars will buy in terms of actual goods and services.

Currently, the objectives (after deducting taxes, fees and administration expenses) are:

Cash

Preservation of invested capital plus stable, positive returns. This option is expected to provide a long-term (10 years plus) return after tax and investment expenses of 0.25% p.a. above the inflation rate.

Conservative

Relatively stable returns, with a low level of risk. This option is expected to provide a long-term (10 years plus) return after tax and investment expenses of 1.5% p.a. above the inflation rate, with a likelihood of a negative return of 1 year in every 5.

Balanced

Medium level returns, with a moderate level of risk. This option is expected to provide a long-term (10 years plus) return after tax and investment expenses of 3% p.a. above the inflation rate, with a likelihood of a negative return of 1 year in every 3.

Growth

Relatively high returns, with a high level of risk. This option is expected to provide a long-term (10 years plus) return after tax and investment expenses of 4% p.a. above the inflation rate, with a likelihood of a negative return of 1 year in every 3.

Please note:

- Some events are simply outside our control. For example, events affecting the global economy such as the euro zone financial crisis, or an increase in GST.

STEP THREE ALLOCATE THE ASSETS

Assets can be grouped in two broad categories

- “income” assets which provide a return in the form of fixed periodic payments and the eventual return of principal at maturity,
- “growth” assets, which provide a variable return in the form of dividends and where capital gains (or losses!) are also part of the equation.

Income assets are cash and interest bearing securities like government or corporate bonds,

Growth assets include property and shares (“equities” or “stocks”) and infrastructure investments such as shares in road, airport, rail, energy and communications.

Assets can be invested in New Zealand or overseas.

Where investments are made offshore, we need to consider how to manage the risk of the NZ dollar going up or down against the currency of the country in which the assets are held.

In developing portfolios for each investment option, we establish a “benchmark” or target asset allocation for each option.

This is called the **Strategic Asset Allocation** because it is seen as the allocation that is most likely to achieve the longer-term objectives for each option.

Actual asset allocations may differ from the benchmark because asset values change from time to time, so maintaining the exact benchmark at all times is not achievable. We set ranges within which the managers may adjust the allocation.

The benchmark asset allocation for each investment option is set out in the table below:

BENCHMARK ASSET ALLOCATIONS (% OF FUNDS)					
	INCOME ASSETS		GROWTH ASSETS		
OPTION	Cash	Bonds	Property	Shares	Infrastructure
Cash	100.0	-	-	-	-
Conservative	35.0	45.0	-	20.0	-
Balanced	2.5	39.0	10.0	43.5	5.0
Growth	2.5	12.5	15.0	62.5	7.5

Please note:

- The Growth option has the highest proportion of growth assets. It could also be described as a more “aggressive” option.
- The Conservative option has a higher proportion of income assets and can be described as a “defensive” option.

INVESTING YOUR MONEY: THE FIVE STEPS

STEP FOUR SELECT YOUR MANAGERS

We appoint specialist fund managers for each asset class. As well as identifying well-performing managers, to provide additional diversification, sometimes referred to as “not putting all our eggs in one basket”, we appoint more than one manager for the larger asset classes.

As at 30 September 2013, the assets were invested in the following funds:

Cash

- ANZ Investments Wholesale NZ Cash

Other income assets

- ANZ Investments Sovereign Bond Fund
- ANZ Investments High Grade Bond Fund
- Russell Global Fixed Interest Fund

New Zealand Property

- AMP Capital Investors NZ Property
- ANZ Investments NZ Property

Global Property

- ANZ Investments Global Property

Australasian Shares

- AMPCI Australasian Shares
- Harbour Asset Management Australasian Shares
- Direct Capital Partners

Global Shares

- AMPCI Core Global Shares
- AMPCI Core Hedged Global Shares
- AMPCI Extended Market Global Shares

Please note:

- FireSuper’s investments are pooled along with a number of other investors. None of these fund managers are dedicated exclusively to managing FireSuper’s money. By taking a small piece of a large fund, FireSuper can access the expertise of specialist analysts from around the world.
- In most cases, the manager’s engage specialist managers: they are “managers of managers”. For example, the AMP Capital Investors Core Global Share Fund uses seven specialist investment houses (Epoch, Orbis, Baillie Gifford, Vontobel, Schroders, Arrowstreet, and Hexavest).
- These specialists are selected to achieve a mix of investment styles and emphasis on different sectors and shares. As a result, the scheme’s assets are invested in global shares spread across 1,100 to 1,600 companies around the world.

STEP FIVE MONITOR, MONITOR, & MONITOR

When we appoint a manager, we agree a “benchmark” or “index” against which the manager’s performance is to be assessed.

The index for each fund manager is set out in the Statement of Investment Policies and Objectives ‘SIPO’ and can be accessed at www.firesuper.co.nz

As part of the process of monitoring the managers:

- we receive monthly reports on the performance of each asset class,
- each quarter
 - we meet with the investment consultant
 - we review reports comparing returns against the appropriate benchmark and our investment objectives, and
- once a year we meet with each investment manager to discuss their performance.

All contracts have review clauses and provisions for terminating the arrangements.

We can, and do, put the investment manager contracts out to tender from time to time.

We do not simply watch what is happening to investments, we ask the scheme’s investment consultant to assess why the managers are performing as they do.

Performance can be attributed to 3 main areas:

Asset Allocation

If, for example, global shares are performing well (or badly!) returns may vary because we have too much (or too little) invested in this asset class.

Stock Selection

Within each asset class, particular managers may make good (or bad) calls around the companies they invest in. (Say, for example, by investing heavily in bank shares just before the GFC!)

Currency Exposure

Offshore investments are affected by a change in the value of the New Zealand dollar. For example, if a New Zealand investor has shares in an Australian company which returns 5% for the year and the Australian dollar falls 5% against the New Zealand dollar, the return to the New Zealand investor will be nil. Offshore investments are often “hedged” to lessen the effect of changes in the New Zealand dollar against foreign currencies.

Analysis of performance helps us make longer term “strategic” decisions on asset allocation, fund manager selection and currency risk.

Please note:

- The scheme’s assets are invested in accordance with a long-term strategy. We do not “chase the market”: rushing into asset classes that are performing well or selling out of those doing badly; or ditching investment managers that have had a poor quarter or year.

SO HOW ARE WE DOING?

There are two basic standards that can be used to check the investment performance of each option:

- Returns against our investment objectives
- Returns against other similar schemes.

Both measures are important.

RETURNS AGAINST INVESTMENT OBJECTIVES

In the year to 31 March 2013, most asset classes generated strong returns. Since your savings in the scheme are long-term savings for retirement, it is important to also consider the longer term.

RETURNS AFTER TAX AND FEES, & COMPARISON WITH INVESTMENT OBJECTIVES							
INVESTMENT OPTION	One Year (% pa)	Three Years (% pa)	Five Years (% pa)	Objective (% pa)	Three Year Return compared with Objective (% pa)	Five Year Return compared with Objective (% pa)	Return since Inception compared with Objective (% pa)
Cash	2.16	2.28	2.84	CPI+0.25	-0.26	+0.22	+0.37 (2004)
Conservative	6.66	5.09	n/a	CPI+1.5	+1.30	n/a	+0.93 (2008)
Balanced	11.07	6.12	3.20	CPI+3.0	+0.83	-2.17	+0.25 (1988)
Growth	13.36	13.50	n/a	CPI+4.0	-0.58	n/a	-1.64 (2008)

Please note:

- The five year period captures the effects of both the global financial crisis and the increase in GST.

RETURNS COMPARED WITH OTHER FUNDS

Since they dominate the market, the performance of each option is measured against KiwiSaver funds with a similar investment profile.

Returns here are before tax but after investment fees. Comparisons are not yet available for five year periods and there is no survey of comparative performance of Cash KiwiSaver funds. FireSuper returns are compared to the “median” (middle) KiwiSaver returns and ranked by the number of comparable funds. Returns are for periods ending 31 March 2013.

RETURNS COMPARED WITH KIWISAVER SCHEMES AND RANKING: ONE AND THREE YEARS						
	CONSERVATIVE		BALANCED		GROWTH	
MEASURE	One Year (% pa)	Three Years (% pa)	One Year (% pa)	Three Years (% pa)	One Year (% pa)	Three Years (% pa)
FireSuper	8.8	7.1	13.7	8.4	16.2	8.5
KiwiSaver Median	8.9	6.7	11.6	7.1	13.6	7.3
FireSuper Rank	12/21	7/21	3/27	8/26	6/34	11/32

Please note:

- In all cases except for the Conservative option over the last year, FireSuper has ranked in the top half of comparable KiwiSaver funds. Over the last three years, FireSuper has ranked in the top third of comparable KiwiSaver funds.

It is important not to read too much into the comparisons. In any comparison, a scheme has to be first and a scheme has to be last, and the investment strategies that work in one year may not be quite so competitive the next. Our goal is for each option to be in the top half of comparable KiwiSaver schemes. Over the last three years this has been achieved.

For further information:

- Contact the scheme Secretary by using any of the contacts set out at the “contact details” page at www.firesuper.co.nz



www.firesuper.co.nz