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mysuper

Navigating investment with mysuper

A guide to market volatility, risk and your investment returns

mysuper Superannuation Scheme

Investment and your my**super** account

Investing isn't always plain sailing and sunny days as we'd like it.

Although investments generally go up over time, the reality is markets also go down along the way. This can have a range of impacts on your my**super** account, both good and bad.

To help you work out what it all means we've broken investment down into four parts to simplify the process:

→ Investment funds

→ Risk

→ Market volatility and

→ Returns

Investment Funds

To help your retirement savings grow, they are invested in an investment fund (or investment funds if you wish). There are four my**super** funds to choose from - Cash, Conservative, Balanced and Growth.

Each investment fund is made up of a combination of different investment assets (i.e. cash or cash equivalents, New Zealand fixed interest, international fixed interest, Australasian equities or international equities) with different weighting. For example, a growth investment fund will typically have 80% of its investment in equities, while a conservative investment fund will only have 20% of its investment in equities.

> ⓘ The weighting of different assets an investment fund has will determine the type of 'risk' associated with it and the investment returns, or reward, it could offer.

You can learn about each of the four my**super** Funds at **mysuper.co.nz/how-we-work/fund-options**

Risk

my**super**, like all KiwiSaver schemes, and even your bank (whether your savings account or term deposit) are different forms of 'investments'.

When you invest, you are putting your money 'at risk', even if you put it in a bank account. The challenge is to know what risks you face, and to look to manage the potential consequences of the risks.

The term **risk** means different things to different people. For many, it is something they want to avoid. For others it is an opportunity and an acceptable part of everyday life. This is your 'risk tolerance'.

> For members who are prepared to take on and manage risk there are potential benefits in the form of higher returns.

What is risk?

In simple terms, risk is a measure of the chance that an investment will not be as good as you expected it to be or were told it should be. It means you might not get back some or all of your money, you might not get as much income (i.e. interest) as you thought, or you might lose your purchasing power and not be able to buy what you need.

It may also mean that the overall investment experience is unsettling.

Understanding risk

Understanding the potential negative consequences of an 'event' on an investment is important. If the consequence of an event[1] happening is unacceptable, it is best that the risk is not taken on, or, if taken on is closely managed.

Managing those risks that are relevant to you is a necessary requirement of investing to help achieve your goals. Unmanaged risks present barriers to achieving your financial goals and ultimately may result in you needing to save more or having less to spend.

Every investment has some potential risk. The risk might result in:

- A low or negative return (i.e. a loss) for a period, that gives cause for concern;
- Earning less than you expected, or could have earned elsewhere and so more is required to be saved;
- Having to sell at a loss when the market is down, making it a permanent loss.

Investment horizon is important

Your investment horizon is fundamental to the risk/reward trade-off. The longer the investment horizon time (total length of time you hold the investment), the more short-term uncertainty you can expose yourself to, i.e. the higher up the risk return curve you can go. However, you are never guaranteed, to get a higher return by taking on investment risk and the 'long-term' may require 30 to 40 years.

[1] An 'event' can be anything from how the markets respond to the outcome of an election or a large company reporting it made a financial loss.

Willingness to take on risk

It is important to have the right level of risk.

Taking on more risk than needed can be as bad as not taking on enough. Both can result in insufficient wealth and require a higher savings level. Choosing the right level of risk involves understanding your ability to take on risk (your risk tolerance) and your willingness to take more or less risk than is theoretically right for you, i.e. your attitude to risk (or risk preference).

Your attitude to risk generally determines the type of investments you will choose to invest in. There are a number of factors that will affect your attitude to risk:

1. **Your current assets relative to the level required to achieve your goal:** this measures how much risk you can absorb from a particular investment without comprising the achievement of the ultimate goal.
2. **Your level of secure or 'safe' investment:** if some of your total assets are part of a safety buffer, 'riskier' long-term investments can then be added to this base without long-term adverse consequences from short-term events.
3. **Your income and future earning capacity:** generally, the higher your income, the greater your ability to cope with risk and respond to events.
4. **Your age and 'investment horizon':** a long investment period often means you are able to absorb short-term ups and downs. The issue is then one of whether you want to.
5. **Your past experience of investment:** and any losses suffered in particular.
6. **Your personality:** if your personality leads you to worry whatever the circumstances, a low-risk investment strategy may be best.
7. **Your partner's view:** if your investments are part of a wider whānau plan. The views of each partner are therefore important.

But some risks, for example, inflation cannot be avoided. While the short-term ups and downs of the market are often the main concern, as it can lead to a lower investment return, for many, inflation is the key risk when determining a long-term retirement investment plan (i.e. what the purchasing power value of a dollar will be in ten years' time).

Market volatility

Market volatility or the 'ups and downs' of the market can have an impact on each of the four my**super** investment funds. What the impact is or will be really depends on what's happening in market and what the profile of the my**super** investment fund is.

For example, our Cash Fund is invested 100% in cash or cash equivalents. The risk associated with investing in cash is very low, which in turn can deliver lower investment returns. Should the market be volatile in relation to equities and shares, you'll find there will be little or no impact on cash or the Cash Fund.

Returns

Each month the performance of each of my**super**'s four investment funds is reviewed and a monthly investment return is calculated for each investment fund.

This investment return is based on how the assets (i.e. international fixed interest, Australasian equities etc) in each investment fund have performed.

> ⓘ The investment return applied will be different for each of my**super's** four investment funds as they are made up of different assets.

Once confirmed we then apply an investment return (which is after taxes and fees) to members account balances. The investment return that is applied is determined by the Fund the member has chosen.

Each month the returns are published at **mysuper.co.nz/performance**

Investment returns and your my**super account**

When the investment returns are applied each month your my**super** balance will adjust. Going up if the returns are good/positive or potentially going down, if they are bad/negative.

Although not always welcome, negative returns are relativity common in investing and their impact can be rather 'grey' depending on the Fund a member chose.

Here are two examples to show you what we mean. For both examples we:

- → used an amount of $50,000;
- → assumed no additional contributions or withdrawals are made;
- → used actual my**super** interest rates found at **mysuper.co.nz/performance**

my**super** Growth Fund

VS

October Growth Fund interest rate = 3.45%

This means, a member, with a $50,000 account balance would have made $1,725 in an investment return, meaning their new account balance would be $51,725. In November the interest rate was 0.95%, so they would have made $475, meaning their new account balance would be $52,220. Then in December, the interest rate was 1.01%, so they would have made $505, meaning their new account balance would be $52,725. So, over a three-month period this means the member has made $2,725.

However, the interest rate for January was **-2.62%** meaning the member's account balance reduced (or they lost) **-$1,381** so their new account balance would be $51,344.

However, while their account has reduced in value, they have still made $1,344 in investment returns over the three-months.

my**super** Cash Fund

October Cash Fund interest rate = 0.16%

This means, a member, with a $50,000 account balance would have made $80 in an investment return, meaning their new account balance would be $50,080. In November the interest rate was 0.14%, so they would have made $71, meaning their new account balance would be $50,151. Then in December, the interest rate was 0.13%, so they would have made $66, meaning their new account balance would be $52,217. So, over a three-month period this means the member has made $217.00.

Now in January the my**super** Cash Fund didn't have a negative investment return, but the interest rate was 0.20%, so they would have made $101, meaning their new account balance would be $50,318.

While the member in the my**super** Cash Fund has not made a loss, compared to the member in the my**super** Growth Fund, they have not made the same amount of money for the same period of time. In actual fact, the member in the my**super** Cash Fund made $1,026 less than the member in the my**super** Growth Fund.

Time horizon and returns

As mentioned on **page 2** your investment horizon is fundamental to the risk/reward trade-off. The impacts of negative returns, whilst not ideal, are not always dire.

> ⓘ Negative returns are relatively common in investing and their impact can be rather 'grey' depending on the Fund selected.

Defining some investment terms

Unsure of what some of technical terms mean? We've explained them a bit more for you:

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and demand deposits (like in a savings account in a bank), together with short-term, highly liquid investments (like term deposits). These investments are low risk, and offer a reliable return that can be used as income.

New Zealand Fixed Interest

Long-term, interest-earning assets, bonds in New Zealand companies and the New Zealand Government. These investments are generally lower risk, and offer a reliable return that can be used as income.

International Fixed Interest

Long-term, interest-earning assets, bonds in non- New Zealand companies and the non- New Zealand Governments. These investments are generally lower risk, and offer a reliable return that can be used as income.

New Zealand Equities

A share in the ownership of a New Zealand company and entitlement to any dividends. These are sometimes referred to as 'equities' or 'stocks' as well. These investments are generally higher risk, and offer a return that can grow your retirement savings over the longer term.

International Equities

A share in the ownership of a non- New Zealand company and entitlement to any dividends. These are sometimes referred to as 'equities' or 'stocks' as well. These investments are generally higher risk, and offer a return that can grow your retirement savings over the longer term.

You can learn about each of the four my**super** Funds at **mysuper.co.nz/how-we-work/fund-options**

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