NOVEMBER/DECEMBER 2019

NEW ZEALAND

ASSET

THE MAGAZINE FOR SMART ADVISERS

Special Awards Issue

Good Returns FUND MANAGER OF THE YEAR 2019 Powered by RESEARCH IP

Sponsored by Trustees Executors

Good Returns Fund Manager of the Year Awards - powered by Research IP

Industry chiefs on new future

First licences issued

Disability insurance critique

From the publisher

What a year 2019 has been for financial advisers

If I had to sum it up it I would say it has been one of change. The passing of the Financial Services Legislation Amendment Act and all the associated pieces of regulation have dominated the news agenda for advisers across the country.

The good news is there is more certainty around the future of advice. However, there remains a lot to work through.

My guess is that financial advice will go through massive change over the next couple of years.

A settled state, if it ever emerges, is likely to come about after several iteration periods.

It's also a pretty safe bet to say that during this period the regulators will be driving change and putting pressure on firms.

The other big area of change has been in the life insurance market. This has come through ownership changes and of course the regulators.

In many ways the era of change for life insurance is only just starting. It has also been a big year for ASSET and Good Returns.

Next year promises to be big too. We have a number of new initiatives underway which will help cement our place as the number one source of news and information for advisers in New Zealand.

GOOD RETURNS FUND MANAGER OF THE YEAR AWARDS

We were particularly pleased to launch the Good Returns Fund Manager of the Year Awards last month. This is an initiative with our partner Research IP.

Feedback has been fantastic. Our goal is to evolve the event into one of the biggest must-attend events of the year for fund managers and financial planners.

Congratulations to all those fund managers who were finalists and winners. You will find out more about them in our special feature in this issue of ASSET. Also last month we ran a highly successful conference for mortgage advisers. Now in its third year the TMM Better Business Conference is cementing itself as the mortgage adviser industry event of the year.

THANKS AND MERRY CHRISTMAS!

And to wrap up I would like to thank all the firms who have supported ASSET this year. That support means we can produce this magazine to help, inform and entertain advisers.

Thanks too to the awesome team who put ASSET together each month. From all the team here at ASSET we wish you a merry and relaxing Christmas break. Recharge your batteries and make 2020 a cracker of a year.

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ASSET is published by Tarawera Publishing Ltd (TPL). TPL also publishes online money management magazine
Good Returns
GoodReturns.co.nz
and TMM – The Mortgage Mag

ISSN 1175-9585

By Nick Astwick

Regulation not the best fix

Costs are increasing for the provision of health care cover. Nick Astwick of Southern Cross discusses improvements they are making in order to keep premiums affordable.

It's no secret that both public and private healthcare funding is under pressure. Healthcare is complex, increasingly expensive and a global challenge.

As with other health insurers, we are dealing with claims costs increases that consistently outstrip the general rate of inflation.

Our neighbours in Australia are facing similar challenges. While government regulation has been successful in increasing uptake of health insurance in Australia to 44.6%, that figure is dropping and is now at an 11-year low.

From time to time it's suggested that we introduce Australian-style community-rating, where the price is the same for everyone with the same policy, regardless of age, health status or claiming history.

At first glance community rating makes sense. Unfortunately, it's not that simple. And it doesn't necessarily deal with the issues it's seeking to address.

Until 2001, Southern Cross' health insurance premiums were community rated. Our experience showed us that community rating creates a disincentive to younger, healthier people taking out health insurance.

In Australia, the government has intervened with tax incentives and penalties to encourage young people to take out health insurance – needed to offset older customers claiming more, because young people claim less. The government also sets policies and pricing of plans, including upper price limits. Healthcare providers meanwhile are free to charge whatever they wish for their services, which unfortunately means consumers are left to cover a growing shortfall between procedure prices and the coverage limits. This has led to a new form of insurance altogether, "gap insurance", to enable customers to cover the shortfalls. For me, this leads to real concerns about the weakening of the offering altogether.

At Southern Cross, we're acutely focused on tackling the balance between premium affordability and maintaining access to treatment. The fact is though, that the older you get, the more likely you are to claim.

Until November 2016 Southern Cross operated a common rating approach for members aged 65 and over, which meant that a 65 year old paid the same as a 95 year old on the same plan. This meant a large increase in premiums for members when they turned 65, so we're gradually transitioning the age people move into the common rating pool to 75 by 2025. This will smooth the premium increases associated with age and reduce the "price shock" at 65 years.

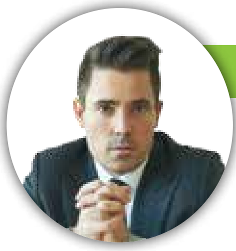
We also have our long-standing Affiliated Provider programme, which has been successful in moderating the rising costs of procedures, making estimated savings of $91 million over the past five years*. While this will continue to deliver value, we continue to look at further ways of moderating claims costs.

To achieve affordability long-term, we've got more to do and, in partnership with healthcare providers we're evolving our approach altogether. I believe we should not only be looking to reduce cost, but aiming to improve overall health outcomes for our members. Under the current model we pay healthcare providers to carry out a treatment, regardless of its result. Instead we will pay to achieve a certain health outcome for members. This means more accountability for the healthcare provider; a fairer system for members with greater emphasis on quality; and for us the ability to manage costs and therefore premiums.

We believe this direction is necessary to ensure sustainability of the private health sector and to deliver the best value outcomes to our members. Ultimately what we're seeking to offer is an improvement in quality and quantity of life for our members, in a way that's affordable for more Kiwis. Ⓐ

In order to calculate the estimated price-related savings, the impact on claims of utilisation and the addition of new benefits was identified and excluded.

Nick Astwick is CEO of Southern Cross



By Michael Lang

KiwiSaver insight

How socially responsible is your KiwiSaver manager?

HOW SOCIALLY RESPONSIBLE IS YOUR KIWISAVER MANAGER?

Advisers who have been in business for a decade or more will be aware of the power of fads, or as they're commonly marketed in finance: investment themes. Investment themes are powerful because they can be packaged into a product and used to raise capital.

In the early 90s it was Pacific Basin funds, then emerging markets, followed quickly by technology in the 2000s and more recently, highly cyclical commodities such as gold, water, forestry, milk – and avocados of all things.

Some managers appear to have approached socially responsible investing in the same way, by treating it as a fad with which to raise capital. This is a mistake. Millennials get the most attention for values-based investing, but there is growing interest from the older and much wealthier Generation X.

In 2018 NZ Funds surveyed New Zealanders to see what mattered most to them when investing. ESG (environmental, social and governance) rated first, ahead of returns, fees and whether their manager was locally or internationally owned. As a result, NZ Funds' board decided to take an ESG approach with all the money we manage.

Embracing socially responsible management is not easy for a manager, and it only gets harder for an adviser or an investor as there is no one definition of what is socially responsible and what is not.

HOW MANAGERS CAN ALL CLAIM TO BE SOCIALLY RESPONSIBLE

Any manager with a policy of considering ESG factors must note in their KiwiSaver product disclosure statement whether "responsible investment, including environmental, social, and governance considerations, is taken into account". Unfortunately, with the exception of controversial weapons (cluster munitions, anti-personnel mines, or nuclear armaments), there is nothing to stop a manager from "considering" ESG factors and then investing anyway. In this way, KiwiSaver managers can, and most do, claim to be socially responsible.

THE SOCIALLY RESPONSIBLE FAKE NEWS TEST

Having a list of exclusions (or prohibited investments) based on industry type is the most visible way for investors to understand how a manager may implement their ESG policy. To test how far KiwiSaver managers go in developing their exclusions, we analysed all their KiwiSaver funds against banned controversial weapons and added six additional categories: tobacco, civilian firearms, gambling, alcohol, fossil fuels and pornography.

The good news is, over 70% of managers have firm-wide policies to restrict investments in at least one category other than controversial weapons. The most commonly restricted categories are tobacco and civilian firearms.

However, despite the soothing words of almost all Product Disclosure Statements, only around a quarter of the managers restrict investments in four or more of the categories. Those managers were: Simplicity, CareSaver, NZ Funds, Juno and Kōura Wealth. Simplicity deserves special mention as being the only KiwiSaver manager with a full score.

At the other end of the spectrum were Funds Administration New Zealand and AMP who only excluded controversial weapons. In addition, Aon, Nikko, QuayStreet and SuperLife either do not take responsible investing into account or have no specific exclusions in their ESG policies. Some managers had specific funds that had exclusions, but this did not seem to be a firm-wide policy. Managers with limited exclusions may be treating socially responsible investing as a fad, choosing to launch a small number of prominently labelled funds, while quietly managing the bulk of funds with few or no restrictions.

Failing to embrace ESG is, in our view, a mistake. There is increasing evidence that ESG improves rather than penalises returns. A good example is Morningstar's November 2016 report, "Sustainable Investing Research Suggests No Performance Penalty". It is timely that the FMA has asked for consultation on green bonds and responsible investment products. Hopefully, transparency in this area will improve with time.

EXCLUDED INDUSTRIES

MANAGER	CONTROVERSIAL WEAPONS	TOBACCO	CIVILIAN FIREARMS	GAMBLING	PORNOGRAPHY	FOSSIL FUELS	ALCOHOL	TOTAL
SIMPLICITY	✓	✓	✓	✓	✓	✓	✓	100%
CARESAVER / PATHFINDER	✓	✓	✓	✓	✓	✓	✓[1]	100%
NZ FUNDS	✓	✓	✓	✓	✓	✓[2]	-	86%
JUNO / PIE FUNDS	✓	✓	✓	✓	✓	-	-	71%
KŌURA WEALTH	✓	✓	✓	✓	-	-	-	57%
ANZ	✓	✓	✓	-	-	-	-	43%
ASB[3]	✓	✓	✓	-	-	-	-	43%
BOOSTER[3]	✓	✓	✓	-	-	-	-	43%
FISHER	✓	✓	-	-	-	✓[2]	-	43%
MERCER	✓	✓	✓	-	-	-	-	43%
MILFORD	✓	✓	✓	-	-	-	-	43%
WESTPAC	✓	✓	✓	-	-	-	-	43%
BNZ	✓	✓	-	-	-	-	-	29%
GENERATE	✓	✓	-	-	-	-	-	29%
KIWIWEALTH	✓	✓	-	-	-	-	-	29%
SUMMER / FORSYTH BARR	✓	✓	-	-	-	-	-	29%
AMP[3]	✓	-	-	-	-	-	-	14%
FANZ / SBS	✓	-	-	-	-	-	-	14%
AON	-	-	-	Exclusions not disclosed		-	-	-
NIKKO	-	-	-	Exclusions not disclosed		-	-	-
QUAYSTREET / CRAIGS[3]	-	-	-	Exclusions not disclosed		-	-	-
SUPERLIFE[3]	-	-	-	Exclusions not disclosed		-	-	-

1. CareSaver excludes companies that target young people with cheap alcohol. 2. NZ Funds excludes companies that have more than 10% of their revenue from thermal coal and oil sands. Fisher Funds excludes companies if a significant proportion of their core business is in thermal coal production. 3. These managers have specific funds which have additional exclusions. Source: the public websites of each respective manager.

Michael Lang is Chief Executive at NZ Funds and his comments are of a general nature. New Zealand Funds Management Limited is the issuer of the NZ Funds KiwiSaver Scheme. A copy of the latest Product Disclosure Statement for the scheme is available on request and at www.nzfunds.co.nz.

Proposed changes should help industry, insurers say

New Zealand life insurers are unfazed by proposed changes coming for insurance contract law.

Commerce Minister Kris Faafoi announced plans that he said should give consumers more certainty when it came time to claim.

Among them was a requirement for insurers to ask the right questions to obtain necessary information from applicants – not put the duty of disclosure solely on clients – and to deal with customers who do not disclose something material "proportionately".

They will also have to present information in a way that customers can understand.

Naomi Ballantyne, managing director of Partners Life, said the proposals would not change a thing for her company as they currently stood.

"We have always believed we need to ask the client the questions we need answered as clearly as possible to enable them to fully disclose and if we don't ask we take responsibility. Our new automated application capture and underwriting engine (MUM) takes a huge leap forward in terms of ensuring questions are asked in the way consumers think about their health rather than the way insurers want to ask them. We agree wholeheartedly with this requirement," she said.

"We have also always had a 'fair and reasonable' provision in our policy wordings which protects the client against a 'punishment that outweighs the crime' when it comes to non-disclosure. We simply re-underwrite at application date based on the correct information and then provide cover on the basis of that 'corrected' underwriting. In other words the client is not better off or worse off than they ever should have been. We therefore also agree wholeheartedly with this requirement."

At Fidelity Life, Anna Black, chief risk officer, said the insurer supported the review because it wanted to see increased confidence and trust in insurers.

"In particular we're pleased to see progress on the duty of disclosure, which in our view has become outdated. We look forward to seeing the draft legislation in due course and providing further feedback to ensure we finish with a good result.

"We're pleased to see these and other proposed regulatory changes align with our goal for a successful and sustainable future with the customer at the heart of everything we do."

Ballantyne: Advisers don't own clients

Advisers can expect insurance companies to have a more hands-on approach to their relationships with clients, Partners Life managing director Naomi Ballantyne says.

She said increasing regulatory scrutiny on the industry would bring changes to the way that advisers and insurers ran their businesses.

As part of the conduct and culture review, conducted by the Financial Markets Authority and Reserve Bank, she said, the insurer was challenged to prove it was doing right by clients.

That had prompted Partners Life to think about how clients worked with advisers and the company, she said.

"We have trusted all of the pieces that lead to the client becoming ours and all of the pieces of servicing the client outside of just the policy.

"We trusted that that was happening because that's the adviser's space, and we've always felt that it's a conflict for an insurance company to be in the middle of an advice process.

"So, to hear regulators saying, 'They're your customers. You've got to take responsibility for the quality of the advice that they receive' was really, really challenging and scary for advisers."

She said advisers would have to realise they did not own their clients. Life insurers had always had the contractual relationships with clients and would pay the money in a claim, she said.

The difference was now that the regulator expected the insurance firm to know that the client had not been given any inappropriate or incorrect advice to place the business with the insurer.

Naomi Ballantyne

First licences issued

The first transitional licences have been issued to financial advice providers under the new regime.

Licensing opened on November 25 for those who want to become a FAP.

By the end of the first week, the first licences had been handed out.

Andrew Park, spokesman for the Financial Markets Authority (FMA), said 23 applications had been made over the course of the week. About a third were to individuals and two-thirds to groups.

He said it would be incorrect to take the pace of application and approval in the first week to indicate how it might continue from this point, but everything was going to plan at this stage. "It's very reassuring."

The FMA would do a push towards the end of January to encourage people to apply, he said. "The most important message on this is don't leave it too late. There's plenty of time before June next year but don't leave it too late."

Transitional licence applications must be in before the new regime commences on June 29, 2020. From that point, only full licences will be available.

There had been twice as many visits to the transitional licensing information website on November 25 compared with historical patterns, Park said.

He said the regulator was pleased with how the system had performed.

The focus had been on making sure the process worked and that it did what it was supposed to so that applications could go through, he said.

Investment ahead for Aegis

MMC says it will invest in Aegis in a way that has not happened for some time under its previous owners, ASB.

Aegis staff have moved from ASB to a separate office nearby. They will move into a new floor of the building housing the MMC offices in March or April next year.

"We are excited to be able to extend our service offering, with the benefit of bringing on existing Aegis advisers, staff and resources to provide scale in private wealth … we are looking to improve the delivery of Aegis services by leveraging our technology and skills to upgrade the existing Aegis platform," chief executive Tom Reiher said in a statement sent to advisers.

MMC has also recently taken a shareholding in Invsta, an Auckland-based wealth management fintech firm, which he said could create benefits for Aegis advisers.

"We have offered an investor portal to clients since June 2017 which provides our clients' investors and their advisers with an innovative and intuitive investment reporting tool," Reiher said.

"Of late, our focus has been on delivering a comprehensive suite of investor information via API for those clients who prefer to develop their own web portals – this includes an automated onboarding process and online transacting. For those clients who have been using our investor portal, Invsta's technology provides the opportunity to step up to the next level. The solution that Invsta have developed uses MMC's APIs, facilitates onboarding and investment transacting, and integrates with our clients' investment fund offerings. With MMC's focus on investing in technology, work is already underway with Invsta to offer these very same smart solutions to Aegis advisers and their clients."

Fund managers: One for the team

Fund managers who were recognised in this year's inaugural Good Returns Fund Manager of the Year awards have welcomed the recognition.

Fisher Funds took the top prize, the award for the Australasian fixed interest sector and the adviser choice gong for equities.

KiwiSaver of the Year went to Generate.

The awards were powered by Research IP and were based on one-year returns and a number of other factors to ensure the winners and funds shortlisted in each category were not "one-hit wonders".

Bruce McLachlan, chief executive of Fisher Funds, said he was delighted the team was recognised.

"We believe we have got a fantastic team here. The team is really strong. The value of Fisher Funds is inextricably linked to the quality of the talent and the investment style."

He said Fisher Funds' investment team was not trying to win awards "but trying to be the best". "I'm really happy for the team."

He said he was also pleased to receive the adviser award because it was not a segment of the market that Fisher Funds had made a play for.

"The fact that advisers wouldn't be dealing with us, it's a true independent assessment … I'm delighted with that one."

Henry Tongue, chief executive of Generate, said the KiwiSaver award meant a lot to the firm.

"It recognises the hard work put in every day by both our team and our third-party advisers to try to be the very best KiwiSaver provider. We'll never rest on our laurels but it is nice to be able to take a step back and appreciate what we've managed to achieve for our members."

He said it was good for members to see Generate recognised because it validated their decision.

"It was nice to win one for the active team in the KiwiSaver category."

If you have a new appointment email details and a picture to editor@goodreturns.co.nz

Accuro boss steps down

The chief executive of specialist health insurer Accuro has decided it's time for retirement.

Geoff Annals has been with the insurer for 17 years. He joined the board in 2002, but stepped down as chairman to take up the role of chief executive in September 2013.

"I have reached retirement age and am planning to spend more time with my family and particularly my two new grandchildren, including the latest arrival on the other side of the world," Annals said.

Chairman Tony Haycock said: "Geoff has been invaluable in delivering on the strategy of Accuro being New Zealand's best little health insurer, which includes Accuro winning recent awards for innovation and customer service. Our 'Active Insurance' package has been instigated over the past two years, focusing on real benefits to members and includes access to Best Doctors, the Accuro Health Hub, Mental Health Navigator and our bowel screening kit initiative."

A recruitment process to appoint the next chief executive is under way. General manager marketing, sales and customer Gavin Rutherford has been appointed as an interim CEO.

"Gavin has already been deputising when our CEO is away from the office. He is a very capable and experienced pair of hands that ensures our customers will continue to receive the best service," Haycock said.

New distribution boss for NZ Funds

NZ Funds has appointed a chief operating officer, distribution.

It is a newly-formed role that will take responsibility for the fund manager's 300 independent financial advisers. ***Geoff Motion*** will take the position.

He is one of NZ Funds' long-standing principals and oversees its KiwiSaver service and communication programme.

He will continue to lead the KiwiSaver team, which has introduced innovations such as projecting member balances years ahead of the statutory deadline, designing and enabling paperless contribution rate changes and rolling out NZ Funds' financial planning software, which is complimentary to new KiwiSaver members.

"I'm really looking forward to leading a team to support and service independent financial advisers. Over the last 12 months we've had over 200 new advisers join our platform – we have a clear vision of what we want to offer them, a service that is second-to-none and is made up in equal parts of market leading technology and a market leading 'personal touch' support service.

"For the last two years NZ Funds has surveyed independent advisers in order to have its service independently rated. Our business support team has a Net Promoter Score of 46 which in the financial advisory industry is quite exceptional, so I've got an extremely high standard to keep. We are determined not to let the rapidly increasing number of advisers we're working with detract from our service proposition. In fact, it's going to be my job to take it to the next level."

Meanwhile, ***Stephan Clark*** has been appointed NZ Funds' new head of risk.

Clark has a strong understanding of the advised portfolio solutions offered by NZ Funds and how advisers can help clients build and manage their wealth over time. He has also overseen the enhancement of advice and customer care processes, and co-leads a cross-functional team focused on continuously improving the NZ Funds KiwiSaver Scheme.

Stephan Clark

Fidelity appoints chief underwriter

Fidelity Life has appointed a new chief underwriting manager.

Monique Ravening replaces Sian Johnson, who has moved to Partners Life.

Ravening has been acting in the role since July this year and prior to that was underwriting team manager and underwriting professional development manager at the life insurer.

She will be responsible for Fidelity Life's 45-strong underwriting and new business teams as they assess applications, offer appropriate terms and issue policies – all while working closely with the company's adviser business partners.

Chief operations officer Kath Johnson said Ravening was an ideal fit for the role.

"The chief underwriting role is key for any insurance business because they're required to make quality decisions which achieve a balance between good commercial and customer outcomes.

"Monique's ideally qualified given her obvious passion for underwriting as well as the great experience she's gained during her time at Fidelity Life and in her earlier career."

Ravening started her underwriting career in 2001 with Tower, and had roles with both Tower and AMP before she joined Fidelity Life in 2013.

MMC catches big fish to run new platform

MMC, which has bought the Aegis business from ASB has hooked a top Fisher Funds executive to run the enlarged business.

MMC has appointed ***Vedran Babić*** as its new chief executive. Babić is an experienced financial services executive, with a track record of developing and executing vision and strategies to drive sustainable business growth.

He is currently the chief operating officer at Fisher Funds Management and will join MMC in February.

"Our success and growth both from our own efforts and our clients' achievements over the last few years, coupled with the recent purchase of Aegis, has us strengthening the management team that currently leads our business at a senior level," MMC's current chief executive, Tom Reiher, said.

BNZ mints new director

BNZ has added another investment expert to the board of BNZ Investment Services Limited.

It has appointed ***Paul Richardson*** into the role. Richardson is well-regarded in funds management after roles with Mint Asset Management, BT Funds Management and UBS.

He has more than 28 years in the financial sector in New Zealand and Australia, as a chief investment officer, executive director, head of research and funds management.

BNZ general manager, wealth, Peter Forster said Richardson's appointment was indicative of the bank's drive to deliver better outcomes for customers.

"Paul Richardson brings an independent perspective to the table that will help our constant focus on putting the customer first," Forster said.

"With the appointment of Paul, on the back of Graham Ansell joining the board earlier this year, we have extremely strong and capable, independent voices at the table.

"We believe that this independence will help the board continue its strong advocacy on behalf of the customer at governance level."

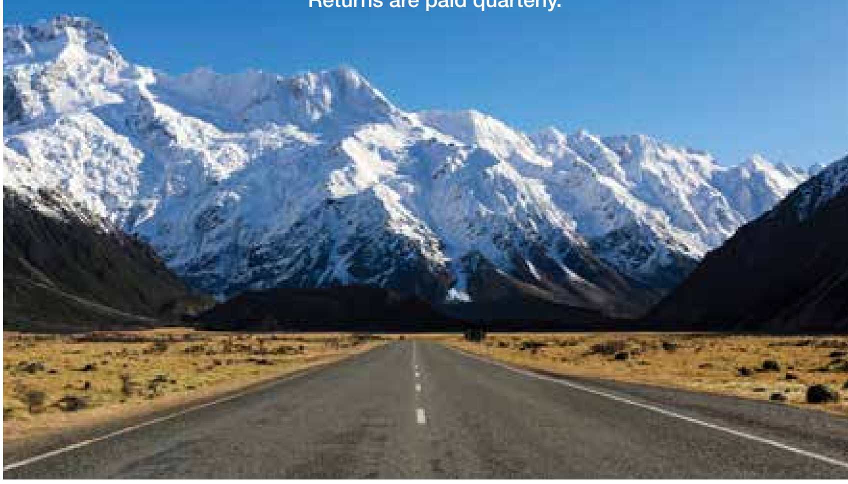
Changes for Nikko

Nikko Asset Management is advertising for two research analysts to join its investment management team.

Portfolio manager ***James Lindsay*** is moving on after having been with the firm for 21 years.

Managing director George Carter said there would be three portfolio managers on staff, supported by the two new research analysts.

Stuart Williams would take over the concentrated equity fund from Lindsay.



PROFILE

By Susan Edmunds

Building sustainable advice future

Peter Cave says it's not good for anyone to have advisers clinging to commission.

An early experience with a big customer's business going bust is what convinced adviser group head Peter Cave that it would be better to run the industry on a salary, not a commission-only, model.

Cave is now managing director at Lifetime Group, and was previously at the head of Camelot until the two groups merged last year.

But Cave started in the industry back in April, 1988, after beginning his working life as an engineer.

Feeling disillusioned, he had a meeting with a financial adviser who gave him, he said, a holistic view of where he was in his life at the time. "He wasn't trying to sell products. I thought it was fantastic."

The adviser suggested a career change might be needed. "I said 'you seem to be doing well, tell me how to get into that industry'."

The move meant stepping away from a good career path in engineering and into a brand new industry at 27. "It was daunting and not very successful."

Cave gave up a $45,000 salary, or about $120,000 in today's money, and in his first year in advice made $28,000. After a 12-day induction course, he remembers being given a phone book "and there you go".

"I enjoyed what I was doing, I just wasn't very good at it."

He said he had never seen himself as a high-pressure salesman and struggled through the first couple of years, trying to maintain a longer-term view of his relationships with clients.

"It was very character building. I might not have been an instant success but about half-a-dozen people in the team were very successful and I kept trying to analyse what they were doing."

At the end of the second year, he wrote a business case for a client that was worth about $28,000 in commission.

Cave said he "did all the things" that a young adviser in those days would do with a big pay cheque, bought a car and went on holiday.

Then, six months later, he found out that the business client had gone into liquidation and the commission he'd been paid would have to be paid back.

"I thought I'd have to go back to a real job. I had a big debt sitting in the agency account."

But adviser Ian McGill, who helped him get into the industry and mentored him through the early years, stepped in, asking him how much he needed to earn a week to get by and stick it out in the industry.

They decided on $500, which McGill agreed to put into his account. He took over Cave's debt and helped to manage him back on to a profitable path.

"In six months, I was back on my feet. It takes the pressure off when you have a regular flow of income so you're not worrying about the rent or mortgage."

That experience prompted him, throughout his advising life as his business grew, to encourage others to work on a salary too.

"I put myself on a salary and as other advisers have come in, we've put them on salaries … I paid myself a regular income and if there was money in the bank at the end of the year that was fantastic but if there wasn't I didn't worry."

The approach allowed him to bring more younger advisers in, too.

"It means you can give young people a start in the industry, not having to measure success by how much commission they've earnt. At the end of the day if we give young people careers and they then help other people, that's a good outcome."

Cave went on to buy a small book of business in 1993, then met Moira Irving who introduced him to investment advice. "I realised that investment was a different way – a regular flow of income, looking after people … you didn't have to sit down every review period to sell something to keep the money coming in."

He completed both the certified financial planner (CFP) qualification and the chartered life underwriter (CLU) equivalent.

Cave was managing director of the Prime Planning Partnership between 1995 and 2009, and a member of the Prospero aggregator group, when it joined forces with independent advice groups around the country, and Rutherford Rede advisers, to become Camelot.

Cave said he had realised that, in general, only 20% of the country's advisers were doing 80% of production, which triggered the discussions that led to Camelot's formation.

It was at a time when the first round of regulation was going through Parliament and it became clear that there would be benefits to advice firms working together.

> **"At the end of the day if we give young people careers and they then help other people, that's a good outcome."**

Grosvenor, now Booster, took a shareholding.

More and more advisers started to approach the group, he said, wanting to join. "We started with an adviser population of 20 and support staff of 12 or 15."

Single-adviser businesses could see the sense in joining forces, he said, but it needed someone to manage it. "They pointed the finger at me."

Between 2008 and 2018 the group grew to 30 advisers. But Cave said there were years of reinvention. "Once we got to 30 advisers we spent four of five years succession-planning people out, bringing younger people in. We initially thought we'd go from 30, to 40, to 50 … at the time of the merger we had 32."

Cave said it was obvious that too many advisers did not have a business but a job. They would end up selling their portfolio of clients on multiples of renewal when it should be sold on profitability. "They don't have a business model because they're a one-man band but by working tougher they can build value. When you lose egos you can collectively build a balance sheet."

Advisers are paid a salary which makes up anything from 70% to 100% of their income, he said, depending on what career phase they were in.

There is also an incentive programme with a matrix of key performance indicators for advisers to tick off, including competency and education, compliance, customer satisfaction – and then when those were completed, the growth in the client portfolio.

Cash and equity incentives were given based on the adviser contribution to the commercial balance sheet.

"At the end of the day we want to reward people more than a salary if they add more value."

The shareholder-employee model gave everyone a share of profits, he said, and encouraged all advisers to target the bonus structure.

Cave said he could see the need for regulation.

"The regulators are listening to consumers not getting good outcomes at the moment – they had to intervene.

"The consumer obviously isn't getting a good deal in the marketplace, and could be doing a lot better … we are developing products and services that are too complicated. Consumers don't know how to make good decisions. Let's have a business model where people want to have good customer outcomes, want to turn up and help clients."

Technology meant that consumers were wanting more for less, he said, and more quickly.

It also meant that advisers could not differentiate themselves with their product knowledge. They needed to move to a more relationship-based approach where they could help people through different lifestages. "Consumers want us to have a good discussion around the options. I became a CFP where I only did investments for a while, then a CLU and only did insurance for a while. But I've realised through dealing with people they want us to be able to look at everything. Where they're at today and where they want to be in the future, what are the what-if scenarios … it should be an all-encompassing service."

The movements in the marketplace meant it made sense for bigger business models to develop, Cave said. "Maybe it's the right time for more commercial models to come to the fore."

Cave only gave up advising in the last 24 months as the last of his clients were handed over. He said he would keep working "until they don't want me around I'll keep turning up. Until they tell me I'm not relevant anymore."

He said the upcoming licensing process would be daunting for many advisers, not because they weren't doing what was required but because they had not put in place formal processes to allow that to be audited. "It's the process of taking the informal and making it more formal."

The industry also had an image problem, he said, seen as high-pressure sales rather

> **"I enjoyed what I was doing, I just wasn't very good at it."**

than helping people. There also needed to be more diversity. The adviser force was not representative of the marketplace. "There's not enough females, not enough younger people, that's a big problem.

"It's a fantastic industry but it's got to recalibrate. I think the days of being highly rewarded for sales practices are coming to an end. Fees are only an issue in the absence of value but if you're not adding value, if they're getting charged a fee that's not commensurate to the time and effort you're putting in, you have to recalibrate because the consumer won't pay for it. "David Whyte, with whom Cave has worked for years, including as chairman of the Lifetime board, said he was a visionary leader, committed to the long-term success of the group.

"The relationship between the chief executive and the chair of the board is important for the sustainable development of any organisation and Peter's professionalism, energy, and intelligent commitment to delivering on all aspects of our business strategy is focused with an unswerving tenacity. Peter is the designer, the architect, and the builder of Lifetime Group's progress and has 100% board support in all the initiatives currently under way.

"His experience, insight, and commercial acumen provides a unique leadership style and Peter will lead Lifetime towards further success as a leading financial advisory organisation in NZ. The evolution of the Lifetime business model has been developed over a number of years and Peter's leadership has us leaning into the new licensing environment with confidence and certainty that our strategy of eliminating conflicts of interest to better serve clients needs is sustainable, effective, and builds value for the long term."

By Susan Edmunds

Insurance bosses ponder new future

With big changes ahead for the industry, we asked some of the key players for an assessment of the year that's been and what might lie ahead.

NAOMI BALLANTYNE – PARTNERS LIFE

What's been the highlight of the year?

For Partners Life its actually been the substantial new initiatives we have been able to deliver to the market in a year where there has been so much negative press and regulatory concern about our industry.

We have launched:

Get Life Right – our consumer awareness campaign.

Evince – our automated advice tool designed to increase consumer financial literacy and to support advisers to become more compliant, more efficient and more productive.

My Underwriting Manager (MUM) – our automated application and underwriting platform which revolutionises the customer experience of disclosure and underwriting, significantly increases adviser efficiency and significantly increases Partners Life's efficiency.

I am incredibly proud of these initiatives, of the people within Partners Life who delivered them, and of the Board who agreed to implement such an innovative strategy in an otherwise introspectively-focused market.

What's been the most challenging part?

Trying to educate new regulators and officials about the historical origins of the current industry structure, about the differences and similarities of the NZ market to others, about the cultural inhibitions of New Zealanders in respect of risk insurances and about the emerging outcomes of regulatory change in other markets (including unintended poor consequences). All while at the same time responding to conduct and culture investigations, making submissions to consultation papers, and trying to help advisers through their licensing journey.

All of this significant, much of it unplanned, work, has had to be undertaken in an environment of continuous and significant regulator and Government criticism of the industry. The hardest part has been to keep advisers and staff motivated and engaged in the face of these issues.

In the end though, we are proud of the part we have played in Government and regulator education and in helping shape the regulations that are to apply to our industry.

What would you like to have done better?

Having an eye on the Australian market, it is clear that there are significant challenges with claims experience for both disability and trauma products. Certainly in respect of disability products, the Australian experience identifies that product evolution over the years has led to significant moral risks now inherent in the product. Likewise the evolution of trauma products coupled with earlier medical identification has led to instances of the product delivering substantial claims payments for very minor health issues – which makes the product more akin to a lottery than insurance. For Partners Life to lead the way in providing great product value to as many New Zealanders as possible, we need to revolutionise the products we offer to ensure customers who need protection for when their lives are seriously interrupted by health, can afford to buy and retain the products needed to do so. Our work to understand the issues and potential solutions was interrupted to an extent by the regulatory work required of us, meaning we are only now able to re-focus on it.

Naomi Ballantyne

What are you most looking forward to in 2020?

Certainty regarding our operating environment and the evolution of our innovation strategy.

How well do you think the industry is placed to move to the FSLAA regime?

I think the industry is well placed to progress through the transition phase. There is still uncertainty about the requirements for full licensing, meaning assessment of the impact on the industry remains uncertain at this stage.

What do you expect to see change in the industry, if anything, over the next 12 months?

I hope we will see much more work done by regulators to address any ongoing poor behaviour by providers and distributors. Regulations will only work if there are consequences to ignoring them. This lack of enforcement has been a significant issue under current legislation.

GAIL COSTA – CIGNA

What's been the highlight of the year?

I think there has been a lot but mainly the progress we've made on the integration of OnePath and Cigna setting us up to be the third-biggest insurer. I think we completed that about a year ago and we've been working very much on the integration. Increased customers, and a new responsibility for supporting the adviser channel … We're very pleased with where we're at. The people side of the culture and the progress we've made, both regulatory, legal and everything else.

What's been the most challenging part?

The integration has been challenging because of everything else that's also been going on. It's been balancing all the stakeholders' needs that's why I'm so pleased with it, it has been a challenging environment and yet we've made really good progress.

What would you like to have done better?

I think I would have – I'm an impatient person – I would like to have had some more market-facing changes. We really need to get the integration advanced first and then push on with some things next year that will be really exciting for us and for the market.

What are you most looking forward to in 2020?

Getting the integration behind us and moving on to the changes and difference we want to make in the market. Plain English, product refreshes, looking at brand-new customer-onboarding-experience support tools for advisers, ensuring vulnerable customers are catered for, embedding good conduct and culture and good customer outcomes.

Gail Costa

How well do you think the industry is placed to move to the FSLAA regime?

We are okay. We are well placed. There will be some difficulties for lone, one-man-band independent advisers. They might struggle a little bit because of all the requirements they've got to meet. The dealer groups should be well equipped to do that. A lot of them are going to become FAPs it's just a matter of how many lone wolves are left and whether they've got the capability. I suspect we will see some advisers out of their business but maybe that will just bring forward their plans anyway.

What do you expect to see change in the industry, if anything, over the next 12 months?

I do think that the FMA has set an agenda that will force change, commission rates will come down, everyone is going to be putting the customer at the centre of everything they do which will be a great thing. I think there will be more focus on that and with all the changes that will happen in the industry we will see the customer being put at the centre. It's a great time to be in the industry, you think "wow, there's a lot on" but it's just a bit of disruption. If you do it well and stick to what you know. There's real opportunity out there. Kiwis are underinsured.

NICK STANHOPE – AIA

What's been the highlight of the year?

Without a doubt it's coming together as a family in New Zealand bringing two teams together. It's a big job, two different companies but we're all one family now working together and we've achieved a huge amount over the last 12 months. We've launched a brand-new product series. We've launched Vitality. As part of Vitality we've got three wonderful ambassadors – Jess Quinn, Ian Jones and Dame Val Adams – the advertising campaign I think has really resonated well with New Zealanders.

We've launched a new digital app for advisers and partners to be able to use to make their life easier to deal with us – quite a lot easier – and then all the stuff we're doing in the background with systems, modernisation, technology and that's all going really well. It's been a busy year. We're looking forward to Christmas time.

What's been the most challenging part?

The challenging thing is making sure you

By Susan Edmunds


Nick Stanhope

bring people with you through that process. Humans are complex and one of the great challenges and one of the great rewards of leadership is how you inspire and give people confidence to be able to come on that journey with you and embrace it and be positive about it. I think we've done a great job of making sure people understand what we're doing, why we're doing it and what the future holds for us as well. That's always something that's on my mind.

These jobs are a privilege but also an incredible responsibility because you are responsible for the lives and wellbeing of a lot of people and a lot of partners who rely on you. So making sure that all works well is something that I give a great deal of thought to.

What would you like to have done better?

Worried about less. I think in these jobs you always tend to think about things deeply. Sometimes you overthink and sometimes the older I get the more I believe that 99% of the things you worry about never really happen or aren't as bad as you think they are. So continuing to be a bit more stoic and really all you can really control is the present. If you do that well the future will take care of itself.

What are you most looking forward to in 2020?

Next year for us we really start to realise a lot of things we've put in place this year. Vitality and turning the company into a wellbeing company is something that's super exciting for us. The reason I get excited about Vitality is the experience we've had to date has been quite game-changing.

As part of the Vitality programme is understanding yourself and your wellbeing and current health stats we put a lot of our staff through MoleMap to understand if they had any problems with their skin. Of the people we put through as many as 20% had some sort of concern with their skin. Whether it was a mole, or something which could be precancerous, or significant skin damage. Just from that alone we've been able to give our own people some advice to go away and to maybe look at those things. It potentially could have saved their lives.

That's just one example of where Vitality gets people who can often be complacent about their own health to get a medical to look at their skin, to take stock of that and be the best you can, the best you. That's for us the big part of next year. We've had such a fantastic take-up, about 40% of customers are taking up Vitality already. It's about ensuring we continue to help you with that and work with Jess and Dame Val and Ian to get the message out to different segments of New Zealand. And to continue with our campaigns above the line to promote AIA as a wellbeing company for all New Zealanders.

How well do you think the industry is placed to move to the FSLAA regime?

We are a QFE so we have a trans licence and those in our QFE will benefit from that.

As part of the process of legislation being completed and going through the various stages of approval we're getting more clarity from the regulator giving us a deeper understanding of what's involved making it as easy as possible to join. I think those elements of it are moving well.

I think the area we continue to develop is an understanding of what it might mean, what the ongoing cost structure might be for those who run their own FAP and the implications of that. There's still some work to do on that. Getting ready for it, people are making strong progress towards it.

What do you expect to see change in the industry, if anything, over the next 12 months?

In general as life insurers we've all listened to the regulator and are focusing on making sure that the customer is at the heart of everything we do and we are truly a customer-centric organisation. That's been a good challenge for us. We've been looking at our products – we have a policyholder that dates back to 1924 – we're a very old company and as such making sure everything we've done in the past and the present meets that customer-centric challenge. That's something we're working really hard on.

PAUL SMEATON – SUNCORP

What's been the highlight of the year?

FY19 has been a stand-out year for Suncorp New Zealand. Customer satisfaction is up, employee engagement is up, we've shown greater risk maturity and we've delivered our strongest profit to date. It's hard to pick a single highlight. We've delivered some exceptional outcomes all while responding to the conduct and culture review. I'm incredibly proud of the commitment shown by everyone on the Suncorp team this year.

What's been the most challenging part?

The biggest challenge I see is an industry challenge. Trust in our sector is at an all-time low, and I think that's clouding the huge benefits insurance can offer people and their communities. I'd like to see the industry develop and promote initiatives that help build the financial resilience and security for our customers. This includes promoting the benefits of getting independent financial advice.

What would you like to have done better?

We've put huge energy into elevating the customer and looking closely at what we can do to increase customer confidence and trust. We're also putting a lot of effort into supporting brokers as they transition towards meeting new qualifications. This is about doing the right thing and giving customers trust and confidence and cutting through much of the negativity that has characterised reporting on our sector this year.

What are you most looking forward to in 2020?

I'm picking two key trends for Suncorp. The first is digitisation. We're looking to automate more routine, repetitive business processes to boost efficiencies and enhance the customer experience. The second big ticket item for us is around conduct and culture as we focus on building market confidence and community trust.

How well do you think the industry is placed to move to the FSLAA regime?

We're working closely with our intermediary network to ensure a successful transition, and we've put strong educational support in place that advisers can access as needed. While the market is changing, sound


Paul Smeaton

independent financial advice has never been more important. In many ways, this is what the regulations are trying to achieve – ensuring that all customers have access to the level of advice and support top advisers offer.

While regulatory change does present some immediate challenges around licensing and adapting business models, advisers that navigate this period successfully are likely to experience longer-term opportunities.

What do you expect to see change in the industry, if anything, over the next 12 months?

Recent research from our Vero SME Index business survey shows the broker-client model is evolving. Today, these businesses are looking for risk management advice alongside their regular insurance. It's a real opportunity for brokers to add value. Digitisation of the sector will continue to pick up pace, and this will improve service levels for customers.

NADINE TEREORA – FIDELITY LIFE

What's been the highlight of the year?

There's been plenty of highlights this year, and it's difficult to pick just one, but delivering a solid set of FY19 financial results despite the challenging, highly-competitive market stands out.

Digging a little deeper into our results, we went past $1 billion in claims paid to our customers since we were founded in 1973, which is a pretty special achievement.

Our results were a real credit to the entire Fidelity Life team and to the advisers and strategic alliance partners who support us. Another highlight would have to be being named by ANZIIF as a finalist for the New Zealand Life Insurance Company of the Year award for the third year running.

What's been the most challenging part?

The biggest challenge has been balancing the workload related to the unprecedented amount of change we're going through as a business and as an industry with continuing to deliver great service to our customers and advisers. This constant balancing act has made for a really busy but ultimately rewarding year.

What would you like to have done better?

There's always plenty of things to work on doing better, but it would have to be making a call earlier not to try and be "all things to all people" – put your focus on those people who really matter the most.

What are you most looking forward to in 2020?

Without a doubt it's getting on with executing our exciting transformation plans. Central to our success is making sure our customers are at the centre of everything we do. At the same time we need to keep delivering on our purpose of giving New Zealanders certainty to live a more rewarding life – and that means being there for our customers when they need us most.

From an adviser point of view I'm looking forward to continuing to build out our professional development support via our Building Better Businesses programme and other tools and resources. Our aim is to help advisers operate successful and sustainable businesses in the new financial advice regime.

How well do you think the industry is placed to move to the FSLAA regime?

My sense is there's broad support for a customer-first regulatory approach. We all want to see more Kiwis with appropriate insurance protection, and taking a customer-first approach and focusing on good customer outcomes will help build the confidence and trust necessary to achieve this.

It's going to be interesting watching the new regime come to life when transitional licencing opens on November 25. From my own conversations with advisers I know some are already operating at the required level, some have a bit of work to do, and others are deciding on their future.

At Fidelity Life we're putting a lot of effort into helping advisers understand what's required under FSLAA and providing training and resources to help them get there. Our aim is to help advisers operate successful and sustainable businesses in the new financial advice regime.

What do you expect to see change in the industry, if anything, over the next 12 months?

Change is our new constant and we'll see the pace of change continue for a while yet. Given the new regulatory expectations, we may see people decide to exit the industry. But as with any change, there's also opportunity – if collectively we get this right, we'll grow confidence and trust and attract new young talent to this fantastic industry. Alongside this we'll also see technology play an increasingly influential role in enabling better customer experiences, which is probably long overdue in our industry. We may even see new entrants come into the market. Ⓐ

Nadine Tereora

INSURANCE

By Naomi Ballantyne

What is disability insurance *really for?*

Naomi Ballantyne asks whether disability insurance is good for customers or causes harm by over-insuring?

WHAT IS INSURANCE FUNDAMENTALLY FOR?

The fundamental purpose of a life insurance product is to replace lost income, reduce debt burden, or cover additional costs, in the event of a client's unexpected health interruption. They are meant to fill the financial hole unexpectedly caused by the health interruption.

Disability products are specifically focused on the purpose of replacing lost income in the event of, and for the duration of, an unexpected health interruption.

But is that what they really do?

Claims experience over many decades in Australia would suggest that is not the case. No matter how much pricing has been adjusted over decades in Australia, claims experience continues to unabatedly exceed expectations. There have been a number of studies into the drivers of this disability

"Disability products appear to make clients become disabled more often, and to remain sick for longer."

experience in the Australian market, and more recently there has been public criticism of the industry by the Australian regulators for the lack of resolution to this long-standing and continuing issue.

The regulators do not believe current disability products are sustainable, are concerned at the impact of regular and significant underlying price increases to policyholders, and are concerned that clients with no disability products are cross-subsidising ones with.

While New Zealand has been relatively immune from this decades old issue in Australia as there are differences in the two markets, over the recent years the New Zealand industry-wide experience has also become challenging, suggesting the poor claims experience trend is now also emerging in this market.

Insurers have only a very small number of options to address worsening claims experience for their existing policies – being claims management processes and re-pricing.

For new business they can address claims issues through pricing, product design and underwriting, however to do so without risking new business market share, is restricted to a degree by the competitive environment and the potential lack of buy-in by distributors.

As a result in the Australian market, price increases have been the most universally adopted strategy – a strategy which does not appear to have worked to improve claims experience, and may have inadvertently reduced disability product sales and retention due to un-affordability.

Increasing prices combined with reducing disability coverage are effectively "causing harm" to consumers and customers.

Australian insurers and global reinsurers have spent years examining world-wide medical and accident statistics in respect of incidence and duration rates to predict claims expectations, and yet claims continue to fall outside of their evolving expectations.

This would have to suggest that the product is being claimed against for more than just replacing lost income in the event of, and for the duration of, unexpected health interruptions.

In other words, adding disability products into the equation changes the incidence and duration rates of disabilities, compared to the general population – and to simplify this even further – disability products appear to make clients become disabled more often, and to remain sick for longer, than they otherwise might have had they not had disability insurance protection.

There are enormous amounts of detailed research available globally which identify multiple and significant benefits to people's physical and mental well-being from being actively engaged in work.

If the mere existence of disability products can change a client's motivation to remain in work or a claimant's motivation to recover back to work, then the products are effectively "causing harm'' to them because they are missing out on those many benefits that being actively engaged in work could otherwise bring them.

So if the product is doing more than just replacing lost income, if harm is being caused to consumers, customers and claimants, and if increasing pricing is not addressing this issue, surely the product design itself must be a significant underlying driver of the issue.

WHAT DOES OVER-INSURANCE IN DISABILITY PRODUCTS LOOK LIKE?

Disability products are not intended to make claimants financially better off than they would have been had their health not been unexpectedly interrupted. Nor are they designed to provide financial support for manufactured, rather than unexpected, health interruptions.

But claims trends in Australia, and more recently in NZ, tell us that disability products are actually not *only* replacing income that is lost, and not only when health is

By Naomi Ballantyne

unexpectedly interrupted, and not only until the health interruption is no longer preventing work.

The design of disability products seems to instead deliver over-insurance and by doing so, may be changing the behaviour of claimants compared with the general population.

Taking a critical look at current disability products, it is plain to see examples of where good intentions towards customers, competitive pressure, and Ratings House influence have led to potential over-insurance.

STRUCTURE

Indemnity – theoretically the replacement ratio of 75% of gross pre-disability income is designed to ensure a client cannot be financially better off on claim than at work. By capping the monthly benefit to 75% of the gross income being earned just prior to the claim, the theory is that the client will have a financial motivation to return to work.

However, as indemnity benefit claims are generally designed to be taxable income in the hands of the client, there is a risk that the client will not remember to (or may decide not to) declare the income in order to pay tax on it. This could then mean the client is retaining 75% of gross income in their hand, which is quite possibly at least the same, if not a greater sum than their after tax, pre-disability, take home income.

Agreed Value – Because the amount payable at claim time is agreed at underwriting, there is no reference to the amount actually lost (ie pre-disability income) at claim time. This means if the client's pre-disability after-tax income ever falls below the agreed benefit, the client would be financially better off going on and staying on claim than they would be working.

CALCULATION BASIS FOR SUM INSURED AND PRE-DISABILITY INCOME FOR THE SELF-EMPLOYED

In an attempt to protect the client against natural fluctuations in business income over time, the industry uses a range of bases to calculate the amount of potential income that might be lost in the event of an unexpected health interruption.

The more generous calculations will assess the potential income lost on the basis of the best 12 consecutive months NPBT over the previous 36 months. Others might use the average 12 month NPBT over the previous 36 months. This can lead to over-insurance if that figure is significantly higher than the NPBT more recently delivered by the business and/or which could be expected to be delivered by business going forward.

Business prospects for smaller businesses can change rapidly (for example if a significant contract is lost or if economic cycles change). As a result relying on the best financial performance of the past to determine current loss can lead to significantly different financial outcomes between continuing to operate the business and receiving a claim.

DEFINITION OF DISABILITY

One of the key benefits of disability products is that they cover an extremely wide range of possible claim causes. All types of illness or injury are covered except for a very limited list of specific exclusions. Trauma products do the opposite, they only cover listed claims causes, and everything else is therefore excluded.

With trauma products the listed conditions covered are very specifically defined based on medical tests and measurements. With disability products the definition of disability relies on medical certification of the "impact" of the underlying claim cause (ie the extent of the disability) rather than a definition of the claim cause.

> **"Claimants could over-state their symptoms in order to benefit from a claim."**

The medical profession is not specifically trained to determine the impacts of an illness or injury on the ability for a client to do their job. Some impacts of injuries or illnesses are physically obvious, but many can only be assessed by a doctor, based on the claimant's self-reporting of their symptoms and impacts.

This lack of external evidence of the degree of impact an illness or injury is having on a claimant's ability to perform their pre-disability occupation means claimants could over-state their symptoms in order to benefit from a claim.

PRE-DISABILITY OCCUPATION (OWN OCCUPATION) AND TPD

Many disability products define disability as the claimant's inability to do their pre-disability occupation.

It is not uncommon for employers to end a claimant's employment contract on medical grounds after a period of time off work. Similarly, it is also quite possible that a self-employed claimant can lose their business/contracts altogether while they are disabled. This means their "pre-disability" occupation is not there to return to. Instead they not only have to recover their physical or mental capacity to work, they also have to find a new job or start their business afresh, which can seem like a very big mountain to climb.

Even if that is not the case, the pre-disability occupation definition can lead to the claimant's expectations that unless they can return to their job (or even the same job in a different organisation), then as long as they don't work in any other job, they can remain categorised as disabled and can, therefore, remain on claim.

This can inhibit their motivation to actively engage in retraining for new work – significantly reducing their likelihood of re-engaging in the workforce.

To compound this issue, many disability products also include specific (whether built-in or optional) benefits which respond with additional financial support, if a claimant receives a medical opinion that they might never be able to return to their pre-disability occupation. The ongoing monthly benefit might be boosted to become significantly higher than their pre-disability income and/or there might be a significant lump-sum payment available. Clearly motivation to return to work is not a moral issue for clients who suffer unexpected, permanent, life changing interruptions to their health, which is what these benefits were designed to acknowledge. However, the same design can also act as a motivation to be certified as TPD'd even when the cause of the disability would not obviously be expected to cause this outcome.

BENEFIT INDEXATION

The majority of disability products provide automatic opportunities for the sum insured to be increased without medical or financial underwriting. The most common of these being annual indexation options. It is also very common for the products to not only offer actual CPI indexation, but also the opportunity to use a fixed increase rate (commonly 5%) should that be greater than actual inflation at the time.

The intention is to automatically keep the client's cover in-line with their approximated increasing income over time, to minimise the risk to the client that their benefit will not come close to replacing their ''lost income'' at claim time.

However, annual wage inflation has not matched a compounding 5% for many years, and even general inflation rates might be considerably higher than the actual increase in income for some clients over that same period of time. Not all employees or self-employed business owners experience income increases on an annual basis.

As a result this automatic, approximated increase in sum assured (which in many cases also continues to apply while the client is on claim), can result in a significantly higher sum assured than the income a claimant would actually lose for Agreed Value style products.

WAITING PERIODS

Waiting periods were designed to rule out short-term periods off work due to illness or injury, which could be responded to through sick-leave provisions for employees or which are unlikely to result in significant business interruption for the self-employed.

They are also designed for insurers to avoid the significant costs of managing huge numbers of small claims – which would impact on client's premiums.

Pricing for longer waiting periods has been based on the assumption that the longer the waiting period, the greater number of shorter term claims will be ruled out.

There is, however, a different risk that waiting periods potentially cause, which conversely worsens the longer the waiting period is.

One of the key learnings insurers have made over the past decade or so relating to disability claims experience, is that a claimant must understand early on the best outcome for them is actually that they recover as quickly as possible to the extent that they can resume their pre-disability life, which includes work.

The earlier this expectation is set, the more likely a claimant is to understand and accept support from the insurer to achieve this result. This is referred to as early intervention.

Waiting periods which delay the insurer learning about the client's illness or injury until they have already been off work for a number of weeks or months, means early intervention opportunities can be severely restricted.

ACC FINANCIAL INTERACTION

Some disability products (some mortgage repayment benefits, as an example) do not have offsets for Accident Compensation Corporation (ACC). These products initially had a natural financial restriction on the amount of cover available (capped at the amount of actual mortgage repayments), which limited the moral risk impact of being covered by both ACC and the disability product.

With the removal of this financial restriction from much of the market over more recent years, customers can now cover up to approximately 50% of their income without offsetting or affecting their ACC entitlement, meaning they could be significantly better off financially while on claim should they suffer an ACC covered injury.

> **"Insurance should not be a way to get richer, nor an optional alternative to usual life."**

This ACC impact affects light and heavy manual workers disproportionately, given the higher incidence rate of accidents in manual occupations, the greater effect injuries have on their ability to perform their roles, and the level of support provided by ACC as a percentage of their total income (80% of income up to a maximum).

IS OVER-INSURANCE A PROBLEM OR A BENEFIT?

It can seem that the best advice to give a consumer is to purchase the product that will pay out the most. In the circumstances where products deliver over-insurance potential this argument would then support recommending the one which delivers the greatest level of over-insurance.

The counter to this is that over-insurance which leads to customers choosing to go on claim or claimants choosing to stay on claim because of financial motivations, can cause significant unanticipated moral harm to those people.

Additionally if over-insurance outcomes for some claimants causes premiums for all customers to increase to such an extent that the product becomes unaffordable – reducing sales and increasing cancellations, then harm will have been caused to those customers in order to deliver over-insurance to others.

Insurance should not be a way to get richer, nor an optional alternative to usual life. Insurance is about financially filling the hole created by unexpected health interruptions. Anything more than that does more harm than good.

The Australian industry now has to take drastic steps to fix a problem that has been allowed to continue for decades. New Zealand has the opportunity to prevent that same problem from taking hold here.

Naomi Ballantyne is the founder and managing director of Partners Life.

Inaugural *Good Returns* FMOY

Recognising and awarding the best fund managers in the New Zealand market.

The first annual Good Returns Fund Manager of the Year Awards included some new categories and, in a New Zealand first, the awards were opened to financial advisers to attend.

Awards of this type have typically been the province of fund managers, but the *Good Returns* Awards also recognised the expertise of advisers in the wealth management equation, with an Advisers' Choice award for the best fund managers in three categories.

The awards are powered by Research IP that has been in the New Zealand market since 2015.

While there is a focus on one-year performance in determining the shortlisted funds in a sector, there are a number of multi-year factors used to ensure winners are not "one-hit wonders".

All New Zealand and Australia-based funds management companies that have retail investment funds available via a Product Disclosure Statement in the New Zealand market were considered for the Fund Manager of the Year nominations and Awards.

The financial services industry must engage all participants: from the investor, financial adviser, fund manager, platform, front, back and middle offices. The first step in being inclusive is the Adviser Choice awards. There is more to come as this expands in 2020.

All fund managers regardless of funds under management or the size of their product suite are eligible. The Fund Manager of the Year looks across all funds that were shortlisted, finalists and eventual winners across each sector. It was a very close call with AMP Capital and ANZ having a number of funds selected as Sector Winners, Sector Finalists, and shortlisted funds.

Fisher Funds took out the top award having shown its credentials as a strong and capable fund manager across several asset classes.

For many New Zealanders KiwiSaver is their first, and possibly only, investment in a managed fund. Managers in this sector also play an important role in educating New Zealanders on the value of saving and investing.

With the growth in KiwiSaver and intense competition from the banks this was arguably the most hotly contested sector of the night.

Boutique funds managers are determined by several criteria, including, but not limited to, the ownership structures and size of funds under manager across the business. This highlights the up-and-coming fund managers who are likely to have a narrower product suite, versus larger institutional fund managers.

In an unprecedented outcome, both Castle Point and Mint could not be separated at the final outcome. For the first time Research IP has been involved with Fund Manager of the Year Awards there is a tie for the top step of the podium. With Pathfinder and Premium China rounding out the finalists.

ADVISER CHOICE

This year's awards featured a new Adviser Choice category. More than 600 votes were cast. Advisers chose Milford Asset Management in the fixed interest category; Mint Asset Management in property and infrastructure; and Fisher Funds for equities.

Advisers chose from a curated list developed by Research IP, specifically for this award, across the three categories. A key aspect of the curated list related to the on-ground support fund managers have for financial advisers and investors who choose to use their fund. The Adviser Choice selection process is a stand-alone award and does not contribute to any other major category awards.

Good steady income the goal

Harbour's $70 million Australasian Equity Income has a simple objective and that is to provide income from selected equities.

Harbour Asset Management executive director Craig Stent says it's a good time for equity income funds and this year has been exceptional because falling interest rates have seen the market re-rate shares.

He says the fund is focussed on shares which have low volatility and also reliable dividend streams.

"We're not chasing illusionary high yielding stocks which are not deliverable."

While dividends are the key to the income generation the managers also have some "growth orientation" when selecting stocks.

The fund is invested across New Zealand and Australia, and is actively managed. Stent says the portfolio would have a 40 to 50% turnover each year.

Around 43% of the fund is in New Zealand equities, 39% in Australian equities and the balance, 18%, in cash and cash equivalents.

Currently it makes six monthly distributions to investors. Investors can also redeem units if they want to receive additional income.

Stent says the fund distributes all the income it earns.

There are no plans to make distributions more frequently.

The fund predominately invests in utilities, gentailers and property related stocks as they have good, stable earnings. However, it also has other stocks like Macquarie Group in Australia.

The gentailers have been star performers this year. The fund earlier focussed on Contact Energy but has widened its approach to include other companies like Meridian Energy.

While the stocks took a hit when it was revealed Rio Tinto was considering its options for the Tiwai aluminium smelter, Stent thinks that in the end Rio Tinto is likely to do a deal with the electricity companies and the smelter will continue on.

Top 10 Holdings	% Portfolio
Contact Energy	5.78%
Kathmandu Holdings	5.15%
Goodman Group	5.14%
Infratil	5.09%
Spark New Zealand	5.07%
Macquarie Group	3.67%
Lendlease Group	3.59%
Mercury NZ	3.32%
Mainfreight	3.18%
Charter Hall Group	2.88%

10-YEARS IN

Harbour has recently celebrated its 10-year anniversary.

Managing director Andrew Bascand told *Good Returns* TV that one of the keys to the firm's success is being patient.

"The key thing is our clients are looking for, not just beating the benchmark, they want sustainable, absolute returns as well, and they don't want too much volatility.

"So it's increasingly getting tricky and we're explaining to clients that we're in this lower return environment. So diversification is really important."

He says although we are in a low interest rate environment and many markets are fully priced there will always be challenges for fund managers.

"It's always been hard to invest. We always reflect that at each point in time, there's something else that appears to be a risk, but you go back to 2009, there was the risk of the GFC, there was risk of technology change. In 2009, Fletcher Building was the largest company in New Zealand. And now look where it is, not even in the top 10. Things change."

"So being active, is really important. So we've seen this trend of passive money rolling into New Zealand, rolling globally, passive funds being increasingly dominant in the pricing of equities. I think that's about to change again."

"I think being active is an important aspect when investing."

Harbour ASSET MANAGEMENT

The one New Year's Resolution you should have – better conduct

Trustees Executors says good conduct is not just an issue for the banks and insurers – every individual in the financial markets needs to be focusing on customer-centric outcomes.

In 2018, following close behind the Australian Royal Commission, the Financial Markets Authority (FMA) and the Reserve Bank of New Zealand (RBNZ) completed their joint review into the conduct and culture of 11 New Zealand banks. This review was the first of its kind in New Zealand and was quickly followed by a similar review of life insurers in January 2019.

With regard to the banks, significant weaknesses in the governance and management of conduct risks were identified. These weaknesses resulted in several issues that required remediation. It was also noted that the banks' lack of proactivity in identifying and remediating conduct issues and risks meant vulnerabilities remain. In conclusion the FMA and RBNZ believed that the overall standard of banks' approaches to identifying, managing and dealing with conduct risk needed to improve markedly.

The life insurers did not fare much better and the FMA's view was that life insurers had been too complacent when it came to considering conduct risk, too slow to make changes following previous FMA reviews, and were not focused enough on developing a culture that balances the interests of shareholders with those of customers.

Trustees Executors' General Manager, Corporate Trustee Services, Matthew Band says that since these two reviews, the subject of conduct has gathered momentum. "It's not just an issue for banks and insurers – every individual in the financial markets needs to be aware of their conduct and should be listening to the calls for fundamental cultural change within financial institutions of all sizes, and the prioritisation of customer-centric outcomes".

"We are all in a time of seismic change; the treatment of customers and the concept of customer interest and good customer outcomes is under the microscope. No longer is it enough for us to cite our own ethical approach through careful brand communications – intent must be matched with actions".

In June 2019, Trustees Executors sent out a conduct thematic review questionnaire to industry participants across managed investment schemes and non-bank deposit takers. The purpose of the review was to understand the level of conduct risk management maturity, to identify any gaps and weaknesses, to prompt entities to start focusing on good conduct, and to see how they could add value.

"Every individual in the financial markets needs to be aware of their conduct and should be listening to the calls for fundamental cultural change within financial institutions of all sizes, and the prioritisation of customer-centric outcomes."

Trustees Executors' review indicated that although considerable work had been undertaken in some organisations, there were still improvements to be made in the governance and management of conduct risks, particularly in the areas of developing robust risk assessment, risk frameworks, and communicating risks to vulnerable customers. Overall, participants recognised they still had work to do when it comes to identifying, managing and dealing with conduct risk.

There is going to be continued regulator focus on conduct and in the FMA's latest Annual Corporate Plan (of 2019/2020) they include conduct and culture as one of their key strategic priorities.

Whether you are an adviser, a fund manager, insurer or banker you should take note of the response from the FMA's Chief Executive, Rob Everett, to a question that he is consistently asked at conferences and seminars, the question is:

"What do we need to do to meet the FMA's expectations of good conduct?"

His response to that question:

"At its core, conduct is about how market participants behave and how they serve the needs of customers, including the culture and governance that drives that behaviour. For me, it's boards and senior managers asking themselves some fundamental questions.

- Is our culture focused on serving the needs of customers?
- Are our customers treated fairly at all times?
- Are our products designed with customers in mind?
- Are our incentive structures aligned with the interests of customers?
- Do we have a good understanding of the conduct risks inherent in our business and are we managing these effectively?"

Band says a key focus for Trustees Executors in 2020 is to continue working with their clients to discuss conduct improvements and to agree and assist in the remediation of identified gaps and weaknesses to help them on their good conduct journey.

"Fundamentally, everyone in our industry has a responsibility to ensure customers receive products and services they understand, which are suited to their current and future needs. This underpins good conduct. If we all strive to act in the best interests of our customers at all times we will reduce our risk exposure, and enhance the reputation of our industry."

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We assign an experienced team to each of our clients to ensure they have a dedicated point of contact and access to our services.

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FUND MANAGER OF THE YEAR 2019
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Opportunities with diversified funds

What have eggs, baskets, advice and the “missing middle” got in common?

WHY DIVERSIFIED FUNDS SHOULD BE ON YOUR SUPERMARKET SHOPPING LIST

Everyone knows the proverb “don’t put all your eggs into one basket”. My mother’s interpretation, when growing up through the depression and war years, was don’t put all your savings into one bank.

The proverb could have saved many New Zealanders from losing their savings in the 1987 share market crash. Much of that outcome, which was significantly worse in New Zealand compared to other countries, was around lack of regulation, transparency and greed.

More recently, investors were hurt by thinking they had diversified by spreading their savings amongst different finance companies, driven primarily by falling interest rates in banks and cost of living expenses. The return seemed better, however, as we all know, the risks were far higher than the return offered.

It now seems that outside business, residential property and KiwiSaver, those who have built up savings and are nearing retirement are most likely to just leave it in the bank and, on the face of it considering all of the above, who can blame them?

Going by the Reserve Bank’s website, as at October 2019, household deposits amounted to $183 billion. For many, they see it as the safest place in town. But it can’t protect them from one of the biggest and unseen robbers of wealth, which attacks the investor's future buying power, namely inflation.

SO WHAT’S THE PROBLEM?

If we look outside the topic of investments just for a moment and take a more holistic view, the real problem facing New Zealanders is longevity and understanding what impact this has on their financial future. Going back to my mum’s day they talked about life expectancy being three score years and ten, in other words 70 years of age. I went on the Stats NZ website to see how long, on average, I could expect to live and it appears it will be close to 87. If I was female it gets even better, being 89.4. That's means I would get an additional 17 years or 6,205 days to enjoy life. Which is all well and good as long as I can pay for it.

> **“The real problem facing New Zealanders is longevity and understanding what impact this has on their financial future.”**

Living longer is a great thing providing we have our health. Everyone wants to enjoy more time in retirement right? However, the real challenge is to make sure our savings live as long as we do. But you know all of this.

My worry is this growing group of New Zealand investors, which I’m calling the “missing middle”.

You might even have some as clients. They have some assets, varying amounts of debt on their own home, KiwiSaver, some savings in the bank and retirement might only be five or 10 years away.

My fear is this growing group of Kiwis, who have worked hard to get ahead, and can see retirement just around the bend have underestimated their length of life after 65, and could be in for a rude shock.

Compounding their issue are falling bank deposit rates and access to personalised advice, which appears to be far less available than it has been in the past. There are a number of reasons for this: increased cost of delivery, the declining number of advisers prepared to work with those with under 500k in savings, lack of new advisers entering the industry, and would-be investors’ reluctance to pay a fee when they are not fully convinced of the value of advice, all of which have contributed to where we are today.

ADVISING THE “MISSING MIDDLE”

This is where I see an opportunity for those advisers willing to deliver a level of advice suitable for this “missing middle” and diversified funds could be an attractive option for both you and your clients.

Mint, by way of example, has two diversified funds, the Diversified Income Fund and the Diversified Growth Fund, that allow advisers to simply dial up or down the risk and return depending on the client’s personal circumstances. This means you don’t require a range of different investment options to provide growth and income needs.

Diversified funds are a great solution to that age-old proverb and, while not suitable for all, they do provide you with a cost-effective way to spread your clients’ eggs, especially for those who don’t require all the complexities of a bespoke approach.

Mint Asset Management is the issuer of the Mint Asset Management Funds. Download a copy of the product disclosure statement here: www.mintasset.co.nz

David Boyle, Head of Sales and Marketing

mint

ASSET MANAGEMENT

"Mint is proud to have won Boutique Fund Manager of the Year and Adviser Choice - Property and Infrastructure Fund Manager of the Year at the recent Research IP awards in conjunction with Good Returns.

We are particularly pleased to have won the Adviser Choice Award and will continue to support the value of advice which we know contributes to the financial wellbeing of those New Zealanders that seek it."

Rebecca Thomas CEO of Mint Asset Management.

To find out more about Mint's investment options please call David Boyle on

0800 646 833 | info@mintasset.co.nz

or go to our website at **www.mintasset.co.nz** for more information

Mint Asset Management is the issuer of the Mint Asset Management Funds. Download a copy of the product disclosure statement here: www.mintasset.co.nz

Smart Investing Using ETFs

ETFs are more than a passive investment solution. We interview Stuart Millar of Smartshares to find out how advisers can make use of this mechanism.

Since their introduction in the early 1990s, exchange-traded funds (ETFs) have become synonymous with "passive" investing. While much is made of the active vs passive debate, at their core ETFs are simply a mechanism to access investment markets.

We spoke to Stuart Millar, Chief Investment Officer at Smartshares, who believes "the active vs passive debate is obsolete", to find out more about how advisers are using Smartshares ETFs in client portfolios.

Q: WHY DO YOU SAY THE ACTIVE VS PASSIVE DEBATE IS OBSOLETE?

It makes me laugh when I get pushed to make that argument – it's so 1990s! The reality is that most leading institutional fund managers in NZ have always used and will continue to use a combination of passive and active strategies in their diversified portfolios. It should be no different for advisers, especially those dealing with high net worth clients with complex investment objectives and unique risk appetites.

Advisers can use a mix of passive ETFs and actively managed funds or ETFs to implement portfolios, choosing passive ETFs where there is evidence that active management doesn't work, and using active funds where there is evidence that active management has a better chance of beating the index.

"It makes sense to use passive strategies to gain core exposure to efficient markets, and allocate some fee budget to selecting a truly active manager in less efficient markets."

For example, in large cap developed market equities that are picked over by thousands of active managers and research analysts, these markets are relatively efficient and a cost-effective passive strategy has proven to be the best way to gain exposure.

It makes sense to use passive strategies to gain core exposure to efficient markets, and allocate some fee budget to selecting a truly active manager in less efficient markets.

Q: IS ACTIVE A BETTER STRATEGY FOR THE NZ EQUITY MARKET?

Many active NZ equity managers have benefitted from substantial inflows into KiwiSaver, while the better performing non-KiwiSaver managers have also seen strong inflows.

This does create a challenge for active managers. In my experience once an active NZ equity manager approaches $2 billion in funds under management they will be either at or close to capacity. At this size of FUM it becomes difficult to be substantially different to the index because it becomes very hard to invest meaningfully in higher growth smaller cap stocks without creating liquidity issues.

You also have the difficulty that large cap stocks with a high weight in the index could destroy relative returns if your active risk is too high. Internationally this is less of an issue, with the largest names in an index like the S&P 500 being a much smaller percentage of the index. A2 Milk is a case in point, where success as an active manager in any given year could hinge on whether or not you own it.

The active share in some active NZ equity strategies can be as low as 20%. Given this, it should be no surprise that active NZ equity manager returns are not substantially different to the index, and are therefore below the index after fees. If I was to pay a reasonable fee for an active manager in more efficient developed market equities, I would be looking for a leading manager with active share in the region of 70-80% at least.

Q: WHAT ARE YOUR VIEWS ON TIME IN THE MARKET VS TIMING THE MARKET?

We agree that time in the market is more important than timing the market. But sometimes timing is everything. ETFs enable very quick and efficient market exposure.

An increasing number of advisers are using

Smartshares ETFs to implement bespoke portfolios for high net worth clients. This involves building the core of the portfolio using ETFs. This ensures the portfolio is well diversified from the start, with asset allocations matched to the client's longer-term investment strategy. Over time some advisers will gradually reduce the exposure to ETFs and increase the exposure to direct equity and fixed interest securities or truly active funds.

Advisers can also use ETFs to take immediate market risk in portfolios that have recently received large cashflows, or where they have been unable to find companies that fit their strict stock selection criteria. In the current market environment where price momentum has been strong, holding cash in a long-only portfolio benchmarked to the NZX 50 can be an expensive exercise.

On the other side of the equation, an adviser might hold the Smartshares NZ Cash ETF to achieve a higher return than is available on a call account. The T+2 settlement on the Cash ETF means it can be sold to quickly deploy cash into other investments when the time comes.

Q: HOW DO YOU SEE ETFS BEING USED BY ADVISERS LOOKING FOR FIXED INCOME EXPOSURES?

Not all ETFs are created equal, and it should be noted that Smartshares Global Bond and NZ Bond ETFs have active mandates with leading external managers. Simply replicating a bond index does not necessarily make sense. Active management enables the duration and credit quality of a bond portfolio to be changed to suit the market outlook.

Where passive management is preferred, the large number of holdings in a bond index can mean transaction costs quickly erode the

> **"We're really proud to be ending 2019 with nearly $4 billion of funds under management (up $1 billion this year to date)."**

benefits of an index replicating strategy. For this reason the passive Smartshares Global Aggregate Bond ETF uses stratified sampling to achieve market exposure in a more cost effective way.

In markets such as NZ fixed interest where on-the-run securities are not always available, or where the secondary market is very thin, the Smartshares NZ Bond ETF can complement a portfolio of individual bonds. Equally, the Smartshares NZ Cash ETF can provide easy access to a diversified portfolio of term deposits and other money market securities, in one swift transaction.

Q: MANY INVESTORS THINK OF PASSIVE INVESTING AS SIMPLY BUYING THE WHOLE MARKET. WHAT OTHER TYPES OF PASSIVE EXPOSURES DO YOU OFFER?

Our recently launched Megatrend ETFs track indices created by Stoxx, which uses artificial intelligence (AI) to rapidly deconstruct company revenue streams. This means Stoxx can create indices targeting companies with substantial revenues linked to a specific sector such as automation and robotics, or healthcare innovation. These indices are therefore actively selecting stocks based on pre-determined criteria. The underlying stocks are equal weighted rather than market cap weighted, so every company in the index contributes meaningfully to returns.

Megatrends are powerful, transformative forces that could change the global economy, business and society. The Smartshares range of Megatrend ETFs – built with iShares – are a cost effective way to gain exposure to these secular trends, but traded in NZ dollars and listed on the NZX.

The Smartshares "built with iShares" ETF range also includes ESG screened regional equity exposures, and a core passive exposure to the Bloomberg Barclays Global Aggregate Bond Index, which is the benchmark global bond index for many investors in NZ.

Q: WHAT DOES THE FUTURE HOLD FOR SMARTSHARES?

We're really proud to be ending 2019 with nearly $4 billion of funds under management (up $1 billion this year to date). We've also won a number of industry awards this year recognising the performance of our funds for investors. At the same time, we're continuing to focus on responding to client and adviser needs. For example, we are seeing demand for diversified or multi-asset ETFs that can provide very broad multi-asset exposures in a single trade.

As always, please let us know if you are seeing client demand for market or asset class exposures that are not yet available in NZ.

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Active management more important than ever

Frank Jasper on the benefits of active management in beating average returns and Fisher Funds recent award recognition.

Active management, done right, enhances long-term client wealth. In 2019, that is a controversial statement. Deep into a prolonged bull market the perceived wisdom is increasingly that active managers can't add value.

I agree. They can't. In aggregate. But with the right team, the right process and a culture committed to excellence, the rules of the aggregate, the average, don't have to apply.

Over our 21-year history, Fisher Funds has added significant value to clients over and above the market. We are committed to continue doing this.

THE FALLACY OF THE AVERAGE

The passive versus active debate management is flawed. It is simple maths that active managers, in aggregate, can't beat the market. In the absence of an obvious losing market participant, active management is a zero sum game. For every active manager owning more of a stock that beats the market, someone must own less. They will lag the market.

The question isn't, does active management add value. The right question is can a specialist investment manager be a consistent winner. We believe they can. Over our 21-year history we have proven this.

WE HAVE DONE IT

Our longest standing fund is the New Zealand Growth Fund – a concentrated portfolio of our favourite Kiwi companies.

This fund has been managed with a core set of principles from day one. Take a long-term approach. Invest in quality businesses with clear competitive advantages. Look for a long runway of growth enabling the firm to compound earnings over time. And partner with visionary leadership, whose interests are aligned with shareholders. Simple. Not easy, but simple.

The process has worked. Over its 21-year, history the New Zealand Growth Fund has delivered a return of 12.7% pa.

$100,000 invested in 1998 is worth over $1.1 million today, after all taxes and fees.

That is materially better than the market. Over the same timeframe, market returns would have grown that $100,000 to $863,000. Active management put an extra $323,000 in the back pocket of our clients.

ACTIVE MANAGEMENT IS MORE IMPORTANT THAN EVER

While active management has been able to enhance returns for clients over the past couple of decades, we think it's going to be even more important in the next decade.

Interest rates are low. Global economic growth has been anaemic. Valuations are not cheap. This points to lower future market returns. This, in our view, means that the return from active management goes from being the cream on the cake to being the whole cake.

With that view, we are more obsessively focussed than ever on generating attractive active returns.

POND – PEOPLE – PROCESS – PASSION

Winning the active management game requires deliberate effort. In my view, it requires clarity in four areas:

Pond – being very clear where the opportunities are, fishing for them in the right pond, is critical. Get this wrong and you waste a lot of energy for little return. We look for uneven games where our insights and patience will pay off, and then put all of our attention there.

People – a team of smart, insightful, growth-mindset people is the bedrock that success rests on. I am very proud of the Fisher Funds team. Yes they are smart, experienced investors but most importantly they are curious, hungry to learn and not afraid to do the hard work that it takes to get better.

Process – having a clear approach to identifying opportunities, building portfolios and managing risk is important. Our process has stood the test of time and been successful in different market environments. But it never stands still. We are always learning and enhancing our process. We can always get better.

Passion – is not something investment managers talk about. I do. It's passion for excellence that drives an analyst to dig deeper, ask more questions, and not rest until they have the answers. It is passion that means honestly reflecting on what went well and not so well, so that we learn the lessons and get better. And frankly it's passion that makes coming into work each day fun and rewarding.

Do these things well and I believe we will keep beating the market.

AWARDS AND THANKS

If we add value it is sometimes recognised. Most importantly by our clients, but sometimes by the industry.

We are grateful to have been awarded Fund Manager of the Year in the recent *Good Returns* powered by Research IP awards. It was satisfying, in addition, to have our fixed team, headed by David McLeish, win the award for Australasian fixed income fund of the year.

And thank you to the adviser community for recognising Sam Dickie's New Zealand equity strategy, with the advisers equity strategy award.

The team appreciate the recognition. Thank you.


Frank Jasper

Frank Jasper is the chief investment officer at Fisher Funds, leading a team of 22 investment professionals with over 300 years of experience managing over $10 billion of client's capital.

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FUND MANAGER OF THE YEAR 2019
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All funds podium in KiwiSaver race

Award-winning, New Zealand-owned Generate has just won the KiwiSaver Manager of the Year award for 2019 in the *Good Returns* Fund Manager of the Year awards. Find out why.

The three Generate KiwiSaver funds ranked either first, second or third for one year and five year performance in the latest Morningstar KiwiSaver Survey to September 30, 2019. This is the fourth straight quarter that Generate has achieved that feat.

The Generate Focused Growth Fund was ranked first for the year (out of eight funds) in the multi-sector aggressive category and second (out of six funds) over five years, returning 11.5% per annum after fees[1]. The Generate Conservative Fund also ranked first for the year (out of 20 funds) and second over the past five years (out of 15 funds) in the multi-sector moderate category, with a return of 7.5% per annum after fees. Whilst the Generate Growth Fund ranked second for the year (out of 29 funds) and third over five years (out of 22 funds) in the multi-sector growth category, returning 11.3% per annum after fees.

"To have all of our funds getting on the podium performance-wise for our key short and long-term metrics over four consecutive quarters is rare and a great result for our members," said Generate's lead portfolio manager Sam Goldwater.

Generate's chief executive Henry Tongue said: "The Generate Growth Fund has outperformed the average multi-sector growth fund by 1.8% pa over the last five years. That might not sound like much but if we can maintain a similar buffer over a KiwiSaver lifetime of ~30 years this could add up to tens of thousands of dollars more in our members' individual accounts."

To date, Generate has given KiwiSaver advice to more than 95% of their members. This has resulted in 84% of members' funds under management being in growth funds and only 16% in conservative funds[2]. This compares well to the whole of KiwiSaver which has only 35% in growth funds and 35% in cash, default, conservative and fixed interest funds[3]. Further, in 2019, 78% of Generate's members got some or all of the $521 annual Government contribution versus 64% for the whole of KiwiSaver. These two important factors alone should materially improve the outcomes at retirement for those KiwiSaver members, and shows the value of advice.

The fees in Generate's two growth funds have come down significantly over the year to March. The Growth Fund was down by 9% from the prior year to a 1.5% pa fee and the Focused Growth Fund also reduced by 12% from the prior year to 1.64% pa (these exclude the $3 per member per month membership fee). Generate has managed to achieve these fee reductions through benefits of scale and has passed those directly onto members. From a standing start nearly seven years ago Generate has grown to be the tenth largest KiwiSaver provider by number of members, with over 78,000 Kiwis having almost $1.75 billion invested with Generate[4].

Generate has not been satisfied with providing market leading performance and lowering fees, they have also done this while investing responsibly and have worked tirelessly to provide great service. Generate is a signatory to the United Nation Principles for Responsible Investment.

The Generate Funds rate very well on the Mindfulmoney.nz website with some of the lowest percentages of "investments of concern" for diversified KiwiSaver funds. In some cases lower than specific socially responsible funds of the same fund type. The Generate Focused Growth Fund scores only 4%, the Growth Fund 3% and the Conservative Fund 0%.

All three Generate funds currently rank third for the number of services provided on Sorted.org.nz's Fund Finder[5] and have also been awarded a Gold KiwiSaver rating by SuperRatings for the last four years in a row[6].

In October, Generate launched its first non-KiwiSaver managed fund. The Focused Growth Trust is based on its market leading KiwiSaver Focused Growth Fund.

Tongue said: "We have had a lot of members and advisers asking us for a non-KiwiSaver version of this fund. They want a fund that invests that same way but they don't want the money locked in until they turn 65."

Generate has been beefing up its team of late to cope with its popularity in KiwiSaver and the launch of its unit trust scheme. Andrew Bolland joined the investment team as a portfolio manager from a local fund manager and Peter Grayson has joined as chief operating officer from Northern Trust in the UK.

Goldwater, said: "We are delighted to have delivered such strong (after fees) returns for our KiwiSaver members over the past five years. Although we don't think markets will deliver such strong returns over the next five years, we will strive to maintain strong performance versus our peers."

Tongue says the firm's team has grown substantially to over 60 "Generators", with 15 dedicated to providing superior service and support to our advisers and their members.

"This means we can do things like having real people answering the phones and making welcome calls to members.

We have always set out to be the advisers' choice for KiwiSaver, providing them not only with a great product but also supporting them to grow their business."

A good example of this, he says, is the AML/CFT class exemption for KiwiSaver advice, which was led by Generate, and has helped a huge number of advisers to provide KiwiSaver advice in a cost efficient way.

[1] This is after all percentage based fees but before any dollar-based membership fee, Generate charges $36 pa
[2] As at 06/12/19
[3] FMA Annual KiwiSaver Report 2019
[4] As at 10/12/19
[5] https://fundfinder.sorted.org.nz/ 10/12/19 in their respective fund type category
[6] SuperRatings does not issue, sell, guarantee or underwrite this product. Go to www.superratings.com.au for details of its ratings criteria.

REITs: a great income solution

APN's Asian REIT Fund provides a solution for income focused investors.

1. WHAT ARE REITS AND WHY SHOULD INVESTORS USE THEM?

Real Estate Investment Trusts (REITs) have unique characteristics that can make them attractive to both income and growth investors. REITs own property and pass the rent collected from tenants that occupy those properties onto investors in the form of dividends. Listed on the stock exchange, REITs are listed investments, trade just like stocks and are therefore liquid. They can fluctuate in price, but they also pay out a large part of their income in the form of dividends. REITs are a good way for investors to access the income and capital returns of high quality commercial real estate, without the headaches and hassle of directly owning the properties.

2. WHY THE APN ASIAN REIT FUND IS A GOOD ALTERNATIVE FOR INCOME FOCUSED INVESTORS

REITs, as opposed to real estate developers, receive special tax treatment by not being required to pay corporate tax, but have to meet a number of requirements to qualify as a REIT. One such requirement is the income generated by REITs is mandated to be passed on to investors in the form of dividends. As a dedicated property investment house, APN believes strongly in the income benefits of investing in commercial real estate and Asian REITs are an ideal fit for the APN philosophy of investing in "Property for Income". Our flagship APN AREIT Fund was built on this premise which led to it being one of the largest property securities funds in Australia. We launched the Asian REIT Fund to offer our investors the same income benefits of investing in commercial real estate locally, but with smart diversification, focussing on the globalised cities of the world's fastest growing region – Asia.

3. WHICH MARKETS AND PROPERTY TYPES IS THE ASIAN REIT FUND INVESTED IN?

The three key markets of Singapore, Japan and Hong Kong make up the majority of the fund's investments. These global financial cities should appeal to investors in property trusts that understand the impact on long term returns of location, population growth and land constraints. The Asian REIT Fund is also diversified across the major property types such as commercial, logistics, industrial, retail, senior housing and multifamily – some of these property types are not yet available in a listed REIT form in the Australian market.

4. WHAT'S UNIQUE ABOUT THIS FUND

The fund is unique in its income focus – it features a high level of distributable income "equivalent to at least 110% of the average yield" of the relevant benchmark index and pays monthly income to investors, with an investment timeframe of 5-7 years. This means that the fund only invests in REITs that can deliver a stable income stream derived from the ownership of commercial property – the stability of the income is underpinned by long term leases to credit quality tenants. Therefore within this mandate we avoid investing in property developers whose earnings (and hence income) may be more lumpy and volatile, as opposed to collecting rent from tenants with in-place lease commitments.

Corrine Ng

5. WHAT TYPE OF RETURNS HAS THE FUND PRODUCED, AND HOW DOES THE RISK PROFILE OF THESE RETURNS COMPARE WITH OTHER ASSET CLASSES?

Since the fund's inception in 2011, the per annum total return is 15.65%, of which 6.6% is the income component (to November 30, 2019). This compares very favourably with other asset classes whether you are looking at Global REITs, Global Equities or Asian Equities. The key to this return is not only the absolute level of return which is attractive, but the fact that the volatility of these returns is far lower compared to other equity investments, local or global. Over the last five years, the volatility of the fund (as measured by standard deviation) is nearly 20% lower compared with Australian Equities and nearly 30% lower compared with the Global REIT market. This is a testament to the income focus of the fund whereby the earnings (and hence dividends) of the companies we invest in are largely predictable and stable. The fund therefore has a very attractive risk return profile.

6. WHAT PORTFOLIO DIVERSIFICATION BENEFITS CAN BE GAINED BY USING REITS?

Asian REITs have the benefit of having low correlation to many other asset classes such as Australian and Global Equities. Therefore, modern portfolio theory would suggest that from a portfolio construction point of view, having an allocation to Asian REITs not only adds to diversification and income returns, but also mitigates the overall risk of an investor's portfolio.

Corrine Ng, Portfolio Manager, Asian Real Estate Securities

*Above: David McLeish holding the award for Fisher Funds.
Fund Manager of the Year, Adviser Choice Equities Manager of the Year and
Australasian Fixed Interest Fund of the Year*

Peter Mill of APN Asian Global – Property & Infrastructure Fund of the Year

Henry Tongue of Generate Investment Management – KiwiSaver Manager of the Year

David Boyle, Carlie Eve and Anthony Halls of Mint Asset Management – Adviser Choice Property and Infrastructure Manager of the Year and Boutique Fund Manager of the Year

Shannon Murphy and Ainsley McLaren of Harbour Asset Management – Australasian Equities Fund of the Year

GR Good Returns.
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FUND MANAGER OF THE YEAR 2019

Powered by RESEARCH IP

Bevan Graham of AMP Capital – Australian Equities Fund of the Year

Stuart Millar, Farnaz Zemke and Hugh Stevens of Smartshares – Australasian Property Fund of the Year and New Zealand Equities Fund of the Year

Above: Stephen Bennie of Castle Point – Boutique Fund Manager of the Year

Below: Mark Riggall of Milford Asset Management – Longevity Award, Adviser Choice Fixed Interest Manager of the Year and Diversified Fund of the Year

Paul Brownsey and John Berry of Pathfinder – Alternatives Fund of the Year

By Susan Edmunds

TSAI TACKLES challenges in bid for top

Lessons from Taiwan transfer to successful New Zealand insurance career.

Auckland insurance adviser **Emily Tsai** has built a career out of determinedly doing the best she can for her clients.

Tsai, who is managing director of Asia Insurance Advisers, has been a member of the Million Dollar Round Table (MDRT) for 20 years and reached Court of the Table in 2002.

This year, she presented a session at the first MDRT global event in Sydney.

Tsai said she majored in banking and insurance and economics while she was at university in Taiwan.

"After graduation, I decided I would go to work for an insurance company no matter what the position was.

"The insurance industry was not such a popular career choice then as it is now. But I knew that would change in the future," she said.

"So, I applied for a job as a PA for a sales office of Nan Shan Life. When I heard back from Nan Shan they actually wanted to interview me for a position in their training and education department and so I became a trainer. That was my starting point in the insurance industry."

She could spot that there would be a need to increase the insurance coverage in the country, she said.

In 1988, only 13% of people in Taiwan had any insurance. By 2018 that had increased to 68.55%. But Tsai said that showed there was still room to grow.

Tsai worked at Nan Shan Life's head office in Taiwan for eight years as a trainer, running training courses and designing courses for other trainers to follow.

"Then I moved to New Zealand in 1995 with my husband, Bobson, and two children."

Two months in, they went to see David Whyte, who was then the head of AIA in New Zealand, a referral from the general manager of Nan Shan Life in hand.

> **"To make my life easier, my main clients are Mandarin-speaking migrants."**

Whyte sent her to Caledonian Financial Services, where she worked as an insurance adviser for a little over four years.

"In 1999, Everlasting Financial Services Ltd was established by David, which is 100% owned by AIA," Tsai remembers. "I was called by David to manage the company and build a team."

Tsai credits Whyte with giving her the push she needed into the New Zealand insurance industry. "I am very grateful to David. Without his help it wouldn't have been as easy to start a career in the New Zealand insurance industry. David is important to our family, we appreciate his support very, very much."

At the same time, she and her husband represented New Zealand in shooting, including at the Commonwealth Games in 1998 as well as World Cups and the Oceania Shooting Championship.

"We retired in 2001, because we were too busy on our work."

She stayed with Everlasting Financial Services Ltd for just over six years until 2006, when she established her own company, Asia Insurance Advisers. She is an authorised financial adviser there with a focus on personal, business and group insurance. She has a relationship with other advisers to refer fire and general insurance work on to them.

"To make my life easier, my main clients are Mandarin-speaking migrants," she said.

Fewer than 5% of her client base is English-speaking. Most find her through referrals from existing clients.

"From the beginning, back in 1995, and the following 10 years, most of our advertising was on the radio, in newspapers and we also ran seminars. For the past 15 years, however, most of my clients come to me through word of mouth recommendations. Not just from existing clients, but also from community groups and some insurance companies."

Tsai says she is driven by a desire to get jobs done for her clients. She enjoys the "non-stop learning" that comes with being in the insurance industry and the chance to meet new people and stay involved with the industry nationally and internationally.

Tsai said one of her biggest challenges was dealing with people In English. "[My] writing is still not good enough."

She is also worried about what might lie ahead for her clients as she eventually transitions out of the industry. "I have looked after my clients for 25 years, but I don't have another 25 years to continue to look after them. Clients believe in me, but I am not young anymore."

She says she also wants to reduce the size of her client book to improve the service she is able to give to those who remain as her clients, and to give herself more free time.

"I began to think about succession planning around 10 years ago. I still have not come up with a solution – I have not met any potential advisers who could help me with this yet."

Tsai says she's passionate about helping other insurance advisers grow and succeed.

"Training advisers has always been a favourite part of my job, but I seem to do less of this now unfortunately."

She has a few key goals for the future. Not surprisingly one of those is her focus on the future of her clients. She also plans to travel

To see Emily's MDRT presentation go to

goodreturns.co.nz/emily

> **"I have looked after my clients for 25 years, but I don't have another 25 years to continue to look after them. Clients believe in me, but I am not young anymore."**

some more when time is available.

"My business goal is to find a good adviser or adviser firm that can continue to look after my clients when I no longer can. And my personal goal is to keep healthy to allow us to travel around the world."

Tsai's membership of MDRT is very important to her. She describes recognition through MDRT as the "Oscars" of the insurance industry and something every adviser should aim for.

"I have been a member of MDRT for 20 years, including one-year as a Court of the Table member; my dream is to qualify for Top of the Table membership at least once in my life, but it seems like a tough ask."

Having seen such growth in Taiwan's insurance rate, Tsai says there are opportunities for New Zealand to increase its coverage too.

That could include tax deductibility for client insurance premiums – "not just income protection, but also life, trauma, TPD cover and particularly medical insurance".

She says ongoing education for advisers is important too.

"Advisers need to receive good and thorough training to allow them to advise their customers well. Clients need policy wordings to be in plain English and product design to be straightforward." Ⓐ

Emily Tsai

By Russell Hutchinson

ESG and insurance

Why you should care and what to do about it: a practical guide.

I would be horrified if I discovered that someone had been abused while working for my business.

I would be angry if I discovered that someone had stolen money from the business. I don't want my business to be making things worse in this world. I care about how things will be in the future. A penny of prevention is worth a pound of cure, which is where ESG comes in, especially good governance.

ESG means environmental, social, and governance. Often included in this set is responsible investing (RI). That has become a big deal as more consumers are concerned to ensure that while they are busy recycling, they aren't investing in a polluter through KiwiSaver. Last month's issue of ASSET magazine had loads of responsible investing tips. Many apply equally to insurance.

Some advisers, focused on the relentless challenges of finding clients and advising them, think this is a distraction, but it isn't. Start with governance: A consequence of running a business that is bigger than one person is the job of management. Employing several staff, since 2011 I have been working hard on building and sustaining good governance practices. The CEO of a life company had this blunt advice for me when I was complaining about it, she said: "It's the job."

Governance means how you manage your business, the relationships with employees, setting remuneration, and the conditions

Corporate social responsibility means how you ensure respect for diverse people and views, human rights, and ensure effective consumer protection.

> **“Most financial services businesses are, at first glance, [environmentally] low impact.”**

of employment. Building regular reporting processes, requiring board reports, insisting on measuring and reporting on the same metrics quarter by quarter, setting up cool dashboards so staff can see the main indicators of business health. These are all the essential building blocks which translate your ideas of how you want things to be into daily actions. If you have ever left a conference thinking about one of the good ideas shared thinking “I’m going to do that as soon as I get back!” and then found that six months later you have made no progress, then working on governance is probably a big part of fixing that.

Good governance helps you make more money, too, through rigorous application of the science of management with the regular review process to keep you working on what counts. When you do that, you offer better products, service, and your business becomes more dependable. Creating a feedback loop of happier clients, new clients and more profit.

Starting is so much of a challenge for insurance advisers because so many of our businesses are small. The transition from one person to several is the exact pain point at which one is faced with the difficulty of getting governance processes that are “right-sized” to your business in terms of cost, time and difficulty.

Fortunately – and I mean that – you can quit the debating society, because the FMA has made this mandatory. If you want a licence, you will need to have effective governance processes. Go and check out the FMA’s Corporate Governance Handbook. If some of that seems a bit excessive for a small business, don’t worry too much, as FMA staff continually talk about making process “right-sized” for your business.

Besides, once implemented, you will sleep better at night, make more money, and have fewer compliance failures. You will have less of the lumpy, large, and unpredictable costs of putting things right because you will pay the smaller and more predictable insurance premium known for good governance.

Now consider the environmental and social dimensions. Reinsurers understand this. Take a look at their websites. SCOR, Swiss Re and Gen Re all have sections devoted to corporate social responsibility. Climate change features strongly in these sections. As most reinsurers also have large property insurance businesses, they are concerned about environmental issues because of rising catastrophe claims due to bigger, more damaging storms due to the effects of a warming world. As employers of large numbers of people trying to serve diverse markets they are concerned about social issues. Your business is smaller, but is it so very different?

Headlines announcing that your KiwiSaver manager might be investing in weapons manufacture were common a little while ago. Sensitive to the views of clients they moved to demonstrate that they avoid such entanglements. That has been followed by many managers with broader responsible investment options. You have the same clients concerned about the same issues. Your market is increasingly diverse. Like those reinsurers, if you wish to serve that market, you need to be able to show support for your community and an ability to connect well with them.

Corporate social responsibility means how you ensure respect for diverse people and views, human rights, and ensure effective consumer protection. There are good guides to developing and implementing a diversity policy in your business. Most of these are way over the top for a small business. Look around though, and you will see small businesses (like mine) that have gone through this process. A great approach is to focus on a document, in our case that was the staff handbook. It is the place all our processes live. As well as addressing the big issues listed above, it also covers day-to-day expectations on protecting client privacy, data security, how we work with each other, and how to report issues of concern. I think it makes us a better workplace. The best thing about it is that most of the content was developed by our people – a great reminder that most of the best management changes emerge from the business, rather than being imposed from the top. On the consumer protection part of the requirement the FMA is on hand with information specific to financial sector companies. You should read the FMA’s guide to conduct, there are some excellent challenge questions at the back of the guide for you. The bottom line is that whatever you choose to do it cannot just be some fluffy words. There must be a real measurement that backs it up, gets reported into your governance structures, so you can monitor and drive behaviour change, and supply evidence of your achievement when required – for example when clients ask you.

Environmental concerns include climate change and sustainability. Most financial services businesses are, at first glance, low impact. Calculating your carbon footprint and buying offsets so you can become carbon-zero is a fairly straightforward process. Make sure you use a New Zealand calculator, as most of our power is from renewable resources, whereas calculators from the US and UK (the most common ones) estimate far more carbon for power use than you will actually be generating. The biggest contributor to your carbon footprint within your business will probably be flying, followed by driving. But that somewhat misses the point. If you have a client that is paying $10,000 a year in premium to an insurer, what you do with your piece of the revenue is of much less importance than what the insurer does. To offer a credible ESG service to customers you need to be able to demonstrate that the insurers you select are also meeting whatever standards you have set. The same applies to all the other suppliers to your business.

Looking across the three segments – governance, social, and environmental – once you have been through the process a few times you might want to contemplate a certification process so you can advertise your new found ESG capability to customers. These are usually geared up for big businesses. A reasonable alternative is to publish a summary of your policies and your recent set of measurements about how you have been tracking against them, after all, your customers aren’t perfect, so they don’t expect you to be perfect either, but they do expect you to try.

Russell Hutchinson is director of Chatswood Consulting and Quality Product Research, which operates Quotemonster.

INVESTMENT COMMENTARY

By David van Schaardenburg

The effect of lower returns

This is the second of a three-part series which looks at the strategic and material changes occurring to investment returns and the implications for investors, investment advice and the businesses of investment advisers and fund managers.

INVESTING COSTS WILL BE UNDER GREATER SCRUTINY

In my last article I outlined the case for a lower-future-return world and the need for investors, with the help of their financial adviser, to adjust both their portfolio structure and lower their expectations of future returns versus those enjoyed over the last decade.

I also noted the need for investors to "Better understand and mitigate the negative impact of intermediary costs like brokerage, advice fees, and investment fees on their future returns."

If future returns are to be materially smaller over the next decade than the recent past, then it's not just investors who are going to have to pull their belts in. Financial advisers of all types can expect greater scrutiny on their costs from an increasingly financially literate public.

The great returns of the decade since the GFC have enabled the advice (and investment fund industry) to sustain fee and overall cost levels which I strongly believe will be unsustainable in the future.

Low risk asset and investment strategies are already returning (after costs and tax) **below the rate of inflation.** These returns are set to decline even further below inflation as low risk asset class returns collapse.

INVESTMENT PROVIDERS NEED TO REDUCE THEIR FEES

While I espouse the view that many investors will need to ratchet up the capital risks in their investment strategy. Advice and investment providers need to be ready to adjust their fees materially lower in many instances.

The most visible place this is already happening in a highly transparent way is in the KiwiSaver fund industry.

With new low fee entrants like Simplicity and Juno attracting considerable public attention, their success is forcing some but by no means all of the established KiwiSaver providers to reassess their charges. An example is the BNZ who have reset their KiwiSaver fees. Quoting their media release: "Under the new structure, a person with $20,000 invested in the BNZ Growth fund would have their fees more than halved, from $243 to $116." The announced reduction takes their fees to a maximum of 0.58% of member assets. Westpac have also announced reductions.

A terrific reduction but the cynic in me does wonder why such a large KiwiSaver provider could more than halve their fee and still have a financially sustainable business. Maybe by charging excessive fees before now?

"Advice and investment providers need to be ready to adjust their fees materially lower in many instances."

A strong case exists, when considering the potential reduction in future investment returns, to support the halving of fees across at least the defensive, conservative and balanced KiwiSaver fund sectors which collectively manage approximately **$35 billion** of Kiwis' savings.

Sorted.org.nz data which is based on the average member balance:

- the average KiwiSaver defensive fund costs in the year to March 2018 were 0.87%
- the average KiwiSaver conservative fund costs in the year to March 2018 were 1.05%
- the average KiwiSaver balanced fund costs in the year to March 2018 were 1.22%.

With KiwiSaver defensive and conservative fund sectors looking like they'll have an average pre-fee return of c.2.75% or less, take off 1% fees, take off tax (let's assume a 17.5% PIR) and the net return in the hands of the KiwiSaver member will be 1.45%. About the rate of inflation. Fees having taken 36% of the members' pre-tax return.

WHAT'S THE IMPLICATIONS FOR FINANCIAL ADVISERS WHO FOCUS ON KIWISAVER?

Halve the KiwiSaver industry's fund fees and it's reasonable to presume any trail commissions paid to any financial adviser to also halve – from c.0.25% down to 0.125% per annum. That works out as $37.50 in revenue per year on each $30,000 KiwiSaver client an adviser has.

Even a substantial KiwiSaver client base is probably not going to be enough to keep the adviser's doors open over the next few years.

OUTSIDE THE KIWISAVER SECTOR, THE COSTS OF INVESTMENT ARE EVEN MORE PROBLEMATIC FOR INVESTORS

Sorted.org.nz tells us the average **non-KiwiSaver ("PIE")** balanced fund had management costs of 1.76% per annum – 0.54% above the equivalent KiwiSaver fund average ... whose fees I have noted earlier are excessive relative to future return prospects.

PIE funds are primarily used by investors for retirement planning or for family trust investments. These are the type of clients that fill the typical retirement planning client base of a financial adviser who will normally charge an ongoing advice fee (0.5 to 1.5% pa) **above the fund costs.** So, all up the costs for the average independently advised client in a balanced strategy, implemented via retail PIEs, adds up to be between 2.25 to 3.25% per annum. **Around 50 to 75% of the investor's potential average pre-fees return.**

The entrance of low cost passive managers like Simplicity, Kernel and Smartshares into the PIE space is likely to have a major price impact on the high priced (mainly active) incumbent PIE providers. Those financial advisers that utilise PIEs to, in part or totally, construct client portfolios will need to materially reduce their own fees while bargaining down the fees of their PIE providers. Which will be a difficult conversation in the vertically integrated funds management groups – the most dominant being the high street banks.

ALL IS NOT TRANSPARENT IN THE DIMS SPACE

Over the past decade the broker firms have successfully transformed themselves into major players in the wealth management space via discretionary investment management services (DIMS). This growth has been led by two key advantages:

- their typical overweight to the high-performing NZ share market
- the relatively light handed regulatory approach to their client cost disclosures versus that for both PIE and KiwiSaver funds.

Introducing disclosures akin to that required of KiwiSaver funds and MDAs in Australia would show many DIMS clients that they are incurring overall costs higher than they probably realised. With this sector now managing over $50 billion in New Zealanders' savings it's probably overtime for the FMA to address this disclosure anomaly.

"I'm highly optimistic that financial advice can be a survivable business (I work in one!) but change ahead of client demand is required."

WHERE IS THERE LIFE IN ... FINANCIAL ADVICE?

Every adviser reading this knows that considerable value can be added for most clients by giving good-quality financial planning and investment advice.

Combine this with the demographic wave and increased longevity I'm highly optimistic that financial advice can be a survivable business (I work in one!) but change ahead of client demand is required. I also expect the looming fee crunch will trigger a wave of adviser retirements and business sales over the next few years as it all gets too hard for some.

For your advice business to survive the fee crunch as advisers you will need to:

- move your clients to more sustainable but higher risk investment strategies
- reduce the total costs of your clients' strategy implementation ... materially
- scale up the size of your client base as your margins contract.

If advisers don't materially reduce their clients' costs of investment then they have to expect their increasingly well-informed clients to make their moves first.

David van Schaardenburg is a Senior Partner – Wealth Management at Findex Advice NZ.

For more information call 0800 888 361

Name	Latest Transaction Exit Price	1 Yr Return %	3 Yr Return	5 Yr Return	Size $M	Morningstar Rating Overall
NZ Insurance Cash						
AMP KiwiSaver Cash Fund	1.5447	1.40	1.51	1.94	79.65	--
AMP NZRT Cash Fund	1.53662	0.40	0.51	0.93	92.82	--
AMP Prem PSS OnePath NZ Cash	1.6321	1.54	1.77	2.13	3.24	--
AMP PSS Select Cash	1.53148	1.33	1.57	1.93	0.89	--
ANZ Default KiwiSaver Scheme-Cash	1.4775	2.19	2.23	2.51	9.40	--
Aon KiwiSaver ANZ Cash	15.73534	1.71	1.80	2.09	4.61	--
Aon KiwiSaver Nikko AM Cash	14.79868	1.94	2.08	2.43	1.84	--
ASB KiwiSaver Scheme's NZ Cash	1.5074	1.82	1.98	2.40	463.63	--
BNZ KiwiSaver Cash Fund	1.1942	2.18	2.34	2.52	168.48	--
Booster KiwiSaver Enhanced Income	1.5513	1.71	1.84	2.20	18.79	--
Fidelity Life Super-Super Cash Portfolio	2.8344	1.13	1.27	1.41	6.40	--
Fisher TWO KiwiSaver Scheme-Presv	2981.3863	2.15	2.31	2.52	27.41	--
Kiwi Wealth KiwiSaver Scheme Cash	--	2.49	2.65	2.91	222.80	--
Mercer KiwiSaver Cash	--	1.84	1.97	2.38	17.87	--
NZ Defence Force KiwiSaver Cash	--	1.63	1.79	--	0.95	--
OneAnswer KiwiSaver-Cash Fund	1.4262	2.11	2.13	2.43	44.89	--
SIL 60s + Sup Cash Fund	2.2764	2.05	2.12	2.27	1.38	--
Westpac KiwiSaver-Cash Fund	1.437	1.98	2.12	2.47	366.61	--
NZ Insurance Equity Region Australasia						
Booster KiwiSaver Trans-Tasman Share	1.8831	18.97	13.49	10.34	9.02	2
OneAnswer KiwiSaver-Australasian	2.381	19.39	14.19	12.95	38.27	4
NZ Insurance Equity Region Australia						
AMP KiwiSaver Australasian Shares	1.4262	18.77	13.50	--	3.59	5
NZ Insurance Equity Region NZ						
AMP Prem PSS ACI NZ Shares	3.29769	18.51	13.79	13.39	7.92	3
AMP Prem PSS ACI NZ Shares Index	3.10594	23.23	15.96	15.33	7.71	4
Fidelity Life NZ Shares Portfolio	8.209	13.12	13.68	11.32	1.32	1
Fidelity Life Super-Super NZ Share	--	18.48	13.08	11.81	9.34	2
NZ Insurance Equity Region World						
AMP Prem PSS ACI Global Shares Index	2.78892	17.41	15.98	12.14	8.84	4
AMP Prem PSS FD Intl Share Fund	1.61737	15.74	13.21	9.19	10.83	2
Mercer KiwiSaver Shares	--	13.37	12.68	--	27.39	3
NZ Defence Force KiwiSaver Shares	--	13.08	12.47	--	11.87	2
OneAnswer KiwiSaver-Intl Share	2.3899	16.38	16.55	12.70	57.47	4
OneAnswer KiwiSaver-Sustainable	2.2331	20.10	15.26	10.49	9.97	3
SIL 60s + Sup International Share Fund	4.5548	16.46	16.63	12.54	16.41	4
NZ Insurance Equity Region World - Hedged						
AMP KiwiSaver International Shares	1.4479	12.66	12.09	--	4.23	3
AMP KiwiSaver Passive International	1.4883	14.66	13.20	--	4.33	4
AMP Prem PSS ACI Global Shares	2.60536	10.76	10.15	8.28	9.20	2
Booster KiwiSaver International Share	2.3061	12.83	12.37	9.55	14.97	4
FANZ Lifestages KiwiSaver High Growth	1.4331	15.10	12.40	--	156.50	4
Fidelity Life Aggressive	4.1523	6.15	9.20	8.33	0.50	2
Fidelity Life International	3.0109	11.97	11.78	7.73	0.44	2
Fidelity Life Super-Sup Intl	--	12.61	12.35	8.69	23.58	3
Fidelity Life Super-Super Aggressive	--	12.57	10.64	9.79	24.52	3
Fisher FuturePlan - Intl Coms	3.78554	13.96	12.29	8.01	27.11	2
Fisher TWO KiwiSaver Scheme-Eq	5531.3721	17.97	13.70	10.71	155.03	5
NZ Insurance Equity Sector Global - Real Estate						
AMP KiwiSaver Property	1.2785	25.22	11.97	--	5.55	5
OneAnswer KiwiSaver-Intl Property	1.6104	20.33	9.16	7.61	9.43	3
NZ Insurance Equity Sector NZ - Real Estate						
MFL Property Fund	4.9632	19.15	10.41	10.34	522.45	2
OneAnswer KiwiSaver-Australasian Prpty	2.482	30.82	14.26	14.14	29.46	4
NZ Insurance Global Bond						
AMP KiwiSaver International Fxd Intr	1.0855	8.08	2.55	--	0.81	2
AMP Prem PSS PIMCO Global Fixed	2.49848	7.93	3.32	4.15	3.59	5
AMP Prem PSS SSgA Global Fixed	2.1052	8.42	2.48	3.88	6.93	3
OneAnswer KiwiSaver-Intl Fxd Int	1.8109	8.31	2.91	3.94	2.47	3
NZ Insurance Miscellaneous						
Booster KiwiSaver Capital Guaranteed	1.1507	3.05	2.61	2.62	56.23	--
Kiwi Wealth KiwiSaver Scheme CashPlus	--	3.80	3.01	3.23	135.18	--
NZ Funds KiwiSaver Growth Strategy	1.8459	5.84	7.45	5.98	187.23	--
NZ Funds KiwiSaver Income Strategy	1.4562	7.38	4.03	4.05	34.36	--
NZ Funds KiwiSaver Inflation Strategy	1.5515	11.03	6.31	4.34	52.80	--
Westpac KiwiSaver-Capital Protect Plan 2	2.5833	4.43	11.02	10.93	10.44	--
Westpac KiwiSaver-Capital Protect Plan 3	2.4987	13.86	12.41	10.44	16.42	--
Westpac KiwiSaver-Capital Protect Plan 4	2.5816	13.90	12.43	10.44	23.58	--
Westpac KiwiSaver-Capital Protect Plan 5	2.2444	13.89	12.43	10.45	19.26	--
NZ Insurance Multisector - Aggressive						
AMP KiwiSaver LS Aggressive Fund	1.8536	14.53	11.32	8.25	344.28	4
AMP NZRT AMP Aggressive	3.80605	13.59	10.32	7.26	289.19	2
AMP PSS Select Growth	2.11691	13.88	10.67	7.69	39.50	3
Booster KiwiSaver Asset Class Growth	9.9198	10.63	9.89	7.62	78.11	2
Booster KiwiSaver Geared Growth	2.6418	17.99	15.00	11.55	68.20	5

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Booster KiwiSaver High Growth	1.8293	12.95	11.07	8.99	371.70	3
Booster KiwiSaver Socially Rsp Inv Gr	2.1343	15.18	12.09	9.82	73.24	4
Fisher FuturePlan - Growth	3.55076	13.99	9.88	8.36	81.92	3
Generate KiwiSaver Focused Growth	1.9386	16.84	14.50	11.28	794.99	5
Mercer KiwiSaver High Growth	--	11.95	10.96	9.87	197.89	5
NZ Defence Force KiwiSaver High Growth	--	11.73	10.74	--	24.78	3
NZ Insurance Multisector - Balanced						
AMP KiwiSaver AMP Global Multi-Asset	1.1411	4.86	3.69	--	13.66	1
AMP KiwiSaver AMP Income Generator	1.2375	14.05	7.58	--	3.74	2
AMP KiwiSaver AMP Responsible	1.2709	11.75	8.25	--	11.05	3
AMP KiwiSaver ASB Balanced	1.2829	12.77	8.72	--	21.89	4
AMP KiwiSaver LS Balanced Fund	1.9339	11.70	8.49	6.63	997.29	3
AMP KiwiSaver LS Moderate Balanced	1.8794	10.51	7.39	6.00	726.38	2
AMP KiwiSaver Mercer Balanced	2.0727	9.94	7.57	7.37	51.04	3
AMP NZRT AMP Balanced Fund	3.41736	10.51	7.42	5.61	899.28	2
AMP NZRT AMP Global Multi-Asset	1.13797	5.45	4.24	--	3.99	1
AMP NZRT AMP Income Generator	1.24086	14.88	8.33	--	3.32	3
AMP NZRT AMP Moderate Balanced	2.46799	9.50	6.39	5.01	309.14	1
AMP NZRT ASB Balanced Fund	1.2463	12.02	7.88	7.14	93.83	3
AMP NZRT Mercer Balanced	2.78898	8.97	6.54	6.36	156.99	2
AMP NZRT Nikko AM Balanced	3.04313	8.71	7.20	7.62	175.45	3
AMP NZRT Responsible Investment Bal	1.27793	12.46	8.84	--	4.70	4
AMP PSS Lifesteps Consolidation	2.02615	9.74	6.65	5.40	6.26	1
AMP PSS Lifesteps Progression	2.17211	10.84	7.71	5.91	2.20	2
AMP PSS Select Balanced	2.09098	10.92	7.79	5.99	49.33	2
ANZ Default KiwiSaver Scheme-	1.9686	11.31	7.91	7.21	165.31	4
ANZ KiwiSaver-Balanced	2.0556	11.31	7.93	7.25	2544.24	4
Aon KiwiSaver ANZ Balanced	28.53513	11.33	8.08	7.34	32.24	4
Aon KiwiSaver Russell Lifepoints 2025	10.15862	10.68	7.36	7.28	22.08	--
Aon KiwiSaver Russell Lifepoints 2035	10.35397	11.95	9.26	8.63	22.46	--
Aon KiwiSaver Russell Lifepoints Bal	10.74466	12.37	9.54	8.82	178.99	5
ASB KiwiSaver Scheme's Balanced	2.1198	12.71	9.34	8.44	1963.27	5
BNZ KiwiSaver Balanced Fund	1.6704	11.38	8.79	7.96	460.09	4
Booster KiwiSaver Balanced	1.9959	11.19	8.35	7.29	513.43	3
Booster KiwiSaver Socially Rsp Inv Bal	1.5402	12.59	8.83	7.93	62.32	4
Fidelity Life Balanced	5.2171	10.74	8.38	6.83	3.85	3
Fidelity Life Super-Super Balanced	--	10.76	8.10	--	281.89	3
Fisher FuturePlan - Balanced	4.68925	11.19	7.87	7.04	127.58	3
Fisher TWO KiwiSaver Scheme-Bal	5748.0449	12.36	8.95	7.99	878.58	4
Kiwi Wealth KiwiSaver Scheme Balanced	--	9.07	8.55	6.65	1722.23	3
Mercer KiwiSaver Balanced	--	9.86	7.92	7.61	418.17	4
Milford KiwiSaver Balanced Fund	2.465	12.93	10.15	9.54	376.66	5
NZ Defence Force KiwiSaver Balanced	--	9.62	7.71	--	57.76	3
OneAnswer KiwiSaver-Balanced	2.0845	11.33	7.97	7.30	600.80	4
Westpac KiwiSaver-Balanced Fund	2.0095	11.04	8.60	7.79	1654.55	4
Westpac Retirement Plan - Balanced Port	4.0796	9.83	7.41	6.62	97.53	3
NZ Insurance Multisector - Conservative						
AMP KiwiSaver ANZ Conservative	1.153	8.23	4.64	--	8.37	2
AMP KiwiSaver Default (Default)	1.7864	6.72	5.16	4.96	1360.70	2
AMP PSS Select Income	1.89281	4.58	2.97	3.45	1.08	2
ANZ Default KiwiSaver Scheme	1.8787	8.83	5.30	5.45	1135.78	4
Aon KiwiSaver Russell Lifepoints 2015	10.16894	9.89	5.74	6.08	4.91	--
Aon KiwiSaver Russell Lifepoints Cnsrv	10.6447	9.90	5.74	6.04	75.11	5
ASB KiwiSaver Scheme's Cnsrv (Default)	1.929	8.25	5.56	5.61	3902.87	4
BNZ KiwiSaver Conservative (Default)	1.4079	7.12	5.29	5.33	744.01	3
BNZ KiwiSaver First Home Buyer Fund	1.1861	5.09	4.30	--	158.34	2
Booster KiwiSaver Default Saver	1.3381	8.00	5.39	5.44	85.53	3
FANZ Lifestages KiwiSaver Income	1.13288	5.76	3.04	--	89.10	1
Fisher FuturePlan - Capital Prot	1.25541	1.50	1.50	1.50	17.37	1
Fisher TWO KiwiSaver Cash	1.89776	7.88	5.43	5.64	672.15	4
Kiwi Wealth KiwiSaver Scheme Cnsrv	--	7.14	5.61	5.13	789.87	3
Kiwi Wealth KiwiSaver Scheme Default	--	7.01	5.80	5.29	253.54	3
Mercer KiwiSaver Conservative (Default)	--	7.83	5.36	5.68	1120.38	5
Milford KiwiSaver Conservative Fund	1.8368	8.49	6.80	7.00	126.45	5
NZ Defence Force KiwiSaver	--	7.38	5.04	--	4.74	3
OneAnswer KiwiSaver-Conservative	1.8399	8.17	4.88	5.08	458.35	3
Westpac KiwiSaver Default	1.319	7.40	5.25	5.28	247.51	3
NZ Insurance Multisector - Growth						
AMP KiwiSaver ANZ Balanced Plus	2.3718	14.01	9.37	8.30	276.40	3
AMP KiwiSaver ANZ Growth	1.344	15.48	10.58	--	19.24	3
AMP KiwiSaver ASB Growth	1.3525	14.70	10.59	--	18.08	3
AMP KiwiSaver LS Growth Fund	1.8814	13.64	10.41	7.71	777.36	2
AMP KiwiSaver Nikko AM Balanced	2.0785	9.66	8.19	8.60	77.72	2
AMP KiwiSaver Nikko AM Growth	1.3087	10.97	9.25	--	17.61	2
AMP NZRT AMP Growth	2.65014	12.49	9.37	6.71	249.61	1
AMP NZRT ANZ Balanced Plus	2.99085	12.99	8.35	7.28	297.93	2

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AMP NZRT ANZ Growth	1.34448	16.21	11.21	--	9.84	4
AMP NZRT ASB Growth	1.33741	15.08	11.03	--	12.53	4
AMP NZRT Nikko AM Growth	1.29831	11.50	9.93	--	13.11	3
AMP PSS Lifesteps Growth	2.17852	12.69	9.46	6.96	0.27	2
ANZ Default KiwiSaver Scheme-	2.0289	12.73	9.52	8.31	179.14	3
ANZ Default KiwiSaver Scheme-Growth	2.0716	14.02	10.94	9.25	162.86	4
ANZ KiwiSaver-Balanced Growth	2.1529	12.74	9.49	8.33	2242.58	3
Aon KiwiSaver Milford	3.96831	13.20	11.40	11.36	157.47	5
Aon KiwiSaver Nikko AM Balanced	20.8675	9.60	8.41	8.63	10.32	3
Aon KiwiSaver Russell Lifepoints 2045	10.31522	12.98	10.79	9.71	19.68	--
Aon KiwiSaver Russell Lifepoints Growth	10.9072	13.29	10.96	9.79	47.01	4
ASB KiwiSaver Scheme's Growth	2.1562	14.38	11.23	9.81	2991.58	4
BNZ KiwiSaver Growth Fund	1.8253	12.93	10.84	9.29	612.53	4
Booster KiwiSaver Balanced Growth	2.0229	12.89	10.23	8.49	330.81	3
Fidelity Life Growth	5.2597	13.00	11.02	8.36	2.28	3
Fidelity Life Super-Super Growth	--	12.48	9.95	8.06	135.76	2
Fisher Funds Growth KiwiSaver Fund	2.4467	14.73	11.62	9.97	2076.48	5
Fisher TWO KiwiSaver Scheme-Gr	2.0704	12.43	10.30	8.88	506.38	3
Generate KiwiSaver Growth Fund	1.8459	16.35	12.74	10.84	616.90	5
Kiwi Wealth KiwiSaver Scheme Growth	--	10.84	11.36	7.94	1555.44	2
Mercer KiwiSaver Growth	--	10.97	9.60	--	114.09	3
Milford KiwiSaver Active Growth Fund	3.9933	13.31	11.47	11.44	1520.77	5
NZ Defence Force KiwiSaver Growth	--	10.68	9.35	--	24.72	2
OneAnswer KiwiSaver-Balanced Growth	2.1846	12.75	9.54	8.35	525.85	4
OneAnswer KiwiSaver-Growth Fund	2.2542	14.04	10.99	9.35	440.06	5
SIL 60s + Sup Balanced Fund	4.9889	12.85	9.70	8.24	96.70	3
Westpac KiwiSaver-Growth Fund	2.1141	12.91	10.20	9.04	1551.90	3
Westpac Retirement Plan - Dynamic Port	4.7345	11.76	9.07	7.94	113.88	3
NZ Insurance Multisector - Moderate						
AMP KiwiSaver ASB Moderate	1.2046	9.75	6.57	--	12.72	4
AMP KiwiSaver LS Conservative Fund	1.9231	8.16	5.20	4.65	386.77	3
AMP KiwiSaver LS Moderate Fund	1.8892	9.45	6.45	5.38	539.76	3
AMP KiwiSaver Nikko AM Conservative	1.1957	8.36	5.87	--	21.89	3
AMP NZRT AMP Capital Assured Fund	2.72457	2.72	3.41	3.81	112.92	1
AMP NZRT AMP Conservative	3.06533	7.10	4.18	3.63	327.14	1
AMP NZRT AMP Moderate	2.40541	8.39	5.39	4.34	168.16	2
AMP NZRT ASB Moderate	1.21273	10.31	7.19	--	15.19	5
AMP NZRT Nikko AM Conservative	1.19017	8.94	6.33	--	12.80	4
AMP PSS Lifesteps Maturity	1.85582	7.17	4.17	3.77	2.96	2
AMP PSS Lifesteps Stability	2.00385	8.40	5.61	4.59	5.81	2
AMP PSS Select Conservative	1.94426	7.30	4.39	3.87	9.23	2
ANZ Default KiwiSaver Scheme-	1.9117	9.75	6.36	6.13	58.73	4
ANZ KiwiSaver-Conservative Balanced	1.9446	9.75	6.37	6.15	1208.05	4
Aon KiwiSaver Russell Lifepoints Mod	10.85575	11.22	7.66	7.46	26.17	5
ASB KiwiSaver Scheme's Moderate	2.0388	10.23	7.19	6.90	1924.57	4
BNZ KiwiSaver Moderate Fund	1.5471	9.95	7.27	6.85	509.96	4
Booster KiwiSaver Asset Class Cnsrv	3.9121	7.26	4.97	4.97	21.60	3
Booster KiwiSaver Moderate	1.8772	9.05	6.08	5.79	179.91	3
Fisher Funds Conservative KiwiSaver	1.7534	8.85	5.73	5.82	831.60	3
Fisher TWO KiwiSaver Scheme-Cnsrv	1.9881	8.58	5.97	5.92	156.97	3
Generate KiwiSaver Conservative Fund	1.4836	10.99	6.97	7.31	269.98	5
Mercer KiwiSaver Moderate	--	8.23	6.14	--	136.89	3
NZ Defence Force KiwiSaver Moderate	--	7.98	5.92	--	4.81	3
OneAnswer KiwiSaver-Conservative Bal	1.9638	9.76	6.39	6.15	203.84	5
Westpac KiwiSaver - Moderate	1.3929	9.44	6.74	6.37	536.52	4
Westpac KiwiSaver-Conservative Fund	1.8302	8.10	5.56	5.51	2661.99	3
NZ Insurance NZ Bonds						
AMP KiwiSaver NZ Fixed Interest	1.1425	6.83	4.35	--	3.35	3
AMP Prem PSS ACI NZ Fixed Interest	2.29718	6.94	4.43	5.08	11.21	4
Fidelity Life NZ Fixed Interest	4.3484	4.83	3.36	3.51	0.18	1
Fidelity Life Super-Super Fixed Int	--	4.95	3.44	3.62	1.23	1
OneAnswer KiwiSaver-NZ Fixed Interest	1.8634	7.46	4.52	5.27	8.12	4
SIL 60s + Sup NZ Fixed Interest	3.2713	7.39	4.39	4.92	6.20	3
Westpac Retirement Plan - Accum Port	3.4133	3.52	1.76	2.20	14.69	1
NZ OE Cash						
AMP AIT NZ Cash - UT35	1.14885	1.51	1.72	2.16	6.02	--
AMP ARS-Cash	2.02612	1.72	1.79	2.28	7.43	--
AMP Capital NZ Cash Fund	1.64618	1.95	2.09	2.51	3594.69	--
AMP Capital Term Advantage	--	--	--	--	--	--
AMP PUT Select Cash	1.37421	1.41	1.49	1.85	2.45	--
ASB Cash Fund	--	--	--	--	213.91	--
BT Enhanced Cash Fund	2.1875	2.04	2.18	2.52	15.76	--
Fisher Cashplus Fund	1.3679	2.03	2.16	2.34	74.26	--
Nikko AM NZ Cash	1.0388	2.44	2.55	2.91	163.87	--
NZ Funds Core Cash	1.38402	1.44	1.69	2.16	36.43	--

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NZ OE Equity Region Australasia						
AMP AIT Australasian Shrs-Multi	3.6598	17.82	12.53	9.35	12.78	2
AMP ARS-NZ & Australian (multi-	4.36928	18.31	12.94	9.87	7.87	2
AMP ARS-NZ & Australian (Value)	4.93101	21.08	11.58	10.92	5.43	3
AMP NZRT Australasian Shares	1.73063	19.65	14.17	10.82	12.00	3
BT PS Australasian Diversified Share	2.7612	18.37	13.95	13.00	64.91	4
Castle Point Ranger Fund	1.9961	15.07	16.69	12.58	110.76	4
Devon Alpha Fund	1.8316	9.36	8.39	7.28	115.32	1
Devon Dividend Yield	2.0339	18.42	8.26	11.10	35.46	3
Devon Trans-Tasman Fund	4.2919	16.33	10.65	10.16	91.89	2
Forte Equity Trust	1.51224	-4.21	11.46	7.72	21.49	1
Harbour Australasian Equity	3.1479	14.66	15.12	13.61	278.08	4
Harbour Australasian Equity Focus Fund	1.9418	11.56	15.86	13.00	14.88	3
Harbour Australasian Equity Income	1.999	22.15	11.77	10.38	45.67	3
Milford Trans-Tasman Equity	3.1064	22.25	16.78	13.02	429.24	4
Mint Australasian Equity Fd (Retail)	3.5167	21.14	16.31	14.94	244.34	5
Nikko AM Concentrated Equity	2.3808	8.12	12.55	13.51	54.61	3
OneAnswer SAC Equity Selection	2.5292	8.45	5.21	6.34	12.66	2
Pie Australasian Dividend	3.0462	11.84	11.33	13.76	146.47	3
Pie Australasian Emerging Companies	4.0597	16.40	10.41	17.33	108.92	4
Pie Australasian Growth Fund	6.1332	23.81	6.49	12.22	94.24	4
Pie Growth 2 Fund	1.9876	21.92	14.10	--	215.01	3
NZ OE Equity Region Australia						
AMP Capital Australian Share Fund	3.15276	19.11	12.15	6.09	286.85	3
Devon Australian	1.553	10.27	8.55	7.64	16.45	3
Fisher Funds Australian Growth Fund	4.4489	20.56	12.90	10.41	68.68	4
Fisher Funds Premium Australian Fund	1.959	20.84	12.98	10.58	108.41	4
Milford Dynamic	2.1303	21.02	13.83	12.79	272.86	5
OneAnswer SAC Australian Share	4.3655	10.19	6.77	2.42	22.93	1
NZ OE Equity Region Emerging Markets						
AMP AIT Emerging Markets - UT65	1.6217	13.94	9.23	4.36	2.24	--
NZ OE Equity Region NZ						
AMP Capital Ethical Leaders NZ Shares	2.54831	22.61	15.06	14.77	26.00	4
AMP Capital NZ Shares Fund	3.35869	19.06	14.30	13.83	499.08	3
AMP Prem PUT ACI NZ Shares	3.36386	18.49	13.56	13.20	3.32	2
AMP Prem PUT ACI NZ Shares Index	2.71054	23.05	15.61	14.72	3.64	3
Fisher Funds NZ Growth Fund	10.6772	24.05	15.94	14.35	196.90	4
Fisher Funds Premium New Zealand Fund	2.5343	25.26	16.47	14.69	142.98	4
Fisher Trans Tasman Equity Trust	6.7862	24.44	14.97	13.27	58.49	2
Forsyth Barr New Zealand Equities	3.4293	17.90	15.48	15.89	53.52	4
Harbour NZ Equity Advanced Beta Fund	1.8705	20.26	14.19	--	250.48	2
Nikko AM Core Equity	2.6278	16.51	16.06	15.61	33.08	4
NZ Funds Dividend and Growth	2.0773	15.67	9.97	11.09	124.45	1
OneAnswer SAC NZ Share	5.8289	20.61	14.26	13.21	55.44	3
Russell Investments NZ Shares	1.9775	21.18	14.98	14.40	225.95	3
Smartshares NZ Core Equity Trust	1.6802	17.66	15.52	15.02	83.23	4
NZ OE Equity Region World						
AMP Capital Core Global Shares Fund	1.81038	15.37	14.40	11.76	995.40	3
AMP Capital Emerging Markets Share	1.32197	15.10	10.90	6.51	69.53	1
AMP Prem PUT FD Intl Share Fund	1.68277	15.70	13.02	9.07	4.22	2
AMP Prem PUT SSgA Global Shares	2.39723	17.43	15.62	11.40	3.10	3
Elevation Capital Value Fund	1.588	2.50	5.88	5.73	23.56	1
Fisher Funds Property and Infrastructure	3.075	23.95	17.45	13.18	153.40	5
Nikko AM Global Equity Unhedged	2.3688	20.74	15.56	12.31	125.62	4
OneAnswer SAC International Share	2.7156	16.18	16.37	12.91	260.40	5
Pie Global Small Companies Fund	1.6359	3.20	9.65	8.20	100.68	2
Russell Investments Global Shares	2.229	13.21	14.18	10.71	82.73	3
T.Rowe Price Global Equity Growth	1.8963	18.25	18.39	--	95.91	5
NZ OE Equity Region World - Hedged						
AMP AIT Global Equities-Multi Mgr-UT28	1.36668	9.85	9.76	7.99	10.96	2
AMP AIT Global Infrastructure - UT04	3.09869	17.53	10.88	8.48	26.12	4
AMP ARS-International Shares (Growth)	1.84559	19.32	14.45	12.74	6.75	5
AMP ARS-International Shares (Passive)	1.94317	12.59	11.52	8.87	3.28	4
AMP ARS-International Shares (Value)	1.55211	9.76	10.06	9.35	4.21	2
AMP Capital Core Hedged Global	1.64797	9.21	8.72	7.95	617.80	2
AMP Capital Ethical Leaders Global Shars	1.89357	11.86	11.58	7.72	78.04	2
AMP Capital Global Listed Infrastructure	1.96889	22.57	11.12	7.79	349.09	2
AMP Capital Global Shares Fund	3.29379	13.15	11.97	9.72	64.22	4
AMP NZRT International Shares	1.74996	13.50	12.96	10.61	9.82	4
AMP NZRT Passive International Shares	1.78945	14.90	13.90	10.70	8.02	4
AMP Prem PUT SSgA Global Shares	2.62346	11.08	9.14	8.03	4.89	3
ASB World Shares	1.8535	10.62	11.66	9.66	537.59	4
BT PS International Diversified Share	2.0748	10.82	11.87	9.13	84.07	4
Fisher Funds International Growth Fund	2.4991	19.75	16.70	11.96	58.05	4

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Fisher Funds Premium International Fund	2.6152	20.72	16.93	12.35	171.74	4
Fisher Global Fund	6.3958	14.24	12.49	8.18	101.03	3
Milford Global Equity	1.6841	13.66	11.17	7.80	588.98	3
Nikko AM Global Equity Hedged	2.0153	16.00	9.98	9.01	47.47	2
NZ Funds Equity Inflation	0.9572	6.71	3.78	3.37	84.70	1
Pathfinder Global Water	2.2904	23.04	11.36	9.31	23.19	3
Pathfinder World Equity Fund	2.0023	10.44	10.82	8.04	15.07	2
Russell Investments Hedged Global	2.2221	10.00	10.40	8.46	82.09	3
NZ OE Equity Sector Global - Real Estate						
AMP AIT Global Property - UT54	3.96733	24.54	10.90	9.47	1.70	3
AMP ARS-Listed International Property	4.78064	21.07	10.39	7.85	5.44	4
AMP Capital Global Propty Securities Fd	1.77154	21.70	10.53	8.33	201.93	4
NZ Funds Property Inflation	1.8336	16.95	8.10	6.67	89.94	1
OneAnswer SAC International Property	1.621	20.17	8.92	7.34	257.88	1
NZ OE Equity Sector NZ - Real Estate						
AMP ARS-Listed NZ & Australian	4.60217	30.41	13.12	12.53	3.99	2
AMP Australasian Property Index Fund	2.93859	30.65	14.85	12.75	175.69	4
BT Property Fund	5.4817	28.10	13.44	13.80	45.69	3
Mint Australia NZ RI Estt Invm (Ret)	2.4556	32.36	14.20	13.33	78.97	3
OneAnswer SAC Property Securities	4.3587	30.76	14.23	14.09	158.25	4
NZ OE Global Bond						
AMP AIT Fixed Interest Income - UT36	1.26001	2.57	2.09	2.61	50.94	1
AMP AIT Global Bonds-Multi Mgr-UT13	2.09145	7.59	2.01	2.86	7.06	1
AMP ARS-International Fixed Interest	2.64335	8.18	2.59	3.51	1.52	3
AMP Capital Global Short Duration	1.08867	2.97	2.15	2.67	186.02	1
AMP Capital Hdgd Gbl Fixed Intrst Fund	2.52718	8.31	3.12	3.87	103.75	4
AMP NZRT International Fixed Interest	1.25461	8.76	3.14	3.88	1.53	3
AMP Prem PUT SSgA Global Fixed	1.94086	8.44	2.37	3.71	3.61	2
ASB World Fixed Interest	1.1277	--	--	--	430.23	1
BT PS International Diversified Bond	2.377	6.83	3.31	3.49	100.64	3
Fisher BondPlus Fund	2.3399	7.77	3.27	4.03	144.63	4
Fisher Funds Income	1.0739	6.04	3.53	4.36	60.43	4
Nikko AM Global Bond	1.2372	9.99	3.80	4.63	31.67	5
NZ Funds Global Income	1.5527	8.78	3.23	3.43	121.34	2
OneAnswer SAC International Fixed Intrst	1.2938	8.15	2.77	3.82	1.49	3
Russell Investments Global Fixed Int	1.1948	9.57	3.95	4.79	606.89	5
NZ OE Miscellaneous						
AMP ARS-UK Cash	0.76954	3.78	5.25	-0.74	7.57	--
KTAM NZ Australian Long Short Equity	1.63098	--	--	--	19.60	--
Nikko AM Income	1.1942	0.74	2.78	4.98	13.08	--
NZ Funds Core Inflation	1.5196	14.13	6.86	4.06	100.81	--
NZAM Alpha Fund	0.4644	--	--	--	6.23	--
NZAM Global Growth	1.4394	--	--	--	22.71	--
Pathfinder Commodity Plus Fund	0.9451	-8.03	0.82	0.24	6.12	--
Salt Long Short Fund	1.5454	1.69	3.66	7.63	115.23	--
NZ OE Multisector - Aggressive						
AMP AIT Aggressive Portfolio - UT31	2.28702	13.49	10.23	7.04	65.16	1
AMP AIT eInvest - Aggressive - MDF7	1.62318	14.03	11.01	7.98	14.49	3
AMP AIT Growth Portfolio - UT03	2.16503	12.64	9.38	6.63	25.75	1
AMP Capital Ethical Leaders Growth	3.10458	13.74	10.95	7.53	8.32	3
AMP PUT Select Growth	2.01693	13.79	10.55	7.56	18.67	3
NZ OE Multisector - Balanced						
AMP AIT eInvest - Balanced - MDF5	1.46616	11.29	8.22	6.44	49.34	2
AMP AIT Moderate Portfolio - UT01	2.04967	8.68	5.64	4.55	49.58	1
AMP ARS-Balanced	2.38928	11.83	8.66	6.89	143.22	3
AMP Capital Ethical Leaders Balanced	2.16699	12.04	8.57	6.52	57.97	3
AMP Capital Global Multi Asset Fund	1.30299	5.33	4.31	4.45	197.89	1
AMP Capital Income Generator Fund	1.1868	14.30	8.07	7.73	168.12	4
AMP PUT Select Balanced	2.00216	10.85	7.61	5.84	39.91	2
ANZ Invmt Fds Balanced	1.996	11.08	7.66	6.93	360.40	3
ASB Balanced	1.8548	12.17	8.77	7.87	339.78	4
Milford Balanced Fund	2.4137	12.80	9.98	9.30	732.43	5
NZ Funds Core Growth	1.395	-0.53	2.00	1.59	99.88	1
OneAnswer MAC Balanced	1.996	11.08	7.66	6.93	54.34	3
Westpac Active Balanced Trust	2.4856	10.59	7.97	7.13	579.89	3
NZ OE Multisector - Conservative						
AMP PUT Select Income	1.76268	4.64	2.91	3.43	1.92	1
ANZ Invmt Fds Conservative	1.6475	7.95	4.62	4.82	53.70	2
ASB Conservative	1.745	7.65	4.96	5.00	149.34	3
Milford Conservative	1.1767	8.68	6.95	--	380.05	5
OneAnswer MAC Conservative	1.6475	7.95	4.62	4.82	16.21	2
Westpac Active Conservative Trust	2.0229	6.95	4.58	4.58	353.77	3
NZ OE Multisector - Growth						
AMP AIT Balanced Portfolio - UT 02	2.19715	10.65	7.56	5.68	77.98	1
AMP AIT eInvest - Growth - MDF6	1.57273	12.79	10.01	7.35	12.84	2

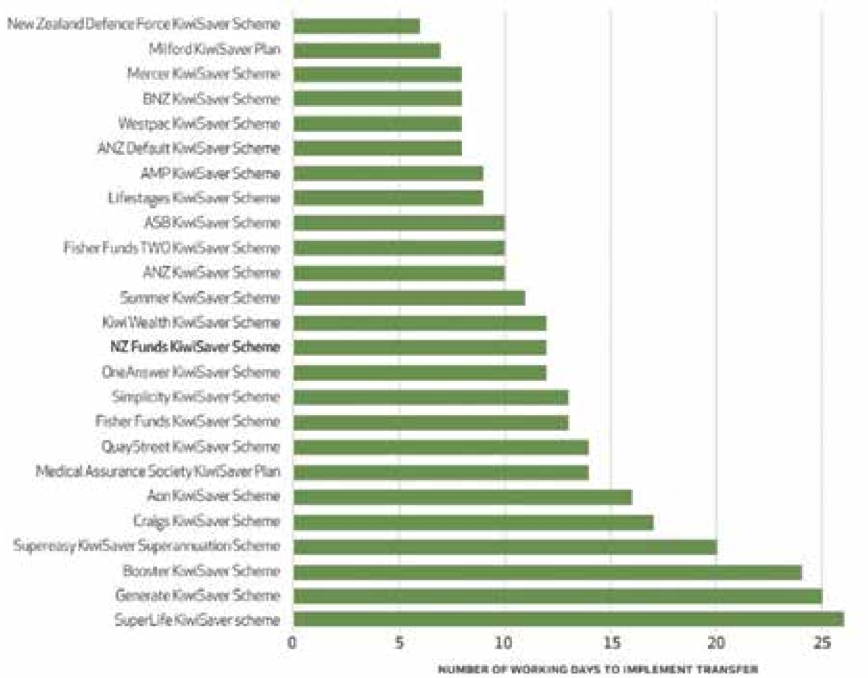
Name	Latest Transaction Exit Price	1 Yr Return %	3 Yr Return	5 Yr Return	Size $M	Morningstar Rating Overall
AMP ARS-High Growth	2.20204	13.62	10.46	7.83	52.69	2
ANZ Invmt Fds Balanced Growth	2.2079	12.51	9.24	8.05	247.48	3
ANZ Invmt Fds Growth	2.3848	13.79	10.66	8.99	133.45	3
ASB Growth	1.857	13.77	10.62	9.20	97.67	3
Fisher Multi Sector Fund	3.6579	11.12	7.73	6.86	11.56	2
Milford Active Growth	3.9451	13.45	11.34	11.19	1150.71	5
NZ Funds Global Equity Growth	1.6904	6.49	7.55	6.40	93.07	1
OneAnswer MAC Balanced Growth	2.2079	12.51	9.24	8.05	45.41	3
OneAnswer MAC Growth	2.3848	13.79	10.66	8.99	32.85	3
OneAnswer SAC Balanced	3.5143	12.53	9.12	7.95	54.69	3
Westpac Active Growth Trust	2.4834	12.55	9.59	8.37	123.38	3
NZ OE Multisector - Moderate						
AMP AIT eInvest - Conservative - MDF2	1.30793	7.79	4.95	4.38	12.48	2
AMP AIT eInvest - Moderate - MDf3	1.3813	9.21	6.23	5.19	50.98	3
AMP ARS-Conservative	2.47558	8.32	5.37	4.89	40.60	3
AMP Capital Ethical Leaders	2.60385	7.73	4.73	4.26	7.56	2
AMP PUT Select Conservative	1.90216	7.30	4.28	3.72	12.82	1
ANZ Invmt Fds Conservative Balanced	1.8153	9.53	6.10	5.85	213.17	3
ASB Conservative Plus	1.7665	9.11	5.94	5.77	838.00	3
ASB Moderate	1.798	9.68	6.63	6.34	533.42	4
Harbour Income	1.017	9.86	6.31	--	116.83	3
Milford Diversified Income Fund	1.8156	13.36	9.99	10.09	2358.91	5
Mint Diversified Income	1.0912	7.89	5.52	5.81	205.31	3
NZ Funds Global Multi-Asset Growth	0.5467	--	--	--	24.98	1
OneAnswer MAC Conservative Balanced	1.8153	9.53	6.10	5.85	18.68	3
Westpac Active Moderate Trust	1.6375	8.97	6.23	5.87	1088.62	3
NZ OE NZ Bonds						
AMP AIT NZ Bond - UT36	1.29408	3.97	3.30	4.18	8.11	2
AMP AIT NZ Fixed Interest - UT60	1.92666	6.54	4.05	4.66	10.56	2
AMP ARS-NZ Fixed Interest	2.78663	6.99	4.45	5.16	5.15	3
AMP Capital NZ Fixed Interest Fund	1.77275	7.21	4.69	5.33	2254.38	4
AMP Capital NZ Short Duration	1.29309	4.18	3.45	3.94	620.77	2
AMP NZRT NZ Fixed Interest	1.37798	7.39	4.88	5.42	11.17	4
BT Corporate Bond Fund	1.7182	4.99	3.90	4.29	147.83	2
Fisher New Zealand Fixed Inc Trust	1.4462	8.59	5.06	5.26	61.01	4
Forsyth Barr NZ Fixed Interest	1.856	6.20	4.51	4.99	27.13	3
Forsyth Barr Premium Yield	1.902	6.22	4.66	5.12	161.48	3
Harbour NZ Core Fixed Interest	1.1583	5.85	4.24	4.88	182.89	3
Harbour NZ Corporate Bond	1.1099	6.24	4.44	4.81	419.79	3
Nikko AM NZ Bond	1.0876	8.01	5.15	5.49	88.42	5
Nikko AM NZ Corporate Bond	1.2226	7.39	5.34	5.66	177.82	5
NZ Funds Core Income	1.71989	6.23	4.41	4.23	127.15	2
OneAnswer SAC NZ Fixed Interest	1.8611	7.32	4.39	5.15	13.00	3
Russell Investments NZ Fixed Interest	1.2721	6.70	4.59	5.16	68.96	4
Westpac Active Income Strategies Trust	1.2594	2.90	2.61	2.81	6.73	1

Returns are calculated to **31/10/19**
Returns are calculated **before tax** and **after fees**, except for the non-PIE categories, which are **after tax** and **after fees**. For more information about this table and the methodology behind the data, contact helpdesk.nz@morningstar.com or go to www.morningstar.com.au

By Michael Lang

Transfer times and why they matter

Some KiwiSaver providers are taking longer than they ought to carry out a requested transfer to another scheme.



Source: Link Fund Services. February 2017 to August 2019 members transferring to the NZ Funds KiwiSaver Scheme. NZ Funds KiwiSaver Scheme data is an estimate from our Administrator.

SOURCE OF DATA

Speed and a lack of friction costs are essential for an efficient market. Since its inception in 2010 (two years after KiwiSaver was launched) the number of members in the NZ Funds KiwiSaver Scheme has grown year on year for nine years. As our scheme has never sought default status and never acquired another scheme, the growth has been entirely organic. New members have primarily joined by switching from other providers.

In total, NZ Funds has attracted 6,880 members and lost 1,520 members – small in comparison to default funds – but big enough to gather information on over 1,000 switches to the NZ Funds KiwiSaver Scheme in the last 30 months. After scrubbing this data for errors, outliers and PIE tax rebates, we discovered the KiwiSaver industry can be divided into two types of managers: efficient operators, and those who appear to be gaming the system.

THE EFFICIENT OPERATORS

Despite being criticised by the FMA in 2014 for poor sales practices, when it comes to assisting members who have chosen to transfer to another provider, Australian owned banks Westpac, BNZ, ANZ and ASB completed their transfers in less than 10 days on average.

Similarly, AMP and Mercer took less than 10 days to action members' switch requests from their schemes to the NZ Funds KiwiSaver Scheme. But the industry leader, by our numbers, was Milford with a sharp turnaround of just seven days for its members. A bouquet should also go to the New Zealand Defence Force KiwiSaver Scheme. They managed to implement the transfer of the one client that came across to the NZ Funds KiwiSaver Scheme within six days. For the record, NZ Funds currently takes an average of 12 working days when transferring members out of its scheme, which is something we could improve on. The average for the industry as a whole is 11 days.

THE MARKET GAMERS

And then there are those which needed or chose to take 20 days or more to complete the same process, like SuperLife which ranked last in actioning transfers to the NZ Funds KiwiSaver Scheme by taking an average of 26 days to switch members who had asked to transfer. They were joined by Generate which took 25 days, and Booster which took 24 days. Excluding SuperEasy, a restricted KiwiSaver scheme for local council employees, there are no other managers who take on average 20 or more days.

The different treatment of transfer requests from default schemes and non-default schemes also makes for interesting reading. Under the existing rules, default schemes are required to process transfers within 10 days, while non-default scheme providers can take up to 35 days. It is interesting to observe that Booster, which has both default and non-default schemes, appears to be able to comply with the 10 day requirement for transfers from its default scheme, but is not able to do so for transfers from its non-default scheme.

Who benefits, who loses and what are the rules?

The benefit of delaying a transfer are clear. This aspect of KiwiSaver is now widely recognised as being poorly conceived. As part of the amended Scheme Provider Agreements, all schemes will be required to transfer within 10 working days from April 1, 2020. This is a positive move, but it is a pity that some schemes did not self-regulate themselves to ensure they were acting in all members (including exiting members) best interests.

Michael Lang is Chief Executive at NZ Funds and his comments are of a general nature. New Zealand Funds Management Limited is the issuer of the NZ Funds KiwiSaver Scheme. A copy of the latest Product Disclosure Statement for the scheme is available on request and at www.nzfunds.co.nz.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