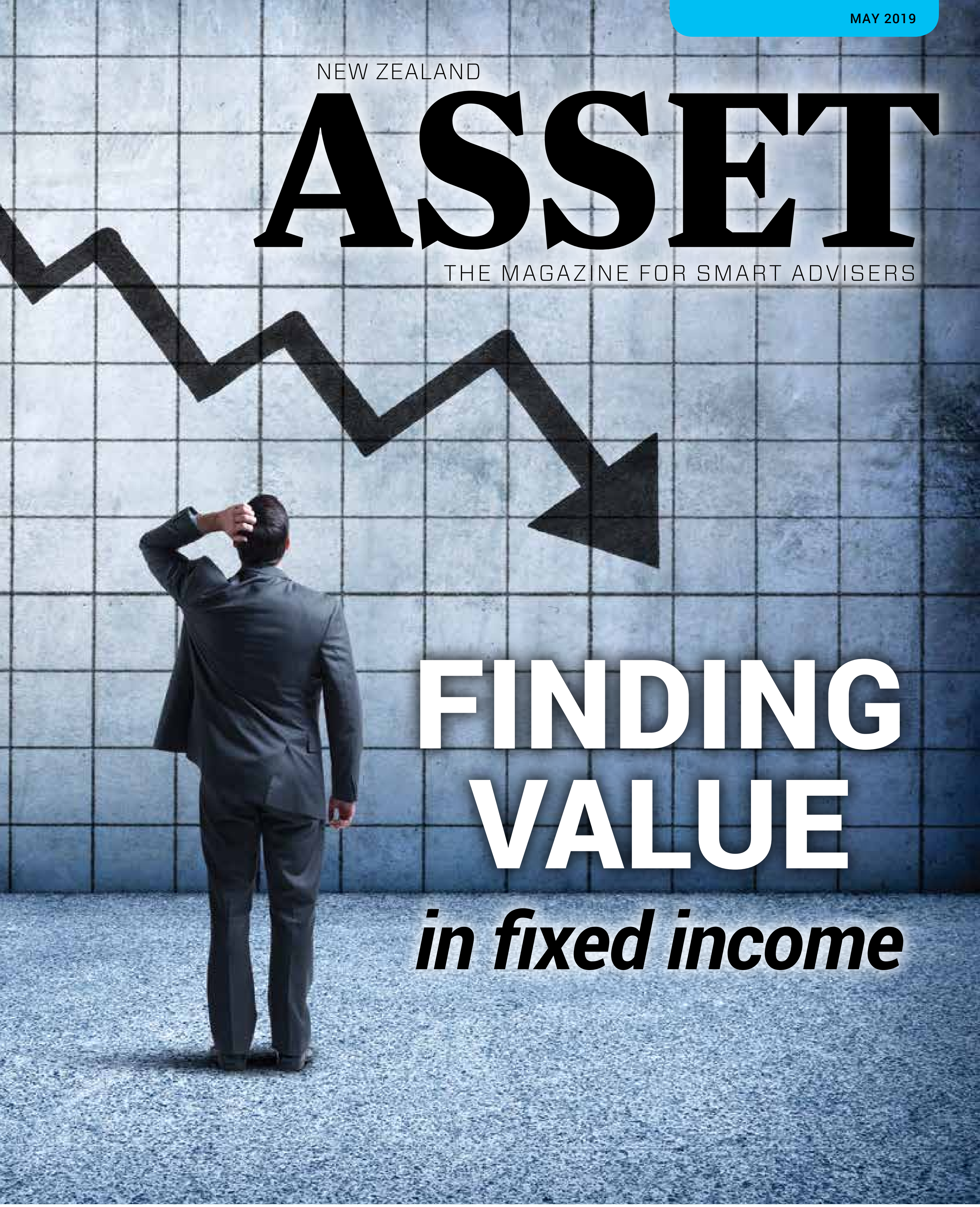
MAY 2019

NEW ZEALAND

ASSET

THE MAGAZINE FOR SMART ADVISERS



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From the editor

High-level not always easy to aspire to

Commerce Minister Kris Faafoi's sign-off of the new code of conduct was another step towards the brave new world for advisers.

For many, it was a relief to have one more piece of the puzzle confirmed.

Code Working Group chairman Angus Dale-Jones has been careful to explain that, through the process, the group came to the conclusion that it wanted to take a principles-based approach.

With a new regime to cater for, and a wide range of business models, it would have been unworkable to devise a code that was made up of process guidelines.

Soon, it may apply to enterprises yet to spring up in forms we've not even thought of.

It makes sense that, to cover roboadvice, current RFAs, class advice, and those who are existing AFAs, the code needed to take a high-level view.

But it seems to me that by being so high-level – barely more than a couple of pages of text – and so principles-based, the code has lost some of its power.

It was only a couple of days after the code was released that I saw people chatting on social media about how it had dropped the requirement for level five for advisers.

Technically, it has, in that it allows advisers other ways to meet their competence standards.

But it seems that for most, the easiest way to do so will be to just stump up and get the qualification done.

However, because it allows that other pathway and entertains the possibility of endless alternatives, I worry that it doesn't make the message quite clear enough.

I know that there are advisers out there who are still at least partly in denial.

When they see this sort of vague guidance, do they decide they'll opt for that ethereal alternative, but just work out exactly how they'll do it at some point in the future?

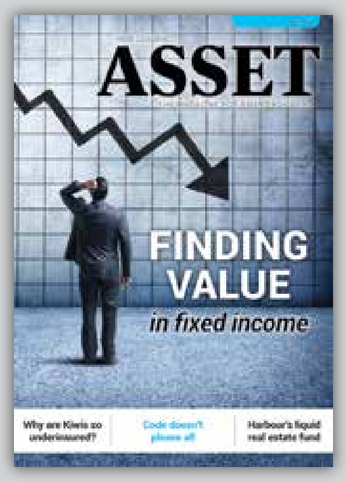
A continuing professional development requirement with no set hours looks to me like a job where you have no idea of your KPIs – hard to measure and, for many personalities, hard to accomplish.

Dale-Jones is quick to remind us that the code isn't a document alone. It is meant to sit alongside the new regime, which brings in licensing.

That licensing is likely to involve clearer rules and it may be firmer on some of the points covered in the code.

Let's hope another piece of the puzzle falls into place soon, so the shift to the new order can commence in earnest.

Susan Edmunds
Editor



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Revealed: *How much it cost to develop the code*

The original budget to write a new Code of Conduct for financial advisers was $150,000, but the total cost so far is more than three times that amount.

In response to an Official Information Act request, the Ministry of Business, Innovation and Employment said the Code Working Group, tasked with delivering the code, had cost $506,946.94 by April. The final version was not released until the following month.

That included fees for those in the group, travel to meetings and roadshows, the webinar and associated services, room hire, and consulting fees for legal advice and a plain English drafter.

The group has conducted a focus group, consumer survey and two formal consultation rounds.

"The group was funded from MBIE's baseline, therefore there was no formal budget identified for the development of the new code of conduct. However, in January 2017, prior to the appointment of the Group, officials at MBIE estimated a cost of $150,000 for member fees only," said Sharon Corbett, manager of financial markets policy building, resources and markets.

"This was a very early estimate before the appointment process was completed and was based on there being fewer members [seven] taking less time [10 months] to deliver a draft code. As above, the initial estimate only covered members fees and not the other items detailed above.

"There has been considerable interest in the consultations the group ran and the group considered a significant volume of submissions which added to the time taken to develop the code.

"These processes often take longer than initially anticipated and it has been important to ensure the group had sufficient time to get the code right. The draft code of conduct is currently with the Minister of Commerce and Consumer Affairs who is considering it."

Advice model not working

New Zealand's advice model is not working, and too many people are being left behind, Kiwi Wealth's general manager of customer, product and innovation, Joe Bishop, says.

Kiwi Wealth released its first State of the Investor Nation report, which is designed to help outline New Zealanders' perceptions of wealth and their approach to wealth creation.

The median investment portfolio of all New Zealanders was $27,000.


Joe Bishop

Four in 10 were risk-averse while a similar number were neutral. The research found 80% were building their wealth through traditional investment vehicles such as KiwiSaver, savings accounts and term deposits.

Bishop said it showed the need for good advice was more important than ever.

The fact that people were still heavily invested in residential property, savings accounts and term deposits, showed most New Zealanders were "crying out for advice to better understand risk and return" and to have a more fulsome conversation to understand their needs, he said.

But he said it could be that digital advice was needed to fill in the gap.

The research showed widening inequality, with more than half of young people and lower-income households saying they were living from pay cheque to pay cheque and unable to get ahead.

"People who most need advice, the model doesn't speak to that at all."

Bishop said the idea of sitting down with an adviser who might not reflect a person's lifestyle, ethnicity or demographic "did not resonate" with people.

Kiwi Wealth is developing a roboadvice solution through its Future You portal.

Too little action for too long

New Zealand's financial services sector needs more action and less talk to help Kiwis get the best outcomes from their investments, one financial adviser says.

Authorised financial adviser John Cliffe told a recent forum a lack of regulatory action had left many people on track to have less in their KiwiSaver accounts than they should at retirement.

Cliffe headed a group of AFAs who wrote an open letter to Financial Markets Authority chief executive Rob Everett, Finance Minister Grant Robertson, Reserve Bank Governor Adrian Orr and Commerce Minister Kris Faafoi highlighting problems with the KiwiSaver scheme.

He said the FMA had for too long taken too little action to ensure that default KiwiSaver providers were engaging with those who were automatically enrolled in their funds.

Too many people were stuck in funds that were too conservative for their investment goals.

"Ask yourself how and why did this happen? Conflicted interests. Term deposits for example make up more than 30% of most of the default funds."

He pointed to data showing small numbers of people making active choices about their default fund investments.

He said the FMA could have done something about that earlier.

"I live in a world of action. So why didn't the FMA just make some calls? Did the FMA have the power? Yes, they certainly did."

Cliffe said all but the top three default providers should be stripped of their default status.


John Cliffe

NZ missed the boat on decumulation

New Zealand missed its chance to implement a decumulation solution – but it is one of a number of issues that are now "past urgent" to address, one researcher says.

Susan St John, co-director of the Retirement Policy and Research Centre, spoke at April's retirement policy forum.

She said New Zealand had "missed the boat" because KiwiSaver was not introduced with an associated decumulation provision.

"There should have been a quid pro quo that recognised that the initial sweeteners to get into KiwiSaver justified restrictions on how the lump-sum could be used. Ideally, people should have been forced to have a proper decumulation plan that produced income in retirement that continued as long as they lived," she said.

In the past she has called for a Government-backed KiwiSpend system to help people make their KiwiSaver savings last.

The private market could not provide the extent of what was needed, she said.

"Insurers differentiate on gender because they can. Women don't get as much annuity for a lump sum as a man. But NZ Super is gender neutral and what is needed is gender neutral annuities.

"Another problem is uncertainty around extended and expensive life and health care. People should be able to insure this. But the private market won't do it without government intervention."

If the KiwiSaver default was to enter a decumulation product, people were more likely to stay there, she said.

"It's become past urgent to look at these issues."

Pie Funds seeks investment support for growth

Fund manager Pie Funds is seeking investment to help grow the business.

An email has been circulated by KPMG seeking a cornerstone shareholder for the business.

But founder Mike Taylor said that was not the only option being considered.

He said Pie and its KiwiSaver scheme, Juno, were looking for the best ways to grow over the next five years.

"Accordingly, we have undertaken a strategic review process to consider our options," he said.

"We have in the past broadened our shareholding base to help achieve our goals – and that's worked well. As a business, what's great is that we have a lot of options available to us, including from an IPO to a strategic investor to a distribution partnership."

He said it was still possible it might do nothing. If it chose an IPO, 2020 could be a better time.

"Just depends on what we view as the best option for clients, team and current shareholders.

"Our goal remains to have the best products in the market, outperform for our investors, improve financial capability as well as to democratise investing for all New Zealanders.

"We are achieving this already with both Pie and Juno. Juno in particular is doing really well. KiwiSaver is for everyone. We have the lowest-cost KiwiSaver product and are improving the financial capability of our members and this is really resonating with Kiwis. We have a lot of really positive things in the pipeline for the rest of 2019 and beyond."

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

PIE FUNDS EXPANDS ADVICE

Pie Funds has added another adviser to its team.

Rob Glasgow started on May 1 as a wealth adviser, taking the total number employed by the fund manager to three.

The wealth team is headed by **James Paterso**n. **Simon Hepple** also works as an adviser within it.

He was previously with ANZ, where he was associate director of its private bank.

He holds a Bachelor of Business from AUT University in Auckland, a National Certificate in Financial Services – Investment Advice, from the Open Polytechnic of New Zealand, and is an AFA.

Pie Funds branched out into advice early last year. At the time, chief executive Mike Taylor flagged that growth in adviser numbers was expected over time.

Rob Glasgow

QUAY STREET ADDS TO TEAM

QuayStreet Asset Management has appointed an independent chairman and head of distribution.

Mike Allen takes the chair and **David Buell** the distribution role.

Since launch five years ago, QuayStreet's funds under management has increased to $870 million. It plans further growth in retail and wholesale markets.

Allen, currently a professional director with roles in New Zealand, Australia and UK, has more than 25 years of board representation and experience across investment banking, direct investment and general management. His previous positions include director on the Board of Tainui Group Holdings, Coates plc and China Construction Bank.

“The new appointment to the QuayStreet Board will add new skills to the management of QuayStreet," said Frank Aldridge, the fund manager's director.

Allen said he was excited about the opportunity to expand "an already credible investment management platform".

"QuayStreet has grown significantly in size over the last few years, which represents a commitment to high quality investment outcomes for their clients and for the market in general. QuayStreet, although a standalone business, has all the compliance, governance and operational infrastructure provided by the larger parent company Craigs Investment Partners, giving clients confidence that best practice is followed."

Buell joins from AMP Capital, where he was retail associate director and business development manager.

“Our tight knit team has been together for a long time, and we are all very focussed on fund performance. David’s background will add a fresh perspective and new skills to the team," said investment manager Andrew South.

David Buell

TRUSTEES EXECUTORS APPOINTS HEAD OF WEALTH BUSINESS

Trustees Executors Limited (TEL) has appointed new leadership of its retail private wealth business.

Justin Fox will take up the role of general manager, private wealth, starting at the end of April.

Ryan Bessemer, TEL’s chief executive, said Fox would lead private wealth growth strategies and a national team of trust managers and wealth advisers.

“Continuing TEL’s strategy and commitment to build our Private Wealth offering, Justin’s appointment follows a deep analysis of how our Private Wealth service can deliver the best outcomes for our clients who entrust us with their asset protection and investments,” Bessemer said.

Fox joins the Auckland-based private wealth team, following his time as head of villages at Summerset Group, one of New Zealand’s fastest growing providers in the retirement sector.

Fox said: “I am excited to take on this new role at TEL and being part of a strong organisation that is one of New Zealand’s oldest brands. I look forward to this new and exciting challenge in leading the future growth of the Private Wealth business and focusing on maximising value for our clients.”

NEW AUCKLAND BDM FOR NIKKO

Nikko Asset Management has appointed **Sam Belton** as Auckland business development manager.

He joins Nikko AM

Justin Fox

NZ with more than seven years' experience in investment management most recently as CRM for New Zealand Assets Management (NZAM), a boutique investment management firm.

Prior to that he was the client relationship executive team manager at Legal and General Investment Management, the largest asset management company in the UK.

James Wesley, Nikko's head of distribution, said he was thrilled to have Belton join Nikko. He said his significant background in investment management and involvement with global clients would be a welcome addition to the team.

Belton will primarily be responsible for managing and growing the firm's institutional relationships.

"As we continue to expand, Belton's broad exposure to global clients will be beneficial in helping develop and provide NZ clients with more progressive investment solutions," Wesley said.

Belton said he looked forward to helping the firm build on its reputation as a trusted asset manager and capitalise on Nikko AM NZ's global expertise.

"Nikko is one of the leading investment managers in the New Zealand market, with the differentiating factor of being part of a well-established, global business. It is an exciting time to join with the recent launch of KiwiSaver, as well as leading the way in New Zealand in the provision of digital investment advice with 'GoalsGetter'."

Sam Belton

By Susan Edmunds

Code is here
but not everyone's impressed

The wait for the financial advice code of conduct is over, but some say it still hasn't hit the mark.

After more than a year of deliberation, consultation and drafting, the Code Working Group had its final version of the new code of professional conduct for financial advice services signed off by the Commerce Minister in early May.

The code will come into effect in about nine months, although those who are already advisers will be given an extra transitional period in which to meet the competence requirements.

While much of the code is broadly what the industry would have expected – and, in some cases, a lot less prescriptive than some feared, attention has focused on the rules it sets out for advisers to prove their competence.

The code confirms that a person must not give financial advice unless they have a standard of general competence and skill that is equivalent to the general qualification outcomes of the New Zealand Certificate in Financial Services Level Five, version two, signed off in January.

They could do this by holding either the first or second version of the certificate, having completed the National Certificate, or by being an AFA before the code took effect.

There is also some leeway for those who work for a big provider to lean on that provider's processes to fill any gaps in their own knowledge.

"A person may demonstrate competence, knowledge, and skill in a way that is different from those listed above, for example by reference to the financial advice provider's procedures, systems and expertise."

Katrina Shanks, chief executive of Financial Advice NZ, said that was disappointing.

"A key objective of the new regime is to build public confidence and trust in the financial services sector: ensuring that New Zealanders deal with qualified people is an absolutely crucial component in this," Shanks said.

"The final code will set up a two-tiered system of advisers: a mandatory qualification for 'individual' financial advisers, and 'equivalence' for nominated representatives. In our view, this does not best serve New Zealanders."

She said she was also disappointed at the lack of clarity around continuing professional development (CPD) requirements.

While the code also makes it clear that all advisers will be required to carry out CPD it is not made clear exactly how this should happen.

Despite submitters calling for a line in the sand, there is no further clarification on the number of CPD hours required – the code only says that individuals must annually plan for and complete learning activities to ensure they maintained the knowledge, competence and skill required and understand the regulatory framework.

Shanks said a commitment to CPD was a cornerstone of professionalism.

The chairman of the Code Working Group, Angus Dale-Jones said it was incorrect to suggest that there had been any move away from imposing a level five standard on advisers.

He said the competence standard was clearly level five, with a "limitless" number of ways that advisers could show they had reached it. But the easiest way to do so would be to simply attain the qualification.

He said, in every way the Code Working Group could think of, the process and controls that would be required to give advice at the necessary standard without each person being qualified were more difficult than getting the qualification.

It would only suit those who had staff doing very limited advice work.

The standard required for investment planning will be reconsidered, potentially requiring a higher qualification level for those advisers. Dale-Jones said it was noticed through the submission process that there was wide variation in what submitters thought was appropriate.

Regarding CPD, Dale-Jones said it was more important that the code made people think about keeping up to the standard required than was prescriptive.

THE CODE

1. Treat clients fairly
2. Act with integrity
3. Give financial advice that is suitable
4. Ensure that the client understands the financial advice
5. Protect client information
6. Have general competence, knowledge, and skill
7. Have particular competence, knowledge, and skill for designing an investment plan
8. Have particular competence, knowledge, and skill for product advice
9. Keep competence, knowledge, and skill up-to-date

The group had earlier suggested code standards that touched on business processes and how operations should be set up, but he said a decision had been made to step away from that approach. Not imposing a set number of CPD hours was part of that. "So businesses can choose their own process, we're not dictating what that should be."

Dale-Jones said the code would not be doing its job if it led people to a CPD approach of having a webinar on in the background while they worked, simply to amass enough hours.

The group would watch closely to see how that standard was interpreted "whether people read it down or read it up. The intention there is to promote serious thought by the adviser and advice business."

Adviser Murray Weatherston said he was delighted that the code had lost its "apple pie and motherhood" aspects. Including the requirement to "do the right thing" by clients.

Such sentiments would have been unworkable in an advice business, he said. But he said what was left was underwhelming.

"At the end of the day what we're left with isn't every much."

He said he expected gaps to be filled with a series of guidance notes from the Financial

Markets Authority, as they were when the Financial Advisers Act regime came into force. “In its simplicity it doesn’t have much guts. It’s the sort of thing that someone might have been able to sit down and write on the first day they met.”

Adviser Simon Hassan said the code left room for professional associations to impose their own standards on members.

Partners Life managing director Naomi Ballantyne said the code was “light” and it was disappointing that there was no particular focus on replacement business. She said attempts to tackle the issues through broader, less precise rules, had not been successful so far. “A code that doesn’t focus on that issue is too generic to be useful.”

She said she did not think the code added anything to the regulation that was already in existence.

Sovereign and AIA chief executive Nick Stanhope said it was a good principles-based approach to how advice should be given.

Dale-Jones said the code was different to that under the Financial Advisers Act because the licensing process itself will bring a set of criteria for advice businesses to meet, and the code had to work in conjunction with that. The code would bring challenges for some advisers, he said.

People who were not AFAs at present would have to think about how they did things in their business and whether they were able to show the regulators they operated in line with requirements. “It’s not difficult or tough but something that requires careful reflection and thought.

> **“We need to be careful so that a range of business models can operate under the code.”**
>
> *Angus Dale-Jones*

"It won't be enough to say 'yeah, I do that'."

While the industry was told little change was likely, there are some significant alterations made in the final version. They start right at the beginning.

Code standard one now only requires advisers to "treat clients fairly" – removing the proposed "and act in their interests".

A standard requiring advisers to manage conflicts of interests – and avoid them where practicable – has been dropped.

Instead, giving financial advice that is "suitable" has been moved to place three.

The code notes that should mean having "reasonable grounds for advice". "Reasonable grounds for the financial advice means those grounds that a prudent person engaged in the occupation of giving financial advice would consider to be appropriate in the same circumstances."

Sometimes that would mean a detailed analysis of the client's circumstances were required, or sometimes the adviser might be able to make assumptions based on their characteristics.

Proposed standards requiring advisers to resolve complaints and not bring the industry into disrepute have been removed.

Dale-Jones said the Code Working Group had received valuable input from a wide variety of stakeholders through the process of drafting the document and it had been a privilege to “sit in the middle” of it.

He said the new code moved away from dealing with advisers to a new regime that was about the advice, and eliminated the class versus personalised advice delineation. “It’s been a complex thing and the code is at the coalface of working out how that translates into practice. We need to be careful so that a range of business models can operate under the code.”

Comments made about the code since its release showed the industry engaging with it, which should be applauded, he said. Ⓐ

By Susan Edmunds

NO PAIN, *no gain*

Commerce Minister Kris Faafoi says he's been impressed by the financial services sector's willingness to engage, even when it was being pushed to change.

Before the last election, Kris Faafoi might not have been a feature on many advisers' radars.

The former journalist and political press secretary entered Parliament at the 2010 Mana electorate by-election, becoming the first New Zealand MP of Tokelauan descent.

But it was not until the 2017 election, when the new coalition Government took power, that Faafoi started to make headlines.

Christchurch-born Faafoi was appointed Minister of Commerce and Consumer Affairs, Broadcasting Communications and Digital Media Minister, Customs Minister, Civil Defence Minister and Associate Immigration Minister.

He's quickly developed a reputation as a hard-grafting parliamentarian – and the commerce portfolio alone is giving him a significant workload.

Faafoi has overseen the Financial Services Legislation Amendment Bill being passed into law and recently signed off the new financial advice code of conduct. Consultation is also underway on law changes proposed in the wake of the Reserve Bank and Financial Markets Authority review of the insurers and banks.

"We're at the crunchy end [of the financial adviser reform]," he said.

"It's a significant time of change. Some [the industry] knew was coming and some they were made a bit more aware of by the concerns we have seen flow from the Australian Royal Commission and concerns about what has been happening in banking and life insurance here."

Faafoi said he would know the reforms had worked in a couple of years' time, if the sector had had a chance to transition to life under the changes, there was more clarity on the path ahead, and consumers knew that change had happened and saw there was increased focus on good outcomes for them.

A key marker of success would be that the issues of trust that have been "bubbling away" for the industry were being tackled.

"If every Kiwi is getting good quality financial advice to ensure their prosperity in the future."

At the moment too many people were holding back, not getting advice, and not engaging even with KiwiSaver, he said.

Faafoi said the breadth of what he had to tackle in the commerce portfolio made the job interesting. He has dealt already with loan sharks' interest rates, wheel clamping, the bank review, the overhaul of financial advice ...

"There are things on the work agenda that weren't there when we set out, like the conduct and culture piece, which is something we've had to do with a degree of urgency.

"It's been a challenge and I've really enjoyed it."

He said the sector had recognised that things needed to change, even though the problems were not as pronounced here as in Australia.

Faafoi said he had wondered, as part of a left-leaning government, how he would be received in financial circles when he took the commerce role. But he had been impressed by a willingness to work on issues, even when it challenged the way people went about their day-to-day business.

"They've realised some change is needed."

Chief executives and boards had been welcoming and open, in banks and insurance companies, ready to engage, he said.

"At a time when there's increasing regulation around them ... that willingness to listen to discussion I've been impressed with, hats off to them. It hadn't always been easy and we don't agree on 100% of the issues but [they] have always been open."

Some life insurers have said the conduct and culture review in particular had been a step back for those trying to build trust in the industry.

But Faafoi said it was necessary to go through some pain to end up in a better place.

"When the dust settles the industry will be better."

It was new territory, particularly for the life insurance sector, he said, but it was important to have a robust, public discussion about things that had not been good and how they would be addressed.

> **"When the dust settles the industry will be better."**

"At the end of the day the flipside is a lot of New Zealanders are not engaged in taking out insurance products to protect themselves and their family because they don't have confidence in the products or the advice."

He said financial advisers, on the whole, were doing a good job. Sitting in on public consultation had made it clear most advisers were good people who understood changes were needed to ensure consumers had more confidence that they were getting a reliable service from the advice process.

"It's fair to say there's some behaviour that consumers don't like and I don't like either."

It has been suggested that Faafoi wants to lower upfront insurance commission payments to insurance advisers and focus on higher trail payments but he was not willing to commit to any changes.

He said there had been clear concern expressed during the FSLAB consultation period that commission might be axed completely and it was made clear the Government did not want to "wreck the system". "There has to be remuneration but it has to be open and transparent. Consumers want to know what they are paying for."

Ongoing engagement from the people who sold the policies would help to boost customer outcomes, he said.

Faafoi said he was pursuing a broader aim with his political career.

His parents moved to New Zealand in the 1960s – his father on a scholarship to finish secondary school in Masterton. His mother was part of a repatriation scheme designed to help Tokelauans find work. His father eventually had a career as a teacher and then primary school lecturer while his mother had a factory job.

Faafoi grew up in a state house but said he had had a "lucky life".

Although he described himself as an average student, he grew up in a family that was very "community spirited".

He had always been interested in politics and saw the chance to help other families have the opportunity to have a fair crack at the lucky life he had.

A lot of value could be added to vulnerable communities through the commerce portfolio, he said. He had a lot of empathy for those who fell prey to loan sharks – he had seen it with the people he grew up with and his family, which motivated him to help find other ways to provide lending to people that did not suck them into a debt trap. Already the Government is introducing limits on the amount of interest that can be charged by payday lenders.

Faafoi has previously told media that the former Warriors captain Steve Price was an influence and inspiration. "I remember him saying that he wasn't the most talented player in the team, but that he had a little bit of talent and he worked hard. And, sometimes, I feel like that too," he told e-Tangata.

"He had teammates who were a lot more talented than he was. But he knuckled down – and he delivered for years and years. He got there through sheer grit, determination and hard work."

Faafoi said he wanted to see families talking about money more and making the right investment decisions so that they could do what they wanted to do to enjoy life.

"I come from a family that didn't have much money and it was not talked about a lot but that culture change, being open, not being reluctant to get advice … if I can see a change there, see families increasing their income, taking out insurance and investing wisely, I'd be a pretty happy man."

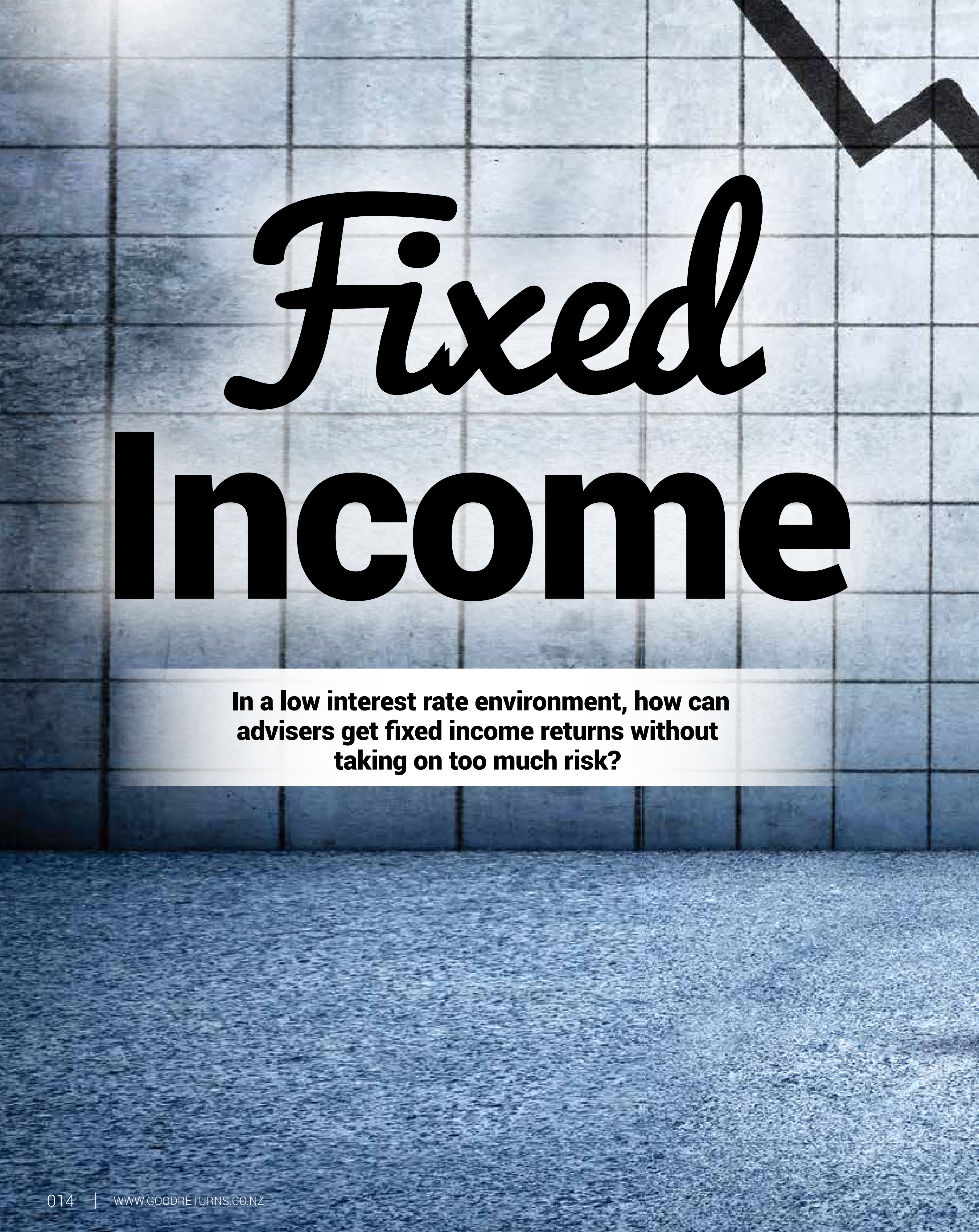
He said he talked to his kids about opportunity costs – "if we do that we can't do this".

"I didn't have that conversation when I was younger. We didn't have much so that conversation didn't happen. I'm in a privileged position now … that's the kind of conversation I'd like to see parents have around New Zealand."

Getting time to do anything other than work was a matter of diary scheduling, he said. When he can get away, Faafoi said he defaulted to spending as much time as he could with his three sons. "And I have a dog to walk and a guitar to play when I get the spare time." A

LEAD

By Daniel Dunkley



Fixed Income

In a low interest rate environment, how can advisers get fixed income returns without taking on too much risk?

By Daniel Dunkley

On May 8, Reserve Bank Governor Adrian Orr sat down with the media to discuss his decision to cut New Zealand interest rates to a historic low.

The move surprised many economists and traders after the Reserve Bank of Australia kept rates on hold the previous day. Concerns about slow GDP growth and inflation, coupled with weak global indicators, were given as the primary reasons for the rate cut. Economists said the OCR could go even lower in the next few months.

Across the globe, central banks have put interest rates on hold or cancelled plans to raise rates. US President Donald Trump has repeatedly pressured the Federal Reserve to cut rates, but the US central bank has so far held firm. Global economies are poised for an unprecedented period of low interest rates, when just one year ago, most market observers would have predicted rate rises over the course of 2019.

Fixed income strategies have been unpopular for some time due to the low interest rate environment. Fixed income is usually viewed as a safe-haven strategy when equities markets take a downturn, yet the NZX 50 has gone from strength to strength, passing the 10,000 point mark after the Reserve Bank decision in early May. Rate cuts and cheap debt are likely to see investors continue to pour into the equities market for a decent return.

Rates will be lower for longer. Where does that leave advisers and their clients? Term deposit rates are already falling in the wake of the RBNZ decision.

How should advisers choose their clients' fixed-income portfolios? Should advisers head down the risk spectrum and incorporate higher-risk products? Across the broad range of fixed-income assets, which products will deliver a decent return without taking on too much risk?

There are plenty of options, from corporate credit to government bonds, to income-generating equities.

Some investors may consider quasi-fixed income asset classes, such as real estate investment trusts, or listed infrastructure funds. While funds that incorporate a hybrid of assets might well suit client needs.

Paul Morris, portfolio manager at Milford Asset Management, said the bond market had performed well since central banks began to row back on rate increases. He said the outlook was "balanced", as bond markets had already priced in cuts.

"The gains available from a further fall in bond yields are less obvious now. It is more of an accrual story about the income you are earning. We see an opportunity set in corporate bonds. The way we think the market is moving is towards objective based fixed income investing. Our Trans-Tasman bond fund was set up to beat corporate fund benchmarks, and deliver absolute returns and liquidity in a low rate environment. We think that's the most prudent way for people to take their fixed income exposure."

Anecdotally, advisers say New Zealanders tend to prefer safe term deposits over other fixed-income strategies. But they will become less and less attractive for investors as rates fall. Major banks took immediate steps to cut term deposit rates in May, and further cuts could follow later in the year.

Richard Quin, head portfolio manager of Bentham Asset Management, an Australia-based credit specialist, said it would be difficult for term deposits to deliver tangible returns to New Zealand investors. "Term risk premiums are unattractive. The NZ composite is yielding 1.9%, that's in the middle part of the inflation target. A term deposit around 2% is only just covering inflation, with no real return." He said it was a challenging market to find a decent yield in fixed income.

Quin said advisers and investors should be looking at strong corporate credit, but should not take on duration risk, or sensitivity to interest rate movements. Bentham's funds include the Bentham Global Income Fund, which invests in a range of bonds, securities, equities and derivatives. On the higher end of the risk spectrum, the firm also has a High Yield Fund comprised of B rated debt, and a Syndicated Loan Fund, comprised of senior secured BB rated debt.

Fund managers said advisers should expect market conditions to remain for some time. Fergus McDonald, head of the bonds and currency team at Nikko Asset Management, said advisers should "continue to plan for a low interest rate environment". "Certainly, over the next 6-12 months, [interest] rates are more likely to go down than up," he said.

Term deposits did not look like a prudent strategy in this environment, he added, with "reinvestment risk" if rates fall. "You might invest in a term deposit at 3, 4%, what then happens if the Reserve Bank continues to cut rates? You are hit with reinvestment risk."

McDonald said "holding your breath and waiting for interest rates to go up" was not a sensible strategy. "You're best to try and find something which is going to serve your client's interests. That may be going down the risk spectrum, taking lower grade credit. But going further down the risk spectrum investors can pick up a lot of risk for just a modest uptick in yield.

"Over time, investors have begun to look at additional ways of securing income into their portfolio, looking at property securities, listed infrastructure funds, or higher dividend-paying shares. Through hybrid funds, comprising bonds and equities, financial advisers can accept greater duration and credit risk."

"In an environment where volatility is low, it is not a good idea to take on too much risk in the defensive part of your portfolio."

Justin Tyler

McDonald said shifting completely from fixed income into income stocks, listed infrastructure, and real estate investment trusts, brought increased risk, especially as those funds had been rising steadily for more than five years. "Since the GFC it has been a simple strategy, but those property companies have been pumped up by low interest rates for so long," he said.

He said hybrid funds offered additional yield without compromising too much on risk. "Moving from true 100% fixed income to a conservative balanced fund is worthwhile. Bonds and cash can form the backbone of your portfolio, while a mild weighting towards equities and infrastructure, would give investors the opportunity for more upside."

McDonald said well-managed bond funds would continue to offer stable returns and low risk, and says NZ bonds are in a position to outperform overseas bonds.

"If you're sticking to a true fixed income portfolio, then we continue to think that there is value in selling well-rated corporate bonds and bank bonds. They can perform at similar levels to term deposits, but you have liquidity."

Nikko's Option Fund invests in three-year bank bonds, as well as options on US Treasury Bonds and New Zealand bank securities. The fund is benchmarked against the NZ Bond Bank Bill Index plus 4% per annum. Its Nikko Income Fund, meanwhile, is a split between the Nikko AM Corporate Bond Fund and Nikko AM Wholesale Option Fund.

Mark Brown, head of fixed income at

Harbour Asset Management, said while fixed income assets were expensive in the current market, there should always be a place for them in a portfolio. Like McDonald, he said liquidity was a key reason to pick managed bond funds over term deposits. "You can sell it and get your money in two days. Most people need liquidity, whether for a present or a medical emergency. No one wants to tie their money up in term deposits."

Brown admitted it was a "challenging" environment for people to find value in fixed income. "It looks like bond yields are going to stay low for a while, and it will be challenging to find strong returns. People might be motivated to look down the risk curve, looking at balanced funds, or equities. It depends whether you or your client have the appetite to take on more risk."

He said some advisers might want to diversify beyond traditional fixed income into other areas, including property. "Listed property funds returns are higher than bonds, and you might want to look at an income fund. They are designed specifically to deal with people who don't have a high risk appetite but want decent earnings. They're a useful way of finding a balance."

Brown pointed to hybrid funds as a potential solution. Harbour's Income Fund invest in a range of asset classes, including Australasian fixed income, domestic and global equities, and listed property. The fund can "dial up" or "dial down" its exposure in response to market volatility. "It helps people invest with low risk while coping with this low interest rate environment," he said.

While some fund managers base their strategy on local fixed income assets, others look more globally. "In New Zealand, we are a very small part of the fixed income space," said Justin Tyler of Daintree Capital. "Looking globally means you are less affected when central banks cut rates in one country, like we have just seen in New Zealand. Global funds enable you to keep your portfolio where it needs to be."

Tyler believed interest rates would fall across the globe in the coming year, and says fixed income funds will continue to perform well. "We expect risk assets and credit assets will perform well, as will equities. When you're looking at fixed income, you don't want a portfolio too driven by one part of the market," he said.

Tyler said Daintree's Core Income Trust, which invests in securities with an average credit rating of A+ or better, was safe and liquid. "It's one you could stick your grandmother's savings in and not have to worry about it." It aims for 200-250 basis points over the RBNZ cash rate.

Tyler had a word of warning for advisers considering lower-rated corporate debt. He said some credit funds had begun to take in high-risk assets. "Some of the funds hold a lot of credit risk, and hold assets in securities that are not regularly marked to market. You end up with a product that looks fantastic, but if there is volatility, those products perform much worse than expected."

Tyler added: "In an environment where volatility is low, it is not a good idea to take on too much risk in the defensive part of your portfolio. It is best to protect capital in the global unconstrained sphere. You have a more diversified exposure, and you're not taking as much risk on an aggregate level."

Global rates – what happens next?

The Reserve Bank of New Zealand has already cut interest rates, and economists believe a host of other leading nations could follow suit as they try to get ahead of an economic slowdown.

The Reserve Bank of Australia is under pressure to cut rates amid a huge drop in house prices across the country. Rates, like those in New Zealand, remain at 1.5% for now, but financial markets are pricing in a cut this year.

Concerns about global growth were cited as one of the reasons for New Zealand's rate cut, and global central banks will view slowing growth and trade wars as a major concern.

The US Fed has so far defied President Trump's demands for lower interest rates and held rates at 2.25% to 2.5%. The Fed has not given clear guidance over whether the next rate move is likely to be up or down.

In the US, inflation is running at below 2%, and some economists believe low rates could support the case for future rate cuts. Markets are pricing in the chance of a rate cut in the next two years.

In the UK, meanwhile, the Bank of England governor has warned that rates could rise more quickly than the market expects. Financial markets are betting rates will only rise by 25 basis points over the next three years.

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Is a change in market dynamics afoot?

At Russell Investments, throughout the year, we ask leading bond and currency managers to consider valuations, expectations and outlooks for the coming months. Recently, we've asked: **is the Fed providing markets with false comfort?**

Over 2018, it was clear that our fixed income manager survey respondents were anticipating ongoing market volatility. During that period, we continued to highlight the incongruous views of bearish interest rate managers versus credit managers, who have been more bullish. We also saw broad optimism for emerging markets foreign currencies overall, with particular favour for the Mexican peso.

In 2019 however, there has been a clear shift in sentiment and the results from our survey suggest that our respondents have a very different outlook for the next 12 months. In our current survey we have put the **spotlight on**:

- Market status quo: December vs now
- The 'Fed put'
- The outlook for emerging markets

In January, we received answers from 60 investment managers from across the world. A closer look at the findings from all eight areas is available on our website at:

www.russellinvestments.com/nz/fixedincomesurvey

The survey discusses: global interest rates, global investment grade and leveraged credit, emerging market local and hard currency debt, municipal bonds, securitised bonds and currencies.

Three questions to ask yourself

1. Are market participants now relying on monetary policy once again to support credit spreads?
2. If so, how will credit markets react if recession becomes a reality, given policy makers have not made significant progress towards rate normalisation?
3. Or will rates shift gears and trend higher again?

Only time will tell, but navigating this market environment will certainly be critical for bond managers.

For over 20 years, thousands of advisers around the world have partnered with Russell Investments to work together on building better businesses. We are committed to helping you establish business goals and vision, elevate your client service and efficiently grow your business. To find out more about our fixed income capabilities contact us or visit: www.russellinvestments.co.nz

By Michael Lang

Out of the frying pan INTO THE FIRE?

Over the lifecycle of a KiwiSaver investment, switches will be required at key investor milestones but these can be clunky. Michael Lang talks about the alternatives.

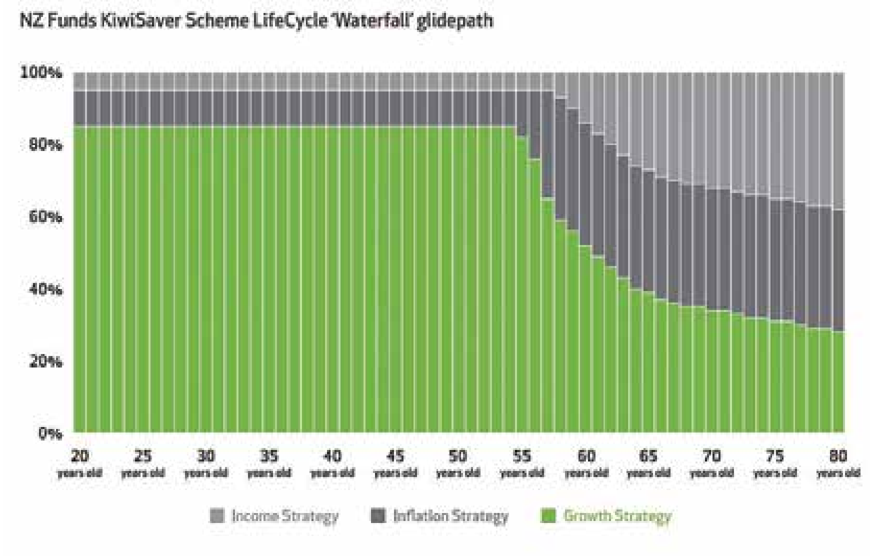
By now many New Zealanders have successfully navigated their way out of the default scheme they were randomly allocated to, into more growth-orientated schemes.

The move has been a good one, with investors accumulating at least an additional $800 million over the past three years, based on NZ Funds' estimates. But will it be a case of out of the frying pan and into the fire?

Growth-orientated schemes can be a double-edged sword; while their returns are higher than income-orientated schemes over the long-run, they can deliver significant losses over the short term. In some cases shares, the primary driver of growth schemes, can take more than a decade to recover from a slump. And the recovery times assume investors do not panic and switch to cash, and do not make any withdrawals from their scheme until it has fully recovered.

This is bad news for New Zealanders approaching retirement. To get the most out of their scheme, most New Zealanders will need to make at least two KiwiSaver switch decisions in their lifetime, more if they use KiwiSaver for their first home purchase.

The first switch is likely to be out of a default scheme into a growth scheme. This increases the value of their account at retirement. A second switch decision should then be made thirty or forty years later as they approach retirement. This is a switch out of a growth into a more balanced scheme (that is a mix of income and growth assets). This switch helps preserve the capital sum they have accumulated and prepares the assets for the regular withdrawals that will fund their retirement.



So far, most KiwiSaver decisions have been DIY. The FMA's 2015 review of KiwiSaver providers found that only three out of 1,000 New Zealanders receive advice when joining KiwiSaver or transferring between schemes. Today, this should be higher given some of the changes the FMA have made, but anecdotally the vast majority of New Zealanders do not receive advice. Unfortunately, as KiwiSaver balances grow, so do the consequences of making a poor financial decision. And investors need only make one poor investment decision, for example a switch from growth to income in the middle of a share market slump, to ruin a lifetime of investing. This is why target-date or lifecycle funds have taken off in America since the share market collapse in 2009. Since then, the total assets in lifecycle funds have grown from $158 billion to over $1.10 trillion at year-end 2018 according to ICI and Morningstar Inc.

Out of the 30 schemes offered to New Zealanders to meet their retirement objectives, only nine have lifecycle options. Of these, only one scheme (NZ Funds KiwiSaver Scheme) offers a waterfall asset allocation that ensures clients are rebalanced every twelve months for a lifetime. All other lifecycle schemes in New Zealand use periodic step changes to asset allocation, made popular in the late 1990's by Donald Luskin and Larry Tint of Wells Fargo Investment Advisors. Overseas, such schemes have waned in popularity due to the fact that significant market movements can leave these clunkier schemes over or underweight in asset class for years at a time. NZ Funds KiwiSaver Scheme's LifeCycle "Waterfall" glidepath overcomes this obstacle. A

Michael Lang is the chief executive of NZ Funds and an investor in the NZ Funds KiwiSaver Scheme. Michael's advice is of a general nature, and he is not responsible for any loss that any reader may suffer from following it.

Value creation

Tim Noonan of Russell Investments (Seattle) speaks to GRTV about the various commissions and inquiries happening in the industry around the world and what they mean for the future of financial advice.

GRTV: IT'S MY GREAT PLEASURE NOW TO INTRODUCE YOU TO TIM NOONAN. TIM IS THE MANAGING DIRECTOR OF RUSSELL INVESTMENTS IN SEATTLE, HE'S DOWN HERE DOING A COUPLE OF PRESENTATIONS TO ADVISERS. WELCOME.

TN: Thank you, Phil. Nice to see you again.

GRTV: THANK YOU, AND IT'S GREAT TO HAVE YOU IN THE STUDIO. TELL ME, YOUR MESSAGE IS QUITE AN INTERESTING ONE. YOU'RE SAYING THAT IN THE RETIREMENT SAVINGS AREA, WE'RE FACING A MAJOR DEMOGRAPHIC PROBLEM AND IT'S GOT TO BE SORTED REALLY QUICKLY?

TN: I think that the underfunded nature of the retirement crisis, so to speak, is well understood and ...

GRTV: AND IT IS A CRISIS, ISN'T IT?

TN: Oh my gosh. It's quite clearly a wave that's coming our way. That has been true for some time. I think what is now increasingly in the picture is that we are going to live longer than we think we're going to live. There are a variety of reasons that support the thought that we probably will have a longer life than we have planned for in our conventional approach to financial planning. So if you take the fact that we were already underfunded and we're probably going to live longer than we expect to live, those two things together, have really been the strategic imperative that I've been responding to for the last five, 10 years. What are we going to do about that?

GRTV: SO WHAT HAS TO HAPPEN, THERE'S A ROLE FOR REGULATORS IN HERE?

TN: The first thing is, you have to recognise the problem and sort of accurately counter the problem. And that's what regulators are trying to call financial advisers' attention to all around the world.

GRTV: SO ALL THESE COMMISSIONS AND INQUIRIES GOING ON ARE ALL AROUND THIS ISSUE?

TN: That's right.

GRTV: TRYING TO QUANTIFY IT?

TN: Right. I've just come from Australia and the Royal Commission in Australia has a series of findings that in many ways mirror and echo what's been done in Canada. They're called CRM now CRM2. What's been done in the United Kingdom with the retail distribution review, originally, now the RDR. In my country, the Department of Labor Rule and in Europe the same sort of thing.

GRTV: ARE THEY SORT OF TRYING TO SCARE GOVERNMENTS INTO ACTION OR DO THE GOVERNMENTS ALREADY KNOW THIS?

TN: They're trying to reduce the amount of bad advice. And in some ways this has appeared to people in our industry as punitive. But the fact of the matter is they really want to emphasise that more careful planning, particularly more careful planning around spending and helping people to understand the relationship between their discretionary spending and their financial security or insecurity. That's a really, really important thing to do, particularly for individuals and families who have relatively modest surpluses. They may be able to make it, but only with care. And you think about what your experience is, going on the internet within three or four clicks, somebody has presented you with exactly the thing that you need to buy this morning. Now this is creating more and more difficulty for people to control their discretionary spending.

GRTV: WHAT DO FINANCIAL ADVISERS IN THE INDUSTRY HAVE TO DO TO MAKE THE

CHANGES TO ADDRESS THIS ISSUE?

TN: They have to successfully migrate from [what is called in the literature] a value capture business to a value creation business. Very simply put in a value capture business, all the value is in the product. So you as the consumer, you participate in the value of that product by buying the product. A hedge fund is the ultimate example of a value capture business model. Value creation is where the value is defined by the client. In the case of a regular family, that value is in how they define financial security and sustainability, how they replace their income after they're retired, how they create safety beyond their conventional employment.

> **"Financial advisers have to successfully migrate from [what is called in the literature] a value capture business to a value creation business."**

GRTV: WHO'S GOING TO DRIVE THAT CHANGE? IS IT COMING FROM THE MANUFACTURING END OF THE INDUSTRY OR IS IT GOING TO COME FROM THE ADVICE SIDE?

TN: Like all great changes, it's done through partnership and for people in all parts of the industry to pick up an aspect of the conversation. There are already many very astute advisers who have developed models about this. Who have developed speaking platforms about this that have recognised this issue and who have moved to the front of their industry as leaders. That is of course corresponded with asset management firms who have chosen to look at this as a new product development challenge, so they're part of the partnership as well. Regulators are certainly part of the solution and trying to create higher standards.

So I think it's like any successful change in any industry, it takes the consumer, it takes the manufacturer, it takes the regulator, everyone becoming kind of like-minded on, "How do we make this better?"

GRTV: IS THE CHANGE HAPPENING FAST ENOUGH?

TN: I'm an impatient man, so I don't think so. Right? I mean, I want it to happen last week, but I'm also mindful of the scale of this change. And so I think it is happening ... Here's how you'll know that it's happening. As the industry becomes progressively less focused on products and progressively more focused on customer outcomes, client outcomes, then that's how you'll see that this is moving in the right direction, away from benchmarks and more oriented to sustainability.

GRTV: HOW DOES A CONSUMER KNOW THAT THEIR CUSTOMER OUTCOMES THAT THEY'RE GETTING FROM THEIR FINANCIAL ADVISER ARE RIGHT?

TN: I think that what most ordinary people should focus on is, what are they actually talking about with their financial advisers? If you were to record those conversations and then later play them back and compare the amount of words spoken that were about capital markets, or asset class forecasts, or benchmarks, or something that was more related to money management, that would indicate that the conversations are still largely product-focused. If instead, in contrast, they were more about discovery, it was more about spending, it was more about goals, it was more about a couple's own spontaneous definition of what risk is for them, it was really more related to them.

GRTV: SO IT'S CHANGING THE CONVERSATION. AND THIS FITS WITH THIS WHOLE CONCEPT AROUND FINANCIAL ADVISERS BEING SORT OF COACHES RATHER THAN PRODUCT SALESPEOPLE.

TN: That's right.

GRTV: SO THAT'S HOW IT FITS TOGETHER?

TN: Right, and spending more time. The adviser spending more time eliciting from the client what are the acceptable and unacceptable outcomes.

GRTV: WHAT'S GOING TO HAPPEN IF WE DON'T MAKE THIS CHANGE IN ENOUGH TIME?

TN: Well, there's going to be a lot of sad faces. What will happen is that the baby boomers who are notorious for their consumption, in fact, if you had to pick one attribute of the boomer generation, it's that they think they can solve problems by buying things. We grew up in front of television sets, every 12 and a half minutes presented with a product that's going to solve a problem. This propensity to think about solving problems through consuming things. This is the psychology that needs to be changed.

GRTV: YOU DESCRIBE THIS AS A GENERATIONAL ISSUE AND A MAJOR SOCIAL ISSUE?

TN: I think that's what is causing the current to shift from accumulation. We've had 30 years of individual investors being incentivised by governments and their employers to save, so huge amounts of money moving into savings. That savings in turn largely being invested in capital markets to growth, for growth, so not just the savings but the savings invested for growth. This wall of money has pushed the market forward for probably almost the entire time that you and I have both been in the business. Now it's moving in the other direction.

GRTV: YES, AND SO IT'S A MASSIVE CHANGE WHICH IS COMING. CAN ADVISERS USE THIS TO HELP GROW THEIR BUSINESSES AND ATTRACT NEW CLIENTS? AND IF SO, HOW?

TN: Absolutely they can. By talking more with their clients about their clients' definition of the problem rather than offering clients a definition of the problem. This is the big change.

GRTV: THAT'S A MASSIVE CHANGE. DO YOU THINK A LOT OF THESE PEOPLE WHO'VE BEEN IN THE INDUSTRY FOR A LONG TIME CAN ACTUALLY DO THAT?

TN: I do. And in fact, there's some wonderful research that we have been delighted to be associated with in this area. There is a paper which was published in the summer of 2015 in the *Journal of Financial Planning* by a very important researcher, Dr. Jeff Belkora, that explores exactly this question. "How do financial advisers alter the [what is known in our business as the] discovery conversation?" The conversation which is used by me as the adviser, and you as the client to get to know each other. How is this discovery conversation shaped to be optimal? And I would really strongly encourage financial advisers who are interested in this topic to read that paper.

GRTV: I THINK I'LL GO AND READ IT MYSELF.

TN: Please do. I'll send you a copy myself.

GRTV: I'D APPRECIATE THAT. THANK YOU VERY MUCH FOR YOUR TIME, TIM. GREAT TO HAVE YOU IN THE STUDIO AND ALSO IN NEW ZEALAND AND I LOOK FORWARD TO LISTENING TO YOU LIVE TODAY.

TN: Sure, it's a delight and I'm glad to participate in what you're trying to do to improve the industry. Thank you.

To watch the full interview, download an audio podcast or to read the full transcript, visit

goodreturns.co.nz/grtv

By Susan Edmunds

Where's the insurance?

We've known about New Zealand's under-insurance problem for years. But nothing is changing.

New Zealanders are good at insuring their houses, their cars and their stuff. But when it comes to insuring their lives, health and incomes – that's when their commitment to protecting themselves against risk starts to become a little less firm.

It's hard to get a clear picture of how underinsured New Zealanders are but it is clear there is a significant problem.

A two-year project by Massey University, commissioned by the Financial Services Council, reported in 2013 that New Zealanders were short by about $650 billion.

There was $195.6 billion of missing life cover, $58.6 billion of missing trauma, a gap of $351.8 billion in permanent disability cover and $3 billion a month in income protection.

At the time, Michael Naylor of the Massey School of Economics and Finance said the average primary income earner's life was under-insured by more than $85,000 while the average secondary earner's life was under-insured by more than $60,000.

That research has not yet been repeated although the Financial Services Council is undertaking some work that covers a similar theme.

New Zealand spends about 3% of its gross domestic product on insurance compared to an OECD average of 8.4%. AIA chief executive Nick Stanhope said even that 8% was probably too low.

Trade Me research in October 2018 found 51% of New Zealand had life insurance but Fidelity Life chief executive Nadine Tereora said her firm's research showed that could be as low as 40%.

"Under-insurance is a big problem for New Zealand and our communities – it's the burning issue our industry needs to address," she said.

Therese Singleton, executive general manager, New Zealand, at AMP Life, said the market had not grown since the Massey research was carried out. But she said with the level of debt in New Zealand growing, it was an increasingly urgent problem to address.

WHY?

Financial Services Council chief executive Richard Klipin said New Zealanders seemed to understand the potential risks. But they had often done nothing about it.

Many operated under assumption that bad things were not going to happen to them. But there was also uncertainty about the right places to seek information and assistance.

The natural human optimism about their own health was also to blame, said Stanhope.

"People don't wake up in the morning and think 'I want life insurance'. People value their assets more than they do themselves which is one of the great enigmas."

He said there was also less cover because while banks required insurance of a house for a home loan, there were not the same expectations around life cover.

He said advisers also played a part, too – sectors of the community with higher levels of underinsurance, such as Maori and Pacific Island people, also had fewer insurance advisers among their number. The industry needed to appeal to and engage with a broader group of New Zealanders to bring a more diverse group of advisers in, he said.

Singleton said the existence of the ACC scheme gave people a false sense of security. People assumed they had the scheme as a fallback, not realising they were more likely to be off work for sickness, which ACC would not cover.

It made it harder to get the message out about the need for products such as income protection and trauma policies, she said.

She said there were issues of trust in the industry, too, and the recent headlines about the Reserve Bank and Financial Markets Authority's report into the culture and conduct in the sector had set it back.

There was no mention of the claims paid by the industry – only the problems within it. "From an AMP perspective we paid $160 million in life insurance claims last year."

Singleton said insurers already had the hurdle of trying to explain to clients why insurance was necessary and important and the recent regulatory action meant they now had to overcome questions about their trustworthiness, too. Many potential clients thought of insurance as something that could potentially trip them up. They needed to be shown the importance of having a policy and how it could work, she said.

At Cigna, chief executive Gail Costa said insurance was still a grudge purchase that needed to be demystified, with more education for consumers.

There were still not a lot of advisers in New Zealand and she agreed with Stanhope that they often worked within their own demographics, which limited the market. More should be done to bring new advisers in, she said.

"We need more people having the right conversations – they can help educate people. Good quality advice will lead to more good quality advice."

She said, with the regulatory change under way, there was a risk that there could end up being fewer advisers in the market, which could worsen the problem.

Partners Life managing director Naomi Ballantyne said insurance was only sold in any volume to advised clients.

"The sorts of people that advisers generally look for are in work, can afford these premiums, are in debt, own their own homes ... they'll pay enough in premium to make it worth their while."

She said that used to leave a significant portion of the population to the banks to insure. People would go into the branch and be asked about insurance products. Some would buy it, some would not. But banks were now more reluctant to get involved in those conversations after questions were raised about their advice processes.

> **"I don't do insurance because it's a job. I could have done lots of jobs. I do it because I love it."**
>
> *Naomi Ballantyne*

But Ballantyne said people only needed to look at a site like Givealittle to see the extent of the problem – it was populated with people who could not afford their medical treatment or families left without their main earners. "Givealittle shows these things happen whether there is insurance or not. Where there is insurance, you're not on Givealittle."

There were also a significant number of clients who only took part of what an adviser recommended, she said, partly because they worried that they were being oversold or did not understand the need.

Advisers in those situations could keep working on the clients.

HOW TO HELP?

Singleton said more could be done to help the industry respond to clients' needs – with more education, communication and servicing from life insurers.

Insurance could be made more engaging with digital tools. If people had access to the detail of their policies on an app, it would be more accessible. "Over the next five years I expect to see a big shift as insurers use digital tools to service life insurance customers with everything from regular communication to claims."

She said the industry could not sit back and ride premiums coming in from policies. Continual engagement was needed. "The jury is out on how we continue to have advisers advising people on acquisition of life insurance in an environment where there is increasing pressure on remuneration structures and increasing pressure on services."

Digitisation could help, she said. In five years' time, there would probably be a reduced number of advisers selling life insurance but those who were would be more deeply involved with the client.

Stanhope agreed technology could help. He said there was an opportunity to use new platforms to communicate the reasons to get life insurance to clients. Its Vitality programme creates an interactive relationship with clients to help them to live healthier lives. The app would give something back to consumers in a way that traditional insurance models – of speaking only when premiums changed or a claim was made – had not.

"It rewards them with their health and encourages them with things they can have.

By Susan Edmunds

Through that I hope we can reach a broader and wider audience that then will look at life insurance differently."

Tereora and Ballantyne said insurers could help by delivering a range of more simplified products to customers that were easier to understand and could be supplied with cheaper premiums. "But not crap as easy-to-sell products have been," Ballantyne said.

That would require insurers to think about how they got in front of more customers, if it was not worth advisers' time to deal with those products, she said, or how they get the clients in front of an adviser to reduce the adviser's cost of servicing that client.

Ballantyne said developments such as Evince helped to streamline the advice process to make advisers more efficient, potentially allowing advisers to break even on a wider range of clients.

She said it should also be compulsory to provide education about insurance in the workforce. "People are working and have more to lose."

She said the noise in the market about concerns around insurance was not helping.

"It's damaging the industry without any counter. We need to counter it. We actually need insurance, it's good for you and the government. I don't do insurance because it's a job. I could have done lots of jobs. I do it because I love it."

Klipin agreed more education of the consumer market was needed. "How do you educate people? Advisers in my experience are at their best when they are educators and facilitators solving the problem."

But he said the government attention on the space could be positive because it should help to make the industry more fully engaged. That would help to drive good outcomes and result in more people getting more cover. The work should end up creating a more trusted sector.

"It's up to the sector to work with that … the wellbeing of New Zealanders is in the hands of the insurers who produce and provide life and health products. It's critical for the health and wealth of New Zealanders."

Advisers could be educators, facilitators and devil's advocates, he said. "It's a really important role to play."

He said the industry needed to simplify what it did and articulate it better, as well as making the product relevant for all life stages.

Costa said insurers could also step up with things such as premium holidays when people hit trouble. The government could make insurance more appealing with tax incentives.

Tereora said advisers and insurers needed to understand that change was a new constant in terms of regulation, competition, technology and customer expectations.

> **"There is an opportunity to use new platforms to communicate the reasons to get life insurance to clients."**
>
> *Nick Stanhope*

"Together, we've got a lot of work to do to build confidence and trust if we want to attract new leads and return the industry to growth. This will require reaching more Kiwis – including those groups who are typically under-insured, such as millennials – and talking about the value of life insurance, and why spending part of their hard-earned income on it makes good sense.

"There's plenty of support out there for advisers, including from insurers and industry groups. At Fidelity Life for example we've launched Building Better Businesses, a programme that identifies opportunities for adviser businesses to improve and provides a best practice plan, individually tailored to each business. Programme modules include the development of a marketing plan."

She said advisers who knew their clients well could anticipate their needs.

"Being proactive is key. Better data and technology solutions have a big role to play here. Keeping in touch regularly to make sure customers' insurance protection still meets their needs is a good place to start. This gives advisers the opportunity to not only adjust cover – up or down – to take account of changes in life or business, it also allows them to reinforce the value insurance protection can provide if things don't go according to plan," she said.

"Most insurers work hard on our customer experience and maintain engagement with customers through our marketing efforts, for example newsletters or sponsorships. Claims case studies are often featured, and loyalty programmes are beginning to emerge in New Zealand, too.

"Insurers are ideally placed to help advisers and customers with affordability conversations. Reducing the amount of cover, moving to level premiums, or even premium holidays and placing policies on hold in the event of financial hardship can all help customers keep cover in place, rather than cancelling and exposing themselves to undue risk."

She said more government effort to improve financial literacy would also help. "Lifting awareness of the importance of life insurance will help address underinsurance and reduce risk levels. Over the last decade, the government and its agencies have focused on promoting KiwiSaver, which has been a huge success. I'd like to see a similar effort made with life insurance because it's such a crucial part of New Zealand's overall health, wealth and wellbeing conversation."

Klipin said levers such as longer wait periods or reduced payment terms for income protection could help with affordability, too.

"Getting the right product with the right mix of benefits and the right wait times at the right price is part of the value advisers deliver for clients."

Adviser Jon-Paul Hale said there were some cases where clients were over-insured with life policies and under-insured in other areas.

"The harsh reality of insurance is: If you can afford the premium to cover everything, then you probably don't need the cover. Which means for the majority of us, we need the insurance but we can't afford to cover everything, so by default we are underinsured." Ⓐ

Nick Stanhope.

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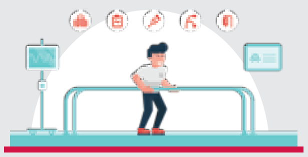

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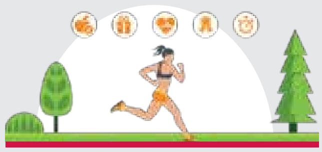

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By Daniel Dunkley

The real deal in Real Estate

Harbour Asset Management tells us why its Real Estate Investment Fund is perfect in a low interest rate environment.

WHAT IS THE RISK PROFILE OF YOUR REAL ESTATE INVESTMENT FUND?

I'd describe it as low to medium risk. There is some volatility in real estate, and I would put it above fixed interest and below equities. The underlying assets are listed securities and trusts, rather than physical properties. The earnings are predictable and have a long lead time. Returns from this asset class tend to have a narrower range of returns compared to other growth assets.

WHAT KIND OF INVESTMENT DO YOU LOOK FOR?

At the core, it's about medium-term capital growth in underlying real estate. Research shows us that investing in listed securities is the most efficient way to do that. The costs are modest, you get diversification, and you get access to the best assets and management teams. You get access to growth you might not get from physical properties. With physical properties, you need a large portfolio, otherwise you are too concentrated. At the very heart of our fund, it's about medium-term growth in a diversified, risk-managed way.

The aim is to diversify the fund across different types of commercial property exposures. We look for real estate securities that benefit from structural growth drivers, such as how technology change is influencing real estate security returns. Examples of this is how the change to omni-channel retail is influencing demand for retail space, or flexible working, as people use offices differently, and what increased use of automation and robotics means for industrial property rentals and values.

TELL US ABOUT THE TEAM BEHIND THE FUND.

We have a team of 21 people at Harbour. I have managed property portfolios for New Zealand investors more than 20 years.

We have a team of eight people in our equities team and three covering fixed interest which have input into the fund.

HOW MANY UNDERLYING INVESTMENTS SIT IN THE FUND?

We'd expect the fund to invest in 20-35 different securities. The fund is sitting at 30 securities now. We actively diversify and try to avoid concentration risk. We want securities that deliver returns above the market.

IS THIS FUND FOCUSED ON SUSTAINABILITY?

Yes, very much so. We want the businesses we invest in to improve their sustainability. One, because it's the right thing to do, and two, because companies that have a better environmental and governance approach, tend to deliver better returns over time. Real estate companies are big consumers of energy, carbon, water, and this is an area where real differences can be made.

ARE THE FUND'S INVESTMENTS LIMITED TO AUSTRALIA AND NEW ZEALAND?

We invest predominantly in Australian and New Zealand securities. However, there are only ten securities in the New Zealand real estate benchmark, and we actively use the broader Australasian universe to provide access to securities that benefit from structural change.

This gives the fund exposure to a wider range of real estate securities that can sustain and grow returns. This includes securities in structural growth sectors such as medical, education and storage assets real estate.

We approach our research from the bottom up. We are on the ground, visiting sites in New Zealand and Australia. We go to see properties and do our own research, to make sure individual investments are the right ones.

We also have the potential to invest in global property securities. We haven't done that, as of today, but we can allocate up to 10% of the fund to listed property securities in developed economies.

DOES THE FUND HAVE FLEXIBILITY?

Yes. We can invest in securities that are not in the listed property indices. A lot of businesses are real estate dominated but not on the real estate indices, such as port companies, airports, and infrastructure owners of toll roads, for example. These assets have high earnings certainty driven by the control of real estate. We can allocate up to 15% into non- index securities.

> **"This is an excellent investment for investors looking to protect and grow wealth."**
>
> *Shane Solly*

We can also invest in unlisted property funds in Australia and New Zealand. We are not invested in any currently, but from time to time there may be unlisted property funds that give access to real estate assets that benefit from structural growth that are not listed.

Real estate markets go through cycles, and we want the flexibility to protect and grow returns though the cycle. But at the core of the fund, we want a highly liquid pool of assets that can support dividend income.

SO THE FUND OFFERS DECENT LIQUIDITY TO INVESTORS?

Yes, the fund has daily pricing and liquidity. You can send an application/redemption form and invest or receive proceeds at the unit price for the day your notice is received.

IS THE FUND INTEREST SENSITIVE, AND EQUITY MARKET SENSITIVE?

The fund is more interest rate sensitive than equities, and about the same as underlying property over the medium term, just without the lag in pricing physical property has. The fund offers a very healthy yield over fixed income investments.

The fund is sensitive to equities markets, but all assets are correlated to equity markets in some way. Listed real estate securities reflect changes faster, without leaving gaps in true value. This fund offers exposure to high-quality real estate assets that usually only the ultra-high net worth would be able to invest in.

ARE REAL ESTATE FUNDS PREPARED FOR AN EVENTUAL DOWNTURN IN THE PROPERTY MARKET?

The property sector has learned a lot since the GFC. They had higher debt levels pre GFC, and real estate groups often had debt facilities from only one or two banks. We've seen debt levels reduce, and debt is now locked in for a longer period from a wider range of debt sources, so financial risk has reduced. There's also better management and governance in place than five, six years ago, so companies are in a better position to handle situations.

New commercial property development is also running below demand. Big downturns in the property market are often caused by constraints of debt capital, and a rapid increase in property supply. Construction is challenging in New Zealand, however, and builders are finding it difficult to commit on construction price.

WITH TERM DEPOSIT RATES FALLING, WHY IS REAL ESTATE A GOOD ASSET FOR INCOME?

Term deposits have been falling since the OCR cut, and banks are looking to improve margins. Banks may continue to cut term deposit rates in anticipation of increased RBNZ capital adequacy requirements. While some term deposits offer three-year terms, many are 90 days, and your bank may call you to roll it over. With our fund, you don't have to do that, as we invest in perpetuity. Our assets keep generating income year after year.

WHY SHOULD THIS FUND APPEAL TO KIWI INVESTORS AND ADVISERS RIGHT NOW?

We continue to face a slowing global economy. Interest rates are low, and inflation is low. People want assets to produce consistent and predictable cash flows. Property securities are very attractive in this low growth environment. We can see New Zealand property securities producing a yield of over 4% after tax, which is very handy. Real estate securities are forecast to grow earnings by more than 3% per annum over the next three years.

Because of low interest rates, pension funds and other big global funds are hunting for assets that can deliver 4% plus income, so there is a demand for real estate assets. We get a snapshot each year of what assets are worth, and it shows real estate value is underpinned and there is room for modest growth. The asset class may deliver high double-digit returns as a result.

HOW CAN INVESTORS ACCESS THE FUND?

They can invest through an adviser. Retail investors can access through InvestNow, while high net worth individuals can come through Harbour.

WHAT ARE THE FEES AND COSTS?

It is very simple for retail investors. All-in, fees are 0.72% per annum now. That fee could change slightly due to things like accounting fees, but we expect it to stay around that mark. There is daily pricing and liquidity. Investors can access the fund with a minimum initial investment of $250 depending on how they invest, much lower than some of the minimums required to invest in unlisted real estate.

Shane Solly is a Portfolio Manager at Harbour Asset Management.

By Susan Edmunds

A pain in the arse *and proud*

Jon-Paul Hale isn't afraid to take a stand – but he says doing right by the client should leave everyone better off.

If you've spent much time discussing the issues vexing the insurance industry lately, you've probably encountered Jon-Paul Hale.

The Auckland insurance adviser, who runs Willowgrove Consulting, is an outspoken advocate for the sector, unafraid to stick his head up and speak out when he sees things he doesn't think are quite right.

There have been a few of them lately, including advisers' overseas trips, the suggestion insurers might be required to ask for client medical notes, the recent report by the Financial Markets Authority and Reserve Bank into the insurance sector, and the issue of churn in the insurance industry.

But he even weighs into less obviously industry-related topics on his business blog, such as vaccination and wearing the hijab.

Hale says writing is therapeutic for him – a way to work through his thoughts on the world. And he's not worried about what people think of him. He happily refers to himself as "a pain in the arse".

"I'm fairly outspoken. I've taken a line that if something is not right, or not fair, I'll say something. I'm not necessarily going to play by the rules just because the rules are there. I'll play by the rules because the rules are right. If it didn't match I'd probably say something about it.

"A lot of advisers out there are just trying to make a living, just trying to get on with life the same as anyone, go to work, do their job, go home ... they don't always have the capacity to stand up and say 'Hey ...'"

Hale has only been an independent adviser for the past seven years. Before that, he started his working life as an electronics engineer and spent almost 10 years working in IT before he took a job at Sovereign as a technology development manager.

Then, the insurer needed to find a local business development manager and Hale put his hand up. "The regional manager took a punt against everyone else's advice and put the IT geek without any sales experience into the development management role."

It worked out – he spent five years as a BDM in the Waikato before moving to New Zealand Home Loans to look after its risk business through the global financial crisis. A restructure in sales systems gave a 60% increase in revenue in the first year and boosted persistency.

After a couple of years, he grew tired of "getting on and off aeroplanes every other day" and moved to Melbourne for 18 months where he taught university students how to sell finance with computer technology. When he returned to New Zealand, he joined the Newpark team for seven months before stepping out on his own as an adviser. He started from scratch – Hale says the major drawback with buying a book of business is that you don't hone the skill required to attract new clients.

In the beginning, 90% of his clients had no existing insurance. Now replacement business is involved in about 60% of his work.

> **"I'm fairly outspoken. I've taken a line that if something is not right, or not fair, I'll say something."**

Hale figured the time was right to jump in because regulation was changing and, if he didn't get in to the industry and get ahead of it, it would become harder and harder to get started.

He has recently been joined by another adviser, Kim Oliver.

Hale said being on the other side of the fence, working as an independent adviser, was liberating. While he used to say he would never want the uncertainty of working on commission, now he relishes the autonomy – and not being hindered by the policies and procedures of a big organisation.

He enjoys fighting for people and helping them to find their way through situations where everything goes a bit astray.

Hale said a key motivation for him was his mother's experience with breast cancer. "She was diagnosed a couple of years before I came into the industry but I got to understand how the insurance industry could have helped her more.

"There was an element of a lack of advice to make well-informed decisions. That's partly the reason she's not here today. The other part was her being stubborn."

He said that experience made him understand the power of what could be done for people.

"When someone is in the middle of a medical crisis, they don't have the energy to do anything other than survive. That's why you get a lot of clients where you struggle to get anything signed off because they don't have the capacity to deal with that stuff."

Hale said he enjoyed being able to talk clients through their plans for "if the wheels fell off", put those in place and then enact them when things went wrong.

Despite his concerns about regulators unfairly targeting advisers, he thinks the reforms underway for the sector will be good, overall.

He said it was important to lift the overall perception of the industry among the general public – and part of that was a shift to addressing clients' needs rather than just "selling stuff".

"As products have got more complex and sophisticated it's no longer a case of hey you look like $1 million here's your $1 million policy ... for years it was all about 'make sure your family is looked after if you're not here, here's your policy'. It was a fairly simple idea and you could do that in terms of a sale but once you dig into a client's personal situation and apply different nuances, talking about trauma and medical policies, just 'selling stuff' no longer fits as well."

As for his plans for the future, Hale often jokes that his exit plan involves a zimmer frame.

Under the new regime, he will take a financial advice provider licence and offer an umbrella to other advisers who want the assistance of his well-honed business systems and processes.

While he's happy working with an aggregator group, he said he could see a role for the business as a home for independent advisers, too. "There's a lot of cutesy stuff out there doing things to a certain level but no real integrated advice system from end to end. That's something that we are doing – it makes it a lot faster."

Tapping into the Willowgrove business systems would allow those advisers to focus on giving advice rather than managing admin, he said.

In the meantime, he'll keep standing up for what he thinks is right. "If we get it right for clients everyone else will be looked after as well."

By Jillian Reid

Here's why you should care about the low-carbon transition

In a number of jurisdictions, financial regulators have indicated that many investors will need to consider climate-related risks in order to comply with their existing fiduciary duties.

Institutional investors of all stripes - from those responsible for superannuation or endowment funds to those providing wealth management products - collectively manage trillions of dollars globally.

They each have varying objectives and portfolio allocations and function within different regulatory requirements and contexts. However, they are typically true long-term investors, allocating across the global economy to deliver returns to members, beneficiaries and stakeholders over multiple years or decades.

Recently, evidence has grown to demonstrate that there are substantial climate-related financial implications for investors. As such, financial regulators are increasingly formalising the expectation that investors consider the materiality of climate-related risks and manage them - particularly for superannuation funds.

Two key elements necessitate this fiduciary duty alignment: financial materiality and growing legal and regulatory consensus.

FINANCIAL MATERIALITY

Technology and policy changes will be necessary - and are, to some extent, already underway - to transform the economy away from fossil fuels and mitigate additional temperature increases. This transition will necessarily open up certain companies and industries to increased risk. The financial implications most naturally point to the energy sector, but transformative change will invariably have significant implications for all energy-dependent and high-emitting sectors of the economy.

Physical risk captures the damages that come with temperature increases that we have failed to avoid. The frequency of storms, wildfires and floods will shift, as will the availability of natural resources such as water. The willingness of and ability for society to adapt to these changes is uncertain. Physical damages are expected to negatively impact sectors such as consumer staples and telecoms. Investors with real asset exposures, such as property (held directly or indirectly), will need to increasingly review insurance cover and uninsured loss implications together with additional capital expenditure requirements.

The expected financial materiality of these risks is evidenced in Mercer's "Investing in a Time of Climate Change" report (2015) and the recently released sequel (2019). It is supported in reports by The Bank of England, the G-20 Financial Stability Board and The Economist Intelligence Unit, as well as an increasing number of other investment-industry participant reports on recommended actions.

The findings in Mercer's sequel report particularly support the view that it is in investors' best interests - and therefore consistent with fiduciary duty - to actively support the low-carbon transition to avoid scenarios with the worst physical damages, which will have almost entirely negative impacts across sectors and asset classes. Even just through 2030, the portfolios modelled in the sequel report (invested across multiple asset classes) could experience additional return impacts of between +0.29 percent per annum and -0.08 percent per annum, depending on the scenario and the exposures within equities and infrastructure in particular.

Return impacts, however, are unlikely to be neat and annualised. They are more likely to manifest as a sudden surprise. Stress testing an increased probability of a 2 degrees' Celsius scenario or a 4 degrees' Celsius scenario with greater market awareness results in between +3 percent and -3 percent return impacts in less than a year for these same well-diversified portfolios.

Amongst institutional investors, Mercer has witnessed an increase in dedicated climate change allocations, regular review of key climate risk exposures such as carbon, and foot-printing and scenario analysis at portfolio level. While not necessarily driven by regulatory impetus, this includes the New Zealand Superannuation Fund which has moved its NZ$14 billion passive allocation to low-carbon, meaning 40% of the overall fund is now low-carbon. In Australia, VicSuper has allocated to a customised strategy looking for a 70% reduction in emissions versus benchmark. The Church of England National Investing Bodies has invested in in active, low-carbon assets and OPTrust Canada has used climate scenario analysis for their planning. The Government Pension Investment Fund in Japan has moved a sizeable portion of assets into ESG (Environmental Social and Governance) Indices.

THE GROWING LEGAL AND REGULATORY CONSENSUS

As awareness of the financial materiality of climate-related factors has increased, financial regulators in a number of jurisdictions have lifted their attention. In the UK, for example, a 2018 paper by law firm Pinsent Masons neatly summarises the fiduciary duty debate in recent years and how the absence of legislation and case law has led to the focus on financial materiality and fiduciary duty. The paper concludes that "in cases where climate change has the potential to impact on long-term investment performance, pension scheme trustees have a fiduciary duty to consider climate change risk when making their investment decisions."

The legal argument has been strengthened by recent superannuation fund guidance and legislation. Europe, in particular, recognises the potential for financial materiality and requires climate change to be considered in investment decisions, consistent with the time frames of beneficiaries - for example, the 2016 EU directive on institutions for occupational retirement provision and the UK's Department for Work and Pensions. Regulatory activity has also extended across the Atlantic, with the provincial government in Ontario, Canada, requiring pensions to disclose in their statements of investment policies and procedures whether ESG factors are considered and, if so, how. And, in California, the insurance regulator requires insurers to disclose their fossil fuel-related holdings.

In a number of other countries, particularly in Europe, laws are also being changed to explicitly require investors to consider and disclose management of climate change-related risks, for example, the French Energy Transition Law, Article 173. The China Securities and Regulatory Commission issued guidelines requiring listed heavy polluters to give more-specific information on emissions, with all listed firms to disclose environmental impact information by the end of 2020.

Laws and litigation related to climate change also continue to develop. Litigation is primarily being targeted at companies for failure to mitigate, adapt or disclose, but there are examples of litigation against governments and, most recently, superannuation funds. ClientEarth, a legal advocacy organisation, has also been developing legal challenges against pension funds and investors that fail to consider climate change-related risks.

In summary, as signals from regulators become stronger and/or more investors take action, those who fail to consider, manage and disclose their potential portfolio-specific risks may be susceptible to legal challenges in the future.

Jillian Reid is a principal in Mercer's Responsible Investment team.

By Russell Hutchinson

Education barriers & fee hurdles

Russell Hutchinson gives his take on the new education requirements, commission v fees, and how this could affect the provision of advice.

If the future is Australian, don't go there – a perspective from an adviser who has experience on both sides of the Tasman Sea.

I met with Michael Ord, a director of Coremotion Financial Services and an adviser who has connections on both sides of the Tasman. His take on the legal and regulatory changes being proposed here is straightforward: "We've been through it. Don't go there." In this article I shall share with you some of his experience, and why he has formed those views.

He covered commission, education, and compliance costs in his discussion.

His business is insurance-focused, with a particular niche in serving clients in the mining sector. He has been at it quite a while and has the easy confidence with this subject of someone who knows it inside out.

He is a Kiwi, too, although he identifies as an Australian he holds a New Zealand passport, and has a number of personal and business connections here. Michael was on his way to a conference in Queenstown and we were fortunate to be able to meet in Auckland before he headed off to the airport.

COMMISSION AND FEES

The shift to the Australian Life Insurance Framework (LIF) has reduced upfront commissions from about 130%-140% down to 66% upfront with the renewal increased to 20%. This was presented as reducing the incentive for replacement business and supporting more service provision ongoing. It is not the end destination either: the upfront is proposed to go lower next year. The Hayne report (the outcome of the Australian Royal Commission) recommended it go further. Ord states that a combination of this change, and the change to educational standards (see next section) are cutting adviser numbers considerably and "these two are causing the flow of new entrants to dry up".

We talked about the current commission models matching costs better. The reality is that most of the work in insurance advice happens around getting the policy on the books: finding a client, advising them, underwriting them, and getting the case completed (plus connections to wills, trusts, and other arrangements). That's a lot of work. Although over the long term the Aussie LIF would pay more money than our upfront arrangements, it is proving a disincentive for people to do that work.

That's affecting the provision of advice. Ord points out that a combination of reducing revenue and increased compliance costs has cut the number of advisers that offer insurance advice. In his circle of friends and colleagues he knows quite a few superannuation advisers that have dropped risk advice. That's a shame as many consumers don't set out to seek good risk advice – they either have to be approached about it, or they have to get it offered to them in conjunction with another service. It is a particularly sharp disincentive to work with younger clients too, as their premiums are so much lower.

So what about fees? Ord rubbishes the idea that "ordinary people have the cost of a decent fee lying around ready to spend". One financial adviser I know has just put his fees for a plan up from $1,800 to $1,980. Putting financial advice out of the reach of, say, the bottom half of all families, didn't strike us as a victory for access to quality financial advice. Financing the fee using subscription services and using digital to reduce costs are both viable strategies. But the preference of most advisers is that those are used only when they are better than the alternative, not because regulation has made face-to-face advice unaffordable …

EDUCATIONAL REQUIREMENTS

The Financial Adviser Standards and Ethics Authority (FASEA) determines the educational requirements for advisers in Australia. You do not need to be an expert to know that if you require a high-level qualification (roughly speaking, post-graduate) of a very particular type then few current advisers will have it. That means that many of your advisers will have to go and get the qualification. Ord pointed out that the effect is to accelerate retirement for "some of the best advisers, with the best experience". He listed examples. One was a lecturer in business ethics with two decades of experience giving financial advice (plus meeting continuing education requirements) who will have to complete a two-year course to stay in business. He's considering his options. Another is a long-term adviser with an advanced degree with specialisations relating to funds management who is faced with the same requirement. It seems particularly strange that in seeking to encourage professionalism we may eject some of our most professional participants. It also underlines a challenge when regulations are too prescriptive, rather than being principles-based. Some of the best new thinking in financial advice focuses on the behavioural aspects. An economics degree focused on micro and behavioural economics may be a great foundation for advice competence. A psychology degree similarly. But then again, I don't want to ignore the school of life. Degrees are not the be all and end all of competence. In the UK you can practice accounting at the highest level without having a degree – you only need the vocational qualification – and accounting is considered a profession there. Ord wraps that up by pointing out that "the CFP qualification and experience is hardly valued" by the regulator, undermining years of industry body focus on education. Ord was happy to pass on some analysis by another commentator:

"There are approximately 25,000 registered planners, 75% don't have a degree. The average age of a planner is 58. It takes six years part-time to do a bachelor's degree. An existing planner must have either a bachelor's or postgraduate qualifications (2024) plus exam (by 2021). Most have learned on the job and won't pass an exam nor will they attempt it as it's not worth the time and effort (refer back to the average age)."

He points out that according to Adviser Ratings after an initial influx of accountants just prior to the rule change the number of advisers has been falling.

The educational standards have had a discouraging effect on particular groups. Anyone offering financial advice on a part-time basis has found their fixed costs have risen by as much as everyone else – but with a much lower income, they are effectively being driven out of the occupation. You might think that's a great result – after all professionals are perhaps at their best when they are full-timers. But the option of working part-time can be a great way to get into the occupation, enable return to work, or provide the service in smaller rural towns. It has hit women particularly hard as they often choose to work less than 40 hours a week to balance work with childcare. Losing women from a sector that is already male-dominated cuts consumer access in two ways at once. Women are already more likely to use robo-advice services, in part because they find it hard to find a planner that they like – probably due to there being few women.


Michael Ord

Plus, everyone gets reduced access because those part-time advisers are driven from the market.

In general compliance costs have risen at the same time. Many advisers feel that this is deeply unfair pointing out that Royal Commission issues were concentrated in direct and vertically integrated offers – with few amongst third-party advisers. Separate to my conversation with Michael Ord, two compliance specialists in New Zealand, reviewing Australian costs stated that compliance costs were either 8% of all revenue (in one case) or 18% in another. This could be construed as almost like a Pigouvian tax on financial advice.

"There are approximately 25,000 registered planners, 75% don't have a degree. The average age of a planner is 58. It takes six years part-time to do a bachelor's degree."

We all hope that our New Zealand regulators and policy-makers have more sense. There are good signs. MBIE, talking about their recent paper on the conduct of financial institutions explained that they did not include an explicit cap on commissions as this sort of thing is not our usual approach. Instead they propose a duty to ensure the remuneration systems do not conflict with achieving good outcomes for clients. The new Code of Conduct is firmly principles-based. FMA fees for transition to the new regime are modest. But there are also some storm clouds: the Code maintains that the education requirements are only interim, and it would be a shame if what comes next is a lurch towards the narrowness of the Australian system. Even with the best of intentions, regulators' actions can create unintended consequences, and as safety tends towards conservatism, often discourage innovation. Your engagement with the regulator, and with MBIE, can be a substantial help to ensure that a good outcome is achieved for all the stakeholders in the industry.

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

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 Fund Miscellaneous						
KTAM NZ Australian Long Short Equity	1.42032	--	--	--	22.11	--
Nikko AM Income	1.2399	4.92	4.11	5.74	13.39	--
NZ Funds Core Inflation	1.4604	7.15	5.68	4.08	101.32	--
NZAM Alpha Fund	1.0912	--	--	--	8.27	--
NZAM Global Growth	1.4249	--	--	--	27.17	--
Pathfinder Commodity Plus Fund	0.9578	-7.38	0.53	0.27	7.96	--
Salt Long Short Fund	1.4074	-8.78	1.20	--	151.83	--
NZ Insurance Cash						
AMP KiwiSaver Cash Fund	1.5319	1.61	1.62	2.14	83.03	--
AMP NZRT Cash Fund	1.52407	0.56	0.60	1.13	97.58	--
AMP Prem PSS OnePath NZ Cash	1.62168	1.73	1.87	2.35	3.37	--
AMP PSS Select Cash	1.52318	1.53	1.68	2.15	0.82	--
ANZ Default KiwiSaver Scheme-Cash	1.4631	2.30	2.28	2.68	9.32	--
Aon KiwiSaver ANZ Cash	15.61139	1.84	1.85	2.23	4.54	--
Aon KiwiSaver Nikko AM Cash	14.65648	1.94	2.15	2.59	1.90	--
ASB KiwiSaver Scheme's NZ Cash	1.4926	2.05	2.10	2.60	461.91	--
BNZ KiwiSaver Cash Fund	1.1823	2.36	2.44	2.65	158.37	--
Booster KiwiSaver Enhanced Income	1.5396	1.94	1.92	2.43	17.59	--
Fidelity Life Super-Super Cash Portfolio	2.8344	1.39	1.36	1.51	4.97	--
Fisher TWO KiwiSaver Scheme-Presv	2951.7078	2.29	2.30	2.68	27.40	--
Kiwi Wealth KiwiSaver Scheme Cash	--	2.65	2.71	3.06	191.68	--
Mercer KiwiSaver Cash	--	2.05	2.08	2.57	18.42	--
NZ Defence Force KiwiSaver Cash	--	1.86	1.91	--	0.77	--
OneAnswer KiwiSaver-Cash Fund	1.4123	2.16	2.15	2.58	43.82	--
SIL 60s + Sup Cash Fund	2.2562	2.22	2.13	2.39	1.41	--
Westpac KiwiSaver-Cash Fund	1.4241	2.14	2.21	2.64	357.31	--
NZ Insurance Equity Region Australasia						
Booster KiwiSaver Trans-Tasman Share	1.7729	15.30	12.83	10.25	8.02	3
OneAnswer KiwiSaver-Australasian Share	2.2403	18.08	12.85	12.75	34.89	3
NZ Insurance Equity Region Australia						
AMP KiwiSaver Australasian Shares	1.3282	13.66	--	--	2.43	--
NZ Insurance Equity Region NZ						
AMP Prem PSS ACI NZ Shares	3.14042	15.49	11.72	13.57	8.22	3
AMP Prem PSS ACI NZ Shares Index	2.8994	19.23	14.02	14.39	8.17	3
Fidelity Life NZ Shares Portfolio	7.847	4.74	11.56	11.68	1.36	1
Fidelity Life Super-Super NZ Share	--	14.77	12.49	12.06	8.45	2
NZ Insurance Equity Region World						
AMP Prem PSS ACI Global Shares Index	2.51233	11.79	12.49	12.51	8.76	3
AMP Prem PSS FD Intl Share Fund 1 Value	1.46648	9.30	10.23	9.70	10.83	2
Mercer KiwiSaver Shares	--	8.70	12.18	--	24.75	4
NZ Defence Force KiwiSaver Shares	--	8.49	11.97	--	9.25	3
OneAnswer KiwiSaver-Intl Share	2.1277	11.75	13.51	13.76	51.51	4
OneAnswer KiwiSaver-Sustainable Int Shr	2.0042	10.53	11.48	10.98	8.72	3
SIL 60s + Sup International Share Fund	4.053	11.84	13.50	13.52	15.25	4
NZ Insurance Equity Region World - Hedged						
AMP KiwiSaver International Shares	1.3425	6.58	--	--	4.20	--
AMP KiwiSaver Passive International	1.3677	9.17	--	--	3.93	--
AMP Prem PSS ACI Global Shares Index Hdg	2.48784	5.67	12.15	8.84	10.07	3
Booster KiwiSaver International Share	2.1383	9.39	12.16	10.71	14.04	4
FANZ Lifestages KiwiSaver High Growth	1.34845	10.06	10.42	--	132.20	3
Fidelity Life Aggressive	4.0545	5.30	8.62	9.52	0.50	2
Fidelity Life International	2.8196	7.84	10.61	8.73	0.44	2
Fidelity Life Super-Sup Intl	--	9.10	12.28	9.75	23.31	3
Fidelity Life Super-Super Aggressive	--	9.72	10.27	10.52	23.57	3
Fisher FuturePlan - Intl Coms	3.45867	7.88	10.79	7.71	24.26	2
Fisher TWO KiwiSaver Scheme-Eq	5074.1237	11.72	11.98	10.21	135.98	4
NZ Insurance Equity Sector Global - Real Estate						
AMP KiwiSaver Property	1.1662	16.06	--	--	2.39	--
OneAnswer KiwiSaver-Intl Property	1.5031	11.80	5.48	8.11	8.79	3
NZ Insurance Equity Sector NZ - Real Estate						
MFL Property Fund	4.5328	12.61	6.81	10.17	487.15	2
OneAnswer KiwiSaver-Australasian Prpty	2.198	21.41	9.36	13.32	23.49	4
NZ Insurance Fund Miscellaneous						
Booster KiwiSaver Capital Guaranteed	1.1309	2.48	2.48	--	52.84	--
Kiwi Wealth KiwiSaver Scheme CashPlus	--	3.26	2.78	3.25	139.82	--
NZ Funds KiwiSaver Growth Strategy	1.8819	5.47	9.65	7.84	171.43	--
NZ Funds KiwiSaver Income Strategy	1.394	4.76	3.42	3.64	30.23	--
NZ Funds KiwiSaver Inflation Strategy	1.509	6.41	5.88	4.81	47.95	--
Westpac KiwiSaver-Capital Protect Plan 2	2.4561	9.56	11.41	11.48	10.18	--
Westpac KiwiSaver-Capital Protect Plan 3	2.3542	9.56	11.40	11.48	16.03	--
Westpac KiwiSaver-Capital Protect Plan 4	2.4321	9.56	11.41	11.48	23.14	--
Westpac KiwiSaver-Capital Protect Plan 5	2.1147	9.57	11.41	11.48	18.99	--
NZ Insurance Global Bond						
AMP KiwiSaver International Fxd Intr	1.0462	3.60	--	--	0.55	--

Name	Latest Transaction Exit Price	1 Yr Return %	3 Yr Return	5 Yr Return	Size $M	Morningstar Rating Overall
AMP Prem PSS PIMCO Global Fixed Interest	2.41687	3.52	3.13	4.48	3.84	5
AMP Prem PSS SSgA Global Fixed Int Index	2.0318	3.99	1.64	3.93	7.23	2
OneAnswer KiwiSaver-Intl Fxd Int	1.7534	4.35	2.08	4.05	2.50	2
NZ Insurance Multisector - Aggressive						
AMP KiwiSaver LS Aggressive Fund	1.7316	8.87	10.47	8.43	324.70	4
AMP NZRT AMP Aggressive	3.55367	7.90	9.46	7.56	280.69	2
AMP PSS Select Growth	1.989	8.22	9.82	7.89	39.23	3
Booster KiwiSaver Asset Class Growth	9.3039	5.29	9.23	--	70.11	2
Booster KiwiSaver Geared Growth	2.425	13.39	14.14	12.42	39.23	5
Booster KiwiSaver High Growth	1.7214	10.26	10.68	9.77	339.87	3
Booster KiwiSaver Socially Rsp Inv Gr	1.9815	10.73	10.93	9.83	53.73	4
Fisher FuturePlan - Growth	3.32564	9.16	8.74	8.11	75.91	3
Generate KiwiSaver Focused Growth Fund	1.7991	12.00	11.93	12.05	609.27	5
Kiwi Wealth KiwiSaver Scheme Growth	--	6.60	10.80	9.38	1469.29	3
Mercer KiwiSaver High Growth	--	8.04	10.76	10.31	179.97	5
NZ Defence Force KiwiSaver High Growth	--	7.87	10.54	--	20.36	4
NZ Insurance Multisector - Balanced						
AMP KiwiSaver AMP Global Multi-Asset	1.1105	1.32	--	--	14.62	--
AMP KiwiSaver AMP Responsible Invmt Bal	1.1982	7.30	--	--	7.89	--
AMP KiwiSaver ASB Balanced	1.2169	8.37	--	--	11.71	--
AMP KiwiSaver LS Balanced Fund	1.8316	7.49	7.73	6.76	962.58	3
AMP KiwiSaver LS Moderate Balanced Fund	1.7913	6.90	6.69	6.14	685.40	2
AMP KiwiSaver Mercer Balanced	1.9778	7.81	7.05	7.52	46.78	3
AMP NZRT AMP Balanced Fund	3.23719	6.31	6.68	5.83	892.32	2
AMP NZRT AMP Global Multi-Asset	1.10758	1.70	--	--	3.94	--
AMP NZRT AMP Moderate Balanced	2.35145	5.85	5.66	5.21	301.31	1
AMP NZRT ASB Balanced Fund	2.27917	7.40	7.18	7.50	89.00	3
AMP NZRT Mercer Balanced	2.66095	6.71	6.02	6.52	158.63	3
AMP NZRT Nikko AM Balanced	2.94168	5.90	6.81	8.15	174.35	3
AMP NZRT Responsible Investment Bal	1.20427	7.85	--	--	3.80	--
AMP PSS Lifesteps Consolidation	1.94321	6.12	5.94	5.55	6.56	2
AMP PSS Lifesteps Progression	2.07103	6.70	6.98	6.07	2.28	2
AMP PSS Select Balanced	1.99282	6.76	7.04	6.15	49.52	2
ANZ Default KiwiSaver Scheme-Balanced	1.8589	7.15	6.76	7.67	147.54	3
ANZ KiwiSaver-Balanced	1.941	7.17	6.79	7.69	2294.95	4
Aon KiwiSaver ANZ Balanced	26.83651	6.68	6.85	7.55	31.20	4
Aon KiwiSaver Russell Lifepoints 2025	9.65745	5.79	6.61	7.59	20.87	--
Aon KiwiSaver Russell Lifepoints 2035	9.78337	6.96	8.48	9.07	20.08	--
Aon KiwiSaver Russell Lifepoints Bal	10.13209	7.43	8.76	9.23	157.82	5
ASB KiwiSaver Scheme's Balanced	2.0251	8.62	8.79	8.95	1723.72	5
BNZ KiwiSaver Balanced Fund	1.5797	7.32	8.34	8.08	378.68	4
Booster KiwiSaver Balanced	1.8955	8.24	7.72	7.65	478.13	3
Booster KiwiSaver Socially Rsp Inv Bal	1.4505	8.50	7.74	--	46.67	4
Fidelity Life Balanced	4.9713	7.02	7.08	6.97	4.50	3
Fidelity Life Super-Super Balanced	--	7.86	7.50	--	271.12	3
Fisher FuturePlan - Balanced	4.45543	8.01	7.04	6.97	119.77	3
Fisher TWO KiwiSaver Scheme-Bal	5435.2471	9.13	8.04	7.84	801.56	4
Kiwi Wealth KiwiSaver Scheme Balanced	--	6.08	7.93	7.50	1641.17	3
Mercer KiwiSaver Balanced	--	6.49	7.64	7.89	391.32	5
Milford KiwiSaver Balanced Fund	2.3131	7.21	8.83	9.87	281.28	5
NZ Defence Force KiwiSaver Balanced	--	6.29	7.43	--	50.54	3
OneAnswer KiwiSaver-Balanced	1.9682	7.19	6.82	7.76	559.06	4
Westpac KiwiSaver-Balanced Fund	1.9163	7.60	7.86	8.27	1506.62	4
Westpac Retirement Plan - Balanced Port	3.9123	6.39	6.70	7.10	96.92	3
NZ Insurance Multisector - Conservative						
AMP KiwiSaver ANZ Conservative	1.1071	5.14	--	--	5.75	--
AMP KiwiSaver Default (Default)	1.7326	5.15	4.83	5.14	1368.50	3
AMP PSS Select Income	1.85903	4.11	2.48	3.56	1.09	2
ANZ Default KiwiSaver Scheme Cnsrv(Dflt)	1.8058	5.73	4.43	5.63	1093.49	4
Aon KiwiSaver Russell Lifepoints 2015	9.70022	4.96	5.01	6.25	4.78	--
Aon KiwiSaver Russell Lifepoints Cnsrv	10.15423	4.98	5.02	6.21	72.43	5
ASB KiwiSaver Scheme's Cnsrv (Default)	1.8593	6.10	5.11	5.74	3787.52	4
BNZ KiwiSaver Conservative (Default)	1.3608	4.68	5.07	5.53	666.62	3
BNZ KiwiSaver First Home Buyer Fund	1.1571	3.80	4.24	--	127.11	3
Booster KiwiSaver Default Saver	1.2871	5.49	4.77	--	72.67	3
FANZ Lifestages KiwiSaver Income	1.10155	3.86	2.44	--	79.90	1
Fisher Funds Conservative KiwiSaver Fund	1.6881	7.05	5.26	5.78	746.94	5
Fisher FuturePlan - Capital Prot	1.24606	1.50	1.50	1.50	17.08	1
Fisher TWO KiwiSaver Cash Enhanced(Dflt)	1.83104	6.09	5.03	5.70	650.05	4
Kiwi Wealth KiwiSaver Scheme Cnsrv	--	5.48	4.87	5.38	731.64	3
Kiwi Wealth KiwiSaver Scheme Default	--	5.35	5.38	--	211.53	4
Mercer KiwiSaver Conservative (Default)	--	5.23	4.93	5.72	1092.88	5
Milford KiwiSaver Conservative Fund	1.7626	5.82	6.28	7.81	90.90	5
NZ Defence Force KiwiSaver Conservative	--	4.91	4.53	--	4.12	3

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OneAnswer KiwiSaver-Conservative	1.771	5.20	4.07	5.31	440.25	3
Westpac KiwiSaver Default	1.2773	5.58	4.75	--	210.75	3
NZ Insurance Multisector - Growth						
AMP KiwiSaver ANZ Balanced Plus	2.2232	8.15	7.78	8.55	262.27	2
AMP KiwiSaver ANZ Growth	1.2525	8.76	--	--	14.93	--
AMP KiwiSaver ASB Growth	1.2712	9.36	--	--	10.72	--
AMP KiwiSaver LS Growth Fund	1.7658	8.50	9.60	7.85	743.89	2
AMP KiwiSaver Nikko AM Balanced	2.0093	6.92	7.80	9.16	68.07	3
AMP KiwiSaver Nikko AM Growth	1.2631	6.83	--	--	14.82	--
AMP NZRT AMP Growth	2.48885	7.46	8.57	6.98	234.93	2
AMP NZRT ANZ Balanced Plus	2.8028	7.09	6.75	7.60	291.91	2
AMP NZRT ANZ Growth	1.25192	9.29	--	--	7.99	--
AMP NZRT ASB Growth	1.25808	9.66	--	--	7.90	--
AMP NZRT Nikko AM Growth	1.25364	7.31	--	--	11.97	--
AMP PSS Lifesteps Growth	2.05776	7.37	8.62	7.13	0.26	2
ANZ Default KiwiSaver Scheme-Balanced Gr	1.8982	8.04	8.21	8.88	159.48	3
ANZ Default KiwiSaver Scheme-Growth	1.9211	8.77	9.49	9.93	140.22	4
ANZ KiwiSaver-Balanced Growth	2.0141	8.06	8.20	8.89	2001.06	3
Aon KiwiSaver Milford	3.68665	8.05	10.38	10.80	144.19	5
Aon KiwiSaver Nikko AM Balanced	20.21362	6.59	8.09	9.24	9.64	3
Aon KiwiSaver Russell Lifepoints 2045	9.69742	8.03	9.99	10.24	17.84	--
Aon KiwiSaver Russell Lifepoints Growth	10.23771	8.28	10.16	10.30	42.01	5
ASB KiwiSaver Scheme's Growth	2.0546	9.85	10.72	10.49	2451.65	4
BNZ KiwiSaver Growth Fund	1.7114	8.76	10.36	9.39	446.23	4
Booster KiwiSaver Balanced Growth	1.9099	10.08	9.60	9.03	297.90	3
Fidelity Life Growth	4.9532	8.40	9.43	8.68	2.83	2
Fidelity Life Super-Super Growth	--	9.69	9.31	8.57	126.61	2
Fisher Funds Growth KiwiSaver Fund	2.2909	11.13	10.83	9.87	1846.06	5
Fisher TWO KiwiSaver Scheme-Gr	1.9442	9.21	9.35	8.74	438.14	3
Generate KiwiSaver Growth Fund	1.7185	11.66	10.12	10.97	450.56	5
Mercer KiwiSaver Growth	--	7.21	9.41	--	98.85	4
Milford KiwiSaver Active Growth Fund	3.7183	8.15	10.46	10.90	1250.04	5
NZ Defence Force KiwiSaver Growth	--	6.96	9.15	--	20.20	3
OneAnswer KiwiSaver-Balanced Growth	2.0437	8.08	8.24	8.92	489.91	3
OneAnswer KiwiSaver-Growth Fund	2.0904	8.81	9.56	10.01	401.05	4
SIL 60s + Sup Balanced Fund	4.664	8.17	8.33	8.68	94.79	3
Westpac KiwiSaver-Growth Fund	2.0012	8.77	9.25	9.63	1336.41	3
Westpac Retirement Plan - Dynamic Port	4.5051	7.64	8.15	8.53	110.59	2
NZ Insurance Multisector - Moderate						
AMP KiwiSaver AMP Income Generator	1.1624	8.55	--	--	2.66	--
AMP KiwiSaver ASB Moderate	1.1583	6.88	--	--	5.40	--
AMP KiwiSaver LS Conservative Fund	1.853	5.70	4.57	4.71	363.96	3
AMP KiwiSaver LS Moderate Fund	1.8091	6.29	5.77	5.49	501.70	3
AMP KiwiSaver Nikko AM Conservative	1.1539	6.58	--	--	12.55	--
AMP NZRT AMP Capital Assured Fund	2.67222	3.19	3.72	3.97	114.60	2
AMP NZRT AMP Conservative	2.9535	4.63	3.54	3.74	320.03	1
AMP NZRT AMP Income Generator	1.16445	9.21	--	--	1.76	--
AMP NZRT AMP Moderate	2.30403	5.21	4.71	4.51	155.86	2
AMP NZRT ASB Moderate	1.16696	7.44	--	--	5.96	--
AMP NZRT Nikko AM Conservative	1.1483	7.02	--	--	9.26	--
AMP PSS Lifesteps Maturity	1.801	4.74	3.56	3.85	2.91	2
AMP PSS Lifesteps Stability	1.93177	5.29	4.91	4.72	5.72	3
AMP PSS Select Conservative	1.8855	4.81	3.74	3.95	9.35	2
ANZ Default KiwiSaver Scheme-Cnsrv Bal	1.8228	6.20	5.37	6.47	50.69	4
ANZ KiwiSaver-Conservative Balanced	1.8541	6.20	5.39	6.49	1095.94	4
Aon KiwiSaver Russell Lifepoints Mod	10.30078	6.35	6.90	7.74	23.30	5
ASB KiwiSaver Scheme's Moderate	1.9596	7.36	6.70	7.26	1719.53	5
BNZ KiwiSaver Moderate Fund	1.4751	6.22	6.87	6.99	433.36	4
Booster KiwiSaver Asset Class Cnsrv	3.7784	4.41	4.59	--	19.64	2
Booster KiwiSaver Moderate	1.8036	6.82	5.49	5.93	161.28	3
Fisher TWO KiwiSaver Scheme-Cnsrv	1.9154	6.71	5.44	5.94	148.72	3
Generate KiwiSaver Conservative Fund	1.4072	8.20	5.29	6.92	209.64	4
Mercer KiwiSaver Moderate	--	5.45	5.83	--	120.62	4
NZ Defence Force KiwiSaver Moderate	--	5.24	5.61	--	4.59	4
OneAnswer KiwiSaver-Conservative Bal	1.8724	6.21	5.41	6.49	188.62	4
Westpac KiwiSaver - Moderate	1.3384	6.58	6.07	--	424.56	4
Westpac KiwiSaver-Conservative Fund	1.769	5.81	4.97	5.71	2520.93	3
NZ Insurance NZ Bonds						
AMP KiwiSaver NZ Fixed Interest	1.1084	6.02	--	--	2.79	--
AMP Prem PSS ACI NZ Fixed Interest	2.23411	6.17	3.70	5.14	11.91	3
Fidelity Life NZ Fixed Interest	4.2492	3.94	2.85	3.51	0.18	1
Fidelity Life Super-Super Fixed Int	--	4.02	2.94	3.57	1.19	1
OneAnswer KiwiSaver-NZ Fixed Interest	1.8025	5.98	3.61	5.11	7.88	4
SIL 60s + Sup NZ Fixed Interest	3.1648	5.86	3.38	4.70	6.36	3
Westpac Retirement Plan - Accum Port	3.3642	2.31	1.54	2.32	16.22	1
NZ OE Cash						

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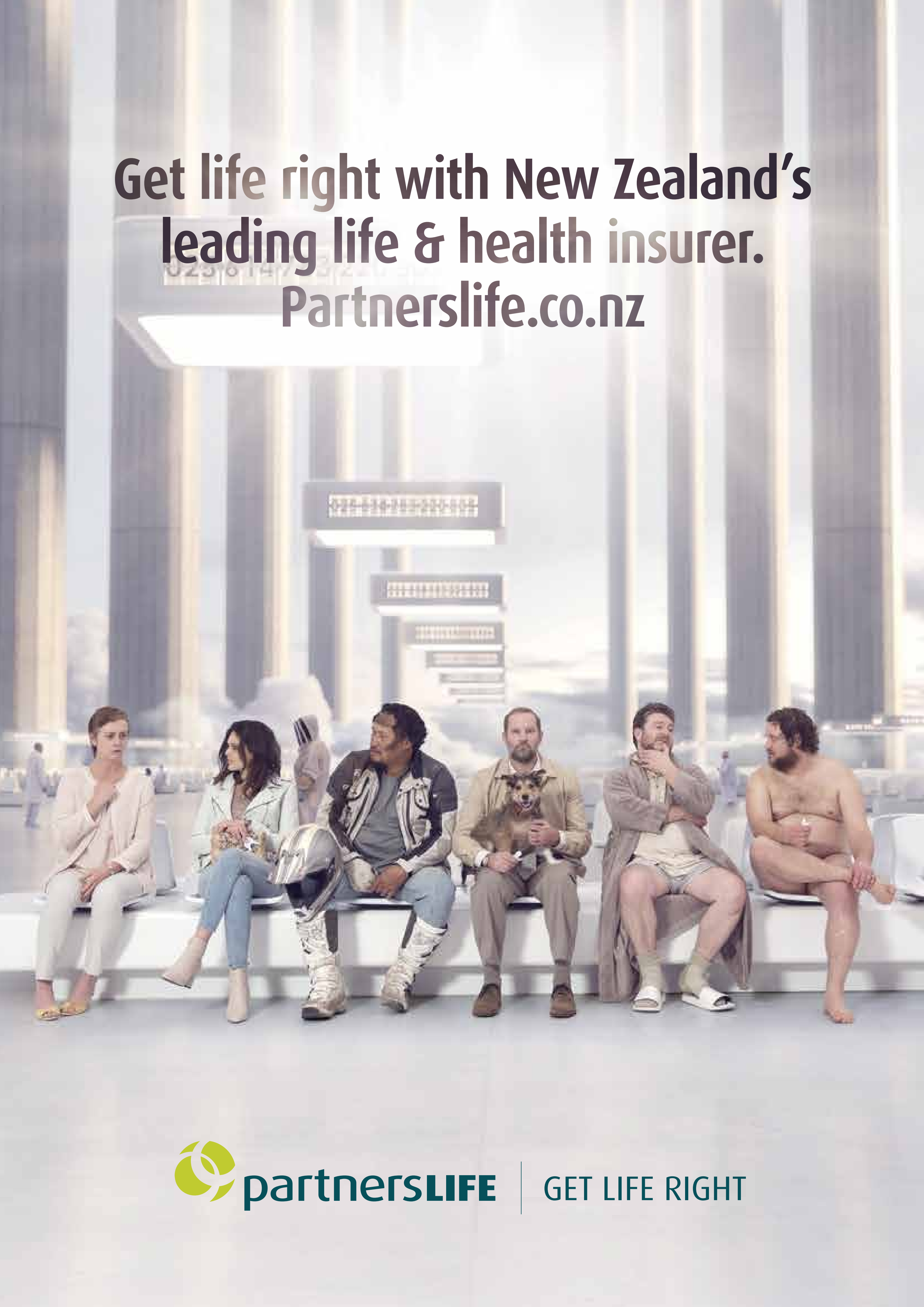
Name	Latest Transaction Exit Price	1 Yr Return %	3 Yr Return	5 Yr Return	Size $M	Morningstar Rating Overall
AMP AIT NZ Cash - UT35	1.14182	1.76	1.84	2.39	7.38	--
AMP ARS-Cash	2.01083	1.95	1.92	2.48	8.78	--
AMP Capital NZ Cash Fund	1.64479	2.17	2.21	2.71	3463.42	--
AMP Capital Term Advantage	--	--	--	--	--	--
AMP PUT Select Cash	1.3667	1.49	1.57	2.05	2.58	--
ASB Cash Fund	--	--	--	--	221.41	--
BT Enhanced Cash Fund	2.1671	2.21	2.26	2.68	39.00	--
Fisher Cashplus Fund	1.3551	2.14	2.16	2.45	68.67	--
Nikko AM NZ Cash	1.0328	2.46	2.64	--	125.21	--
NZ Funds Core Cash	1.37609	1.80	1.85	2.39	44.99	--
NZ OE Equity Region Australasia						
AMP AIT Australasian Shrs-Multi Mgr-UT07	3.43228	12.56	10.61	9.13	13.44	1
AMP ARS-NZ & Australian (multi-manager)	4.09281	13.08	11.10	9.65	7.62	2
AMP ARS-NZ & Australian (Value)	4.59993	17.79	9.01	11.35	5.03	3
AMP NZRT Australasian Shares	1.60961	14.40	12.26	10.40	10.53	2
BT PS Australasian Diversified Share	2.6198	15.44	11.98	13.25	89.41	4
Castle Point Ranger Fund	1.853	11.15	18.53	12.81	83.46	4
Devon Alpha Fund	1.7302	7.31	6.40	7.67	107.16	1
Devon Dividend Yield	1.9158	14.92	7.12	11.86	33.34	3
Devon Trans-Tasman Fund	4.0203	14.83	9.23	10.65	88.18	2
Forte Equity Trust	1.40799	0.03	10.03	--	21.49	2
Harbour Australasian Equity	2.9851	11.97	14.63	13.57	272.40	4
Harbour Australasian Equity Focus Fund	1.8247	7.58	14.30	13.01	20.46	3
Harbour Australasian Equity Income	1.8229	12.63	7.33	9.85	38.35	2
Milford Trans-Tasman Equity	2.8544	12.99	14.38	12.12	330.08	4
Mint Australia New Zealand Act Eq (Ret)	3.3151	16.79	13.93	14.99	102.36	5
Nikko AM Concentrated Equity	2.3794	0.62	11.76	14.40	58.28	3
OneAnswer SAC Equity Selection	2.3931	6.54	5.14	6.22	13.16	2
Pie Australasian Dividend	2.7143	8.99	12.57	12.47	129.58	3
Pie Australasian Emerging Companies	3.4643	10.47	9.60	15.98	95.97	4
Pie Australasian Growth Fund	5.3811	13.43	6.21	10.96	72.83	4
Pie Growth 2 Fund	1.7303	16.65	13.29	--	171.59	3
NZ OE Equity Region Australia						
AMP Capital Australian Share Fund	2.83098	9.40	8.48	5.85	307.39	3
Devon Australian	1.4153	6.52	6.83	8.04	12.04	3
Fisher Funds Australian Growth Fund	3.9972	10.11	8.64	9.38	64.22	3
Fisher Funds Premium Australian Fund	1.7624	10.84	8.87	9.53	87.02	4
Milford Dynamic	1.8363	4.85	10.63	10.65	222.59	5
OneAnswer SAC Australian Share	3.8884	-4.05	2.30	1.79	21.95	1
NZ OE Equity Region Emerging Markets						
AMP AIT Emerging Markets - UT65	1.51775	-1.27	10.16	5.97	2.35	--
NZ OE Equity Region NZ						
AMP Capital NZ Shares Fund	3.23942	15.93	12.22	13.96	564.48	3
AMP Capital RIL NZ Shares	2.37698	19.16	13.08	14.71	20.86	4
AMP Prem PUT ACI NZ Shares	3.20622	15.41	11.54	13.37	3.41	2
AMP Prem PUT ACI NZ Shares Index	2.53112	18.83	13.52	13.77	3.73	3
Fisher Funds NZ Growth Fund	10.0811	23.22	16.02	14.67	189.99	4
Fisher Funds Premium New Zealand Fund	2.3875	23.94	16.38	14.97	122.54	5
Fisher Trans Tasman Equity Trust	6.2388	18.06	12.65	12.32	54.85	2
Forsyth Barr New Zealand Equities	3.271	17.66	14.59	15.72	40.37	4
Harbour NZ Equity Advanced Beta Fund	1.7409	15.01	11.75	--	205.41	2
Nikko AM Core Equity	2.4901	11.18	14.81	15.53	25.89	4
NZ Funds Dividend and Growth	1.9918	7.37	9.28	11.27	115.25	1
OneAnswer SAC NZ Share	5.4965	18.74	13.08	12.70	53.00	3
Russell Investments NZ Shares	1.9022	18.94	13.55	14.12	218.96	3
Smartshares NZ Core Equity Trust	1.5879	15.26	13.57	--	69.82	3
NZ OE Equity Region World						
AMP Capital Core Global Shares Fund	1.642	8.88	11.49	12.40	1045.74	3
AMP Capital Emerging Markets Share	1.22146	-0.35	11.76	8.34	67.77	1
AMP Prem PUT FD Intl Share Fund 1 Value	1.52572	9.23	10.02	9.55	4.22	2
AMP Prem PUT SSgA Global Shares Index	2.16202	11.83	12.20	11.91	3.13	3
Elevation Capital Value Fund	1.5073	0.07	3.33	5.30	23.76	1
Fisher Funds Property and Infrastructure	2.8639	23.61	14.75	13.65	125.75	5
Nikko AM Global Equity Unhedged	2.1485	11.05	12.44	12.93	117.12	4
OneAnswer SAC International Share	2.4182	11.53	13.32	14.20	230.66	5
Pie Global Small Companies Fund	1.5916	1.89	10.41	8.55	111.46	2
Russell Investments Global Shares	2.0339	7.02	11.75	11.96	74.18	3
T.Rowe Price Global Equity Growth	1.7658	13.80	16.80	--	66.57	5
NZ OE Equity Region World - Hedged						
AMP AIT Global Equities-Multi Mgr-UT28	1.30066	4.06	10.81	8.75	12.69	2
AMP AIT Global Infrastructure - UT04	2.92025	12.48	9.26	8.82	25.13	3
AMP ARS-International Shares (Growth)	1.72975	14.54	13.13	13.66	7.40	5
AMP ARS-International Shares (Passive)	1.88798	7.28	11.98	9.32	3.38	3

Name	Latest Transaction Exit Price	1 Yr Return %	3 Yr Return	5 Yr Return	Size $M	Morningstar Rating Overall
AMP ARS-International Shares (Value)	1.52649	-0.13	11.94	10.36	4.93	3
AMP Capital Core Hedged Global Shares Fd	1.58332	3.20	11.15	8.79	614.37	4
AMP Capital Global Listed Infrastructure	1.83382	17.78	8.19	7.17	334.52	1
AMP Capital Global Shares Fund	3.06877	6.02	11.92	10.49	142.84	4
AMP Capital Resp Invest Leaders Gl Sh	1.75945	4.79	10.67	8.35	71.74	3
AMP NZRT International Shares	1.62211	7.31	12.65	10.55	11.00	3
AMP NZRT Passive International Shares	1.65094	9.53	13.13	11.10	6.89	4
AMP Prem PUT SSgA Global Shares IndexHdg	2.50485	5.83	10.75	9.00	5.27	4
ASB World Shares	1.8136	7.84	12.42	11.44	522.92	4
BT PS International Diversified Share	1.9391	5.80	11.78	10.64	120.26	3
Fisher Funds International Growth Fund	2.2818	13.64	15.62	11.24	54.01	4
Fisher Funds Premium International Fund	2.3861	14.46	15.79	11.67	138.76	4
Fisher Global Fund	5.8427	8.04	10.88	7.89	93.30	2
Milford Global Equity	1.5798	7.72	9.97	8.72	458.52	3
Nikko AM Global Equity Hedged	1.9189	5.06	11.28	10.00	50.41	3
NZ Funds Equity Inflation	0.9488	3.87	3.26	4.62	84.53	1
Pathfinder Global Water	2.0576	11.45	8.62	9.00	18.38	2
Pathfinder World Equity Fund	1.8232	5.32	9.12	9.66	21.72	3
Russell Investments Hedged Global Shares	2.1131	3.40	11.60	9.56	71.39	3
NZ OE Equity Sector Global - Real Estate						
AMP AIT Global Property - UT54	3.63187	15.12	6.10	9.28	1.38	3
AMP ARS-Listed International Property	4.37862	11.52	5.65	7.92	5.06	4
AMP Capital Global Propty Securities Fd	1.66546	9.23	3.51	6.52	214.79	3
NZ Funds Property Inflation	1.6934	12.38	4.63	6.22	85.99	2
OneAnswer SAC International Property	1.5133	11.54	5.21	7.77	311.82	3
NZ OE Equity Sector NZ - Real Estate						
AMP ARS-Listed NZ & Australian Property	4.03511	20.68	7.93	11.90	4.12	2
AMP Australasian Property Index Fund	2.66512	17.70	8.10	10.70	163.34	2
BT Property Fund	4.9596	18.12	9.10	13.78	47.66	5
Mint Australia NZ RI Estt Invm (Ret)	2.1625	20.99	8.46	12.47	64.35	3
OneAnswer SAC Property Securities	3.8607	21.37	9.32	13.24	146.56	3
NZ OE Global Bond						
AMP AIT Fixed Interest Income - UT36	1.24662	2.27	2.05	2.84	54.50	2
AMP AIT Global Bonds-Multi Mgr-UT13	2.02647	3.16	1.09	2.87	7.76	2
AMP ARS-International Fixed Interest	2.53836	3.87	1.70	3.53	1.52	3
AMP Capital Global Short Duration	1.08824	2.51	2.19	2.91	192.26	2
AMP Capital Hdgd Gbl Fixed Intrst Fund	2.43758	3.77	2.36	3.91	98.45	4
AMP NZRT International Fixed Interest	1.20884	4.25	2.20	3.58	1.60	2
AMP Prem PUT SSgA Global Fixed Int Index	1.87397	3.96	1.52	3.78	3.73	2
ASB World Fixed Interest	1.1026	3.28	1.56	2.77	405.35	1
BT PS International Diversified Bond	2.3106	3.90	2.96	3.59	129.80	3
Fisher BondPlus Fund	2.2705	3.84	2.88	4.26	144.25	5
Fisher Funds Income	1.0488	4.52	3.56	4.33	55.85	4
Nikko AM Global Bond	1.1949	5.01	3.00	4.39	24.13	4
NZ Funds Global Income	1.4711	3.84	2.25	2.76	113.30	1
OneAnswer SAC International Fixed Intrst	1.2535	4.20	1.96	3.90	1.41	3
Russell Investments Global Fixed Int	1.1623	3.63	3.24	4.84	519.64	5
NZ OE Multisector - Aggressive						
AMP AIT Aggressive Portfolio - UT31	2.153	7.79	9.35	7.19	67.79	2
AMP AIT eInvest - Aggressive - MDF7	1.52306	8.40	10.20	8.07	18.29	3
AMP AIT Growth Portfolio - UT03	2.04762	7.45	8.54	6.75	26.61	1
AMP Capital Growth Fund	2.89308	7.75	9.43	7.63	8.27	3
AMP PUT Select Growth	1.89588	8.16	9.65	7.75	18.78	3
NZ OE Multisector - Balanced						
AMP AIT eInvest - Balanced - MDF5	1.39576	7.19	7.52	6.53	56.98	2
AMP AIT Moderate Portfolio - UT01	1.97543	5.49	4.94	4.66	55.44	1
AMP ARS-Balanced	2.28735	7.66	7.94	7.04	146.00	3
AMP Capital Global Multi Asset Fund	1.26864	1.65	4.66	4.90	242.71	1
AMP Capital Responsible Inv Leaders Bal	2.04524	7.46	7.13	6.57	53.32	2
AMP PUT Select Balanced	1.90873	6.57	6.82	5.98	40.04	2
ANZ Invmt Fds Balanced	1.8855	6.85	6.47	7.36	312.08	3
ASB Balanced	1.7821	8.07	8.21	8.37	289.36	4
Milford Balanced Fund	2.2669	7.04	8.69	9.56	619.16	5
NZ Funds Core Growth	1.4898	1.33	4.90	3.93	88.30	1
OneAnswer MAC Balanced	1.8855	6.85	6.47	7.36	50.55	3
Westpac Active Balanced Trust	2.3741	7.12	7.18	7.58	515.95	3
NZ OE Multisector - Conservative						
AMP PUT Select Income	1.73092	4.02	2.41	3.52	2.14	1
ANZ Invmt Fds Conservative	1.5868	4.93	3.81	5.04	46.60	2
ASB Conservative	1.6901	5.49	4.50	5.13	139.67	3
Milford Conservative	1.14	5.95	6.39	--	248.65	5
OneAnswer MAC Conservative	1.5868	4.93	3.81	5.04	13.41	2
Westpac Active Conservative Trust	1.965	4.94	4.10	4.76	348.39	3
NZ OE Multisector - Growth						

Name	Latest Transaction Exit Price	1 Yr Return %	3 Yr Return	5 Yr Return	Size $M	Morningstar Rating Overall
AMP AIT Balanced Portfolio - UT 02	2.09643	6.44	6.81	5.81	80.98	1
AMP AIT eInvest - Growth - MDF6	1.48589	8.06	9.30	7.53	13.79	2
AMP ARS-High Growth	2.09961	8.52	9.67	8.01	53.41	2
ANZ Invmt Fds Balanced Growth	2.0665	7.76	7.90	8.58	220.14	3
ANZ Invmt Fds Growth	2.2126	8.49	9.20	9.62	118.90	4
ASB Growth	1.7812	9.32	10.14	9.88	72.58	4
Fisher Multi Sector Fund	3.4802	7.93	6.84	6.78	11.26	2
Milford Active Growth	3.6743	7.88	10.24	10.68	1050.15	5
NZ Funds Global Equity Growth	1.7011	3.58	9.81	8.45	74.82	2
OneAnswer MAC Balanced Growth	2.0665	7.76	7.90	8.58	41.14	3
OneAnswer MAC Growth	2.2126	8.49	9.20	9.62	30.60	4
OneAnswer SAC Balanced	3.2888	7.76	7.79	8.43	53.17	3
Westpac Active Growth Trust	2.3527	8.35	8.56	8.90	110.44	3
NZ OE Multisector - Moderate						
AMP AIT eInvest - Conservative - MDF2	1.26525	5.37	4.31	4.40	12.79	2
AMP AIT eInvest - Moderate - MDf3	1.32841	6.12	5.59	5.25	61.49	3
AMP ARS-Conservative	2.39147	5.89	4.76	4.98	42.86	3
AMP Capital Conservative Fund NZ	2.51256	4.92	3.80	4.26	7.59	2
AMP Capital Income Generator Fund	1.13863	8.65	6.35	--	152.76	4
AMP PUT Select Conservative	1.84542	4.72	3.59	3.79	14.17	2
ANZ Invmt Fds Conservative Balanced	1.7317	5.92	5.09	6.18	195.30	3
ASB Conservative Plus	1.7048	6.57	5.34	5.96	788.04	3
ASB Moderate	1.7379	6.82	6.15	6.69	466.14	4
Harbour Income	0.9997	8.06	5.03	--	93.47	3
Milford Diversified Income Fund	1.7479	8.92	8.79	10.50	2167.35	5
Mint Diversified Income (Retail)	1.0667	6.16	4.52	--	42.17	2
NZ Funds Global Multi-Asset Growth	0.5871	-6.63	-0.44	-6.68	27.75	1
OneAnswer MAC Conservative Balanced	1.7317	5.92	5.09	6.18	16.88	3
Westpac Active Moderate Trust	1.5768	6.17	5.55	6.15	1008.38	3
NZ OE NZ Bonds						
AMP AIT NZ Bond - UT36	1.27193	3.77	3.06	4.46	10.14	2
AMP AIT NZ Fixed Interest - UT60	1.87727	5.78	3.31	4.72	10.83	2
AMP ARS-NZ Fixed Interest	2.69051	6.26	3.75	5.22	5.42	4
AMP Capital NZ Fixed Interest Fund	1.74182	6.45	3.97	5.38	2328.83	5
AMP Capital NZ Short Duration	1.28231	3.69	3.23	4.09	614.70	2
AMP NZRT NZ Fixed Interest	1.33736	6.58	4.12	5.50	9.74	5
BT Corporate Bond Fund	1.6989	4.31	3.52	4.40	122.37	2
BT PS NZ Diversified Bond	1.4472	5.88	3.77	4.99	36.16	3
Fisher New Zealand Fixed Inc Trust	1.3986	7.65	3.96	5.04	56.83	3
Forsyth Barr NZ Fixed Interest	1.8016	5.07	3.77	5.01	19.12	3
Forsyth Barr Premium Yield	1.8475	5.12	4.02	5.24	108.96	4
Harbour NZ Core Fixed Interest	1.1419	5.36	3.79	4.97	168.00	3
Harbour NZ Corporate Bond	1.0909	5.08	3.84	4.78	385.18	4
Nikko AM NZ Bond	1.0602	6.63	4.18	5.37	60.31	4
Nikko AM NZ Corporate Bond	1.1961	6.12	4.61	5.67	131.03	5
NZ Funds Core Income	1.65976	5.25	3.79	4.17	122.52	2
OneAnswer SAC NZ Fixed Interest	1.8013	5.84	3.49	4.98	11.81	3
Russell Investments NZ Fixed Interest	1.2437	6.09	3.95	5.18	63.35	4
Westpac Active Income Strategies Trust	1.242	2.56	2.58	2.92	9.16	1

Returns are calculated to **30/4/19**
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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