National Capital
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# KiwiSaver Value for Money Report

**Take control of your financial future with our independent KiwiSaver report.**

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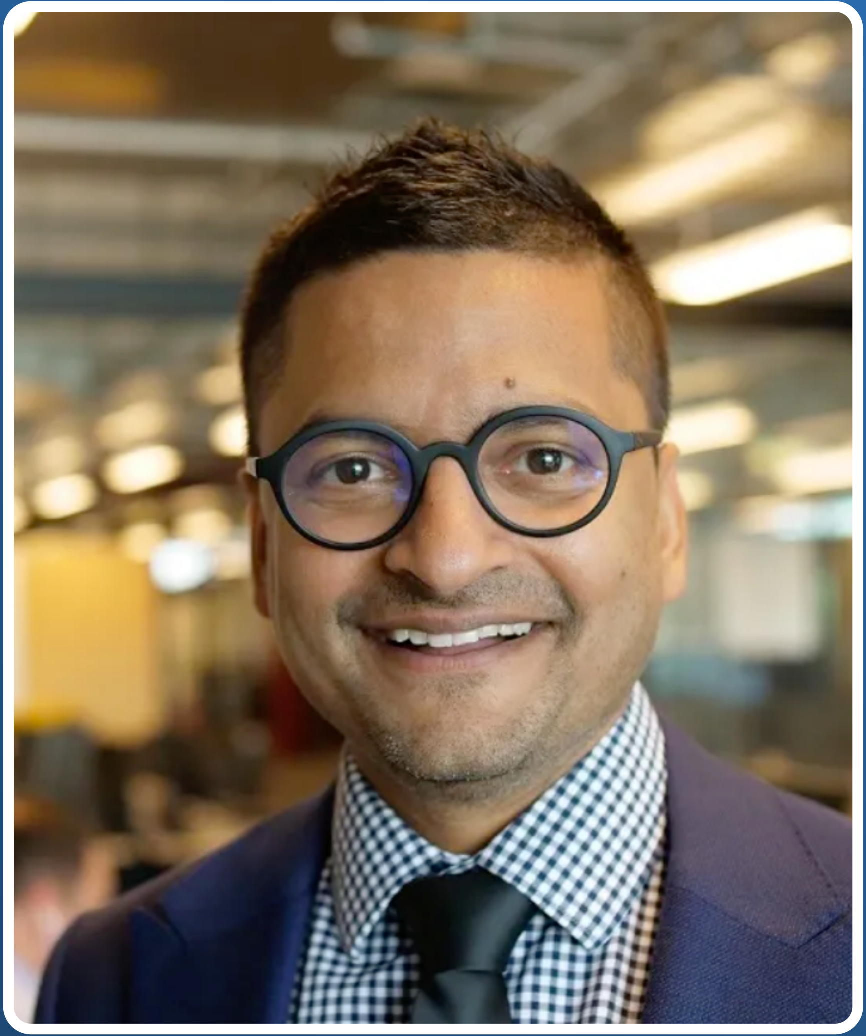
# About this report

Since its inception in 2007, KiwiSaver has helped New Zealanders plan and save for their future. Either to buy a new home, manage unforeseen hardship, or achieve a comfortable retirement. The scheme's popularity was undeniable, with 25% of New Zealanders signed up in the first six years of its operation. And with that popularity came more providers, more options, more flexibility for customers to choose from.

While this growth was great, we noticed that no one was holding the individual providers to account.

We've appointed ourselves as an industry watchdog. We want to provide transparency (one of our core values) to New Zealanders planning for their futures.



**CLIVE FERNANDES** | DIRECTOR / FOUNDER

# Who is National Capital?

Specialising in KiwiSaver research & advice, National Capital has advised New Zealanders on over $95 million of their KiwiSaver investments since being founded in 2018.

Utilising a robust and well-defined KiwiSaver Investment Selection Process, we score KiwiSaver funds across criteria that are vital in helping Kiwis select the right fund for them.

National Capital was founded by Clive Fernandes. Clive is a financial adviser with over 20 years of experience running successful businesses and a self-confessed KiwiSaver nerd. We are now part of the Saturn group, which has been helping Kiwis since 1988.

**LISA DUDSON**
DIRECTOR

**CRAIG STOBO**
CHAIR

**BYEONGGUK KIM**
INVESTMENT ANALYST

**RAVI CHANDOLA**
INVESTMENT COMMITTEE

# Our people

Our team comprises more than 20 experienced finance professionals with over 300 years of combined experience. Our Chairperson, Craig Stobo chaired the Government's Review of the Taxation of Investment Income in 2004 which lead to the PIE tax regime which underpins the KiwiSaver scheme.

Built on principles designed to empower New Zealanders to become financially secure, the Saturn/National Capital team has diverse backgrounds in the finance industry, allowing us to advise New Zealanders on various facets of their financial lives.

# KiwiSaver Contribution Index

| | |
|---|---|
| 4.30% | 1 April 2022 - 31 Mar 2023 |
| n/a | Change from last quarter |
| 6.30% | Optimal Index |

The KiwiSaver Contribution Index measures how much KiwiSaver members contribute to their retirement savings via KiwiSaver regular contributions. It corresponds to the contribution percentage.

# KiwiSaver Allocation Index

| | |
|---|---|
| 56.0 | Oct-Dec 2022 quarter |
| n/a | Change from last quarter |
| 68.8 | Optimal Index |

The KiwiSaver Allocation Index measures how Kiwis are invested in KiwiSaver. A higher index equals a higher growth allocation.

# Key storylines in the Jan-Mar 2023 quarter

- The initial reading of the National Capital KiwiSaver Contribution Index* stands at 4.30%, significantly lower than the 'optimal' index of 6.30%. This under-contribution does not bode well for Kiwis' retirement prospects. For example, consider a 40-year-old Kiwi who contributes 4% to their KiwiSaver fund and has an average balance of $33,000, with a salary of $70,000, and invests in a Growth fund. Based on these parameters, they would accumulate a nest egg of $320,000 by age 65. However, this amount falls short by $81,694***** of what retiring Kiwis would need as a lump sum*** to receive a normal weekly income come retirement.

- Generation Z (18 to 24) had the highest contribution rate at 5.34%, while GenX (35-44) were the lowest contributors**** at only 4.22% of their income.

- The initial reading of the National Capital KiwiSaver Allocation Index* stands at 56. The index was much lower than the optimal number of 68.8, which indicates Kiwis are not investing their KiwiSaver money in the best way that suits their life stage. This gap represents a potential $48 billion in lost future earnings.**

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* Please note that the Contribution Index and Allocation Index are indices calculated by National Capital and are not affiliated with the Inland Revenue Department. The KiwiSaver name and logo are trademarks of the Inland Revenue Department.

** This figure does not take into account contributions. The resulting number would be much larger if KiwiSaver contributions were invested as per the optimal index.

*** Based on our calculations for a 'typical' Kiwi and data from the Massey Retirement Expenditure Guidelines survey.

**** Not taking into consideration Kiwis aged below 17 or 65 and older.

***** The shortfall includes receiving NZ Super at a 'single individual' rate.

# Overall analysis

(Jan to Mar 2023 Quarter)

# Report Methodology

National Capital's proprietary Investment Selection Process is based on six pillars that intend to help New Zealanders build trust and confidence in their investments. The combined rating of the six pillars gives a fund a score **out of 100.**

25 POINTS

1

**PERFORMANCE AFTER FEES**
Quality and consistency of returns.

15 POINTS

2

**FEES ALIGNMENT**
Assessment of value provided for fees charged.

20 POINTS

3

**ORGANISATIONAL CAPABILITY**
The capability of the organisation to manage your money.

10 POINTS

4

**ORGANISATIONAL STABILITY**
Overall stability within a provider's organisation.

20 POINTS

5

**PROCESSES & PORTFOLIO COMPOSITION**
Asset allocation, investing process and style consistency.

10 POINTS

6

**ETHICAL INVESTING CONSIDERATIONS**
Deep dive into the ethical investing claims of providers.

# A-rated High Growth funds

| KiwiSaver Fund | Performance after Fees (25) | Fees Alignment (15) | Capability (20) | Stabilty (10) | Process & Portfolio (20) | Ethical Investing (10) | Total Score (100) |
|---|---|---|---|---|---|---|---|
| Booster Socially Rsp Hi Gr | 23.08 | 15 | 20 | 10 | 20 | 9.75 | **97.83** |
| Booster High Growth | 21.15 | 15 | 20 | 10 | 20 | 5.20 | **91.35** |
| Milford Aggressive | 19.23 | 15 | 20 | 10 | 20 | 4.95 | **89.18** |
| MAS Aggressive | 15.38 | 15 | 20 | 10 | 20 | 7.35 | **87.73** |

## Insights

- Booster's Socially Responsible High Growth Fund retained its top Value for Money rating due to its stable performance and the strength of its investment team. They also had an almost perfect score on ethical investing metrics.
- MAS, a relatively small and lesser-known provider, punched above its weight as one of four A-ranked High Growth Funds.
- Milford's Aggressive Fund was the newest of the lot launched 3 years ago, but chart-topping returns of 14.51% p.a. during that period pushed it into the A-rated cohort.
- The absence of big bank KiwiSaver schemes was conspicuous, as most of them do not have High Growth diversified funds.
- There was a substantial gap of 3.47% p.a. between the highest (8.72%) and lowest (5.25%) 5-year performances.

# A-rated Growth funds

| KiwiSaver Fund | Performance after Fees (25) | Fees Alignment (15) | Capability (20) | Stabilty (10) | Process & Portfolio (20) | Ethical Investing (10) | Total Score (100) |
|---|---|---|---|---|---|---|---|
| QuayStreet Growth KiwiSaver | 24 | 15 | 20 | 10 | 20 | 4.58 | **93.58** |
| Milford KiwiSaver Active Growth | 23 | 15 | 20 | 10 | 20 | 4.83 | **92.83** |
| Booster Growth | 22 | 15 | 20 | 10 | 20 | 5.45 | **92.45** |
| Simplicity KiwiSaver Growth | 20 | 15 | 20 | 10 | 20 | 7.23 | **92.23** |
| Fisher TWO Growth | 21 | 15 | 20 | 7.50 | 20 | 7.35 | **90.85** |
| Fisher Funds Growth | 19 | 15 | 20 | 7.50 | 20 | 6.73 | **88.23** |
| MAS KiwiSaver - Growth | 11 | 15 | 20 | 10 | 20 | 6.98 | **82.98** |
| BNZ Growth | 12 | 15 | 20 | 10 | 20 | 5.08 | **82.08** |

## Insights

- Simplicity's Growth Fund was the only passive manager to rank among the A-rated KiwiSaver Growth funds with 5-year returns rivalling other higher fee active managers.
- QuayStreet Growth topped the Value for Money chart with a 93.58 out of 100 score.
- BNZ was the only big four bank scheme to be A-rated in our analysis due to the strength of its low fees, stable returns and strong investment processes.
- There was a substantial gap of 3.69% p.a. between the highest (8.59%) and lowest (4.90%) 5-year performances.

# A-rated Balanced funds

| KiwiSaver Fund | Performance after Fees (25) | Fees Alignment (15) | Capability (20) | Stabilty (10) | Process & Portfolio (20) | Ethical Investing (10) | Total Score (100) |
|---|---|---|---|---|---|---|---|
| Booster Socially Responsible Balanced | 17.71 | 15 | 20 | 10 | 20 | 9.48 | **92.19** |
| Booster Balanced | 19.79 | 15 | 20 | 10 | 20 | 5.50 | **90.29** |
| Simplicity Balanced | 17.71 | 15 | 20 | 10 | 20 | 7.03 | **89.74** |
| MAS Balanced | 14.58 | 15 | 20 | 10 | 20 | 6.51 | **86.09** |
| Summer Balanced Selection | 16.67 | 15 | 20 | 10 | 20 | 4.33 | **86.00** |
| Kiwi Wealth Balanced | 21.88 | 15 | 10 | 10 | 20 | 8.21 | **85.09** |
| Fisher TWO Balanced | 15.63 | 15 | 20 | 7.50 | 20 | 6.77 | **84.90** |
| SuperLife Ethica | 20.83 | 15 | 10 | 10 | 20 | 8.96 | **84.79** |
| Milford KiwiSaver Balanced | 22.93 | 15 | 20 | 10 | 10 | 4.72 | **82.65** |
| QuayStreet Balanced | 22.92 | 15 | 5 | 10 | 20 | 4.46 | **77.38** |

## Insights

- While there was only one A-rated passive manager in the Growth category, SuperLife joined Simplicity in having an A-rated fund in the Balanced category.
- Among A-rated funds, the ones with the lowest Ethical Investment score were rated as having ‘Some Exclusions’ compared to the highest-rated funds, which have ‘Positive Inclusions’. See the Ethical Investing pillar notes for more details.
- The gap between the highest (7.14%) and lowest (2.98%) 5-year performance was 4.16% p.a. This was a larger gap than the Growth category, which had a similar number of funds in our final sample.

# A-rated Conservative funds

| KiwiSaver Fund | Performance after Fees (25) | Fees Alignment (15) | Capability (20) | Stabilty (10) | Process & Portfolio (20) | Ethical Investing (10) | Total Score (100) |
|---|---|---|---|---|---|---|---|
| Milford Conservative | 21.67 | 15 | 20 | 10 | 20 | 5.4 | **92.07** |
| Fisher TWO KiwiSaver Cash Enhanced* | 20.00 | 15 | 20 | 7.5 | 20 | 8.3 | **90.80** |
| Westpac Defensive Conservative | 18.33 | 15 | 20 | 10 | 20 | 6 | **89.33** |
| BNZ First Home Buyer Fund | 15.00 | 15 | 20 | 10 | 20 | 6 | **86.00** |

*This fund is no longer open to new investors.

## Insights

- Simplicity, which had A-rated funds in both the Growth and Balanced categories, could not make the A-rated cohort in the Conservative category due to below-average returns after fees.
- Active Managers seemed to have an edge in the Conservative category. Whether this was due to active managers providing added value via bond and fixed-income analysis as compared to equity analysis is something that we will dig deeper into.
- The gap between the highest (3.25%) and lowest (1.62%) 5-year performance was 1.63% p.a. While this is a smaller gap in absolute terms compared to other categories, the highest 5-year performance was more than double the lowest.

# Assessment pillar insights

(Jan to Mar 2023 Quarter)

# Performance

## National Capital Insights

- KiwiSaver funds added around $3.6 billion in returns for their investors this quarter.
- Overall, KiwiSaver funds did better this quarter, with an average weighted return of 4.21% vs 2.10% last quarter. This is due to better performance in growth assets.
- Growth Funds contributed around $1.6 billion this quarter, with an average return of 5.13% compared to an average of 2.82% last quarter.
- None of the funds had negative returns for this quarter.
- JUNO Growth Fund had the best quarterly performance of 8.17%.*

* All figures are after fees, but before tax and based on the funds in our sample.

# Performance

| HIGH GROWTH<br>Top 5-year Returns* | |
|---|---|
| Booster SRI High Growth | 8.72% |
| Booster High Growth | 7.47% |
| MAS Aggressive | 7.03% |

| GROWTH<br>Top 5-year Returns* | |
|---|---|
| Milford Active Growth | 8.59% |
| Simplicity Growth | 6.84% |
| QuayStreet Growth | 6.82% |

| BALANCED<br>Top 5-year Returns* | |
|---|---|
| Milford Balanced Fund | 7.14% |
| SuperLife Ethica | 5.89% |
| QuayStreet Balanced | 5.79% |

| CONSERVATIVE<br>Top 5-year Returns* | |
|---|---|
| Milford Conservative | 3.25% |
| QuayStreet Conservative | 3.18% |
| Fisher TWO Cash Enhanced | 2.71% |

*All returns are shown net of per annum fees, but before tax.

# Fees

## National Capital Insights

- Fisher Funds eliminated performance fees from its diversified KiwiSaver funds, bringing them in line with other providers. NZ Funds and Milford still include performance fees in their Product Disclosure Statements.
- Simplicity maintained its position as the provider with the lowest fees among the Growth, Balanced, and Conservative categories*.
- The average fees varied greatly across different categories. High Growth had the highest average annual fees at 1.12%, while Conservative had the lowest at 0.61%.**

* In this quarter's analysis, we did not consider Simplicity KiwiSaver Schemes' newly launched High Growth fund.

** We did not include Cash or Single Sector funds in our analysis.

# Fees

| HIGH GROWTH Lowest Fees* | |
|---|---|
| SuperLife High Growth | 0.63% |
| Mercer Sustainable Plus High Growth | 0.92% |
| AMP LS Aggressive | 0.96% |

| GROWTH Lowest Fees* | |
|---|---|
| Simplicity Growth | 0.31% |
| BNZ Growth | 0.51% |
| SuperLife Growth | 0.61% |

| BALANCED Lowest Fees* | |
|---|---|
| Simplicity Balanced | 0.31% |
| BNZ Balanced | 0.51% |
| Westpac Balanced | 0.59% |

| CONSERVATIVE Lowest Fees* | |
|---|---|
| Simplicity Conservative | 0.31% |
| Booster Conservative | 0.38% |
| Westpac Defensive Conservative | 0.39% |

*Fees listed are percentage based management fees. Funds may have fixed member fees or individual action fees in addition to management fees.
Note: The recently launched Simplicity High Growth fund which has fees of 0.29% p.a. has not been included in this quarters numbers.

# Ethical Investing

## National Capital Insights

- Booster's Socially Responsible High Growth fund topped the charts for Ethical Investing with an almost perfect score of 9.75.
- Superlife, via their Ethica fund in the Balanced category, was the other provider rated high based on their Positive Inclusions*.
- Other providers with funds rated high in the Ethical Investing pillar were Nikko, JUNO, Pathfinder and Simplicity.
- Average Ethical Investing scores across different categories had a small variance. The worst category was Growth (6.01), and the best was Balanced (6.21). A score of 6 relates to having 'some exclusions'. Overall, managers seem to be getting more focused on Ethical Investing.

* 'Positive Inclusion' providers go beyond excluding companies on their naughty list to actively invest in companies that positively influence their investors' concerns.

# Ethical Investing

| HIGH GROWTH<br>Ethical Investing Score | |
|---|---|
| Booster Socially Responsible High Growth | 9.75 |
| Nikko AM Growth | 8.00 |
| MAS Aggressive | 7.35 |

| GROWTH<br>Ethical Investing Score | |
|---|---|
| Booster Socially Responsible Growth | 9.25 |
| JUNO Growth | 8.47 |
| Pathfinder Growth | 8.35 |

| BALANCED<br>Ethical Investing Score | |
|---|---|
| Booster Socially Responsible Balanced | 9.47 |
| SuperLife KiwiSaver Ethica | 8.95 |
| JUNO KiwiSaver Balanced | 8.33 |

| CONSERVATIVE<br>Ethical Investing Score | |
|---|---|
| Fisher TWO Cash Enhanced | 8.30 |
| Simplicity Conservative | 7.70 |
| Booster Conservative | 6.60 |

# Capability & Stability

## National Capital Insights

- The KiwiSaver industry is undergoing significant changes, particularly in the area of investment professionals. These changes have important implications for the investment process and organisational culture. We will remain alert on the following key watchpoints in the coming quarters.
- ANZ Investments bid farewell to veteran Alan Clarke, their co-Head of Diversified Funds, as of Mar 2023. The search for a successor is underway. The presence of Chief Investment Officer (CIO) Paul Huxford and Maaike Van Tol provides some stability during this transition. ANZ's fund-of-funds approach also helps mitigate immediate impacts since the underlying managers remain unchanged.
- The recent acquisition of QuayStreet by Smartshares has resulted in the departure of two senior fund managers, which could potentially lead to changes in their investment processes. While Smartshares CIO Stuart Miller brings his experience as an asset allocator, we remain watchful for any modifications that may arise during the integration phase.
- Nikko Asset Management has recently experienced the departure of George Carter, chair of the Investment Committee and dedicated portfolio manager for its diversified funds. Stuart Williams has taken over both roles in addition to his role as Co-Head of Equities.
- The recent acquisition of Kiwi Wealth by Fisher Funds has resulted in the departure of the majority of the senior investment professionals' team at Kiwi Wealth. We continue to assess how the organisation will adapt its investment capabilities moving forward.

# Process & Portfolio

## National Capital Insights

- KiwiSaver funds have decreased their average net cash holdings from 10.96% to 9.26%
- The effective duration of bond investments and investment styles remained consistent across the observed funds.
- As most KiwiSaver Funds are domiciled in New Zealand and have limited access to international fixed interest and shares, we observe a certain degree of passive underlying investments. This suggests that these funds rely on passive investment strategies for certain asset classes, potentially due to the constraints imposed by their predominantly domestic focus.
- Most managers have an equity style where they invest somewhere in the middle between growth and larger value companies.

### Disclaimer on Insights

For ease of readability, we have referred to various funds as 'XX's YY fund' rather than 'XX KiwiSaver Schemes' YY Fund. It is important to note that all mentions of the 'XX YY fund' refer to the fund in the provider's KiwiSaver scheme. It is possible that KiwiSaver scheme providers may also have non-KiwiSaver funds with similar names.

Our analysis and figures are based on the sample group of funds that have passed our preliminary filtering process. This excludes lifecycle and single-sector funds. Our sample comprises approximately 90% of the total FUM in KiwiSaver. Please contact us for additional information or a comprehensive list of funds in our sample.

Our rating system is based on quartiles. Therefore, a fund that does not have an A rating does not necessarily indicate that it is a "poor" fund. It simply means that it is ranked lower than other funds on a comparative basis. All performance figures noted are net of fees but before tax.

# The Quarterly Deep Dive

## How does switching funds during market turmoil affect KiwiSaver investments?

Our deep dive analysis uses data to support financial advisers' recommendations against changing funds during market downturns and attempting to time the market.

We analysed the performance of the MSCI World Index and KiwiSaver during the last major period of global unrest, the Global Financial Crisis.

During periods of economic unrest, data has shown that it's common for KiwiSaver investors to switch to a more conservative fund. This 'panic switching' often leads to losses for investors.

# Analysis of Panic Switching

- Looking back to the last major era of economic unrest, the Global Financial Crisis, our data shows the world index took 4.59 years to recover. Interestingly, the average KiwiSaver Growth fund recovery time was 2.47 years - significantly faster.
- If an investor had switched on the day their fund experienced the maximum decline, i.e. panic switched at the worst possible time and moved to a more conservative fund, the recovery period would take approximately 6.09 years - more than doubling the timeframe.
- We again saw the consequence of panic switching through the Covid pandemic. Less experienced KiwiSaver investors (aged 26-35) made five times more fund switches in 2020 than in 2019 - with 70% moving to more conservative options*.
- Over the past four years, KiwiSaver fund switches have nearly doubled - 240k in 2019 to a record high of 450k in 2022. Some may have been tactical, well-advised switches, but many were not.

## Global Financial Crisis - fund declines

| KiwiSaver Fund | Average max fund decline | Average recovery time |
|---|---|---|
| **Conservative** | 3.95% | 0.69 Years |
| **Moderate** | 6.40% | 0.61 Years |
| **Balanced** | 17.47% | 2.78 Years |
| **Growth** | 26.25% | 2.47 Years |
| **MSCI World Index*** | 33.38% | 4.59 Years |

*The MSCI World Index is a broad global equity index that represents large and mid-cap equity performance across all 23 developed markets countries.

### National Capital Takeaway

For most individuals, the optimal approach is to stay the course, especially if they are invested in a well-diversified managed fund with professionals overseeing their investments.

# National Capital's quarterly KiwiSaver Value for Money report.

National Capital provides free digital financial advisory services to everyday New Zealanders. Specialising in KiwiSaver & Investment research that explores the value of KiwiSaver funds, National Capital has advised New Zealanders on over $95 million of KiwiSaver investments since being founded in 2018. Its goal is to help clients select an appropriate KiwiSaver provider and fund that suits their goals, requirements and financial situation and continue to evaluate what is most suitable for their needs.

## Important links

National Capital Methodology

www.nationalcapital.co.nz

KiwiSaver HealthCheck

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