Review of NZFUNDS LifeCycle Product

Purpose of the review

Our purpose has been to review NZFUNDS' LifeCycle approach. NZFUNDS uses a LifeCycle approach as a core asset allocation tool across their KiwiSaver Scheme, Managed Superannuation, Managed Portfolio Services and soon to be launched WealthBuilder. We have compared it with other approaches here and abroad and have assessed whether it matches best practice based on overseas experience and academic literature on investing through the lifecycle.

Our assessment

This review has focussed on the lifecycle 'glidepath', by which we mean how the asset allocation changes over a person's life.

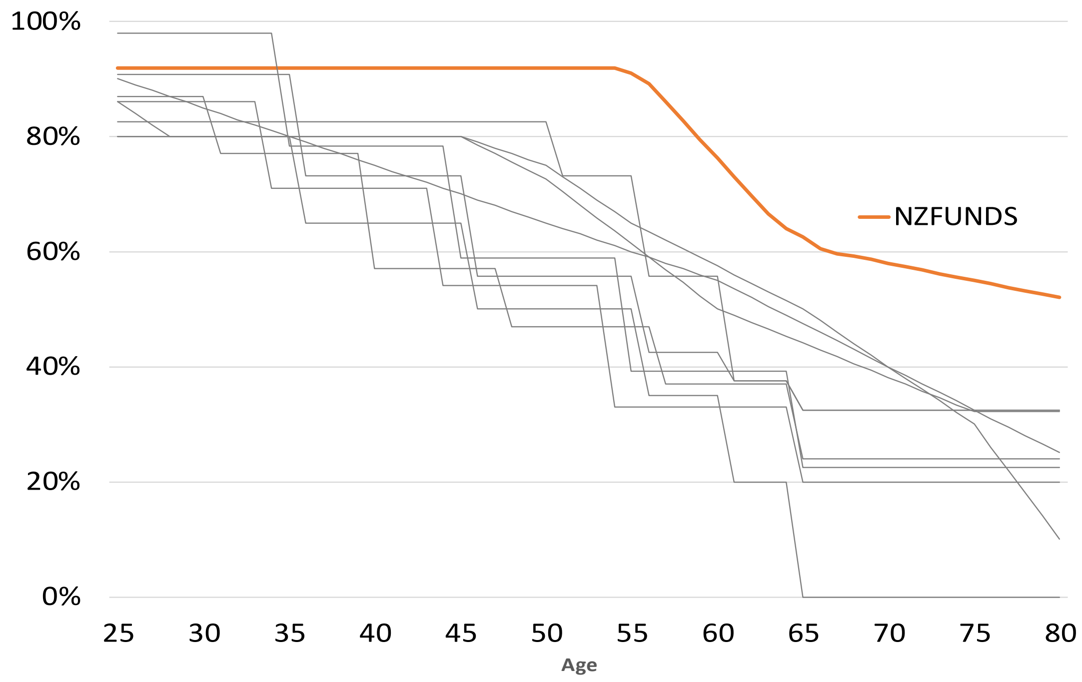
In our view, the NZFUNDS glidepath is well designed and is one of the best in the New Zealand market.

Compared with other available products, NZFUNDS' approach is more likely to achieve the retirement objectives of the average investor. It avoids two of the most common pitfalls that are seen in lifecycle products here and overseas by (a) not starting to reduce risk at too young an age; and (b) not becoming too conservative around retirement.

The main area to watch is that de-risking occurs reasonably quickly, from age 55 to 65. If this were to coincide with a severe bear market, clients might be better off delaying or slowing down the de-risking process so that they get more benefit from any bounce-back in equity prices.

Allocation to growth assets compared with other New Zealand lifecycle products

The chart below shows the exposure to growth assets at different ages. The NZFUNDS 'glidepath' is shown in orange; the grey lines are other New Zealand providers.



The most common criticism of lifecycle products globally is that they become too conservative at too young an age. NZFUNDS' approach compares well relative to all other New Zealand providers by keeping a strong allocation to growth assets through to 55, but also at and through retirement.

For instance, for a 55-year-old the average allocation to growth assets among the other New Zealand providers is 54%, compared with 91% for NZFUNDS. The more conservative funds are less likely to deliver acceptable retirement incomes for the typical saver.

A second difference is that NZFUNDS makes small adjustments to the asset allocation each year. More than half of the other products change the allocation infrequently and by a large amount (which is a poor approach because large changes may be made to the portfolio at a bad time in markets).

New Zealand lifecycle products are compared in Table 1 below. In the example in the table, someone who starts saving into a NZFUNDS LifeCycle product at age 25, with an initial income of $75,000, can expect to have an investment fund worth approximately $460,000 (in today's dollars) at the time they retire. This compares favourably to most other providers in the market.

Table 1: Summary of lifecycle products in New Zealand

	Percent invested in growth assets			Fees [2]		
	At age 55	Post retirement [1]	Asset allocation adjustment	Estimated fund charges	*Plus* Fixed annual fee	Average amount at age 65 [4]
NZFUNDS	91	56	Annual steps	1.6%	$36	$459,000
Average of other providers	54	26	..	1.1%	$34	$427,000
AMP Lifesteps	47	24	Step down every ten years	1.2%	$23	$395,000
ANZ	50	0	Step down every 5-10 years	1.0%	$18	$403,000
AON Russell	33	20	Annual steps	1.2%	$50	$399,000
Fisher Funds	61	36	Annual steps	1.0%	$36	$457,000
Generate Stepping Stones	56	33	Step down every five years	1.4%	$36	$398,000
Generate S-S Growth	73	33	Step down every five years	1.5%	$36	$418,000
LifeStages	39	23	Step down every ten years	1.1%	$24	$424,000
SuperEasy [3]	60	36	Each month	0.6%	$54	$472,000
SuperLife Age Steps	65	32	Annual steps	0.6%	$30	$480,000

1. Post retirement is the average from age 65 to 80.
2. Fees are for the allocation at or around age 55. Fund management fee may include performance fees.
3. SuperEasy is available to Local Government employees only.
4. Terminal wealth is measured in today's dollars, i.e. adjusted for inflation. Based on monte carlo simulation of person who starts saving at age 25, with a starting salary of $75,000. Based on 4% contribution rate plus 3% employer and contributions.

About MyFiduciary

MyFidicuary Limited is an independent investment consultant founded in 2006. We provide investment and governance support to a range of investors including advisers, charities, foundations, Māori and Iwi organisations, pension providers and industry bodies. Our services include portfolio design, monitoring and compliance; asset allocation; due diligence support; independent reviews of governance policies, processes and providers; and training for stewards and staff.

Biographies

David Rae is a Principal at MyFiduciary and Fi360 Pacific. He is a member of several investment committees including the New Plymouth District Council's Fund and the Māori-backed Te Pūia Tāpapa direct investment fund. His company directorship roles include renewable energy, gas infrastructure and a Commercial Pilot Academy. Prior to that he led the Investment Analysis team at the NZ Superannuation Fund.

Chris Douglas is a Principal at MyFiduciary and Fi360 Pacific and leads our manager monitoring service. Chris has 19 years investment experience working in Auckland and overseas. Previously he was Director and Manager of Research for Asia-Pacific at Morningstar, a leading global investment manager research firm. Chris led Morningstar's fund review processes and chaired the Investment Committees for Australia, New Zealand and India.