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New Zealand Funds Management Industry Update 2016

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FUELLING PROSPERITY

Contents

At KPMG we are focused on fuelling New Zealand's prosperity. Strong, trusted financial markets are critical to New Zealand's prosperity.

New Zealanders must have confidence in the people and institutions to whom they entrust their hard-earned savings.

Foreword

New Zealanders continue to invest in KiwiSaver, but is it enough to just invest the percentage we do? Have we lapsed into a "she'll be right" philosophy i.e. "We are in KiwiSaver – we should be okay, and anyway, retirement is still years away. "

Are we doing enough particularly around some of the things like, the amount we invest, the type of fund we are in, how we plan to use our retirement savings or are we on blissfully ignorant autopilot?

By John Kensington
Partner, Head of KPMG New Zealand Financial Services

Welcome to the second edition of our Funds Management Industry Update (Funds FIPS).

When we launched the first edition a little over six months ago, the key themes of the document were:

- The important part of the funds management landscape that KiwiSaver had become, and how for many New Zealanders it was their first foray into an investment that wasn't one of the three Bs: the BMW, the Boat or the Bach. KiwiSaver had grown to a $32bn pool of funds, invested in by a range of New Zealanders as their first foray into investment. Over eight years since its inception, it has seen phenomenal growth on the back of regular contributions and strongly performing financial markets.
- The document identified that we also have a (newish) regulator that is becoming increasingly active; that the industry was faced with a number of challenges, including new disruptive market entrants; and like many other sectors, the industry faced the impact of the digital age, cyber security concerns were high; and conduct risk was approaching on the horizon.
- At the same time, we also pointed out that the average New Zealander was still financially illiterate and illustrated that fact by the overweighting of KiwiSaver investors towards the default (conservative) funds. The document also highlighted that New Zealanders really needed to take a longer-term view, utilising the advice of advisors to deal with some of these complex issues, and that long term this needs to focus not just on investment choices but also exit strategies.

So what has happened since then? All of these challenges and issues remain. New Zealanders are still pouring money into KiwiSaver; the regulator is still keeping an active eye on market participants, their products and their conduct. The industry is still challenged by disruptors and digitalisation, while cyber security risk is increasing. New Zealanders have not become any more financially literate and a large percentage of funds remain in default (conservative) funds.

The one significant change that we have seen in this period is some real market volatility. In early January, global financial markets took a battering as concerns over China, Europe and the global economy generally, sent markets into turmoil. Asian sharemarkets dropped sharply, taking many other markets with them; credit default swap spreads and lending spreads blew out significantly; and in probably one of the few times since their inception, KiwiSaver funds saw reductions in value, particularly those with holdings in equities.

One of the big questions that the market is now faced with, given a (slight) reduction in the value of many members' balances, is, how have they reacted to this previously unknown trend? Obviously when the value of your investment goes down, there is a temptation (a very real temptation) to move back to something that is perceived as safer. The problem with this approach is that it locks in any loss, particularly if you move from a more balanced or aggressive fund into a conservative fund. You will lock in your losses and given the historic and likely future performance of those funds, you may be slower to recover them when markets do pick up again. Over this period, it will be interesting to see how many New Zealanders take advice, or make a decision based on their own experience and expertise, and what (if any) action they take.

So what is in the second edition of our document?

Amongst the range of articles covering topical issues, the major theme is the explosion of operational risk. Globally, regulators are talking conduct risk. There is a realisation that what you are doing must not only be based around disclosure of your actions, but it must actually be for the benefit of your clients and you need to be able to demonstrate that. It is no longer acceptable to make a profit and provide a service or a product to a client that they need – now it must also be well-suited to their needs. Our regulator has contributed an article looking at customers, consistency and conduct, the "Three Cs", and how they will be the focus areas in the new era of financial markets conduct regulation. In addition, a piece of KPMG's own thought leadership covers a similar topic looking at the explosion of operational risk.

The ever-present topic of cyber security is addressed again as the frequency and relentlessness of attacks increases all the time in the form of "Every Fund Manager's Practical Guide to Cyber Security". Our partners in the document, Morningstar, have updated their KiwiSaver market commentary and star rating tables. We have internal articles from KPMG personnel addressing the taxation implications of New Zealand adopting the common reporting standard for the automatic exchange of information and a "Did you know" question piece about the Financial Market Conduct Act. Here we look at some of the hot topics facing the audit industry and its clients in relation to the Financial Market Conduct Act around Trustee Reporting and Custodian Controls Reporting. The Commission for Financial Capability contributes an article that looks at the importance of planning for your financial future – something that many suspect is a bit on autopilot.

All in all, our second edition of the Funds Management Industry Update shows that the issues existing last time have only intensified, and have been joined by some new issues. At the same time, for the first time in many years, the sector has found itself in negative return territory, and it will be interesting to see the impact this has on investor behaviour.

One other significant change to this edition concerns the document itself. The Funds FIPS, as it is affectionately being called within KPMG, will be the second document from KPMG to be completely digital-only and will be made available in a PDF format.

I would like to sincerely thank our external contributors: Liam Mason, David Boyle, Nicholas Stanhope, Anthony Serhan and Tim Murphy.

Along with our internal contributors: Darshana Elwela, John Cantin, Philip Whitmore, Ceri Horwill, and Desi Miteva.

I would also particularly like to thank Donna Berry, our Project Manager together with our markets team, who have pulled together the finished document and managed the whole process.

Thanks also to our production partners, Morningstar, for their assistance with the league tables and their article on "Safe withdrawal rates for retirees."

We hope the second edition of the Funds FIPS challenges readers to consider their own planning, making them aware of the market issues and risks. In particular we hope it rocks people out of the "it's okay because I'm in KiwiSaver and it's on autopilot." In addition, we hope it further stimulates the investment debate and in some small way, close the illiteracy gap and drive prosperity.

John Kensington
Partner, Head of Financial Services
KPMG, New Zealand

The Financial Markets Conduct Act three Cs: customers, consistency and conduct

Liam Mason
Director of Regulation
Financial Markets Authority

The Financial Markets Authority (FMA), the industry, investors and the general public all have a strong interest in fair, efficient and transparent New Zealand financial markets. Only markets with those qualities can be vibrant and sustainable, otherwise New Zealanders will not have the confidence to participate in them.

In the new era of the Financial Markets Conduct (FMC) Act, a strong focus for the FMA is monitoring and, where necessary, intervening in situations where the financial services industry touches its customers and investment decisions are made.

We also work with fellow agencies such as the Commission for Financial Capability to assist investors to think about what they want, to make a careful choice about who they use to get it and, once they have made an investment decision, to continue to be interested in what their providers are doing with their money and why.

In reality, the FMA and other agencies are not in the room when an actual investment decision is being made. The industry is there when the decision is being made and the FMA has high expectations of how the industry behaves and communicates in those situations.

In other words, we have high expectations of the industry's conduct – it is vital to lifting and maintaining the confidence of New Zealand investors. That conduct, above and beyond compliance with regulation, is ultimately what determines whether customer outcomes meet their needs.

The FMA believes a key part of industry conduct is giving consumers clarity about the products and services offered to them. Being clear about the costs, benefits, risks and nature of a product helps investors to assess whether it is the right investment decision for them, and to compare with other products.

It's not just the FMA saying it. This is an increasing theme in what the local industry will be hearing and reading about from their global contemporaries. That for a financial services business, sustainable success is first based on understanding customer need (including helping customers to determine that need), then meeting it to the best of their ability.

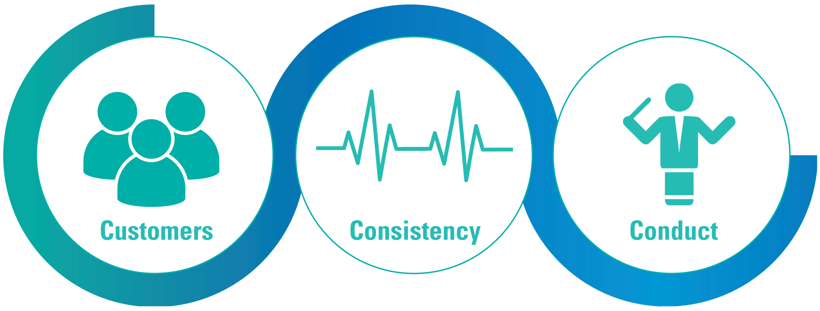
Of course it's already second nature for many businesses to recognise the value of good customer service and relationship management – the overall 'customer experience'. So what is commercially astute for the industry is also at the heart of the new FMC regime. We are engaging with the industry to help them understand that what they are doing for commercial reasons can also, with not much adjustment, help to build more confident New Zealand investors.

Licensing – working to raise market confidence consistently

We see industry conduct and consistency in the way they offer products to the public as key objectives under the new regime. Well-functioning markets and well-informed investors are our overarching goals, and one of the keys to achieving these is to provide consistent standards for the industry and consistent expectations for consumers.

For the industry, the "ticket to the game" starts with meeting licensing standards that apply to all Fund Managers. It continues with a set of consistent disclosure, reporting and conduct obligations. For industry players this provides a level playing field. For consumers it makes financial services more accessible, as they can confidently expect the same minimum standards to apply to those who manage their investments, regardless of legal form or business model.

As we roll out these new requirements we are working hard to help the industry to understand what we, and the law, expect from them. We have paid a great deal of attention to consultation and guidance on some of the elements that make up this overall package. In particular, we have focused on the key information that needs to be provided, and answered some of the questions from the industry on how to disclose information about the fees, risks and descriptions of funds.



Addressing the balance of power of information and capability

On top of the minimum standards that must be reached to get a licence, providers need to prepare a product disclosure statement (PDS), quarterly fund updates, annual reports and financial reporting, a trust deed and a statement of investment principles and objectives. The mandatory information within these disclosure documents – stipulated in the regulations – ensures greater consistency across the board. This package of requirements distinguishes the transformation that has taken place in the offer of financial products under the FMC Act regime.

One of the key risks we identified in our Strategic Risk Outlook is the asymmetry of information that exists between providers and consumers. To address this, disclosure remains an important part of the new regime. Now, however, we are looking more at the conduct behind the disclosure, and how this influences overall customer outcomes.

What the FMC Act recognises is that when addressing information asymmetry, quality of information matters more than quantity. For many people, talking about financial products is intimidating or simply confusing. The FMC Act asks providers to think about disclosure as a tool to improve investment decisions, not simply as a risk management exercise.

In the FMA's experience, and internationally, it's dangerous to make assumptions about investors' capability, so improving the usefulness of disclosure will benefit almost all consumers of financial services. Even labels like "sophisticated investors" are unhelpful and often misplaced in terms of the types of people who have experienced harms through either poor conduct or poor decisions.

A key question that Fund Managers need to ask themselves is whether they can summarise the vital information consumers need to know in a clear, concise and effective way.

That's what is now expected from all disclosure documents under the FMC Act; shorter documents that help customers get the key information upfront and in a way that's easy to understand. Documents with standardised descriptions of funds, a standardised way of reporting risk and volatility in the fund, more transparency around fees and investment performance consistently explained. This should make it easier for customers and address some of the issues around asymmetry of information.

Our broader conversation with market participants

As we count down to the effective date for the new regime in December this year, we are continuing to have conversations with the industry about what our expectations will be when it comes to supervising the new regime. Since licensing the funds management sector is new to the FMA, and to the industry, we are finding these conversations very useful as we discover more through the application process. As a risk-based regulator this process is vital for understanding the variety of different business models that are operating in the market, and the different approaches to managing and reporting risk.

Consistency, conduct and culture are critical parts of the engagement we have with the industry as we go through the process of issuing licenses for the first time. The combined focus by the industry and the regulator on these three core factors will serve to increase confidence and help create a bigger and better market for financial services.

The Financial Markets Conduct Act – the complete package	
Licence	Minimum standards for compliance
PDS	Information communicated in a clear, concise, effective way
Fund updates	Standardise comparable reporting of fees, risks and returns
Annual reports	Ongoing accountability of providers
Financial reporting	Audited annual financial performance
Trust deed	Clear rights and protections for investors overseen by the supervisor
Statement of investment policies and objectives	The boundaries and parameters for Investment Managers and their decisions about investing other people's money

The explosion of operational risk

Ceri Horwill
Partner,
KPMG, New Zealand

Operational risk is hard to pin down to a specific area and even harder to explain succinctly, but its prominence is growing rapidly. It is normally described as the risk of loss resulting from inadequate or failed processes, people and systems, or from external events.

It is unpredictable, but when a loss occurs it can be significant in its reputational and dollar impact. Operational risk, in its various forms, is becoming an increasingly important area of focus in the funds management industry. Global media headlines shout about operational risk issues such as rogue traders and manipulation of foreign currency markets. Even in New Zealand, we are starting to see press in this space, especially with the increase in activity from the FMA and new regulations such as the Financial Markets Conduct Act (FMCA).

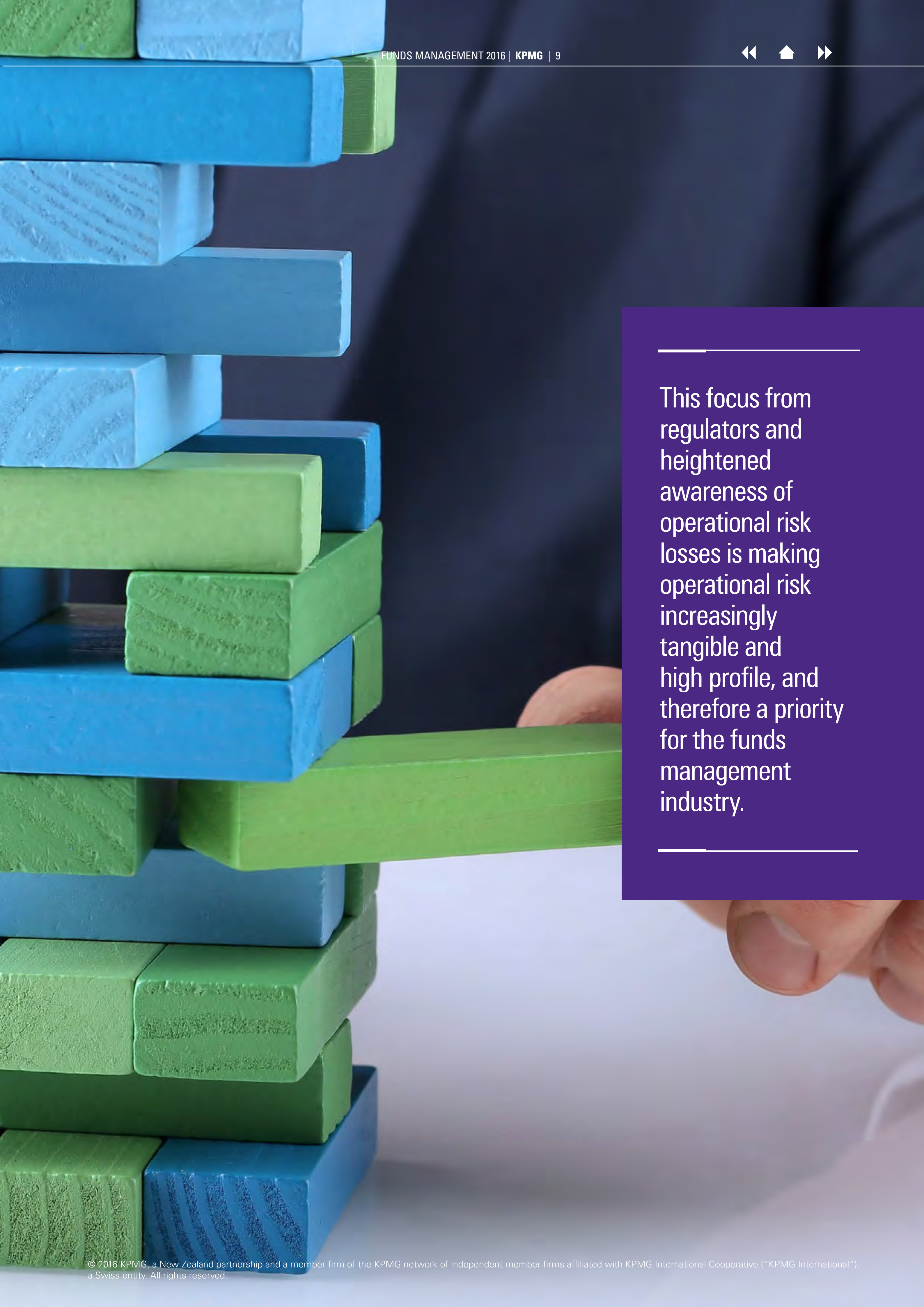
This focus from regulators and heightened awareness of operational risk losses is making operational risk increasingly tangible and high profile, and therefore a priority for the funds management industry. So what are the operational risk priorities from a New Zealand perspective? Immediately, as a priority, there are conduct issues such as complex performance fee and commission structures, and churn on products such as KiwiSaver, however there are many other operational risks gaining prominence that New Zealand businesses should also be thinking about.

Compliance risk

Global regulation targeting specific market integrity issues, such as AML and FATCA regulation, is having an impact in New Zealand. However, locally, legislation ultimately aimed at protecting consumers, such as the new FMCA licence regime, is having the biggest impact. Fund Managers are starting to go through the process of applying to the FMA for a Managed Investment Scheme licence. They have until December 2016 to make their application, largely driven off their balance date and related prospectus issue date.

Making a licence application is a significant project, and even a short read of the FMA's licence guide indicates that particular focus areas are, unsurprisingly, operational risks such as the quality of an applicant's compliance frameworks and evaluation of the capability of outsource service providers. The increased focus on the robustness of compliance frameworks is particularly challenging for applicants as they need to balance implementing the framework for monitoring, while at the same time applying the new legislation and looking for operational efficiencies across all new regulations coming in.

New Zealand businesses are finding the completeness and identification of regulatory obligations particularly challenging; they must ensure there is a register which captures all of the legal, regulatory and contractual risks that the business is exposed to. Firms are developing processes to monitor the changing regulatory environment and pick up emerging risk, regulation and best practice, and to ensure they are captured in the obligations registers and operational risk frameworks. Most importantly, controls that have been implemented to drive compliance with obligations need to be monitored and reported regularly to management and the board.



This focus from regulators and heightened awareness of operational risk losses is making operational risk increasingly tangible and high profile, and therefore a priority for the funds management industry.

Fund Managers are starting to understand that the standard and specific conditions that they must comply with under their approved licence now form the fundamental foundation of the business being able to exist; i.e. the business can't operate without being in compliance with the conditions, therefore it is critical that there is proper governance and focus around ensuring that compliance is achieved and maintained.

From an efficiency perspective, our experience is that businesses are building layer upon layer of controls each time legislation changes or a new regulation comes in, but have not removed old controls that are no longer relevant or applicable. Funds Managers are therefore increasingly looking at reconnecting and strengthening the linkages of their controls back to their core business and operational risks, and are going through a process of rationalising controls: fewer controls, but better quality.

There is also increased focus on articulating the risk appetite, and then ensuring that areas of higher risk, particularly those outside of the risk appetite tolerances, have stronger controls. Finally, these strengthened risk appetite frameworks, compliance frameworks and controls need to be linked back to the three lines of defence, identifying who is locally responsible for managing risk and compliance in the business, and whether they have the skills and resources to do it.

Outsourcing risk

As discussed above, the FMA is now expecting licensed market service providers such as Fund Managers to put in place robust due diligence and selection criteria to evaluate the outsource service providers that they are using.

They are also expecting ongoing monitoring of those providers to ensure that they are doing what they say they are doing, and to ensure risks (particularly operational risks) are managed by the primary person responsible, i.e. the licensed entity.

In effect this means that, appropriately, businesses can't 'outsource' their own risk to someone else simply by putting a service provider contract in place. The effect of this is to increase the focus on ensuring service providers are selected appropriately in the first place and monitored robustly. The ultimate impact of this globally, which is yet to reach New Zealand, is that regulators are increasingly encouraging end customers and ultimate investors to ensure that they are very well versed on which institutions they are dealing with, to ask relevant and probing questions and to generally be aware of those institutions' processes and procedures for using outsource service providers and delegating their responsibilities.

The local New Zealand focus we are seeing on outsource service providers is also consistent with what we are seeing globally, where businesses are completing due diligence and monitoring of counterparties, service providers and distributors. In New Zealand, for example, MIS Manager applicants must meet the minimum standards for outsourcing such as minimum standard 1 under outsourcing:

"You have appropriate processes to ensure, before you outsource a function, that the provider is an appropriate entity and capable of effectively performing the outsourced function to an acceptable service level."

ASIC in Australia has similar requirements that mean where a provider meets their minimum standards and then chooses to delegate their responsibilities, the service provider is responsible for ensuring that the firm they delegate to can also meet the minimum requirements. The European regulation for alternative investment Fund Managers, AIFMD, has similar themes, including specific requirements to strengthen the oversight of client funds, and for depository institutions to take responsibility for losses at outsource service providers such as brokers or sub-custodians. Although currently restricted to alternative investment funds, the theme is consistent with regulations coming through for UCIT-type funds (a specific type of investment fund regulated at European Union level). Under upcoming 2016 UCITS V regulation, depositaries will actually be responsible for replacing any assets lost, even if that is as a result of fraud or failure of another party such as a sub-custodian. New Zealand businesses need to think about the extent to which they need to develop those processes here, and what is an appropriate level of governance to ensure risks around outsource service providers are managed.

Conduct risk

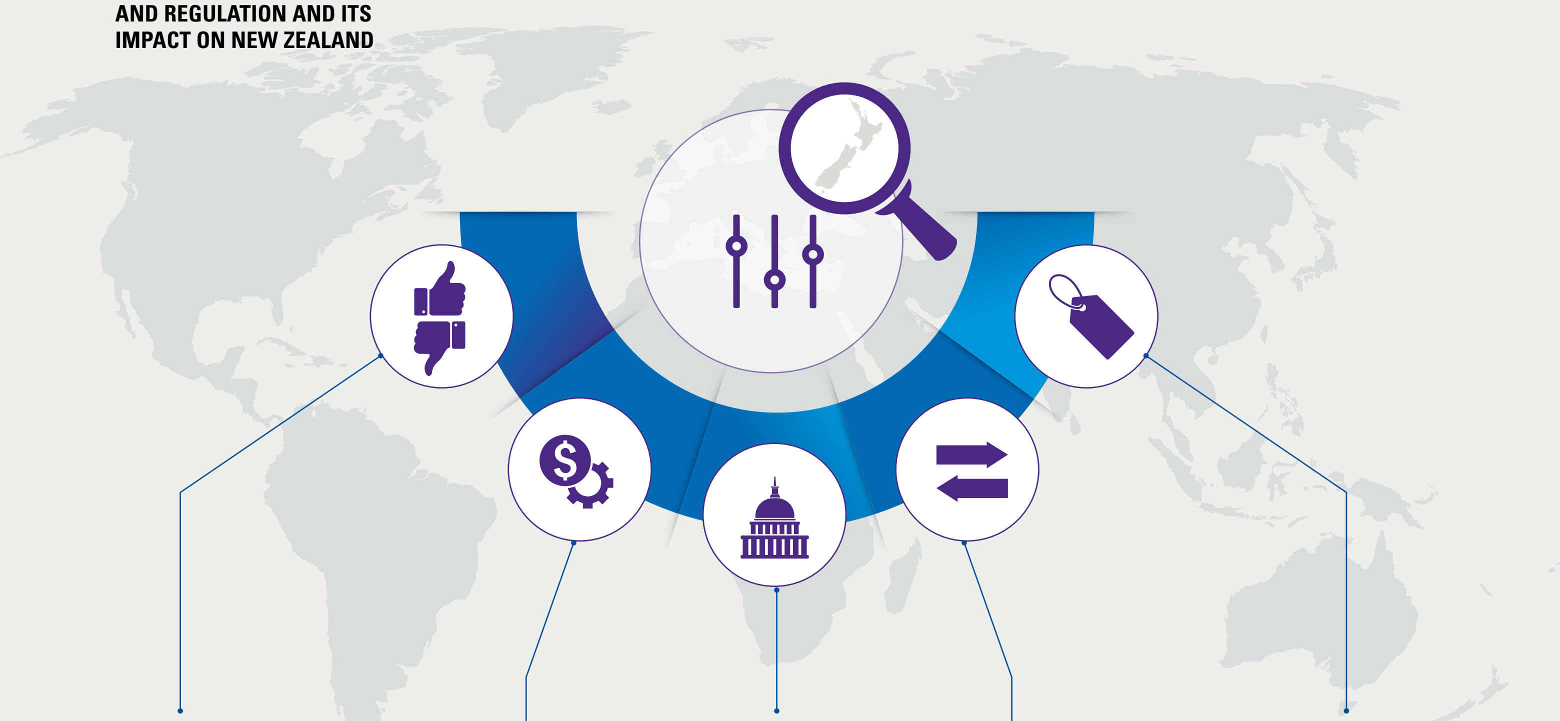
Typically, we think about conduct risk as only relevant for end consumers: consumer protection, treating customers fairly, putting the interests of customers first and similar terminology. However, conduct risk has firmly arrived in wholesale markets as well, with a focus on restoring trust and integrity in the financial services industry as a whole, and protection of the immediate and ultimate customer – be that another fund, or a retail investor, or Kiwisaver member. The fund management industry is right at the heart of this.

Real examples of misconduct issues arising across both retail and wholesale fund management;

- Investment Managers paid for access to investee companies out of client funds.
- Investment firms offering high levels of commission to Financial Advisors to increase sales with little regard for customer suitability.
- Sale of higher risk feeder funds under discretionary management models.

So what is the focus of global regulators and regulation in this area and how is this likely to trickle down to New Zealand?

GLOBAL FOCUS OF REGULATORS AND REGULATION AND ITS IMPACT ON NEW ZEALAND



Focus on conflicts of interest:
The latest version of the European Markets in Financial Instruments Directive (MiFID II) regulations, which come into force in 2017, focuses extensively on conflicts of interest associated with sales practices. Entities will have to ensure that remuneration arrangements do not encourage inappropriate sales practices. This includes looking at the components and design of remuneration and fee structures, with the focus being on increasing fixed remuneration relative to variable, performance and hidden fees. New Zealand businesses should be starting to look at these fee structures and identifying and reducing structures viewed globally as creating conflicts.

Focus on product governance:
New Zealand businesses need to start focussing on the development and distribution of products by both manufacturers and distributors, and determining whether the product is suitable for the end user. Even if a firm is distributing other firms' products they must get an understanding of the approval process, target market and features of the product. New Zealand businesses will need to get used to putting this suitability lens not just on their own products, but up the chain.

Focus on cost analysis:
As funds under management increase, regulators in Europe are questioning why costs, as a proportion of assets managed, have not fallen. They have also started reviewing whether cost structures are appropriate for the type of fund, and whether the description of the fund reflects reality, e.g. products marketed as active funds with high costs, which are in fact index trackers. New Zealand businesses should think about the types of similar questions which may be asked about their cost structures and how they would respond.

Focus on fund governance and pricing:
UK regulators have undertaken thematic reviews of fund governance, fund pricing and fee structures, and have found the structures and business models to be extremely complex. Proposed changes include, for example, requiring both Fund Managers and distributors to "display prominently" the on-going charges figure, rather than the stated annual management charge. New Zealand Fund Managers need to consider how easy to their fee structures are to understand, and whether they use layman's terms.

Focus on distribution methods:
The UK's Retail Distribution Review, and more recently MiFID II, have banned commission paid to independent financial advisors and provided guidance on the 'legitimacy' of commissions paid to non-independent advisors. Other worldwide regulators are focussing on financial advisor qualifications and best interest requirements, which requires Fund Managers to focus on risk through inducements and soft commissions. These moves will substantially change the cost structure of the European industry and are increasingly becoming an area of focus in New Zealand.

These thematic reviews are a good example of regulatory reviews encouraging Fund Managers to look at ultimate user impacts, e.g. the UK Financial Conduct Authority's 2014 thematic review titled *Clarity of Fund Charges* commented:

"Firms that did not fully consider investors in their decision-making had charging structures or information that was unlikely to provide a clear view on charges to investors. Some of these firms viewed themselves as wholesalers, whose customers were advisers and platforms rather than the individuals who invested in the funds.

Firms that recognised underlying investors as their customers tended to produce clearer information on charges."

In New Zealand we are starting to see focus in all of the above areas by both Fund Managers and regulators. The FMA is currently reported to be reviewing KiwiSaver incentives, sales, advice and churn. The current review of the Financial Advisors Act is likely to focus on these issues and, in a similar space, the New Zealand Financial Services Council published at the end of 2015 an external review of insurance commissions and churn off the back of the Australian Trowbridge Report. Finally, firms themselves are starting to look at changing areas such as performance fees and reviewing commission structures to make them more consumer-focussed.
The FMA has also recently issued guidance on calculating returns for funds with 0% prescribed investor rates and around disclosure requirements for performance-based fees.

So where to get started on conduct risk for Fund Managers? It should be a two-pronged approach, firstly looking at structures which may drive misconduct. This would include reviewing current agreements, fees and distribution methods against current regulator guidance, and also comparing existing business models to areas that regulators are targeting globally. Secondly, it should include looking at root causes of current incidents, complaints or investigations, to determine if they originated from underlying conduct-related or cultural issues that need to be addressed.

It seems that operational risk has not only grown massively, but is here to stay. In New Zealand we are really only in the early stages of our journey. As our regulators get more sophisticated and our markets get more complex; as regulation and cost pressures increase; and particularly as we learn lessons from the rest of the world, Fund Managers need to be prepared to invest time and effort in enhancing operational risk management.

The impact of digital technology on KiwiSaver

Nicholas Stanhope
Executive General Manager,
Wealth & Insurance, ASB

In the same year that Steve Jobs launched the category-killer Apple smartphone, 'iPhone', the New Zealand Government transformed retirement savings with the world's first national auto-enrolment savings scheme, 'KiwiSaver'.

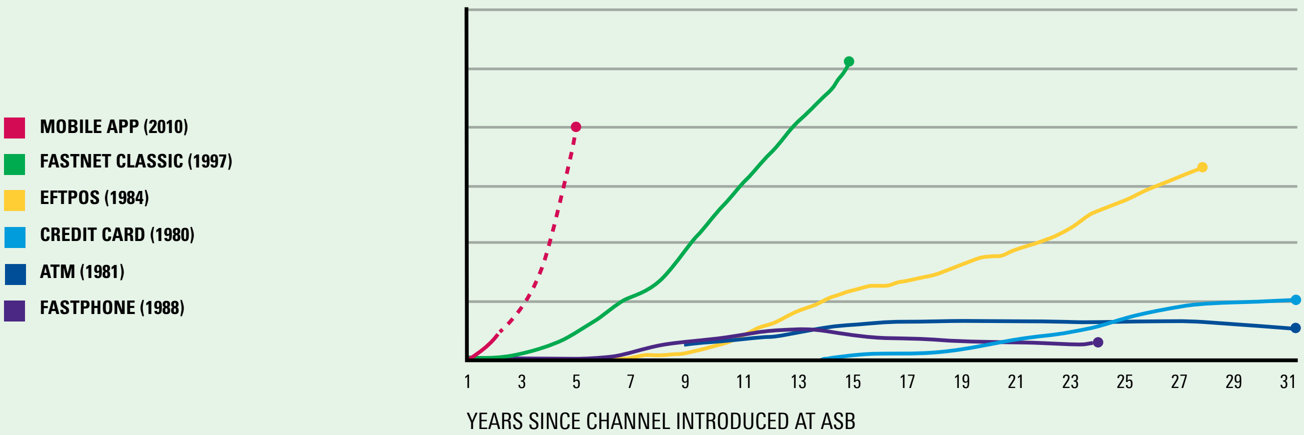
Nine years later, more than 2.5 million New Zealanders have joined KiwiSaver, and one in five of them are using smartphones to engage with their KiwiSaver accounts[1].

It's no secret that the speed of change is increasing, as the rate at which we adopt new technologies continues to rise. Providers need to be agile and ready to engage with people in the channels they prefer. Mailed paper communications are a declining customer preference in the face of digital channels.

At ASB, when EFTPOS and online internet banking launched, they quickly became mainstream, and at the time it seemed the rate of adoption was fast. But ASB's mobile app has seen even faster adoption.

ASB KiwiSaver members, for example, are now making as many payments through the ASB mobile banking app, launched five years ago, as they are via the ASB online internet banking platform, launched 15 years ago.

FIGURE 1. ANNUAL TRANSACTION VOLUME



The speed of change is increasing

Making KiwiSaver more visible for customers via their preferred channels helps keep their long-term savings top-of-mind.

The influence of digital development on KiwiSaver member behaviour

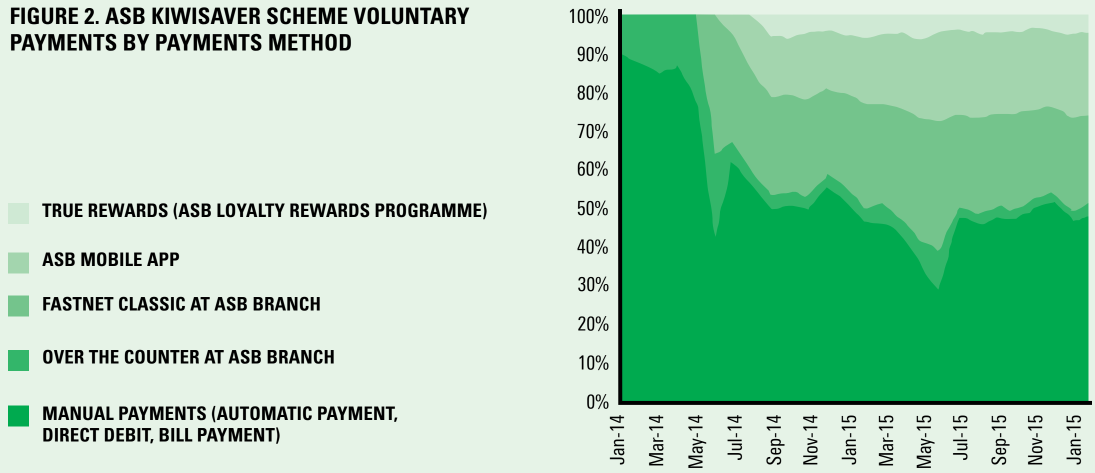
The first digital developments for KiwiSaver members were about visibility – personal details and transactional information on members' KiwiSaver accounts were made easily accessible online, and more recently, on mobile. In addition, some providers made members' details visible on wearable tech, like Apple and Android smartwatches. Debate exists around whether the wearable tech channels are a good fit for the visibility of a long-term, low transaction product like KiwiSaver. But this debate also surfaced not too long ago, when the same functionality was introduced on the mobile banking app, and that's proven successful. This supports the point of view that making KiwiSaver more visible for customers via their preferred channels helps keep their long-term savings top-of-mind. This is important in the world of investments, as it can correlate to greater financial literacy.

More recently, we have seen digital development for KiwiSaver focused on self-service. Two of the most significant actions a member can take with their KiwiSaver account are reviewing their investment strategy and their contribution level. Subsequent actions can then have a significant long-term effect on a member's KiwiSaver balance.

Digital payments into KiwiSaver accounts have been growing in popularity, following a move by providers to implement easier ways for people to make payments. This removes a barrier for members who are not PAYE employees, and therefore can't use salary deductions to contribute to their KiwiSaver account.

KiwiSaver retirement calculators are another recent digital development. These calculators typically capture inputs about a customer – like age, balance, contribution and fund details – then produce an output projecting the customer's balance at age 65. Some calculators illustrate how long a balance might last in retirement. Most importantly, these calculators highlight the levers members can use to potentially increase their balance at retirement.

FIGURE 2. ASB KIWISAVER SCHEME VOLUNTARY PAYMENTS BY PAYMENTS METHOD



This is an especially relevant conversation for younger KiwiSavers, with more income-generating years ahead of them, as the advantage of compounding returns over a longer term makes retirement income gaps more addressable.

Enabling members to perform self-service activities on their KiwiSaver account demonstrates a maturing of the KiwiSaver product. It has transitioned from having its market growth driven by incentives to having growth generated by members looking to maximise their returns. Online fund switching is another example of this. This self-service technology development has been swiftly adopted by members. In the year to 31 March 2015, default KiwiSaver providers received 26,392 fund switch requests from default KiwiSaver members, who initially invested in default fund options (with a growth asset allocation between 15% and 25%). The largest recipients of these fund switches were growth funds and balanced funds, which have a larger proportion of growth assets[2].

Understanding KiwiSaver customers is key to engagement

KiwiSaver has an extremely broad range of customer segments, and understanding these segments is critical to fostering engagement. We undertook research on the ASB KiwiSaver Scheme membership base, which enabled us to be more sophisticated with our communication strategies, ensuring we are providing our members with information and tools relevant to their circumstances.

We found that, generally speaking, KiwiSaver members fall in to four segments:

- **Engage me if you can** – this segment is predominantly made up of customers who have defaulted into KiwiSaver. They typically have very little investment experience. Many are saving for a first home – not retirement. Providing these customers with the appropriate information and tools, particularly in the digital space, is key to helping them engage with their KiwiSaver savings.
- **Teach me** – these members have little or no experience with investments. They have positive views about KiwiSaver, and many of them are supportive of it being compulsory. However, they aren't equipped to make their own decisions on where to invest, and they're hungry for financial education. Video, for example, could be a great way to provide educational content to these members.
- **Give me tools** – these members are typically younger, technically savvy and highly engaged. They've chosen their own fund and are seeking tools to manage it themselves. Online calculators, payments, fund switching tools and reporting are important to this group.
- **Show me the money** – this segment is typically made up of older members who have a primary interest in investment performance. They are well educated, have a higher than average income and own their own home. Their experience with investments means they often choose their own investment strategy. Regular fund updates will be on their radar.

This segmentation model highlights the importance of tailoring a communications and engagement approach to member's individual preferences. There is little value in communicating the same messages in the same way to all members. ASB's latest research tells us that KiwiSaver members are using laptops and desktops (68% of members), smartphones (20%) and tablets (9%) to engage with their KiwiSaver accounts. Digital channels can be a key point of difference if providers execute them well.

Future digital developments for KiwiSaver

Automated personalised advice delivered online, known as robo-advice, is a digital development that could potentially solve a few key challenges for the KiwiSaver industry. Many KiwiSaver members want personalised advice, but may not be prepared to pay for it. Providing personalised advice to 2.5 million KiwiSaver members is not practical through the face-to-face model that authorised financial advisers operate.

Robo-advice has had significant capital investment offshore. Schwab, a US bank, has released an online investment advisory service that builds, monitors and rebalances. Closer to home, Macquarie[3] has targeted robo-advice at the mass market in Australia[4].

By its very nature, a robo-advice digital platform is highly accessible for customers, and inexpensive for KiwiSaver providers (barring the initial investment in a system). Algorithms provide the pathway for personalised advice that is more sophisticated than the class advice tools currently available (such as investor profilers). A comprehensive picture of a consumer's personal circumstances, their objectives, willingness and ability to accept risk, can be constructed more efficiently than ever before, along with a recommended solution.

[1]ASB commissioned quarterly research ASB KiwiSaver, conducted by IPSOS (January 2016). Sample size of 384 people.
[2]FMA KiwiSaver Annual Report 1 July 2014 – 30 June 2015.
[3]Macquarie, 7 things you need to know about robo, 15 February 2015 (http://www.macquarie.com/au/advisers/expertise/smart-practice/robo-advice-things-to-know).
[4]Sydney Morning Herald, 13 November 2015 http://www.smh.com.au/business/banking-and-finance/macquarie-targets-roboadvice-at-mass-market-20151111-gkwuu9.html

Every Fund Manager's practical guide to cyber security

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There appears to be no respite from the constant security threats in the offering. Those working in the fund management industry, particularly boards and executives, can expect to spend more time thinking about cyber security.

The theft of US$101 million from Bangladesh's central bank via a cyber-attack in March this year continues to highlight the importance of having robust cyber security. If it wasn't for a mere typo, it is likely that another US$850 million would have been stolen. While money is not always the motive for cyber-attacks, it continues to be a strong motivation, and any organisation with reasonably liquid assets tends to be at a heightened risk.

Security should be on all Fund Managers' agendas. Security breaches now appear to be headline news almost on a weekly basis, with New Zealand businesses increasingly being seen as a 'soft target'. This perception is reasonably justified too, with the security of New Zealand organisations typically being less robust than their equivalents in similar overseas countries. The consequences can be disastrous for businesses, as bottom lines and reputations are impacted.

While the threat level is increasing, there is little tolerance for those organisations that suffer significant breaches or lose sensitive customer data. Regulators, the media, shareholders and the public are expecting greater transparency in relation to security incidents.

So why are we seeing this rise in security incidents? In large part, it is a result of a changing security threat. As recently as five years ago, IT Managers were fully engaged in protecting against the rather brutish forays of organised crime and cyber-hooligans. Their methods tended to follow the 'full frontal assault' approach: bash down the door, scoop up everything you can, and get out.

But the profile of traditional cyber-attackers has changed. Today's cyber-attacker is more likely to be a social activist or a disgruntled customer with an axe to grind, rather than financially motivated. More troubling still has been the perceived rise of hackers who enjoy the luxury of time, funding and resources. They are able to patiently probe businesses' IT systems for high-value intellectual property and trade secrets.

The mode of attack has also become much more sophisticated. Many of the more recent cyber-attacks have used publicly available information to 'lure' insiders into a trap. In an act termed as 'phishing', hackers dig through public websites and social networks to identify high-value targets that may have access to sensitive corporate data.

And while we focus on the threat from the outside, fraud statistics and the growing number of reported data leakage incidents continue to show us that the greater threat to security continues to come from the inside, from trusted employees and contractors.

Fighting an unknown enemy

Many organisations have been caught somewhat unaware by the evolving security threat. Having placed much of their faith (and resources) into ever-more powerful firewalls and antivirus products, organisations are increasingly finding them to be about as effective as the Maginot Line when it comes to defending against the internal threats and the more sophisticated external attacks.

As a result, most organisations are now scrambling to reassess the level of risk that they face. Organisations are starting to realise that security is a business issue rather than an IT issue. Despite this, most Fund Managers have limited visibility into how effective their security is, and the potential weaknesses that leave them open to a security breach.

Do you know where your data is?

Cyber security is not an easy concept for most Fund Managers to grasp. In part, this is because many Fund Managers do not have a clear view on the actual value of their data. As a result, they tend to follow a one-size-fits-all approach to data security.

At the same time, Fund Managers, like other organisations, have also seen a gradual migration of their corporate value away from physical assets (such as facilities and people) and towards digital assets. Most Fund Managers have robust crisis plans for events like floods, fires or sudden executive departures, but very few have strategies for handling digital security issues such as the public exposure of customer information.

Out of sight, but not out of mind

Having been reminded by recent media reports of the growing threat posed by data leakage, Fund Managers should turn a critical eye towards understanding their exposure to data loss.

Organisations are finding that much of their data actually resides, or at least flows through, a number of third-party service providers that are outside of the organisation's direct control. Many Fund Managers should be asking if their cyber security can be successfully and reliably outsourced and, if so, to whom?

Fund Managers would be well advised to remember that a third party's ability to manage and store data does not necessarily reflect their ability to protect that data. That is not to say that third party providers are not secure – many successfully differentiate themselves based on their reputation for security. However, it does mean that Fund Managers will need to go above and beyond simply including security clauses in outsourcing contracts in order to get peace of mind.

In an era of pervasive outsourcing, large swathes of corporate data now flow outside of the business, often never even touching the business's own systems. In many cases, particularly where third-party providers are being leveraged, backup copies and archived artefacts often further complicate the identification and tracking of secure data. In response, Fund Managers should conduct security assurance programmes across the supply chain to ensure that risk is being managed across the entirety of the business, rather than just those areas that are within its direct control. Outsourcing does not abdicate a Fund Manager from its responsibilities to ensure its data is secure.

> The looming potential threat of a security breach is clearly a business risk that must be taken seriously.

Understanding the risk

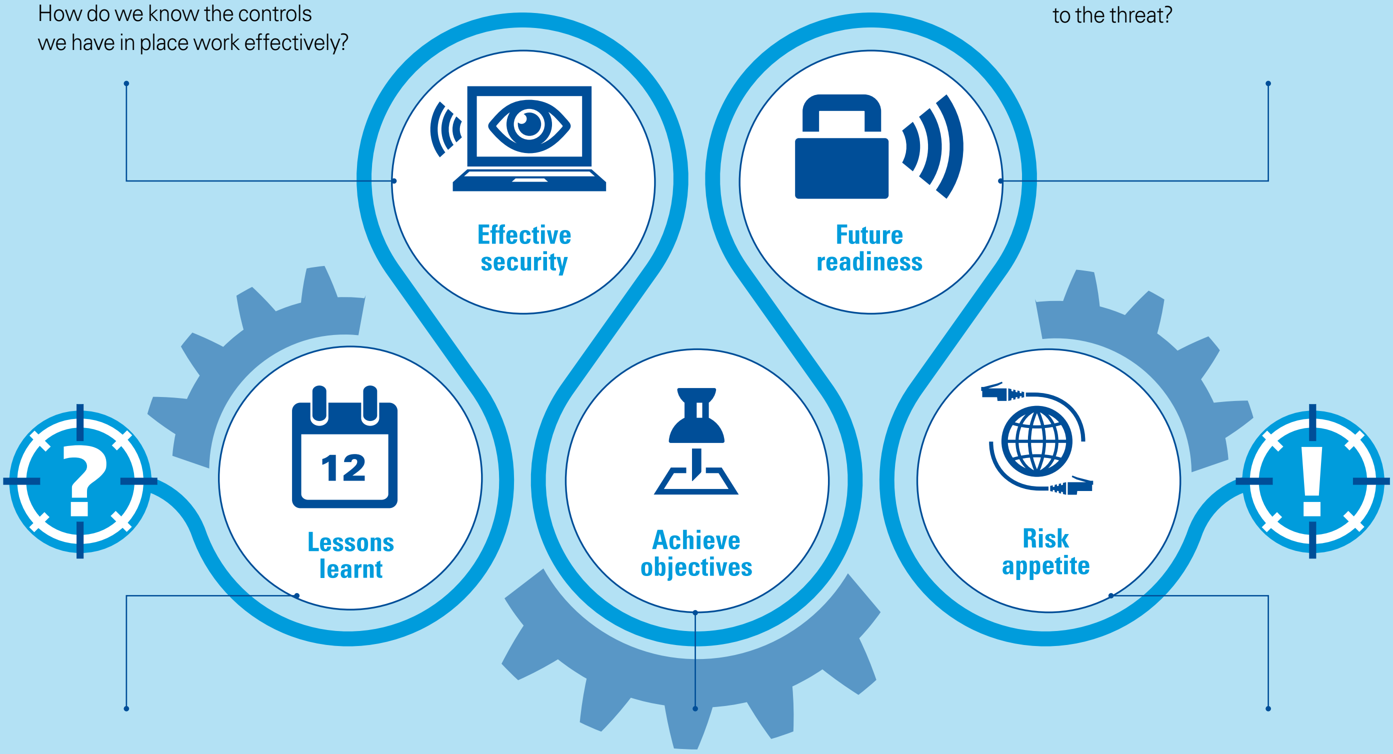
Ensuring the continuity of business operations and protecting sensitive data is not just about how much you spend, but whether you understand your risk profile and therefore spend effectively.

The looming potential threat of a security breach is clearly a business risk that must be taken seriously. All Fund Managers, regardless of their size and complexity, should ask themselves the following questions:

GLOBAL FOCUS OF REGULATORS AND REGULATION AND ITS IMPACT ON NEW ZEALAND

How effective are our security measures in protecting our corporate and customer data? How do we know the controls we have in place work effectively?

What are we spending on security over the next three years – is it enough to appropriately respond to the threat?



What have been the most serious security and privacy incidents that we have faced in the past 12 months? What have we learned from those experiences, and what are we doing differently now to prevent them from reoccurring?

What key indicators are on our security dashboard, and how is the business achieving its objectives?

What is our risk appetite for data loss and privacy incidents – how will we set our appetite level, and how are we tracking against that?

Turning challenges into opportunities

Managing the risk of security and privacy breaches does not have to be all about what will hit the six o'clock news. Progressive organisations are starting to look at the management of risk as a way to unlock opportunity and competitive advantage.

The simple truth is that risk is often cited as a barrier to the adoption of new and valuable technologies. Take cloud computing, for example. The technology has the potential to reduce cost, increase efficiency and – in many cases – even enhance security. But many IT professionals believe that outsourcing to cloud providers will result in a net increase in risk for their business. The prognosis for consumer devices such as smartphones and tablets in the workplace is even worse, with a large majority fearing that the use of these devices would increase risk. They resist incorporating their use into their IT environment, despite the potential efficiencies and cost benefits.

Seeing an opportunity to turn risk into reward, many businesses are starting to think more clearly about the opportunity cost of security measures. Indeed, rather than backing away from innovation at the first sign of risk, businesses are focusing on balancing the cost of developing an appropriate response against the benefits that new technologies may provide.

Setting standards and examples

For security to be truly successful, it must have board level support. This means the board and executives should be involved in developing a consistent and unified view of security, in ensuring that proper controls are in place, and in setting the risk appetite for the business.

To conclude, there appears to be no respite from the constant security threats in the offing. Those working in the fund management industry, particularly boards and executives, can expect to spend more and more time thinking about security.

Seeing an opportunity to turn risk into reward, many businesses are starting to think more clearly about the opportunity cost of security measures.

Financial Markets Conduct Act: Did you know?

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The Financial Markets Conduct Act 2013 (FMCA) and the Financial Markets Conduct Regulations 2014 (the Regulations) are not new for anyone participating in the New Zealand financial markets. In this article we dig deeper into three "hot" topics.

Assurance report on controls at a custodian of a Managed Investment Scheme (MIS)

The Regulations marked the beginning of a new and more comprehensive compliance and regulatory environment for market participants, commencing with licensing conditions for market operators. Although many of the schemes and funds are still applying the transitional provisions of the FMCA, the mandatory registration date of 1 December 2016 is fast approaching.

While it is not news that a scheme must hold its property/assets with a custodian, there has never been a mandatory requirement for those custodians to have their controls audited.

In some cases, custodians are also service organisations and they may be used to having an annual controls audit (for the purpose of providing a service organisation report to their customers), but for many of them the requirements of paragraph 87 of the Regulations is something new.

Under the new legislation, each MIS custodian is required to obtain, within four months of its balance date (or a date in each calendar year that is determined by the custodian), an assurance report on controls designed, implemented and operated by the custodian.

Similar requirements are also imposed on derivative issuers *(paragraph 247 of the Regulations) and custodians of entities other than MIS (regulation 9 of the Financial Advisers (Custodians of FMCA Financial Products) Regulations 2014).*

What does it mean?

Under the new Regulations, each MIS custodian needs to ensure their control objectives relating to authorisation, processing and recording of transactions, safeguards and monitoring of sub-custodians are in line with those specified in the Regulations. A full list of the control objectives can be found in paragraph 88 of the Regulations.

What is the timeframe for obtaining the required assurance report?

The Regulations specify a 4-month period for obtaining the assurance report and a 20-day timeframe for providing the report to either

- the FMA and the manager of the scheme (for restricted schemes); or
- the supervisor and the manager of the scheme (for any other scheme).

The 4-month period commences from

- the balance date of the custodian; or
- a date in each calendar year that is determined by the custodian.

Initially, the legislation required the custodian to obtain an assurance report within four months of its balance date. However, the purpose of the assurance report is to enhance transparency to the scheme's investors regarding the scheme's property/assets. Therefore, it was more appropriate to align the controls reporting period with the reporting period of the schemes, rather than with the balance date of the custodian itself (in cases when the balance date of a custodian is different to the balance date of the scheme it provides custodial services to).

Subsequently, the Financial Markets Conduct Amendment Regulations 2015 amended paragraph 87 of the Regulations to allow the custodian to choose a reporting date for the purposes of the assurance report on controls, which can be different to its balance date and which aligns with the scheme's (or in some cases – with all the schemes') balance date. The amendment provides flexibility to schemes and custodians, however there will still be cases when a custodian provides services to a number of schemes with different balance dates. How to choose the reporting date is up to the custodian.

The Regulations apply to a custodian of a scheme registered under the FMCA and the above requirements will not apply until a custodian is providing services to registered scheme(s).

Trustee reporting

Trustee reporting in its many and varied forms has been a hot topic for a long time. The landscape recently changed when the Financial Markets Conduct Regulations 2014 came into force on 1 December 2014 and replaced the Securities Regulations 2009. These regulations brought about changes to the framework for the issuer, auditor and supervisor relationship and sought to ensure participants were held accountable for performing their roles.

These regulations brought about changes to the framework for the issuer, auditor and supervisor relationship and sought to ensure participants were held accountable for performing their roles.

Auditor duties

According to the relevant sections of the FMCA, the auditor in addition to providing a statutory audit opinion on the financial statements, is required to report certain matters to the supervisor. However, the auditor need only report those matters that he or she has become aware of while carrying out their statutory audit duties.

How does this fit within the broader scope of the Trust Deed requirements?

The truth is – not well.

The statutory auditor is required to report to the members of the scheme whether the financial statements present fairly, in all material respects, the financial position and financial performance of a scheme as at and for a period of time. Hence, the auditor designs and performs procedures to enable him/her to form an opinion as to whether the financial statements, taken as a whole, are fairly stated and comply with generally accepted accounting practice in New Zealand. The statutory audit is not designed to enable the auditor to opine on the scheme compliance with, for example, particular covenants or conditions of the Trust Deed or the accuracy of the information in the Manager's Certificates. Furthermore, the auditor defines the nature and extent of the procedures performed based on a materiality level (as highlighted above), which is driven by the auditor's judgment and the respective stakeholders' (in this case, the scheme members') needs. Consequently, the auditor might not necessarily perform procedures related to, or identify any matters which the supervisor believes are material.

In practice, the matters which come to the auditor's attention during the ordinary course of the audit of the annual financial statements relate explicitly to matters in the financial statements, and not to wider areas relevant to the supervisor.

Auditor-Supervisor-Scheme relationship

The supervisor acts on behalf of the members of the scheme and supervises the scheme's performance.

In accordance with the Regulations, the issuer must give the supervisor an opportunity at the beginning of the audit, and after the audit has been finalised, to meet with the auditor without any representative of the scheme.

In this way it is ensured that the supervisor has the opportunity to raise any issues or concerns relevant to the exercise or performance of its powers or duties, and to discuss matters arising in the performance of the audit. The auditor is also required during those meetings to answer any questions the supervisor may have concerning the audit.

If the supervisor requires a greater level of assurance, or specific assurance, then any additional request the supervisor might have and which is related to performance of their duties is to be agreed with the auditor under the terms of a specific engagement. A specified engagement is defined as an "assurance engagement" in the Regulations.

If the supervisor would like to conclude a specified engagement, a meeting with the auditor (as discussed above) enables them to agree the specific terms of the engagement and the scope of any additional work in advance.

We expect specified engagements will work best if approached on a tripartite basis (between the scheme, the supervisor and the auditor), focused on specific needs that the supervisor wants assurance on and that the auditor has not specifically addressed in the audit.

Restricted superannuation schemes (i.e. your company one): What now?

A year after the new legislation kicked off, the FMA started a campaign to notify all restricted schemes who hadn't registered yet to do so, and advised them of their options under the new regime. For many, this was the first time they started thinking about the new changes and started preparing for the transition.

The new legislation comes with new requirements, which for the restricted schemes, such as employer sponsored superannuation schemes, means more compliance costs.

One of the key compliance changes for a restricted scheme is the requirement to have a licensed independent trustee. Depending of the type of trustee used by the scheme, at least one of its trustees must be a licenced independent trustee, or at least one director must be a licensed independent trustee (if a sole corporate trustee). Compliance costs include also transitioning the scheme (i.e. a new trust deed and registration), and ongoing compliance costs including reporting, audit and trustee costs.

Many schemes that have chosen to wind up have paid their members out, leaving them with cash and an option to join a KiwiSaver Scheme. Many that have chosen to continue have decided to join a master trust as an option to keep costs down.

With the deadline for mandatory registration fast approaching, we have already seen a number of restricted schemes winding up or transferring their members into a master trust.

We will have to wait and see how many will register by 1 December 2016.

What links Zorbs, Pearl Jam and a decent retirement?

David Boyle
Group Manager Investor Education,
Commission for Financial Capability

The Zorb is a uniquely Kiwi invention.

I first saw one in action a number of years ago when I took the kids on a road trip to Rotorua. It's earned itself an entry in the Oxford Dictionary and now this large, transparent PVC ball is rolling around the world gaining new devotees.

Among them, my son James – that's him in the photo, suspended upside down inside a Zorb, wiggling his feet like a trapped beetle.

He'd organised a game of Zorb football with a group of mates and, as he showed me the photos afterwards, I asked if I could use one to help kick off (forgive the pun) my article on planning and why it is so important for New Zealanders' financial wellbeing.

Rightly, he asked, "Why would you want to do that, it has nothing to do with what you do. You are supposed to help people better prepare for retirement, not tell them about Zorb football!"

While secretly pleased that my 22-year-old knew what I did, I replied, "It actually does, because that's exactly what you had to do to get the Zorb football day off the ground."

By that I presumed he organised the event because:

- It was a great chance to get a whole lot of mates together.
- To have some fun.
- To run around and try something totally different.
- "I'm guessing you needed to get a plan in place to make it happen," I pointed out.
- He raised an eyebrow and I pressed on, failing to take the hint.

"You had to research it, find out the costs and where you could play, get the word out to all your friends, collect money, and land on a date and time that worked for everyone."

"You needed to get the supplier to meet you and hopefully have some confidence that no one was going to get hurt too much. If that's not about planning, then I'm really not sure what is!"

A familiar wry look crossed his face as he slowly shook his head. "You're wrong about most of the reasons I organised it," he grinned. "We just thought it would be a great way to bash the s@#t out of each other."

At the Commission for Financial Capability we believe that having a plan is really important to help with your overall financial wellbeing.

Without intending to, that story sums up the attitude of many New Zealanders towards planning. They do more of it than they realise, and when the end goal is enticing enough they'll put a lot of effort into making it happen, whether that's planning for their next holiday, exam, career, or family or 40th birthday party (more on that later).

But they shy away from the notion of planning because, frankly, it's boring and can seem like hard work.

The problem is that if they don't make a conscious plan, particularly for long-term goals, then things can easily be derailed.

At the Commission for Financial Capability we believe that having a plan is really important to help with your overall financial wellbeing. It is this year's theme for Money Week (5-11 September). It is also in our long-term strategic objectives. Essentially we want to see more New Zealanders have some form of a plan by 2025.

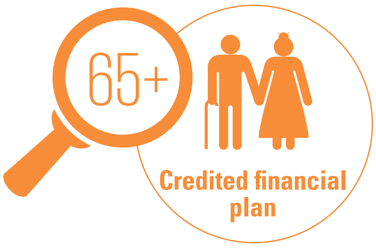
But what does that really mean and is the Commission right to put so much emphasis on it?

The word alone is enough to send many of us to sleep, conjuring up tedious hours spent poring over a spreadsheet instead of getting on with living life.

But plans around wellbeing can come in many guises.

Granted, for some it means a full 60-page financial plan, giving an overview of their total financial circumstances, short, medium and long-term goals, insurance and estate planning, and income objectives in retirement. It could be as simple as having a goal on one page and a list of steps to achieve it.

As an industry we have to help all New Zealanders understand the value of planning and make it easy to do.



While for others it might mean just getting in control of their money: working out a budget, seeing where they are spending their money today and where they could be spending it tomorrow. Maybe it is getting out of debt first or actually being able to have enough money to get them through to the next payday with a little left over.

Like anything (including writing this) the hardest part is knowing where to start. The irony is we use money every day, yet when we want to talk about it there is always something else far more interesting and exciting or important to deal with. We have to make planning fun – as fun as playing Zorb football with your mates.

And as an industry we have to help all New Zealanders understand the value of planning and make it easy to do.

In my opinion, all of us – providers, distributors, relevant government agencies and advisers – need to think about how to help people find better ways to get started. I would argue that having a plan (or whatever you choose to call it) that is written down gives you a far greater chance of being better off than if you try to wing your way through life.

Research by the Commission and FMA into how well people had prepared for retirement found that nearly 50% of New Zealanders surveyed, aged 50+, did not have any sort of financial plan. But those in the 65+ age group, who were more likely to have enough money to do all the things they wanted in retirement, credited a financial plan with helping them reach that position.

In many cases they had sought some level of professional advice to help form their plan.

The trouble is our research confirmed the barriers to advice are still large and included trust, cost (perceived or not), who to talk to, and how to know if you are getting good advice.

An international study by the Financial Planning Standards Board supported our findings, identifying very similar barriers to advice. It also concluded that consumers with a comprehensive, written financial plan were three times more likely to feel confident they would achieve their life goals than those with no plan.

So what are the components of a good financial plan? There is no right answer to this because it really depends on personal circumstances. But there are key elements:

- Goals (financial and personal).
- A budget (so you know where you are spending your money).
- Having a savings buffer.
- Tax and business planning (if you own your own business).
- Short-term savings (deposit for a house, car, travel etc.).
- Medium-term savings (children's education, career retraining, paying off your mortgage etc.).
- Risk (insurance, both personal and property).
- Long-term savings and investing (KiwiSaver, unit trusts, shares, super schemes).
- Protecting assets, insurance.
- Decumulation (working out how to keep your income alive as long as you are).
- Health and wellbeing.
- Longevity.
- Wills and estate planning.
- And, I hope, a great sense of humour.

I add the last point because we need to freshen up our approach if we are going to succeed at getting more people planning. We need to make it as interactive as possible, as well as linking compelling stories to the key themes above.

I know I am preaching to the converted, so how do we get the word out to those who need it most?

I took the opportunity to do a sweep around the world (thanks, Google) and found very little inspiration. Most plans were long, structured in similar ways, with little room to accommodate a range of different financial circumstances, and, I hate to say it, bloody boring.

But my eye was caught by this www.wealthprojector.com and I suggest you have a look at it. It has some great features: it is fun, easy to get started, interactive, and simply highlights what's in your world today, takes that information and starts building a plan for you.

The challenge I put out there for all of us (and we at the Commission are doing our bit with our new-look Sorted site) is to engage everyone in a way that is enjoyable, specific to their needs, and will genuinely improve their overall wellbeing.

We have turned Sorted from a great place to learn more about financial capability to a mobile-friendly site that puts you at the centre. It is designed to help you understand what your future self could look like and, if the picture isn't pretty, it has tools, levers and information to steer your future self to a happier place.

It also has a dashboard that will help keep track of where you are now and how you are progressing, along with a truckload more interactive options. It can be personalised and it's fun to use!

As mentioned earlier, a plan doesn't have to be complicated and, much like advice, it has to be specific and needs-based depending on an individual's personal circumstances. It could be as simple as a range of postcards with goals and objectives placed on the fridge door, right through to something far more comprehensive.

Coupled with that, we need the advice industry to be recognised for its capability and expertise, offering plans with a range of services tailored to an individual's requirements.

As a component to this, the Financial Adviser Act review is timely, because while other Acts are being implemented (FMCA, and DIMS) it is a chance to see how we can better meet the advice needs of New Zealanders. As things stand at the moment it's complicated and not working as well as it could.

Our research found fees were a major barrier. Most people are willing to pay for a product if they believe they are getting value for money. The challenge is to show up front the benefits of having a plan, so the cost of getting one is seen as money well spent.

Our commitment to planning will come to the fore during Money Week, when we put the spotlight on it as a key ingredient to improving people's overall financial wellbeing.

My challenge to you is to seize the opportunity during Money Week to add to the conversation and, better still, offer the opportunity for more New Zealanders to draw up a plan that is right for them.

As a footnote, I know it isn't easy and even the best-laid plans can go awry. Most people who know me know that I also have a passion for music. When I was turning 40 I planned my birthday party down to the last detail; I saw it as a milestone, a line in the sand, a time to reflect, but most of all a time to (or a chance to) share it with friends and family.

This was the invitation that I sent out (an actual CD) with the details of the party by way of song, kicking off with Pearl Jam's "Man of the Hour."

The night was everything that I had expected and more – until the council knocked on my door. As it turned out, they loved my music so much they took the liberty of helping themselves to my stereo. Fortunately, by that stage it didn't really matter and I have the infringement notice that still makes me smile today.

Our commitment to planning will come to the fore during Money Week, when we put the spotlight on it as a key ingredient to improving people's overall financial wellbeing.

Safe withdrawal rates for retirees

Anthony Serhan, CFA
Managing Director, Research Strategy,
Asia-Pacific , Morningstar

I love it when someone takes a complex question and answers it with something simple. The danger with elegant simplicity, though, is that people forget the details that sit behind it, and what question it was actually answering.

This was one of the catalysts for the recent Morningstar research paper "Safe Withdrawal Rates for Australian Retirees" that I co-authored with David Blanchett and Peter Gee. The '4% rule' is often referenced to understanding what you can spend in retirement given a certain amount of savings, but where did it come from, and how relevant is it today?

1. What is this 4% rule we hear so much about, and where did it come from?

The '4% rule' actually started in 1994 with an article published in the Journal of Financial Planning by William Bengen. He was a US-based financial planner who wanted to answer questions about how much his clients could spend in retirement. The way people interpret the 4% rule can vary, so let's set out some important parameters that underpin the number:

- 4% of the portfolio was used to calculate the first year's payment only, and in each subsequent year that amount was adjusted for inflation.
- It assumed a minimum 30-year retirement period.
- Historical return data from 1926-1994 was used, based on a portfolio comprised of 50% US equities and 50% US bonds.
- 4% was selected as 'safe', because at that level there was no past period where that rate would have exhausted all assets by the end of the 30-year period. So it was not a number based on an average return, but rather one that assumed the worst real returns observed over the period of the study.

Before taking this framework forward, I'd like to tip my hat to Mr Bengen, who 22 years ago wrote a thoughtful and practical paper trying to address real client issues. The 51 simulations that he ran do not quite match up with the Monte Carlo simulators of today, but the paper still captured many important concepts. An inflation-adjusted, constant income stream is pretty intuitive when you think about the way you want to plan retirement. As we discuss later, though, there are many additional variables that need to be considered for a client.

2. Does this 4% rule apply to Aussie retirees today?

The methodology can still apply in Australia today, but there are some important areas of improvement. First, we've included a fee assumption. Whether you're paying for someone to manage the portfolio – an advisor, an accountant, an administration platform, or some combination of these – there are costs. For our calculations, we've assumed an annual fee of 1% per annum. If you repeated the same study as above with the 1% fee, using Australian share and bond returns, but increased the return history to 1900-2014, that 4% would have come out closer to 2.5%. Why lower? Apart from the impact of fees on the returns, the Australian equity market has been more volatile than the US, and our inflation rate higher in the 1970s and 1980s, so you need a lower withdrawal rate to weather the worst-case scenario.

While the US has led the world in retirement research, other countries need to be careful about localising those results, particularly where the returns and volatility of local markets have been markedly different to the US. The full paper shows that Australia has experienced some of the highest historical returns from investment markets when compared to 19 other countries – but it's arguable whether this will continue. The historical returns from a sample of countries appear below.

The next step is to replace past returns with our long-term expected returns, which take account of where equity markets and interest rates are today. In addition, if you diversify the portfolio further to include a mix of Australian and international assets, you will generate a more stable return pattern – the worst case scenario will not be as bad.

The full paper shows that Australia has experienced some of the highest historical returns from investment markets when compared to 19 other countries

TABLE 1: HISTORICAL INFLATION-ADJUSTED RETURNS AND RISK BY COUNTRY: 1900-2014

	Real Stock (%)		**Real Bond (%)**	
	Return*	Std Dev	Return*	Std Dev
Australia	7.3	17.9	1.7	13.2
Canada	5.8	16.9	2.2	10.4
Denmark	5.3	20.7	3.3	11.9
France	3.2	23.1	0.2	13.0
Germany	3.2	31.7	-1.4	15.7
Italy	1.9	28.5	-1.2	14.5
Japan	4.1	29.6	-0.9	19.7
Netherlands	5.0	21.4	1.7	9.8
New Zealand	6.1	19.4	2.1	9.0
South Africa	7.4	22.1	1.9	10.4
UK	5.3	19.6	1.6	13.7
US	6.5	20.0	2.0	10.4

* Returns are shown as geometric returns

Reviewing your own personal circumstances on a regular basis will give you a much better answer to what you need in retirement than a rule of thumb.

Anthony Serhan, CFA, is Morningstar's Managing Director Research Strategy, Asia-Pacific. For a full copy of the report and data, click here.

This material has been prepared by Morningstar Australasia Pty Ltd for general use only, without reference to your objectives, financial situation or needs. You should seek independent advice and consider whether the advice is appropriate in light of your objectives, financial situation and needs.

3. What is the probability of success or 'success rate'?

This idea of a success rate is incredibly important. While it may be complex mathematically, the underlying principle isn't. It speaks directly to the sort of trade-offs we all have to make. Quite often, people talk about "expected returns", and use these to build their plans. Even if someone has made a good forecast, an expected return will only have a 50% probability of coming through, and the final result may be higher or lower. You might be happy with this level, or you may want to be more certain that the path you're taking will meet your minimum goal. In our analysis, the goal is to make sure that whatever initial withdrawal rate you use, your account balance will run out exactly at the end of that period. Pick a success rate that you can be comfortable with, from the conservative 99% certainty, to the more optimistic 50% level, or somewhere in between. As mentioned at the start, by defining "safe" as an initial withdrawal rate that could survive one of the worst sets of circumstances, Bengen was effectively looking for 99% certainty.

After using our long-term expected return numbers for a portfolio of 50% growth assets and 50% defensive assets, the initial withdrawal rate is 2.8% at the 99% certainty level. If you're prepared to lower that probability of success down to 80%, then that initial withdrawal rate can increase to 3.9%.

4. What is the key message for Australians?

Equity returns over the next 20-30 years are likely to remain attractive relative to cash, but we're projecting them to be approximately 2% lower than history. We need to adjust our expectations and plan accordingly.

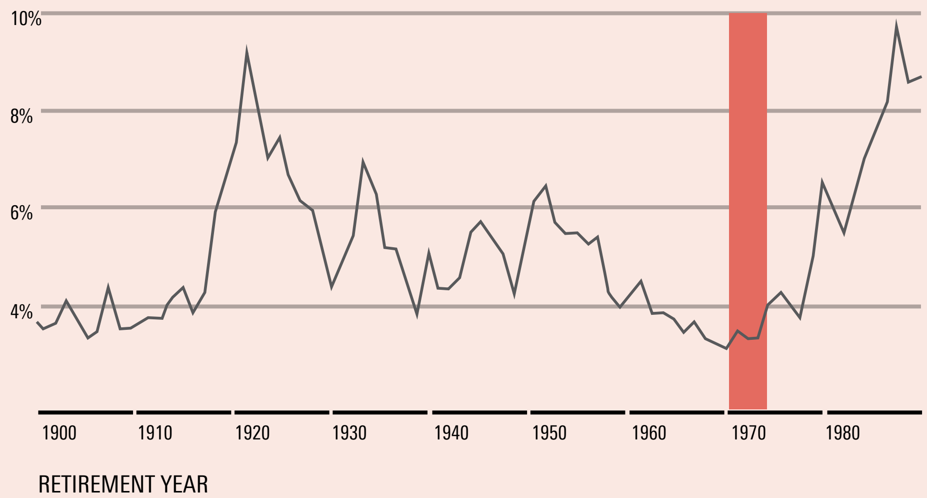
Safe withdrawal rates for retirees now need to start at 2.5%, not 4%. Withdrawal rates could be even lower if life expectancy continues to increase. So we need to accept either spending less in retirement, OR saving more for retirement, OR running a greater risk of moving on to the aged pension sooner. It's important to understand the trade-offs, and where you're sitting.

The mandatory minimum withdrawal rates for account-based pensions in Australia are set higher than the safe minimums in our paper. The way these two rates operate is different after the first year, but the impact of the higher relative withdrawal rates still needs to be considered. Just because you've been paid an amount from an allocated pension doesn't mean you have to spend it. Some retirees will need to invest some of their pension payments outside tax-concessional superannuation to ensure they still have savings in the future.

Once again, the benefits of a diversified, balanced portfolio shine through in the study. Adding equities can help a portfolio, but only if you accept a lower probability of success. Most of the incremental benefit to withdrawal rates of adding equities is achieved when 50-70% is allocated to growth assets.

Lastly, while the paper provides some useful pointers, the reality is that we're all different, and reviewing your own personal circumstances on a regular basis will give you a much better answer to what you need in retirement than a rule of thumb.

CHART 1: INITIAL SUSTAINABLE WITHDRAWAL RATE % – WHERE THE 4% RULE COMES FROM

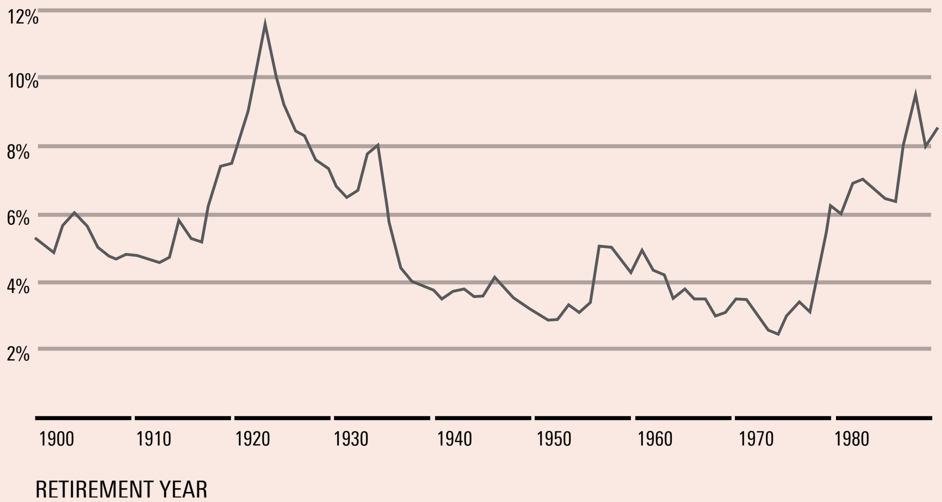


Portfolio of 50% US shares and 50% US bonds, using historical returns.

Maximum Withdrawal rate for a 30-year period, with the starting point varying by year.

The idea of "safe" was measured by the likelihood that you would still have $0.01 left after 30 years.

CHART 2: INITIAL SUSTAINABLE WITHDRAWAL RATE % – THE 4% RULE



… A (historical) Australian perspective including a portfolio fee of 1% p.a.

Had early withdrawal rate research been based on this analysis, it would not have suggested that a 4% initial withdrawal rate is safe, rather that it would be closer to 2.5%.

Assumes: Portfolio of 50% Australian shares and 50% Australian bonds, using historical returns and a portfolio fee of 1% per annum. Maximum Withdrawal rate for a 30-year period, with the starting point varying by year. The % withdrawal rate applies for the first year only, with subsequent years increased by inflation.

CHART 3: WITHDRAWAL RATES BY PORTFOLIOS – TIME PERIOD +TARGET SUCCESS RATE

15% Shares / 85% Bond

Probability of success	Retirement period (years) 20	25	30	35	40
99%	4.5%	3.6%	3.0%	2.6%	2.3%
95%	4.8%	3.9%	3.3%	2.8%	2.5%
90%	4.9%	4.0%	3.4%	2.9%	2.6%
80%	5.1%	4.2%	3.5%	3.1%	2.8%
70%	5.3%	4.3%	3.7%	3.2%	2.9%
50%	5.5%	4.5%	3.9%	3.4%	3.1%

70% Shares / 30% Bond

Probability of success	Retirement period (years) 20	25	30	35	40
99%	3.7%	3.0%	2.5%	2.2%	2.0%
95%	4.5%	3.7%	3.1%	2.8%	2.5%
90%	4.9%	4.0%	3.5%	3.1%	2.9%
80%	5.4%	4.6%	4.0%	3.6%	3.3%
70%	5.8%	4.9%	4.4%	4.0%	3.7%
50%	6.0%	5.6%	5.0%	4.6%	4.3%

50% Shares / 50% Bond

Probability of success	Retirement period (years) 20	25	30	35	40
99%	4.1%	3.3%	2.8%	2.4%	2.2%
95%	4.7%	3.8%	3.3%	2.9%	2.6%
90%	5.0%	4.1%	3.5%	3.1%	2.8%
80%	5.4%	4.5%	3.9%	3.5%	3.2%
70%	5.7%	4.8%	4.2%	3.7%	3.4%
50%	5.9%	5.3%	4.6%	4.2%	3.9%

85% Shares / 15% Bond

Probability of success	Retirement period (years) 20	25	30	35	40
99%	3.4%	2.7%	2.3%	2.0%	1.8%
95%	4.3%	3.5%	3.0%	2.7%	2.4%
90%	4.8%	4.0%	3.4%	3.1%	2.8%
80%	5.4%	4.6%	4.0%	3.6%	3.4%
70%	5.9%	5.0%	4.5%	4.1%	3.8%
50%	6.0%	5.9%	5.3%	4.9%	4.6%

FATCA version 2.0? Automatic Exchange of Information to apply from 1 July 2017

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In the last issue, we discussed the US Foreign Account Tax Compliance Act (FATCA). We also noted proposals to introduce Automatic Exchange of Information (AEOI) for financial accounts from 2018. Those proposals are now a lot clearer. This article discusses some of the key features of AEOI and how it will impact New Zealand financial institutions, who need to start planning for this now.

Setting the scene

The stated aim of AEOI is to help combat "tax evasion arising from wealth held by individuals and entities in 'offshore' financial accounts that goes unreported for tax purposes in the home jurisdiction."

In February, Inland Revenue released a consultation paper. It covers customer due diligence and reporting requirements, which New Zealand financial institutions and accounts would be caught, and how and when information would be exchanged by and with Inland Revenue. The detailed AEOI rules are based on the Common Reporting Standard (CRS) developed by the OECD in 2014.

The Government also advised that the implementation date was being brought forward by six months, to 1 July 2017.

Is AEOI FATCA version 2.0?

Under FATCA, New Zealand financial institutions must report on the financial account holdings of US citizens, residents and US controlled entities.

Under AEOI, New Zealand financial institutions must report the financial assets (and income) of account holders resident in other AEOI-participating countries. New Zealand resident entities controlled by non-residents must also be reported.

All G20 and OECD countries have signed up to AEOI. At current count, New Zealand financial institutions will have almost 100 different jurisdictions to consider. This raises the stakes. FATCA non-compliance, arguably, affects 'just' New Zealand and the US. AEOI non-compliance will raise concerns with significantly more 'stakeholders'. New Zealand's regulatory reputation is at stake so expect Inland Revenue to take an interest.

The same...

AEOI is based on the US Treasury's FATCA regulations (but not the Inter-Governmental Agreements the US has negotiated with other countries, including New Zealand). Some of the key terminology is the same.

For example, a "financial institution" for AEOI purposes broadly matches the definition for FATCA. It includes depositary institutions (e.g. banks), custodians, investment funds and some insurers. It may also capture private New Zealand companies and trusts, depending on how arrangements are structured, what they invest in, and how they are managed.

The experience with FATCA suggests that determining an entity's AEOI status will not always be straightforward.

... but different...

Those looking to duplicate their FATCA customer onboarding and reporting processes will be disappointed. There are a number of important differences:

- FATCA requires reporting of US citizens (one of the US's tests of tax residence). AEOI is based on tax residence. This is more difficult to determine. Proxies for tax residence must be used. This has implications for customer due diligence procedures. It may also require New Zealand financial institutions to 'second-guess' their customers' status based on other information they hold.
- FATCA has thresholds for reviewing and reporting accounts. There are fewer AEOI thresholds proposed. Generally, these are only in de minimis cases (e.g. dormant accounts).

- Some of the exclusions from the FATCA definitions of "financial institution" and "financial account" are not available under AEOI. (For example, the FATCA exclusion for financial institutions with a local client base is not available.) This may mean a FATCA-excluded New Zealand financial institution is nevertheless an AEOI reporting entity.
- The information to be exchanged by the US under FATCA is less than the information to be exchanged by AEOI countries. Other countries are treating the US as a non-participating AEOI country. This could have reporting and systems implications.
- Non-compliance with FATCA attracts a 30% withholding penalty on US-sourced payments. This is a powerful incentive to comply. AEOI does not have similar 'teeth'. Therefore, one of the consultation questions is whether New Zealand needs specific AEOI anti-avoidance and/or other enforcement (penalty) provisions.

Due diligence under AEOI

The key date for New Zealand financial institutions is 1 July 2017.

New accounts

Financial accounts that are opened on or after this date will require account holder self-certification. A New Zealand financial institution will need to ensure that an individual certifies their tax residence and provides their foreign tax identification number.

Similar procedures will need to apply to entity account holders and their controlling persons (i.e. shareholders, trustees, beneficiaries, partners, etc.) depending on the type of entity.

Self-certification is generally required at the time of account opening.

Pre-existing accounts

For pre-existing accounts, the due diligence procedures will depend on whether the account holder is an individual or an entity.

For individuals, this will depend on whether the account balance exceeds US$1 million at 30 June 2017. If below this threshold, a "residence address test" can be applied to determine the country of tax residence (and therefore reporting obligations, if any). If above this threshold, the due diligence procedures are more intensive.

For entities, accounts with a balance of US$250,000 or less may be excluded from due diligence altogether under one of the design choices available under the CRS. (This is one of the quirkier aspects of AEOI. It contains a similar threshold to FATCA for reviewing pre-existing entity accounts, but no threshold for pre-existing individual accounts.)

Phasing of due diligence and reporting

The proposed phasing of AEOI due diligence and reporting is outlined in the diagram below. (Note: it assumes AEOI is aligned with FATCA: that is, a 31 March reporting year and a 30 June reporting deadline. This could yet change).

PROPOSED PHASING OF AEOI OBLIGATIONS FOR NEW ZEALAND FINANCIAL INSTITUTIONS

- Complete CDD on high value (>$1m) pre-existing individual accounts
- Report all reportable accounts for first AEOI reporting period to IRD

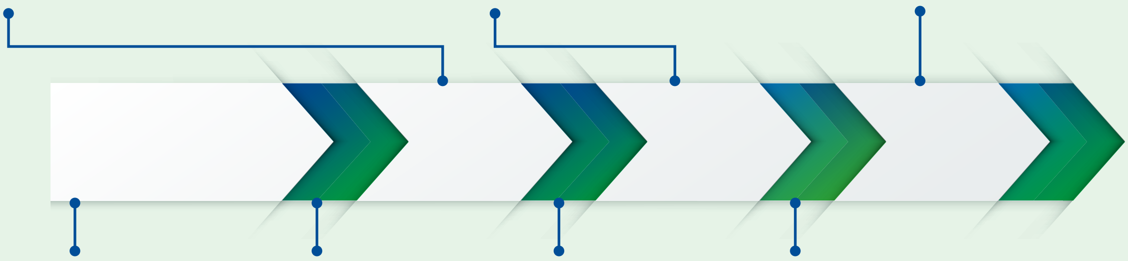
30 June 2018

- Complete CDD on low value (≤$1m) pre-existing individual accounts/non exempt (>$250k)* pre-existing entity accounts
- Report all reportable accounts for second AEOI reporting period to IRD

30 June 2019

- Report all reportable accounts for second AEOI reporting period to IRD

30 June 2020



1 July 2017
Customer Due Diligence (CDD) for new accounts commences

31 March 2018
End of first AEOI reporting period

31 March 2019
End of second AEOI reporting period

31 March 2020
End of third AEOI reporting period

* The $250k exemption threshold is a design choice

In our view, there is merit in leveraging existing processes to the maximum extent possible.

What should you be thinking about?

So what are the key AEOI implementation issues for New Zealand financial institutions?

A tax bill to implement AEOI is expected in July 2016, with enactment expected by the end of this year. Some of the detail (as the CRS provides certain design choices) may still need to be worked through during the consultation and legislative processes. New Zealand financial institutions can expect some tweaking until the final AEOI framework is cemented early next year.

In the short term, at least, FATCA and AEOI compliance and reporting will be misaligned. There are some material differences between the two as we have noted above. There may be some duplication of processes as a result.

An important CRS design question is the ability to perform consistent due diligence processes across all customers, not just for those resident in countries with which New Zealand will exchange information. Inland Revenue has suggested that a "wider approach" to due diligence – for all countries' account holders – should be available. There will be efficiencies in doing due diligence only once. However, this may create privacy and other concerns. Investor queries about why the information is being collected and how that information will be used may arise. This proposal will therefore need appropriate legislative safeguards.

In our view, there is merit in leveraging existing processes to the maximum extent possible. AEOI compliance is another piece in financial institutions' compliance puzzle to correctly identify their clients. These requirements range from Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) rules to existing non-resident withholding tax requirements. Each of these "Know Your Client" regimes appears to be developing in isolation and overlapping. There is a clear case to rationalise and integrate these requirements.

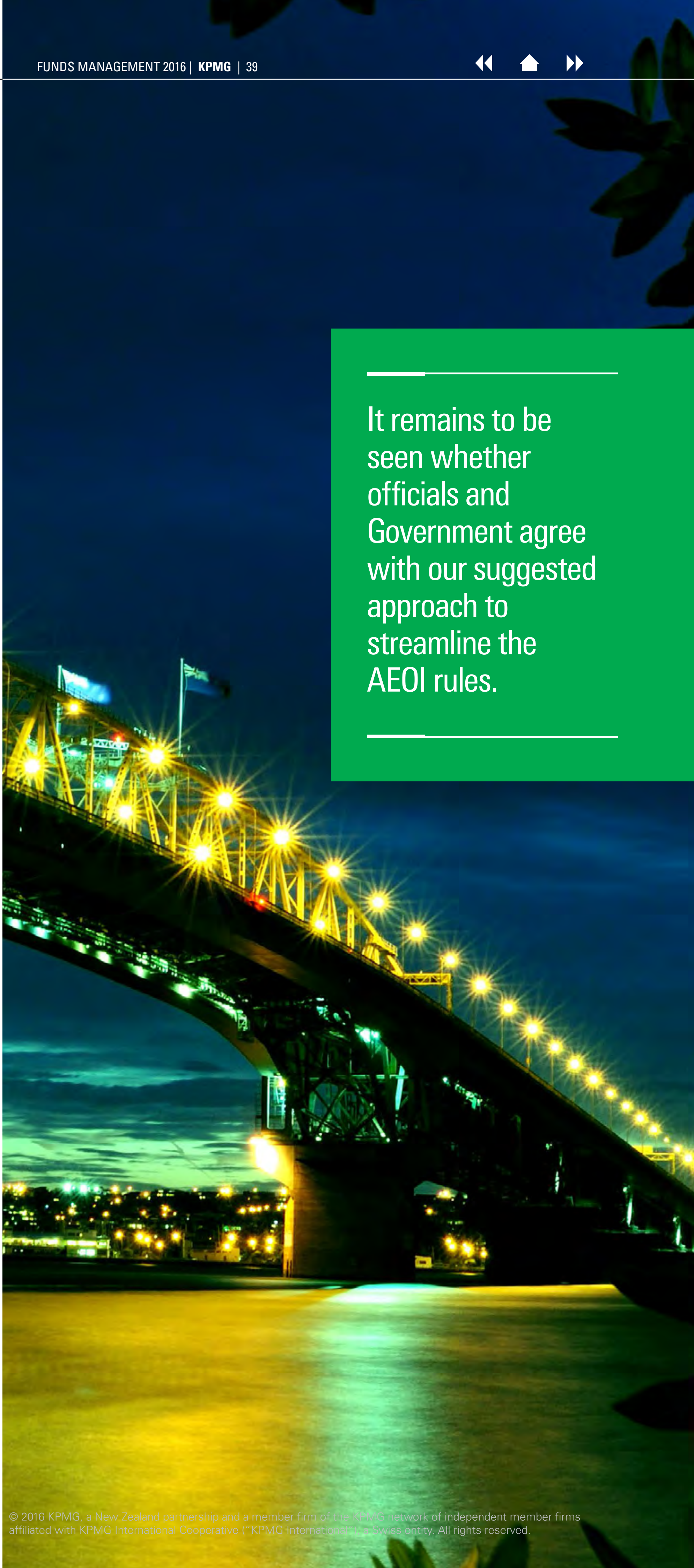
KPMG has submitted that AEOI needs to be aligned with New Zealand's AML/CFT regulations to remove duplication. Both the CRS and AML/CFT follow the Financial Actions Task Force's recommendations. The due diligence requirements should be broadly the same. This should mean the only additional CRS-related due diligence requirements are the need to collect tax residence and tax identification number information.

Similarly, we see merit in using existing tax mechanisms (such as the different withholding tax rules for residents and non-residents) to encourage AEOI compliance. For example, a person could be treated as a New Zealand tax resident rather than a non-resident for withholding purposes, if they fail to certify their residence status. This would attract a much higher withholding tax rate on their investments. This should create appropriate incentives for non-residents to correctly declare their status. This will assist with AEOI compliance.

It remains to be seen whether officials and government agree with our suggested approach to streamline the AEOI rules. KPMG's submission on the AEOI consultation paper can be found here.

Action points

1. Understand the key requirements under the CRS. The AEOI consultation document and KPMG's submission are a good starting point. Talk to KPMG or your advisor about how AEOI could impact your business.
2. Keep an eye out for the July 2016 tax bill. This will contain more detail about how New Zealand's AEOI implementation will be phased in and may answer some of the questions posed in this article.
3. Make sure your internal compliance team(s) are 'in the loop'. Often, different KYC responsibilities will be spread. This can lead to a 'silo' approach. We have emphasised above the importance of a coordinated approach to due diligence to minimise duplication. This means your AML/CFT, FATCA, AEOI and tax teams need to be talking to each other and working collaboratively.



It remains to be seen whether officials and Government agree with our suggested approach to streamline the AEOI rules.

KiwiSaver Survey March Quarter 2016

Tim Murphy, CFA, CAIA
Director of Manager Research,
Morningstar

The volatility in equity markets to start the year meant that KiwiSaver funds with a bias to defensive assets outperformed their growth-minded peers during the March quarter. There was a strong positive correlation between the allocation to defensive assets and the performance of the Morningstar categories during the quarter.

Morningstar's quarterly KiwiSaver Survey is designed to help New Zealand investors assess the performance and other key characteristics of their KiwiSaver superannuation options. The accompanying tables show KiwiSaver fund returns for the one, three and five years to 31 March 2016.

There were no new KiwiSaver funds added to the database during the quarter, as providers look to consolidate their existing product ranges.

We hope you find this KiwiSaver survey helpful and welcome any feedback.

Market commentary

The first three months of 2016 was very much a story of two halves, with sustained falls in equity markets around the world taking place over the course of January and into February. Markets finally settled and late February and March saw sharp rebounds in equity markets generally, in particular emerging markets, as commodity prices finally rebounded off their lows. The US Federal Reserve appeared to have eased off plans for more rate rises in the near term as mixed economic data struck fear into investors, while the RBNZ again cut the OCR, providing further stimulus to the local economy.

The New Zealand equity market was a shining light among global volatility in the March quarter. The S&P/NXZ50 rose 6.77%. The gains were fairly broad-based, with a smaller drawdown in January compared to global markets followed by a sharp rise from mid-February onwards. The market is now up 15.74% over the trailing 12 months.

The Australian market wasn't nearly as strong over the quarter or the year. The S&P/ASX200 was down 2.75% over the quarter in local terms, but in New Zealand dollar terms, the S&P/ASX200 gained 1.39% with fall in the NZD vs AUD. The Australian market exhibited more vulnerability to global economic uncertainty and a declining outlook for banking stocks.

The New Zealand dollar was mixed against major currencies over the quarter, falling against the Australian dollar and Euro, while appreciating against the US dollar and British Pound. This meant KiwiSaver investors benefitted from unhedged Australian equity exposure, while currency effects were negligible between hedged and unhedged global equities, the MSCI World Index in NZD terms having a 1.74% loss over the quarter. Over the trailing 12 months though, global equities gained 4.28% in NZD terms.

Property and infrastructure both posted strong results during the quarter, as investors continued to chase higher yielding assets. Local property was strong, the S&P/NZX Property index gaining 5.23%. Global infrastructure, however, was even stronger, the S&P Global Infrastructure Net Return AUD-hedged index (in NZD terms) rose 10.59% over the quarter and about 4.56% over the year.

With bond yields falling around the world, it was a very strong quarter for bond markets. The local bond market, as measured by the S&P/NZX Composite Investment Grade index, ended the quarter up 3.58%, and gained 6.57% over the trailing 12 months. Global bonds produced a similar result over the quarter, the Barclays Global Aggregate up 3.90% from a NZD-hedged perspective, and gained 5.40% over the trailing 12 months.

Quarterly Fund Manager results

The volatility in equity markets to start the year meant that KiwiSaver funds with a bias to defensive assets outperformed their growth-minded peers during the March quarter. There was a strong positive correlation between the allocation to defensive assets and the performance of the Morningstar categories during the quarter. That being said, average returns were still positive across the board, ranging from 0.79% for the aggressive category through to 2.65% for the moderate category. Fixed interest returns were strong across the board, as global bond yields generally fell over the quarter, while another unexpected cut to the OCR in March was a further positive for local bond performance. In equities, New Zealand was one of the strongest performing markets in the world in the March quarter, benefitting funds with greater exposure to domestic stocks. Australian equities weren't as strong, despite the rebound in commodity prices, while most international equity exposures delivered negative returns for the quarter.

Aon Russell KiwiSaver Scheme across the board was again a standout performer in most of its categories. Its outperformance is primarily due to its peer relative low exposure to growth assets. As earlier noted, international bond markets had a strong quarter, and the Aon portfolios all had large peer relative allocations to hedged international bonds.

KiwiWealth KiwiSaver had a tough quarter, with its all its multisector funds sitting at the bottom of their respective peer groups. Kiwi Wealth has no exposure to Australian or New Zealand Shares and when the local market does well in comparison to international equity markets, the funds will usually face significant headwinds.

With the exception of a couple of AMP Life Stages funds, all Multi-sector KiwiSaver funds returns were positive in the year to 31st of March 2016. The Conservative category averages 4.1% before tax while the numbers were not too different across the risk profiles, which underscores the general malaise in the investment markets we are experiencing.

It is most appropriate to evaluate performance of a KiwiSaver scheme by studying its long-term returns. Aon KiwiSaver Russell and ANZ KiwiSaver continue to be at or near the top of most categories and are the most consistent performers across the board. Mercer KiwiSaver continues to be a top performer within the Conservative category, while Milford KiwiSaver comfortably tops the balanced category over the long term, despite a weaker quarter.

Market share

KiwiSaver assets on the Morningstar database grew to NZ$32.14 billion at 31 March 2016 from NZ$954.10 million at 30 June 2008. ANZ continues to grow its market share to 26.0%, up from 25.8% last quarter. ASB remains in second, marginally increasing its market share to 18.6%. AMP remains in third spot ahead of Westpac, while Fisher Funds remained in fifth spot.

The industry continues to get more concentrated, with the six largest KiwiSaver providers accounting for 86.2% of assets on our database.

There was a strong positive correlation between the allocation to defensive assets and the performance of the Morningstar categories during the quarter.

Morningstar KiwiSaver Report: 31 March 2016

Please note:

- Past performance is not a guide to future performance. This year's best performers can easily be next year's worst.
- Understanding your risk profile, and the mix of growth and income assets is critical.
- Fees are the one constant that will always eat away at your returns. Take a close look at the cost of your KiwiSaver Scheme.

Snapshot

		Assets	Total Returns % p.a			Member Fee	31/03/2015 Total Expense Ratio	NZ Domiciled Assets	Growth Assets
		NZ$M	1-year	3-year	5-year	$/year	%	%	%
Default Options	AMP (Default)	1219.1	3.0	5.4	5.1	26.40	0.41	64.7	24.2
	ANZ Default Conservative (Default)	944.1	4.5	6.6	6.9	24.00	0.55	45.2	17.8
	ASB Conservative (Default)	3034.0	4.8	6.0	5.9	30.00	0.38	56.7	19.8
	BNZ Conservative	264.9	3.2	5.5	--	23.55	0.58	50.6	20.4
	Fisher TWO Cash Enhanced (Default)	640.3	4.9	6.0	6.2	28.32	0.56	67.5	19.3
	Grosvenor (Default)	18.0	4.3	--	--	*****	0.26^	55.7	19.8
	Kiwi Wealth Default	58.1	3.3	--	--	***	0.95	49.8	20.0
	Mercer Conservative (Default)*	979.0	4.5	7.1	6.9	31.05	0.57	56.3	20.2
	Westpac Defensive (Default)	53.0	4.6	--	--	20.25^	0.36^	64.8	19.0
Peer Group Averages	Default Options	7157.4	4.1	6.1	6.2	27.22**	0.57	56.32	20.1
	Conservative (Including Default Options)	8985.1	4.1	6.6	6.5	29.16**	0.79	53.79	17.5
	Moderate	4840.4	4.3	6.8	7.1	28.17**	0.94	42.75	32.2
	Balanced	7100.1	3.8	8.6	8.3	28.17**	1.05	33.57	53.5
	Growth	6294.4	4.7	10.0	9.2	28.17**	1.14	37.71	63.9
	Aggressive	2474.3	2.8	10.0	8.0	36.00**	1.50	22.44	85.6

Quick Stats

KiwiSaver total market size	$m	32,140	
Increase in market size last 3 months	$m	1,299	
Largest providers	$m	8,343	ANZ/OneAnswer
	$m	5,978	ASB
Number of providers		15	
Number of products		120	
Highest 3-month performance this quarter	%	6.9	OneAnswer Australasian Share
Lowest 3-month performance this quarter	%	-8.1	NZ Funds Growth
Highest 12-month performance this quarter	%	16.7	Grosvenor Options
Lowest 12-month performance this quarter	%	-10.0	NZ Funds Growth

Estimated KiwiSaver Market Asset Allocation %

Cash & NZ Bonds	35.3
International Bonds	19.7
NZ Unlisted Property	0.7
NZ Listed Property	2.1
International Listed Property	2.0
NZ Shares	8.4
Australian Shares	4.3
International Shares	26.1
Other	1.3
Proportion in Income Assets:	55.0
Proportion in Growth Assets:	45.0

Morningstar KiwiSaver Report: 31 March 2016

Multi-sector options

		Assets	Total Returns % p.a						Member Fee	31/03/2015 Total Expense Ratio	NZ Domiciled Assets	Growth Assets
		NZ$M	1-year		3-year		5-year		$/year	%	%	%
Conservative	AMP (Default)	1219.1	3.0	(14)	5.4	(12)	5.1	(10)	26.40	0.41	64.7	24.2
	ANZ Conservative	534.3	4.2	(10)	6.4	(7)	6.8	(5)	24.00	0.92	46.4	16.7
	ANZ Default Conservative (Default)	947.0	4.5	(5)	6.6	(4)	6.9	(2)	24.00	0.55	45.2	17.8
	Aon Russell Lifepoints Conservative	76.5	4.4	(6)	7.1	(3)	8.2	(1)	49.80	1.12	16.1	20.3
	ASB Conservative (Default)	3034.0	4.8	(2)	6.0	(9)	5.9	(9)	30.00	0.38	56.7	19.8
	BNZ Conservative	262.4	3.2	(13)	5.5	(11)	--		23.55	0.58	50.6	20.4
	Fisher Conservative	398.3	4.2	(11)	6.5	(5)	6.4	(6)	36.00	1.00	59.9	19.9
	Fisher TWO Cash Enhanced (Default)	643.1	4.9	(1)	6.0	(8)	6.2	(7)	28.32	0.56	67.5	19.3
	Grosvenor (Default)	18.0	4.3	(8)	--		--		*****	0.26^	55.7	19.8
	Kiwi Wealth Conservative	422.2	3.0	(15)	5.9	(10)	6.0	(8)	***	1.13	34.3	15.2
	Kiwi Wealth Default	58.1	3.3	(12)	--		--		***	0.95	49.8	20.0
	Mercer Conservative (Default)*	979.0	4.5	(4)	7.1	(2)	6.9	(3)	31.05	0.57	56.3	20.2
	Milford Conservative	21.3	4.4	(7)	10.7	(1)	--		36.00	1.02	46.3	11.3
	OneAnswer Conservative	372.0	4.3	(9)	6.4	(6)	6.8	(4)	24.00	0.92	46.4	16.7
	Staples Rodway Conservative*	Und.	--		--		--		40.81	0.99	100.0	0.0
	Westpac Defensive (Default)	50.9	4.6	(3)	--		--		20.25^	0.36^	64.8	19.0
Average			4.1		6.6		6.5		29.16**	0.79	53.8	17.5
Morningstar NZ Multi-sector Conservative Index			5.5		6.2		6.1					19.6

Morningstar KiwiSaver Report: 31 March 2016

Multi-sector options (continued)

		Assets	Total Returns % p.a						Member Fee	31/03/2015 Total Expense Ratio	NZ Domiciled Assets	Growth Assets
		NZ$M	1-year		3-year		5-year		$/year	%	%	%
Moderate	AMP LS Conservative	272.5	2.1	(15)	4.8	(12)	5.4	(11)	26.40	0.89	52.0	29.8
	AMP LS Moderate	322.9	1.3	(16)	5.3	(10)	5.8	(9)	26.40	0.97	43.5	44.7
	ANZ Conservative Balanced	624.5	4.3	(8)	7.8	(2)	8.0	(4)	24.00	0.92	43.7	29.6
	ANZ Default Conservative Balanced	24.8	4.3	(9)	7.7	(4)	7.8	(5)	24.00	0.92	43.3	30.2
	Aon Russell Lifepoints 2015	5.0	4.5	(5)	7.5	(6)	8.2	(2)	49.80	1.13	16.1	20.3
	Aon Russell Lifepoints Moderate	16.5	5.1	(3)	8.8	(1)	9.0	(1)	49.80	1.18	12.0	40.6
	ASB Moderate	1007.7	5.1	(2)	7.6	(5)	7.1	(6)	30.00	0.56	46.4	39.6
	BNZ Moderate	191.4	2.6	(14)	6.6	(7)	--		23.55	0.87	26.7	36.9
	Fisher TWO Conservative	113.0	4.6	(4)	6.2	(8)	6.5	(7)	28.32	1.00	66.9	27.1
	Generate Conservative	31.0	9.1	(1)	--		--		36.00	1.20	82.9	30.3
	Grosvenor AC Conservative	10.8	4.0	(13)	--		--		27.00^	0.81	6.6	31.4
	Grosvenor Conservative	113.6	4.0	(12)	5.1	(11)	5.7	(10)	36.99	1.02	51.6	25.4
	Mercer Moderate*	33.6	4.2	(11)	--		--		31.05	--	49.3	37.1
	OneAnswer Conservative Balanced	132.2	4.2	(10)	7.8	(3)	8.1	(3)	24.00	0.92	43.7	29.6
	Westpac Conservative	1858.1	4.4	(7)	6.1	(9)	6.4	(8)	28.02	0.73	53.4	24.6
	Westpac Moderate	82.9	4.4	(6)	--		--		20.25^	0.54^	45.9	38.7
Average			4.3		6.8		7.1		28.17**	0.94	42.8	32.2
Morningstar NZ Multi-sector Moderate Index			5.9		7.4		6.8					30.8

Morningstar KiwiSaver Report: 31 March 2016

Multi-sector options (continued)

		Assets	Total Returns % p.a						Member Fee	31/03/2015 Total Expense Ratio	NZ Domiciled Assets	Growth Assets
		NZ$M	1-year		3-year		5-year		$/year	%	%	%
Balanced	AMP Fisher TWO Balanced	27.1	5.3	(4)	8.2	(12)	7.5	(13)	26.40	1.22	58.6	51.5
	AMP LS Balanced	689.6	0.3	(17)	6.2	(16)	6.6	(14)	26.40	1.02	32.8	64.7
	AMP LS Moderate Balanced	458.5	1.0	(16)	5.8	(17)	6.1	(15)	26.40	1.01	38.5	54.7
	ANZ Balanced	1299.5	4.3	(10)	9.1	(7)	9.2	(4)	24.00	0.97	37.3	45.0
	ANZ Default Balanced	68.8	4.3	(11)	9.0	(8)	8.7	(7)	24.00	0.97	37.5	44.7
	Aon ANZ Balanced	23.4	3.7	(13)	8.7	(11)	9.1	(5)	49.80	1.17	22.8	59.8
	Aon Russell Lifepoints 2025	14.9	5.0	(5)	9.1	(6)	9.1	(6)	49.80	1.19	12.0	40.5
	Aon Russell Lifepoints Balanced	68.1	5.5	(3)	10.3	(2)	9.7	(2)	49.80	1.26	8.0	60.5
	ASB Balanced	773.1	4.9	(6)	9.2	(4)	8.1	(10)	30.00	0.60	36.1	59.4
	BNZ Balanced	140.0	2.5	(15)	7.7	(14)	--		23.55	0.97	24.4	52.3
	Fisher TWO Balanced	510.3	4.6	(8)	7.9	(13)	7.5	(12)	28.32	1.11	58.6	51.5
	Grosvenor Balanced	315.2	3.2	(14)	6.8	(15)	6.0	(16)	36.99	1.14	31.2	55.0
	Grosvenor SRI Balanced	19.4	6.3	(1)	--		--		27.00^	0.91^	31.8	53.4
	Kiwi Wealth Balanced	1046.4	-1.3	(18)	8.7	(10)	7.9	(11)	***	1.14	22.8	51.8
	Mercer Balanced*	240.3	4.0	(12)	9.4	(3)	8.2	(9)	31.05	0.81	37.4	57.1
	Milford Balanced	87.2	5.7	(2)	11.5	(1)	11.7	(1)	36.00	1.40	37.5	56.1
	OneAnswer Balanced	392.3	4.4	(9)	9.2	(5)	9.2	(3)	24.00	0.97	37.3	45.0
	Westpac Balanced	926.1	4.8	(7)	9.0	(9)	8.2	(8)	28.02	0.82	39.5	59.4
Average			3.8		8.6		8.3		28.17**	1.05	33.6	53.5
Morningstar NZ Multi-sector Balanced Index			6.1		9.3		7.8					54.2

Morningstar KiwiSaver Report: 31 March 2016

Multi-sector options (continued)

		Assets	Total Returns % p.a						Member Fee	31/03/2015 Total Expense Ratio	NZ Domiciled Assets	Growth Assets
		NZ$M	1-year		3-year		5-year		$/year	%	%	%
Growth	AMP ANZ Balanced Plus	174.2	3.8	(16)	10.0	(13)	9.8	(8)	26.40	1.11	32.3	57.3
	AMP LS Growth	513.4	-0.8	(20)	6.9	(18)	6.9	(16)	26.40	1.01	23.1	84.7
	AMP Nikko AM Balanced	29.5	8.5	(2)	10.4	(10)	8.7	(12)	26.40	1.29	41.9	72.6
	ANZ Balanced Growth	1069.0	4.3	(9)	10.4	(9)	10.2	(6)	24.00	1.02	32.7	58.6
	ANZ Default Balanced Growth	77.1	4.3	(12)	10.3	(11)	9.6	(9)	24.00	1.02	33.2	58.1
	ANZ Default Growth	62.9	4.1	(15)	11.6	(3)	10.4	(3)	24.00	1.07	28.2	72.7
	ANZ Growth	1747.6	4.2	(13)	11.6	(2)	11.2	(2)	24.00	1.07	27.5	73.6
	Aon Russell Lifepoints 2035	12.6	5.4	(7)	10.6	(7)	9.8	(7)	49.80	1.26	8.0	60.5
	Aon Russell Lifepoints Growth	25.1	5.6	(5)	11.4	(4)	10.3	(4)	49.80	1.30	5.0	75.4
	Aon Nikko AM Balanced	6.2	7.7	(3)	10.2	(12)	8.6	(13)	49.80	1.33	41.9	72.6
	ASB Growth	801.2	4.8	(8)	10.8	(5)	8.9	(11)	30.00	0.64	30.4	79.3
	BNZ Growth	106.6	2.0	(19)	8.8	(15)	--		23.55	1.06	26.9	72.1
	Fisher TWO Growth	197.0	4.2	(14)	9.0	(14)	8.4	(14)	28.32	1.20	54.5	69.3
	Forsyth Barr Balanced	15.0	8.7	(1)	8.1	(16)	7.1	(15)	36.00	1.50	48.3	65.6
	Generate Growth	61.0	7.2	(4)	--		--		36.00	1.65^	44.3	72.3
	Grosvenor Balanced Growth	160.9	3.3	(18)	7.9	(17)	6.1	(17)	36.99	1.19	28.8	71.3
	Mercer Growth*	26.0	3.6	(17)	--		--		31.05	--	27.7	77.7
	OneAnswer Balanced Growth	348.5	4.3	(10)	10.5	(8)	10.3	(5)	24.00	1.03	32.7	58.6
	OneAnswer Growth	255.9	4.3	(11)	11.7	(1)	11.3	(1)	24.00	1.07	27.5	73.6
	Staples Rodway Balanced*	0.0	--		--		--		40.81	1.28	100.0	0.0
	Staples Rodway Growth*	0.0	--		--		--		40.81	1.46	100.0	0.0
	Westpac Growth	605.0	5.5	(6)	10.6	(6)	9.5	(10)	28.02	0.86	35.1	79.3
Average			4.7		10.0		9.2		28.17**	1.14	37.7	63.9
Morningstar NZ Multi-sector Growth Index			6.3		10.5		8.5					70.9

Morningstar KiwiSaver Report: 31 March 2016

Multi-sector options (continued)

		Assets	Total Returns % p.a						Member Fee	31/03/2015 Total Expense Ratio	NZ Domiciled Assets	Growth Assets
		NZ$M	1-year		3-year		5-year		$/year	%	%	%
Aggressive	AMP LS Aggressive	222.4	-1.3	(9)	7.3	(8)	7.2	(6)	26.40	1.09	18.3	94.9
	Aon Russell Lifepoints 2045	11.8	5.3	(2)	11.6	(1)	10.4	(1)	49.80	1.31	5.0	75.4
	Fisher Growth	1044.3	4.6	(4)	10.1	(4)	7.5	(5)	36.00	1.40	39.8	75.0
	Forsyth Barr Growth	13.3	10.3	(1)	9.6	(6)	8.0	(4)	36.00	1.58	37.0	85.1
	Generate Focused Growth	84.4	4.8	(3)	--		--		36.00	1.90	29.6	84.2
	Grosvenor AC Growth	30.2	2.0	(7)	--		--		27.00^	0.87^	14.5	83.4
	Grosvenor Geared Growth	5.7	1.7	(8)	9.8	(5)	6.6	(7)	36.99	2.85	15.1	97.2
	Grosvenor High Growth	140.7	2.7	(6)	9.0	(7)	6.1	(8)	36.99	1.25	24.8	81.7
	Kiwi Wealth Growth	826.0	-5.8	(10)	11.3	(3)	9.1	(3)	***	1.19	13.7	86.3
	Mercer High Growth*	95.6	3.9	(5)	11.6	(2)	9.4	(2)	31.05	0.91	26.7	92.5
Average			2.8		10.0		8.0		36.00**	1.50	22.4	85.6
Morningstar NZ Multi-sector Aggressive Index			6.0		11.7		8.5					86.7

Morningstar KiwiSaver Report: 31 March 2016

Single sector options

		Assets	Total Returns % p.a						Member Fee	31/03/2015 Total Expense Ratio	NZ Domiciled Assets	Growth Assets
		NZ$M	1-year		3-year		5-Year		$/year	%	%	%
Cash	AMP Cash	76.9	2.7	(11)	2.9	(12)	2.8	(10)	26.40	0.73	100.0	0.0
	ANZ Cash	263.2	3.1	(6)	3.2	(5)	3.1	(6)	24.00	0.42	100.0	0.0
	ANZ Default Cash	3.6	3.0	(7)	3.2	(7)	3.1	(5)	24.00	0.42	100.0	0.0
	Aon ANZ Cash	3.7	2.6	(13)	2.7	(13)	2.7	(11)	49.80	0.87	100.0	0.0
	Aon Nikko AM Cash	1.7	2.9	(8)	3.2	(8)	3.2	(1)	49.80	0.85	100.0	0.0
	ASB NZ Cash	361.8	3.2	(2)	3.3	(4)	3.0	(9)	30.00	0.34	100.0	0.0
	BNZ Cash	92.5	2.7	(12)	3.1	(11)	--		23.55	0.29	100.0	0.0
	Fisher TWO Preservation	26.7	3.1	(3)	3.3	(2)	3.2	(3)	28.32	0.66	100.0	0.0
	Grosvenor Enhanced Income	18.6	2.8	(10)	3.1	(9)	3.2	(2)	36.99	0.77	100.0	0.0
	Kiwi Wealth Cash	88.7	3.4	(1)	3.6	(1)	--		***	0.85	100.0	0.0
	Mercer Cash*	15.3	3.1	(4)	3.3	(3)	3.2	(4)	31.05	0.38	100.0	0.0
	OneAnswer Cash	27.6	2.9	(9)	3.1	(10)	3.0	(7)	24.00	0.56	100.0	0.0
	Westpac Cash	270.4	3.1	(5)	3.2	(6)	3.0	(8)	28.02	0.45	100.0	0.0
Fixed Interest	OneAnswer International Fixed Interest	2.9	4.2		5.4		6.2		24.00	0.84	0.1	0.0
	OneAnswer New Zealand Fixed Interest	6.5	6.4		4.5		5.9		24.00	0.72	100.0	0.0
International Share	Fisher TWO Equity	63.3	2.6	(4)	9.6	(4)	7.2	(2)	28.32	1.28	38.6	88.1
	Grosvenor International Share	7.3	0.7	(5)	11.2	(3)	6.9	(3)	36.99	1.34	3.4	96.7
	Mercer Shares*	9.1	3.8	(2)	--		--		31.05	--	26.7	98.6
	OneAnswer International Share	33.9	6.3	(1)	14.2	(1)	10.1	(1)	24.00	1.08	0.1	99.9
	OneAnswer Sustainable Growth	4.4	2.6	(3)	11.3	(2)	6.4	(4)	24.00	1.55	3.7	96.4

Morningstar KiwiSaver Report: 31 March 2016

Single sector options (continued)

		Assets	Total Returns % p.a						Member Fee	31/03/2015 Total Expense Ratio	NZ Domiciled Assets	Growth Assets
		NZ$M	1-year		3-year		5-Year		$/year	%	%	%
Property	OneAnswer Australasian Property	14.2	14.5		15.3		16.8		24.00	1.07	0.2	99.8
	OneAnswer International Property	8.5	1.9		11.4		11.8		24.00	1.09	0.2	99.8
Australasian Equity	Aon Milford	104.4	8.0	(3)	13.3	(3)	14.6	(3)	49.80	1.55	72.0	15.9
	Grosvenor Socially Responsible	18.2	5.8	(5)	6.9	(4)	6.0	(4)	36.99	1.32	25.8	9.9
	Grosvenor Trans-Tasman Share	5.0	6.6	(4)	0.7	(5)	-0.3	(5)	36.99	1.22	53.7	46.3
	Milford Active Growth	447.9	8.7	(2)	13.7	(2)	14.9	(1)	36.00	1.49	72.0	15.9
	OneAnswer Australasian Share	22.3	13.8	(1)	15.7	(1)	14.8	(2)	24.00	1.06	92.9	7.1
Miscellaneous	Grosvenor Capital Guaranteed	43.6	2.6		--		--		27.00^	0.59^		
	Grosvenor Options	89.7	16.7		--		--		27.00^	0.74^		
	Kiwi Wealth Cash Plus	55.7	3.6		3.7		--		***	0.91		
	NZ Funds Growth	64.8	-10.0		9.3		7.9		36.00	4.41		
	NZ Funds Income	15.4	3.7		3.5		4.2		36.00	1.15		
	NZ Funds Inflation	49.7	-2.9		4.6		5.3		36.00	2.56		
	Westpac Capital Protect Plan 1	11.6	5.5		12.9		10.3		28.02	1.58		
	Westpac Capital Protect Plan 2	9.8	5.5		12.9		10.3		28.02	1.58		
	Westpac Capital Protect Plan 3	15.5	5.5		12.9		10.3		28.02	1.58		
	Westpac Capital Protect Plan 4	22.1	5.5		12.9		--		28.02	1.58		
	Westpac Capital Protect Plan 5	18.4	5.5		12.9		--		28.02	1.58		

Morningstar KiwiSaver Report: 31 March 2016

Market Share Analysis

		AUM, March 2016				AUM, Dec 2015				AUM, Dec 2014				AUM, Dec 2013		
		$M	%	Rank	Rank Change	$M	%	Rank	Rank Change	$M	%	Rank	Rank Change	$M	%	Rank
By Provider	AMP	4006.0	12.5	(3)	HOLD	3878.7	12.6	(3)	HOLD	3440.1	13.7	(3)	HOLD	2861.5	14.4	(3)
	ANZ/ OneAnswer	8343.3	26.0	(1)	HOLD	7946.2	25.8	(1)	HOLD	6320.8	25.2	(1)	HOLD	5742.6	28.9	(1)
	Aon	369.8	1.2	(11)	HOLD	360.0	1.2	(11)	HOLD	301.5	1.2	(11)	▼	231.4	1.2	(10)
	ASB	5977.7	18.6	(2)	HOLD	5696.3	18.5	(2)	HOLD	4707.8	18.8	(2)	HOLD	3682.6	18.5	(2)
	BNZ	793.0	2.5	(9)	HOLD	731.2	2.4	(9)	HOLD	450.7	1.8	(9)	▲	184.2	0.9	(12)
	Fisher Funds	2995.8	9.3	(5)	HOLD	2885.6	9.4	(5)	HOLD	2431.8	9.7	(5)	HOLD	1941.3	9.8	(5)
	Forsyth Barr	28.3	0.1	(14)	▲	27.4	0.1	(15)	▲	22.2	0.1	(16)	▼	16.6	0.1	(15)
	Generate	176.4	0.5	(12)	HOLD	139.4	0.5	(12)	▲	36.1	0.1	(14)	▲	3.3	0.0	(17)
	Grosvenor	996.8	3.1	(8)	HOLD	958.8	3.1	(8)	HOLD	800.7	3.2	(8)	HOLD	303.1	1.5	(8)
	Kiwi Wealth	2497.1	7.8	(6)	HOLD	2463.9	8.0	(6)	HOLD	1972.4	7.9	(6)	HOLD	1240.9	6.2	(6)
	Mercer	1398.9	4.4	(7)	HOLD	1350.0	4.4	(7)	HOLD	1024.1	4.1	(7)	HOLD	843.8	4.2	(7)
	Milford	556.3	1.7	(10)	HOLD	530.0	1.7	(10)	HOLD	390.9	1.6	(10)	▲	222.1	1.1	(11)
	NZ Funds	129.9	0.4	(13)	HOLD	126.6	0.4	(13)	▼	91.1	0.4	(12)	▲	55.8	0.3	(13)
	Staples Rodway	--	--		▼	59.2	0.2	(14)	▼	51.8	0.2	(13)	▲	43.6	0.2	(14)
	Westpac	3870.7	12.0	(4)	HOLD	3688.0	12.0	(4)	HOLD	3009.5	12.0	(4)	HOLD	2268.9	11.4	(4)
Closed/Merged Providers	Brook, Mid 2014													10.2	0.1	(16)
	FirstChoice, End 2014									31.6	0.1	(15)		231.7	1.2	(9)
Total		32,140				30,841				25,083				19,884		

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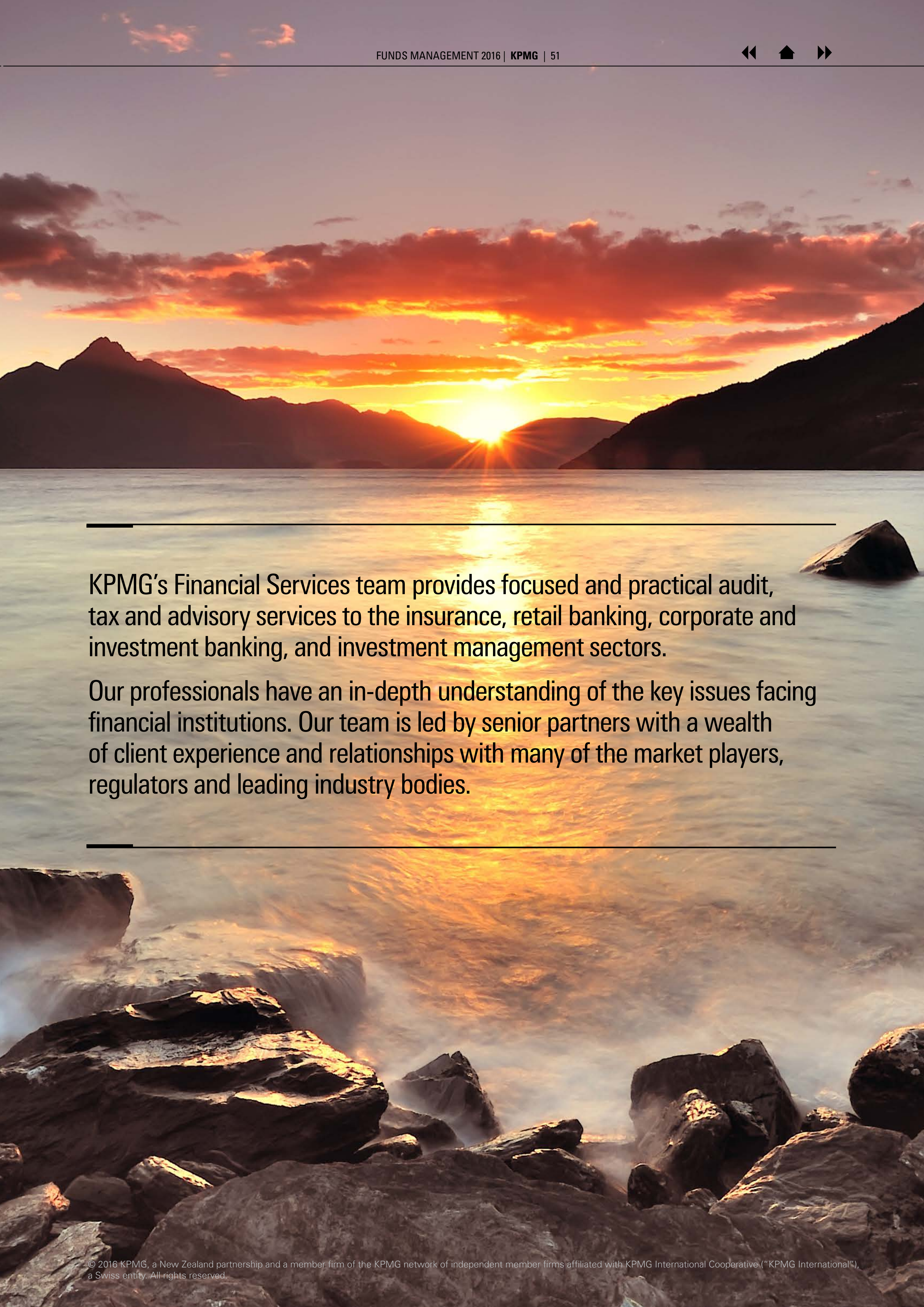

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Our professionals have an in-depth understanding of the key issues facing financial institutions. Our team is led by senior partners with a wealth of client experience and relationships with many of the market players, regulators and leading industry bodies.

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John Cantin is a senior partner with KPMG New Zealand, specialising in financial services and investment taxation issues. John is part of KPMG's FATCA/CRS team and has assisted clients with applying the FATCA rules.

He also serves as a member of the Institute of Chartered Accountants' National Tax Advisory Group and KPMG's Tax Policy Team. He is heavily involved in submissions on proposed changes to NZ's tax system including the AEOI consultation.

Darshana Elwela
National Director, Tax,
KPMG, New Zealand

Darshana joined KPMG in 2007 and is actively involved in assisting clients with investment taxation and FATCA issues. He was formerly a senior official with Inland Revenue's Tax Policy Division and part of the team responsible for implementing the PIE tax rules.

As KPMG New Zealand's National Tax Director, Darshana continues to work closely with Inland Revenue and Government on various tax technical and policy issues.

Anthony Serhan, CFA
Managing Director, Research Strategy, Asia-Pacific, Morningstar

Anthony Serhan is responsible for the development of research and commentary about investment themes and trends within the Asia-Pacific region, and representing Morningstar's manager, equity and credit research capabilities. He has more than 25 years of investment and financial services experience in both institutional and retail capacities. At Morningstar, he previously held the roles of CEO Morningstar Australasia, managing director of Ibbotson Associates Australia, and head of adviser and research.

Anthony is also a director and president of the CFA Society of Sydney and a director and chair of the Abbotsleigh Foundation investment committee, and was previously a member of the ASFA investment sub-committee for 13 years.

Tim Murphy, CFA, CAIA
Director of Manager Research, Morningstar

Tim Murphy is Director of Manager Research with Morningstar, a leading global provider of independent investment research.

Tim is jointly responsible for leading qualitative research on Australian and New Zealand funds, exchange-traded funds, and listed investment companies, as well as managing Morningstar's model portfolios and relationships with consulting and adviser clients.

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