

**Editor's note:** You may be aware of recent publicity about the scheme. Much of this edition of *2 Minutes on Super* addresses points raised. It's a little longer than usual, but as always, we feel it's important to be open with members and communicate directly.

## Peer performance against KiwiSaver schemes

Recently, our performance relative to KiwiSaver schemes hasn't been what we would have liked. We have been upfront with members about this. We have not shied away from publishing comparisons, for better or worse, in our annual reports and/or on our website. It has been suggested that PSS has underperformed KiwiSaver schemes for a decade, but this is simply not correct. As recently as 2016, PSS Growth outranked all KiwiSaver funds with a similar mix of assets. PSS Balanced and Stable were ranked second.<sup>1</sup> However, we have not compared well over the past four years, which is disappointing.

As we explained in our June newsletter, recent underperformance is largely due to a diversification strategy that is noticeably different from the more New Zealand-focused KiwiSaver schemes. Broadly, our strategy is to reduce risk through diversification. We invest in thousands of securities across a broad range of asset classes and a wide range of markets. We believe this fundamental element of our investment strategy is sound. Too many eggs in too few baskets increases risk. To put it another way, our broad base of investments provides stability without affecting the expected long-term return. However, we accept that there will be times when a particular market, such as New Zealand, or a certain asset, such as The A2 Milk Company, will perform extremely well, which means we may not benefit to the same extent as funds with a higher concentration in that region or security. This is the case at the moment when you compare our performance to KiwiSaver schemes. These schemes have a higher proportion of assets invested in New Zealand bonds and shares, which have outperformed their overseas counterparts in recent years. The New Zealand share market, in particular, has enjoyed a dream run. The question to ask is how likely is it that New Zealand markets will continue to outperform the rest of the world in the long term?

<sup>1</sup> 2016 calendar year. Source: Russell Investments.

[Read more about peer performance](#)

## Reviewing our investment strategy

We believe our overall strategy is sound. However, we do review every aspect of that strategy at least every three years and at times more frequently in response to what we consider may become long-term market changes. We are naturally reviewing elements of our approach in light of recent market volatility sparked by the coronavirus pandemic. Earlier this month, we held a special meeting of the Board at which we identified a number of areas that warrant further investigation. Here are some examples.

### Value versus growth

Shares in more mature companies providing a good return on investment are known as value stocks. Shares in newer companies that might even be making a loss but have the potential to grow rapidly are known as growth stocks. At the moment, we hold more value stocks than growth stocks, and these value stocks have traditionally performed very well. In recent years, however, some growth stocks like Amazon in the US and The A2 Milk Company in New Zealand have performed extremely well. We will be discussing with our professional advisors whether our bias towards value stocks continues to be appropriate.

### Strategic tilting

Each of our funds has a set mix of different types of assets (for example, shares and bonds) called the benchmark asset allocation. Mercer, our investment manager, is required to maintain this mix of assets within a certain range. Russell Investments, our strategic tilting consultant, can make a tilt outside these ranges, again within certain limits. As part of our review, together with Russell Investments, we are assessing whether we need to put a more active tilting mandate in place.

### International fixed interest, absolute return

PSS Stable invests in a subcategory of fixed interest called absolute return, which is considered less risky than traditional fixed interest investments. We need to look at whether investing in this asset class is likely to deliver the expected benefits during what could be a sustained period of market volatility.

The review process is ongoing, and we will continue to communicate changes to members if and when we make them.

[Our investment strategy is set out in our Statement of Investment Policy and Objectives](#)

## Investment fees lower than most KiwiSaver schemes

All investment managers charge a fee for their services based on a percentage of funds under management. Fees have a big impact on overall returns, which is why the Financial Markets Authority requires providers of investment products to be transparent about fees in their disclosure documents. We go further by clearly detailing fees on our website and including a comparison with KiwiSaver schemes. PSS fees stack up well. For example, investment fees for PSS Balanced are 0.59%. According to the latest Morningstar KiwiSaver Survey, the average for KiwiSaver balanced funds with a similar mix of assets is 1.02%. Only one of the 30 KiwiSaver balanced funds surveyed by Morningstar charges an investment fee lower than PSS. The dollar figure quoted in the media for total fees over three years represents less than 0.6% p.a. of funds under management. Of course, in dollar terms, the number is large, but that reflects the size of the PSS. The scheme has over \$2 billion invested. That's a great deal more than many KiwiSaver schemes.

[See what fees we charge](#)

## The psychology of spending

In the final instalment of excerpts from Mary Holm's book *Rich Enough? A Laid-back Guide for Every Kiwi*, Mary looks at what motivates us to pull out the credit card and provides some useful tips on avoiding the Christmas spending trap. Mary is the author of six books on personal finance and, earlier this year, was appointed an Officer of the New Zealand Order of Merit for services to financial literacy education.

[Read the psychology of spending](#)

[Read more excerpts from \*Rich Enough?\*](#)

## Benefit payments over the holidays

Summer might seem a world away, but it will roll around soon enough. The last payment date for benefits for 2020 will be Friday 18 December. You need to factor this in if you are planning to withdraw money over the holidays. This applies to all benefits including partial withdrawals, first-home benefits, leaving service payments, significant financial hardship payments and withdrawals from retained member accounts. If you've set up a regular payment from your retained account, this will be processed as usual. For a pre-Christmas payment, Mercer needs to receive the completed form from you (or Payroll in the case of leaving service payments) by Friday 11 December (or Friday 4 December in cases where a charge is registered against your super).

## Latest returns

Unit prices are updated on the website each business day. Each month, we also post returns based on the change in unit prices over a given period expressed as a percentage. This provides another way for you to follow the performance of your investment. This table shows the year-to-date returns (after fees and before tax). Percentage returns on your investments will vary depending on your prescribed investor rate (PIR).

Percentage returns for this scheme year	Growth %	Balanced %	Stable %	Cash Plus %
April 2020	5.75	4.37	2.51	0.09
May 2020	2.68	1.97	1.44	0.02
June 2020	1.84	1.41	1.07	0.04
July 2020	2.84	2.18	1.51	0.03
<b>Year to date</b>	<b>13.73</b>	<b>10.28</b>	<b>6.68</b>	<b>0.18</b>

Our investment manager Mercer prepares regular market updates, which we post on the website each month.

[See the latest returns](#)

[View the July update](#)



## Got a question?

[policiesuper.co.nz](http://policiesuper.co.nz)

You'll find plenty of information about the PSS and your membership online. Our website is optimised for mobile phones and tablets and has lots of features to help you manage your super.

**0800 PSSHEME (0800 777 243)**

The helpline hours are 9.00am to 7.00pm, Monday to Friday (except public holidays).