Mercer

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New Zealand Defence Force FlexiSaver Scheme

Other Material Information - Risks

November 2023

Introduction

This document provides information about the New Zealand Defence Force FlexiSaver Scheme (which is a section within Mercer FlexiSaver (which in itself is a managed investment scheme registered under the Financial Markets Conduct Act 2013)) to help you make your investment decision. It provides a general overview of the risks associated with investing.

Returns from your investment with us are not guaranteed. Returns are primarily dependent on the financial performance of the assets we invest in.

What this means is that the value of your investment with us can go up as well as down.

This document should be read with the Product Disclosure Statement (PDS) for the New Zealand Defence Force FlexiSaver Scheme and the recent Fund Updates for Mercer FlexiSaver. You can also seek advice from a financial adviser to help you make an investment decision.

The Mercer FlexiSaver's governing documents including: trust deed(s); PDS; Statement of Investment Policy and Objectives (SIPO); and this document can be found at www.disclose-register.companiesoffice.govt.nz (Disclose) (search for Mercer FlexiSaver).

What are the risks of investing?

All investments involve taking some risk and returns are generally dependent upon the financial performance of the assets we invest in.

Assets of the Mercer FlexiSaver are affected by different risks that can lead to fluctuations in returns and variations between actual and expected returns.

- Funds or combinations of funds which invest in equities or real assets are expected to result in both higher risk and higher returns; and
- Investing in a fund or combination of funds that has less risk (e.g. cash and fixed interest), may result in lower returns.

Scheme members bear the investment risk as fluctuations in investment performance over time directly affect the value of their investments. This means that the value of a member's investment can rise and fall and it is possible that members may receive less on withdrawal than their original investment.

To help reduce the potential negative effects of investment risks, Mercer has adopted a risk management policy.

Risks that affect members' investments include the following:

Risk	Description
Market Risk	The value of investments moves up and down depending on changes in the market, which can include economic, business, technological, tax, political, regulatory changes, liquidity conditions, geo-political, health and other shocks.
Currency Risk	When investing in international assets that are denominated in foreign currencies, there is a risk that those currencies fall or rise in value, affecting the value of those assets from a New Zealand perspective.
Credit/Counterparty risk	An issuer of debt which the fund has invested in or a counter-party to a transaction may fail to perform its contractual obligations or suffer a credit ratings downgrade affecting the value of a particular investment. More broadly, credit spreads can vary over time. This impacts funds invested in cash and fixed interest. A risk that one or more parties involved in a financial transaction may not meet their obligations.
Concentration risk	Concentration of exposure to areas not limited to geography, industries, type of assets.
Liquidity risk	Liquidity risk has two components. Firstly, the risk of the scheme having difficulty in meeting withdrawal requests. Secondly, the risk of investment managers acquiring investments that cannot be sold or otherwise hedged. This impacts funds invested in unlisted assets such as property, infrastructure or commodities.

Asset Allocation Risks	
Interest rate risk	Movements in interest rates may adversely affect the price of the funds' investments and impact returns. Cash and fixed interest funds can specifically be affected by these movements and it is possible for returns to be negative.
Equities risk	Investments in equities (shares and listed real assets) can be affected by many factors including: the performance of the relevant company; the company's share price; the ability of the company to pay dividends; movements in sharemarkets, sectors and interest rates and investors' attitudes towards the sharemarket in general.
Real assets risk	Investments in real assets (property, infrastructure or commodities) can be affected by factors including: the performance of the property or infrastructure owning company; the quality of and demand for the assets, commodity market movements and general economic conditions.
Derivative risk	Derivatives may be used for purposes including risk management, prudent investment management and to assist the realisation of Portfolio objectives. The risks associated with derivatives include market risk, credit risk of the counterparty and liquidity risk.

Mercer mitigates the investment risks detailed above by spreading investment across markets and diversifying across a range of investment types. As the manager, Mercer actively manages the funds' underlying investments by a process of research-based selection of a broad range of specialist investment managers who are required to diversify their asset selection and otherwise follow the investment guidelines Mercer sets.

Specific Risks	Description
Manager of managers risk	Mercer is a “manager of managers” and, as such, is dependent upon other managers performing their investment management activities and achieving the outcomes desired by Mercer. There remains a risk that such managers could under-perform or fail to achieve the objectives set out in their policies or investment mandate.
Active management risk	As a “manager of managers” and generally employing an active management approach, we may choose investment managers and/or investments that under-perform.
Socially Responsible Investment (SRI) risk	Mercer believes a sustainable investment approach is more likely to create and preserve long-term capital. In order to follow a sustainable investment approach exclusions are applied to these funds which may mean they are less diversified in the investment options they can pursue. This means that they may forego some potentially profitable opportunities on ethical grounds, for the benefit of sustainability.

Mercer has a comprehensive Risk Management Framework that sets out how we identify, assess, manage, mitigate and monitor material risks. Some of these risks include:

General Risks	Risk Description	How we mitigate those risks
Regulatory risk	Changes in the law, regulations and other rules in respect of the scheme could impact members’ investments e.g. changes in the law could impact the profitability of company that the scheme is invested in.	We liaise with our regulators and other organisations, monitoring regulatory change.
Operational risk	Risk of loss resulting from inadequate or failed internal processes, people and systems.	We have policies and procedures in place which form part of our risk management framework. This has the objective to mitigate the risk of operational failure and address any potential or actual failures in a timely and effective manner.
Third Party risk	There is a risk of the third party may fail to perform their obligations.	We actively monitor our third parties and the services they provide to ensure they meet agreed service levels.
PIE Eligibility risk	The Scheme is a PIE. There is a risk that if a fund fails the PIE eligibility criteria we may lose PIE tax status therefore impacting returns to investors.	We have processes in place to monitor our on-going PIE eligibility within each fund and we proactively manage this risk.
Incorrect PIR Risk	Choosing the incorrect PIR can have significant consequences. If an investor nominates a rate that is higher that it should be, they will pay too much tax on their PIE income. If they choose a rate that is too low, the investor will have to include earnings on their tax return and they may be subject to interest and penalties.	Customer engagement regularly reminds members to check their PIR is correct.

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