Other Material Information – Risks

This document relates to the Kiwi Wealth KiwiSaver Scheme ('Scheme') and should be read in conjunction with the Scheme's Product Disclosure Statement.

In this document Kiwi Wealth Limited ('we', 'our', or 'us') provides a general overview of how risks affect your investment and detail on some risks associated with an investment in the Scheme. General investment risks are also covered in the Scheme's Product Disclosure Statement.

The information in this document could change in the future. Please check the offer register at http://www.discose-register.companiesoffice.govt.nz for any updates.

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What are my risks?

It's important that you invest with realistic expectations – knowing the potential upside, and the potential downside.

All investments have risks. There is a risk that at any time the balance of your Scheme member account could be less than the amount you, the Government, and your employer (if any) have contributed, especially if you have selected an investment fund or combination of investment funds with an allocation to growth assets. It is also possible you may not receive the returns you expect. There are risks associated with the Scheme that could affect your ability to recover the amount of your contributions or impact on the returns payable from the Scheme.

There are three types of risk to consider:

- general investment risks;
- specific risks applying to the Scheme; and
- other risks.

General investment risks

Investment necessarily requires the taking of risk, in order to generate an expected return. We take a range of measures to manage this risk including diversification and maintaining high levels of liquidity.

Our investment manager, Kiwi Wealth Investments Limited Partnership's ('KWILP'), approach is to ensure proper diversification by investing across a number of assets, sectors, countries and industries. KWILP also puts a high value on liquidity – being able to sell assets quickly.

When using external investment managers (including where the Scheme invests in managed funds), KWILP considers diversification, liquidity, cost/fees (either or), potential risk and returns, and tax efficiency. KWILP also considers the credentials and track record and transparency of the external investment manager.

Asset class risk	Main risks	What we and KWILP do to address these risks
Cash and bank deposits	You could get a lower return than expected if: • interest rates change; or • the bank or issuer is unable to pay the interest or return the principal.	Diversification: KWILP invests in bank deposits with a number of different banks and term deposits over a range of different terms.
Fixed interest: Government and corporate bonds	You could get a lower return than expected if: • interest rates change; or • the bank or issuer is unable to pay the interest or return the principal. Corporate bonds may become difficult or impossible to sell – they can become illiquid. Changes in interest rates can lead to changes in the value of investments and could result in gains or losses.	Diversification: KWILP buys bonds with a number of different issuers, both NZ and global, and at different maturity dates. Duration (average maturity of investments) is actively managed against a benchmark
Shares	Share values fluctuate for many different reasons, including company performance, economic factors, and market conditions. This can lead to gains or losses in the value of these investments. Shares can also become difficult or impossible to sell – they can become illiquid.	KWILP buys shares primarily in global companies on world share markets. These are mainly very liquid markets. When selecting shares, KWILP consider among other things: diversification, liquidity, cost, potential risk and returns, and tax efficiency.
Managed funds, collective investment	Managed funds , collective investment vehicles and investment mandates share some risks with underlying assets as	KWILP uses external investment managers to get exposure to markets when it's not practical or efficient for them

Asset class risk	Main risks	What we and KWILP do to address these risks
vehicles and investment mandates	described above, as well as additional risks: • the fund manager may not perform as expected, or may go out of business; or • if the fund manager is dependent on the expertise and skill of particular individuals, the fund may suffer if those people leave. Managed funds or other collective investment vehicles may have different liquidity than the underlying investments. They may also invest in less liquid investments than what the Scheme generally holds.	to access directly. When selecting a manager, KWILP considers a range of key factors including their performance track record, management structure, investment process and philosophy, operations, risk management and compliance, transparency, liquidity and fees.
Market risk	Financial markets can fluctuate significantly, affecting returns in most asset classes. You should be prepared for declines in your member account balance, especially in the short term, and particularly if you are invested in an investment fund with exposure to shares.	We offer five different investment funds, with different exposure to shares, and therefore different levels of risk. You should invest in investment fund(s) that match your investment timeframe and attitude to risk. If you need help to determine your choice of investment fund(s) you should seek advice from an authorised financial adviser. Within the investment funds, KWILP may make investment decisions to manage market risk.
Currency risk	Some of the assets in the investment funds, such as international shares, fixed interest or cash are denominated in foreign currencies. Returns can be affected by movements in the value of the New Zealand dollar and the relevant foreign currency. If the New Zealand dollar goes up, the relative value of these assets goes down. If the New Zealand dollar goes down, the relative value of these assets goes up. In some of the investment funds, KWILP may also take outright foreign currency exposures. Returns on those exposures	KWILP can use derivatives such as forward foreign exchange contracts, cross currency swaps and currency options to manage some of the currency risk.

Asset class risk	Main risks	What we and KWILP do to address these risks
	can be affected by the relative movements in different foreign currencies, separate to the movement in the New Zealand dollar.	
Derivative risk	Permitted derivatives may be used to manage risk in the investment funds such as interest rate risk or currency risk. Derivatives may also be used to assist with implementing investment strategy as an alternative to investing in the physical asset. There are a range of derivative instruments with examples being forward foreign exchange contracts and interest rate swaps. The use of derivatives may not remove all exposure to risks that are managed. The tax treatment of the derivative may differ from the tax treatment that is applicable to the underlying asset for which the derivative is in place and this may result in a member's after-tax exposure to the relevant currency not matching the target exposure for the investment funds. Whilst KWILP endeavours to minimise this mismatch, it is unavoidable based on current tax treatments. There is also a risk that the party with whom the derivative contract is made either defaults on that contract or fails to meet its obligations, resulting in a loss.	Derivatives are permitted to be used for risk management, and efficient investment implementation. As at the date of this register entry permitted derivatives are interest rate swaps, cross currency swaps, futures and options, forward foreign exchange contracts and currency options. Derivative transactions and positions are independently monitored against relevant limits by the risk team and outcomes reported through to governance bodies. Counterparties for derivatives transactions are regularly reviewed for quality and stability and for meeting obligations under our brokerage agreements.
Liquidity risk	Is the risk that the Scheme cannot meet financial obligations in a timely manner. This risk arises where there is a mismatch between the maturity profile of investments and the amounts required to pay withdrawals.	KWILP takes reasonable care to ensure we can enter and exit securities within a reasonable timeframe.

Investment transactions and positions are independently monitored against relevant limits by the risk team and outcomes reported to governance bodies.

Specific risks applying to the Scheme

The risks associated with active investment management

KWILP's investment management team uses an active investment management style for the Cash, Conservative, Default, Balanced, and Growth Funds.

The investment management team's active management approach may not result in the return you or they expect. The day-to-day decisions they make about what assets to buy and sell, and the mix of shares, fixed interest and cash in the investment funds (the asset allocation) may not work in your favour.

An active investment management style is used for all investment funds, although a passive investment style may be used at times. Where a passive investment approach invests in a very broad range of companies in proportion to their size, an active management approach attempts to get better returns than a passive approach by investing in specific securities that are judged likely to perform better than the wider market. Day-to-day active management decisions made about what assets to buy and sell, and the asset allocation to hold, may not work in your favour. We take steps to control this risk. It is important to note that the asset allocation range specifies an upper limit for shares or fixed interest (depending on the investment fund) which the investment management team must not exceed. Where there is no corresponding lower limit, it means the exposure to shares may be taken all the way down to zero (even in the Growth Fund). All investment funds other than the Default Fund have no lower limit. The reason for this approach is to give the investment management team the flexibility to reduce exposure in particular to the sharemarket (except for the Default Fund) if they believe market conditions dictate. This may differ from the asset allocation limits of other KiwiSaver providers which may require they keep a fixed proportion of the fund invested in shares. While the investment management team has the flexibility to alter the allocation to shares, it does not mean they will do so. Typically, a material deviation from benchmark allocations would only be made in unusual or extreme circumstances, and it would be rare that the allocation to shares would be lower than two thirds of its benchmark weight within any given investment fund.

Active asset allocation for the Default Fund is restricted by the Instrument of Appointment that mandates that the Default Fund must have 15% - 25% in growth assets at all times. This means the investment management team does not have the flexibility to reduce your exposure to shares below 15%.

Our Investment Governance Committee, which is a sub-committee of the KWILP board, oversees and reviews the activities of the investment management team.

Fund of funds risk

Each of the Funds currently invests predominantly in underlying funds within a wholesale managed investment scheme managed by Kiwi Investment Management Limited. KWILP is also the investment manager of those underlying funds. Decisions it makes in respect of those underlying funds may affect your investment in the Funds (for example, if withdrawals or switches from the underlying funds are restricted in accordance with the governing document for those funds).

Other risks

The risk that the investment fund(s) you invest in may be too risky or too cautious

A principal risk associated with investment decisions is being in an investment fund that is either too risky, or too cautious, for your timeframe and goals. Either way, you risk ending up with less money than you expect or need when you withdraw. If you need help choosing the most suitable investment fund(s) for you, you should seek financial advice from Kiwi Wealth's team of qualified Advisers. A disclosure statement is available from each Kiwi Wealth Adviser on request and free of charge.

Here are some examples:

- Being in a growth or higher risk investment fund when you need to access your money in the short term – within the next three years – for example to buy your first home. You risk having to withdraw when markets are down, and you could get less than you expected.
- Being in the Cash, Conservative or Default Investment Fund when you have a 10 year+ timeframe. You risk missing out on longer-term growth potential, and not having enough to retire on.
- Being automatically invested and not making an active investment choice. You risk not being invested appropriately for your financial goals, timeframe, and your attitude to risk.

To manage this risk:

- Use the risk questionnaire on our website to help you decide on the investment fund(s) that will best suit your timeframe and goals: visit www.kiwiwealth.co.nz/risk-profile.
- Review the investment fund(s) you are invested in periodically and change them to suit your changing circumstances.

If you need help choosing the most suitable investment fund(s) for you, you should seek financial advice from Kiwi Wealth's team of qualified Advisers. A disclosure statement for each Kiwi Wealth Adviser is available, on request and free of charge.

The risk that the rules about KiwiSaver itself might change

KiwiSaver is a Government initiative, governed by the KiwiSaver Act 2006. There is a risk that changes in legislation could affect how KiwiSaver operates and how you benefit. The KiwiSaver system you join today, may be different in the future.

For example, on 1 July 2019 changes were made to the KiwiSaver Act 2006 to:

- Allow over 65 year olds to opt-in to KiwiSaver; and
- Remove the five year lock-in period for members who join KiwiSaver after the age of 60.

Here are some other examples of possible changes that could affect you:

- the age of eligibility for New Zealand Superannuation could be raised beyond 65, meaning you'd have to wait longer to withdraw;
- benefits payable by the Government could be lowered or removed, meaning you might not get as much money as you expect when you withdraw;
- the compulsory contribution rates could be increased, so you might have to pay in more than you expect; and
- tax rates could change, which might affect your returns.

There is also a general regulatory risk. That is, there is a risk that future changes to legislation and regulations as they pertain to tax and other matters could affect the operation of the Scheme or members' benefits. There is also a risk of the Scheme's trust deed being amended in a manner permitted by law that has the effect of reducing benefits.

KiwiSaver is not guaranteed

The Government will not bail you out if your KiwiSaver investment fails.

Additional risks

Other material risks that could affect your investment are:

Risk	Description
Administration risk	The risk of a technological or other failure impacting on the Scheme or financial markets in general.
Tax risk	The structure of the Scheme is such that, although it comprises a number of investment funds, it is a single portfolio investment entity (PIE) for tax purposes. Accordingly, there is a tax risk that if an investment fund fails to satisfy the PIE eligibility criteria, and that failure is not remedied within the period permitted under the Income Tax Act 2007, the entire Scheme (including the other investment funds) may lose PIE status. We have processes to monitor compliance with the requirements for retaining PIE status. Tax risk also exists in relation to the underlying investments of the Scheme and our calculation of the tax payable on any returns it makes. Additionally, there are risks of the rate of tax charged and the basis on which tax is imposed changing, as well as us either over or underpaying tax within the Scheme on your behalf as a result of you providing us with the wrong PIR or not advising us to change your PIR when it needed to be changed.