Medical Assurance Society KiwiSaver Plan

Universe of Investment Risks

December 2019

Contents

Purpose

The purpose of this document is to provide you with a summary of risks that may have an impact on the performance of your funds invested in the Medical Assurance Society KiwiSaver Plan (Plan). This document will provide important information about the impact of these risks alongside mitigation strategies and controls the Trustees of the Plan (we, our) and their agents, including MAS, employ to help identify and manage these.

This document should be read in combination with the Plan's Product Disclosure Statement (PDS).

Risks

All investments have a potential return and carry a level of risk. The principal risks faced by members are that they may not receive the returns they expect and that they may not be able to recover the amount of their contributions.

As illustrated in the Long Term Risk/Return graph below different asset classes and Funds carry a different level of risk based on the underlying asset allocations and benchmarks.

Risk can be reduced through investment diversification by investing in a range of asset classes within a Fund. Investing across a range of asset classes such as cash, fixed interest, equities and alternative investments (such as hedge funds and private equity) allows investment opportunities that have a low or negative relation to each other (i.e. low or negative correlation) and provides prudent diversification which helps manage risk.

Different asset classes will have different risk and return characteristics.

Income assets

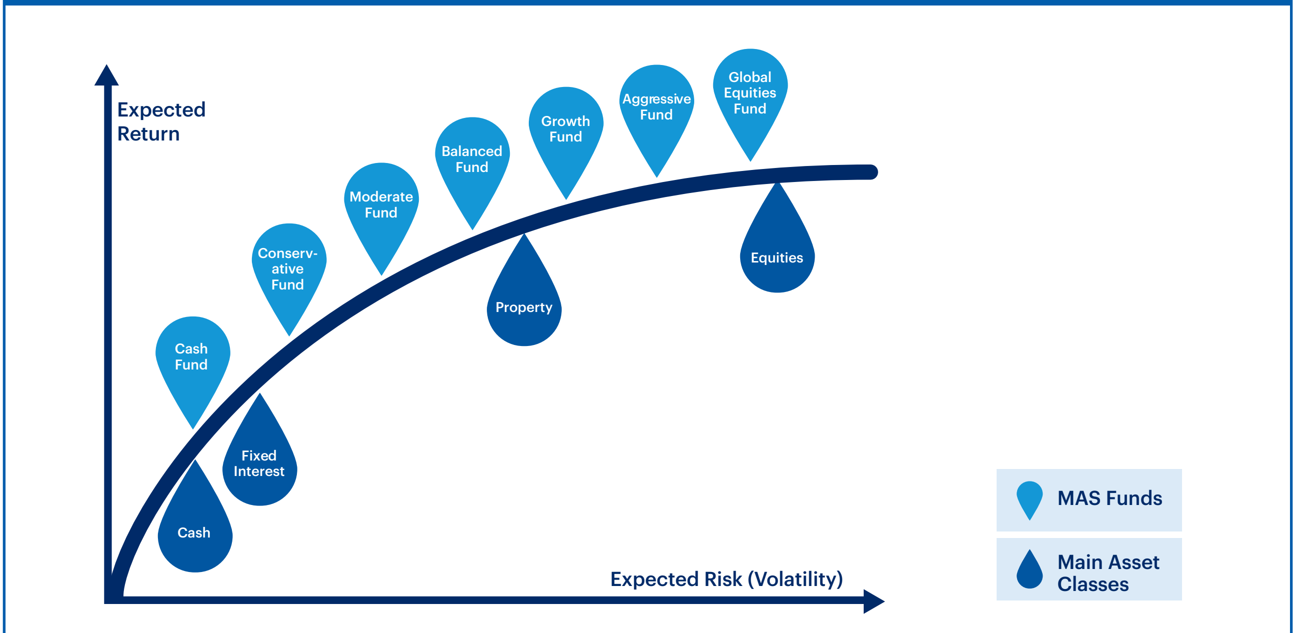
At the lower end of the risk spectrum are the Income assets which include cash, cash equivalents and fixed interest. Income assets are generally lower risk with lower return potential. They are expected to provide returns in the form of income with potential for some capital change. They tend to carry lower risk levels and are more likely to generate lower levels of return than Growth assets over the long term.

Growth assets

Conversely, at the other end of the risk spectrum are the Growth assets such as equities, property and alternative investments. They are designed to grow your investment. These have the potential for higher returns over the long term but can fluctuate up and down and returns may be negative on occasion.

The principal risks that can affect the return or value of the Plan have been broken into General Investment Risks and Other General Risks and are outlined in the following pages.

Long Term Risk/Return



General Investment Risks

The value of your investment may be adversely affected by any or all of the following General Investment Risks:

Risk type	Risk description	Impact of risk	How we mitigate these risks
Asset Allocation Risk	Funds that invest more in growth assets such as Australasian and international equities have higher potential returns. At the same time, they also have greater risks than Funds that invest more in income assets such as cash or fixed interest.	Potential for lower investment returns if there is not a spread of assets.	The Plan's Statement of Investment Policy and Objectives (SIPO)* sets Strategic Asset Allocation benchmarks for each Fund. Investment Managers may make strategic or tactical tilts to either take advantage of market conditions or to protect Fund values during periods of market volatility, as long as they remain within the permitted ranges.
Active Investment Management Risk	Our investment managers actively manage the investments held in our Funds. Decisions made by the investment managers (such as how they will allocate money between asset classes, investment sectors and individual investments) may improve or reduce the Fund's returns.	Potential for lower returns if our investment managers choose investments that underperform the market or Fund's benchmark.	The SIPO sets criteria by which the performance of our investment managers is monitored. We can change investment managers at any time if we are not satisfied with their performance.
Market Risk	The value of our Funds can move up and down due to the overall performance of financial markets, which in turn are affected by factors such as changes in the economy, political events and investor sentiment.	Potential for lower investment returns due to adverse market movements.	The SIPO requires that when making investment decisions the Investment Managers comply with the investment guidelines, invest in the approved asset classes and maintain diversification between assets and asset classes. Investment Managers also actively research markets and keep abreast of market impacts.
Interest Rate Risk	The market value of fixed interest securities changes when interest rates change. These fluctuations have more impact on Funds with more longer-term fixed interest investments.	Potential for lower investment returns due to adverse market movements.	The SIPO requires Investment Managers to invest in the approved range of asset classes and maintain diversification across the term of cash and fixed interest investments and between assets and asset classes.
Currency Risk	Many of our investments are denominated in foreign currencies. As the value of these currencies fluctuate relative to the New Zealand dollar, the value of the Fund can change as well.	Potential for lower investment returns due to currency volatility.	The Currency Hedging Policy is documented in the SIPO and defines the requirements for where assets in other currencies may be hedged back to New Zealand dollars.

Risk type	Risk description	Impact of risk	How we mitigate these risks
Liquidity Risk	Sometimes Funds are unable to sell an investment when they want to or are forced to accept a lower price than would be expected in normal conditions. These difficulties can affect the value of the investment and returns.	Potential that the Plan is unable to meet monetary obligations in a timely manner. Risk of lower investment returns if assets are required to be sold to meet liquidity shortfalls.	The SIPO sets Strategic Asset Allocation benchmarks for the cash asset class for each Fund to ensure sufficient liquidity to meet demands for payments. In addition the Funds hold a diversified range of assets with a high level of liquidity.
Credit Risk	The value of fixed interest investments is in part linked to the ability of a borrower to meet their future payment obligations. Doubts about a borrower's creditworthiness affects the value of Funds that hold these types of investments.	Potential reduction in the level of returns if the full amount of an investment is not able to be recovered due to the default of a borrower.	Investment Managers monitor credit risk exposures on a daily basis and take proactive action of reducing exposure to credit where there is emerging risk.
Counterparty Risk	The risk that a party to a financial contract (such as an investment contract) defaults or is otherwise unable to fulfil their obligations. If this occurs, the full amount of the investment may not be able to be recovered.	Potential for lower investment returns due to the full amount of the investment not being recovered due to the counterparty being unable to fulfil their obligations.	When selecting counterparties to transact with the Investment Managers analyse counterparties for creditworthiness by undergoing a due diligence process and restrictions on investments by credit grade.
Derivative Risk	Derivatives are financial contracts whose value is dependent on, or derives from, the value of one or more underlying assets (such as equities, fixed interest, commodities, currency, or cash). Derivatives provide exposure to an underlying asset without the need to buy or sell that asset. The Plan and any funds that the Plan invest into may use derivatives for the purpose of risk management (particularly in managing market and currency risk), performance enhancement or to optimise investment strategy implementation. The performance of derivatives will vary in part depending on movements in underlying variables. A high degree of leverage is typical for trading in derivative instruments. As a result, a relatively small price movement in any underlying security of a derivative contract may result in substantial gains or losses.	Derivatives may not perform in line with expectations, resulting in unexpected gains or losses and increased volatility.	Investment Managers may enter into derivative contracts as permitted under the SIPO. Derivative exposures are monitored daily by Investment Managers.

* A copy of the latest SIPO relating to the Plan can be found at **business.govt.nz/disclose**.

Other General Risks

The value of your investment, and your ability to withdraw, may also be affected by some or all of the following general risks.

Risk type	Risk description	Impact of risk	How we mitigate these risks
Operational Risk	The risk of loss to members resulting from a technological, process, people or other failure affecting the Plans operations or the financial markets in general. Any risk of operational failure could impact your returns or ability to withdraw from the Funds.	Potential for failures (caused by technology, people, process, other) to result in lower returns to members, or affect their ability to withdraw from the Plan.	The Trustees and their agent MAS have a Compliance and Risk framework in place. In the event of a failure, MAS has a Business Continuity Plan in place to manage the resumption of business in a timely manner. We also actively monitor third party providers.
Third Party Risk	We rely on third party suppliers in providing funds management services to members. There is a risk that if any of the parties involved in the operation of the Plan including investment management activities, fund administration, and registry services fail to perform their obligations, it could adversely affect member balances and your ability to make a withdrawal.	Potential for failures or non-performance by third party providers to result in lower returns to members, or affect their ability to withdraw from the Plan.	We actively monitor all third party providers providing services to the Plans to ensure contractual and regulatory compliance - such as investment management, funds administration and registry services.
Regulatory Risk	The risk that the Plan is affected by future changes to tax, superannuation, KiwiSaver or other legislation. These changes could affect the Plan's investments by impacting on the operation of the Plan, returns and benefits available. In particular a change to the KiwiSaver Act may affect minimum contribution rates, the level of Government Contributions, withdrawal options (including first home withdrawals) or the ability to opt out of KiwiSaver.	Regulatory changes could affect the Plan's investments by impacting on the operation of the Plan, investment returns and/or benefits.	The Trustees, and their legal advisers, actively monitor new developments to the regulatory environment. We regularly engage with other market participants and regulators to keep abreast/ ahead of any potential changes.
Tax Related Risk	The risk of the Administration Manager either over or underpaying tax within the Plan on behalf of a member as a result of the member providing the administration manager with the wrong Prescribed Investor Rate (PIR) or not advising the Administration Manager to change their PIR when it needed to be changed or not advising the Administration Manager of their IRD number. In the event of an underpayment of tax, you will personally be obliged to pay additional tax (and potentially penalties and interest) to the IRD. In the event of an overpayment of tax, you cannot claim a refund of the overpayment. Tax risk also exists in relation to the types and rates of tax imposed on underlying investments, which can impact on the returns made from that investment.	You will be held personally responsible for any underpayment of tax. In the event of an overpayment of tax you cannot claim any refund of the overpayment. Changes in taxation may affect the taxable income, Portfolio Investment Entity (PIE) tax paid and/or the returns of the Plan.	We request that you review your PIR each year and update us with any changes. The Trustees, its agents including MAS, its tax advisers and Investment Managers, actively monitor New Zealand taxation changes.

Risk type	Risk description	Impact of risk	How we mitigate these risks
Risk of losing PIE Tax Status	The risk that if the Plan loses its PIE status, it will be taxed as a widely-held superannuation fund rather than under the PIE regime. The tax treatment of members will differ accordingly.	Loss of PIE tax status, and resulting change in your tax rate, could result in lower returns.	We, and our Administration Managers, have processes in place to monitor compliance with PIE eligibility within each Fund.
Borrowing Risk	The risk that where borrowing has occurred in relation to a Fund, the lender would have the right to demand payment from that Fund. If there are insufficient assets in the Fund to repay the loan, the assets of other Funds in the Plan could be used to meet the repayment. The level of borrowings by the Funds is subject to certain conditions in the Trust Deed.	Risk of lower investment returns if assets are required to be sold to ensure repayment.	We mitigate this risk by limiting borrowings of the Funds except to provide liquidity for the repayment or redemption of any units and by investing in assets that are generally liquid in nature under ordinary circumstances.