Kiwi Wealth. Super Scheme.

Other material information – Risks

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

In this document, Kiwi Wealth Investments Limited Partnership ('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 www.disclose-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 and your employer (if any) have contributed, especially if you have selected the Growth fund in your investment direction. 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.

We recommend that you consult a Kiwi Wealth Adviser before making a decision to join and invest in the Scheme. A disclosure statement is available from each Adviser, on request and free of charge.

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 approach is to ensure proper diversification by investing across a number of assets, sectors, countries and industries. We also put a high value on liquidity - being able to sell assets quickly.

When selecting external investment managers (including where the Scheme invests in managed funds), we consider diversification, liquidity, cost, fees, potential risk and returns, and tax efficiency. We also consider the credentials and track record and transparency of the external investment manager.

Type of risk	Description	What we do to address these risks
Investment return risk	The possibility of your investment either losing value or not gaining value and therefore not meeting your return expectations. That is, the uncertainty that an investment will deliver its expected return.	The investment management team operates within the guidelines set out in the Statement of Investment Policy and Objectives for the Scheme ('SIPO') and trust deed. This means they must keep each investment portfolio within its allowed asset allocation limits, and they must only invest in permitted asset classes. It is important to note that the asset allocation range specifies an upper limit for shares which the investment management team must not exceed. There is no corresponding lower limit, however, which means that if they believe the market conditions dictate, the exposure to shares may be taken all the way down to zero (even in the Growth fund).
Asset class risk – 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: We invest in bank deposits with a number of different banks and term deposits over a range of different terms.
Asset class risk – 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.	Diversification: We buy 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.

Type of risk	Description	What we do to address these risks
	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.	
Asset class risk – Shares	Share values fluctuate for many different reasons, including company performance, economic factors, and market conditions. This can lead to gains and losses in the value of these investments. Shares can also become difficult or impossible to sell – they can become illiquid.	We buy shares primarily in global companies on world share markets. These are mainly very liquid markets. When selecting shares, we consider among other things: diversification, liquidity, cost, potential risk and returns, and tax efficiency.
Asset class risk – Managed funds and unit trusts	Managed funds share some risks with the underlying assets as described above, as well as some additional risks: • The fund manager may not perform as expected, or may go out of business; • If the fund manager is dependent on the expertise and skill of particular individuals, the fund may suffer if those people leave; or • Managed funds may have different levels of liquidity than the underlying investments.	We use managed funds and unit trusts to get exposure to markets when it's not practical or efficient for us to access those markets directly. When selecting a managed fund or unit trust, we consider a range of key factors including the 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 a fund with exposure to shares.	We offer three different funds, with different exposure to shares, and therefore different levels of risk. You should invest in fund(s) that match your investment timeframe and your risk profile. If you need help to determine your choice of fund(s), you should contact a Kiwi Wealth Adviser. Within the funds, we may make investment decisions to manage market risk.
Company risk	The financial uncertainty faced by an investor who holds securities of a specific	When we select a company we consider things such as diversification across

Type of risk	Description	What we do to address these risks
	company and is therefore exposed to fluctuations in that company's performance.	issuers, as well as their management structure, track record, credit worthiness, operations, risk management and compliance and transparency. We buy shares primarily in global companies on world share markets.
Currency risk	Some of the assets in the funds are international shares, fixed interest or cash 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 funds, we may also take outright foreign currency exposures. Returns on those exposures can be affected by the relative movements in different foreign currencies, separate to the movement in the New Zealand dollar.	We can use derivatives, such as forward foreign exchange contracts, cross currency swaps and currency options to manage some of the currency risk.
Credit risk	The risk of investment loss due to a company becoming insolvent and being placed into receivership, liquidation or statutory management or being otherwise unable to meet its financial obligations.	We address the credit risk through broad diversification of investments by sector, geography, industry and issuer. We invest in New Zealand and globally. Investments are limited by fixed interest credit ratings.
Derivative risk	Permitted derivatives may be used to manage risk in the 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.	Derivatives are permitted to be used for risk management, and efficient investment implementation. As at the date of this document, 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.

Type of risk	Description	What we do to address these risks
	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 funds. 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.	Whilst we endeavour to minimise the mismatch in tax treatments, it is unavoidable based on the current taxation regime. Counterparties for derivatives transactions are regularly reviewed for quality and stability.
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.	We take reasonable care to ensure we can enter and exit securities within a reasonable timeframe. We also address liquidity risk through broad diversification of investments by sector, geography, industry and issuer. We invest in New Zealand and globally. We also take into consideration maximum duration constraints for each fund. We manage liquidity risk for term deposits by only investing in term deposits with a maturity of one year or less.

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

Specific risks applying to the Scheme

The risks associated with active investment management

Our investment management team uses an active investment management style for all funds in the Scheme.

Our 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 funds (the asset allocation) may not work in your favour.

Both active and passive investment management styles may be used by our investment management team within funds. An active style seeks to improve risk and/or return by actively choosing investments, however a positive outcome is not guaranteed and this may not work in your favour. The total level and type of active risk is limited and carefully controlled.

The investment management team operates within the guidelines set out in the the SIPO. This means they must keep each fund within its allowed asset allocation limits, and we must only invest in permitted asset classes.

It is important to note that the asset allocation range specifies an upper limit for shares which the investment management team must not exceed. There is no corresponding lower limit, which means the exposure to shares may be taken all the way down to zero (even in the Growth fund). The reason for this approach is to give the investment management team the flexibility to reduce exposure to the sharemarket if they believe market conditions dictate. This may differ from the asset allocation limits of other 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 fund.

Our Investment Governance Committee, which is a sub-committee of Kiwi Wealth Investments General Partner Limited's Board, oversees and reviews the activities of the investment management team.

Fund of funds risk

Each of the Funds currently invests in underlying funds within a wholesale managed investment scheme managed by Kiwi Investment Management Limited (Kiwi Invest). Kiwi Wealth Investment Limited Partnership is also the investment manager of those underlying funds. Decisions they make 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).

Failure to maintain QROPS status

As set out in the Product Disclosure Statement, the Scheme is currently a qualifying recognised overseas pension scheme under UK law ('QROPS').

For so long as the Scheme is a QROPS, New Zealand tax-resident members of the personal section of the Scheme ('Personal Members') can apply to transfer amounts from a United Kingdom registered pension scheme (directly or via a current or former QROPS) to the Scheme ('UK Transfer'). UK Transfers are subject to the UK pension rules applicable to QROPS, as they apply to the Scheme ('QROPS Rules').

The Scheme could lose its QROPS status at any time. A loss of QROPS status may negatively impact a member's UK tax position in relation to their investment in the Scheme, and would prevent further UK Transfers being made to the Scheme.

Risk of UK tax charges applying

A withdrawal or transfer of UK Transfer amounts (including amounts transferred from another current or former QROPS) may give rise to an unauthorised payments charge and an unauthorised payments surcharge under UK law of up to 55%. There is also the risk of a 25% UK overseas transfer charge applying if you are not a New Zealand tax resident at the time of a UK Transfer or if your circumstances change during the five full UK tax years following a transfer.

See 'Other material information – UK Transfers' on the offer register at www.disclose-register.companiesoffice.govt.nz for more information.

Future changes to the QROPS Rules

The QROPS Rules could change in the future, including the rules relating to withdrawals. Changes of this nature may prevent future UK Transfers to the Scheme, or may have an adverse impact on your ability to withdraw or transfer UK Transfer amounts. In addition, the QROPS requirements and restrictions applying to the Scheme may change from time to time in order to comply with UK or New Zealand regulations.

Other risks

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

A principal risk associated with investment decisions is being in an 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.

Here are some examples:

- Being in a growth or higher risk fund when you need to access your money in the short term – within the next three years. You risk having to withdraw when markets are down, and you could get less than you expected.
- Being in the Conservative or Balanced 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 the following website to help you decide on the fund(s) that will best suit your timeframe and goals: visit www.sorted.org.nz/tools/investor-kickstarter.
- Review the fund(s) you are invested in periodically and change them to suit your changing circumstances.

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

The Scheme is not guaranteed

None of us, the Supervisor nor any other person will compensate you if your investment in the Scheme fails.

Additional risks

The other material risks that could affect your investment are:

Risk	Description
Regulatory risk	Future changes to tax legislation or other regulatory changes could affect the operation of the Scheme or members' benefits. There is also a risk of the trust deed for the Scheme being amended in a manner required or permitted by law that has the effect of reducing benefits.
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 funds, it is a single PIE for tax purposes. Accordingly, there is a tax risk that if an 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 funds) may lose PIE status. We have processes to monitor 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 changes to 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.