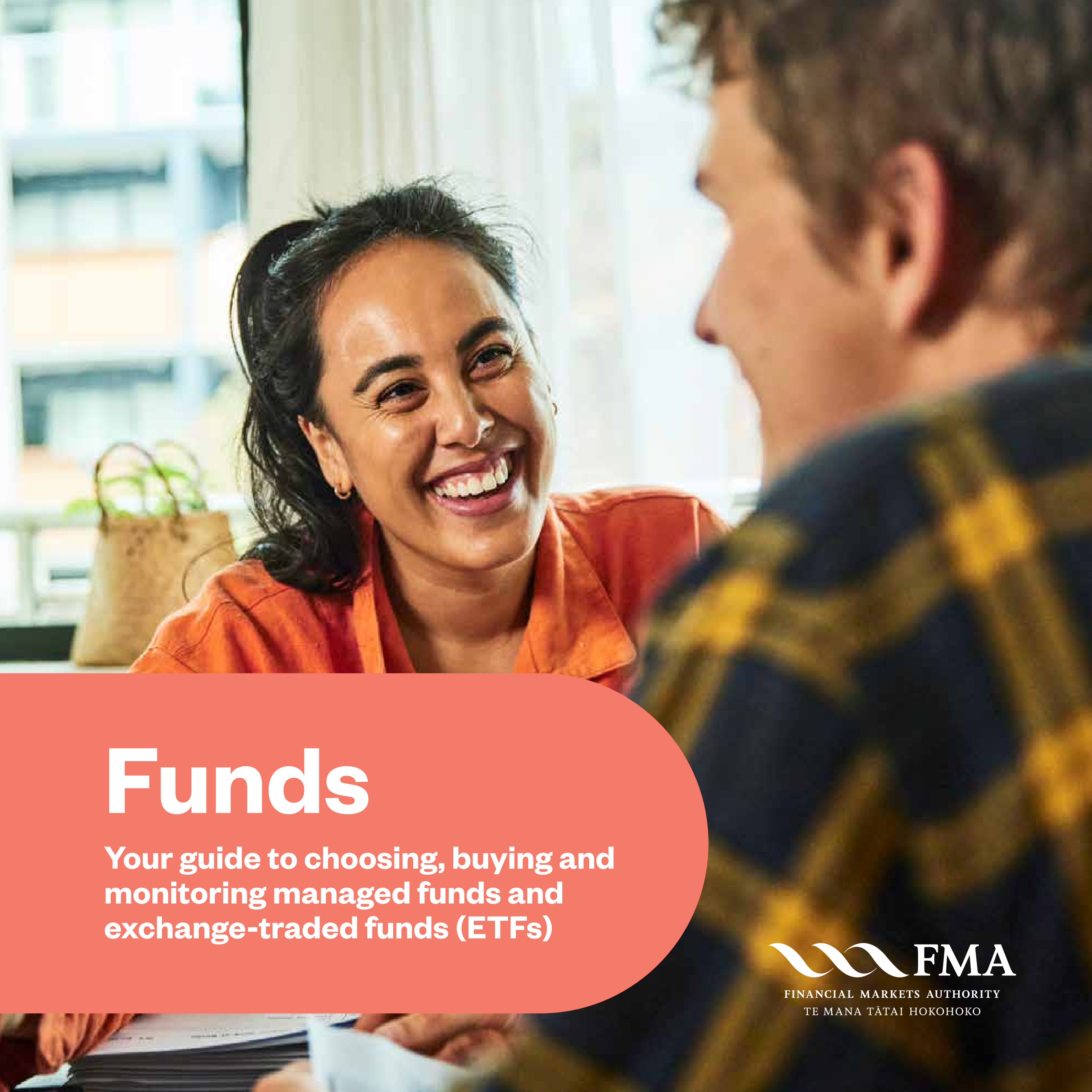

Funds

Your guide to choosing, buying and monitoring managed funds and exchange-traded funds (ETFs)

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FINANCIAL MARKETS AUTHORITY
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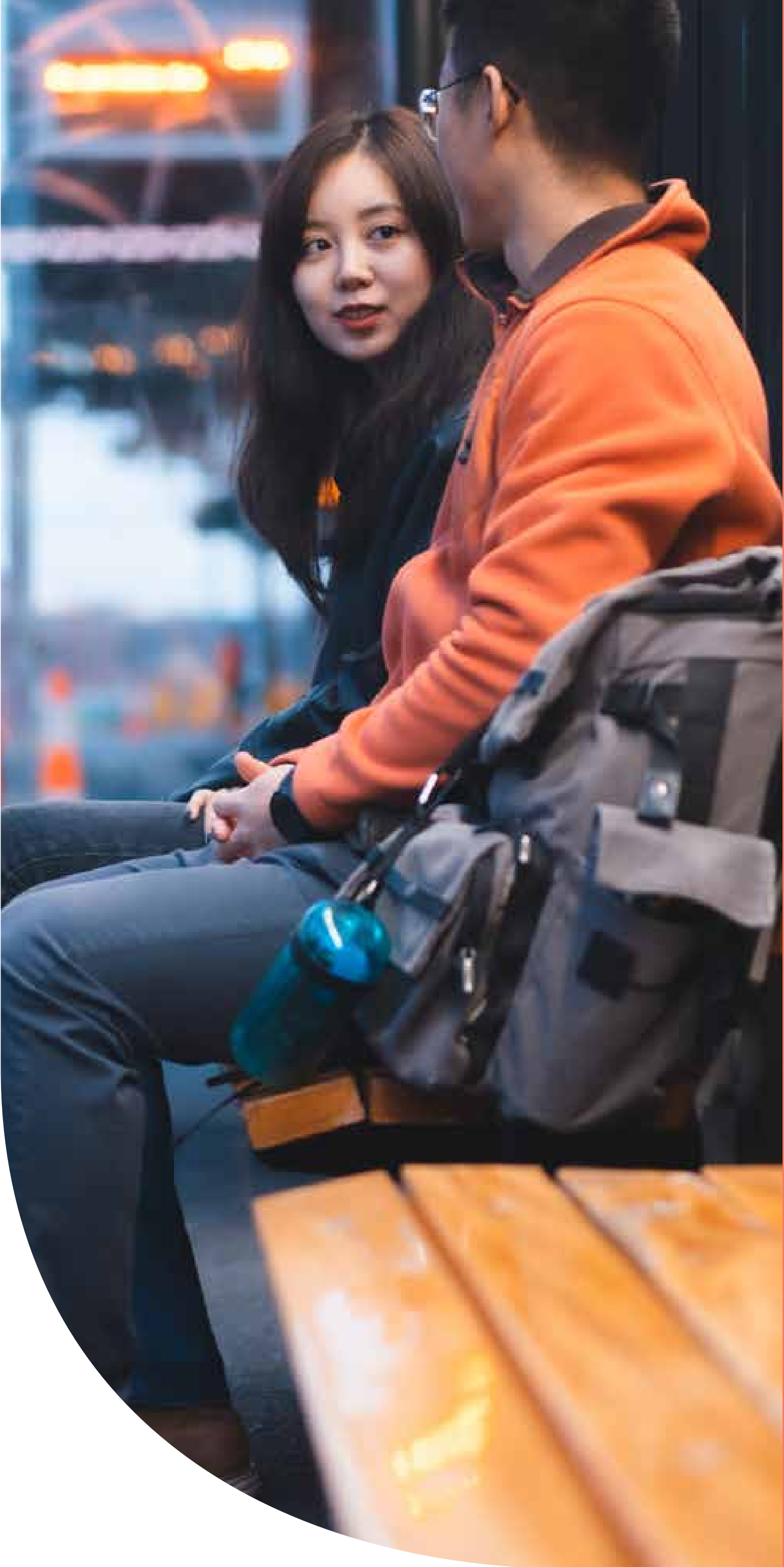


Getting started with investing

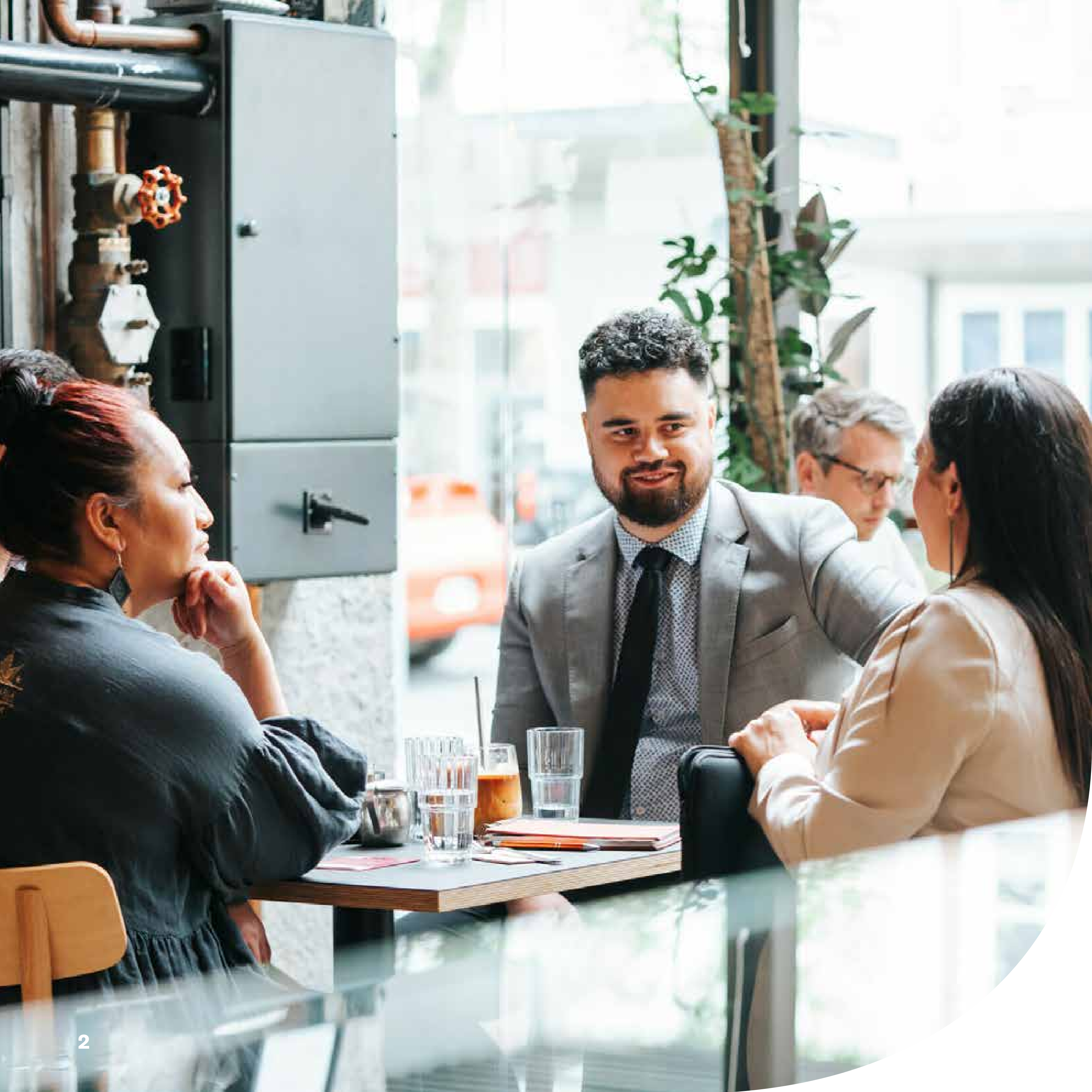
If you're just getting started with investing, the first step is to identify your investment goals, timeline, strategy and investor type, including the level of risk you're willing to take.

Managed funds are a popular choice for investors who don't want to spend a lot of time managing their investments.

They allow you to outsource parts – or all – of your portfolio to a suitably qualified expert who pools individual investments into a larger investment fund and manages that money.

You can select a fund that matches the level of risk you're comfortable with, or invests in the type of assets you're interested in.

If this sounds appealing, our guide will help you get started.



What is a managed fund?

A managed fund is an investment that is managed by a professional fund manager.

How does it work?

Your money is pooled with other investors' money, and everyone owns a part of the total fund.

The fund will have rules for how the money can be spread across different types of investments. It's the fund manager's job to choose those investments.

Each managed fund has a strategy. This determines the assets the fund invests in, the level of risk to investors, expected returns and the costs of managing it.

KiwiSaver funds are managed funds

KiwiSaver funds are a form of managed fund, but with a slightly different set of rules designed to help New Zealanders save money for retirement or a first home.

What kind of returns can you expect?

Returns will depend on the composition of the fund and the performance of the assets that make up the fund. You may receive capital returns – expressed as a change in dollar value over time, and cash returns – made up of interest and dividends, which are usually reinvested in the fund.

If the fund contains a high proportion of growth assets (like shares or property), the performance may be more volatile (go up and down) but returns are likely to be higher in the long-term.

If the fund contains a high proportion of income assets (like bonds or cash), the performance is likely to be more stable but returns will be lower over the long-term. Your capital may not be guaranteed since the price of bonds can go down.

You can see the average returns for managed funds at the **Smart Investor** website.

Will you invest in income or growth assets?

Income assets	Growth assets
Less risky Lower long-term gains	**Riskier** Higher long-term gains
• Bonds • Cash	• Shares • Property • Other – for example alternative investments, commodities etc.

Want to find out what ratio of growth to income assets might be right for you? Use **Sorted's Investor Profiler** to find out.

Why do fees matter?

Fund managers charge fees for managing your fund. Before you invest, it's important to consider the management fee, administrative costs and any other expenses you'll incur.

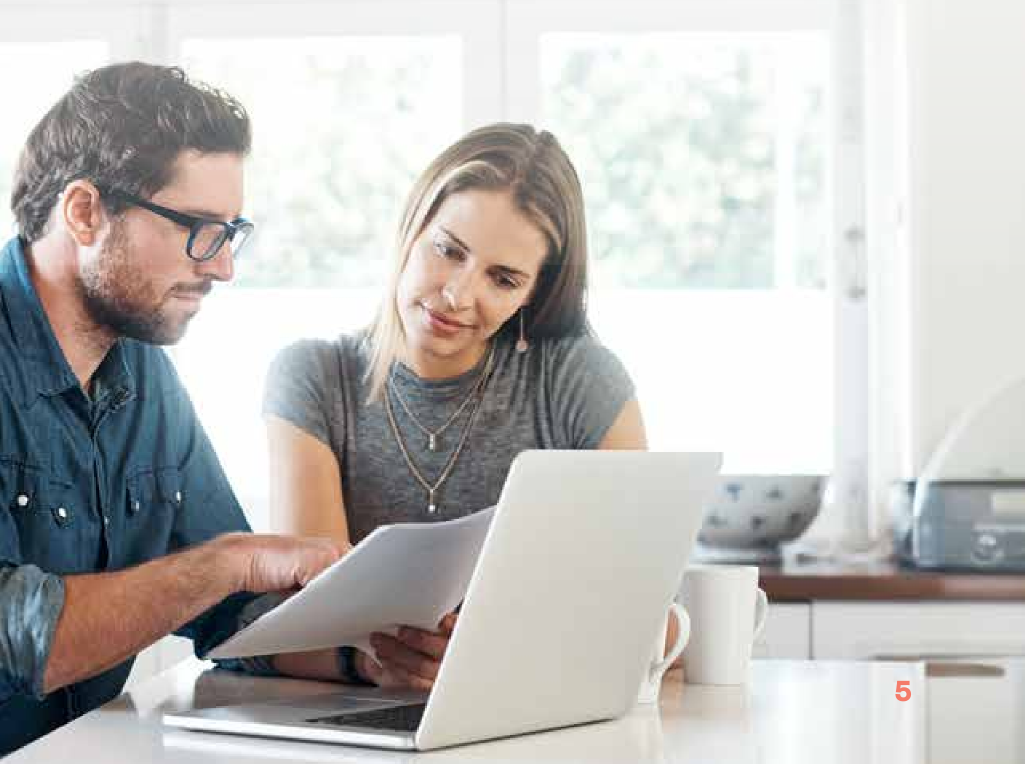
These costs will impact how much money you make, especially in the long-term.

Some higher fee funds may perform better over time due to being more active. Always ensure you review fees regularly to keep up with any changes.

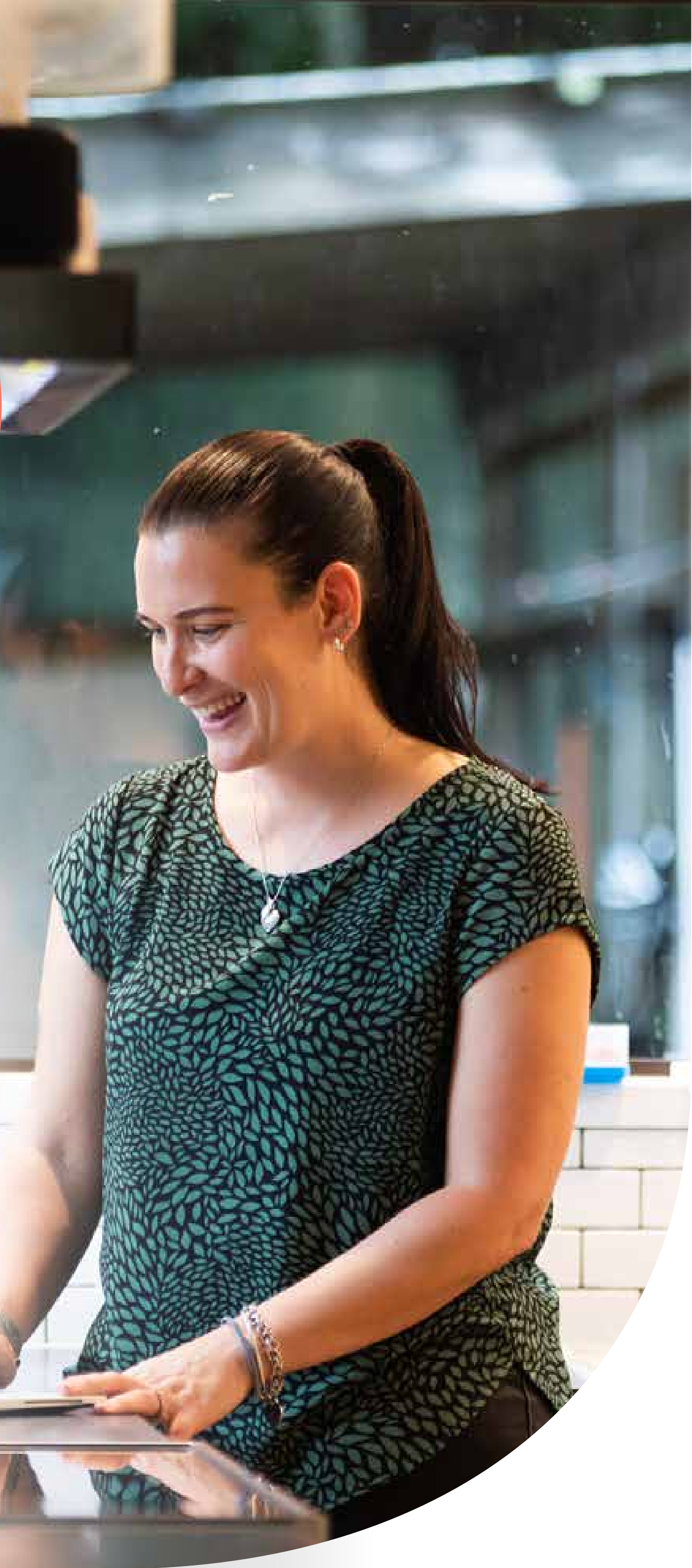
How fees impact your return
$10,000 invested over 15 years

0.65% fee — 6% return: $21,853.35

1.25% fee — 6% return: $20,059.06



What type of fund is right for you?



Managed funds

Some managed funds invest in a single asset (like shares). But most managed funds invest in varying proportions of different asset types like shares, property, bonds or cash. A multi-asset managed fund like this is typically a good choice for someone who, beyond the basics of choosing and monitoring their investment, doesn't want to be too involved.

Your expected returns will depend on the performance of the fund's assets, minus costs like management fees and other fees.

Managed funds are more likely to be actively managed (seeking a market-beating return), but some managed funds are passively managed.

You can select a fund to match the level of investment risk you're comfortable with. The following table shows how Smart Investor defines the different fund types:

You can select a fund to match the level of investment risk you're comfortable with.

	Defensive fund	Conservative fund	Balanced fund	Growth fund	Aggressive fund
Generally suitable if you	Don't want your balance to ever go down (although there are no guarantees), even though that means it almost certainly won't grow as much, over the long-term, as riskier funds.	Are willing to take on some ups and downs in value, and are seeking average long-term returns a bit higher than in a defensive fund but probably not as high as in riskier funds.	Are middle of the road, comfortable with seeing the value of your investments sometimes fall a little and seek mid-range long-term returns.	Are looking for fairly high growth over the long-term, and won't want to switch to a lower-risk fund whenever you see your balance fall quite a lot.	Are looking for strong long-term growth, knowing you will stick with your fund even when your balance falls fast.
Expect to spend your money	In the next 3 years	After 4–5 years	After 6–8 years	After 9–12 years	After 13 years
Invest for at least	2–3 years	4–5 years	6–8 years	9–12 years	13 years plus
Chance of a negative return	1 year in 13	1 year in 10	1 year in 6	1 year in 5	1 year in 4
Percentage held in growth assets	0%–9.9%	10–34.9% in growth assets	35–62.9% in growth assets	63–89.9% in growth assets	90–100% in growth assets

Exchange-traded funds

Exchange-traded funds (ETFs) are a type of managed fund. They share many of the characteristics of managed funds, but differ in the following ways:

1. They are listed on a regulated market (you can buy into an ETF in the same way you would buy shares).
2. They usually track a market index and are known as a passive investment (providing a market return). This is a simpler fund management strategy, so fees on ETFs are usually cheaper.
3. They tend to be single-asset class funds (for example, shares, property (Real Estate Investment Trusts or fixed income). Investing in them requires a bit more knowledge and dedication – you'll need to make sure your overall investment portfolio is sufficiently diversified across asset types, regions and sectors to match **your investor profile**. It is possible to use a few single-asset class funds as building blocks to construct a portfolio aligned to your risk appetite – known as 'asset allocation'.

Both managed funds and ETFs belong to a category called Managed Investment Schemes. Other types of managed investments differ significantly so they're not covered in this guide.

What do single-asset class ETFs invest in?

- Shares in the New Zealand stock market or global stock markets.
- Property including residential, industrial, retail and commercial real estate.
- Fixed income investments like bonds.
- Specific sectors like healthcare or robotics.
- Themes such as green energy.

You can use the advanced search feature on **Smart Investor** to find a list of single-asset class funds.

Why is diversification important?

Having a mix of different asset classes (such as shares, property, bonds or cash) smooths out the ups and downs of investing and reduces the risk of losing money. Your investments should not be closely correlated, for example in the same industry or sensitive to exchange rate or interest rate movements.

What's the difference between a managed fund and an ETF?

	Managed funds	ETFs
Composition	More likely to be multi-asset	More likely to be single asset
Fees	Likely to be higher	Likely to be lower
Liquidity	Less liquid (while many managed funds offer daily redemption, the fund manager may require notice to sell and there might be a minimum holding period)	More liquid (most can be bought and sold whenever the stock exchange is open)
Management style	More likely to be active (but a lot of managed funds are passive)	Likely to be passive (tracking an index)
Investor effort	Less effort required because it's easier to pick a fund that matches your own risk profile	More effort required as you'll need to think about which assets and sectors to invest in

Want your investments to align with your personal values?

Ethical or socially responsible funds invest according to specific values. These could be religious, environmentally focused, or something else. For example, a fund might invest in businesses with a focus on sustainability, like green energy – and not invest in businesses that conflict with those values. Find out more about ethical investing at **fma.govt.nz**.

How to invest in a managed fund or ETF

Choosing a managed fund or ETF

Find out about the fund before you buy

To find out exactly what's in a fund and how it's performing, you need to review the following documents:

Product Disclosure Statement (PDS)

This document explains how a product works. It should provide you with:

- An understanding of the fund's likely risks and returns.
- A list of any fees and charges that might be taken out of your investment.
- Details of the investments the fund makes.
- Information about the fund manager and key staff who make investment decisions (particularly important for actively managed funds).

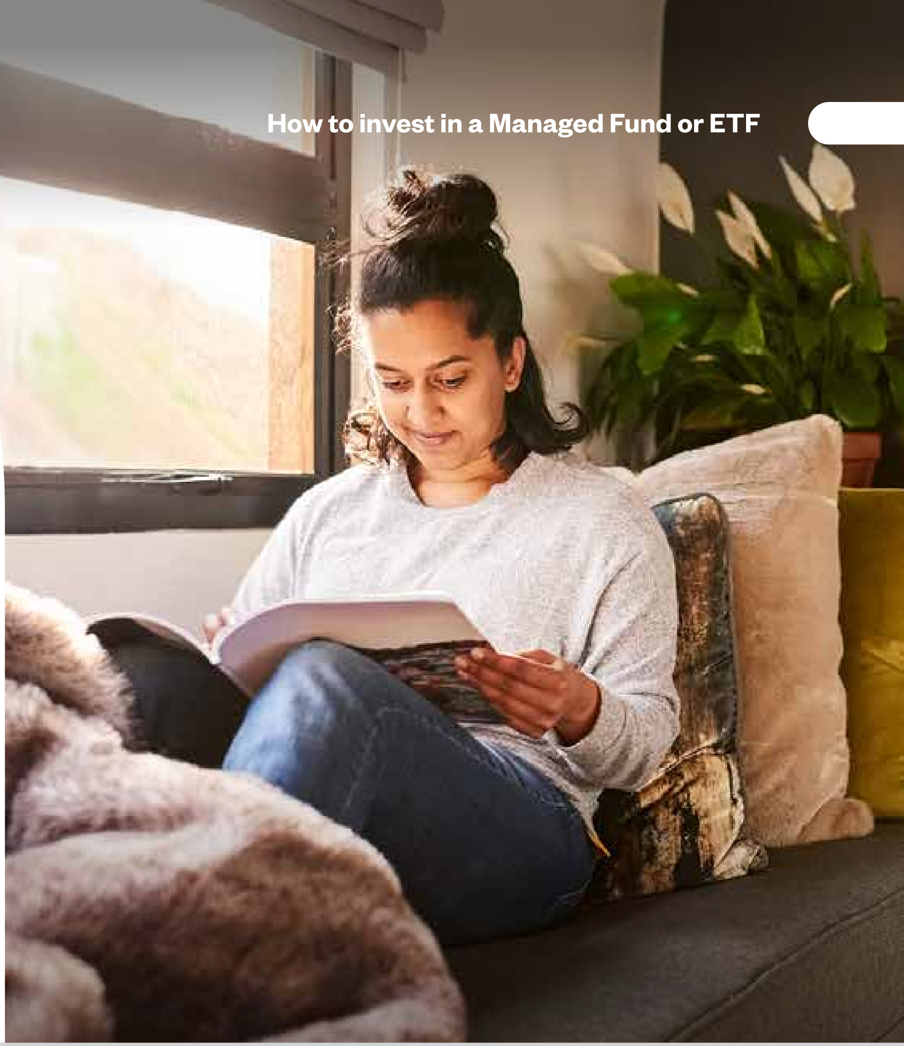
The FMA website has a guide explaining how to **read a product disclosure statement.**

Annual report

The fund manager must produce an annual report within four months of the end of a financial year, and send it to you within 28 days after it is prepared. Read the fund's annual report to learn about:

- Changes to the fund's key people, strategy or other important things like a change of benchmark.
- How the fund's investments have performed against its goals.
- If the fund's auditor has any concerns.

Managed funds and ETFs are regulated investments. The Financial Markets Authority licenses New Zealand fund managers and their supervisors, and monitors their compliance with the minimum standards required by law. This includes meeting minimum standards of investor disclosure, such as producing the documents listed here.



Fund updates

Fund updates are published quarterly, and must include:

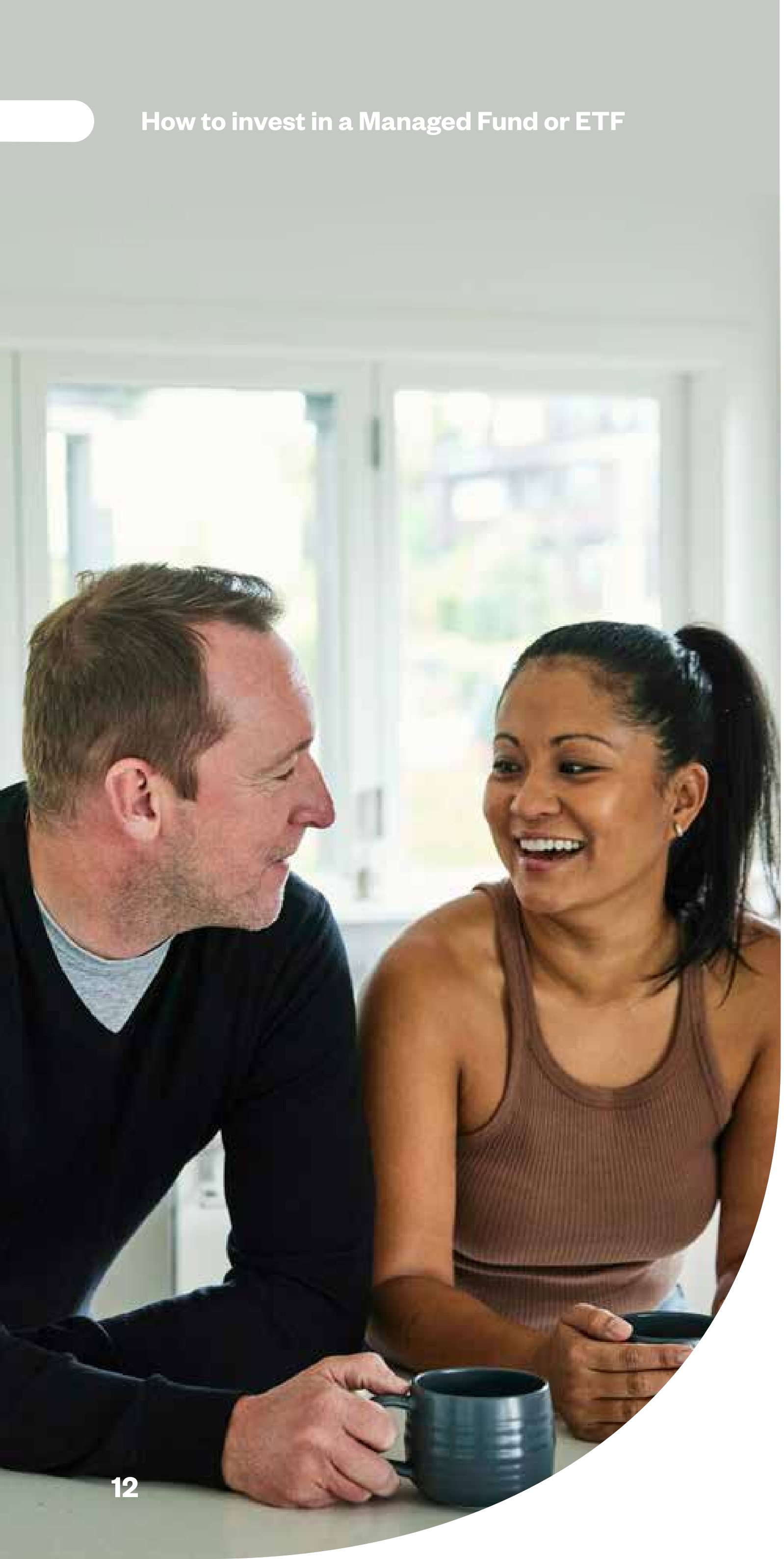
- The fund's returns over different time periods, compared to a relevant benchmark.
- The fees the fund has charged.
- The fund's actual investments compared to its intended investments.
- The fund's top 10 investments.
- Details of the key staff.

Investor tip

Check that the fund is registered on the **Disclose Register** before you invest. You can find the PDS, annual reports, financial statements and other key information on the Disclose Register.

Smart Investor provides a summary of the key information from all these documents and other important documents. You can also easily compare funds' asset mix, fees or returns.

sorted Smart Investor



Investing in a managed fund or ETF

Investing in a managed fund or ETF is easy. Visit the Smart Investor website to view and compare managed funds and ETFs available in New Zealand. You can then contact the companies directly for more information. You can also buy managed funds and ETFs through a number of online platforms.

How much money do you need to invest?

You can invest in many managed funds for less than $500. And once you've invested you can add much smaller regular payments. This helps you grow your investment over time and averages out the purchase price paid, as you're buying at times when prices are high and low, and not timing the market.

Some online platforms enable you to invest at a much lower cost. This helps you get started with just a few dollars.

Keep reviewing your fund after you've invested

Schedule time to monitor your fund's performance – at least annually but preferably more regularly.

Check your personal statements from the fund provider, as well as the quarterly fund updates and annual reports, to monitor the performance of your investment.

Once you've invested in a fund, you can request the following information from the provider at any time:

- An estimate of your balance.
- The amount of fees you've paid.
- Full financial statements for the fund.
- Any audit reports.
- The most recent product disclosure statement.
- The fund's Statement of Investment Policy and Objectives (SIPO), which sets out how the fund is managed.

Selling your managed fund or ETF investment

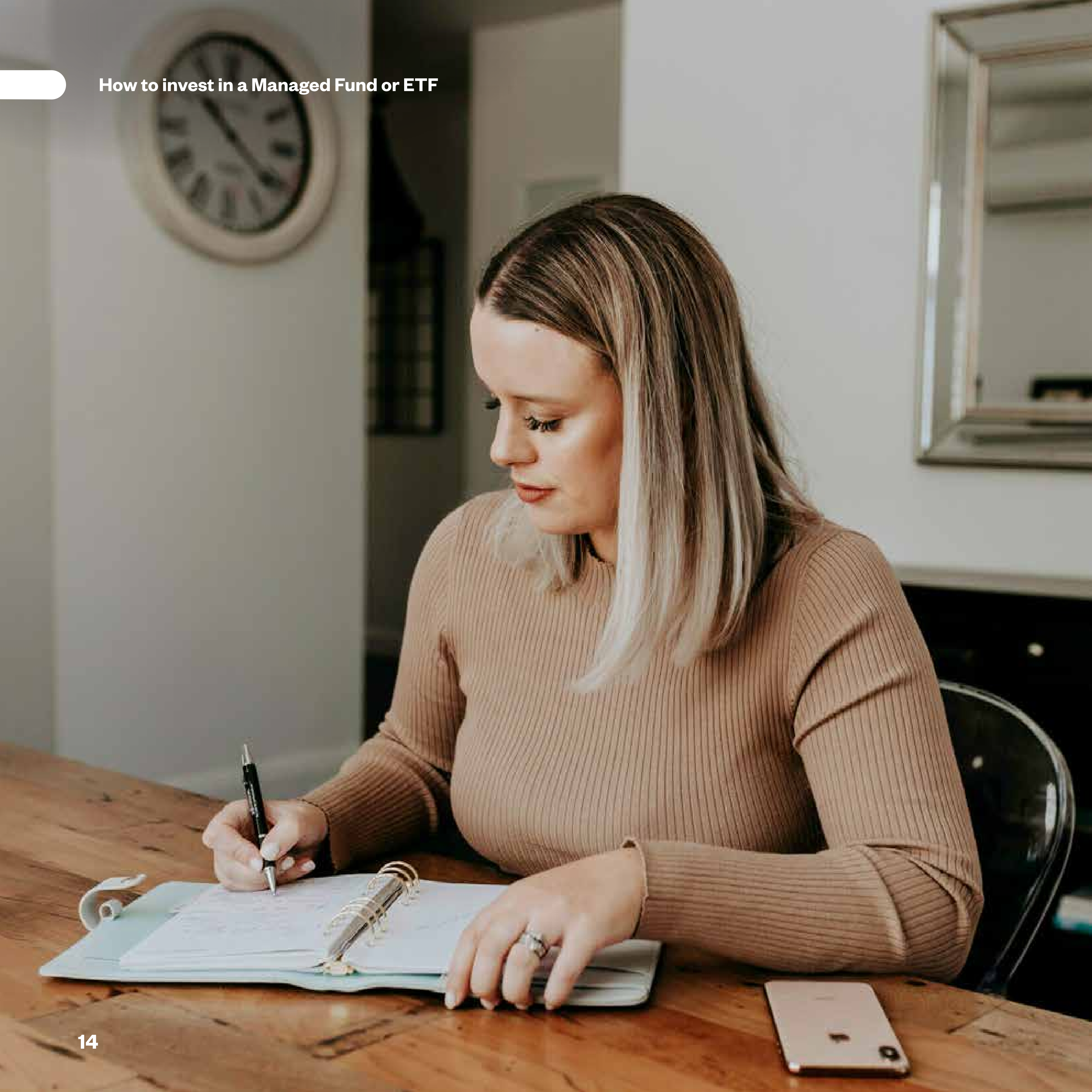
To get your money out of a managed fund, you must notify the fund manager you would like to sell all or part of your investment. Some fund managers allow same-day sales, while others have less frequent options. The fund manager is responsible for ensuring there is enough money available to pay you when they receive your request.

To get your money out of an ETF, you must sell your shares on an exchange (the same way you buy them). This relies on there being a buyer when you want to sell.

New Zealand operates an effective and well-regulated stock exchange, but there is always a small risk you may not be able to sell at the price you would like.

Some funds pay out regular distributions to investors – while others may let you set up a regular withdrawal.

Some online platforms enable you to invest at a much lower cost. This helps you get started with just a few dollars.



Checklist for investing in a managed fund or ETF

- Identify your investment goals, timeline, strategy and the level of risk you're willing to take for potential returns.
- Consider seeking expert financial advice.
- Decide if you want a broad range of investments (which a managed fund is more likely to provide) or narrow spread of investments (which an ETF is more likely to offer).
- Select which managed funds or ETFs meet your criteria.

Carefully review each fund's product disclosure statement, annual report and quarterly update. Be sure to answer these questions before deciding to invest:

- What are the fund's likely risks and returns?
- If it's a managed fund, what does the manager say about how they manage those risks?
- Have there been changes to the fund – its strategy or (for a managed fund) key people?
- What fees and charges might be taken out of your investment?
  For a managed fund, what fees has the fund charged in the year to date?
- How have the fund's investments performed against its goals, relative to its benchmark? For how long? (At least three years and ideally 10 or more).
- What investments does the fund make? Is it a single or multi-asset fund?
- How is the fund being managed?
- Does the fund's auditor have any concerns?

Understanding the jargon

Active management/seeking alpha

A strategy that uses tactics such as selecting and trading specific investments or actively hedging, aiming to get investors the best returns by beating a particular benchmark or index. This added return is known as 'alpha'. This management style typically costs more than passive management.

Passive management

A strategy that aims to automatically purchase and sell investments to mirror the holdings of an index, sector, or theme (such as robotics). This results in market returns, measured by 'beta'. This typically costs less than active management.

Index funds

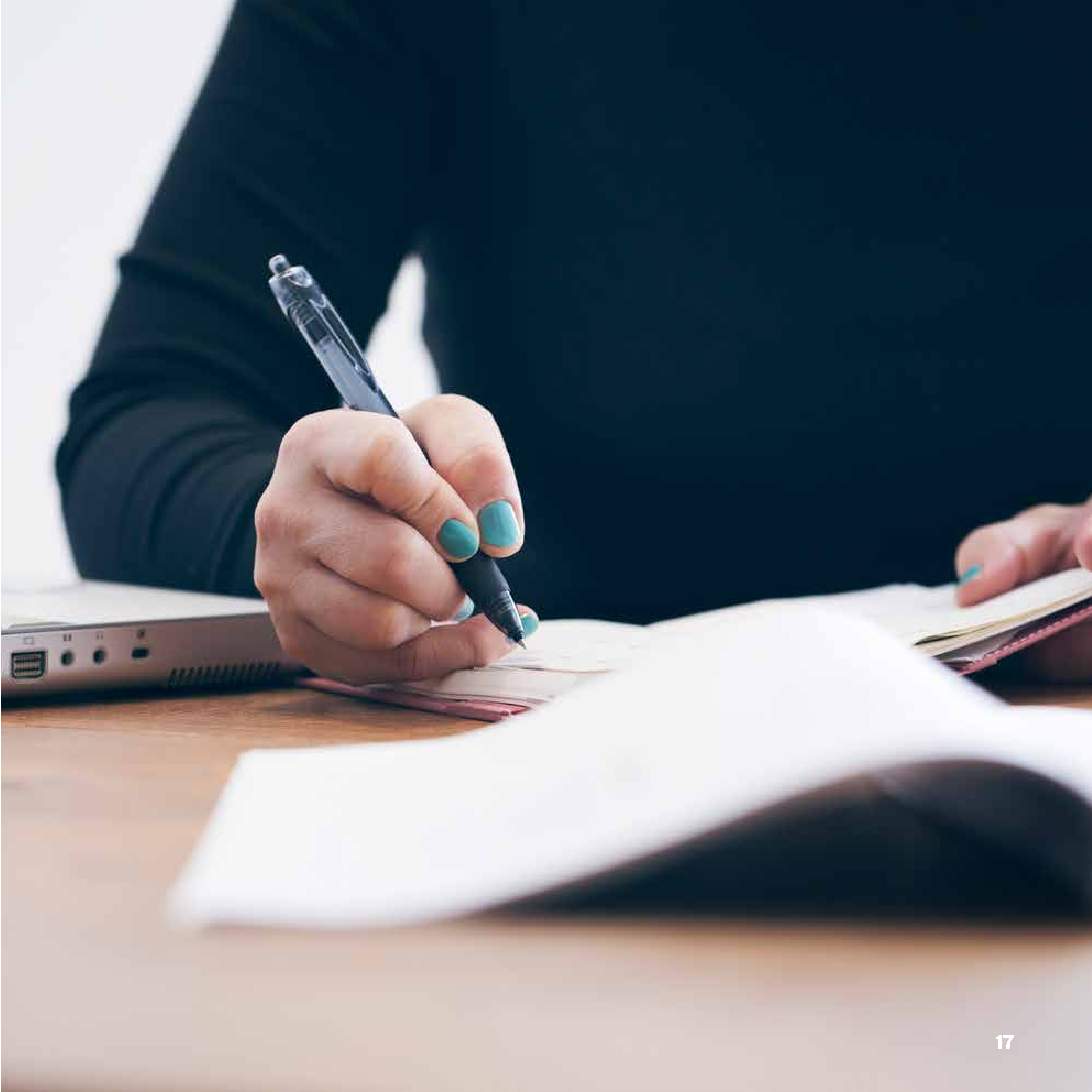
An index fund is one that buys and holds shares in the index it is tracking. 'Index funds' and 'passive funds' are terms that are sometimes used interchangeably, though strictly speaking it is possible to develop a passive fund that doesn't track an index.

Tracking error

This term is associated with any fund that tracks an index (whether passively or actively). It's an indication of how closely that fund has followed the index it is benchmarked against. Active funds will typically have a higher tracking error.

Liquidity

A measure of how easily an asset can be converted into cash (but not necessarily for the price it was purchased for). The more liquid an asset, the more quickly it can be sold, which reduces the chance of the price moving against you.



Need more information?

If you're just starting out, it might be helpful to talk with like-minded people or to more experienced investors.

- Attend an investor seminar or workshop run by an advisory or funds management firm or investing service.
- Join the **New Zealand Shareholders Association**, which provides information and education for direct investors.
- For personalised advice that takes into account your broader financial situation, you should speak to a financial adviser. See the getting **financial advice** pages on the FMA website.
- Visit these websites:
  www.fma.govt.nz
  sorted.org.nz
  smartinvestor.sorted.org.nz

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