Members' Investment Choice

What are the Members' Investment Choices?

Members' Investment Choice provides an opportunity for you to choose from three investment portfolios, depending on which is best suited to your own individual needs and circumstances. The Trustees recognise that members are in different financial positions, have different retirement savings requirements and have different tolerances for investment risks.

The Trustees offer the following three portfolios that you can choose from:

- **Growth** – for when you are looking for fairly high growth over the long term, and you are prepared to stick with it and not bail out to a less-risky portfolio when you see your balance suddenly fall
- **Balanced** – for when you are looking for mid-range, long-term returns, and you are comfortable seeing the value of your investments fall at times
- **Conservative** – for when you are counting on regular income from your investments, and are willing to take on some smaller ups and downs in value.

A portfolio is a basket of investments like shares, bonds, or commercial property that you buy with your savings. These three portfolios are different because they hold more or less of the more risky investments such as shares and commercial property. The Growth portfolio will aim to hold 80%, the Balanced 60%, and the Conservative 20%. The more they hold, the more your balance will bounce up and down over the years – but the more you stand to grow your money, especially over the long term.

How much difference could this choice make over the years?

The expected earnings rates, set by government, for typical growth, balanced and conservative portfolios are:

Growth	6.5%
Balanced	5.5%
Conservative	4.5%

If we apply these earnings rates and use the Government-legislated methodology, the following table sets out some expected account balances. These are shown after 5, 10, 20 and 30 years of contributions, for someone earning $100,000 before tax who contributes 7% with matching employer contributions (without taking inflation into account).

Years	Growth	Balanced	Conservative
5	$62,000	$61,000	$60,000
10	$137,000	$131,000	$125,000
20	$332,000	$302,000	$276,000
30	$606,000	$525,000	$458,000

These estimates show that your choice between the Growth and the Balanced portfolios could make a difference to your account balance after 20 years of $30,000, and between the Balanced and the Conservative portfolios could make a further difference of $26,000. The differences are even greater if you expect to contribute for, say, 30 years, and are still significant if you expect to be saving for only 5 or 10 years.

Over the long term, your choice of investment portfolio is likely to make a substantial difference to the balance in your account at retirement. Especially if you expect to be saving for a long time for retirement, without needing to access your savings, a riskier portfolio may be your better choice.

Two questions to help you make your choice of portfolio

1. **How soon do you expect to access the money in your portfolio?**
    a. In 10 years or more: you're likely to prefer the Growth portfolio.
    b. In 3–9 years: you're likely to prefer the Balanced portfolio.
    c. Within the next 3 years: you're likely to prefer the Conservative portfolio.
2. **What's most important to you as you save and invest?**.
    a. 'Likely high growth over the long term, even if that means big ups and downs in some years.' You're likely to prefer the Growth portfolio.
    b. 'Middle-of-the-road long-term results, with some ups and downs in my account balance.' You're likely to prefer the Balanced portfolio.
    c. 'Almost certainly ending up with more than I put in, with minimal ups and downs along the way.' You're likely to prefer the Conservative portfolio.

Here's the opportunity your choice presents

Investing always brings more or less risk with it. It's why we receive returns: for taking more or less risk with our money. It's generally accepted that if you can tolerate the ups and downs in value in the short term (those years when your balance will fall), taking on more risk is worth it in the long term. This is because you are likely to be rewarded for taking on that extra risk with a better return.

So if you have decades to go before you expect to use your invested money, the Growth portfolio is likely to be the better choice, as it's expected to generate higher returns than the Balanced or Conservative portfolios.

Choosing the Conservative portfolio over the long term has an 'opportunity cost' that comes with it – you miss out on the opportunity for higher returns, which are typically tens of thousands of difference in your retirement. If you are too conservative with your choice, your savings may end up too little to provide for your future lifestyle.

Short-term ups and downs in your account balance really don't matter as much as what your balance will be when you need it. As you get closer to using your money, it's generally advisable to move to a more conservative setting to reduce your chance of a loss and make sure your money will be there for you.

How much difference could this choice make in my retirement years?

If you contribute to the Fund for 20 or 30 years, the resulting account balances would support the following monthly payments from age 65 to ages 80, 85 and 90, depending on the portfolio you select:

Your portfolio:	Growth		Balanced		Conservative	
Invested for…	20 years	30 Years	20 years	30 Years	20 years	30 Years
Your estimated future balance	$332,000	$606,000	$302,000	$525,000	$276,000	$458,000
Your income ages 65–80	$440 per week	$800	$400	$700	$370	$610
65–85	$330	$610	$300	$530	$280	$460
65–90	$270	$490	$250	$430	$220	$370

As you can see, your income can vary widely depending on which portfolio you choose, how long you invest for, and how long you depend on the income.

Just how certain are these expected returns?

To give you an idea of how the level of risk between the three portfolios varies, we can take a look statistically at how much you could stand to lose in a single year in a given 20 years. The amount varies depending on your portfolio.

- **Growth** – in the Growth portfolio, you could see a loss of 17%. This means that if you had a balance of $10,000, it would go down to $8,300, a loss of $1,700.
- **Balanced** – in the Balanced portfolio, you could see a loss of 14%. That balance of $10,000 would go down to $8,600, or a loss of $1,400.
- **Conservative** – in the Conservative portfolio, you could see a loss of 7%. Your $10,000 balance could reduce to $9,300, a $700 loss.

Another way to look at the risks is to look at the range of annual returns you might experience in each of the three portfolios. The more risk you take on, the more ups and downs you are likely to experience.

- **Growth** – in the Growth portfolio, you could see returns range from as low as -6.3% to as high as 19.7%.
- **Balanced** – in the Balanced portfolio, you could see returns range from -3.9% to 14.6%.
- **Conservative** – in the Conservative portfolio, your returns could range -1.9% to 10.0%.

Yet another question you can ask is: how often might I expect a loss? Here's how the three portfolios differ, statistically speaking:

- **Growth** – in the Growth portfolio, you will see a loss 1 year in every 4.6 years.
- **Balanced** – in the Balanced portfolio, it would be 1 year in 5.4 years.
- **Conservative** – in the Conservative portfolio, it is 1 year in 7.3.

As you can see, while the Growth portfolio is expected to earn the highest returns, these returns are likely to be the most volatile. The Conservative portfolio is expected to earn the lowest returns, but these returns are likely to have the least ups and downs.

Overall, this means that if you invest in the Growth portfolio your account balance will be more uncertain, but there is a likelihood it will give you better returns. If you invest in the Conservative portfolio, your returns are likely to be less at risk.

Although forecasts remain uncertain…

Statistical modelling on which the above assessments of returns and risks are based are not very good at predicting the extreme risks in real-world financial markets. So while the above assessments give a sense of the expected differences in the magnitude of the losses for each portfolio, you should not be surprised to see bigger losses. In the real world, bigger losses are possible.

Here's how to certainly lose money

That said, there is one sure way to lose money that is to be avoided. If, during a market downturn, you see your balance falling and suddenly switch to a lower-risk portfolio, you lock-in your losses. You effectively remove any chance you have to recoup what you lost when, in all likelihood, markets recover. Recoveries can take a while or be quite quick, and timing them is near impossible.

So for example, if you are in the Growth portfolio, see your balance fall, and suddenly switch to the Balanced or Conservative portfolios, or you are in the Balanced portfolio and switch to the Conservative portfolio, you cement your losses and will find it quite difficult to make them up.

No one should lose sleep over their investments. If you don't think you can tolerate market volatility because you do not like seeing your account balance go up and down, you should consider investing in a lower-risk portfolio and accepting the likelihood of lower long-term returns.

How to change your portfolio settings

When you join the Fund you will be initially enrolled in the Balanced Portfolio as the default option unless you specifically select another option. Thereafter, you may change your choice of investment option at any time by completing an Investment Switch Form which is available from the Administrator. You can choose to switch between portfolios at any time. Switches are processed on the first day of the month following receipt of the completed form.

You may, if you wish, split your account balances and your future contributions between any two, or even all three of the portfolios. The same splits will apply to your member and employer account balances, and similarly, the same splits will apply to your own contributions and to your employer contributions.

If you are close to retirement, you may wish consider switching to a lower-risk portfolio, particularly if your intention is to withdraw your benefits when you retire. You should take into account however that, when you retire, you will still need to invest your retirement savings. Assuming you expect to have a normal life expectancy, the timeframe for your savings after retirement will still be 20 years or so.