Investment Choices

The Fund offers members three investment options which are typically described as growth, balanced, and conservative portfolios.

Each portfolio consists of a mix of shares, bonds, and cash. Shares are typically described as growth assets and bonds and cash are typically described as income assets. The splits of the three portfolios between growth and income assets and their expected long-term average returns are as follows:

Portfolio	Portfolio Splits: Growth vs Income	Expected Annual Earnings Rates (%)	
		Nominal	Real
Growth	80:20	7.3	4.2
Balanced	60:40	6.5	3.5
Conservative	20:80	4.8	1.8

NB The nominal rates of return do not account for inflation. The real rates are the expected returns after allowing for inflation. i.e., they reflect your real investment growth.

What are the Expected Returns?

Over the long term, your choice of investment portfolio is likely to make a substantial difference to the balance in your account at retirement. The following table sets out expected account balances after 5, 10, 20 and 30 years of contributions for a member earning $100,000 per annum (before tax) who contributes 7% with matching employer contributions based on the real expected earnings rates of the portfolios (and starting with no existing balance):

Portfolio	Expected Account Balances After:			
	5 years	10 years	20 years	30 years
Growth	$64,000	$142,000	$355,000	$678,000
Balanced	$63,000	$137,000	$331,000	$603,000
Conservative	$61,000	$127,000	$278,000	$460,000

These estimates show that your choice of portfolio is likely to make a significant difference to your account balance, especially after 20 or 30 years. For example, after 20 years, the choice between the Growth and the Balanced portfolios could make a difference of $24,000 to your account balance and the choice between the Balanced and Conservative portfolios could make a further difference of $53,000. The differences are even greater if you expect to contribute for, say, 30 years and are still significant if you expect to be contributing for only 5 or 10 years.

What are the Expected Risks?

While 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 your retirement, you need to be mindful that the returns of the Growth Portfolio are likely to be the most volatile while the returns of the Conservative Portfolio are likely to be the least volatile. This means in any particular year, the Growth Portfolio could fall substantially in value. While the Conservative Portfolio is not risk-free, it is much less likely to fall in value.

However, short-term fluctuations in your account balance really don't really matter as much as much as what your account balance will be when you need the funds for your retirement. Conventional wisdom is to "ride out" short-term volatility, focussing on long-term growth in the value of your investment. The following table gives you an idea of the relative riskiness of the three portfolios:

Portfolio	Growth	Balanced	Conservative
Range of returns in a "typical" year	-2.6% to +17.2%	-0.8% to +13.9%	+2.2% to +7.4%
Frequency of a loss	1 year in 4	1 year in 6	1 year in 33
Severity of a loss (worst 1 year in 20)	-15%	-11%	-4%

NB A "typical" year is taken to be two years out of every three. These figures are in nominal terms.

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

Forecasts of risks and returns are not very good at predicting extreme risks in real-world financial markets. So, while the above assessments give a sense of the expected differences in the likelihood and size of losses of each portfolio, in the real world, bigger losses are possible. That said, the surest way to lose money is to switch to a lower-risk portfolios after a market downturn thereby cementing your losses which will be difficult to make up. On the other hand, you don't want to lose sleep over your investments so if you don't think you can tolerate market volatility you should consider investing in a lower-risk portfolio and accept the likelihood of lower long-term returns.

General Guide

As a general guide:

- the Growth Portfolio is likely to be your preference if you don't expect to withdraw your funds for 10 years or more – this portfolio is likely to maximise your returns in the long term even if that means big ups and downs in some years
- the Balanced Portfolio is likely to be your preference if you expect to withdraw your funds in 3 to 10 years – this portfolio is designed to provide middle-of-road returns with some ups and downs
- the Conservative Portfolio is likely to be your preference if you expect to withdraw your money within, say, 3 years, (eg, for a first-home purchase or for retirement) – this portfolio is designed to minimise your risk of big ups and downs but is expected to have significantly lower returns in the long term.

Default Option

Recognising the relative risks and return expectations of the three portfolios, as a default arrangement, new members are enrolled in the Growth Portfolio and, at age 60, are transferred to the Balanced Portfolio. Deferred members who remain in the Balanced Portfolio are switched to the Conservative Portfolio at age 75.

Changing Your Investment Choice

You may change your investment choice at any time by completing an Investment Switch Form which is available from the Fund's Administrator.

Disclaimer

The information contained in this document is provided for general information purposes only and does not constitute financial advice or take into account your particular financial situation or goals. Your choice of investment portfolio is your sole responsibility and should be determined with regard to your financial situation and goals. The Trustees are not liable for any choice you make, nor are they in any circumstances to be regarded as representing or implying that your choice of portfolio is appropriate for you.

The expected returns set out in this document are based on expected long-term average returns and are not guaranteed in any way. Actual returns may vary significantly from the estimates in this document.

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