

Wealth Management Adviser

Autumn 2010

Issue 40

Kiwisaver - leave well alone

It doesn't matter how highly tuned the racing car, athlete or business model, there is always the temptation to fiddle. Hopefully the Government does not fall for this temptation when it looks over Kiwisaver prior to the Budget.

And if it can't resist the urge to play round with the existing model, then please make the changes positive. Yes, by all means bring us closer to Australia and their super scheme. Looking forward we believe the Aussie super scheme portability will likely appeal to many expatriate New Zealanders wishing to consolidate their retirement provisioning back home.

But, don't touch the 'Kick Start' incentive or tax credits; these are some of the key reasons for the scheme's success.

While New Zealanders have been joining Kiwisaver in droves, there is plenty of scope for many more to join. An average of 32,000 new members have joined each month in the last year. That's an impressive growth rate of 54% over the last 12 months. At current growth rates, Kiwisaver Funds Under Management are predicted to have reached the same level as retail funds under management by 2015.

However, there is still plenty of room for growth. Out of the 3.8 million New Zealander's eligible to join Kiwisaver, so

far only 1.2 million or 34% have signed up. As you would expect the 45 – 54 and the 55 – 64 age groups have the two highest take up rates, after all they are the closest groups to retirement. Surprisingly though there are still over half a million eligible members above age 45 who so far have not taken any action at all.

Kiwisavers are spoilt for choice with 30 providers currently offering up to 52 Registered Schemes, (including 27 options built into existing superannuation schemes) and several more set to join the party. Provider costs have soared and unless you have scale, profitability will be an issue so the industry expects some consolidation. The number of Kiwisavers changing funds appears to be increasing adding significant costs to all providers.

The banks and large fund managers seem to be leading the 'funds under management' race with ING (including ANZ and National Bank) top of the tables at \$1047 million in funds under management. (Source: Funds Source Kiwi Saver).

It is important for all Kiwisaver members to make sure they are in the scheme that best suits their requirements. Quality advice is crucial before selecting a provider, even if you have to pay for that advice.

India - an emerging economy

Emerging-markets guru Mark Mobius thinks India will do better than the other "BRIC" countries (Brazil, Russia, and China). Mobius manages \$34 billion of emerging-markets assets for Templeton Asset Management. His largest commitments are in Brazil, India, and China.

Mobius points out, "Most Indian companies have healthy balance sheets and strong cash flows. The Indian stock market was a good performer in 2009 and we expect it to continue to outpace other emerging markets next year."

Research on the ground confirms these observations. The country has a history of trading and commerce that goes back thousands of years and enjoys a very entrepreneurial culture. It also has a tradition of land ownership without debt, which means Indian Banks are in particularly good shape as they generally don't lend money to people to buy land.

continued on next page ->

Contents

- 01 Kiwisaver - leave well alone
- 02 Emerging companies fund

Internal air travel is very affordable and competitive with excellent service. Mobile phone reception is better than most places in the United States and International phone calls cost just a few cents a minute, compared with dollars per minute for other countries.

Notoriously unprofitable businesses in the western world, are behaving differently in India. Most airlines are profitable and the six business newspapers in the country are all profitable.

Pengana Emerging Companies Fund

Pengana has been a leading light in small cap investing since arriving on the scene in 2004 according to Morningstar. Co-managers and founders Steve Black and Ed Prendergast are intuitive investors and among the best in the business. Their flexible, growth oriented approach searches out companies that will deliver strong cashflow and earnings growth over the long term. A testament to their stock picking ability was being able to deliver impressive returns in 2009 even though they do not invest in Bio Tech or Resource companies. Black and Prendergast attribute much of their success to their base of retail investors who held their nerve through the turbulence of recent years. The money they manage is sticky and long dated so they don't have to deal with redemptions. Their customer base knows what they set out to achieve, so they are not too bothered with volatility. Their resolve was rewarded when the A\$350 million fund returned 70% for 2009, having been fully

Businesses like sugar refining and paper making are generating 25%-30% or higher returns on capital, which tends to confirm a rapidly growing economy. India's GDP has been growing 7%-9% a year the last four years and it will probably continue to do so for several years to come.

Disclosure of interest

Grant Thornton Wealth Management uses Templeton Emerging markets For Emerging Market exposures.

invested in 50 – 60 well picked stocks. There were a lot of companies that were priced as though they were about to collapse and Black and Prendergast were able to take advantage of the dislocation in the market and get some really good companies at superb prices.

Without the need to take excessive risk there is still a healthy number of stocks which have survived the downturn, are growing strongly and are largely overlooked by the broader market. Hence stock picking opportunities remain strong. At a stock level Pengana are paying particular attention to themes such as currency volatility and balance sheet strength. Despite a well publicised market recovery so far the Small Industrials Index is still near 50% below its high of November 2007, so Pengana don't regard the current market as overheated.

Disclosure

The Pengana Emerging Companies Fund remains Grant Thornton Wealth Management's preferred Australian Small Company Manager. Contact us now if you would like to learn more about this fund.

Government guarantees coming to an end?

Dates to keep in your diary

Taken from the (<http://www.treasury.govt.nz/economy/guarantee/retail/ganda/institutions/index.htm#5.3>):

12th October 2010

“Crown retail deposit guarantee scheme announced on 12 October 2008 expires at 12.01am on 12 October 2010. Following expiry of the scheme, deposits or investments will no longer be guaranteed by the Crown in the event of a default after expiry unless the institution is participating in the extended Crown retail deposit guarantee scheme. The extended Crown retail deposit guarantee scheme

starts immediately upon expiry of the current retail deposit guarantee scheme. From this date, eligible deposits or investments will be guaranteed only if they are made with institutions approved under the extended Crown retail deposit guarantee scheme”.

31st December 2011:

“Extended Crown retail deposit guarantee scheme expires. Deposits or investments will no longer be guaranteed by the Crown in the event of a default occurring after expiry of the extended scheme”.



A disclosure statement is available on request, free of charge.

If you require further information on any of these topics please contact:

Roger Sutherland
Director

Grant Thornton Wealth Management Ltd
L4, Grant Thornton House
152 Fanshawe Street
PO Box 1961
Auckland 1140
T +64 (0)9 308 2570
D +64 (0)9 308 2974
F +64 (0)9 309 4892
E roger.sutherland@nz.gt.com

www.granthornton.co.nz

Grant Thornton Wealth Management Ltd is associated with Grant Thornton New Zealand Ltd, a member firm within Grant Thornton International Ltd. This newsletter is general in nature and its brevity could lead to misrepresentation. No responsibility can be accepted for those who act on its content without first consulting us and obtaining specific advice. Articles may be reprinted with our written permission. If you would like to be deleted from our mailing list, please contact our office. © 2010 Grant Thornton New Zealand Ltd. All rights reserved.