



METHODOLOGY

KIWISAVER STAR RATINGS AND AWARD

SEPTEMBER 2019

What are the Canstar *KiwiSaver Star Ratings*?

Canstar's *KiwiSaver Star Ratings* involve a sophisticated and unique ratings methodology that compares the cost, features and the performance of KiwiSaver funds. Canstar star ratings represent a shortlist of products, enabling consumers to narrow their search to products that have been assessed and ranked.

Ratings range from five to one star. Five-star rated products have been assessed as offering outstanding value to consumers.

Eligibility Requirements

To be eligible for inclusion in the Canstar *KiwiSaver Star Ratings*, a fund must:

- Be open to the public (i.e. not restricted funds and must be open for everyone to enrol). This is with the exception of government-appointed default Inland Revenue funds;
- Be a pre-mixed option (excluding Cash funds) that meets the growth asset allocations outlined for the specific profile; and
- Have been available for a minimum of five years. However, where a fund has been available for less than five years, an indicative rating will be provided for funds that have been available for a minimum of three years. In these instances these funds are compared against their peers for the period over which they have been available.

Profile Description

Canstar recognises that appetite for risk may vary depending on the consumer. Hence the Canstar *KiwiSaver Star Ratings* methodology has aligned the profiles to the fund type by growth asset allocation outlined by the Commission for Financial Capability. Funds are allocated into a profile based on actual growth asset allocation as at the 31st of March, not the target growth asset allocation. The table below provides a brief description of each fund type:

Fund Type	Growth Asset Allocation	Definition
Cash	0%	Funds are eligible if assets allocation is 100% towards cash and cash equivalents. These are generally suitable if you don't want your KiwiSaver account to ever go down (although there are no guarantees), even though that means your account almost certainly won't grow as fast, over the long term, as accounts in riskier funds.
Defensive	0%-9.9%	Funds are eligible if assets allocation is not 100% towards cash and cash equivalents. These are generally suitable if you don't want your KiwiSaver account to ever go down (although there are no guarantees), even though that means your account almost certainly won't grow as fast, over the long term, as accounts in riskier funds.
Conservative	10%-34.9%	These are generally suitable if you 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.
Balanced	35% - 62.9%	These are generally suitable if you are middle of the road, comfortable with seeing your account value sometimes fall a little and seeking mid-range long-term returns.
Growth	63%-89.9%	These are generally suitable if you 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 account balance fall quite a lot.
Aggressive	90%-100%	These are generally suitable if you are looking for strong long-term growth, knowing you will stick with your fund even when your balance falls fast.

Definitions and growth asset allocation percentages are based on www.fundfinder.sorted.org.nz.

Star Ratings Methodology

Each eligible KiwiSaver fund reviewed is awarded points for its comparative performance, pricing and for the array of features attached to the product. Points are aggregated to achieve a performance score, price score and feature score.

To arrive at the total score Canstar applies a weight against the performance score, price score and feature score. The weights for each profile reflect the relative importance of performance, price and features in determining the products offering outstanding value. The method can be summarized as:

$$\text{Total Score} = \text{Performance Score} + \text{Price Score} + \text{Feature Score}$$



Performance Score

The performance score is made up of two components, an annual returns score and a performance risk score. The performance score can be summarised as:



The annual returns score is calculated using the annual investment returns of a fund over the most recent five year period ending on March 31st, with equal weight placed on each year. Where a fund has not been available for five years, annual returns are assessed relative to the length of time the fund has been available. The fund with the highest annual return score is allocated the maximum score, with all remaining funds within the profile scored against it. Investment returns are net of all fund fees and tax.

Performance risk is measured and scored based on the volatility of funds returns, measured using standard deviation and downside deviation:



Description	
Standard Deviation	Measures the distribution of returns both above and below the average return.
Downside Deviation	Measures the distribution of returns below the average return. Downside deviation quantifies how much movement, in percentage terms, has been negative over each month. ¹

1. Where monthly returns are unavailable, weekly returns have been used.

Note that these movements in value of an investment are not realized as gains or losses until funds have been accessed.

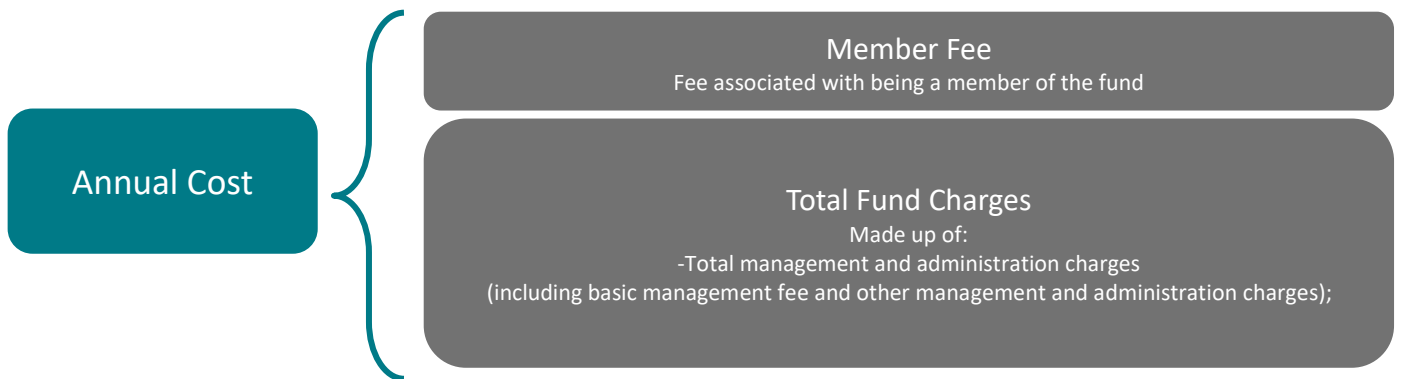
Price Score

The total cost to the consumer is calculated over one year using 100 balance scenarios distributed over a range and based on an average KiwiSaver balance. The fund with the lowest annual cost is awarded the full score for that profile (i.e. Cash, Defensive, Conservative, Balanced, Growth or Aggressive) with the remaining products indexed against it across a normal distribution.

The KiwiSaver balance range is:

Minimum Balance	Average Balance	Maximum Balance
\$5,000	\$20,000	\$27,500

To arrive at the estimated annual cost to the member, fixed fees are taken into consideration, including the annual member fee, investment management fee, administration fee, trustee fee and expense fee.



Feature Score

The feature score takes into account a number of features within four different categories, with individual features allocated points and each category, and subcategory, assigned a weighting. The product with the highest feature score is allocated the maximum score, with all remaining products within the profile scored against it.

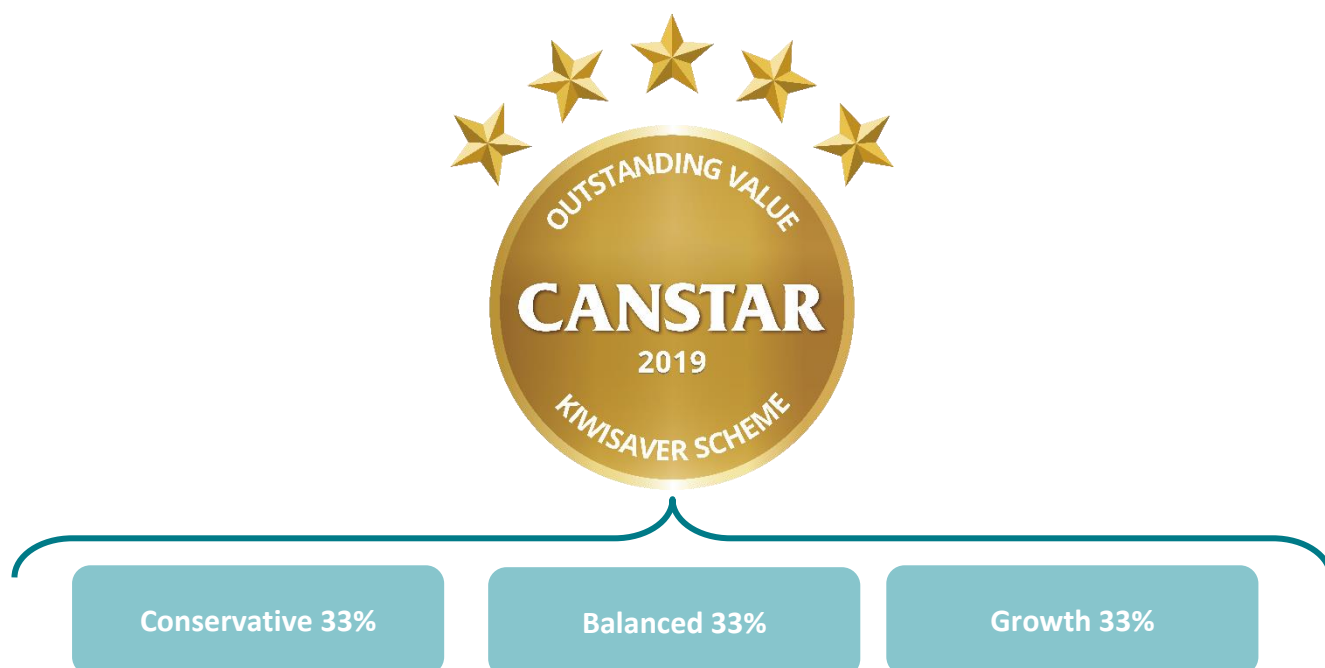
The feature categories and subcategories, with assigned weightings, are:

Category	Profile Weights (%)
Investment Options	35
Pre-mixed Investment	40
Sector Funds	35
Switch and Mix	25
Member Access and Function	30
Online Access	20
Online Publications	20
Account Set-Up	15
Contribution Method	15
Phone/Call Centre Access	15
Online Features	15
Financial Advice and Strategy	25
Education	60
Class Financial Advice	20
Personal Financial Advice	20
Fees and Charges	10
Other Fees	100

Outstanding Value KiwiSaver Scheme Award

Canstar awards an Outstanding Value KiwiSaver Scheme award to the provider or providers who offer outstanding value based on their cumulative score and star ratings performance across the Conservative, Balanced and Growth profiles. To be eligible for consideration towards the KiwiSaver Scheme of the Year Award, a company must be rated in each profile and be available for a minimum of five years.

An even weight is placed onto each profile considered within the award.



What additional rules are applied to Canstar KiwiSaver Star Ratings?

An additional overlay is applied by Canstar which examines a fund's performance over the past five years, ending on March 31st, for signs of persistent underperformance. Compared to other funds within our prescribed profiles, funds that have consistently underperformed across the majority of the past five years (i.e. investment returns reside in the bottom quartile in four out of five years) will achieve no more than a three-star rating.

Does Canstar rate all products in the market?

We endeavour to include the majority of product providers in the market and to compare the product features most relevant to consumers in our ratings. However this process is not always possible and it may be that not every product in the market is included in the rating nor every feature compared that is relevant to you.

How often are KiwiSaver funds reviewed for star rating purposes?

All ratings are fully recalculated every 12 months. Canstar also monitors changes on an ongoing basis.

Does Canstar rate other product areas?

Canstar researches, compares and rates the suite of banking and insurance products listed below. These star ratings use similar methodologies to guarantee quality, consistency and transparency. Results are freely available to consumers who use the star ratings as a guide to product excellence. The use of similar star ratings logos also builds consumer recognition of quality products across all categories. Please access the Canstar website at www.canstar.co.nz if you would like to view the latest star ratings reports of interest.



- Business deposits
- Term Deposit
- Credit cards
- Credit card rewards
- Home loans
- Kiwisaver
- Online banking
- Personal loans
- Savings accounts
- Transaction accounts

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The ratings and awards results do not include all providers and may not compare all features relevant to you. The rating or award is only one factor to take into account when considering these products. Canstar acknowledges that past performance is not a reliable indicator of future performance.

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