



## KiwiSaver Turns Three!

It is now three years since KiwiSaver providers started investing the contributions on behalf of the millions of New Zealanders who now belong to one of the 34 schemes.

This anniversary now provides the first real opportunity to undertake some analysis on the three-year returns and to draw some initial conclusions about the success or otherwise of the investment strategies adopted by the various managers. Looking at returns over periods of less than three years will tend not to provide much insight if reviewed in isolation.

Morningstar are one of the key independent research houses and their latest quarterly KiwiSaver Performance Survey is now available. We have reproduced the

table relating to Balanced Funds. Most providers include a balanced option in their range and typical balanced funds tend to be most closely matched in terms of their risk profile. With a lot of other categories, there is often a wider range of different strategies employed, making comparisons more difficult.

In some ways KiwiSaver could not have launched at a worse time, occurring just before the start of what is now known as the Global Financial Crisis. Returns from Balanced Funds have averaged just 0.7%pa over this time, with funds exposed to higher share weightings typically generating negative returns. Over the course of the last three years, investment managers looking after KiwiSaver Funds have had to navigate through a significant global sharemarket slump in 2008 (with many markets declining

## Christmas Closing Hours:

Closed from:  
Midday 23rd December

Re-opening:  
10th January

We wish all our clients a  
very happy Christmas and a  
prosperous New Year!

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Balanced Funds	6 Mths	1 Year	2 Years	3 Years
Brook Professional KiwiSaver Fund	-2.5%	2.2%	3.4%	4.1%
Fidelity KiwiSaver-Balanced Kiwi Fund	0.4%	6.6%	5.5%	3.9%
<b>Grosvenor Kiwisaver Balanced Fund</b>	<b>0.7%</b>	<b>5.7%</b>	<b>5.3%</b>	<b>2.3%</b>
Aon KiwiSaver ING Balanced	2.4%	9.7%	7.2%	2.0%
TOWER KiwiSaver Balanced	1.5%	8.4%	5.6%	1.9%
ING KiwiSaver Balanced	1.7%	7.6%	5.3%	1.4%
National Bank KiwiSaver - Balanced	1.7%	7.5%	5.0%	1.1%
ANZ KiwiSaver - Balanced Fund	1.7%	7.6%	5.0%	1.1%
AMP KiwiSaver - TOWER Balanced Fund	1.7%	8.1%	4.0%	0.8%
Gareth Morgan KiwiSaver Scheme Balance	-0.3%	3.3%	1.4%	0.8%
Mercer Super Trust KiwiSaver Moderate	0.7%	6.8%	7.1%	0.6%
Aon KiwiSaver Russell Lifepoints 2025	3.3%	11.2%	5.6%	0.5%
ING KiwiSaver - Balanced	1.6%	6.1%	4.8%	0.4%
AMP KiwiSaver Moderate Balanced Fund	1.5%	5.9%	2.1%	-0.2%
FC KiwiSaver Scheme's Active Balanced	0.2%	5.9%	4.8%	-0.8%
ASB KiwiSaver Scheme's Balanced	1.4%	7.6%	4.0%	-0.8%
Aon KiwiSaver Russell Lifepoints Balanced	2.8%	10.9%	5.0%	-0.9%
FC KiwiSaver Scheme's Tracker Balanced	1.4%	7.5%	4.2%	-0.9%
AXA KiwiSaver Balanced	0.8%	7.2%	6.9%	-1.0%
Mercer KiwiSaver Balanced	1.2%	6.9%	5.8%	-1.1%
AMP KiwiSaver Balanced Fund	1.3%	6.0%	1.9%	-1.2%
AMP KiwiSaver Tyndall Balanced Fund	1.5%	7.3%	2.7%	-1.4%
Smartshares SmartKiwi Balanced Fund	1.0%	5.6%	3.4%	-2.6%
Westpac KiwiSaver-Balanced Fund	-0.7%	5.1%	4.7%	n/a
Fidelity KiwiSaver-Ethical Kiwi	0.8%	6.0%	3.2%	n/a
Huljich Balanced Diversified KiwiSaver	-2.8%	-5.3%	n/a	n/a
<b>Median</b>	<b>1.3%</b>	<b>6.9%</b>	<b>4.8%</b>	<b>0.5%</b>

by around 40% from peak to trough), followed by a reasonable upturn in 2009.

As you will be aware, Bright Wild & Thomas Ltd uses Grosvenor as its preferred fund administration platform and KiwiSaver provider. In the table above, Grosvenor's Balanced Fund return is ranked 3rd out of the 20 balanced funds for the 3-years ended 30 September. Although not shown in the table, the return has also been generated with a significantly lower level of return variability than the average, which is consistent with Grosvenor's investment philosophy. It also explains why Grosvenor's return and ranking over the last year has been slightly below the average (5.74% versus 6.36%). Their investment approach currently includes the use of insurance-type strategies to smooth out

some of the shorter term market volatility, effectively using some of the returns from the upturn in 2009 to 'buy' some capital protection insurance in the event that markets cannot sustain their recent gains.

Although relatively early days for the majority of KiwiSaver members these initial survey results provide us with a high degree of confidence in Grosvenor's approach to long-term wealth management on behalf of you, our clients.

If you have not joined KiwiSaver and do want to participate in all the benefits a member receives, or, you are a member of another scheme and would like a "health check" completed on your provider, please contact David Cutfield at this office.



# Special LAQC Alert:

## The jury is out. Death of the LAQC as we know it.

Inland Revenue's policy division has now prepared draft legislation to implement the far reaching changes to the Qualifying Company regime. Although the legislation is still in a draft form, it is likely to become final within weeks.

### A general overview of the changes and implications:

- As of 1 April 2011, LAQCs will not be allowed to attribute losses to shareholders.
- The legislation creates a new entity, called a 'Look through Company' (LTC).
- Companies will be allowed to transition across to become an LTC, or alternatively they can change to another business structure (for example a partnership), without any tax cost.
- An LTC's profits and losses will be passed on to its owners, according to each shareholder's "effective interest" in the company. This means that losses and profits will be deducted or taxed at the owner's marginal tax rate. The effective interest can be quite different to the actual shareholding.
- Losses in LTCs will only flow through to owners to the extent that those losses reflect their economic loss. (Getting complicated now).
- Owners must elect to become an LTC. In other words, we as your accountants will need to complete precise IRD forms to ensure an LTC election is valid.
- The shareholders of an LTC will be treated as holding the assets of that LTC directly. This raises complex issues where those assets are sold.
- Remember, this is all a tax fiction only – an LTC retains its identity as a registered company and therefore is still governed by The Companies Act.

We must at this point stress the very general nature of the above overview. The legislation is quite complicated and we know you don't appreciate wordy and complex epistles on tax. It's our job to cut through all of that for you.

### For those clients with LAQCs, what are the options?

- Stay as a Qualifying Company (QC). This means you will not be able to allocate any company losses to shareholders. Losses will need to be used by the company, against other income. If your company makes regular losses, and you want to use those losses against personal income (such as profits from another business, or wages from employment), this option may not work best for you.
- Be taxed as an ordinary company. Once again, you will not be able to allocate company losses to shareholders. Also, you will miss out on certain other benefits that QCs enjoy, such as the ability to distribute capital gains without winding up the company.
- Be taxed as a Look Through Company (LTC), as summarised above.
- Restructure to another type of entity, such as a partnership, a limited partnership, or a sole trader. As you can imagine, such a restructure is not necessarily a simple matter.

### Your company and the way forward.

The legislation is still in its draft form and there are one or two key aspects of the legislation that are yet to be written. By way of example, the Inland Revenue election forms have not yet been designed. As accountants, we need to educate ourselves before we can advise you. And so, over the coming weeks we'll be doing just that. We'll contact all of our active LAQC clients before March 2011, and we're hopeful that we'll be able to provide you with what we believe is likely to be the best option for you.

The transition across to an LTC or the restructuring for those clients for whom the company vehicle is no longer appropriate, will be completed shortly after that. In the mean time, if you do want to chat about the options and your circumstances do of course call or drop us an email.

## Company Profile

# Logjitzix Limited

Logjitzix, a small forestry stumpage company, has been a client of BWT's since 2002. The company was founded in 2000 with a strategy of using electronic and computer technology in the log making stage of harvesting.



The company founders, Wez Parkes, Mike King and Andy Dick, believed that specialised log making equipment developed in Rotorua, when used correctly in the forest, would create more valuable logs and provide a financial opportunity to forest owners. This proved the case and the company had good early success buying standing forest (stumpage) in the Central North Island and making and selling logs to a range of clients.

**"Logjitzix was the largest stumpage operator in New Zealand by 2003"**

During this successful early stage (Logjitzix was the largest stumpage operator in New Zealand by 2003) the company invested significantly in new technology that enhanced their "log value recovery" business model so

that when the forestry sector started to get the wobbles in the mid 2000s the directors were able to lease out their new technology, the Logmaister, to a Hawkes Bay forestry company.

The focus of Logjitzix now is perfecting and leasing out the Logmaister system to new clients, here in New Zealand and in Australia. The technology the company utilises is unique and promises increased returns from most plantation forest situations.

Managing director Andy Dick has just returned from a successful demonstration of the system to Forests NSW, the largest forest owner in Australia.

Logjitzix celebrated its tenth anniversary in July this year and is looking forward to healthy expansion over the next decade.

## Gift duty repeal now definite

The Minister of Revenue has announced that gift duty will be repealed with effect from 1 October 2011. The Inland Revenue Department now consider that gift duty does not fulfil its current objectives, and imposes a high compliance cost on the public.

The original purpose of gift duty was to discourage the gifting of assets prior to death before estate duty was repealed in 1992.

We expect that many settlors with debt owed by a family trust will look to gift the whole balance next year when the changes take effect, although there will be issues to consider to ensure creditors are not disadvantaged.