

## **Weighing up asset allocation**

Regardless of our personal views on Dr Cullen's New Zealand Superannuation Fund, it has certainly succeeded in getting people talking about investment issues.

What has recently attracted a lot of attention are the fund's publicly announced asset allocation benchmarks – in particular its proposed 7.5% weighting to domestic shares against 59.5% for international shares.

If you're in a superannuation fund and you compare these benchmark asset weightings with those of your own fund, chances are the two sets will be quite different. In fact, if you look at any two superannuation funds, their asset allocations are likely to be different. So how do you know which is the 'right' one?

Investment management is both an art and a science. There are investment strategies and portfolios that work, and there are some that don't. But there is no one 'right' strategy or portfolio. Rather, it's a question of matching these to your or a fund's specific risk profile and objectives.

Let's take the example of two fund managers who both decide they like a certain company and want to invest part of their share fund in it. While they both agree it's a good investment that fits their fund's criteria, the percentage of the respective monies they invest in it will differ depending on considerations such as how aggressively they wish to position their funds, their performance benchmarks, their agreed portfolio parameters, etc.

Therefore, the key issue is not actually the weightings themselves, but whether those weightings are consistent with the stated investment strategies and objectives of the fund.

Back to Dr Cullen's fund. This fund's asset allocation benchmarks are different from any other funds simply because the fund itself is different from any other. For a start, it has a 20-year-plus timeframe and does not need to worry about having to make any payouts before that time is up. This allows it to adopt a very 'aggressive' strategy, i.e. one that is likely to be subject to volatility along the way. However, its timeframe is sufficiently long term for the fund's guardians (its government-appointed directors) to think it will be able to ride out the ups and downs en route to delivering superior returns.

Essentially, having an investment strategy that fits your situation and objectives rather than someone else's is the key. See a financial adviser to discuss how this works for you.

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