SMITHS INSURANCE & KIWISAVER

A GUIDE FOR LUMP-SUM INVESTORS

Smiths Insurance
& KiwiSaver

INVESTMENT INSIGHTS · NEW ZEALAND · 2026

The Bucket Strategy

How to invest a lump sum, stay invested through every market, and make your money last without de-risking everything to "safe" funds too early.

Prepared by Smiths Insurance & KiwiSaver. General information only: it does not take into account your personal objectives, financial situation or needs. All figures illustrative. See disclosures on the final page.

THE BIG IDEA

Keep your money invested. Just not all of it the same way.

When you have a lump sum to invest, whether a redundancy, an inheritance, a property sale, or your KiwiSaver at retirement, the instinct is to "play it safe" and move everything into conservative funds. For money you'll spend soon, that's right. For money you won't touch for years, it's one of the most expensive mistakes you can make.

The **bucket strategy** solves this. Instead of one pile of money forced into a single risk level, you split it into **time-based buckets**, each matched to *when* you'll actually spend it:

- **Short-term money** (next 1–3 years) sits in cash and conservative funds, safe and ready.
- **Medium-term money** (3–7 years) sits in a balanced fund, steady growth, modest risk.
- **Long-term money** (7+ years) stays in growth funds, where it has time to compound and recover.

You spend from the safe bucket. The growth bucket is left alone to do its job. When markets fall, your near-term spending is already parked safely, so you are far less likely to be forced into selling growth assets at a low just to pay the bills. That single structure is what lets ordinary investors **stay the course**.

11.6%	$1.0m	1–2%
Geared Growth 10-yr *history* p.a. vs 4.7% conservative	Extra on a $100k lump sum over 30 yrs, planned at 9.0% vs 4.0%	Per year added by staying invested, not reacting

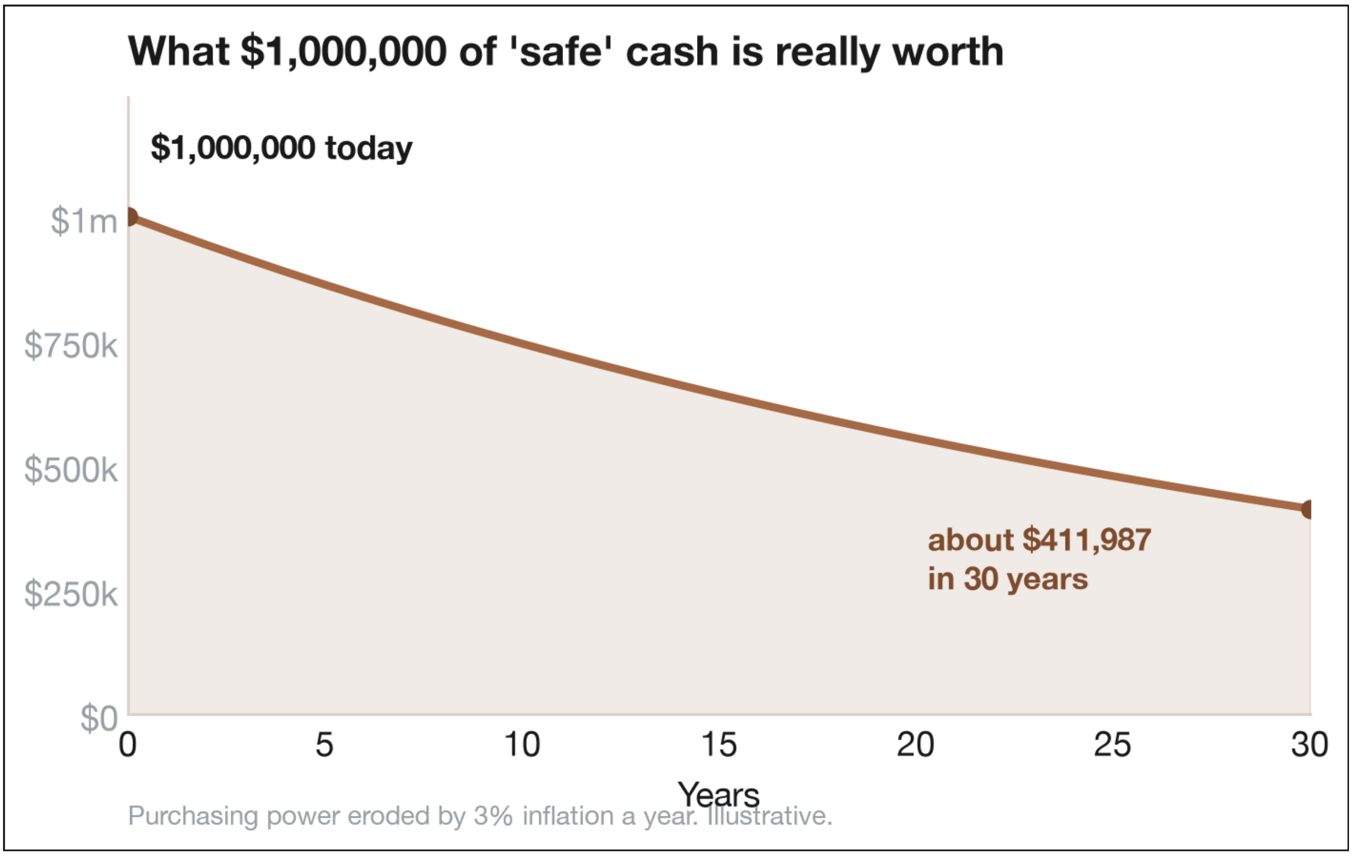
> **"The buckets don't change the market. They change your relationship to it, so a falling market becomes something you can ignore, not something that forces your hand."**

Sources: Morningstar KiwiSaver Survey (10 yrs to Jun 2025); Booster KiwiSaver Geared Growth Fund Information & Performance (as at 31 May 2026), ~11.6% p.a. 10-yr before tax; Vanguard Advisor's Alpha. Geared (leveraged) fund, risk 6/7; gearing amplifies losses too. Illustrative.

THE PROBLEM

"Safe" can be the riskiest choice you make

Moving everything to conservative funds protects you from one risk, short-term market dips, by exposing you to two bigger ones: **inflation** and **longevity**.



At 3% inflation, a million dollars of "safe" cash quietly loses well over half its spending power across a retirement.

Inflation never sleeps

A conservative fund returning ~4.1% barely clears 3% inflation, leaving roughly **1% of real growth** to fund a 25–30 year retirement. Cash often goes *backwards* in real terms.

You'll live longer than you think

A 65-year-old New Zealander can expect **23–25 more years**, and prudent plans run to **age 90–95**. The "long-term" part of your money has a 25–30 year horizon, plenty of time for growth assets to ride out volatility.

> **"A 'safe' fund growing at 4% can mean running out of money while you're still in your 80s. Playing it too safe is its own risk."**

The answer isn't to gamble. It's to be **safe with the money you need soon and invested with the money you don't**, which is exactly what the bucket system is built to do.

Sources: Morningstar KiwiSaver Survey 2025; Stats NZ period life tables 2022–24; RBNZ inflation target. Illustrative.

THE SYSTEM

Three buckets, three jobs

Think of it as three jars of money, each holding a different type of fund, matched to a different time horizon and a different job.

1 · Cash Short term · 0–3 years	2 · Balanced Medium term · 3–7 years	3 · Growth Long term · 7+ years
HOLDS Bank cash, term deposits, cash & conservative funds.	HOLDS A balanced fund, bonds and shares mixed.	HOLDS Growth / share funds, global and NZ equities.
JOB Funds your spending now. Lower volatility than growth, but not risk-free.	JOB Refill the cash bucket. Beat inflation with modest risk.	JOB The engine. Compounds for later life and inflation.
~4.1% ILLUSTRATIVE P.A.	**~6.4%** ILLUSTRATIVE P.A.	**~7.8%** ILLUSTRATIVE P.A.

How the money flows

Growth (3) compounds long-term → **Balanced (2)** tops up in good years → **Cash (1)** your spending money → **Your account** income you live on

You only ever **spend from Bucket 1**. In good years, you harvest gains from Buckets 2 and 3 to top it back up, selling growth assets *high*. In bad years, you leave the growth bucket alone and let it recover. Process replaces panic.

Return figures: Morningstar KiwiSaver 10-yr category averages to Jun 2025. Bucket sizing illustrative; cash 1–3 yrs of spending.

TIME FRAMES

How long should money sit in each bucket?

The time horizon *is* the risk dial. The further away you'll spend the money, the more short-term volatility you can afford to accept in exchange for higher expected returns.

BUCKET	TIME FRAME	FUND TYPE	WHY THIS LEVEL OF RISK
Short term	0–3 years	Cash / Conservative	No time to recover from a dip, capital certainty matters more than return.
Medium term	3–7 years	Balanced	Long enough to ride small bumps; balanced funds beat cash over 3-yr+ windows.
Long term	7–10+ years	Growth	Time to recover from any downturn and capture full compounding and inflation protection.

The rule of thumb

- **Need it within 3 years?** Keep it safe, cash or conservative.
- **3 to 7 years away?** Balanced fund.
- **7+ years away?** Growth. Volatility is noise at this range.

Sizing the cash bucket

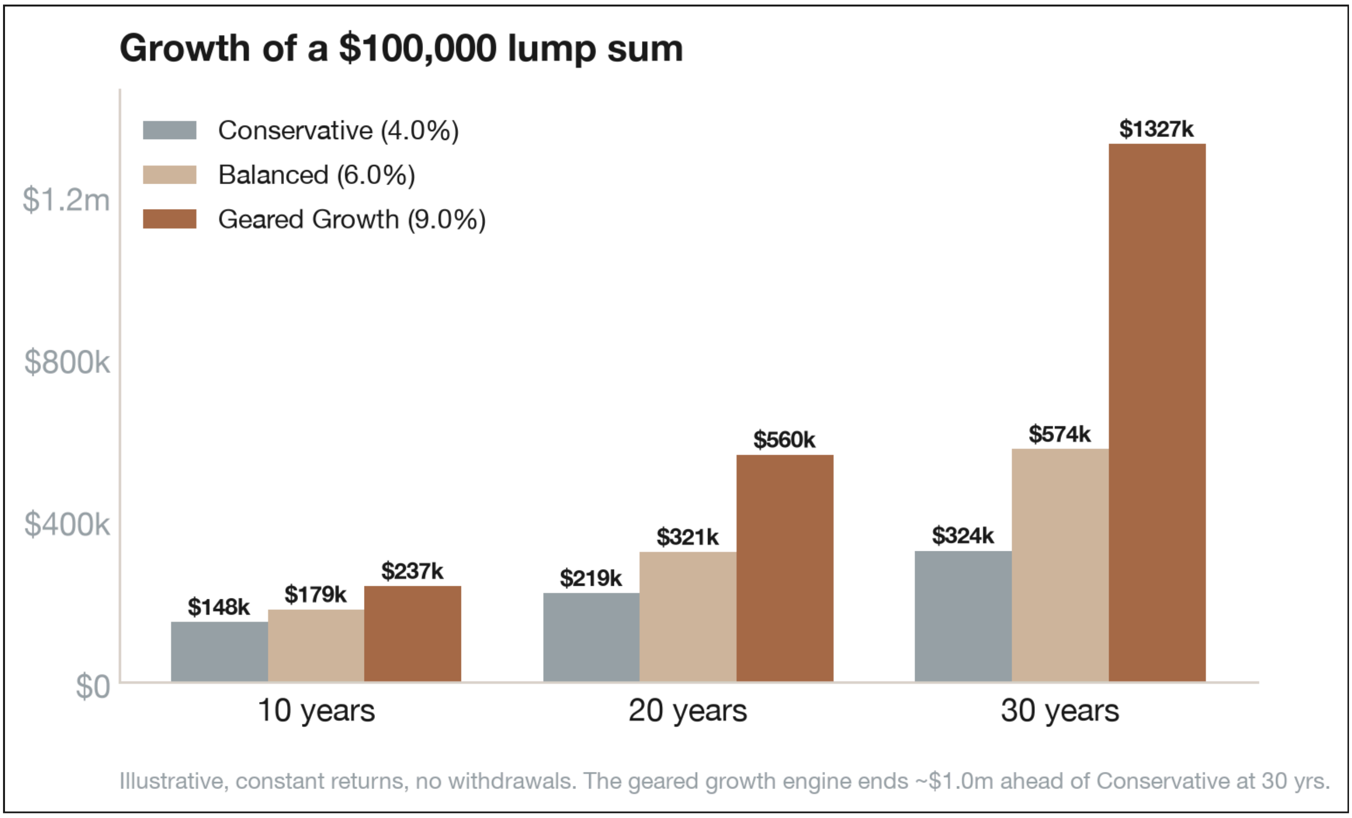
History is the guide: the worst NZ downturn (the 2008 GFC) took **3–4 years** to recover. A cash bucket holding **2–3 years of spending** would have carried you through every major drop since KiwiSaver began, without ever selling growth assets at a loss.

> "Match the money to the moment. Spending money should be boring and safe. Money you won't touch for a decade should be working as hard as it sensibly can."

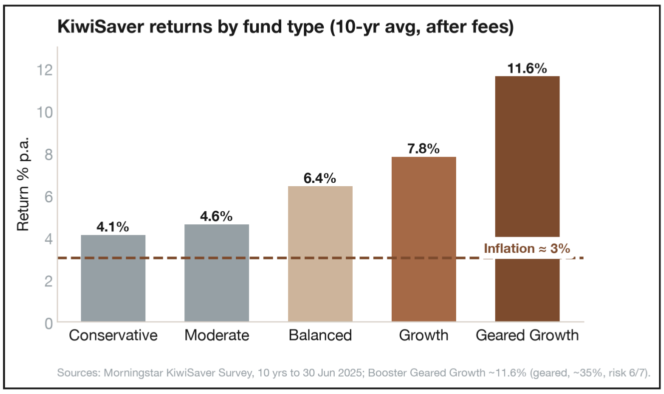
Time-horizon ranges per Morningstar / Christine Benz bucket framework and Sorted Retirement Navigator. Illustrative.

The long-term cost of being too cautious

Over a few years, the difference between fund types looks small. Over a retirement, it is enormous, because of compounding.



A $100,000 lump sum, left to compound. Illustrative, constant returns, no withdrawals.



Small gap, huge difference

The growth engine here is Booster's **Geared Growth** fund, up about **11.6% a year** over 10 years against 4.7% for Conservative. It is geared (leveraged): gearing amplified those gains, and amplifies losses just as much. We plan on a lower **9.0%**, not the historical 11.6%. Even so, on a $100,000 lump sum over 30 years, planning at 9.0% versus 4.0% compounds into roughly **$1.0 million** of extra money.

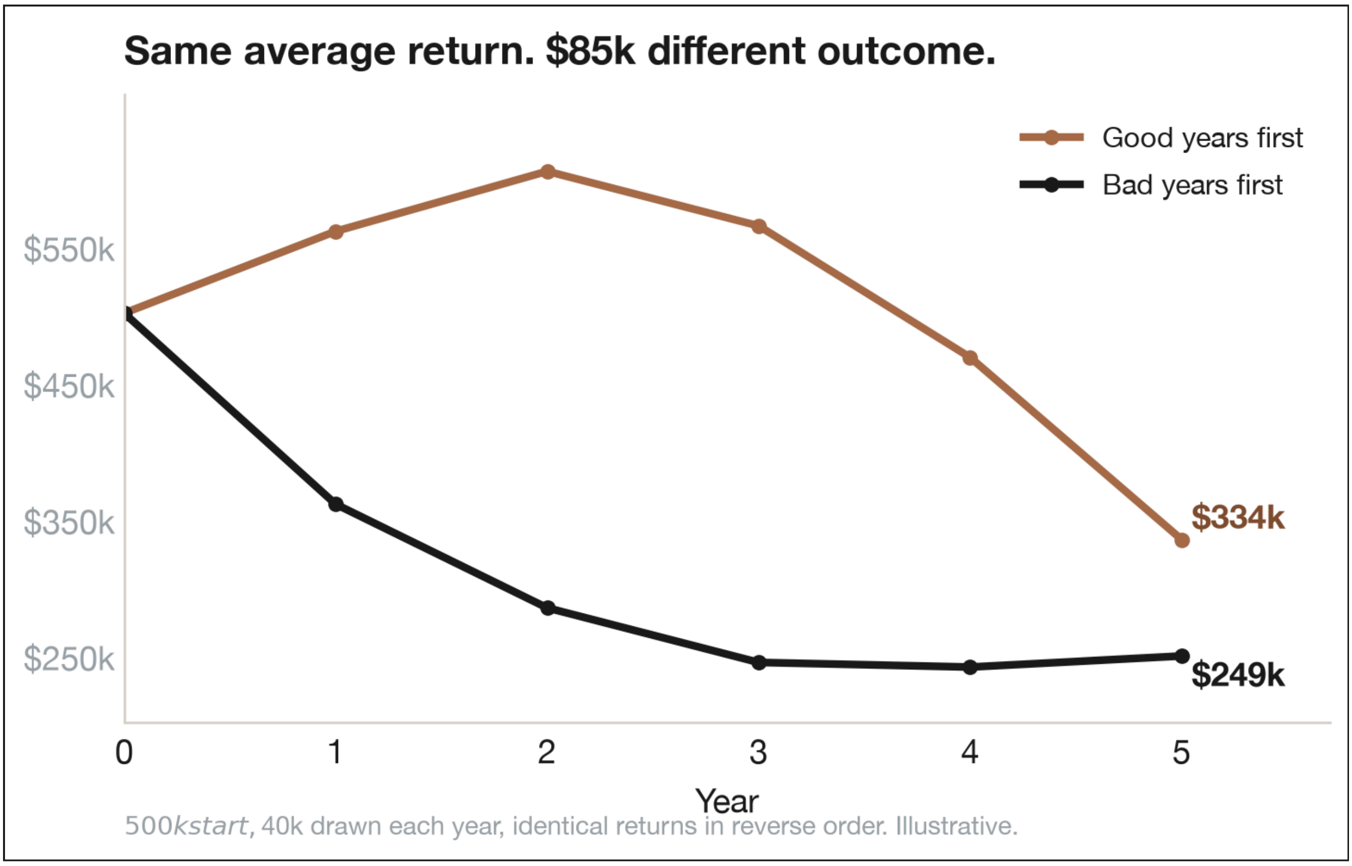
That's not a reason to put *everything* in a geared fund, since gearing magnifies bad years and you still need safe buckets. It's a reason to give your **long-term** money a genuine growth engine, with the leverage risk fully disclosed.

Sources: Booster KiwiSaver Geared Growth Fund Information & Performance (as at 31 May 2026), ~11.6% p.a. 10-yr before tax, risk 6/7, gearing ~35%; Morningstar (10 yrs to Jun 2025) for the 4.7% Conservative. Growth-of-$100k uses planning rates 4.0 / 6.0 / 9.0%, below historicals. Gearing amplifies losses as well as gains.

THE HIDDEN RISK

It's not the average that gets you. It's the timing.

When you're drawing an income from a lump sum, the *order* your returns arrive in matters enormously. A bad run early, while you're also withdrawing, can permanently shrink your savings. This is **sequence-of-returns risk**.



Two retirees. Same $500k start, same $40k yearly withdrawals, the exact same returns, just in opposite order. The result differs by ~$85,000 in only five years. Illustrative.

Why it happens

The retiree who hits a downturn first has to sell more units cheaply to fund spending, so there are fewer units left to ride the recovery. Same average return, very different outcome.

How the cash bucket fixes it

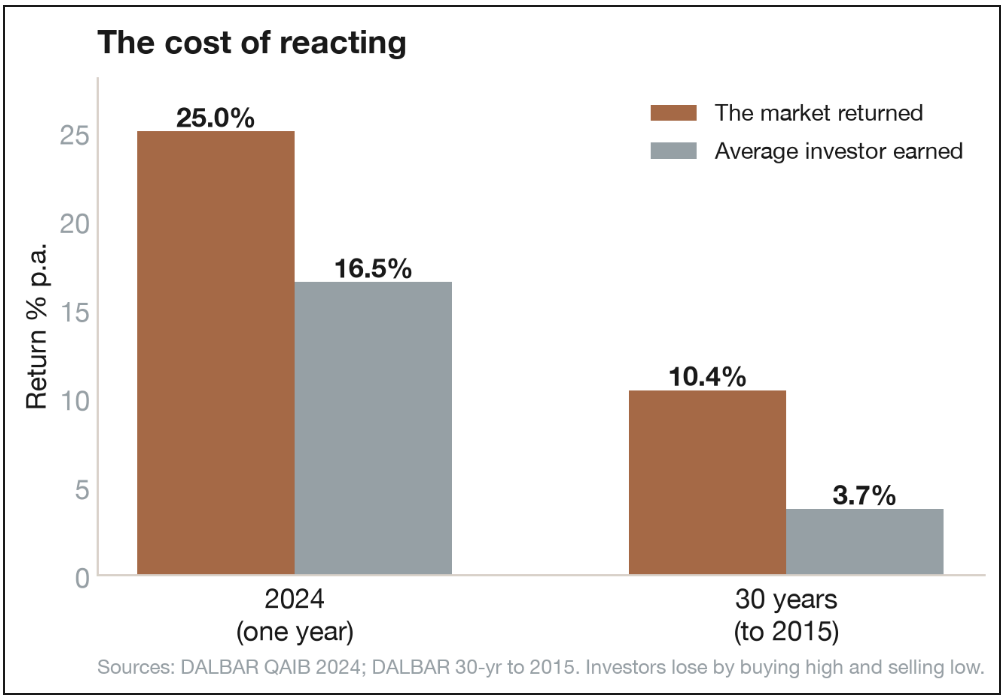
If your next 2–3 years of spending sit safely in cash, a market fall means you simply **don't sell** growth assets while they're down. You spend the cash and give the growth bucket time to recover, turning a forced loss into a non-event.

> **"The cash bucket is self-insurance against bad timing. Like income protection covers a gap in your pay, it covers a gap in the market, so you never have to crystallise a loss just to eat."**

Mechanism per retirement-income research (Kitces; Evensky). Specific figures illustrative.

The biggest risk to your money is reacting to the news

Markets reward patience and punish panic. The gap between what funds return and what investors actually earn comes almost entirely from buying high and selling low.



Investors consistently earn less than the funds they own, because they react. Source: DALBAR QAIB.

In the 2020 COVID crash, thousands of New Zealanders switched their KiwiSaver to conservative funds at the bottom. Westpac alone processed over **18,000 switches**, and **27% never switched back**, locking in losses and missing a recovery that took just **five months**.

How a Kiwi can think about it

- **The rainwater tank.** In a storm you drink from the tank that filled in good weather, not straight from the sky. The cash bucket is your full tank.
- **Don't sell the house in a cyclone.** Nobody sells their home over a month of storm damage. Don't sell growth assets in a market storm either.
- **Watch the trolley, not the ticker.** What matters isn't the daily balance, it's whether your money keeps filling the supermarket trolley.

> **"The cash bucket buys something more valuable than returns: the ability to do nothing. And doing nothing in a downturn is what separates the average investor from the market."**

Sources: DALBAR QAIB 2024 & 30-yr; FMA / Westpac KiwiSaver switching data 2020. Illustrative of behaviour.

IN PRACTICE

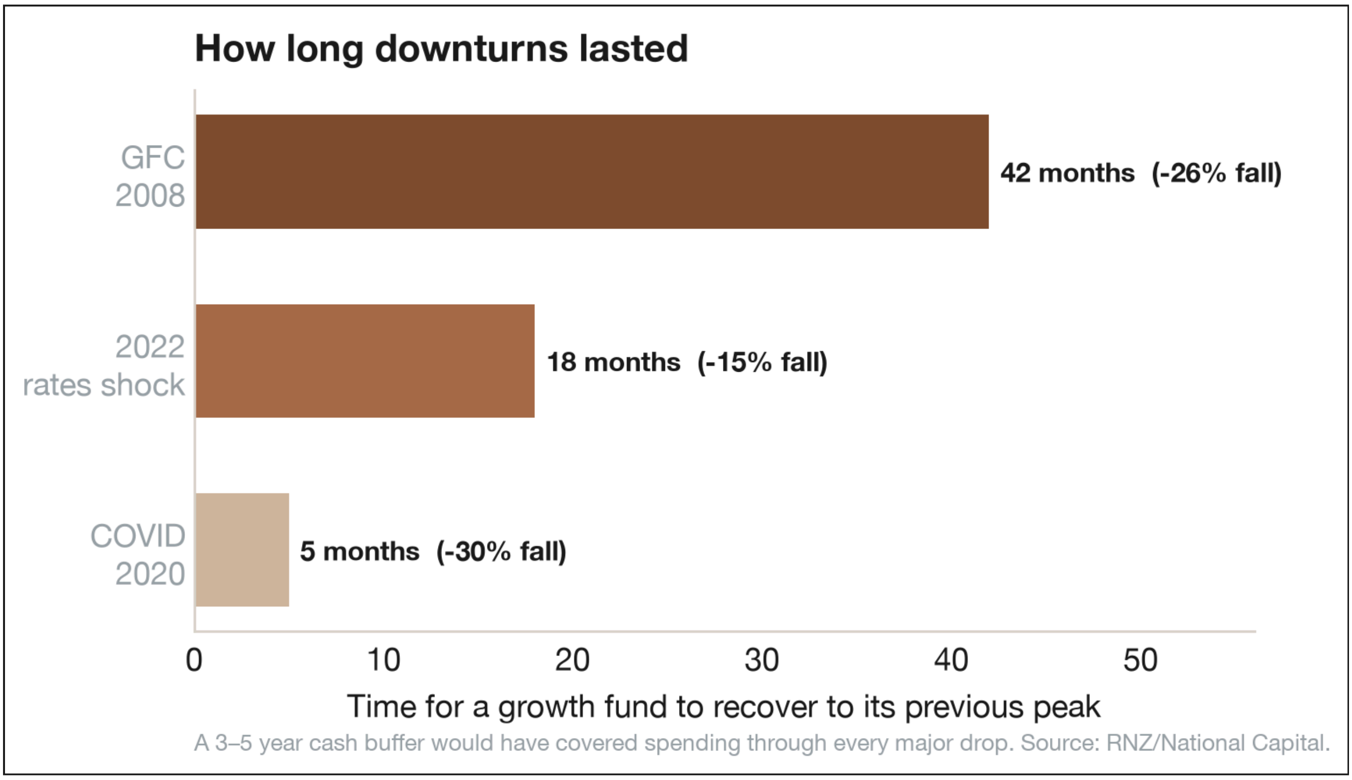
Spend from cash. Refill in good years. Leave growth alone.

A good market year

- Live off Bucket 1 (cash) as normal.
- Harvest some gains from Bucket 3 (growth), selling high.
- Use them to top Buckets 1 & 2 back up, ready for the next downturn.

A bad market year

- Still live off Bucket 1 (cash), untouched by the market.
- **Do not** sell from Bucket 3. Let it recover.
- Draw on Bucket 2 / income if the cash needs a top-up.



Every major downturn since 2008 recovered within a few years. A 3–5 year cash buffer covers the wait. Source: RNZ / National Capital.

DOWNTURN	GROWTH FUND FALL	TIME TO RECOVER	WHAT THE BUCKET INVESTOR DID
GFC 2008	−26%	~3–4 years	Spent from cash; sold nothing; recovered fully.
COVID 2020	−30% (intra-year)	~5 months	Ignored it; ended the year positive.
2022 rates shock	−15%	~1–2 years	Drew on cash; left growth to rebound.

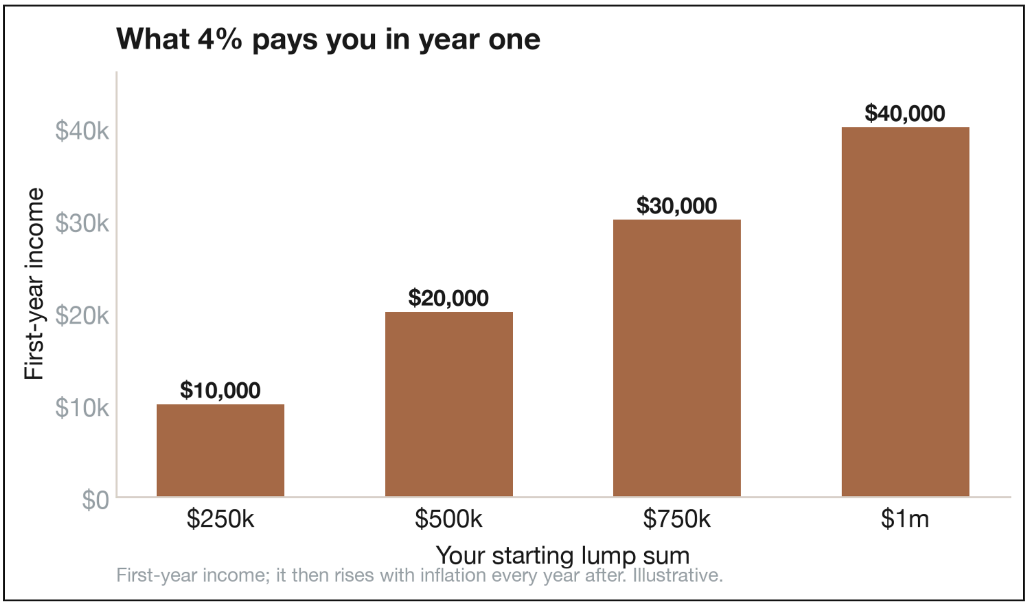
Review your buckets annually. In a prolonged downturn, trimming withdrawals protects the cash buffer. Illustrative.

The 4% rule: your savings, turned into a paycheck

The buckets tell you *where* to draw your income from. The next question is *how much*. The simplest, most-tested answer is the **4% rule**.

> **Safe Withdrawal Rate (SWR):** a *rule of thumb* for how much income you might draw from a lump sum in year one, then lift by inflation each year. It is a starting point for discussion, not a personalised answer.

You draw **4% of your starting lump sum** in year one, then forget the percentage and simply **raise that dollar amount by inflation** each year, so your income keeps pace with the cost of living. Tested on a century of market history (Bengen, 1994; the Trinity Study, 1998), a 4% start lasted at least 30 years in almost every period on record, though future returns may be lower.



Your first-year income from the 4% rule. Illustrative.

Simple to picture

- **$500,000** gives **$20,000** in year one.
- **$1,000,000** gives **$40,000** in year one.

And it rises every year

At 3% inflation, that first $20,000 grows to about **$27,000** after 10 years and **$36,000** after 20, so your income keeps pace with the cost of living automatically.

The 4% rule is a rule of thumb, and Sorted lists it as just one of several drawdown approaches. Your right rate depends on your age, NZ Super, other assets, health and life expectancy, tax, fees, risk tolerance and whether you want to leave money behind. Sources: Bengen (1994); the Trinity Study (1998). Illustrative, not a guarantee.

THE HONEST MATHS

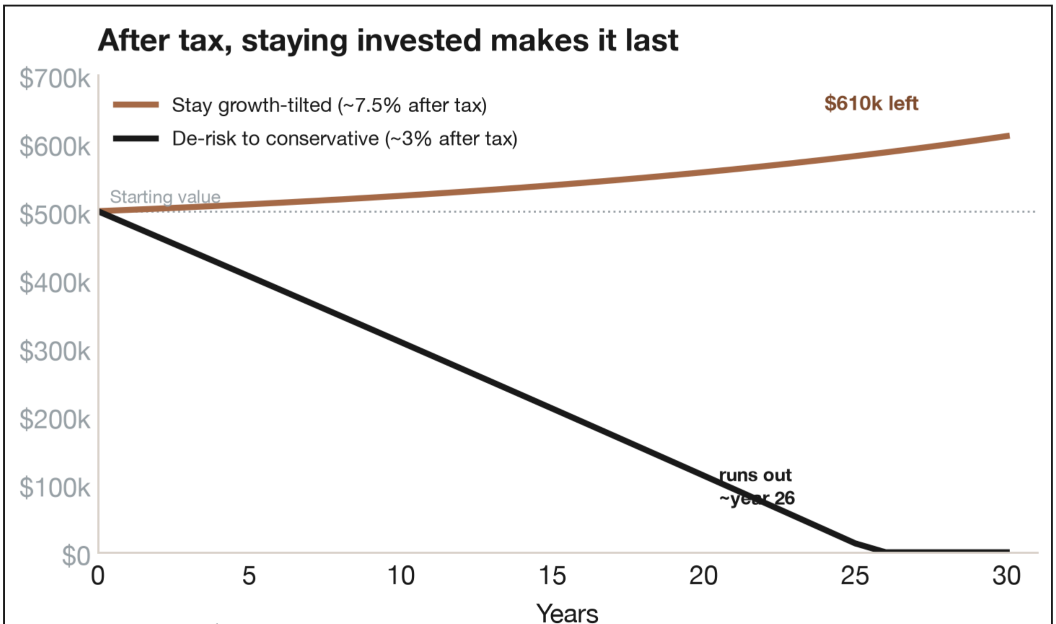
A higher-growth engine, with the risk disclosed

Here is the part most reports leave in the fine print. The blended portfolio is planned at around **9.0% a year before tax**, but you only spend **4%**. The number that actually matters is the one *after* PIE tax.

~7.5%	–	3.0%	–	4.0%	=	~+0.5%
AFTER-TAX RETURN		INFLATION		INCOME YOU DRAW		REAL CHANGE A YEAR

Before tax this looks higher; PIE tax (up to 28% PIR) is the difference, which is why we put the after-tax figure in the headline. This is an arithmetic teaching device, real returns arrive unevenly and volatility, magnified by gearing, lowers the realised outcome.

Read honestly, drawing a full 4% income means your capital **broadly holds its real value** after tax, with a small surplus in a typical year. The trade-off is real: the growth slice is a **geared (leveraged) fund**, so a bad year hits about 1.35 times as hard as the market. That is why the holding pen and guardrails matter, they are what let a higher-growth engine sit inside a plan designed to **pay you an income for decades**.



Real value of $500k, drawing 4% rising with inflation, after PIE tax and fees. Illustrative, not a forecast.

After tax, staying invested makes the money last; de-risking everything runs it dry sooner. Illustrative.

Stay growth-tilted

At ~7.5% after tax, $500,000 drawing a 4% income lasts the full retirement and still has roughly **$610,000** left in today's dollars after 30 years.

De-risk everything

At ~3% after tax, the same $500,000 drawing the same income **runs out around year 26**. Playing it too safe is what actually empties the account.

Illustrative, after PIE tax and fees: growth-tilted ~7.5% p.a., conservative ~3% p.a., inflation 3%, drawing 4% rising with inflation. The growth slice is geared, so returns are more volatile than this smooth line. Not a forecast; flexibility in poor years improves both.

The Smiths Bucket Strategy

We simplify the bucket idea into two clear parts: the **Holding Pen Asset** and the **Income Assets**. The holding pen provides confidence. The income assets do the heavy lifting.

THE BUFFER

Holding Pen Asset

Your near-term withdrawal buffer, held in a cash-enhanced or conservative fund. It sits just above a bank account for return, with low volatility. Its job is not growth, it is **liquidity, stability and confidence**.

THE ENGINE

Income Assets

Your return engine: a balanced fund and a premium **geared (leveraged)** growth fund together. They target a stronger long-term return than conservative assets could, in exchange for higher volatility. Because the growth fund is geared (~35%), it amplifies both gains and losses, a risk we disclose plainly and manage with the buffer and guardrails.

A typical starting mix

Leverage risk, stated plainly. The growth engine is a **geared (leveraged)** fund (risk indicator **6 of 7**, target gearing about **35%**). Gearing **amplifies gains and losses by roughly 1.35 times**: a 10% market fall is about a 13.5% fund fall. It does not guarantee higher returns, the fund returned about 8.7% p.a. over 5 years because gearing amplified the 2022 fall. With only a 10% holding pen (about **2.5 years** of income), a deep downturn could still force selling growth at a low. This mix only suits investors who can tolerate larger swings. Full disclosure follows on the funds page.

Each year the income assets are reviewed and rebalanced into a disciplined **waterfall**: growth feeds the balanced fund, the balanced fund tops up the holding pen, and the holding pen funds your income. As you age, the mix glides gently more conservative, without abandoning growth.

The waterfall in one picture: growth feeds balanced, balanced feeds the holding pen, the holding pen feeds you.

Allocations and fund types are illustrative examples only, not a recommendation. Your mix depends on your goals, age and risk tolerance.

IS IT RIGHT FOR YOU?

Who this suits, and who it does not

No single strategy fits everyone. This one is built for a particular situation. Here is how to tell whether it is yours.

This may suit you if you

- Have a lump sum that needs to last 20 to 30 years.
- Want a regular income but do not need all your capital soon.
- Can tolerate seeing part of your portfolio fall in bad years.
- Want a structure that reduces the urge to switch funds emotionally.
- Receive NZ Super or other income alongside the portfolio.

This may not suit you if you

- Will need most of the money within 1 to 3 years.
- Cannot tolerate any fall in capital value.
- Need a high withdrawal rate, for example 6 to 8% a year.
- Want certainty of capital above long-term growth.
- Have debt, health, estate or aged-care needs that change the plan.

If you sit in the right-hand column, that is not a problem, it simply points to a different plan. Part of good advice is telling you honestly when a structure is *not* the right fit for your circumstances.

> **"The best strategy is not the one with the highest return on paper. It is the one you can actually live with through a full market cycle, in good years and bad."**

Suitability depends on your full circumstances and is confirmed through personalised advice, not this guide.

NOT ONE-SIZE-FITS-ALL

Three model mixes, not a single answer

The right mix depends on how much volatility you can live with and how much income you need. Smiths starts from one of three models and tailors from there.

MODEL	HOLDING PEN	BALANCED	GEARED GROWTH	BLENDED PLANNING RATE*	SUITS
Defensive	20%	50%	30%	~7.5% gross (~6.2% after tax)	Lower volatility; shorter horizon or a cautious investor.
Balanced Income	15%	45%	40%	~8.0% gross (~6.7% after tax)	A moderate income investor wanting steadier swings.
Growth Income	10%	30%	60%	~9.0% gross (~7.5% after tax)	A long horizon and a genuine tolerance for geared market movement.

The **10 / 30 / 60** mix used throughout this guide is the **Growth Income** example, *not* a default. Its growth slice is a geared (leveraged) fund, so it carries the most volatility of the three. A more cautious client would sit in Balanced Income or Defensive, accepting a lower expected return for a smoother ride and a larger cash buffer.

*Blended planning rate is set below the funds' blended 10-year history (Defensive ~8.3%, Balanced Income ~8.8%, Growth Income ~9.7%), after fees before tax; the after-tax figure is net of PIE tax up to 28%. Illustrative, not a forecast.

> **"The model is a starting point, not a prescription. Your actual mix is set only after a full risk profile and a capacity-for-loss check."**

Allocations are illustrative examples only, not recommendations. Your mix is confirmed through personalised advice.

BUILT FOR HIGHER GROWTH, RISK DISCLOSED

Institutional funds, a geared growth engine

We build the engine from premium institutional funds, including a **geared (leveraged)** growth fund, then plan on returns *below* their history. Leverage lifts expected returns and risk in equal measure, so we disclose it as prominently as the upside.

ROLE	FUND		STYLE	10-YR RETURN*
Holding Pen	MILFORD	Conservative	Cash-enhanced	~4.7% p.a.
Income	MILFORD	Balanced	Balanced	~7.7% p.a.
Income	booster	Geared Growth	Geared, ~35% gearing, risk 6/7	~11.6% p.a.

~9.7% BLENDED HISTORY → **~9.0%** GROSS PLANNING RATE → **~7.5%** AFTER PIE TAX

ILLUSTRATIVE · ~7.5% AFTER PIE TAX (UP TO 28% PIR) & FEES · GEARED FUND, RISK 6/7 · NOT GUARANTEED

Leverage (gearing) risk, disclosed up front. The growth slice is the **Booster KiwiSaver Geared Growth Fund**, geared (leveraged) with a risk indicator of **6 of 7** and target gearing of about **35%**. On Booster's own worked example, gearing magnifies returns about **1.35x** both ways: a 10% market fall is about a 13.5% fund fall. Leverage does *not* guarantee higher returns, over the 5 years to 31 May 2026 the fund returned about **8.7% p.a.**, because gearing amplified the 2022 drawdown. Whether it suits you is decided in personalised advice, against your capacity for loss and the fund's PDS.

Conflicts of interest, disclosed. The fund names and logos are shown to **illustrate how a strategy is built, not as a recommendation to buy any fund**. Smiths is a Financial Advice Provider and may receive commission or other remuneration from product providers; such conflicts are managed and disclosed in our disclosure statement, provided before advice. The geared fund is shown to illustrate a higher-growth engine; its gearing risk is disclosed here, and suitability is set only in personalised advice. Always read the PDS. Past performance is not indicative of future returns.

Using a geared growth fund lifts the long-term return story, but it does not remove risk, it concentrates it in the years that matter most. In a crash this fund falls about **1.35 times as hard** as global markets, which is exactly why it sits behind a cash holding pen and dynamic guardrails.

*Illustrative 10-year returns: Milford Asset Management (to 2025) and Booster KiwiSaver Geared Growth Fund Information & Performance (as at 31 May 2026), after fund fees but **before tax**. NZ PIE funds are taxed at your PIR (up to 28%), reducing returns by roughly 1.5 to 2.0% a year. Past performance is not a reliable indicator of future returns; 9.0% is a planning assumption, not a forecast.

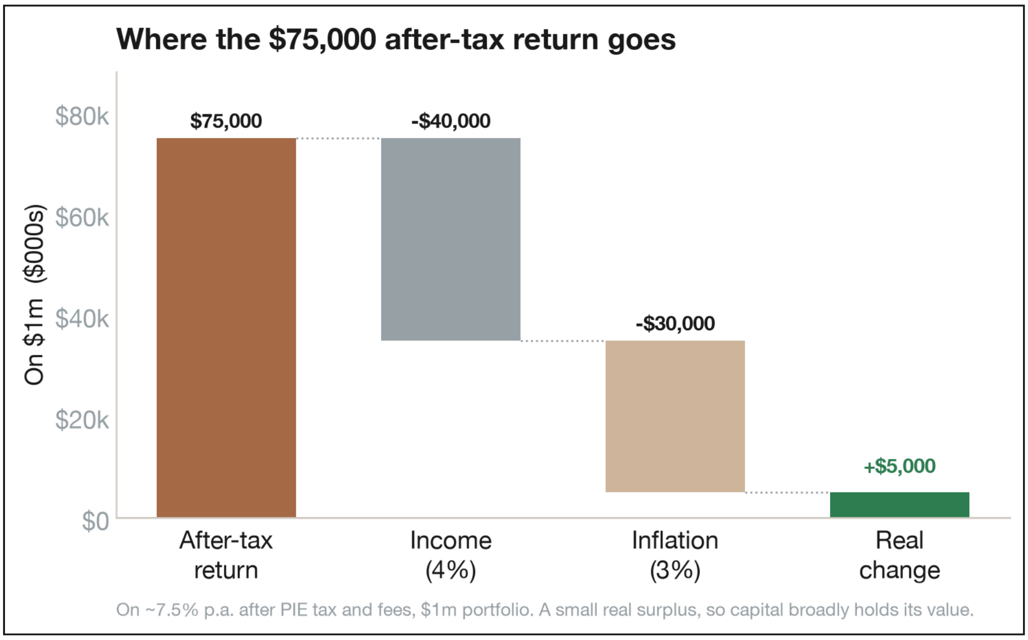
CASE STUDY

John & Mary, both 65, with $1,000,000

Recently retired, John and Mary have sold an investment property. On top of **NZ Super**, they want $40,000 a year from this portfolio, and their money may need to last **25 to 30 years**, so part stays invested for growth. NZ Super means the portfolio does not have to fund everything.

PART	FUND		ALLOCATION	AMOUNT	BUFFER
Holding Pen	MILFORD	Conservative	10%	$100,000	2.5 yrs of income
Income 1	MILFORD	Balanced	30%	$300,000	
Income 2	booster	Geared Growth	60%	$600,000	
Total			**100%**	**$1,000,000**	

After PIE tax and fees, the portfolio earns roughly **$75,000** in a typical year, on the ~7.5% after-tax planning rate. Here is where it goes.



Calculated on about 7.5% p.a. after PIE tax and fees. Illustrative, not guaranteed.

The aim is to fund income **primarily from long-term returns**, while using the holding pen to avoid forced selling in bad years. After tax, the $40,000 income and the full $30,000 inflation allowance are covered, leaving a small real **surplus** of about **$5,000** in a typical year. The trade-off is honest: the 60% growth slice is geared, so in a bad year it falls about 1.35x as hard, and the 10% holding pen is only **2.5 years** of income, a thinner buffer than a more cautious mix.

Illustrative only: about 7.5% p.a. after PIE tax and fees (a ~9.0% gross rate less ~1.5% PIE tax), which real markets will not deliver smoothly, especially with a geared growth slice; 3% inflation allowance. Not a forecast. See "What could go wrong" for stress tests.

BUILT TO SURVIVE

The buffer, and the guardrails behind it

The holding pen is sized to outlast history's worst downturns. If one ever runs longer, a single simple rule protects the capital automatically.

$100k	**2.5 yrs**	**42 mo.**
10% holding pen on a $1m portfolio	of pure cash income, before drawing on the balanced fund	longest recovery on record (the 2008 GFC)

At $40,000 of income, a 10% holding pen holds **2.5 years** of pure cash runway, and the balanced fund extends it further. That is a thinner buffer than a more cautious mix, a deliberate trade for the higher-growth geared engine, so the guardrails below matter more. Together the cash and balanced funds would have carried John and Mary through most downturns since 2008; a prolonged event like the **42-month GFC recovery** would lean on the guardrails and the balanced fund, the point being to avoid selling the geared growth fund at its lowest.

Dynamic Guardrails: if a downturn ever outlasts the buffer and the holding pen falls below **one year of income**, we temporarily trim spending by about **10%** (for John and Mary, $40,000 down to $36,000) until markets recover and the buffer refills.

This is the difference between a static plan and a living one. The guardrail means the portfolio **adjusts before it is ever in danger**, so even a long bear market becomes a temporary, manageable trim rather than a crisis. Spending steps back to normal once the holding pen is refilled. In a rare, prolonged downturn the buffer can still be fully drawn down; the cuts then deepen and, if needed, income is drawn from the balanced fund rather than selling growth at its lowest.

> **"A small, planned trim in a bad year is a rounding error. Being forced to sell growth assets at the bottom is the mistake that does lasting damage. The guardrail exists to make sure you never have to."**

Guardrail thresholds are illustrative and agreed with each client. Modest, temporary spending adjustments in poor years materially improve how long a portfolio lasts.

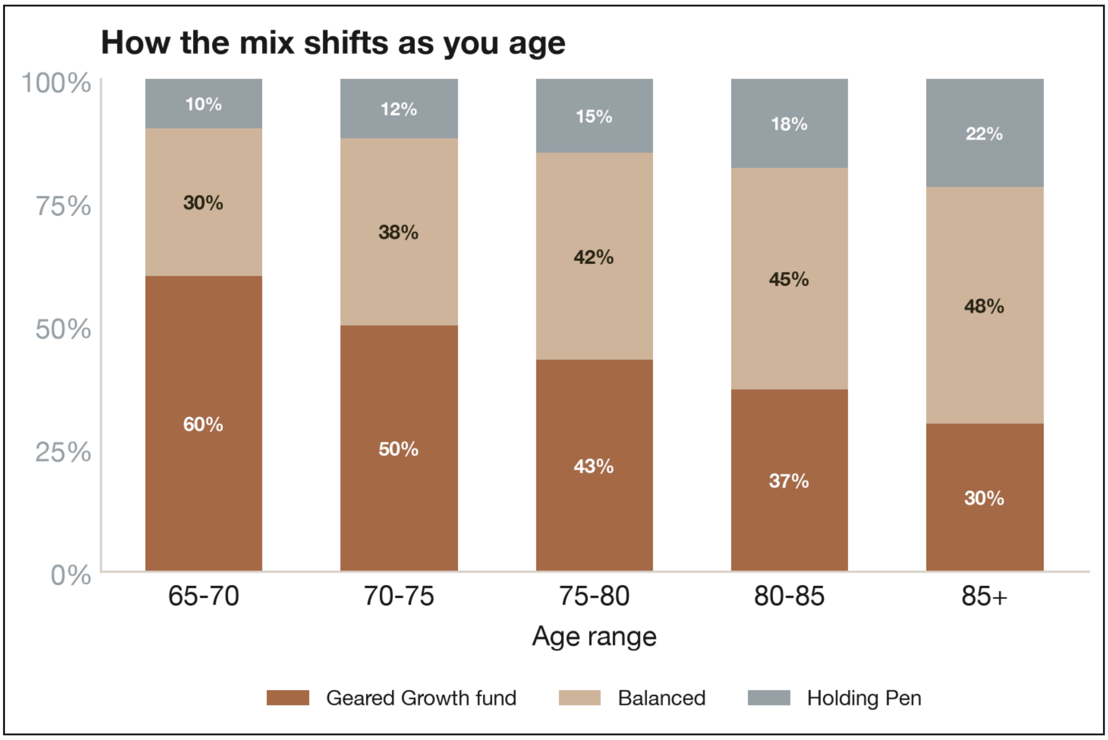
Rebalancing keeps it disciplined

Each year, Smiths resets the portfolio to target. After a strong year the growth fund drifts above target; the gain is trimmed and the holding pen is topped up. Process replaces emotion.

YEAR ONE	DETAIL
Start	$1,000,000 across 10% / 30% / 60%.
Return	About $75,000 a year, after PIE tax and fees (a typical year, not a smooth one).
Income drawn	John & Mary take $40,000.
End of year	**About $1,035,000, then reset to 10 / 30 / 60.**

They received **$40,000 of income**, and in a typical year the portfolio **grew from $1,000,000 to about $1,035,000** in nominal terms (after 3% inflation, its real value is about level). A geared growth slice means real years vary far more than this: some will fall sharply, which is what the holding pen and guardrails are for. Income today, longevity over time, discipline instead of guesswork.

The mix glides with age



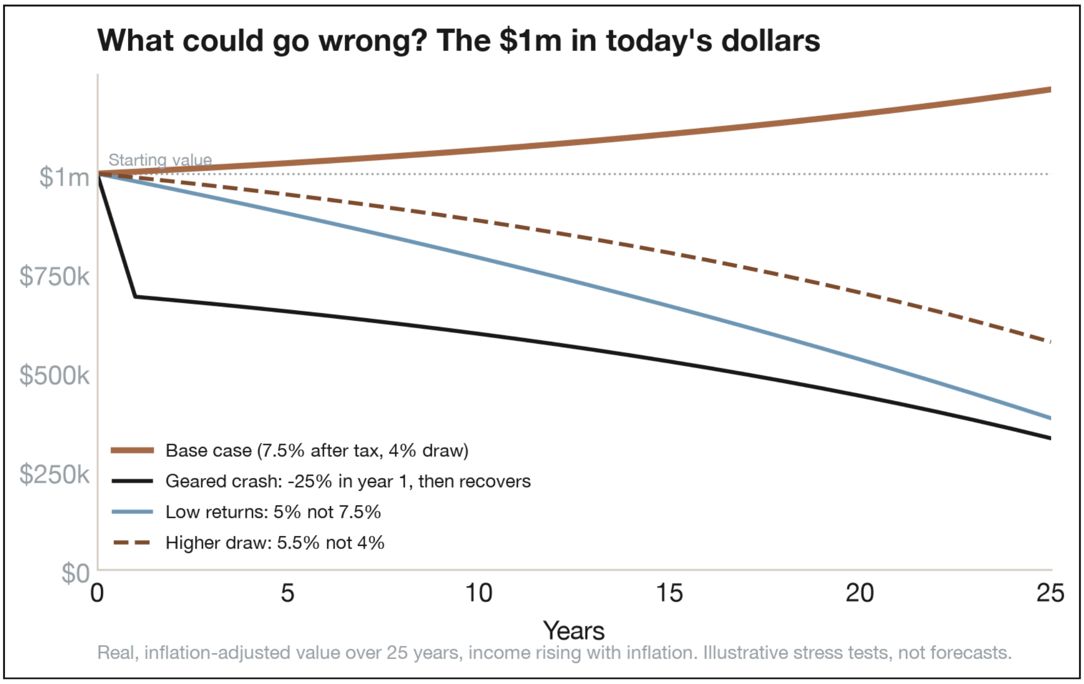
Growth is reduced gradually, never abandoned, and the holding pen grows as recovery time matters more. Illustrative.

This avoids the common mistake of moving everything to conservative funds at 65, when the money may still need to last 30 years. Illustrative allocations only.

STRESS TESTING

What could go wrong?

No plan is bulletproof, because markets are not. A good plan is one that *still holds up* when things go against you. Here is John and Mary's $1,000,000, in today's dollars, under three stresses.



Real, inflation-adjusted value over 25 years. Illustrative stress tests, not forecasts.

IF THIS HAPPENS	WHAT IT DOES	WHAT PROTECTS THE PLAN
Geared growth falls 25% in year one	The geared fund falls about 1.35x as hard as the market, so a sharp drop hits the portfolio harder while you keep needing income.	The holding pen funds income, so no growth assets are sold at the bottom. Markets historically recover, and the dip becomes a delay, not a disaster.
Returns average 5%, not 7.5% after tax	Income still flows, but the lump sum slowly loses real value.	Guardrails trim spending, NZ Super helps carry the load, and the drawdown rate is reviewed at each annual check.
Withdrawals rise to 5.5%	More income today, but capital erodes noticeably faster.	Sustainable only with a shorter horizon or other income; otherwise it is a conscious decision to spend down capital, made with eyes open.

Even the year-one crash **survives**: the buffer turns a 25% geared fall into a manageable setback. With a geared growth engine the swings are larger, which is exactly why we plan below the funds' history, hold a genuine cash buffer, and use guardrails. The real enemies remain persistently low returns and over-spending.

Illustrative stress tests on a $1m portfolio drawing $40,000 (or $55,000) rising with inflation. Not forecasts; real outcomes depend on the sequence of returns, fees and tax.

BEFORE YOU DECIDE

The key risks, in plain English

This strategy is built to *manage* risk, not remove it. Here is what can go against you, said plainly.

Gearing / leverage risk. The growth engine is a **geared (leveraged)** fund (risk indicator 6 of 7, target gearing ~35%). Gearing **amplifies losses as well as gains, by about 1.35 times**: a 10% market fall is about a 13.5% fund fall. It also sharpens **sequence risk**, a large geared loss early in retirement, while you are drawing income, does lasting damage; with only a 10% holding pen (about 2.5 years), a deep or prolonged downturn could force selling growth assets at a low. Leverage does not guarantee higher returns: over the 5 years to 31 May 2026 the fund returned about 8.7% p.a., because gearing amplified the 2022 fall.

- **Markets can fall, sometimes sharply.** Your geared growth assets fall harder than the market in a downturn, and the timing is never predictable.
- **Returns are not smooth.** A 9.0% gross average is made of good and bad years; with gearing, some years will be sharply negative.
- **Tax reduces returns.** NZ PIE funds are taxed at your PIR (up to 28%), so your after-tax return is lower than the headline figure.
- **Inflation can run higher than assumed.** If it does, your money buys less and the buffer is used up faster.
- **Your income may need to flex.** In poor years, withdrawals may have to be trimmed for a while.
- **Past performance is not a promise.** History informs the plan, but it does not guarantee future results.

> **"Naming a risk is not the same as fearing it. A plan that names its risks out loud, and is built to absorb them, is far stronger than one that pretends they are not there."**

A reminder: this document is **general information only**. It does not take into account your personal objectives, financial situation or needs, and it is not a recommendation to invest in any particular fund. Personalised advice considers your full circumstances before anything is recommended.

WHAT HAPPENS NEXT

How Smiths builds your plan

This guide explains the *strategy*. Your *plan* is built around you, through a clear and repeatable process.

STEP 1
Confirm your income need

STEP 2
Confirm how much must stay liquid

STEP 3
Confirm your time horizon

STEP 4
Risk profile and capacity-for-loss check

STEP 5
Select the fund mix

STEP 6
Set the withdrawal plan

STEP 7
Review annually

STEP 8
Adjust as life changes

Notice that selecting funds is **step five**, not step one. The mix only makes sense once we understand your income, your liquidity, your horizon and your tolerance for loss. That is the difference between advice and a product.

> **"A model portfolio is the easy part. The plan that sits around it, and the annual discipline that keeps it on track, is the value of advice."**

This describes the Smiths advice process in general terms. Your personalised advice and disclosure documents set out the full scope, fees and terms.

IN SUMMARY

Stay invested, on purpose, with a plan

- **Don't de-risk everything.** Be safe with near-term money, invested with long-term money.
- **Three buckets:** cash (0–3 yrs), balanced (3–7 yrs), growth (7+ yrs).
- **Spend from cash** so you rarely have to sell growth assets in a downturn.
- **Refill in good years**, leave growth to recover in bad ones.
- **The structure protects your behaviour**, which is worth more than any market call.

Let's build your bucket plan

How many buckets, how big, and which funds all depend on your goals, your timeframe and how much income you need. That's exactly the conversation Smiths is here for.

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Important information & disclosures

This document is produced by Smiths Insurance & KiwiSaver for general educational purposes only. It is **not personalised financial advice** and does not take account of your individual objectives, financial situation or needs. You should seek advice tailored to your circumstances before making any investment decision.

Naming specific funds and showing a model allocation is illustration, not a recommendation to buy them. Before any fund is recommended to you, personalised advice would set out the scope of advice, your goals and risk profile, the alternatives considered, the fees and tax assumptions, any conflicts of interest or commissions, links to each fund's Product Disclosure Statement, and why the selected funds are suitable for you. Smiths Insurance & KiwiSaver is a Financial Advice Provider under New Zealand law; regulated financial advice is given to you as a retail client only through that personalised process, not through this guide. **Conflicts of interest:** Smiths may have commercial relationships with, and may receive commission or other remuneration from, product providers named in this guide. Any such conflicts are managed and disclosed in our publicly available disclosure statement, provided before advice is given. See the conflicts disclosure beside the named funds earlier in this guide.

All return figures, dollar projections and examples are **illustrative** and are not a forecast or guarantee of future performance. Investment returns can be negative as well as positive, and you may get back less than you invested. **Past performance is not a reliable indicator of future results.** Category returns referenced are after fund fees and before tax (NZ PIE tax of up to 28% would reduce returns); compound-growth illustrations assume constant returns and no withdrawals, which will not occur in reality.

Sources include: Morningstar KiwiSaver Survey (10 years to 30 June 2025); Sorted / Te Ara Ahunga Ora Retirement Commission; FMA KiwiSaver data; Stats NZ period life tables 2022–24; RBNZ; DALBAR QAIB; Vanguard Advisor's Alpha. Academic research on bucket strategies (e.g. Estrada, 2018) notes their primary benefit is behavioural rather than mathematical out-performance. A copy of our disclosure statement is available on request and free of charge.