



# NEWSLETTER

March 2022



**Welcome to the March 2022 edition of the NZDF Savings Schemes Insights. We hope you have all managed to enjoy a good summer break and are now well on your way in making 2022 a successful year.**

This edition includes some recent changes to the NZDF Savings Schemes, key dates for 2022, investment returns for periods ended 28 February 2022, market and economic news, including an update on the crisis in Ukraine and implications, an outline of the top performing asset classes of 2021, a reminder on how to access your online account, and articles on setting financial goals and financial capability.

For any questions about your account in the NZDF Savings Schemes, please call the Helpline on 0800 333 787.

Regards,  
NZDF Savings Scheme's Team

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## Key dates for 2022



**March**

Newsletter +  
Investment  
insights video Q1



**August**

Annual Report  
+ Investment  
insights video Q3



**May**

Annual Statement  
+ Investment  
insights video Q2



**November**

Newsletter +  
Investment  
insights video Q4

## Fund changes

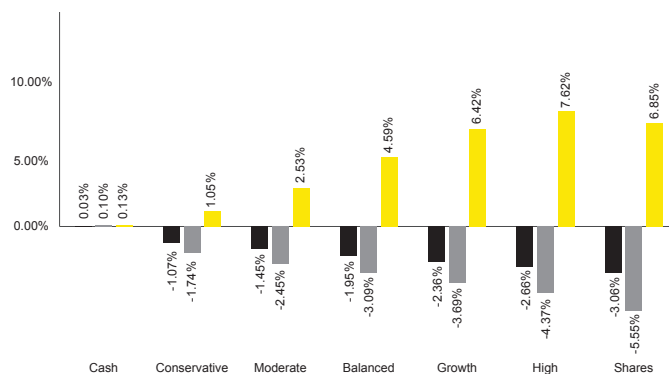
As part of ongoing work to ensure that members of the Schemes get the best value for their investment, we've made some changes to the asset allocation in the New Zealand Defence Force KiwiSaver Scheme and Defence Force Superannuation Scheme which will result in reduced fees for members. You can find more information on the funds and fees in the Product Disclosure Statement for the New Zealand Defence Force KiwiSaver Scheme and in upcoming Fund Updates for the Defence Force Superannuation Scheme.

# Investment option returns

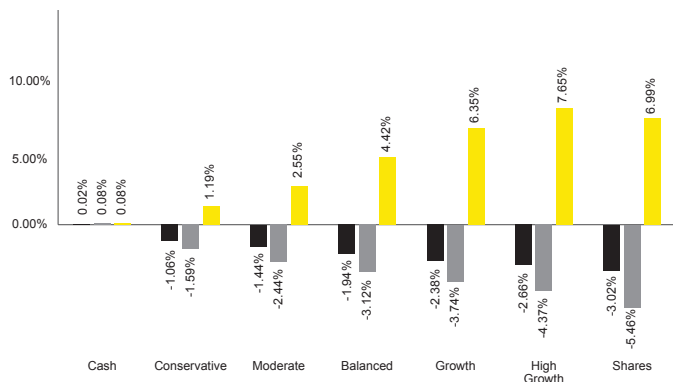
The following charts show the investment returns (after tax and investment management fees) for each of the investment options for the stated periods, each ended 28 February 2022:



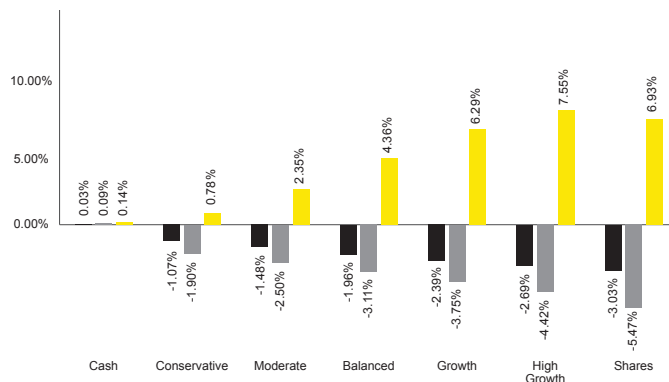
### Defence Force Superannuation Scheme (28% PIR)



### New Zealand Defence Force KiwiSaver Scheme (28% PIR)



### NZDF FlexiSaver Scheme (28% PIR)



# Market update - Turbulent start to 2022

For many of us, the year starts with the dreaded January blues – low energy after a period of festivities and joy. However, markets certainly did not exhibit low energy following the end of the year.

The volatility witnessed through January and February was driven by a confluence of factors which we outline below:



**Inflation:** Rising energy prices as well as ongoing wage pressures and some lingering base effects kept inflation well above central bank targets in January and February for most large developed and emerging market economies (with few exceptions).



**Monetary Policy:** With inflation remaining at multi-decade highs, central bankers became even more hawkish than the market had been pricing in towards the year-end.

The Federal Reserve accelerated its plans to tighten monetary policy in 2022. By the end of February, tapering of asset purchases was largely completed and markets had priced in up to five interest rate hikes in the US for the year, which was probably a key driver of much of the market volatility.

The Bank of England increased short dated rates in February for the second consecutive time, by 25 basis points to 0.5%.



**Geopolitics:** It is incredibly sad to witness the humanitarian disaster that's unfolding in Ukraine and other parts of Europe. Our thoughts are with all those people who are impacted and are suffering. The Russian/Ukraine conflict has also so far resulted in significant market volatility.



**COVID-19:** Whilst featuring prominently in the media, the economic and market impact of the Omicron variant has been more limited. Supply chains deteriorated at the margins and some services such as air travel were disrupted due to higher employee absenteeism, but with the exception of China and a handful of small European countries, no major economy brought back significant restrictions. Encouragingly, Omicron cases appear now to be near peaking and can be expected to drop significantly in the near term.

# New year, new Financial goals?

As we enter the New Year, setting financial goals can help us focus our lives and our money. Financial goals can be both short and long term, but the main aim is that our goals are achievable. Sorted.org.nz recently published an article titled "Setting financial goals – how to set money goals" which covers a few helpful points to assist with your financial goal setting.

Visit [sorted.org.nz](https://sorted.org.nz)



## Market outlook

The macroeconomic outlook for 2022 remains uncertain:

- The global economic recovery remains robust and is still in its mid-cycle phase. Unemployment has fallen to multi-decade lows across major developed regions and consumers remain in a strong financial position. This sets the scene for an ongoing strong consumption-driven recovery. This should have the knock-on effect of keeping business investment strong to meet surging demand. Interest rates are set to rise due to higher inflation, but this is unlikely to offset the aforementioned tailwinds.
- Inflation still remains elevated but is likely to peak in the coming months and then fall back towards – but remain above – central bank targets by the end of the year. The inflationary impulse from government spending should wane over the course of the year, and central banks are tightening policy. In addition, supply should gradually rise to meet demand, as the disruption in the supply chain subsides.

## Economic update

The latest fortnightly economic update from the Treasury gives us insights on the effects of the current crisis in Ukraine. The conflict is adding to uncertainty. For New Zealand, the direct economic impacts of the conflict appear moderate, but the indirect effects are potentially substantial as higher petrol prices add to inflation, slow household spending and worsen consumer sentiment. New Zealand has limited direct economic linkages to Russia and Ukraine, but the indirect effects through household spending, confidence, export demand and the New Zealand dollar may be significant.

Petrol prices are rising, adding to inflation and putting pressure on household budgets. Announcing its decisions to raise the Official Cash Rate (OCR), the Reserve Bank highlighted the risk of inflation expectations rising further and requiring a tighter policy stance to return inflation to target.

The high frequency spread of Omicron in New Zealand suggests that rising cases are influencing economic activity across New Zealand. The impacts of the Omicron outbreak will be felt mostly through reduced labour supply as cases and household contacts self-isolate.

Read more at [www.treasury.govt.nz/publications/weu/fortnightly-economic-update-4-march-2022](http://www.treasury.govt.nz/publications/weu/fortnightly-economic-update-4-march-2022)

## The Ukraine crises and its implications

The Russian/Ukraine conflict resulted in significant market volatility in late February and through into March. This was especially the case for Russian assets, which sold off sharply due to the imposition of a range of sanctions and the exclusion of major Russian banks from the SWIFT international payments platform. Global stock markets struck a “risk off” tone while traditional safe haven assets such as sovereign bonds saw yields retreating (prices rising).

Russia's role as a major energy provider, especially to Europe, has had a significant impact on energy markets. Oil prices rose materially with Brent Crude closing well above US\$100 per barrel (as at early March). Other commodities where both nations are significant producers (such as wheat and palladium) have also seen a sharp increase in prices, which added to global supply challenges.

We expect that the markets will remain volatile for a while, with the value of your investment rising and falling more quickly than usual. Importantly, NZDF Savings Scheme's multi-sector investment options were well-diversified coming into the conflict period. They are strategically positioned and, while affected by recent market weakness, should be in a good position to continue to deliver on objectives over time. While the NZDF Savings Schemes only had limited exposure to Russian companies, we intend to remove those investments from the schemes' investment portfolios.

It is important to remember that it is your ability to remain disciplined during times of uncertainty that will allow you to reach your long-term investment goals. We recommend that you contact the Milestone Direct team if you'd like to discuss any concerns about your investment.

Should you have questions, please contact the NZDF Savings Schemes Helpline on **0800 333 787** or by email on [nzdf@mercer.com](mailto:nzdf@mercer.com).



## Video market update



Mercer's Investment Consultant, John Hepburn shares insights from Mercer's global network of investment experts covering:

- A roundup of the local and global markets over the final quarter of 2021
- The impact of Omicron and other potential future strains on Kiwi investors
- The impact of rising interest rates and inflation
- Themes we are likely to see in 2022

Watch the video at [www.nzdfsavings.mil.nz/latest-news/videos](http://www.nzdfsavings.mil.nz/latest-news/videos)

# What were the top performing asset classes of 2021?

Witnessing the “red ink” generated by most asset classes in early 2022, it can be easy to forget how well investors have fared over longer periods.

Markets have certainly been challenged in recent years, most notably by the COVID-19 pandemic, but nonetheless have demonstrated considerable resilience, aided by government fiscal stimulus and solid profits from the world’s largest technology companies. Low interest rates also played their part, although we have seen this tailwind run out of puff, causing bond markets to deliver uncustomary weak returns in 2021.

The volatile nature of financial markets is highlighted by Mercer’s “Periodic Table” of investment returns. Produced annually, the Table colour-codes 16 major asset classes and ranks how each performed, on an annual basis, over the last 10 years. It covers a wide range of investment sectors and includes some to which the NZDF Savings Schemes don’t have exposure.

A glance at the Table, with its scattered palette, quickly highlights how problematic it is to unearth patterns; at least patterns that could be of use to us looking forward. Last year’s stars sometimes prove to be a winner again the next year, but at other times sink to occupy the lower ranks. If only investing were easy!

Mercer’s annual periodic table of investment returns is out now at [www.nzdfsavings.mil.nz](http://www.nzdfsavings.mil.nz)

Source: Mercer (N.Z.) Limited

## What is financial capability?

Financial capability means our ability to manage our finances to achieve our goals. It’s feeling confident to make wise judgements about how we use and manage our money in ways that will enable us to reach our goals, benefit us now and in the future and ultimately enter retirement in a comfortable financial situation. The Retirement Commission (Te Ara Ahunga Ora) has published an article which focuses on what influences our decisions and the importance of financial capability.

NZDF and the Retirement Commission are currently providing investment webinars, including some that are for women members of the Defence community. Registration details are available from the NZDF Benefits cell - [benefits@nzdf.mil.nz](mailto:benefits@nzdf.mil.nz).

Or view the recorded versions on the resources page of the Force Financial Hub.

Read the full article at [www.retirement.govt.nz/financial-capability/what-is-financial-capability](http://www.retirement.govt.nz/financial-capability/what-is-financial-capability)



## Access your online account

You can access your online account anywhere at any time by logging in with your email address and password. Create or reset your password online with your member number, a valid email address (which must be registered and match to the one in our system) and your date of birth. You can check and update your personal details and make changes to your investment options. If you have questions about the NZDF Savings Scheme’s account and your retirement savings, please login to your online account to view your account details or read the News section of the website.

Login to your account at [www.nzdfsavings.mil.nz](http://www.nzdfsavings.mil.nz)

## Get in touch



**Online**

Update your details, change your investment options and check your balance here at [www.nzdfsavings.mil.nz](http://www.nzdfsavings.mil.nz).



**Call**

**0800 333 787**  
(+61 3 8687 1871 if calling from overseas) from 9am - 7pm  
Monday – Friday.



**Advice**

**0508 645 378**  
Milestone Direct financial advice team is here to help with your financial decisions.

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