



TE OPE KĀTUA O AOTEAROA
DEFENCE FORCE

New Zealand Defence Force
Savings Schemes

Monthly report

For the period ended 31 December 2022

Market performance summary

– December in a snapshot

- 2022 was another year investors faced market volatility. December saw global share markets retract back from increases made in November.
- December delivered negative investment returns across all investment options, except for the Cash investment options, in the NZDF Savings Schemes.
- Whether you're saving for your first home, retirement or have another goal in mind, your savings goals will impact your investment timeframe. This is one of the important things to consider when choosing the right investment option for you. Mercer's Fund Selector can help you decide which option is best for your situation. To use the Fund Selector click [here](#) or access it at www.nzdfsavings.mil.nz.
- Importance of financial advice should not be underestimated. Before making any changes to your investment option(s) or making a decision to withdraw your money, you should discuss this with your financial adviser or an independently appointed Become Wealth (previously named Milestone Direct) team of advisers by calling **0508 BECOME (0508 232 663)** or emailing hello@become.nz.
- Watch out for information relating to NZDF's latest retirement preparedness campaign, to be launched in late January. Information to be placed on the ILP site and Force Financial Hub.



HEI MANA MŌ AOTEAROA
A FORCE FOR NEW ZEALAND

FOR MORE INFORMATION CALL **0800 333 787** OR VISIT WWW.NZDFSAVINGS.MIL.NZ

Monthly Commentary Ended 31 December 2022

December saw global share markets retreat from advances made in November, continuing their recent 'see-sawing' pattern. Fears of a recession and earnings risks remained. The US Federal Reserve (the 'Fed') stuck with its higher-for-longer interest rates policy and raised the US federal funds rate by 0.5% (50bps). This led to a higher terminal rate projection, and increased investors' fears of a potential monetary policy mistake. Other central banks followed suit, with the Bank of England and European Central Bank also increasing interest rates by 0.5%. On a positive note, December also saw the release of resilient US economic and consumer confidence data, softer US Consumer Price Index (CPI) figures, and easing supply chain dynamics as China moved away from its zero-Covid policy – all of which helped to soften the overarching negative economic sentiment.

In the rising interest rate environment, the New Zealand share market ended the month with a slight decline. The high dividend-paying nature of the market provided support, however, reducing demand in the agriculture sector impacted its performance. Australian share markets also suffered losses as commodity prices continued to ease towards the end of the year. The S&P/NZX50 (New Zealand Index) fell -0.6% with the S&P/ASX 200 (Australian Index) finishing down -3.2% (in local currency).

Rising interest rates also impacted the listed property sector, which also suffered during the month. The house price indices, which measure the price changes of residential housing as a percentage change from a specific start date, and unit sales data in the developed countries continued to decline in December. Listed infrastructure such as airports and transport facilities, outperformed listed property for example commercial real estate, as inflation remained a focus for market participants.

The New Zealand Dollar strengthened 1.8% against the USD in December. With the Reserve Bank of Australia projecting to end its rate hiking cycle earlier than other developed economies, the New Zealand Dollar gained 0.6% against the AUD over the month.



Monthly Commentary Ended 31 December 2022



United States

The Fed raised the federal funds rate for the seventh time in 2022, taking the targeted range to between 4.25% and 4.50%. Along with the increase came indications that officials expect to keep rates higher in 2023, with no reductions until 2024.

China

After three years of strict Covid restrictions, China finally opened its borders for both domestic and international travelers. Chinese Government officials have also signaled their intention to pursue proactive fiscal policies to support and bolster domestic economic activity over 2023.

New Zealand

New Zealand consumer and business confidence surveys conducted by ANZ fell to new lows in December, as the Reserve Bank of New Zealand's ('RBNZ') hawkish forecasts and rate hikes have taken their toll. Many of ANZ's confidence indicators are now around their 2008 GFC lows.

Become Wealth Monthly Commentary Ended 31 December 2022

Good Riddance

2022 was a year to forget for most investors.

When it came to investment assets, all manner of bad records were broken. A generic 60/40 portfolio¹ had its worst year since the great depression of nearly 100 years ago!

Before we look at what this means moving forwards, let's unpack what drove such poor investment outcomes.

The Background

This forgettable annual performance was rooted in the previous couple of years, when we had unprecedented worldwide money creation (mainly in the form of money-printing) in 2020 and 2021. At the time, most financial experts thought this was an appropriate response to stymie the impacts of economic damage caused by lockdowns intended to stop the spread of a virus. It was appropriate, until it wasn't.

Rather than be an antidote to economic pain, this response just made the inevitable pain even worse. Back in 2020 and 2021, we saw massive shifts in consumer behaviour in most western countries, including New Zealand. With much of the economy out of action, limited ways for people (consumers) to travel or spend, and plenty of handouts fleshing out household bank balances, spending on selected goods and services started to lift off. **A 'false economy' was created with so many employees being unproductive - i.e., they weren't adding any value to the real world - though were still being paid to sit at home.** Mania gripped some investments, and amateur money piled into meme stocks, cryptocurrencies, and [digital artwork](#).

Then, when New Zealand's inflation was already at 5.9 percent (the highest in 30 years) and trending up, a dictator started the largest conflict in Europe since World War Two, driving up the price of oil and gas.

A Disclosure Statement is available on request and free of charge

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These further costs were simply passed on to consumers with increased prices for petrol, flights, and a whole range of other things. This caused inflation figures to hit even higher levels.

To fight inflation, central banks the world over have been hiking interest rates, causing even more pain for consumers and for businesses.

Investment markets have paid close attention to all these developments, so plunging investment values across the last 12 months represent the constant repricing of investment assets to account for all the economic trouble.

Perhaps the surprising thing is that inflation and economic disruption in 2022 wasn't even worse, all-things considered!

What Next?

Losses are no fun, but lower valuations means higher income is usually paid by the investment asset as a percentage of its value (be it a house, bond, or share in a company). This can be great news for new investors.

We don't pretend to know what 2023 will bring, but every time we've ever had bad times in the past, they turned out to be wonderful opportunities for long-term investors. There are no guarantees, but things should be better for investors in the future if you have enough patience and perspective.

Or, in the words of famous boxing character Rocky Balboa: "... it ain't about how hard you hit. It's about how hard you can get hit and keep moving forward. How much you can take and keep moving forward."



If you would like to discuss anything above as it relates to you, including your investments into the NZDF Savings Schemes, it would be our pleasure to assist:

0508 BECOME (0508 232 663) hello@become.nz

Joseph Darby
Chief Executive
Become Wealth

¹ In a 60/40 portfolio, you invest 60% of your assets in equities (commonly called shares or stocks) and the other 40% in bonds. The purpose of the 60/40 split is to minimise risk while producing returns, even during periods of market volatility. This most closely resembles the Balanced Portfolio of the NZ Defence Force Schemes.

Investment Returns For Periods Ended 31 December 2022

New Zealand Defence Force FlexiSaver Scheme

PIR	Fund	1 Month %	3 Months %	FYTD* %	1 Year %	5 Years %
28% prescribed investor rate (PIR)	Cash	0.23	0.63	1.31	1.43	0.77
	Conservative	-0.76	1.14	-3.06	-5.80	1.26
	Moderate	-1.31	1.66	-4.02	-7.45	1.86
	Balanced	-1.94	2.19	-5.11	-9.38	2.72
	Growth	-2.57	2.62	-6.02	-10.99	3.47
	High Growth	-3.04	3.08	-6.63	-12.25	4.11
	Shares	-3.40	3.41	-6.97	-13.98	4.34
PIR	Fund	1 Month %	3 Months %	FYTD* %	1 Year %	5 Years %
17.5% prescribed investor rate (PIR)	Cash	0.27	0.73	1.51	1.65	0.88
	Conservative	-0.80	1.27	-3.42	-6.29	1.38
	Moderate	-1.32	1.91	-4.32	-7.82	2.02
	Balanced	-1.95	2.51	-5.42	-9.70	2.90
	Growth	-2.58	3.09	-6.10	-10.96	3.83
	High Growth	-2.99	3.64	-6.66	-12.19	4.49
	Shares	-3.30	3.88	-6.97	-13.79	4.71
PIR	Fund	1 Month %	3 Months %	FYTD* %	1 Year %	5 Years %
10.5% prescribed investor rate (PIR)	Cash	0.30	0.78	1.65	1.79	0.95
	Conservative	-0.80	1.34	-3.56	-6.60	1.44
	Moderate	-1.37	2.03	-4.49	-8.03	2.16
	Balanced	-1.92	2.81	-5.55	-9.88	3.06
	Growth	-2.58	3.44	-6.15	-10.99	3.94
	High Growth	-2.97	3.93	-6.76	-12.19	4.69
	Shares	-3.30	4.31	-7.23	-13.92	4.91

Notes

- The investment returns shown on this page are based on the unit price movements of each investment portfolio and are after tax at the rate indicated and after fund charges that are charged within the unit prices.
- Each investor's returns within an investment portfolio will depend on timing of contribution payments and actual fees charged allowing for any fee rebates. The after tax and fees returns shown are therefore indicative of investment results but June differ from the actual after fees and tax returns achieved by individual investors.

* FYTD means Financial Year to Date, which is from 1 April 2022

Investment Returns For Periods Ended 31 December 2022

New Zealand Defence Force KiwiSaver Scheme

PIR	Fund	1 Month %	3 Months %	FYTD* %	1 Year %	5 Years %
28% prescribed investor rate (PIR)	Cash	0.24	0.64	1.31	1.43	0.81
	Conservative	-0.81	1.21	-3.49	-6.15	1.34
	Moderate	-1.42	1.75	-4.93	-8.15	1.88
	Balanced	-2.10	2.35	-6.69	-10.69	2.46
	Growth	-2.77	2.95	-7.66	-12.34	3.14
	High Growth	-3.22	3.33	-8.21	-13.54	3.82
	Shares	-3.39	3.33	-6.87	-13.86	4.39
PIR	Fund	1 Month %	3 Months %	FYTD* %	1 Year %	5 Years %
17.5% prescribed investor rate (PIR)	Cash	0.27	0.73	1.52	1.64	0.92
	Conservative	-0.85	1.36	-3.84	-6.67	1.49
	Moderate	-1.45	2.06	-5.36	-8.69	1.89
	Balanced	-2.14	2.72	-7.10	-11.12	2.68
	Growth	-2.80	3.32	-8.23	-12.87	3.40
	High Growth	-3.13	3.91	-8.57	-13.77	4.14
	Shares	-3.34	3.85	-7.04	-13.88	4.72
PIR	Fund	1 Month %	3 Months %	FYTD* %	1 Year %	5 Years %
10.5% prescribed investor rate (PIR)	Cash	0.29	0.79	1.65	1.78	1.01
	Conservative	-0.89	1.49	-4.11	-6.98	1.82
	Moderate	-1.48	2.31	-5.53	-8.87	2.18
	Balanced	-2.14	2.92	-7.32	-11.32	2.73
	Growth	-2.77	3.67	-8.29	-12.85	3.62
	High Growth	-3.19	4.17	-8.57	-13.56	4.47
	Shares	-3.34	4.25	-7.22	-13.82	4.92

Notes

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Investment Returns For Periods Ended 31 December 2022

Defence Force Superannuation Scheme

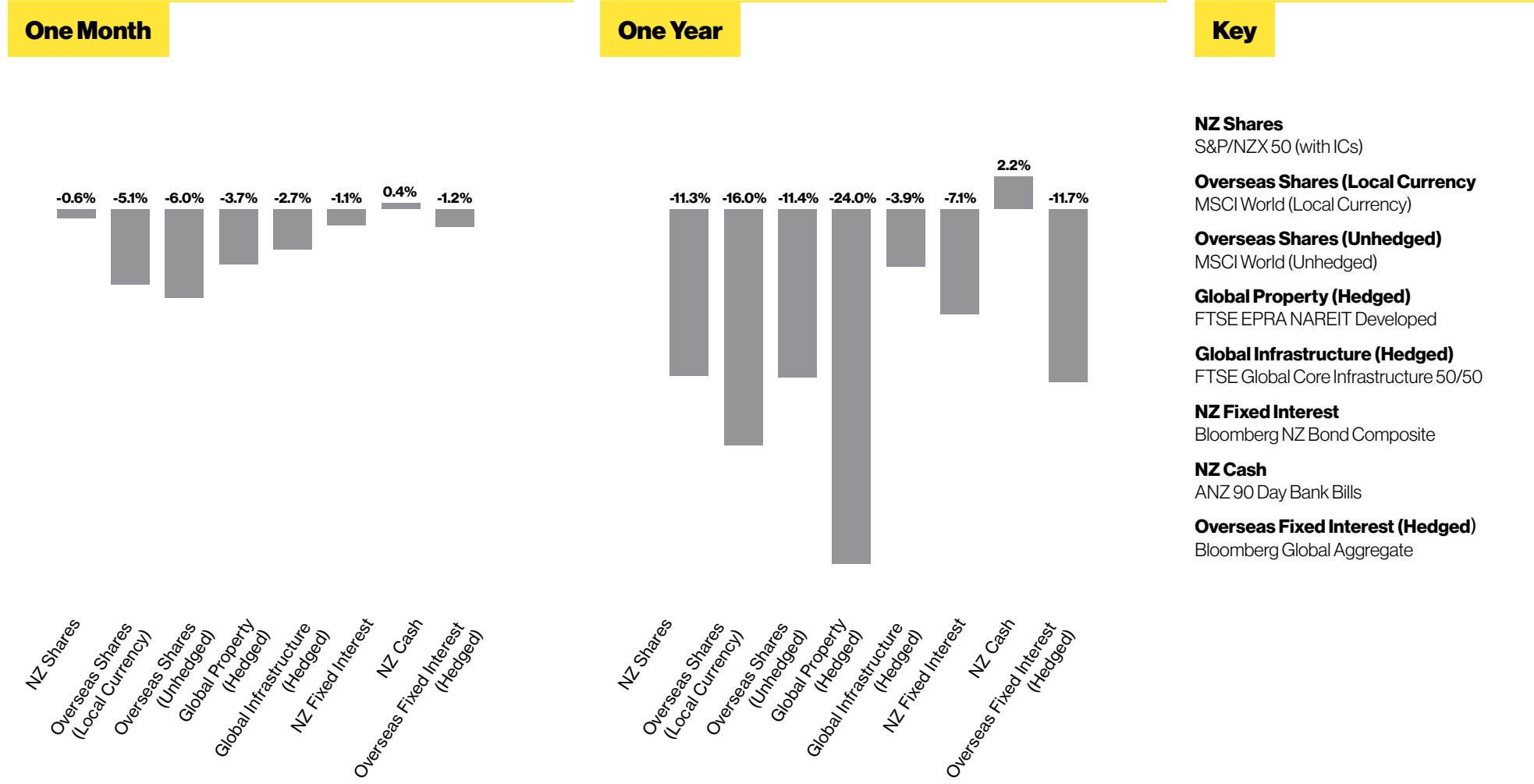
PIR	Fund	1 Month %	3 Months %	FYTD [*] %	1 Year %	5 Years %
28% prescribed investor rate (PIR)	Cash	0.25	0.66	1.39	1.54	0.84
	Conservative	-0.81	1.22	-3.40	-6.09	1.34
	Moderate	-1.41	1.88	-4.81	-8.05	1.86
	Balanced	-2.12	2.41	-6.68	-10.67	2.55
	Growth	-2.76	2.98	-7.54	-12.21	3.23
	High Growth	-3.19	3.41	-8.15	-13.57	3.83
	Shares	-3.37	3.42	-6.64	-13.76	4.39
PIR	Fund	1 Month %	3 Months %	FYTD [*] %	1 Year %	5 Years %
17.5% prescribed investor rate (PIR)	Cash	0.29	0.75	1.59	1.75	0.97
	Conservative	-0.85	1.40	-3.73	-6.50	1.47
	Moderate	-1.46	2.15	-5.25	-8.49	2.12
	Balanced	-2.13	2.74	-6.73	-10.71	2.86
	Growth	-2.77	3.54	-8.00	-12.51	3.56
	High Growth	-3.18	3.93	-8.35	-13.51	4.28
	Shares	-3.40	3.99	-6.96	-13.71	4.88
PIR	Fund	1 Month %	3 Months %	FYTD [*] %	1 Year %	5 Years %
10.5% prescribed investor rate (PIR)	Cash	0.31	0.82	1.72	1.89	-
	Conservative	-0.89	1.52	-3.94	-6.84	-
	Moderate	-1.48	2.32	-5.31	-8.66	-
	Balanced	-2.14	3.03	-7.34	-11.36	2.78
	Growth	-2.75	3.81	-8.07	-12.57	3.69
	High Growth	-3.13	4.35	-8.61	-13.51	4.46
	Shares	-3.31	4.32	-7.07	-13.84	5.01

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- '-' indicates that investment option was not operating for the full period or did not have funds invested for the full period.

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Investment Returns For Periods Ended 31 December 2022



- Key**
- NZ Shares**
S&P/NZX 50 (with ICs)
 - Overseas Shares (Local Currency)**
MSCI World (Local Currency)
 - Overseas Shares (Unhedged)**
MSCI World (Unhedged)
 - Global Property (Hedged)**
FTSE EPRA NAREIT Developed
 - Global Infrastructure (Hedged)**
FTSE Global Core Infrastructure 50/50
 - NZ Fixed Interest**
Bloomberg NZ Bond Composite
 - NZ Cash**
ANZ 90 Day Bank Bills
 - Overseas Fixed Interest (Hedged)**
Bloomberg Global Aggregate

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