MESSAGE FROM THE TRUSTEE

Welcome to the March 2022 edition of Insights.

We hope you have all managed to enjoy a good summer break at some point since our previous edition.

This edition of Insights includes some key coming dates for 2022, investment returns for periods ended 31 January 2022, market and economic news, information on the top 10 stocks held in the ANZ International Share Fund, 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 on this newsletter or the Fund, please call Helpline on **0508 266 787.**

Regards,
NZAS Retirement Fund Trustee Board

KEY 2022 DATES

- **March:** Newsletter; Investment insights video Q1
- **May:** Investment insights video Q2
- **June:** Trustee Director nominations open
- **July:** Newsletter
- **August:** Investment insights video Q3
- **September:** Annual report & member statements
- **November:** Newsletter; Investment insights video Q4; Trustee Director appointed

INVESTMENT OPTION RETURNS

The following table shows the investment returns (after tax and investment-related costs) for each of the Fund's four investment options for the stated periods, each ended 31 January 2022:

	Cash	Conservative	Balanced	Growth
Fund year to date (7 months)	0.1%	-2.2%	-3.7%	-5.5%
3 years (p.a.)	0.6%	4.5%	8.0%	11.6%
5 years (p.a.)	1.0%	4.6%	7.5%	10.6%
10 years (p.a.)	1.6%	5.4%	8.2%	11.1%

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. Equities tumbled and bond yields soared, as markets became increasingly aware of tighter monetary policy. Geopolitical tensions only added to the gloom. As a result, this January was the worst start to a year on record, with global developed equity markets falling nearly 9% from their early January peak to trough. Equity markets did bottom out towards the end of January though, making up some lost ground. Government bond yields in the meantime moved higher through January with the US 10-year yield increasing by around 43 basis points to 1.94% - a level not seen since late 2019. Financial markets were roiled in February, as Russia's invasion of Ukraine drove market volatility. The MSCI All Country World Index was down 2.6% in February, while the MSCI Europe Index was down 3.1% (both in local currency).

Volatility was exemplified in Russian assets, which sold off sharply due to the imposition of sanctions and restrictions on a limited number of Russian banks from the SWIFT international payments platform. Global stock markets struck a 'risk off' tone and traditional safe haven assets such as sovereign bonds saw yields move lower as prices rose.

Russia's role as a major energy provider, especially to Europe, resulted in significant impacts to energy markets. Oil prices rose materially with Brent Crude closing above US$100 per barrel on 28 February. Other commodities where both Russia and Ukraine are significant producers (including wheat and palladium) have also seen a sharp increase in prices, which is expected to continue to add pressure to global supply chains.

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 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:** Russia and NATO remained embroiled in a stand-off on the Ukrainian border (with Russia since advancing into Ukraine). The possibility of a war in Eastern Europe added to negative sentiment. Russia also flexed its muscles by helping put down demonstrations in Kazakhstan.

  It is incredibly sad to witness the humanitarian disaster that's unfolding in Ukraine. Our thoughts are with all those people who are impacted and are suffering.

  We have requested information from our underlying investment managers about our exposure to Russian stocks and we can confirm that our overall exposure is very small (less than 0.05% of total assets). Unfortunately it is almost impossible to trade out of these stocks at present but that is something we will continue monitoring. The Fund's underlying investment managers are responsible for assessing and managing Russian exposure, in line with any legal sanctions or requirements.
- **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.

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 – though 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 here >

TOP 10 STOCKS IN THE ANZ INTERNATIONAL SHARE FUND

Do you know what stocks your money is invested in? Back by popular demand, an article where we profile the top 10 stocks (by asset weighting) in a particular asset class. In this edition, we will be looking at International Equities, which are accessed through the ANZ International Share Fund. Members invested in the Conservative, Balanced and Growth options will have part of their balances invested in this underlying fund.

The top ten holdings in the ANZ International Share Fund as at 31 December 2021 (by asset weightings rounded to the nearest 0.1%) were Visa Inc., Nestlé S.A., Thermo Fisher Scientific Inc., Schneider Electric S.E., Accenture PLC, LVMH SE, Roche Holdings Ltd, Comcast, HDFC Bank Ltd and Heineken NV. With only one exception (HDFC Bank Ltd) all the stocks in the top 10 were multi-national corporations with global reach. Somewhat surprisingly, some of the biggest US tech stocks did not feature in the top 10. ANZ did hold an underweight position in Microsoft (outside the top 10), but did not hold any Apple stock for example. The fund also had a small exposure to Russian stocks, but all of those had been sold by the end of February. Please refer to the graph below that outlines the holdings percentage for each of those top ten companies in each of the three options as at 31 December 2021.

		Conservative	Balanced	Growth
ANZ Global Equities Allocation %		**17.3%**	**36.4%**	**55.3%**
Visa	2.4%	0.4%	0.9%	1.3%
Nestle	2.0%	0.3%	0.7%	1.1%
Thermo	1.6%	0.3%	0.6%	0.9%
Schneider	1.5%	0.3%	0.5%	0.8%
Accenture	1.4%	0.2%	0.5%	0.8%
LVMH	1.4%	0.2%	0.5%	0.8%
Roche	1.3%	0.2%	0.5%	0.7%
Comcast	1.3%	0.2%	0.5%	0.7%
HDFC	1.3%	0.2%	0.5%	0.7%
Heineken	1.2%	0.2%	0.4%	0.7%

Read more about each company here >

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 Fund does not 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 >

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.

Read more here >

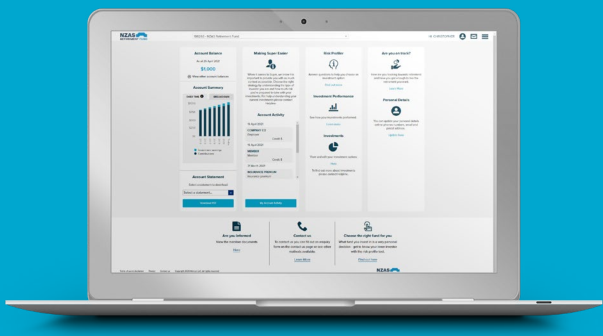
NEW YEAR, NEW FINANCIAL GOALS?

As we move further into another working 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.

Read more here >

ACCESSING YOUR ONLINE ACCOUNT

You can access your online account anywhere at any time by logging in with your PIN/password. Create or reset your PIN/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 NZAS Retirement Fund and your retirement savings, please login to your online account to view the latest member communications for the NZAS Retirement Fund.



YOUR TRUSTEE DIRECTORS

You're welcome to contact any of your Trustee Directors if you have any questions about the Fund. Their details are available on the Fund's website, or you can call them on their direct lines:

Site Based Trustee Directors

Paula 03 218 5571
Grant 03 218 5541
Allan 03 218 5811
Karen 03 218 5689
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Tim 027 453 5565
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Any questions about the Fund? You can contact the Helpline on **0508 266 787** (Australia 03 8687 1849, and international +61 3 8687 1849) between 9am and 7pm Monday to Friday, except for national public holidays.