



TE OPE KĀTUA O AOTEAROA
DEFENCE FORCE

New Zealand Defence Force
Savings Schemes

Monthly report

For the period ended 31 December 2021

Market performance summary

– December in a snapshot

- After a tumultuous 2021, it was pleasing to see the year end on a strong note with December delivering strong returns across a number of sectors. Despite global COVID-19 cases reaching new highs from the Omicron variant, financial markets remain optimistic that global growth will continue into 2022.
- It was a positive month for the investment funds in the New Zealand Defence Force 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. The risk quiz can help you decide which option is best for your situation. Take the quiz [here](#).
- If you are an NZDF member or a member of one of the NZDF Savings Schemes, you have access to financial advice through Milestone Direct (MDL). You can contact the team at Milestone Direct on **0508 MILESTONE (0508 645 378)**



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 2021

Financial markets finished the year and the month of December on a strong note despite being disrupted by COVID-19. With a slow start to the month due to a rapid rise in Omicron infections globally and an apparent shift by the US Federal Reserve ('Fed') to slow down the economy to guard against excessive inflation, global share markets recovered towards the end of December with the MSCI World Index returning 3.4%. Whilst early data has shown the Omicron variant to be more infectious than previous strains with increased evasiveness to existing vaccines, governments around the world have been hesitant to reintroduce hard restrictive measures to slow the spread. This has provided optimism to financial markets that global growth will continue into 2022, and not be burdened by severe restrictions driven by the new variant.

The Fed shook markets in December, stating they would cut back more quickly their substantial pandemic induced financial support, reducing monthly net asset purchases by \$20Bn for Treasury securities and \$10Bn for agency mortgage backed securities from December. The Fed commented that similar reductions will likely be appropriate each month. Projections are for three rate hikes from the Fed in 2022, likely starting in June.

The New Zealand share market had a difficult year in 2021, lagging its international counterparts for a considerable portion of the year. This was due to the Reserve Bank of New Zealand's doing more to guard the country from excessive inflation compared to the rest of the developed world, as well as company specific issues with some of the index's larger constituents.

The sharp increase in New Zealand interest rates caused the New Zealand Government and Corporate Bond Indices to struggle in 2021, ultimately weighing on the Bloomberg NZ Bond Composite, which dropped -5.7% over the year. Cash continued to provide mild returns, largely unaffected by the OCR changes.



Monthly Commentary Ended 31 December 2021



England

The Bank of England ('BoE') raised its main interest rate to 0.25% from 0.10% in December after surprising market participants in November when a widely expected rate increase never eventuated. This increase makes England the first big developed economy to increase their interest rate since the pandemic began.

New Zealand

The New Zealand economy contracted by 3.7% over the third quarter, driven by the lockdown over the period. However, this figure was less than the 7% contraction widely expected.

Global

Global COVID-19 cases sky rocketed in December to new record highs, exceeding levels seen during previous waves with the US and parts of Europe taking the brunt of the cases. The effectiveness of vaccines as well as the spread of Omicron, which is believed to be less harmful than previous strains, is reflected in the lower mortality rate compared to earlier waves.

Milestone Direct Monthly Commentary Ended 31 December 2021

Are you holding on in an unhealthy way?

Have you ever made yourself suffer through a bad movie because after paying for the ticket, you felt you had to get your money's worth? Some people treat investments the same way.

Behavioural economists have a name for this tendency of people and organisations to stick with a losing strategy purely on the basis that they have put so much time and money into it already. It's called the "sunk cost fallacy".

This can apply to areas as wide and varied as a career, a relationship, a hobby, sport, and so on. Sunk cost fallacy applies with investments and the share (stock) market too. People will often speculate on a stock based on something they read online, or something a friend told them. When those forecasts don't come to pass, they hold on to the investment regardless.

It might be a hot new technological stock that is hyped based on projections for future growth or a probable technological breakthrough. Later, when it becomes clear the technology isn't developing as expected or the growth doesn't materialise, some investors will still hold on, based on the erroneous view that they can make their money back.

The motivations behind the sunk cost fallacy are understandable. We want our investments to do well, and we don't want to believe our efforts have been in vain. But there are ways of dealing with this challenge. Here are seven simple rules:

- 1. Accept that not every investment will be a winner.**
- 2. While risk and return are related, not every risk is worth taking.** Taking big bets on individual stocks, cryptocurrencies, or industries leaves you open to any number of changing fortunes, including rapidly changing technology.

- 3. Diversification is a no-brainer.** Over time, we know that diversification is one of the most surefire ways to get ahead. So, spread your risk.
- 4. Understand how markets work.** If you hear on the news about the great prospects for a company or sector or the economy, the chances are the market already knows that and has priced the asset or company accordingly.
- 5. Look to the future, not to the past.** Investment is always about what happens next.
- 6. Don't fall in love with your investments.** It's easier to maintain discipline if you maintain a little emotional distance from your portfolio.
- 7. Rebalance regularly.** This is another way of staying disciplined. Rebalancing is the process of realigning the weightings of a portfolio of assets. Rebalancing involves periodically buying or selling assets in a portfolio to maintain an original or desired level of asset allocation or risk.

These are simple rules. But they are all practical ways of taking your ego out of the investment process and avoiding the sunk cost fallacy. Most of the list above occurs automatically within managed investments such as the NZDF Savings Schemes, though if you're self-managing any investments, including property, then the seven simple rules can help you avoid some unhealthy attachments.

If you would like to discuss how anything above might apply to you, perhaps including by wise investment into one or more of the NZDF Savings Schemes, then let us know:

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Milestone Direct

A Disclosure Statement is available on request and free of charge

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Investment Returns For Periods Ended 31 December 2021

New Zealand Defence Force FlexiSaver Scheme

PIR	Fund	1 Month %	3 Months %	FYTD* %	1 Year %	5 Years %
28% prescribed investor rate (PIR)	Cash	0.02	0.06	0.06	0.07	0.71
	Conservative	0.72	0.75	2.45	2.03	3.44
	Moderate	1.25	1.42	4.08	4.72	4.82
	Balanced	1.87	2.37	6.27	8.13	6.75
	Growth	2.44	3.31	8.19	11.54	8.59
	High Growth	2.84	3.89	9.63	13.98	10.05
	Shares	2.93	3.75	9.28	13.95	11.42
PIR	Fund	1 Month %	3 Months %	FYTD* %	1 Year %	5 Years %
17.5% prescribed investor rate (PIR)	Cash	0.03	0.07	0.06	0.09	0.85
	Conservative	0.74	0.78	2.58	2.01	3.78
	Moderate	1.29	1.38	4.25	4.73	5.14
	Balanced	1.89	2.37	6.43	8.23	7.11
	Growth	2.47	3.37	8.65	11.98	9.01
	High Growth	2.93	4.01	10.02	14.37	10.48
	Shares	2.93	3.76	9.44	14.18	11.83
PIR	Fund	1 Month %	3 Months %	FYTD* %	1 Year %	5 Years %
10.5% prescribed investor rate (PIR)	Cash	0.05	0.09	0.10	0.12	0.89
	Conservative	0.77	0.77	2.66	1.99	3.94
	Moderate	1.31	1.48	4.42	4.85	5.36
	Balanced	1.96	2.39	6.53	8.30	7.35
	Growth	2.52	3.30	8.48	11.76	9.19
	High Growth	2.93	3.98	10.14	14.56	10.77
	Shares	3.04	3.88	9.67	14.35	12.15

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 2021

Investment Returns For Periods Ended 31 December 2021

New Zealand Defence Force KiwiSaver Scheme

PIR	Fund	1 Month %	3 Months %	FYTD* %	1 Year %	5 Years %
28% prescribed investor rate (PIR)	Cash	0.02	0.04	0.01	0.01	0.79
	Conservative	1.02	1.08	2.86	2.46	3.66
	Moderate	1.27	1.47	4.28	4.99	5.00
	Balanced	1.86	2.39	6.35	8.26	6.85
	Growth	2.40	3.27	8.23	11.59	8.56
	High Growth	2.84	3.89	9.69	14.05	10.09
	Shares	2.93	3.75	9.28	14.03	11.45
PIR	Fund	1 Month %	3 Months %	FYTD* %	1 Year %	5 Years %
17.5% prescribed investor rate (PIR)	Cash	0.02	0.05	0.01	0.01	0.90
	Conservative	0.85	0.87	2.73	2.15	3.99
	Moderate	1.31	1.48	4.34	4.88	5.20
	Balanced	1.93	2.44	6.56	8.46	7.24
	Growth	2.53	3.45	8.68	12.06	9.03
	High Growth	2.90	3.99	10.05	14.44	10.54
	Shares	3.17	4.00	9.78	14.47	11.83
PIR	Fund	1 Month %	3 Months %	FYTD* %	1 Year %	5 Years %
10.5% prescribed investor rate (PIR)	Cash	0.03	0.06	0.02	0.02	0.99
	Conservative	2.33	2.36	4.22	3.59	4.45
	Moderate	1.91	2.07	4.98	5.42	5.59
	Balanced	1.95	2.44	6.63	8.45	7.35
	Growth	2.94	3.81	9.14	12.53	9.29
	High Growth	3.57	4.67	10.79	15.22	10.85
	Shares	3.51	4.34	10.22	15.00	12.12

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Investment Returns For Periods Ended 31 December 2021

Defence Force Superannuation Scheme

PIR	Fund	1 Month %	3 Months %	FYTD [*] %	1 Year %	5 Years %
28% prescribed investor rate (PIR)	Cash	0.03	0.08	0.06	0.06	0.80
	Conservative	0.90	0.98	2.76	2.38	3.65
	Moderate	1.27	1.51	4.35	4.98	4.99
	Balanced	1.89	2.45	6.49	8.44	6.94
	Growth	2.43	3.34	8.29	11.66	8.62
	High Growth	2.88	3.95	9.75	14.02	10.15
	Shares	2.88	3.74	9.28	13.90	11.47
PIR	Fund	1 Month %	3 Months %	FYTD [*] %	1 Year %	5 Years %
17.5% prescribed investor rate (PIR)	Cash	0.03	0.08	0.10	0.10	0.93
	Conservative	0.77	0.81	2.75	2.23	3.95
	Moderate	1.31	1.53	4.48	5.01	5.42
	Balanced	1.98	2.50	6.71	8.59	7.35
	Growth	2.53	3.39	8.58	11.98	9.11
	High Growth	2.92	3.97	9.99	14.46	10.68
	Shares	3.04	3.87	9.74	14.60	12.09
PIR	Fund	1 Month %	3 Months %	FYTD [*] %	1 Year %	5 Years %
10.5% prescribed investor rate (PIR)	Cash	0.04	-	-	-	-
	Conservative	0.78	0.83	2.58	1.94	-
	Moderate	1.34	1.49	4.50	4.98	-
	Balanced	2.00	2.53	6.81	8.61	7.43
	Growth	2.53	3.42	8.82	12.21	8.76
	High Growth	2.96	4.05	10.28	14.72	10.90
	Shares	3.05	3.89	9.76	14.57	12.27

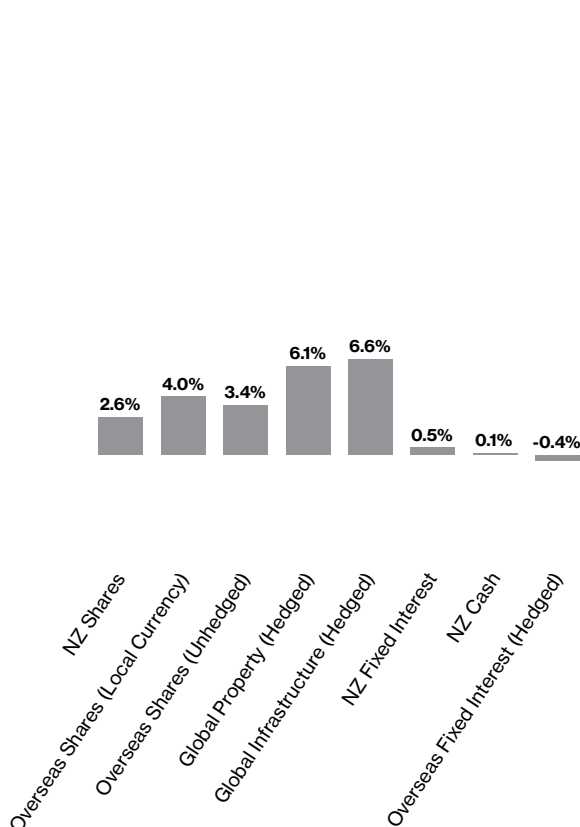
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- '-' indicates that investment option was not operating for the full period or did not have funds invested for the full period.

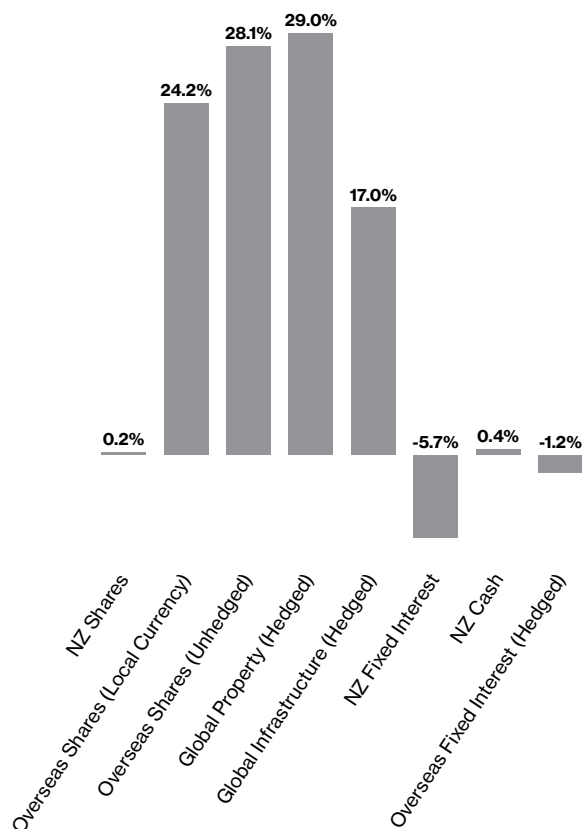
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Investment Returns For Periods Ended 31 December 2021

One Month



One Year



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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