

Lifestages KiwiSaver Scheme: Six-monthly Commentary
As at 31 March 2022

Funds Administration New Zealand Ltd (“FANZ”) is the Manager of the Lifestages range of funds.

It’s been natural to feel unease, discomfort, and upset as we’ve witnessed the war unfolding in Ukraine (and in real time). These events, combined with resurgent world-wide inflation, have negatively impacted on your KiwiSaver returns since the start of the year. Returns that were great for the 2021 calendar year have drifted back.

At this time we believe that it’s important to look through this volatility and stay focused on your long term goals and objectives. If you would like to talk to one of our advisers please email us on fanzadvice@sbsbank.co.nz.

Ukraine Conflict

Russia’s invasion of Ukraine caused us to review our holdings in Russian bonds and stocks within hours of the “Special Military Operation” starting in February this year. Our Russian holdings totalled less than 1% of both our bond and equity holdings prior to the start of the war in Ukraine. These were identified and a plan put in place to sell these assets. As the overall holdings were small, there was little impact on your investments in your KiwiSaver Fund as we exited these positions.

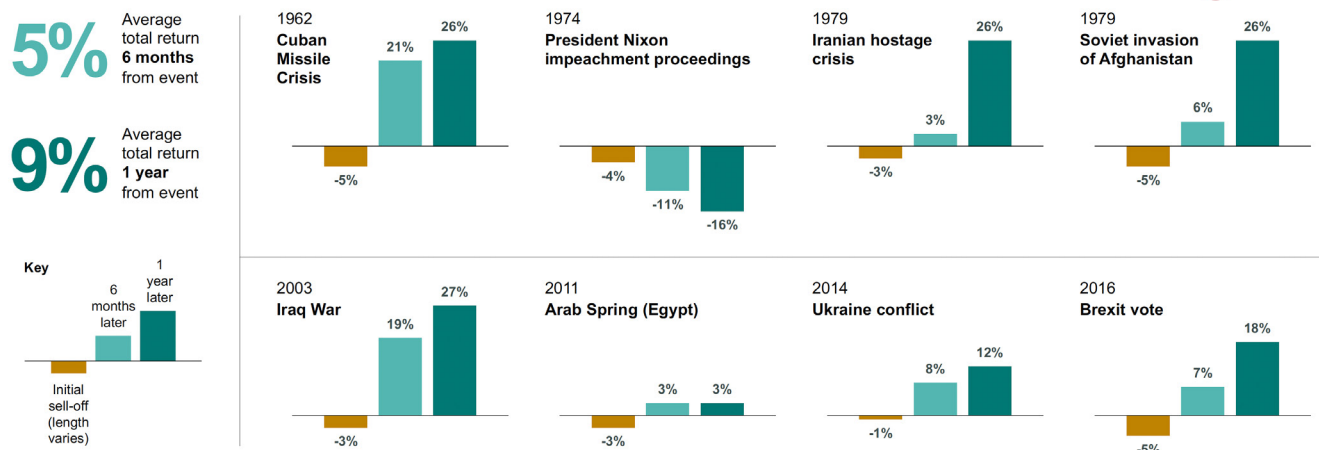
The terrible scenes that we have been confronted with, and often in real time due to the use of social media tools in the Ukraine war,

means that it is hard to “look through” the emotional events before us today. Geopolitical events provide markets with concerns about a range of worries or “unknown unknowns”. Because markets are forward looking, volatility increases during these uncertain times for investment markets. As these “unknowns” become known, or often do not eventuate, then concern and market volatility lessens. The outlook becomes clearer and markets recover their poise and focus on more positive events.

We can see these trends have been repeated generally over eight key political events since 1962 which showed how markets reacted in response to an event and then recovered in all cases except for one (when President Nixon resigned). In Nixon’s case it should be noted that Adlai Stevenson once said of Nixon that, “Nixon is the kind of politician who would cut down a redwood tree, then mount the stump for a speech on conservation”, so perhaps we should give markets a leave pass for this event! The OPEC Oil Price Shock at the time might have also had an impact!

As always the key issue is to look through these events, not look at the news too much (if you can), and make sure that your overall investment position is well positioned to ride out the current volatility and be positioned for the upturn, when that inevitably occurs.

Geopolitical sell-offs are typically short-lived



Vanguard

Notes: Returns are based on the Dow Jones Industrial Average through 1963 and the Standard & Poor’s 500 Index thereafter. All returns are price returns. Not shown in the above charts, but included in the averages, are returns after the following events: the Suez Crisis (1956), construction of the Berlin Wall (1961), assassination of President Kennedy (1963), authorization of military operations in Vietnam (1964), Israeli-Arab Six-Day War (1967), Israeli-Arab War/oil embargo (1973), Shah of Iran’s exile (1979), U.S. invasion of Grenada (1983), U.S. bombing of Libya (1986), First Gulf War (1991), President Clinton impeachment proceedings (1998), Kosovo bombings (1999), September 11 attacks (2001), multi-force intervention in Libya (2011), U.S. anti-ISIS intervention in Syria (2014), and President Trump impeachment proceedings (2019 and 2021).
Sources: Vanguard calculations as of December 31, 2021, using data from Refinitiv.

Past performance is no guarantee of future returns. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.
All investments are subject to risk, including the possible loss of the money you invest. Be aware that fluctuations in the financial markets and other factors may cause declines in the value of your account.
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The fight against inflation

As you will have noticed at your most recent trip to the supermarket or to the pump, prices have risen. This is why inflation is often referred to as ‘the thief in your pocket’.

Inflation has reached 6.9% in the past year. To combat this, the Reserve Bank of New Zealand (RBNZ) has reacted by raising interest rates. At the time of writing, the official cash rate has risen to 1.5%. RBNZ predicts the official cash rate peaking at about 3.25% by the end of 2023, a full 3% higher than it was six months ago.

All parts of the economy will be impacted by increasing interest rates. Increasing costs of lending, such as higher mortgage rates, encourage less spending while increased returns on deposits and bonds encourage people to save more. This is compounded by the hope of RBNZ stamping out inflation.

The Lifestages Income Fund invests mainly in bonds. Bonds are known as a ‘fixed interest’ investment because they have a set interest rate for the life of the bond. As interest rates increase, newer bonds will have a higher interest rate relative to older bonds. This means older bonds are priced down.

The impact of this phenomenon is that the unit price of the Lifestages Income Fund has gone down. However, as the Fund buys newer bonds with higher interest rates, the overall position of the Fund will improve.

Lifestages KiwiSaver Scheme Fund Performance for the period ending 31 March 2022*

Fund	6 Months	1 Year	3 Years p.a
Lifestages High Growth Fund	-1.61%	4.39%	9.08%
Lifestages Income Fund	-2.77%	-2.69%	0.34%
Lifestages Auto Option 0-34	-1.61%	4.39%	9.08%
Lifestages Auto Option 35-44	-1.81%	2.99%	7.43%
Lifestages Auto Option 45-54	-2.03%	1.58%	5.72%
Lifestages Auto Option 55-64	-2.26%	0.17%	3.96%
Lifestages Auto Option 65+	-2.44%	-0.90%	2.62%

*The performance above is after deductions for charges but before tax and member fees. Past performance is not indicative of future returns.

The most recent returns tell a simple, but important story. While your balance may suffer from short term losses, over the longer term the ups tend to outweigh the downs; and you end up growing your savings.

Another story that is illustrated here is the power of a diversified investment approach. Sectors that were the most sensitive to rising interest rates, such as the technology and healthcare sectors, suffered. Meanwhile, rising inflation and soaring commodity prices turbocharged the energy and materials sectors.

The Lifestages KiwiSaver Scheme funds are well diversified across sectors and asset classes, thus providing some protection from the markets. If we had simply invested in the ‘hot’ stocks, which are often technology companies, losses would have been magnified significantly.

If you could avoid the bad days and invest only on the good ones when the markets gain value, you’d see great results. Unfortunately, it’s impossible to predict when those good and bad days will happen. This underscores the value of regular investing. The temptation by many is to stop investing or to move to a more conservative fund upon experiencing a market downturn. However, there is value in ‘staying the course’.

This has been a tumultuous time for KiwiSaver members which reinforces why it is so important to be invested in a fund aligned with your risk profile and financial goals. The Lifestages Auto option is a great way to match your risk profile with your current stage of life and is designed to be suitable for the majority of members – other than those who have completed their own personalised risk assessment or face exceptional financial circumstances.

If you need help understanding your Lifestages KiwiSaver Scheme risk profile or with “staying the course” or your investment circumstances have changed, please contact us to speak with a financial adviser. This service is provided at no additional cost.

Funds Administration New Zealand Limited (FANZ), a wholly owned subsidiary of SBS Bank, is the issuer and manager of the Lifestages KiwiSaver Scheme. For more information see the Lifestages KiwiSaver Scheme Product Disclosure Statement available on our website www.lifestages.co.nz or on the register of offers of financial products at www.disclose-register.companiesoffice.govt.nz.

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