

Welcome to the March 2022 edition.

We hope you had a nice summer break and had some time to relax and unwind. This edition includes retirement planning tips, the latest market commentary, key dates for 2022 and articles on setting financial goals and financial capability.

If you have any questions about the Scheme, this newsletter, or your member statement, please contact Helpline on **0508 4 TEACH (0508 4 83224)** or email **teachersretire@mercero.com**.

Key dates for 2022



March:
Newsletter



June:
Newsletter



September:
Annual statement



October:
Annual report



November:
Newsletter

Investment news

Financial markets ended the month of November on uneasy footing as rising hospitalisations in Europe due to the Coronavirus, alongside the new Omicron variant, spurred uncertainty in what would have been a broadly positive month for global equities (shares). In November, the Reserve Bank of New Zealand (RBNZ) raised the Official Cash Rate (OCR) by 0.25% to 0.75%. The Consumers Price Index (CPI) saw its largest jump in 12 years, up 4.9% (year to 30 September 2021) as global supply constraints and rising energy costs continue to put upwards pressure on the prices of goods and services.

December 2021 finished on a strong note despite further COVID-19 related disruption and uncertainty. 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 equity markets recovered towards the end of December with the MSCI World Index returning 3.4% for the month.

January 2022 was a volatile month for equities. High flying tech stocks such as Netflix, Paypal and Meta (formerly known as Facebook) saw up to 25% drop from their stock prices after earnings came in lower than expected. This set the tone for other companies releasing earnings, needing to beat analyst expectations by a high margin in order to maintain their stock prices, as investors' became increasingly wary of high market valuations.

Inflation remained at multi-decade highs as a competitive labour market and soaring oil prices sustained upward pressure on inflation. In New Zealand, inflation surged to 5.9% (year to 31 December 2021) as messaging from central banks tilted towards inflation being more persistent going into 2022. This paired with low unemployment figures, have paved the way for the RBNZ to raise interest rates further this year. Increasing domestic interest rates can also impact on the price of New Zealand shares, which form part of your investments.

The Ukraine crisis and implications for Mercer's New Zealand funds

Mercer are extremely saddened by the recent developments in Ukraine and the humanitarian impact they will have in the coming days, weeks and months. As an investor in one or more of Mercer's New Zealand funds (Mercer funds), we are updating you on the implications for your portfolio, including the market reaction, exposure to Russian investments within the Mercer funds, and actions we are taking on your behalf.

Please note that the situation is extremely fluid and the comments made below should be read in that context.

Summary of exposure to Russian investments

At an aggregate level, the Mercer funds in New Zealand have limited exposure to Russian securities, primarily through Emerging Market Equities where Russia is a component of the benchmark index. The respective exposure within this fund as at 2 March is shown below.

- Mercer Emerging Market Fund – 0.6%.
- At the Mercer Balanced Fund level, this exposure represents a holding of 0.02%.

There are also small (less than 0.05%) exposures to Russia via three holdings within Global Credit, Global Aggregate Bond and Global Absolute Return Bonds.

Asset allocation positioning

Importantly, Mercer multi-sector portfolios were well-diversified coming into the conflict period. We expect that the strategic positioning should provide a strong base to withstand the market turmoil and continue to deliver on objectives over time.

From a Dynamic Asset Allocation (DAA) perspective we were positioned at neutral to emerging market equities.

Actions we are taking

- We have reviewed our DAA positioning and remain comfortable with the current setting, which is market neutral. However, we are monitoring markets closely and will be ready to take action if needed. This includes looking for any opportunities that might arise from the market dislocations.
- All Mercer funds intend to comply with the recent sanctions orders imposed by applicable regulators. We primarily effectuate compliance through our oversight of the underlying investment managers.
- We have been proactively engaging with our underlying investment managers about their investments in Russian companies. In the current market environment it is effectively impossible to trade Russian assets however we expect the investment managers to continually monitor the liquidity environment and ensure that valuations are appropriate through this period.
- We are aware that a number of the major index providers (e.g. MSCI and JP Morgan) are considering index changes that may potentially remove some or all of the Russian securities from the respective indices. We are monitoring developments in this space and assessing the portfolio implications if changes to the benchmark indices were to be announced.
- On all of the above, we are closely connected with our Mercer colleagues in other regions, which is helping to ensure that we are well tapped in to market intelligence and developments as they happen. We are also using both local and global expertise to help determine portfolio implications and appropriate actions.

Investing Sustainably

Did you know that the Teachers Retirement Savings Scheme invests sustainably? The Scheme's investments are managed in a way that is sustainable for the environment and society and in a way that can also deliver better long term investment returns. Mercer, the manager of the Scheme's investments, is a global leader in sustainable investment and generating a positive environmental and social impact alongside financial returns is one of their key priorities. The investment options you invest in, actively invest in companies involved in providing solutions to the world's sustainability challenges, like renewable energy, water infrastructure and pollution control.

Mercer believes a sustainable investment approach is more likely to create and preserve long-term investment capital and, more specifically, that:

1. ESG factors can have a material impact on long-term risk and return outcomes and these are integrated into the investment process.

Environmental



Climate change

Water

Waste and pollution

Biodiversity

Social



Health and safety

Labour standards
(including in the supply chain)

Human rights
and community impacts

Demographics/consumption

Governance



Board structure,
diversity and independence

Remuneration that is
aligned with performance

Accounting and
audit quality

Anti-bribery
and corruption

2. Mercer is a “manager of managers”. To identify the best opportunities to invest your money, their global research team have rated thousands of managers on their ability to invest funds and consider ESG factors in the investment process. Frameworks such as the United Nations Sustainable Development Goals (UN SDGs) help inform Mercer’s sustainable investment approach and the companies they invest in.

With a robust rating system for actively monitoring managers’ ESG activities (such as measuring carbon footprint and alignment with the UN SDGs), Mercer’s investment managers positively influence the companies your money is invested in by engaging with them, particularly on sustainability topics such as environmental records and carbon disclosure.



Renewable and alternative energy

Solar, wind, wave, biofuels and geothermal technology.



Energy efficiency

Storage plus power network, industry, building and transport efficiency.



Water infrastructure and technologies

Irrigation, storage, treatment, drainage and flood protection.



Pollution control

Pollution control solutions and environmental testing.



Waste management and technologies

Recycling processing, hazardous and general waste management.



Health and social services

Positive impacts for social development and poverty or aging population.



Sustainable consumer goods

Meeting shifting consumer demands in sourcing and technology.



Responsible finance

Supporting role for real economy.

3. Climate change poses a systemic risk, and investors should consider the potential financial impacts of both the associated transition to a low-carbon economy and the physical impacts of different climate outcomes.

Mercer considers these potential financial impacts at a diversified portfolio level, in portfolio construction within asset classes, and in investment manager selection and monitoring processes. Together with ongoing research, the potential financial impacts of climate change are included in Mercer’s modelling estimates under multiple climate scenarios for physical damage and transition risk factors.

4. Stewardship (or active ownership) supports the realisation of long-term shareholder value by providing investors with an opportunity to enhance the value of companies and markets. Consequently, Mercer believes that a sustainable investment approach that considers these risks and opportunities is in the best interests of the members.

Want to know more? Check out Mercer’s Responsible Investment Policy at secure.superfacts.com/web/IWfiles/attachments/Form/Mercer_Funds_Responsible_Investment_Policy.pdf.

What is causing market volatility?

It is important to remember that it is normal for markets to go up and down.

While it’s been great to see markets rally over the last 18 months (after the initial shock of 2020) fuelled by central banks stimulus packages, things are expected to slow down in the first half of the year with growth expected to rebound later in the year as the world works through the next steps in managing the new variant Omicron.

More recently, Russia’s invasion of Ukraine is also likely to impact global markets and investors across the world, with New Zealand’s share market suffering its biggest single-day fall in nearly two years, on day one of Russia going to war against Ukraine.

Things to remember in times of market volatility:

- 1. Diversification:** The Scheme offers four investment options. Three of these, Stable, Balanced and Growth, are diversified funds. This means they invest in a variety of assets such as shares, property, bonds and cash, although in different proportions. The fourth option, Cash, invests in cash (and cash equivalents). Make sure you know what investment option you are in and the impact markets may have on returns.
- 2. Importance of seeking expert advice:** Financial advisers can help you make the right investment decisions.
- 3. Stay calm** - it’s about time, not timing.

Read the full article What’s causing the most recent market volatility?

www.teachersretire.org.nz/latest-news/announcements/whats-causing-the-most-recent-market-volatility.html

Want to find out how market cycles work? Watch the explainer videos Market volatility at

www.teachersretire.org.nz/latest-news/investments/market-volatility.html

Scheme returns

The table below shows the returns of each investment fund for the first seven months of the Scheme year, along with a comparison to the returns from the year prior.

Returns after tax and expenses

	Scheme year-to-date (7 months to 31 January 2022)	12 months to 30 June 2021	12 months to 30 June 2020
Cash Fund	0.15%	0.1%	0.90%
Stable Fund	0.00%	4.5%	3.00%
Balanced Fund	-0.33%	14.1%	1.90%
Growth Fund	-0.16%	19.5%	1.40%

You can find the latest information on monthly returns at

www.teachersretire.org.nz/latest-news/investments/monthly-returns.html.

Access 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 must 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. Visit the current website at **www.teachersretire.org.nz**



What is financial capability?

Financial capability deals with managing your finances to achieve your goals. Its 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) have published an article, which focuses on what influences our decisions and the importance of financial capability.

To read the full article go to **www.retirement.govt.nz/financial-capability/what-is-financial-cap-ability**

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 the main aim is that your 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 goals.



Contact us

To find out more about anything mentioned in this newsletter please call us on 0508 4 TEACH (0508 4 83224), email teachersretire@mercero.com or visit **www.teachersretire.org.nz**.

 Find the retirement planner at **sorted.org.nz/tools/retirement-planner**

 To speak to a financial adviser visit **fma.govt.nz/investors/getting-financial-advice/finding-an-adviser**