Axiome Quarterly Update

January — March 2022

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Investment Market Review

Just as the global economy was saying goodbye to the COVID-19 pandemic, the world faces a second "shock" from Russia's invasion of Ukraine. Unprecedented sanctions have been placed on the Russian economy by Western governments and Russian stocks have been dropped from global index providers and most managed funds. Oil and especially European

Russia's invasion of Ukraine had a large impact on markets over the quarter

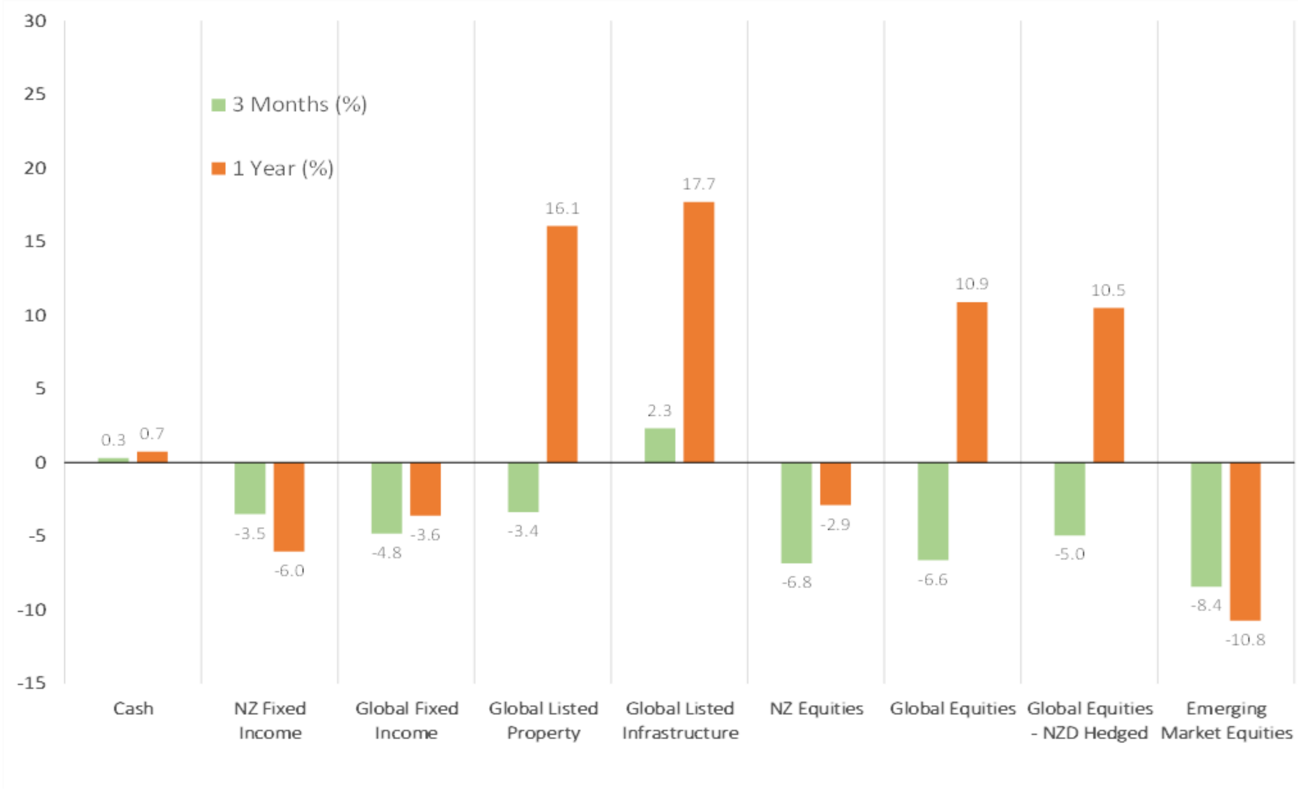
gas prices have surged in response to the conflict, along with commodity prices more generally.

More than a glimmer of hope has been provided by Ukraine's strong resistance and the roll back of Russian armed forces from Kiev at the time of writing. Partly in response, market performances were stronger in the month of March than over the quarter as a whole. While these are uncertain times, Russia and Ukraine are not large contributors to the global economy and history suggests that recovery from small scale conflicts is rapid. That said, the war has clearly raised global inflation and inflationary risks at a time when central banks were already behind the curve in terms of getting on top of surging inflation rates.

Most asset classes suffered, but there were a few bright spots

Market performances over the quarter were very much driven by the contrasting impacts of the conflict. Most equity markets fell, as did bonds, as higher inflation and interest rate risks were priced in. Within equities, resource stocks

Figure 1: Property and infrastructure offered the highest returns over the year



Source: Morningstar Direct, MyFiduciary

rallied strongly, benefitting the Australian equity market with its large mining and energy sector. Asset classes expected to be more resilient to inflation risks, such as infrastructure, property and gold, were also relatively resilient. Please see Figure 1 for performances.

Market Roundup:

Developed market equities fell around 6.5% over the March quarter in NZD terms while NZD hedged equities fell around 5%. While a poor result, it is on the back of very strong returns in 2021, with the annual return to March 2022 being around 11%. Within global equities, higher risk small caps had a much weaker annual return (-0.5%) while value stocks have outperformed as the shine has come off growth-oriented stocks towards companies with lower valuations and hence less reliance on future growth conditions.

Most equity markets fell, with the notable exception of Australia given its large exposure to resources and energy

Emerging Market (EM) equities bore the brunt of the sell-off as war broke out in Ukraine, falling around 8.5% in the quarter and 11% over the year to March 2022. It is important to note that contribution of Russian stocks to this fall was quite small given Russian equities were a very small part of emerging markets. In response to the invasion and sanctions placed on Russia, EM index providers removed Russia from their indexes and fund managers have followed suit.

NZ and Australian equity market performances were very mixed. Australian stocks increased around 4% over the quarter, driven by a huge rally in its resources sector (up over 20%). New Zealand equities fell around 3% as the RBNZ increased interest rates and as risk appetites waned.

Fixed income returns were generally poor as markets priced in higher interest rate levels......

As mentioned above, international infrastructure and property stocks had a relatively strong quarter as they are generally resilient to a higher inflation environment. International property stocks fell around 3% in the quarter but returned 16% over the year. Global infrastructure stocks – as we feature below – returned around 2.5% in the quarter and 18% over the year. As shown in

Figure 1, these are standout performances over the year.

On the flip side, bonds are less resilient to rising inflation and interest rates. As a consequence, New Zealand and offshore investment grade (IG) bonds with longer terms (or duration) both fell around 4% in the quarter and have similar sized negative returns over the year. In contrast, bonds with short terms and cash enhanced exposures, which we recommend tilting toward in portfolios given our concern over inflation risks, fared much better and eked out small positive returns.

....but short-term bond funds outperformed as did listed infrastructure

Infrastructure and the role it plays in your portfolio

The portfolios we offer have around a 5% weight to global listed infrastructure. Infrastructure assets provide essential services for societies to function and consist of physical assets that are costly and difficult to replace. Examples include electricity transmission, water utilities, air and sea ports and various cellular networks and data centres.

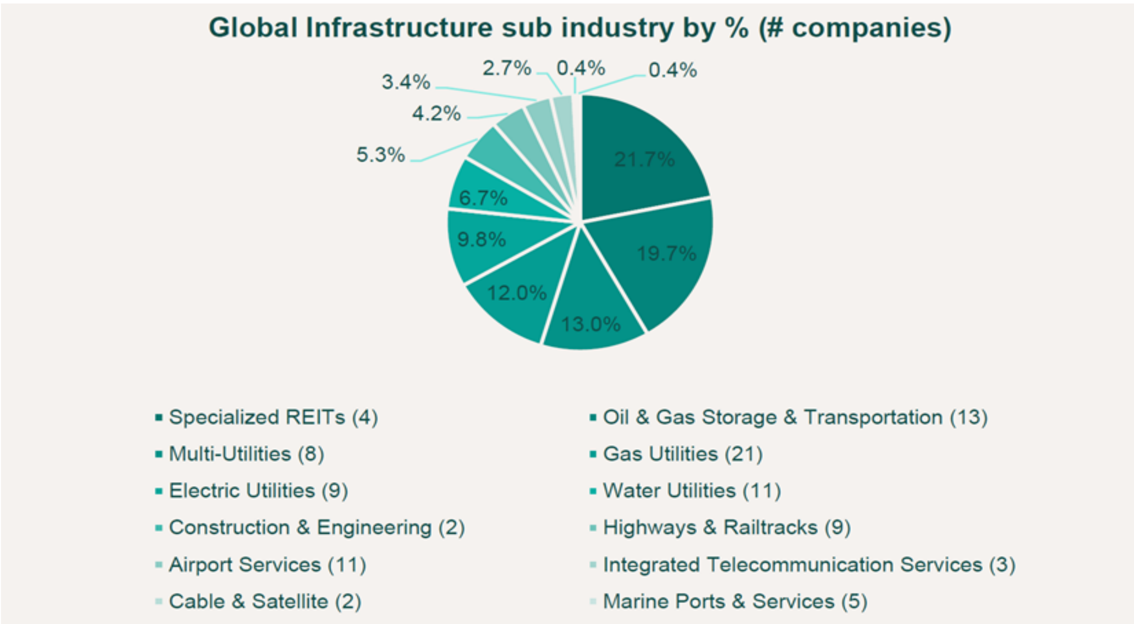
We allocate to infrastructure because we judge it to offer several benefits for portfolios

The inclusion of infrastructure is motivated by several factors. First, many infrastructure companies have monopolistic functions in the market, which enables them to have true pricing power. As a result, this asset class is often seen as one of the best ways to protect against rising inflation. Second, the long-dated nature of the assets and essential services they tend to offer provide stable and repeatable earnings, which are resilient through a market cycle. The asset class therefore tends to be a defensive growth asset which normally outperforms in a market sell-off – as occurred over the March quarter. Third, infrastructure stocks (like listed property stocks) tend to have higher dividend yields than equities overall. Given these features, infrastructure is likely to offer a portfolio diversification benefit.

Our allocation is to a fund that tracks a respected global infrastructure index at low cost

Access to listed infrastructure is typically global as most markets (excepting perhaps the US) are simply too small to offer reasonable diversification across different infrastructure companies and sectors. Our recommended global infrastructure allocation is now through the Kernel Global Infrastructure Fund, which is run by NZ fund manager Kernel Wealth. This fund was selected from the menu of options in the market because it is highly aligned with our investment philosophy of favouring low cost, broadly diversified exposures. In line with this, the fund manager tracks a global infrastructure index that has been developed by a global expert in infrastructure, Brookfield Global Asset Management. The sectoral make up of this fund is provided in Figure 2.

Figure 2: Global infrastructure sub-sectors



Source: Dow Jones Brookfield

Key Market Movements for the Quarter

Quarter	Past year	
-6.8%	-2.9%	**New Zealand Shares** *New Zealand shares fell almost 7% in the quarter as the Russian invasion of Ukraine, higher inflation, and interest rate rises all weighed on returns. This meant a negative return for the year, although our market's 5-year performance remains very strong with an annual average return of around 12% over the period.* *Source of Figures: S&P/NZX 50 Total Return Index with Imputation Credits*
-2.9%	-5.1%	**New Zealand Fixed Interest** *New Zealand investment grade corporate bonds fell around 3% in the quarter and returned around -5% for the year ended March 2022. The poor result reflected NZ markets pricing in materially higher interest rates and inflation, which causes bonds to suffer a short-term capital loss.* *Source of Figures: S&P/NZX Investment Grade Corporate Bond Index*
4.0%	+14.1%	**Australian Shares** *Australian shares bucked the trend, returning around 4% in the quarter. This brought the annual result to around 14%. This mainly reflected resource stocks performing very strongly on the back of surging energy and commodity prices. Within Australian equities, small cap stocks fell, while value stocks outperformed.* *Source of Figures: S&P/ASX 300, S&P Australia BMI Value, S&P/ASX Small Ordinaries*
-6.6% (-5.0% hedged)	+10.9% (10.5% hedged)	**International Shares** *International shares fell by around 5% over the quarter in NZD hedged terms. Annual results were still strong at around 11%, with unhedged returns slightly outperforming given the decline in the NZ dollar vs. the US dollar over the year. Within global equities, higher risk small caps had a much weaker annual return (-0.5%) while value stocks outperformed, returning around 11.5% over the year.* *Source of Figures: MSCI World Index; Morningstar Developed Markets NZD hedged, MSCI World Value MSCI World Small Cap in NZD terms.*
-8.4%	-10.8%	**Emerging Markets** *Emerging Markets bore the brunt of the sell-off as war broke out in Ukraine, falling around 8.5% in the quarter and 11% over the year to March 2022. Note that Russian stocks have now been removed from Emerging Market indices. Their contribution to the fall was modest given Russia comprised only around 3% of the index before being removed.* *Source of Figures: MSCI Emerging Markets Index*
-4.8%	-3.5%	**International Fixed Interest** *Global investment grade bonds fell -4.8% in the quarter and around -3.5% over the year. As with the NZ result, this soft annual performance reflected bonds being repriced lower as longer-term interest rates rose on the back of surging inflation and expectations that central banks need to raise rates materially.* *Source of Figures: Bloomberg Barclays Global Aggregate Index (hedged to NZD)*
-3.4%	+16.1%	**International Property and Infrastructure** *International property stocks fell around 3.5% in the quarter, while global infrastructure rallied around 2.3%. Both asset classes returned over 16% in the year and have benefitted from rising inflation as they are expected to be relatively resilient to a higher inflation environment.* *Source of Figures: FTSE EPRA NAREIT NZD Hedged, FTSE Dvlp Core Infrastructure TR USD*

The Role of the Investment Committee

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An independent investment committee is an important part of the structure supporting your investment experience. At the initial information gathering meeting with us, you will be asked about your current financial situation and your financial goals and invited to complete a risk tolerance questionnaire. This establishes a risk profile for you and then the planning process continues with a suitable asset allocation being agreed upon and investment of your money into a portfolio.

But who determines which investment funds are suitable for inclusion in your portfolio and in what proportion? And how are these funds monitored for performance? This is where our Investment Committee comes in. Axiome Consultants Ltd does not work alone in constructing portfolios for clients. We have a robust and independent Investment Committee which guides the process.

Metis Research Group provides Axiome's Investment Committee framework

We are a member firm of Metis Research Group NZ Ltd, a contractual service provider to independently owned firms representing over $450 million in funds under advice. In addition to our representation, and that of our adviser colleagues, there are three external members including a director of the highly regarded asset consulting firm MyFiduciary.

Source: University of Washington

The Investment Committee process engages in robust discussion to challenge views on the basis that "many heads are better than one." In addition to the years of experience represented around the committee table, we draw together international expertise and in-depth local market experience to form the asset allocation recommendations in your portfolios.

There are well designed due diligence procedures for selecting investment options for an Approved Product List. The model portfolios we use go through a similar evaluation. Higher level screens detailing, for example, Environmental, Social and Governance metrics are also reported on.

Every three years, an in-depth review of capital market assumptions and expected portfolio returns is conducted, including inflation forecasts and assumptions on exchange rates. More frequent adjustments can be recommended in the case of significant change in investment markets, for example in the Covid crisis when an interim adjustment to expected returns were made.

Portfolio construction

Model portfolios are constructed using funds which satisfy the exacting criteria arrived at after rigorous discussion within the investment committee.

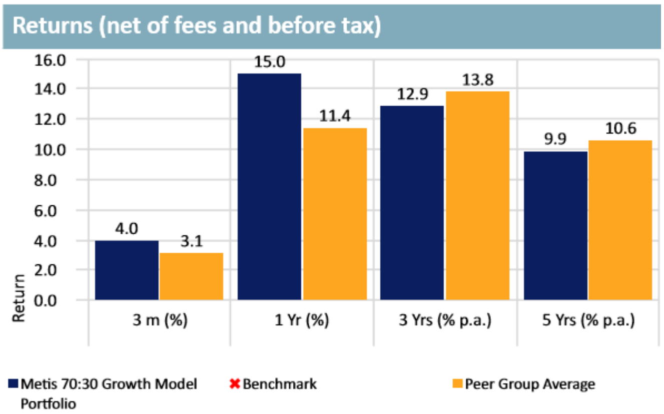
A further benefit obtained through the collective grouping of the investment committee are discounts for some fund manager fees. Despite a recent lowering of expected future market returns by our Investment Committee, lower fees through the group and the selection of lower fee investments have offset much of this lower return.

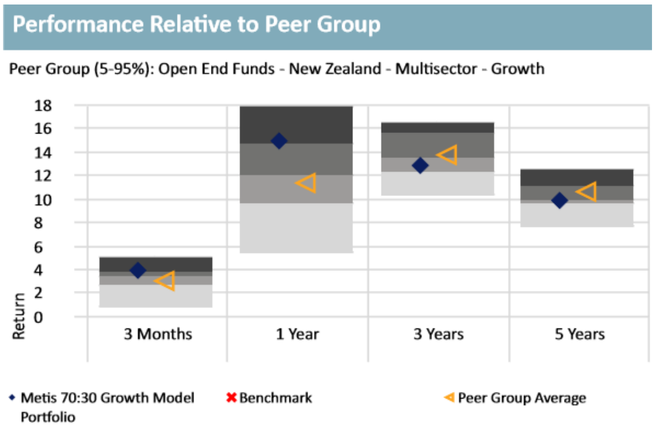
Performance Monitoring

Fund performance is independently reviewed by MyFiduciary on a quarterly basis and provides an accountability loop between the Investment Committee and fund managers. As well as overall returns data, performance relative to peer group is included, as are fund drawdowns. Any funds which may be showing signs of underperformance or which may be going through management or other change can be picked up through this consistent process and re-evaluation by the Investment Committee at its regular quarterly meeting.

An example of two of the peer group tracking charts is snipped below for the benchmark 70:30 portfolio.

MyFiduciary
Governance & Investment Support





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