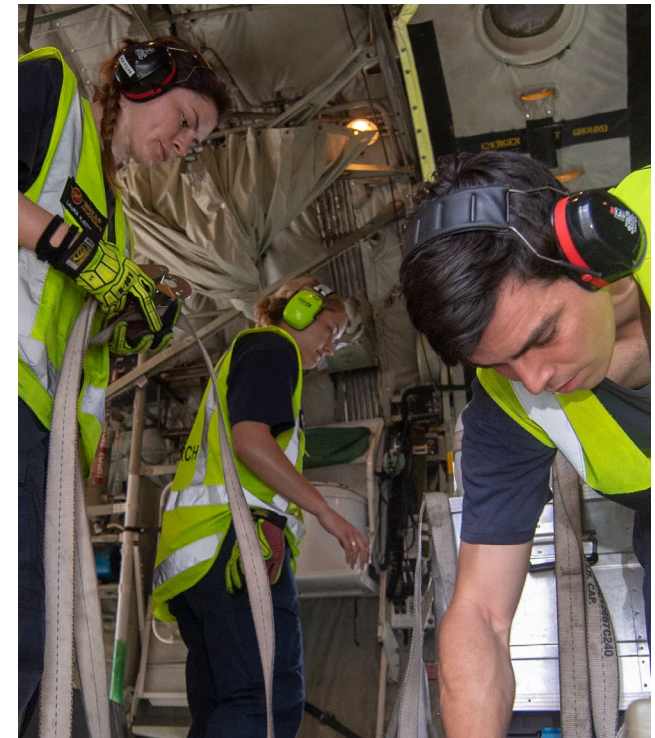


MONTHLY REPORT

For the period ended 29 February 2020

Market performance summary – February in a snapshot

- There was a lot going on in the markets in February, with the US and China negotiations and Brexit, but all overshadowed by the coronavirus outbreak. Stock markets are experiencing one of the most volatile periods since the last global financial crisis in 2008/09;
- Members that invest in a well-diversified portfolio such as the New Zealand Defence Force Savings Schemes should stay focused on the long-term strategy, and not take knee jerk decisions they may come to regret. Changes to investment portfolio may lock in “losses” that will take the member many months to recoup;
- Before making any changes to your investment option or making a decision to withdraw your money, you should discuss this with your financial adviser or an independently pointed Milestone Direct (MDL) team of advisers by calling **0508 MILESTONE (0508 645 378)** or emailing info@milestonedirect.co.nz.
- Check the Force Financial Hub, and MDL sites for recent advice that targets first home buyers in particular.



Monthly Commentary Ended 29 February 2020

Global financial markets experienced another month of volatility following the rise of the novel coronavirus (COVID-19). Global shares and other risk assets were rapidly sold towards the end of February over concerns about the further spread of the virus. While the reported cases in China started to tail off, hot spots sprung up in Iran, South Korea, and Italy which saw a spread of cases in the northern province of Lombardy.

Although efforts to contain the virus spreading have had a significant impact on Chinese growth, a limited ability to predict the true extent of potential economic damage from the virus remains a key reason of investor apprehension. Coronavirus infections pushed to nearly 80,000 towards the end of February (now 100,000 + by mid March), with the most notable spike in development being a spike in cases outside of China. Ripple effects were felt throughout the rest of the world as uncertainty as to the timeline of an economic recovery was called into question.

Developed markets around the world also suffered over February, with the MSCI World Index down -8.1% (-4.5% in unhedged NZ dollars), while the S&P 500 slipped into correction territory, down 13% from its February high.

Despite New Zealand's distance from coronavirus hotspots, the effects on local logging, agricultural, and tourism sectors have weighed on the domestic economy. The New Zealand share market was down -3.9% over the month, albeit outperforming its Australian counterpart (-7.7%) which suffered from downward pressures on bank net interest margins and falling commodity prices.

Coordinated monetary and fiscal measures have been called for, with central banks in the US, Japan, and the UK stating they will all take required steps to protect financial stability. The US Federal Reserve surprised markets on March 3 with a 0.5% 'emergency' cut to the Federal Funds rate, taking it to 1.0% to 1.25%. The US 10-year Treasury yield fell below 1.0% on the news, taking it to a historic low. The Reserve Bank of Australia cut rates to a historic 0.5% on March 2, which is another record low. Reserve Bank of NZ cut the OCR to record lows on 16 March.



Significant developments include:



Global

Coronavirus infections pushed to nearly 80,000 at month-end, with the most notable development being a spike in cases outside of China. A short-term disruption to global supply chains, in which virus-depressed earnings were expected to rebound in Q2, looked increasingly unlikely as the month progressed.

United States

The US Federal Reserve surprised markets on March 3, with a 0.5% 'emergency' cut to the Federal Funds rate, taking it to 1.0% - 1.25%.

Australia

The Reserve Bank of Australia cut rates to a historic 0.5% on March 2, to another record low.

New Zealand

The Reserve Bank of NZ cut rates to a record low 0.25% on 16 March.

Milestone Direct Monthly Commentary Ended 29 February 2020

After many months of excellent growth, investment markets had a bumpy end to February 2020, mainly on the back of concerns related to the spread of coronavirus (COVID19).

The NZDF Schemes were impacted of course, though it's worth noting that the fund manager of the NZDF Schemes, Mercer, use their global scale to operate some of the most diversified investment portfolios accessible to NZ retail (otherwise known as "mum and dad") investors. One benefit of this diversification is that Mercer have a track record of performing better than most when markets hit turbulent times – as we believe they just have. When performance information becomes available from other fund managers, I imagine we'll be able to confirm this.

Perhaps you're wondering what you should do about the recent market bumpiness? To assist, here is just one point extracted from a **recent article** on our website:

"If you're already invested, **the best thing to do is usually nothing**. Let's explain this point with a famous story...

Several years ago, during an internal performance audit of its customers' accounts, a major investment manager discovered a group of standout winners. This group of investors consistently beat the averages.

Naturally, the investment manager wanted to learn more – partly so the approach this group took could be passed on to other customers. After digging a little deeper, they rapidly found these investors had one significant thing in common: they were all dead. The dead investors had their asset mixes frozen while their estates were being worked through. Incredibly, this approach performed better than everyone else, as the investments were protected from any ill-timed adjustments.

The reason for this is because the average stock investor dramatically underperforms the overall stock market. Data from research house DALBAR shows that from 1996 to 2015, the S&P 500 (the most common performance measure of the largest share market in the world) offered an annual return of 9.85% per year, but the average investor's return was only 5.19%. The reason: investors' all-too-human behaviour – trying to time the market, which only succeeded in buying when everyone else was buying, then selling when everyone else was impulse-selling.

Avoiding impulsive reactions to things such as variations in investment value, or attention-grabbing news stories, is a key reason why our financial advisers repeatedly tell people to avoid checking their investment values too often."

As individual situations vary so much, it would be our pleasure to discuss any of the topics above. To do so, simply get in touch by phone: **0508 MILESTONE (0508 645 378)** or email info@milestonedirect.co.nz

Joseph Darby
Chief Executive
Milestone Direct



A Disclosure Statement is available on request and free of charge

The views and opinions expressed in this commentary are intended to be of a general nature and do not constitute personalised advice for an individual client. Before making any investment, insurance or other financial decisions, you should consult a professional financial adviser. A disclosure statement is available on request and free of charge.

For more information call 0800 333 787 or visit www.nzdf.superfacts.co.nz

Investment Returns For Periods Ended 29 February 2020

New Zealand Defence Force FlexiSaver Scheme

PIR	Fund	1 Month %	3 Months %	FYTD* %	1 Year %	3 Years %
28% prescribed investor rate (PIR)	Cash	0.07	0.19	0.78	0.88	1.07
	Conservative	-0.75	-0.07	3.85	4.68	3.66
	Moderate	-1.33	-0.54	3.81	4.68	4.28
	Balanced	-2.43	-1.40	4.53	5.57	5.45
	Growth	-3.54	-2.42	4.88	5.90	6.54
	High Growth	-4.50	-3.30	5.19	6.35	7.45
	Shares	-5.37	-4.14	6.43	7.83	8.74
PIR	Fund	1 Month %	3 Months %	FYTD* %	1 Year %	3 Years %
17.5% prescribed investor rate (PIR)	Cash	0.07	0.20	0.87	0.96	1.27
	Conservative	-0.72	0.06	4.13	5.07	4.08
	Moderate	-1.35	-0.55	3.97	4.92	4.57
	Balanced	-2.46	-1.44	4.59	5.73	5.83
	Growth	-3.76	-2.57	4.84	5.89	6.72
	High Growth	-4.50	-3.13	5.44	6.74	7.75
	Shares	-5.63	-4.31	6.32	7.80	8.95
PIR	Fund	1 Month %	3 Months %	FYTD* %	1 Year %	3 Years %
10.5% prescribed investor rate (PIR)	Cash	0.06	0.21	0.96	1.08	1.32
	Conservative	-0.73	0.09	4.32	5.36	4.26
	Moderate	-1.39	-0.47	4.20	5.22	4.78
	Balanced	-2.51	-1.32	4.84	6.02	6.00
	Growth	-3.81	-2.50	4.86	6.02	6.91
	High Growth	-4.63	-3.22	5.35	6.66	7.92
	Shares	-5.72	-4.42	6.23	7.76	9.06

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 may differ from the actual after fees and tax returns achieved by individual investors.

* FYTD means Financial Year to Date, which is from 1 April 2019

Investment Returns For Periods Ended 29 February 2020

New Zealand Defence Force KiwiSaver Scheme

PIR	Fund	1 Month %	3 Months %	FYTD* %	1 Year %	3 Years %
28% prescribed investor rate (PIR)	Cash	0.08	0.21	0.88	0.98	1.21
	Conservative	-0.72	-0.03	3.90	4.78	3.84
	Moderate	-1.35	-0.56	3.90	4.78	4.36
	Balanced	-2.41	-1.40	4.61	5.64	5.63
	Growth	-3.55	-2.45	4.85	5.86	6.49
	High Growth	-4.39	-3.18	5.36	6.55	7.50
	Shares	-5.34	-4.10	6.48	7.86	8.78
PIR	Fund	1 Month %	3 Months %	FYTD* %	1 Year %	3 Years %
17.5% prescribed investor rate (PIR)	Cash	0.09	0.24	0.99	1.12	1.38
	Conservative	-0.69	0.09	4.31	5.30	4.20
	Moderate	-1.32	-0.44	4.23	5.21	4.68
	Balanced	-2.44	-1.33	4.84	5.97	5.92
	Growth	-3.69	-2.49	4.99	6.09	6.80
	High Growth	-4.57	-3.28	5.39	6.65	7.73
	Shares	-5.53	-4.22	6.34	7.81	8.85
PIR	Fund	1 Month %	3 Months %	FYTD* %	1 Year %	3 Years %
10.5% prescribed investor rate (PIR)	Cash	0.10	0.26	1.09	1.23	1.50
	Conservative	-0.69	0.15	4.57	5.60	4.42
	Moderate	-1.34	-0.41	4.36	5.40	4.87
	Balanced	-2.53	-1.35	4.93	6.13	6.01
	Growth	-3.74	-2.47	5.02	6.20	6.90
	High Growth	-4.66	-3.29	5.37	6.70	7.81
	Shares	-5.64	-4.27	6.34	7.89	8.99

Notes

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Investment Returns For Periods Ended 29 February 2020

Defence Force Superannuation Scheme

PIR	Fund	1 Month %	3 Months %	FYTD* %	1 Year %	3 Years %
28% prescribed investor rate (PIR)	Cash	0.08	0.21	0.87	0.98	1.20
	Conservative	-0.77	-0.08	3.96	4.82	3.82
	Moderate	-1.32	-0.50	3.96	4.84	4.43
	Balanced	-2.42	-1.40	4.65	5.70	5.67
	Growth	-3.58	-2.48	4.84	5.88	6.51
	High Growth	-4.48	-3.24	5.28	6.46	7.52
	Shares	-5.46	-4.27	6.24	7.64	8.69
PIR	Fund	1 Month %	3 Months %	FYTD* %	1 Year %	3 Years %
17.5% prescribed investor rate (PIR)	Cash	0.09	0.25	1.01	1.13	1.38
	Conservative	-0.73	0.06	4.31	5.30	4.21
	Moderate	-1.33	-0.42	4.28	5.27	4.77
	Balanced	-2.51	-1.38	4.90	6.03	5.97
	Growth	-3.69	-2.46	5.09	6.20	6.84
	High Growth	-4.53	-3.17	5.52	6.77	7.87
	Shares	-5.62	-4.29	6.29	7.74	9.02
PIR	Fund	1 Month %	3 Months %	FYTD* %	1 Year %	3 Years %
10.5% prescribed investor rate (PIR)	Cash	-	-	-	-	-
	Conservative	-0.71	0.14	4.64	5.69	-
	Moderate	-1.38	-0.42	4.40	5.44	-
	Balanced	-2.51	-1.32	4.95	6.15	6.08
	Growth	-3.78	-2.48	4.98	6.15	-
	High Growth	-4.65	-3.24	5.28	6.60	7.95
	Shares	-5.69	-4.29	6.42	7.95	9.16

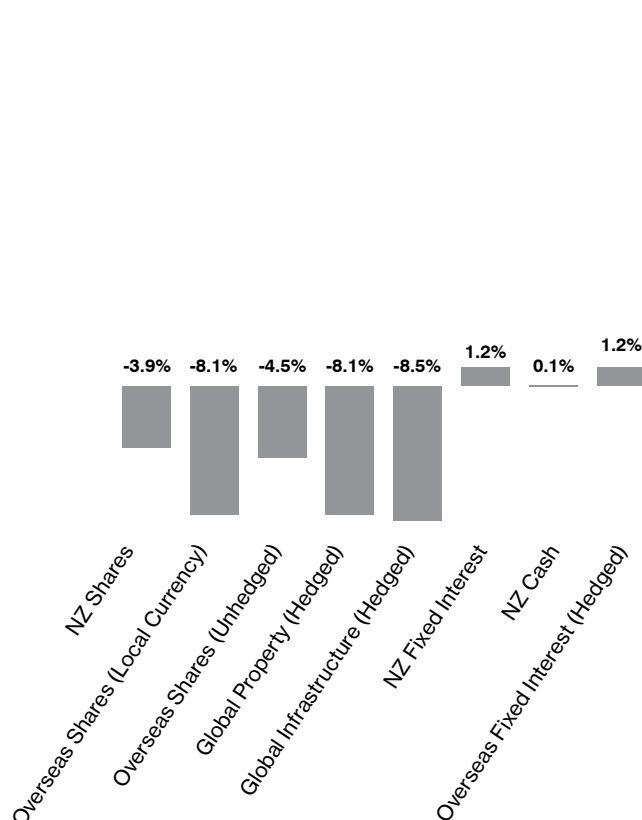
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- '-' indicates that investment option was not operating for the full period or did not have funds invested for the full period.

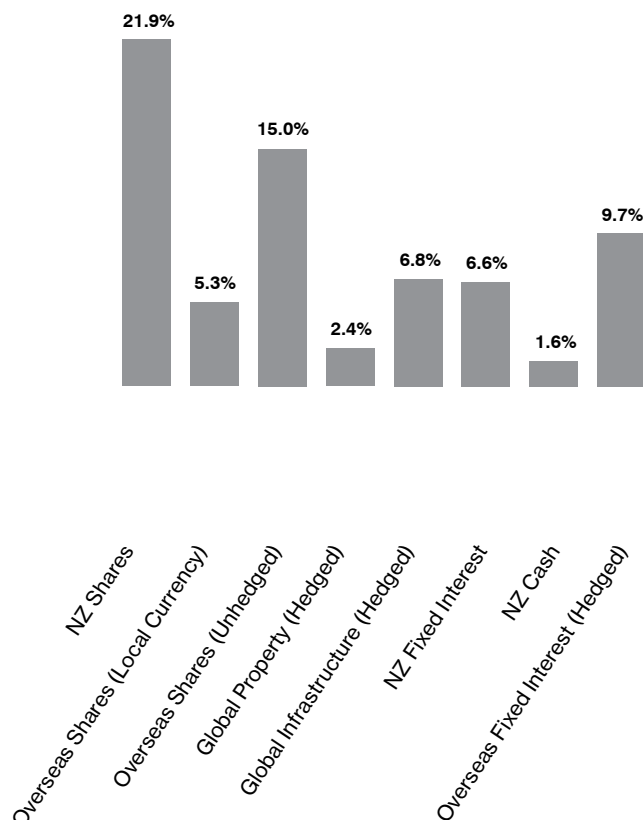
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Financial Markets For Periods Ended 29 February 2020

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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