



# MONTHLY REPORT

FOR PERIODS ENDED 31 AUGUST 2016

## MONTH IN A SNAPSHOT

- August was a bit of a mixed bag for global investment markets with markets in some countries performing better than in previous months like Japan and Brazil, while Europe continued to struggle with recent events in the UK and the implications of “Brexit”.
- In August, only cash and conservative investment options returned positive results for members in all three of the New Zealand Defence Force Savings Schemes and across all tax rates.
- Over the last three-months and year-to-date all options had positive returns.

**Read more about the markets and investment performance in this monthly report.**



### UPDATE FROM MILESTONE DIRECT COURAGE PLAYS A PART WITH GOOD INVESTING

**Courage includes both physical and moral courage: those with physical courage overcome their fear in the face of danger; while those with moral courage make difficult decisions and have the conviction to stand by their principles in the face of adversity.**

The markets in August were a bit like the pre-dawn silence when we 'stand-to' knowing the enemy is out there but unsure from which direction they will attack and how strong the attack will be. In August the markets could have gone down (a bit like the attack being launched) but instead, the markets went sideways as people adjusted to the Brexit result and lower interest rates. This is like the enemy deciding to postpone the attack until another day.

The important thing with investing is to stick to the plan regardless of what is happening in the markets. It is always tempting to listen to the bad news or be fearful of what might happen but the reality is normally not nearly as bad as what the media make it out to potentially be. The key is to have a diversified portfolio with a good mixture of shares, fixed interest, cash and property. The New Zealand Defence Force Funds are a great example of this.

**David Greenslade**

**Chairman**

**Milestone Direct Ltd**

Contact the Milestone Direct team if you have any questions regarding any aspect of your finances.

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The above information is not personalised financial advice. It is recommended you contact a Milestone Direct financial adviser before making any financial decision. A Disclosure Statement is available on request and free of charge.



### MERCER COMMENTARY ENDED 31 AUGUST 2016

Global share markets treaded water in August with markets stabilising and the number of shares traded falling. All New Zealand Defence Force investment options (with the exception of the Cash option) are to varying degrees invested in global share markets for growth and diversification, so the performance of global shares impacts the returns of these options.

The Bank of England followed market expectations by cutting rates and launching a stimulus package in the aftermath of Britain's vote to leave the European Union ("Brexit"). The stimulus package is likely to keep rates lower so British companies can continue to grow. Growth is good for the economy and investment returns.

You will notice that much of the commentary you see in the news, and in this report, is all about interest rates. Around the world, New Zealand included, many countries have record low interest rates. Low interest rates typically result in higher asset prices, and, as a result, we have enjoyed strong returns since the Global Financial Crisis. However, the world is currently digesting if, and when, interest rates will rise, and it is likely that when they do, we will see some fluctuations in investment markets.



#### JARGON BUSTERS

##### INFLATION

The rate at which the prices of goods and services increase over time, often equated with loss of purchasing power. If inflation is very low, or negative (deflation), people have less incentive to spend money as they believe they can get it cheaper tomorrow, which generally reduces consumer spending. If inflation is too high, it can potentially lead to a country's currency depreciating (falling) as the currency has less purchasing power.

##### GROSS DOMESTIC PRODUCT (GDP)

The value of all the finished goods and services produced within a country's borders in a specific time period. GDP Growth is a key metric which people look at in order to determine how well a country is doing.

##### YIELD

Return on an investment compared to either the original investment or the market value of the investment. For example, if you enter into a one year term deposit which pays 3.0% it would be appropriate to say "my term deposit yields 3% per year".

# SIGNIFICANT RECENT ITEMS INCLUDE:



**▼ UNITED STATES**

Speculation over higher yields rose after the Federal Reserve Chair commented at the annual economic policy symposium in Jackson Hole that the case for interest rate hikes had strengthened in recent months.

US job data exceeded market expectations, adding 287,000 new jobs in June (107,000 more than expected), a positive sign that the US economy is growing. Despite this, the US Federal Reserve Bank left interest rates unchanged, noting that inflation is “expected to remain low in the near term”. A key driver of future investment returns will be the path that US interest rates take, as low yields tend to attract investors to more risky assets which has helped drive returns in recent years.

**▼ NEW ZEALAND & AUSTRALIA**

Closer to home, the Reserve Bank of New Zealand and the Reserve Bank of Australia cut interest rates in August. Both central banks cutting rates by 0.25%, bringing down their respective cash rates to 2.0% and 1.5%. Cash rates are extremely important as they are linked to the returns you should expect on your cash investments (i.e. term deposits and the Cash investment option) and conversely (and more excitingly for home owners) should translate into lower mortgage payments.

**▼ EUROPE/UK**

In Europe, markets face headwinds over continued growth concerns, despite the European Central Bank keeping interest rates low (negative) in order to stimulate the economy.

In the aftermath of Brexit, the Bank of England cut its growth forecast to 0.8% from 2.3% for 2017, and to 1.8% from 2.3% for 2018 (Gross Domestic Product).

**▼ BRAZIL**

Following Dilma Rousseff’s replacement by Michel Temer as Brazilian President, local shares (MSCI Brazil) have posted a very impressive increase of 32% in 2016 (local currency), while the local currency, Real, surged 23% against the US dollar. Stabilisation in Brazil’s share market is a good sign for the global economy given it is one of the world’s ten largest emerging economies.

**▼ JAPAN**

In Japan, share markets moved higher at the end of August, recovering earlier losses following expectations that the Bank of Japan would have to take additional (monetary policy) easing measures to meet the Bank’s inflation target of 2%.

# INVESTMENT RETURNS FOR PERIODS ENDED 31 AUGUST 2016

## DEFENCE FORCE SUPERANNUATION SCHEME

Investment options		1 Month	3 Months	FYTD*	1 Year	3 Years	5 Years
28% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.13%	0.38%	0.64%	–	–	–
	Conservative	0.13%	1.22%	2.35%	–	–	–
	Moderate	0.09%	1.51%	2.81%	–	–	–
	Balanced	0.03%	1.63%	3.24%	4.74%	7.74%	8.48%
	Growth	–0.02%	1.58%	3.70%	–	–	–
	High Growth	–0.08%	1.50%	4.10%	–	–	–
	Shares	–0.20%	0.58%	3.74%	–	–	–

Investment options		1 Month	3 Months	FYTD*	1 Year	3 Years	5 Years
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.14%	0.43%	0.74%	–	–	–
	Conservative	0.14%	1.43%	2.65%	–	–	–
	Moderate	0.16%	1.79%	3.15%	–	–	–
	Balanced	0.11%	1.97%	3.67%	5.70%	8.41%	9.03%
	Growth	0.04%	1.88%	4.03%	–	–	–
	High Growth	0.05%	1.92%	4.64%	–	–	–
	Shares	–0.06%	1.31%	4.54%	–	–	–

Investment options		1 Month	3 Months	FYTD*	1 Year	3 Years	5 Years
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	–	–	–	–	–	–
	Conservative	–	–	–	–	–	–
	Moderate	–	–	–	–	–	–
	Balanced	0.15%	2.19%	3.94%	6.26%	8.83%	9.39%
	Growth	–	–	–	–	–	–
	High Growth	0.08%	2.12%	4.86%	–	–	–
	Shares	–0.06%	1.44%	4.57%	–	–	–

### 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.
  - '–' indicates that investment option was not operating for the full period or did not have funds invested for the full period.
- \* FYTD means Financial Year to Date, which is from 1 April 2016

# INVESTMENT RETURNS FOR PERIODS ENDED 31 AUGUST 2016

## NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME

Investment options		1 Month	3 Months	FYTD*	1 Year
28% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.10%	0.36%	0.60%	–
	Conservative	0.10%	1.20%	2.30%	–
	Moderate	0.05%	1.36%	2.61%	–
	Balanced	–0.01%	1.56%	3.26%	–
	Growth	–0.08%	1.39%	3.48%	–
	High Growth	–0.11%	1.37%	3.86%	–
	Shares	–0.24%	0.75%	3.86%	–

Investment options		1 Month	3 Months	FYTD*	1 Year
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.12%	0.42%	0.70%	–
	Conservative	0.13%	1.45%	2.55%	–
	Moderate	0.11%	1.72%	3.01%	–
	Balanced	0.07%	1.93%	3.66%	–
	Growth	0.01%	1.85%	4.05%	–
	High Growth	–0.07%	1.59%	4.08%	–
	Shares	–0.13%	1.09%	4.23%	–

Investment options		1 Month	3 Months	FYTD*	1 Year
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.14%	0.45%	0.76%	–
	Conservative	0.18%	1.63%	2.88%	–
	Moderate	0.16%	1.88%	3.26%	–
	Balanced	0.09%	2.05%	3.77%	–
	Growth	0.09%	2.14%	4.35%	–
	High Growth	0.04%	2.12%	4.79%	–
	Shares	–0.10%	1.41%	4.53%	–

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# INVESTMENT RETURNS FOR PERIODS ENDED 31 AUGUST 2016

## NEW ZEALAND DEFENCE FORCE FLEXISAVER SCHEME

Investment options		1 Month	3 Months	FYTD*
28% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.04%	0.27%	0.48%
	Conservative	0.05%	1.18%	2.21%
	Moderate	-0.01%	1.35%	2.56%
	Balanced	-0.05%	1.47%	2.99%
	Growth	-0.10%	1.41%	3.49%
	High Growth	-0.16%	1.37%	3.87%
	Shares	-0.26%	0.60%	3.78%

Investment options		1 Month	3 Months	FYTD*
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.11%	0.45%	0.64%
	Conservative	0.03%	1.25%	2.36%
	Moderate	0.02%	1.60%	2.83%
	Balanced	0.07%	1.88%	3.68%
	Growth	-0.02%	1.79%	4.02%
	High Growth	-0.15%	1.61%	4.30%
	Shares	-0.18%	1.09%	4.14%

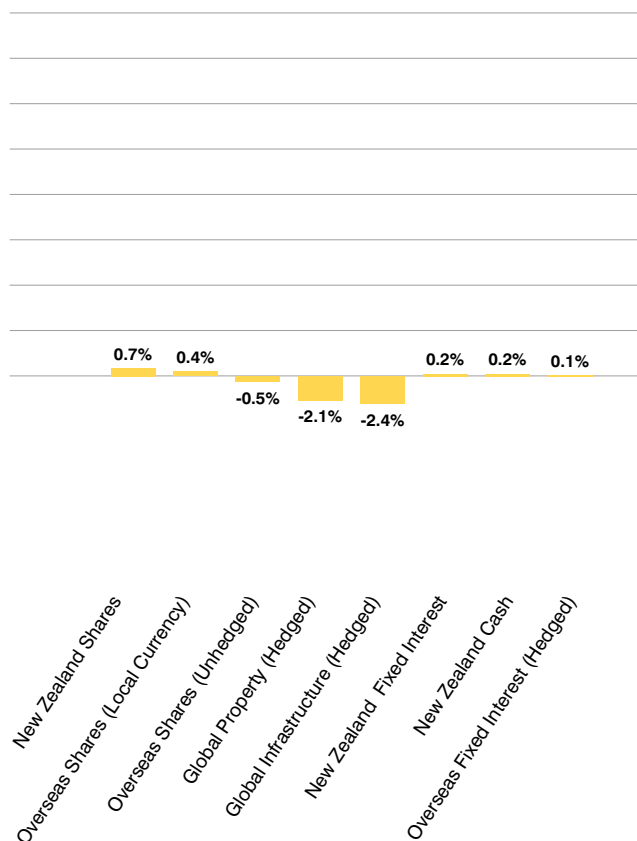
Investment options		1 Month	3 Months	FYTD*
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.07%	0.34%	0.60%
	Conservative	0.19%	1.59%	2.81%
	Moderate	-0.01%	1.68%	3.05%
	Balanced	0.08%	2.06%	3.91%
	Growth	0.05%	2.08%	4.25%
	High Growth	-0.03%	1.93%	4.58%
	Shares	-0.15%	1.30%	4.50%

### Notes

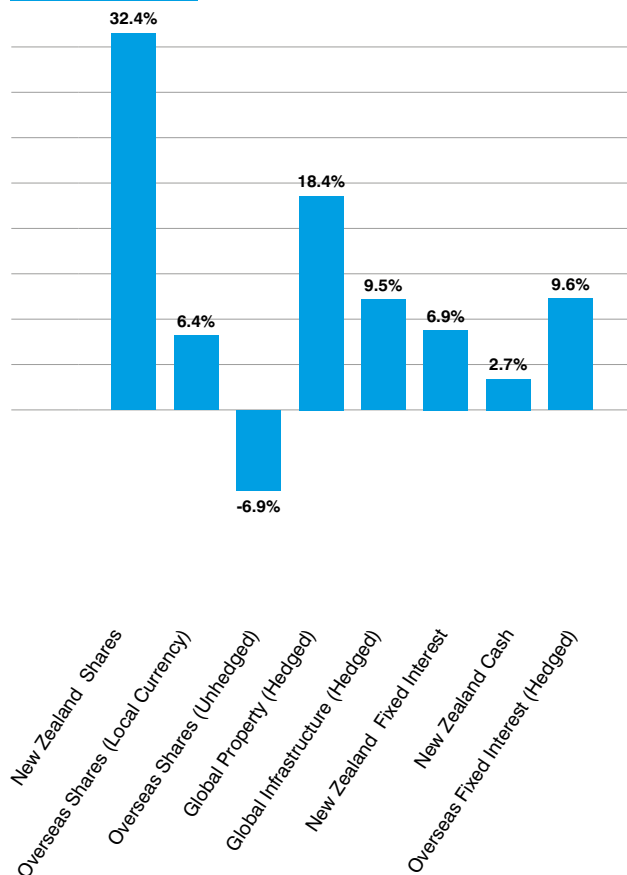
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# FINANCIAL MARKETS FOR PERIODS ENDED 31 AUGUST 2016

## ONE MONTH



## ONE YEAR



## KEY

### NZ SHARES

S&P/NZX 50 (with ICs)

### OVERSEAS SHARES (LOCAL CURRENCY)

MSCI World (Local Currency)

### OVERSEAS SHARES (UNHEGGED)

MSCI World (Unhedged)

### GLOBAL PROPERTY (HEGGED)

FTSE EPRA NAREIT Developed

### GLOBAL INFRASTRUCTURE (HEGGED)

FTSE Global Core Infrastructure 50/50

### NZ FIXED INTEREST

S&P/NZX NZ Government Bond

### NZ CASH

ANZ 90 Day Bank Bills

### OVERSEAS FIXED INTEREST (HEGGED)

Barclays Capital Global Aggregate



## JARGON BUSTERS

### HEDGE

It is a defensive strategy used to minimise investment risk. Often used for funds, investing in overseas investments, to reduce the negative effects of moves in currency exchange rates. When a fund, such as a overseas shares, is *unhedged*, investors are exposed to changes in the currency.

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