

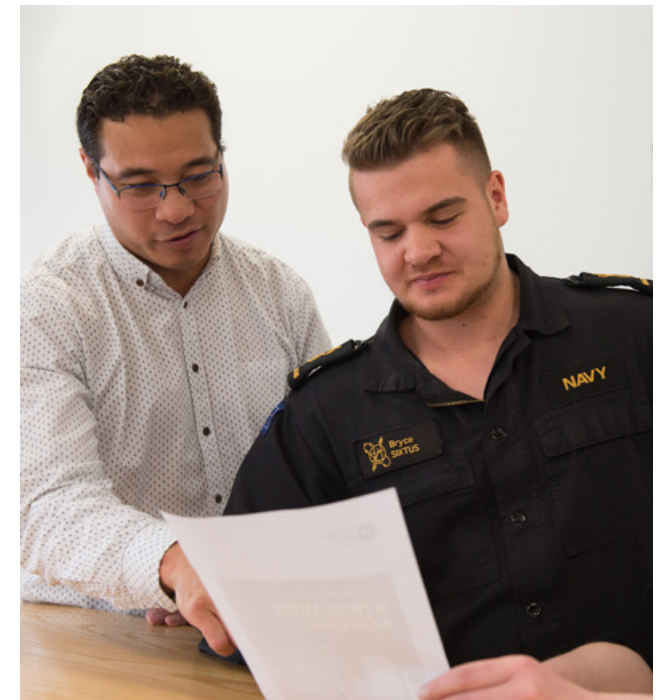
MONTHLY REPORT

For the period ended 28 February 2018

Month in a snapshot

- For the first time in quite a while we saw the share markets go up and down during the month of February. This was a result of an announcement made in US about the increasing debt level of the country. The share markets going down only lasted a few days and then a fast turnaround which saw the largest weekly gain since 2013.
- Unfortunately the negative outweighed the positive and this ended the 15 months' streak of positive returns for many investors, including investors in the NZDF Savings Schemes. All the New Zealand Defence Force Savings Scheme's investment options returned negative results, apart from the Cash option (which is to be expected due to it not having exposure to growth assets like shares).
- Now is not the time to be making rush decisions. Revisit your goals, check that the investment funds you selected are still right for your personal circumstances and if you are still considering switching your investment option, please call to speak with one of the Milestone Direct financial advisers on 0508 645 378.

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



Monthly Commentary Ended 28 February 2018

Early in February the announcement that the Government deficit in US would reach close to US\$1 trillion in 2018 aroused fears of inflation (price increases) and higher interest rates (which would make borrowing more expensive), pushed up bond yields (which sent bond prices down) and sent shocks through global share markets. The S&P 500 Index (a measure of US share prices) experienced its biggest loss in six years (at one point down -10%) before rebounding 8% in the next three days. This was the largest weekly gain since 2013.

However, the rebound wasn't enough to preserve the 15 month streak of positive returns from global share markets.

The MSCI World (Global Shares) Index closed out the month down -3.5% (in local terms), erasing much of January's gains. The NZ dollar fell against the US dollar over the month, cushioning the blow for unhedged global share assets, which fell by -1.8%. While global market volatility spilled over into the New Zealand and Australian markets, the strong performance of a2 milk softened the fall in New Zealand (down -0.8%) and contributed to a positive return in Australia (+0.4%). Bonds delivered flat returns due to the expectation of higher interest rates in the future (not a good thing for bond prices). Infrastructure and Property shares underperformed the broader share market as higher interest rates have a greater impact on this sector, as it increases borrowing costs as well as makes the dividend yield less attractive relative to corporate bonds (bonds issued by companies) and bank deposit rates.



Significant recent items include:



United States

After keeping interest rates on hold at the end of January the US Federal Reserve signaled its expectation of three interest rate hikes over the course of 2018. The next rate rise is widely anticipated to be announced following the next meeting on 21 March. Higher interest rates will increase borrowing costs and increase savings rates; this could in turn lead to less investment in growth.

Italy

The Italians head to the polls on the 4th of March. Much like the German election, it is expected to take some time to form a coalition.

Germany

A coalition agreement has finally been struck between Germany's Christian Democratic Union and the Social Democrats; it will see Angela Merkel continue to be Chancellor of Germany for her fourth term.

Korea

History was made this month when a member of the ruling North Korean Kim Dynasty visited South Korea for the first time since the end of the Korean War in 1953, sparking hopes of further diffusion of political tension between North Korea and the rest of the world.

Milestone Direct Monthly Commentary Ended 28 February 2018

The interesting market movements in February led to negative returns this month. While all funds lost ground, this would've been worse were it not for the strong value-add by active management in the NZDF Savings Schemes.

It always pays to stay mindful that the long-term approach to investing is the one widely regarded as the key to achieving success, and so results such as February need to be taken with a grain of salt. For example, returns across the last 12 months have been very strong, and above the benchmark. As the markets can be expected to pull back further after such a great run across recent years, it's a good time to keep in mind the wise words of the billionaire investor Warren Buffet:

"We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful."

For further information on anything mentioned above, or to discuss something else, give us a call on **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

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

Investment Returns For Periods Ended 28 February 2018

Defence Force Superannuation Scheme

PIR	Fund	1 Month %	3 Months %	FYTD %	1 Year %	3 Years %	5 Years %
28% prescribed investor rate (PIR)	Cash	0.10	0.33	1.21	1.33	-	-
	Conservative	-0.46	-0.13	3.48	4.05	-	-
	Moderate	-0.69	0.00	4.78	5.61	-	-
	Balanced	-1.23	-0.16	6.95	8.03	4.41	7.29
	Growth	-1.69	-0.29	8.61	10.31	-	-
	High Growth	-1.95	-0.17	10.64	12.79	-	-
	Shares	-2.22	-0.15	13.07	15.99	-	-
PIR	Fund	1 Month %	3 Months %	FYTD %	1 Year %	3 Years %	5 Years %
17.5% prescribed investor rate (PIR)	Cash	0.11	0.36	1.37	1.51	-	-
	Conservative	-0.40	0.01	3.83	4.42	-	-
	Moderate	-0.69	0.12	5.12	5.87	-	-
	Balanced	-1.26	0.00	7.30	8.30	4.64	7.68
	Growth	-1.74	-0.08	9.03	10.59	-	-
	High Growth	-2.00	0.11	11.10	13.07	-	-
	Shares	-2.20	0.23	13.75	16.53	-	-
PIR	Fund	1 Month %	3 Months %	FYTD %	1 Year %	3 Years %	5 Years %
10.5% prescribed investor rate (PIR)	Cash	-	-	-	-	-	-
	Conservative	-0.44	0.02	4.01	4.59	-	-
	Moderate	-	-	-	-	-	-
	Balanced	-1.26	0.11	7.43	8.38	4.73	7.91
	Growth	-	-	-	-	-	-
	High Growth	-2.02	0.27	11.34	13.20	-	-
	Shares	-2.29	0.38	13.82	16.50	-	-

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 2017

Investment Returns For Periods Ended 28 February 2018

New Zealand Defence Force KiwiSaver Scheme

PIR	Fund	1 Month %	3 Months %	FYTD %	1 Year %
28% prescribed investor rate (PIR)	Cash	0.10	0.32	1.21	1.33
	Conservative	-0.42	-0.07	3.51	4.09
	Moderate	-0.71	-0.02	4.74	5.50
	Balanced	-1.23	-0.19	6.79	7.98
	Growth	-1.70	-0.35	8.68	10.31
	High Growth	-1.95	-0.18	10.49	12.53
	Shares	-2.21	-0.15	12.97	15.81
PIR	Fund	1 Month %	3 Months %	FYTD %	1 Year %
17.5% prescribed investor rate (PIR)	Cash	0.11	0.37	1.38	1.52
	Conservative	-0.43	-0.02	3.75	4.32
	Moderate	-0.70	0.10	4.99	5.74
	Balanced	-1.26	-0.01	7.13	8.24
	Growth	-1.72	-0.05	9.17	10.68
	High Growth	-2.01	0.08	10.92	12.82
	Shares	-2.30	0.06	13.17	15.78
PIR	Fund	1 Month %	3 Months %	FYTD %	1 Year %
10.5% prescribed investor rate (PIR)	Cash	0.12	0.40	1.49	1.65
	Conservative	-0.44	-0.01	3.93	4.48
	Moderate	-0.71	0.15	5.22	5.94
	Balanced	-1.26	0.10	7.25	8.29
	Growth	-1.77	0.10	9.34	10.78
	High Growth	-2.03	0.24	11.06	12.85
	Shares	-2.32	0.32	13.55	16.17

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 2017

Investment Returns For Periods Ended 28 February 2018

New Zealand Defence Force FlexiSaver Scheme

PIR	Fund	1 Month %	3 Months %	FYTD %	1 Year %
28% prescribed investor rate (PIR)	Cash	0.09	0.28	1.01	1.12
	Conservative	-0.44	-0.12	3.17	3.75
	Moderate	-0.72	-0.03	4.60	5.38
	Balanced	-1.19	-0.21	6.48	7.66
	Growth	-1.68	-0.29	8.72	10.44
	High Growth	-1.95	-0.21	10.33	12.42
	Shares	-2.16	-0.18	12.82	15.67
PIR	Fund	1 Month %	3 Months %	FYTD %	1 Year %
17.5% prescribed investor rate (PIR)	Cash	0.12	0.40	1.35	1.47
	Conservative	-0.44	-0.04	3.64	4.20
	Moderate	-0.68	0.12	4.99	5.74
	Balanced	-1.21	0.06	7.10	8.22
	Growth	-1.73	-0.06	9.03	10.60
	High Growth	-1.99	0.12	10.81	12.70
	Shares	-2.24	0.16	13.36	16.07
PIR	Fund	1 Month %	3 Months %	FYTD %	1 Year %
10.5% prescribed investor rate (PIR)	Cash	0.11	0.37	1.30	1.43
	Conservative	-0.45	-0.06	3.78	4.33
	Moderate	-0.71	0.13	5.15	5.84
	Balanced	-1.25	0.13	7.21	8.28
	Growth	-1.75	0.12	9.39	10.85
	High Growth	-2.01	0.30	11.25	13.07
	Shares	-2.28	0.32	13.63	16.27

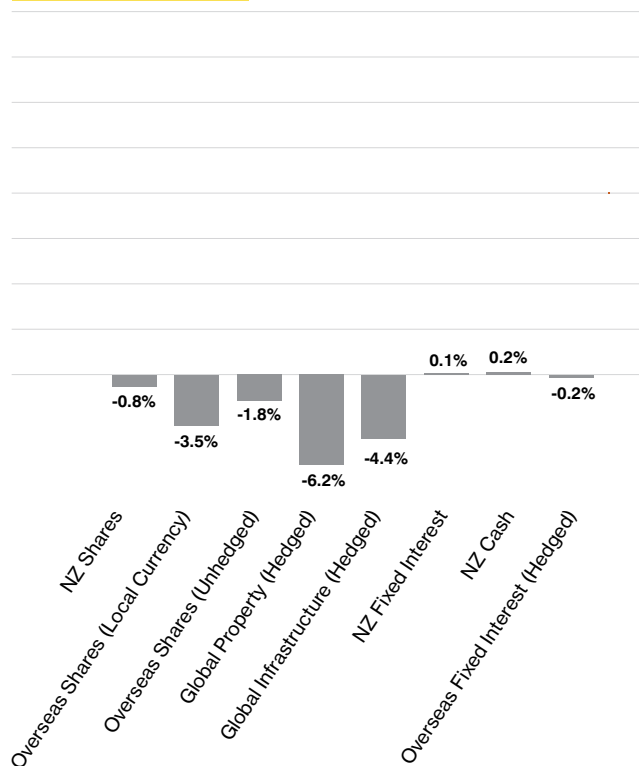
Notes

- 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.

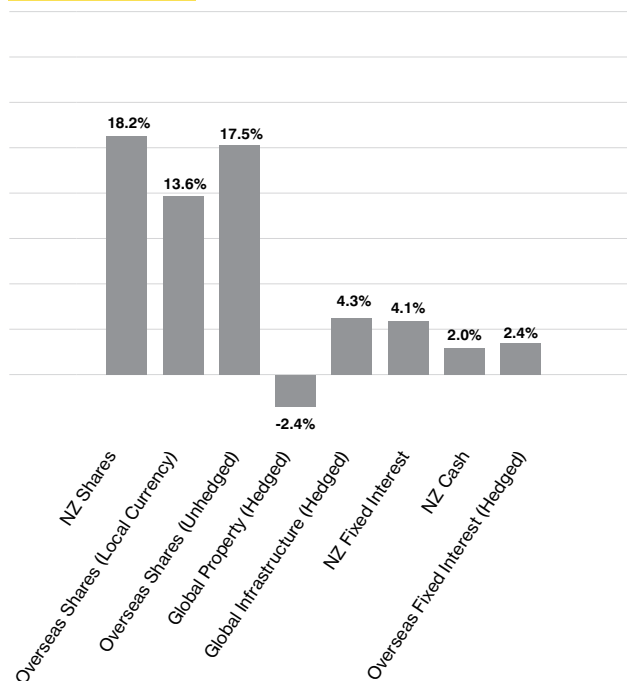
* FYTD means Financial Year to Date, which is from 1 April 2017

Financial Markets For Periods Ended 28 February 2018

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

S&P/NZX NZ Government Bond

NZ CASH

ANZ 90 Day Bank Bills

OVERSEAS FIXED INTEREST (HEDGED)

Barclays Capital Global Aggregate

This document was prepared by New Zealand Defence Force (NZDF), Milestone Direct and Mercer (N.Z.) Limited (Mercer). The document has been published as a general information service and does not take account of the investment objectives, financial situation and/or particular needs of any person. Before making any investment decision, you should take financial advice as to whether your intended action is appropriate in light of your particular investment needs, objectives and financial circumstances. Neither NZDF, Milestone Direct, nor Mercer or any related parties accepts any responsibility for any inaccuracy.