

MONTHLY REPORT

For the period ended 31 January 2018

Month in a snapshot

- Although it might not feel like this in February, shares have enjoyed a very good run to the end of January - 15 consecutive monthly gains. This is unprecedented since before 1970.
- All the New Zealand Defence Force Savings Scheme's investment options returned positive results for members in January.
- While we may see the markets going up and down this year, it is important to stick to your goals as any 'knee jerk' decisions might damage your longer-term objectives. If you are 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 31 January 2018

The first month of 2018 picked up where 2017 left off, with most global share markets (Australia and the UK aside) delivering positive returns. The global economy has grown at its fastest pace since the onset of the financial crisis (which began 10 years ago in 2008); this has played a large part in building market confidence and created a strong environment for shares to do well. However the fear of interest rates rising faster than expected has put upward pressure on bond markets (which deliver negative returns as interest rate yields go up) and put pressure on other interest rate sensitive sectors such as property and infrastructure over the month. Property and Infrastructure tend to struggle when interest rates are going up as they are sectors which investors view more attractively in periods of low interest rates and the dividends in that sector look attractive relative to bonds, in addition, higher interest rates means that these companies may need to pay higher interest rates on any debt they have (much like individuals do when mortgage rates increase).

The New Zealand share market underperformed other developed share markets in January, returning +0.5%. The Australian market also struggled, falling -0.4% over the month. Higher yielding markets such as New Zealand and Australia fell out of favour as investors sought higher returns in other markets. Returns for the New Zealand market over 12 months are now broadly in line with global markets, and still well ahead of Australia.

The MSCI World shares index (in local currency) had a strong month, returning +3.8%, supported by synchronised growth (this is where one market supports the growth of another market) across most markets. Defensive sectors (e.g. Real Estate, Telecommunications, Utilities and Consumer Staples) underperformed more growth orientated sectors (e.g. Information Technology and Consumer Discretionary) as continued stability in the markets and higher interest rates made riskier assets more attractive. Emerging markets, such as India, China, Russia and others upstaged developed markets such as US, UK, Australia and others yet again delivering +6.8%.



Significant recent items include:



China

China remains the engine room of global growth, growing 6.9% in 2017; the first annual acceleration for the economy since 2010.

United States

The first anniversary of the inauguration of US President Donald Trump was marked by a government shutdown, after a failure to pass legislation to fund government operations. The tax cuts enacted last year look set to put further pressure on the US debt ceiling in 2018.

Japan

Both the Bank of Japan and the European Central Bank maintained their respective monetary policies. Interest rates were left unchanged along with asset purchase programs. Most economic data in Europe indicates the economy is continuing to strengthen.

Europe

Coalition negotiations in Germany continued throughout January with a deal still outstanding at month end. The outcome could be crucial to political stability across Europe, with Italian and Russian Elections on the horizon (4 March and 18 March respectively).

New Zealand

New Zealand inflation (CPI) came in under expectations in Q4, up just 0.1%, as a range of food and retail prices fell over the December quarter. The annual increase for 2017 was 1.6%, led by construction (+5.3%), housing and household utilities (both +3%) and food and rent (+2.3%).

Milestone Direct Monthly Commentary Ended 31 January 2018

The NZDF Savings Schemes continued their upward trend this month, in large part owing to the upward trend in the US market.

The US market remains the lynchpin of the global economy and the driving force behind the rally in global markets over the last decade. However, as has been reported in previous monthly commentaries, most commentators expect the global economy, including the US, to be more volatile over coming years. This is because markets tend to move in cycles, which reflects that nothing can last forever.

This is where a well-regarded investment manager such as Mercer can offer investors peace of mind. Mercer (who are the investment manager for the NZDF funds) manage their funds actively, which means their investment team can more successfully negotiate any future obstacles and take advantage of future opportunities. Their selective, long-term approach to investing is the one most widely regarded as the key to achieving success.

It's worth keeping that in mind as the markets continue to progress through the cycle.

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 31 January 2018

Defence Force Superannuation Scheme

PIR	Fund	1 Month %	3 Months %	FYTD %	1 Year %	3 Years %	5 Years %
28% prescribed investor rate (PIR)	Cash	0.12	0.33	1.10	1.34	-	-
	Conservative	0.26	0.84	3.96	5.50	-	-
	Moderate	0.60	1.26	5.51	7.59	-	-
	Balanced	0.99	1.87	8.28	11.17	5.53	7.64
	Growth	1.39	2.41	10.48	14.64	-	-
	High Growth	1.68	2.96	12.84	17.84	-	-
	Shares	2.10	3.57	15.63	22.04	-	-
PIR	Fund	1 Month %	3 Months %	FYTD %	1 Year %	3 Years %	5 Years %
17.5% prescribed investor rate (PIR)	Cash	0.13	0.37	1.25	1.52	-	-
	Conservative	0.29	0.94	4.24	5.84	-	-
	Moderate	0.65	1.42	5.86	7.89	-	-
	Balanced	1.08	2.12	8.67	11.48	5.81	8.05
	Growth	1.51	2.74	10.96	14.90	-	-
	High Growth	1.84	3.38	13.36	18.12	-	-
	Shares	2.26	4.00	16.31	22.62	-	-
PIR	Fund	1 Month %	3 Months %	FYTD %	1 Year %	3 Years %	5 Years %
10.5% prescribed investor rate (PIR)	Cash	0.14	0.39	1.37	1.66	-	-
	Conservative	0.31	1.03	4.47	6.08	-	-
	Moderate	-	-	-	-	-	-
	Balanced	1.12	2.25	8.81	11.56	5.92	8.28
	Growth	-	-	-	-	-	-
	High Growth	1.91	3.56	13.63	18.24	-	-
	Shares	2.37	4.24	16.49	22.62	-	-

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 31 January 2018

New Zealand Defence Force KiwiSaver Scheme

PIR	Fund	1 Month %	3 Months %	FYTD %	1 Year %
28% prescribed investor rate (PIR)	Cash	0.12	0.33	1.11	1.36
	Conservative	0.28	0.84	3.95	5.48
	Moderate	0.60	1.25	5.49	7.46
	Balanced	0.97	1.83	8.13	11.14
	Growth	1.35	2.36	10.56	14.61
	High Growth	1.69	2.94	12.70	17.58
	Shares	2.08	3.53	15.52	21.87
PIR	Fund	1 Month %	3 Months %	FYTD %	1 Year %
17.5% prescribed investor rate (PIR)	Cash	0.13	0.37	1.26	1.54
	Conservative	0.29	0.94	4.19	5.78
	Moderate	0.65	1.40	5.73	7.76
	Balanced	1.07	2.09	8.50	11.43
	Growth	1.52	2.77	11.08	14.97
	High Growth	1.84	3.32	13.20	17.87
	Shares	2.23	3.87	15.83	21.90
PIR	Fund	1 Month %	3 Months %	FYTD %	1 Year %
10.5% prescribed investor rate (PIR)	Cash	0.15	0.40	1.37	1.67
	Conservative	0.29	0.98	4.38	5.97
	Moderate	0.67	1.49	5.97	7.99
	Balanced	1.11	2.20	8.62	11.45
	Growth	1.62	2.94	11.31	15.11
	High Growth	1.90	3.51	13.36	17.85
	Shares	2.35	4.21	16.25	22.34

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Investment Returns For Periods Ended 31 January 2018

New Zealand Defence Force FlexiSaver Scheme

PIR	Fund	1 Month %	3 Months %	FYTD %	1 Year %
28% prescribed investor rate (PIR)	Cash	0.10	0.28	0.91	1.15
	Conservative	0.26	0.83	3.64	5.18
	Moderate	0.59	1.22	5.36	7.42
	Balanced	0.94	1.74	7.76	10.78
	Growth	1.39	2.41	10.58	14.77
	High Growth	1.65	2.88	12.52	17.48
	Shares	2.00	3.50	15.31	21.73
PIR	Fund	1 Month %	3 Months %	FYTD %	1 Year %
17.5% prescribed investor rate (PIR)	Cash	0.16	0.40	1.22	1.56
	Conservative	0.28	0.93	4.10	5.68
	Moderate	0.64	1.41	5.71	7.77
	Balanced	1.09	2.11	8.41	11.36
	Growth	1.51	2.74	10.96	14.95
	High Growth	1.85	3.34	13.05	17.76
	Shares	2.20	3.94	15.96	22.15
PIR	Fund	1 Month %	3 Months %	FYTD %	1 Year %
10.5% prescribed investor rate (PIR)	Cash	0.14	0.36	1.19	1.48
	Conservative	0.28	0.94	4.24	5.85
	Moderate	0.64	1.48	5.91	7.88
	Balanced	1.13	2.25	8.56	11.46
	Growth	1.60	2.98	11.34	15.23
	High Growth	1.96	3.59	13.53	18.12
	Shares	2.31	4.17	16.29	22.41

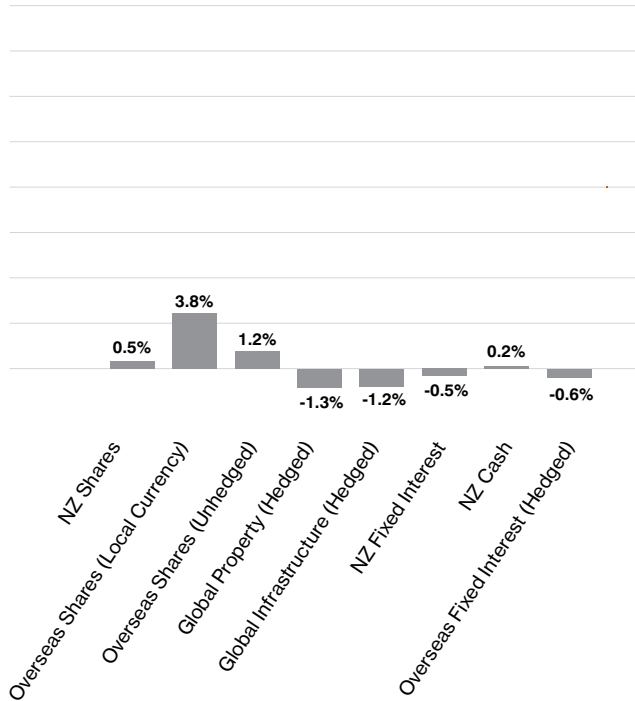
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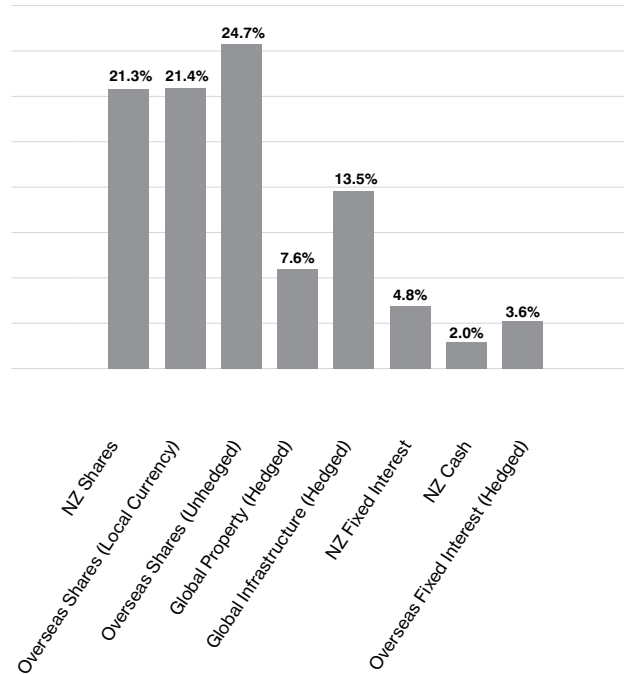
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Financial Markets For Periods Ended 31 January 2018

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

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