



MONTHLY REPORT

FOR PERIODS ENDED 31 JULY 2016

MONTH IN A SNAPSHOT

- Confidence returned as investors were getting over the initial surprise of the referendum which saw the United Kingdom vote to leave the European Union, known as “Brexit”.
- All investment options returned positive results for members in the New Zealand Defence Force Savings Schemes.
- Investment options, such as high growth and shares, which have riskier assets performed better than options which have a lower exposure to growth assets and invest in more defensive assets such as cash and bonds.

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



UPDATE FROM MILESTONE DIRECT GETTING STARTED IS OFTEN THE HARDEST DECISION

The New Zealand Defence Force Savings Schemes had another great month in July even though the world continued to be topsy turvy.

At the end of the month, I logged onto the portal and was thrilled to see that my fund had delivered a massive 4.205% after tax and fees just for the month! I am not so silly as to think that things will continue that way – because they just don't. There will inevitably be ups and downs and some months my account total will grow and other months it will go down.

I am saving into the High Growth Fund of the New Zealand Defence Force FlexiSaver Scheme. Being high growth, it means it has potentially more risk than the funds with less shares such as the Balanced, Moderate and Conservative funds. But when things are going well – then they do really well and July was a good month for me.

I remember the debate I had with my wife when I told her in January (one of those New Year resolution things) that I was going to save \$1,000 monthly into the High Growth fund. She warned me that we could not afford to put that amount of money aside and the world was too risky a place to be going into a fund which would have about a 90% allocation to growth investments like shares and property.

For me, I like to have the money out of sight and out of mind. FlexiSaver was ideal for me and much better than having it in the bank where my wife could be tempted to spend it on the kids. I had no particular goal in mind – I just wanted it to grow over time at a much better rate than what I could get in the bank. I knew I was unlikely to need that money in the next 7–10 years so taking a bit more risk to get a better earning rate appealed to me, especially since the money is not locked in with FlexiSaver. I knew I could get the money out when I needed it.

It is amazing how we all adjust to things. My wife and I don't miss the money that we are putting into FlexiSaver – we have just somehow adjusted our budget to what comes in via the pay packet and we don't feel as if we have been missing out on what we did before.

My FlexiSaver account balance may still be small at \$6,228 dollars after tax and fees but it gives me a real sense of purpose and excitement. I know that deep down, if we had not put that money into

FlexiSaver, then we would not have saved anywhere near that amount – possibly only half of it. I have also gained \$228 after tax and fees. That might seem small but it is about double if I had put the same amount of money into a bank savings scheme. The real excitement for me is looking at what it could become. If I continue to save the same amount for the next 20 years with an average earning rate of only 6% after tax and fees (I like to be conservative), then it will grow to a whopping \$473,413. If I happened to average over time a 7% after tax and fees return, then the same amount of money would be worth \$531,637. That's \$58,224 for doing nothing. Which-ever return I end up getting, the important thing to appreciate is that I would not have any of it if I had not made that first little decision to start saving.

David Greenslade

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

**Call 0508 MILESTONE (0508 645 378)
or email info@milestonedirect.co.nz**

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 JULY 2016

Confidence returned to global markets in July as investors put aside worries related to the surprise Brexit result in June, positively impacting returns across all investment options in the New Zealand Defence Force Savings Schemes.

Share markets delivered strong returns over the month across all developed countries, though none performed quite as strong as the New Zealand share market. NZ Shares have delivered a return of 6.5% during the month and an astonishing 25.6% over the past 12 months. This strong return has been driven by low interest rates worldwide which has made the NZ share market, which pays the second highest dividend yields (returns) in the world (second to the Czech Republic), extremely attractive to investors.

While the appetite for riskier investments increased, “safe haven” investments such as bonds performed strongly, which reflects the view that the outlook for global interest rates is that they will remain low for some time. Currently, a staggering 35% of government bonds have a negative yield, this means that in some countries, such as Switzerland and Japan, investors have no incentive to put money in the bank as they receive no interest, but instead, pay the bank to have their money deposited there. This is done to help stimulate spending in these countries. So put in perspective, deposit rates in New Zealand banks, though lower than we are used to, are still attractive compared to other countries in the developed world.



JARGON BUSTERS

BOND

A bond is a security issued by a government or company to raise money. The purchaser of the bond effectively lends money to the government or company issuing the bond and receives interest at a fixed rate until a specific date (maturity), when the investor receives back the amount of the original loan. The price of bonds fluctuates as interest rates move. If rates rise, bond prices fall. If rates fall, bond prices rise.

SAFE HAVEN

It is an *investment* that is expected to retain its value or even increase its value in times of market ups and downs.

YIELD

Return on an investment compared to either the original investment or the market value of the investment.

SIGNIFICANT RECENT ITEMS INCLUDE:



▼ AUSTRALIA

The Australian election resulted in a victory (by a narrow margin) to the Liberal/National coalition and provided a boost to their share market which helped investors. Australian shares had their largest monthly increase since October 2011.

▼ NEW ZEALAND

Further lending restrictions were announced by the Reserve Bank of New Zealand (RBNZ) to try and cool the over-heated housing market. The RBNZ also signalled that it may further cut rates in its July economic update due to the strong New Zealand dollar (which negatively impacts exports) and a weak inflation outlook.

▼ JAPAN

The Bank of Japan kept its policy rate and bond purchase program unchanged, disappointing markets that were anticipating more stimulus as Japan still battles with low inflation and growth.

▼ UNITED STATES

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

INVESTMENT RETURNS FOR PERIODS ENDED 31 JULY 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%	0.40%	0.52%	–	–	–
	Conservative	1.24%	1.89%	2.22%	–	–	–
	Moderate	1.80%	2.33%	2.72%	–	–	–
	Balanced	2.62%	2.68%	3.20%	2.30%	7.50%	8.51%
	Growth	3.47%	3.13%	3.73%	–	–	–
	High Growth	4.21%	3.50%	4.18%	–	–	–
	Shares	4.87%	3.30%	3.95%	–	–	–

Investment options		1 Month	3 Months	FYTD*	1 Year	3 Years	5 Years
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.15%	0.46%	0.59%	–	–	–
	Conservative	1.30%	2.12%	2.50%	–	–	–
	Moderate	1.84%	2.57%	2.98%	–	–	–
	Balanced	2.68%	2.97%	3.55%	3.01%	8.09%	9.08%
	Growth	3.46%	3.35%	3.99%	–	–	–
	High Growth	4.24%	3.83%	4.59%	–	–	–
	Shares	5.09%	3.91%	4.61%	–	–	–

Investment options		1 Month	3 Months	FYTD*	1 Year	3 Years	5 Years
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	–	–	–	–	–	–
	Conservative	–	–	–	–	–	–
	Moderate	–	–	–	–	–	–
	Balanced	2.71%	3.17%	3.78%	3.42%	8.46%	9.45%
	Growth	–	–	–	–	–	–
	High Growth	4.24%	3.98%	4.78%	–	–	–
	Shares	5.07%	3.98%	4.63%	–	–	–

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 JULY 2016

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME

Investment options		1 Month	3 Months	FYTD*	1 Year
28% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.13%	0.38%	0.50%	–
	Conservative	1.21%	1.87%	2.20%	–
	Moderate	1.67%	2.18%	2.55%	–
	Balanced	2.61%	2.77%	3.27%	–
	Growth	3.34%	3.00%	3.57%	–
	High Growth	4.13%	3.37%	3.97%	–
	Shares	4.90%	3.50%	4.11%	–

Investment options		1 Month	3 Months	FYTD*	1 Year
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.16%	0.45%	0.58%	–
	Conservative	1.28%	2.05%	2.42%	–
	Moderate	1.79%	2.45%	2.90%	–
	Balanced	2.66%	3.07%	3.59%	–
	Growth	3.49%	3.37%	4.04%	–
	High Growth	4.12%	3.50%	4.15%	–
	Shares	4.91%	3.70%	4.36%	–

Investment options		1 Month	3 Months	FYTD*	1 Year
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.16%	0.48%	0.62%	–
	Conservative	1.32%	2.30%	2.70%	–
	Moderate	1.83%	2.67%	3.10%	–
	Balanced	2.65%	3.18%	3.67%	–
	Growth	3.49%	3.59%	4.25%	–
	High Growth	4.24%	3.96%	4.75%	–
	Shares	5.08%	3.88%	4.63%	–

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INVESTMENT RETURNS FOR PERIODS ENDED 31 JULY 2016

NEW ZEALAND DEFENCE FORCE FLEXISAVER SCHEME

Investment options		1 Month	3 Months	FYTD*
28% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.13%	0.34%	0.44%
	Conservative	1.21%	1.90%	2.17%
	Moderate	1.77%	2.20%	2.57%
	Balanced	2.59%	2.57%	3.04%
	Growth	3.37%	3.01%	3.60%
	High Growth	4.17%	3.43%	4.04%
	Shares	4.87%	3.36%	4.05%

Investment options		1 Month	3 Months	FYTD*
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.20%	0.44%	0.53%
	Conservative	1.21%	2.01%	2.34%
	Moderate	1.79%	2.43%	2.81%
	Balanced	2.65%	3.04%	3.61%
	Growth	3.43%	3.35%	4.04%
	High Growth	4.19%	3.69%	4.45%
	Shares	5.00%	3.70%	4.33%

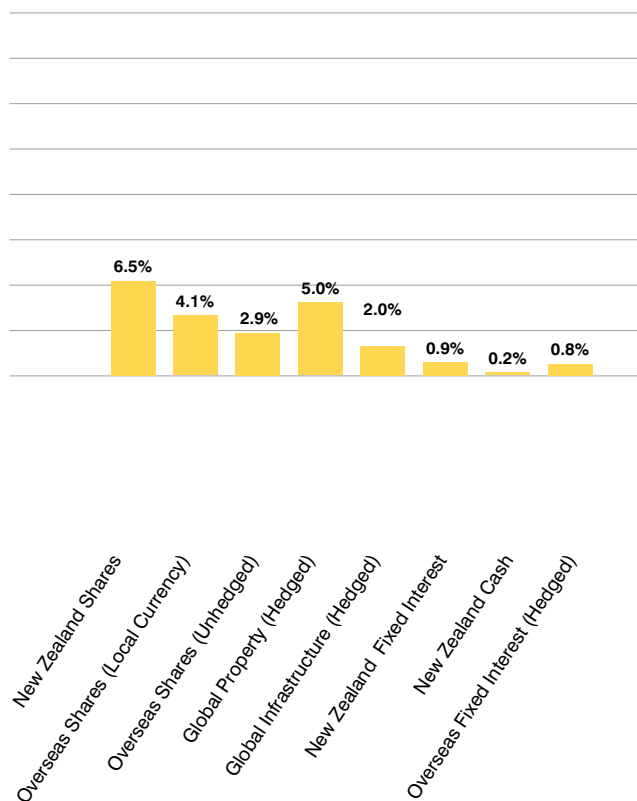
Investment options		1 Month	3 Months	FYTD*
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.14%	0.41%	0.53%
	Conservative	1.30%	2.21%	2.61%
	Moderate	1.83%	2.55%	3.05%
	Balanced	2.67%	3.23%	3.82%
	Growth	3.48%	3.52%	4.19%
	High Growth	4.14%	3.83%	4.61%
	Shares	5.03%	3.90%	4.66%

Notes

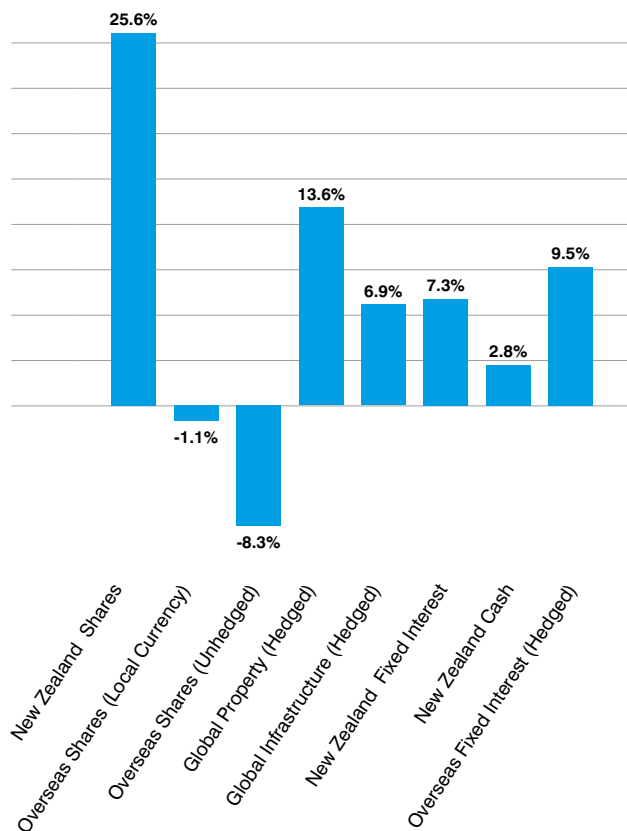
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FINANCIAL MARKETS FOR PERIODS ENDED 31 JULY 2016

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

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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