



MONTHLY REPORT

FOR PERIODS ENDED 31 MARCH 2016

THE MONTH AT A GLANCE

- Solid growth overall across the three schemes
- The High Growth and Shares funds grew particularly strongly
- This strong performance helped to pull all funds into positive growth for the last three months
- The New Zealand economy appears to be in a reasonable space, but internationally a number of regions (e.g. Australia, Europe) face significant uncertainty. Looking forward this creates an uncertain investment market.

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



UPDATE FROM MILESTONE DIRECT

MERCER PROVES ITS WORTH WITH SMART INVESTMENT DECISIONS

March was another stunner of a month for investment returns for NZDF Savings Schemes. All funds had positive returns. The higher the fund exposure to growth investments like shares and property, then the higher the return was for the month.

Navigating your way around the investment markets is often fraught with danger and what appears to be the best investment today is often a loser the following month or year. Some investment managers take big risks to get their investors a reasonable return. This might work in the short term but often fails over the long term.

Fortunately, Mercer is a pretty safe pair of hands and it likes to spread your money into a number of different asset classes (such as cash, shares, fixed interest and property) to reduce your risk, and then manage the amount in each asset class in order to reduce the extreme ups and downs that occur in some investors' portfolios. This prudent approach has been good for investors in NZDF Savings Schemes over recent months.

Mercer has recently produced a great tool called the "Periodic Investment Table". When you click on an index, it will show you the varying performance of that index since 2008 and just how much different indices move each year. Mercer uses its skill to combine different investments together in what it believes are the most favourable amounts for the selected risk profile of each fund (this is called asset allocation). The aim is to get you a good return for the level of risk you are prepared to take.

Try this "Periodic Investment Table" for yourself by clicking [here](#) or visit the [Force Financial Hub](#).

What this tool clearly shows is that all indices and asset classes go up and down like the proverbial yoyo, from one year to the next. Trying to chase last year's winner will often result in losses or reduced returns. This is where actively managed multi-sector funds such as those offered in the NZDF Savings Schemes come to the fore. They are a great way for those leading busy lives to save for the medium to long term.

WOULD YOU LIKE FLEXISAVER WITH THAT?

When we order a burger we get asked "would you like fries with that?"

NZDF saving solutions are a bit like a burger (New Zealand Defence Force KiwiSaver Scheme) and fries (New Zealand Defence Force FlexiSaver Scheme). They have been designed to work best together.

Unlike the KiwiSaver scheme, FlexiSaver scheme is not 'locked in' so you can access your money as and when you like. This makes it an ideal saving vehicle for goals that are three or more years into the future. The New Zealand Defence Force FlexiSaver Scheme has the same wide range of investment options as the KiwiSaver scheme and being a member qualifies you for the 16 monthly Prezzy Card draws. It also boasts low fees and great investment returns.

Give the team at Milestone Direct a call to discuss whether you are in the right fund for your risk profile plus the advantages of opening up a FlexiSaver fund to mirror your New Zealand Defence Force KiwiSaver Scheme fund.

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

UPDATE FROM MERCER

March saw the bull get back up off its haunches as share markets closed the month positively for the first time in 2016.

A recovery in oil prices, lower short-term interest rates from major central banks and stable U.S. economic data helped restore confidence in global markets.

However, confidence remains on a knife-edge, with gold (traditionally a “safe-haven” asset that goes up when investors are risk averse) posting its largest quarterly gains in three years and low earning season expectations, there are indications not all are convinced that the rally will be sustained.



CUTTING THROUGH THE JARGON

BULL AND BEAR MARKETS

A bear market is when investors are not confident enough to put money into growth assets (such as shares and property), and the reduced demand for growth assets results in the prices of these assets falling. Bear markets can often be driven by changes in economic prospects and can be centered in one region but are generally felt globally.

A bull market is the complete opposite to a bear market, it is when investors put money into growth assets as they are confident about future economic prospects. Due to increased demand for growth assets, prices rise.

Why do they call them bull and bear markets? Well that isn't completely clear. Some say it is because a bull charges at a fast speed when it attacks and a bear is more sluggish, others say it is because when a bull attacks it does so with its horns in up high while a bear swipes down (like up and down markets), whatever the definition is, fund returns are a lot stronger when the bull is in control.



SIGNIFICANT RECENT ITEMS INCLUDE:



▼ UNITED STATES

The U.S. unemployment rate rose to 5.0% in March (first monthly increase since May 2015). However, markets concentrated on the 2.8 million jobs added over the last 12 months, which still indicates an expanding U.S. economy.

▼ CHINA

China's biggest banks posted their lowest annual profit in a decade. Three major banks reported their annual results, which included a write off of USD\$22 billion in debt which couldn't be recovered. This irrecoverable debt is 40% higher than 2014.

Both Moody's and Standard & Poor's cut the Chinese government credit rating in March due to fears that the transition to domestic-led economic growth is proceeding more slowly than expected.

▼ EUROPE

Central banks were supposed to be out of ammunition in 2016. However, March saw the European Central Bank cut to new lows by continuing to stimulate the economy by buying financial assets from commercial banks and other financial institutions, thus raising the prices of those financial assets and lowering their return, while at the same time increasing the money supply. Central bank of US (the Fed) also softened its position on future rate hikes, and other central banks continue implementing similar measures.

INVESTMENT RETURNS FOR PERIODS ENDED 31 MARCH 2016

DEFENCE FORCE SUPERANNUATION SCHEME

Investment options		1 Month	3 Months	FYTD*	1 Year	3 Years	5 Years
28% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.18%	0.45%	–	–	–	–
	Conservative	1.11%	1.42%	–	–	–	–
	Moderate	1.56%	1.57%	–	–	–	–
	Balanced	2.47%	1.79%	–0.55%	–0.55%	7.18%	6.01%
	Growth	3.07%	1.67%	–	–	–	–
	High Growth	3.78%	1.58%	–	–	–	–
	Shares	5.00%	1.41%	–	–	–	–

Investment options		1 Month	3 Months	FYTD*	1 Year	3 Years	5 Years
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.21%	0.55%	–	–	–	–
	Conservative	1.21%	–	–	–	–	–
	Moderate	1.65%	1.81%	–	–	–	–
	Balanced	2.60%	1.92%	–0.73%	–0.73%	7.54%	6.59%
	Growth	3.23%	1.59%	–	–	–	–
	High Growth	3.98%	1.58%	–	–	–	–
	Shares	5.20%	1.55%	–	–	–	–

Investment options		1 Month	3 Months	FYTD*	1 Year	3 Years	5 Years
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	–	–	–	–	–	–
	Conservative	–	–	–	–	–	–
	Moderate	–	–	–	–	–	–
	Balanced	2.68%	1.96%	–0.92%	–0.92%	7.76%	6.97%
	Growth	–	–	–	–	–	–
	High Growth	4.03%	–	–	–	–	–
	Shares	5.24%	1.65%	–	–	–	–

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 2015

INVESTMENT RETURNS FOR PERIODS ENDED 31 MARCH 2016

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME

Investment options		1 Month	3 Months	FYTD*	1 Year
28% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.18%	0.45%	–	–
	Conservative	1.13%	1.47%	–	–
	Moderate	1.52%	1.41%	–	–
	Balanced	2.39%	1.49%	–	–
	Growth	3.01%	1.39%	–	–
	High Growth	3.79%	1.42%	–	–
	Shares	4.86%	1.13%	–	–

Investment options		1 Month	3 Months	FYTD*	1 Year
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.19%	–	–	–
	Conservative	1.23%	1.76%	–	–
	Moderate	1.64%	1.64%	–	–
	Balanced	2.49%	1.63%	–	–
	Growth	3.15%	1.41%	–	–
	High Growth	3.95%	1.57%	–	–
	Shares	5.06%	1.30%	–	–

Investment options		1 Month	3 Months	FYTD*	1 Year
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.20%	–	–	–
	Conservative	1.25%	–	–	–
	Moderate	1.70%	1.81%	–	–
	Balanced	2.50%	1.77%	–	–
	Growth	3.33%	1.72%	–	–
	High Growth	4.06%	1.43%	–	–
	Shares	5.30%	1.42%	–	–

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INVESTMENT RETURNS FOR PERIODS ENDED 31 MARCH 2016

NEW ZEALAND DEFENCE FORCE FLEXISAVER SCHEME

Investment options		1 Month	3 Months	FYTD*
28% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.16%	0.44%	–
	Conservative	1.20%	1.57%	–
	Moderate	1.55%	1.56%	–
	Balanced	2.29%	1.47%	–
	Growth	2.96%	1.26%	–
	High Growth	3.78%	1.27%	–
	Shares	4.90%	1.15%	–

Investment options		1 Month	3 Months	FYTD*
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.15%	0.42%	–
	Conservative	1.18%	1.88%	–
	Moderate	1.64%	1.64%	–
	Balanced	2.51%	1.78%	–
	Growth	3.25%	1.61%	–
	High Growth	3.94%	1.41%	–
	Shares	5.11%	1.31%	–

Investment options		1 Month	3 Months	FYTD*
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.22%	n/a	–
	Conservative	1.26%	1.92%	–
	Moderate	1.58%	1.77%	–
	Balanced	2.55%	1.91%	–
	Growth	3.29%	1.92%	–
	High Growth	4.05%	1.46%	–
	Shares	5.16%	1.52%	–

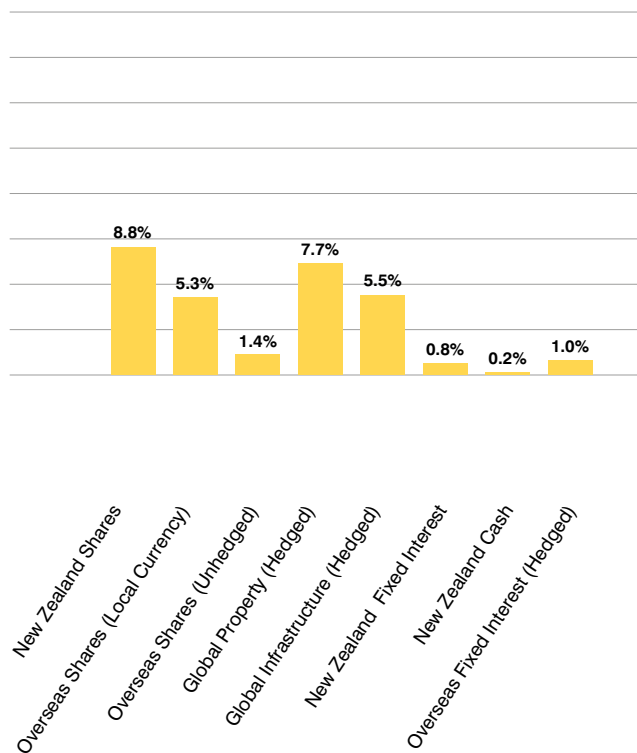
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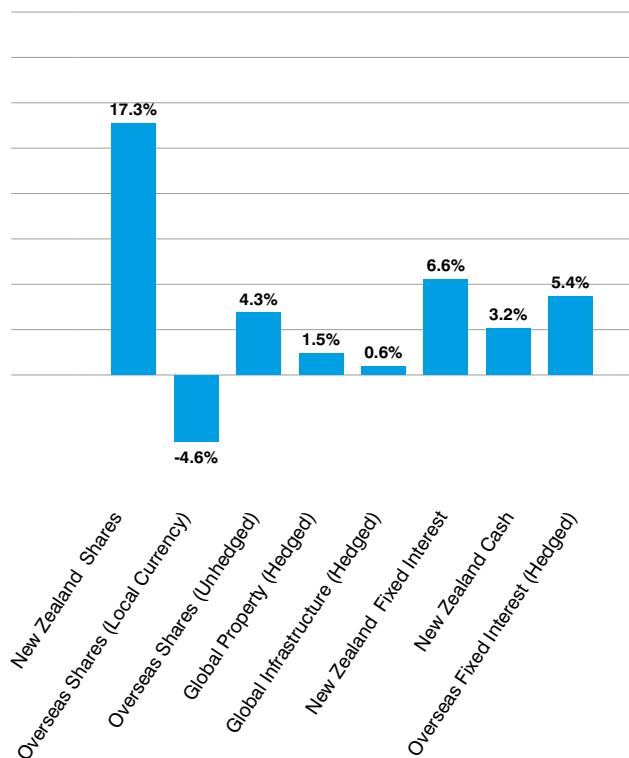
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FINANCIAL MARKETS FOR PERIODS ENDED 31 MARCH 2016

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

CUTTING THROUGH THE JARGON

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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