



MONTHLY REPORT

FOR PERIOD ENDED 31 MAY 2017

MONTH IN A SNAPSHOT

- May delivered very modest returns to investors due to weakened growth in the US and China, although supported by growth in the Eurozone and Japan.
- Most of the NZDF Savings Schemes' funds delivered positive returns, with only High Growth and Shares delivering slightly negative returns due to higher exposure to global share markets.
- You should have received your annual member statements by now for all three Schemes. Please sign in to your member online account at www.nzdf.superfacts.co.nz. It is particularly important for you to review your investment options and ensure you have the correct tax rate (prescribed investor rate).

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



MILESTONE DIRECT COMMENTARY

MIND THE GAP

May was a mixed bag for the New Zealand Defence Force saving scheme funds. The lower risk funds all showed a healthy gain whilst the higher risk funds such as the growth, high growth and shares funds showed a small after tax and after fees loss for the month. However, over a three month period, these higher risk funds have all shown an excellent gain.

Investment returns have been particularly good for a number of years now and this tends to lull investors into a false sense of security. However, markets around the world are now starting to get pricier so it is likely that monthly returns will have more ups and downs (we call it volatility).

This should not be a reason to stop contributing to your investment. A recent global survey from Morningstar research titled 'Mind the Gap' indicated that over the past 10 years, the average investor has lagged behind the average managed fund by about .8% per annum. The reason for this is that many investors try to 'time the market' in that they try to pick the very best time to invest and the very best time to sell.

Clearly, most of us mere mortals cannot do this on a consistent basis so it is best to stick to a disciplined savings regime where we contribute a regular amount every pay. By doing this, we rely upon the skills of Mercer to make the right calls on when to sit in cash and when to buy and sell. Mercer can also use their research and skills to invest into countries and businesses that are likely to do well over the long term vs what seems to be the flavour of the month investments highlighted in newspapers and on TV.

As the markets become more volatile, the skill set of Mercer will become more evident as they smooth out the inevitable ups and downs that markets endure over the short term.



Give the team at Milestone Direct a call to discuss any investment or other financial advice issues you may have.

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

A Disclosure Statement is available on request and free of charge

MERCER COMMENTARY

Global share and bond markets marched on in May despite continued geopolitical uncertainty. While economic growth weakened in the US and China, economic data from the Eurozone and Japan positively surprised everyone, providing a boost to the regions' share markets. At the same time, inflation across the globe remains low, delaying normalisation of interest rates and providing support for bond prices.

New Zealand Shares delivered a modest positive return of +0.6% for the month of May, supported by increasing dairy prices, steady retail sales growth and declining unemployment. In Australia, the ASX 200 fell -2.8%, reflecting the pessimistic consensus on the upcoming Australia GDP announcement for quarter one.

Global share markets moved higher in May, led by European, Asian and Emerging Markets. The MSCI World Index rose +1.5% in local currency terms. The outcome of the French election was generally positive for markets across Europe, supporting trade and economic co-operation across the region. The UK market was particularly strong, rising 4.8% over the month.

Both Global Listed Property and Global Listed Infrastructure delivered positive returns. The Global Property market benefitted from the decline of long term bond yields (making existing yields more attractive and pushing up prices). Global Listed Infrastructure continues to perform strongly on the expectation of increased infrastructure spending across many developed markets.



SIGNIFICANT RECENT ITEMS INCLUDE:



▼ UNITED STATES

The US withdrew from the Paris Climate Accord, which seeks to reduce carbon emissions and slow the effects of climate change. The unconventional move has brought criticism from major European nations and threatens to further weaken political and economic alliances with the US. This could have implications for companies that derive revenues from global trade.

▼ AUSTRIA

OPEC extended its cut in oil production by another nine months until March 2018. Reducing the oil supply would typically result in higher prices. However, prices dropped on the news, signaling that investors may have expected a longer extension than announced.

▼ FRANCE

Markets welcomed the outcome of the French presidential election with the centrist (pro-European) candidate, Emmanuel Macron, winning against populist candidate, Marine Le Pen. However, political risks remained elevated with the UK Prime Minister, Theresa May, calling for an early general election which was held on 8 June and which didn't pan out as well as she'd hoped.

▼ NEW ZEALAND

The New Zealand dollar strengthened against all major currencies in May after falling over the past 3 months. The largest rise was against the Australian dollar (+3.9%), while closing back above US70c (up +3.4% for the month).

INVESTMENT RETURNS FOR PERIOD ENDED 31 MAY 2017

DEFENCE FORCE SUPERANNUATION SCHEME

Investment options		1 Month	3 Months	FYTD*	1 Year	3 Years p.a.	5 Years p.a.
28% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.12%	0.35%	0.23%	1.40%	–	–
	Conservative	0.28%	1.55%	0.99%	3.47%	–	–
	Moderate	0.22%	1.94%	1.14%	4.94%	–	–
	Balanced	0.16%	2.53%	1.50%	6.78%	5.71%	8.42%
	Growth	0.00%	3.41%	1.81%	9.24%	–	–
	High Growth	-0.10%	4.00%	2.02%	10.34%	–	–
	Shares	-0.45%	4.90%	2.25%	11.01%	–	–

Investment options		1 Month	3 Months	FYTD*	1 Year	3 Years p.a.	5 Years p.a.
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.14%	0.40%	0.25%	1.59%	–	–
	Conservative	0.36%	1.65%	1.07%	3.89%	–	–
	Moderate	0.35%	1.98%	1.26%	5.37%	–	–
	Balanced	0.32%	2.61%	1.66%	7.33%	6.02%	8.97%
	Growth	0.18%	3.39%	1.94%	9.65%	–	–
	High Growth	0.12%	4.00%	2.18%	11.02%	–	–
	Shares	-0.15%	4.97%	2.47%	12.26%	–	–

Investment options		1 Month	3 Months	FYTD*	1 Year	3 Years p.a.	5 Years p.a.
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.15%	0.43%	0.27%	–	–	–
	Conservative	0.44%	1.65%	1.08%	–	–	–
	Moderate	–	–	–	–	–	–
	Balanced	0.42%	2.63%	1.73%	7.64%	6.19%	9.30%
	Growth	–	–	–	–	–	–
	High Growth	0.22%	3.89%	2.18%	11.46%	–	–
	Shares	-0.08%	4.84%	2.43%	12.42%	–	–

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 PERIOD ENDED 31 MAY 2017

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME

Investment options		1 Month	3 Months	FYTD*	1 Year
28% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.12%	0.34%	0.22%	1.39%
	Conservative	0.27%	1.52%	0.95%	3.34%
	Moderate	0.20%	1.81%	1.07%	4.48%
	Balanced	0.14%	2.61%	1.48%	6.71%
	Growth	0.00%	3.31%	1.79%	8.76%
	High Growth	-0.15%	3.79%	1.91%	9.90%
	Shares	-0.37%	4.87%	2.30%	10.83%

Investment options		1 Month	3 Months	FYTD*	1 Year
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.15%	0.41%	0.27%	1.61%
	Conservative	0.37%	1.60%	1.04%	3.67%
	Moderate	0.30%	1.94%	1.22%	5.19%
	Balanced	0.29%	2.66%	1.61%	7.25%
	Growth	0.18%	3.32%	1.91%	9.46%
	High Growth	0.02%	3.80%	2.05%	10.49%
	Shares	-0.22%	4.64%	2.28%	11.54%

Investment options		1 Month	3 Months	FYTD*	1 Year
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.16%	0.44%	0.29%	1.73%
	Conservative	0.42%	1.66%	1.12%	4.00%
	Moderate	0.38%	1.98%	1.29%	5.41%
	Balanced	0.36%	2.63%	1.65%	7.39%
	Growth	0.28%	3.36%	2.01%	9.91%
	High Growth	0.15%	3.77%	2.13%	11.21%
	Shares	-0.11%	4.72%	2.36%	12.14%

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INVESTMENT RETURNS FOR PERIOD ENDED 31 MAY 2017

NEW ZEALAND DEFENCE FORCE FLEXISAVER SCHEME

Investment options		1 Month	3 Months	FYTD*	1 Year
28% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.09%	0.28%	0.17%	1.17%
	Conservative	0.16%	1.35%	0.78%	3.11%
	Moderate	0.17%	1.84%	1.08%	4.56%
	Balanced	0.03%	2.46%	1.34%	6.45%
	Growth	0.00%	3.39%	1.79%	8.87%
	High Growth	-0.19%	3.81%	1.88%	10.00%
	Shares	-0.41%	4.74%	2.16%	10.77%

Investment options		1 Month	3 Months	FYTD*	1 Year
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.15%	0.35%	0.23%	1.61%
	Conservative	0.36%	1.58%	1.04%	3.40%
	Moderate	0.32%	1.95%	1.23%	4.88%
	Balanced	0.30%	2.66%	1.60%	7.24%
	Growth	0.10%	3.32%	1.86%	9.48%
	High Growth	0.05%	3.81%	2.06%	10.36%
	Shares	-0.25%	4.74%	2.30%	11.44%

Investment options		1 Month	3 Months	FYTD*	1 Year
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.13%	0.39%	0.26%	1.45%
	Conservative	0.42%	1.64%	1.10%	3.89%
	Moderate	0.37%	1.93%	1.27%	4.86%
	Balanced	0.35%	2.66%	1.64%	7.54%
	Growth	0.30%	3.40%	2.04%	10.01%
	High Growth	0.20%	3.87%	2.20%	10.97%
	Shares	-0.10%	4.74%	2.37%	12.00%

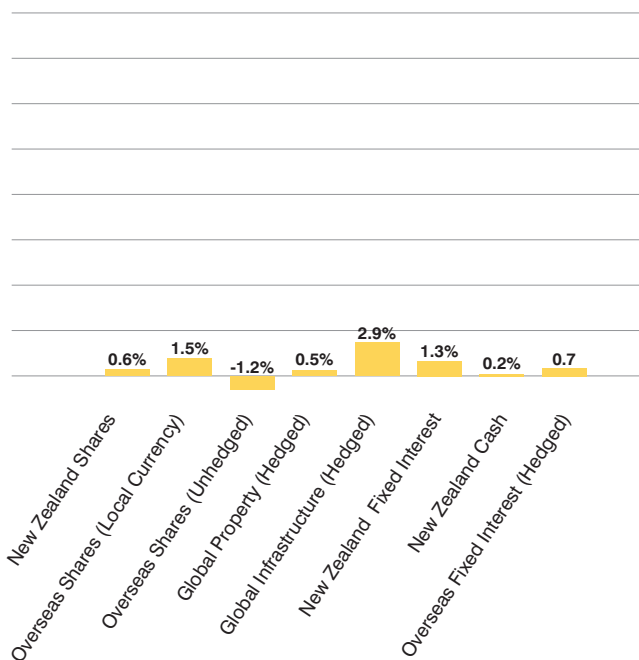
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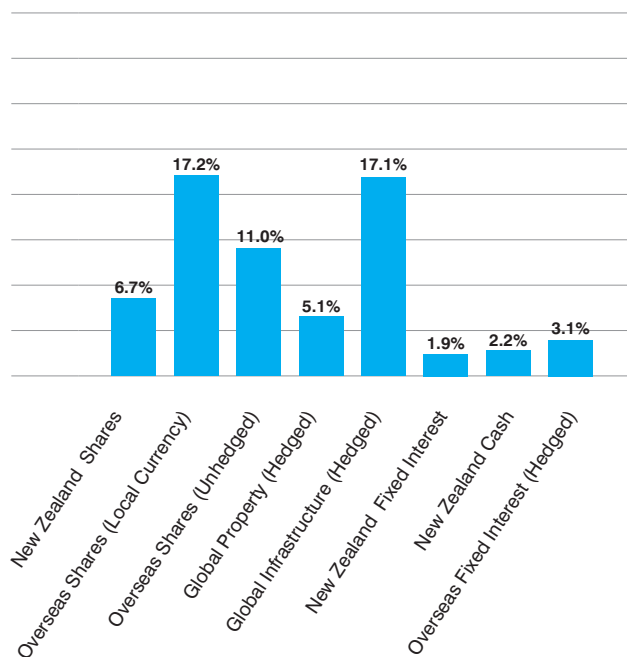
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FINANCIAL MARKETS FOR PERIOD ENDED 31 MAY 2017

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

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.

YIELD

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

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