



# MONTHLY REPORT

FOR PERIODS ENDED 30 JUNE 2016

## MONTH IN A SNAPSHOT

- Investment funds were impacted by events in Britain (the vote that determined that the UK leaves the European Union)
- As expected during ups and downs in the market the only option to have positive returns was the Cash option, however returns for the quarter are still all positive for most options (except High Growth and Shares that were slightly negative)

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



# UPDATE FROM MILESTONE DIRECT

## BE BOLD WHEN OTHERS ARE FEARFUL

**June was a classic month where being bold in the investment markets when others are fearful can potentially lead to you making a good capital gain over time.**

The investment markets are like a yoyo. They will always go up and down and the shorter the timeframe in which you look at the markets, the bigger the yoyo movements seem to be.

June was a whooper of a month – especially with the world holding its breath around Brexit. Investment markets like certainty and when investors around the world do not know what will happen (ie: would Britain stay in the EU or leave), then they tend to sell investments that could be impacted by the UK leaving the EU and place their money into safe investments such as US dollars. Selling on a large scale as occurred in June result in share prices falling. If you are a positive thinker and believe that the sun will come up the next day and that the world will not go to hell in a handcart, then it makes sense to use surplus cash to invest into the New Zealand Defence Force FlexiSaver Scheme and select the funds with a higher proportion of shares in them. This includes the growth, high growth or shares fund. We do not recommend you use the FlexiSaver funds to speculate (ie; buying with the intention of selling shortly for a good capital gain). Money invested into the funds with a higher proportion in shares should be saved for the medium to long term. However, investing in June when the unit prices were cheap is like going to the supermarket and buying items when they are on special.

If an investment was a good one in May and was worth hypothetically \$1.00, and it fell in June to 70 cents, then provided the quality of the investment has not gone down, it is like buying the investment on special. This is what fund managers like Mercer do and this is what you can do if you have surplus money and want to move some of it into FlexiSaver when prices are down.

The team at Milestone Direct are there to talk you through any issues or concerns and assist you to select the right investment funds for your particular risk profile and goals.

**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](mailto: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.



## HOW HAVE THE MAJOR ASSETS PERFORMED

### Trans-Tasman Shares

The New Zealand share market (NZX 50) for the first time since January got itself into a negative territory, declining -1.9% as the local market absorbed the Brexit decision. The NZX 50 has been a standout performer over the past year returning 21.9%, driven by low interest rates, high dividends and surprisingly strong economic data. Across the Tasman, the Australian share market (ASX 200) declined -2.5% awaiting the outcome of the national election.

### Global Equity (Shares)

Global share markets, as measured by the MSCI World Index, largely withstood the hurricane of the UK referendum. After an immediate selloff, they bounced back in the final days of June, to end the month down -1.3%. Despite the ups and downs, Global shares have returned +1.3% for the quarter.

### Property and Infrastructure

In June, Global Listed Property returned +3.1% and Global Listed Infrastructure returned +3.4%. The dividends or income have made these asset classes attractive as investors around the world are faced with low interest rates. Commodities (e.g oil or dairy products) rose by over 4% in June to be up nearly 14% for 2016, but are still down nearly 12% over the last 12 months.

### New Zealand Bonds and Cash

The New Zealand bond market (e.g local government stocks) provided a positive return as bond prices increased during the month. Interest rates declined (which is positive for bonds) throughout the month with the 10 year bond yield finishing the month at 2.34%, the seventh straight month of declines. Following the Brexit vote, markets began to price in further rate cuts this year by the Reserve Bank of New Zealand.

### Global Bonds

Interest rates continued to decline in June resulting in a positive month for global bonds and pushing annual returns into double digits. Investors see bonds as a safe haven, so following more uncertainty in Europe, global bonds performed well. German 10-year bonds reached record lows, joining Japan and Switzerland with yields below zero. The UK 10-year government bond also traded at record lows, ending June at 1.0%.

## 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.

### COMMODITY

A commodity is any raw material, such as oil, gold and cattle, traded on an exchange or in the cash market. The main commodity groupings are energy (oil, gas etc), agriculture (wheat, corn, soya beans, coffee, sugar, cotton etc), industrial metals (aluminium, copper, zinc etc), precious metals (gold, silver etc) and livestock (live cattle, lean hogs etc). Returns from commodities are independent of shares and fixed interest returns. Therefore, adding broad commodity exposure can help diversify a portfolio, lowering risk and potentially boosting return.

### YIELD

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

## SIGNIFICANT RECENT ITEMS INCLUDE:



### UPDATE FROM MERCER

Global markets ended the first half of 2016 the same way they started: with ups and downs in the returns and uncertainty impacting investors in the New Zealand Defence Force Savings Schemes. On 24 June markets around the world responded to the Brexit vote with a sharp selloff in most share markets, and a rise in bond prices. The “Leave” vote of the Brits reignited political and economic concerns for the European Union. However the initial reaction to the vote appeared to be short lived (for now at least), as investors rediscovered their faith in central banks and share markets rebounded, closing out the month with three straight days of positive returns.

#### ▼ UNITED KINGDOM

The UK’s referendum on membership of the EU resulted in a victory for the “leave” campaign, sending markets into a temporary tailspin. Following the vote to leave, Brexit sparked a series of events: on the morning of the announcement the UK Prime Minister, David Cameron, resigned, Scotland reignited speculation of a UK breakup, and European leaders started to request the resignation of the EU President.

#### ▼ ITALY

The Italian banking system deteriorated further during the month as its banks ended June sitting on a combined USD\$401 billion of bad debts (25% of Italy’s GDP). Overcoming this obstacle will be largely dependent on negotiations between the Italian government and the Eurozone.

#### ▼ NEW ZEALAND

The New Zealand dollar strengthened during the month against all major currencies, with the exception of the Japanese Yen (-2.6%). Despite a drop immediately following the Brexit vote, the New Zealand dollar continued to appreciate during the month as troubles in Europe and our comparatively high interest rates resulted in the New Zealand dollar remaining attractive. Rising dairy prices supported positive sentiment about the local economy.



# INVESTMENT RETURNS FOR PERIODS ENDED 30 JUNE 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%	0.39%	0.39%	–	–	–
	Conservative	–0.14%	0.97%	0.97%	–	–	–
	Moderate	–0.38%	0.90%	0.90%	–	–	–
	Balanced	–1.00%	0.57%	0.57%	0.83%	7.34%	6.62%
	Growth	–1.80%	0.25%	0.25%	–	–	–
	High Growth	–2.52%	–0.02%	–0.02%	–	–	–
	Shares	–3.90%	–0.88%	–0.88%	–	–	–

Investment options		1 Month	3 Months	FYTD*	1 Year	3 Years	5 Years
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.14%	0.45%	0.45%	–	–	–
	Conservative	–0.01%	1.18%	1.18%	–	–	–
	Moderate	–0.21%	1.12%	1.12%	–	–	–
	Balanced	–0.80%	0.85%	0.85%	1.49%	7.96%	7.18%
	Growth	–1.58%	0.51%	0.51%	–	–	–
	High Growth	–2.28%	0.34%	0.34%	–	–	–
	Shares	–3.53%	–0.46%	–0.46%	–	–	–

Investment options		1 Month	3 Months	FYTD*	1 Year	3 Years	5 Years
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	–	–	–	–	–	–
	Conservative	–	–	–	–	–	–
	Moderate	–	–	–	–	–	–
	Balanced	–0.66%	1.04%	1.04%	1.87%	8.35%	7.54%
	Growth	–	–	–	–	–	–
	High Growth	–2.10%	0.52%	0.52%	–	–	–
	Shares	–3.39%	–0.41%	–0.41%	–	–	–

### 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 30 JUNE 2016

## NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME

Investment options		1 Month	3 Months	FYTD*	1 Year
28% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.12%	0.37%	0.37%	–
	Conservative	–0.11%	0.98%	0.98%	–
	Moderate	–0.36%	0.87%	0.87%	–
	Balanced	–1.02%	0.64%	0.64%	–
	Growth	–1.80%	0.22%	0.22%	–
	High Growth	–2.55%	–0.16%	–0.16%	–
	Shares	–3.73%	–0.75%	–0.75%	–

Investment options		1 Month	3 Months	FYTD*	1 Year
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.14%	0.42%	0.42%	–
	Conservative	0.04%	1.12%	1.12%	–
	Moderate	–0.19%	1.09%	1.09%	–
	Balanced	–0.78%	0.90%	0.90%	–
	Growth	–1.59%	0.53%	0.53%	–
	High Growth	–2.37%	0.03%	0.03%	–
	Shares	–3.52%	–0.52%	–0.52%	–

Investment options		1 Month	3 Months	FYTD*	1 Year
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.15%	0.46%	0.46%	–
	Conservative	0.12%	1.35%	1.35%	–
	Moderate	–0.11%	1.24%	1.24%	–
	Balanced	–0.68%	1.00%	1.00%	–
	Growth	–1.40%	0.74%	0.74%	–
	High Growth	–2.08%	0.49%	0.49%	–
	Shares	–3.40%	–0.43%	–0.43%	–

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# INVESTMENT RETURNS FOR PERIODS ENDED 30 JUNE 2016

## NEW ZEALAND DEFENCE FORCE FLEXISAVER SCHEME

Investment options		1 Month	3 Months	FYTD*
28% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.11%	0.31%	0.31%
	Conservative	-0.08%	0.94%	0.94%
	Moderate	-0.40%	0.79%	0.79%
	Balanced	-1.04%	0.44%	0.44%
	Growth	-1.80%	0.22%	0.22%
	High Growth	-2.54%	-0.13%	-0.13%
	Shares	-3.82%	-0.78%	-0.78%

Investment options		1 Month	3 Months	FYTD*
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.14%	0.33%	0.33%
	Conservative	0.01%	1.11%	1.11%
	Moderate	-0.22%	1.00%	1.00%
	Balanced	-0.81%	0.94%	0.94%
	Growth	-1.57%	0.58%	0.58%
	High Growth	-2.34%	0.25%	0.25%
	Shares	-3.54%	-0.64%	-0.64%

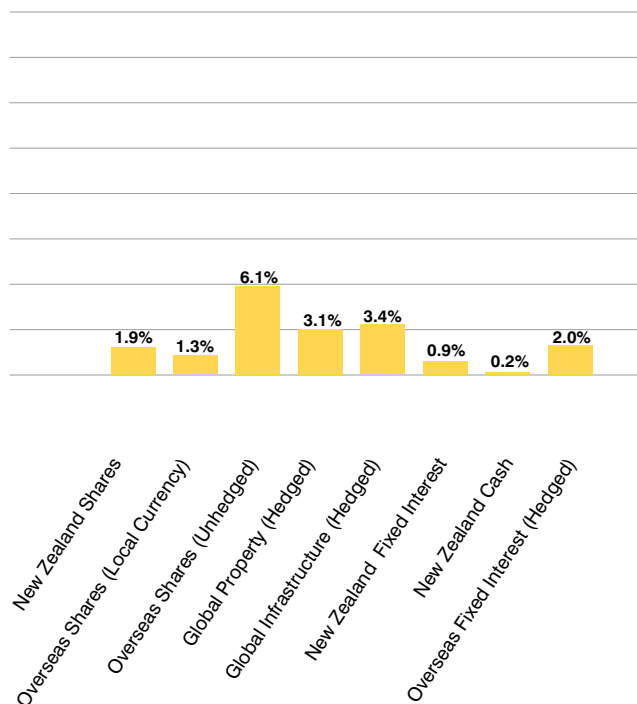
Investment options		1 Month	3 Months	FYTD*
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.13%	0.40%	0.40%
	Conservative	0.09%	1.29%	1.29%
	Moderate	-0.14%	1.20%	1.20%
	Balanced	-0.68%	1.12%	1.12%
	Growth	-1.41%	0.69%	0.69%
	High Growth	-2.09%	0.46%	0.46%
	Shares	-3.41%	-0.35%	-0.35%

### Notes

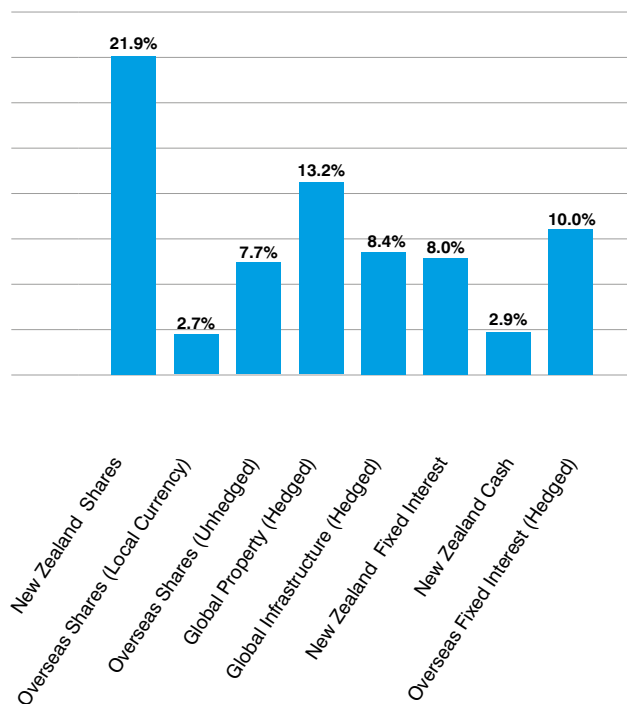
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# FINANCIAL MARKETS FOR PERIODS ENDED 30 JUNE 2016

## ONE MONTH



## ONE YEAR



## KEY

### NZ SHARES

S&P/NZX 50 (with ICs)

### OVERSEAS SHARES (LOCAL CURRENCY)

MSCI World (Local Currency)

### OVERSEAS SHARES (UNHEDED)

MSCI World (Unhedged)

### GLOBAL PROPERTY (HEDED)

FTSE EPRA NAREIT Developed

### GLOBAL INFRASTRUCTURE (HEDED)

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 (HEDED)

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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