

MONTHLY REPORT

For the period ended 31 August 2020

Market performance summary – August in a snapshot

- August was a relatively good and a positive month for the share markets, despite some countries experiencing a second wave of coronavirus;
- New Zealand Defence Force Savings Schemes continued to perform well this month, with all funds having positive returns;
- If you are an NZDF member or a member of one of the NZDF Savings Schemes, you have access to financial advice through Milestone Direct (MDL). You can contact the team at Milestone Direct on **0508 MILESTONE (0508 645 378)**.
- If you are keen to learn more about how the investment markets work and what low interest rates mean for investors, listen into a series of investment Podcasts brought to you by MDL and the Force Financial Hub. Access via YouTube.



Monthly Commentary Ended 31 August 2020

Share markets pushed even higher in August, held up by the continued improvements in global manufacturing data and an indication of more accommodating policies from central banks.

At a sectoral level:

- Companies of non-essential goods and services outperformed other sectors, with e-commerce giant Amazon having a very strong month;
- Utilities such as electricity, natural gas and water trailed behind other sectors;
- Expectations for the production of goods and services continued to look positive, with manufacturing levels expected to continue to increase;
- Commodities were largely positive with Crude Oil, Copper and Iron having strong months due to an increase in manufacturing output (because of economies gradually reopening from COVID-19 lockdowns), which in turn helped industrial metal prices to recover.

Global shares soared higher over August, aided by ongoing easing monetary policy by central banks (such as keeping interest rates low), and the outperformance of tech stocks in the US, resulting in shares being up by +6.3% (in local currency). Emerging markets, which include some notable markets such as China, Russia, India and Brazil, were up +0.7% in unhedged New Zealand dollars. Emerging market returns were reinforced by improved manufacturing activity and a further positive revision to Chinese economic growth forecasts.

Meanwhile, global listed property was up by +2.1%, with continued low interest rates supporting the sector. However infrastructure was down -0.3%, impacted by the return of varying levels of lockdown impacting infrastructure projects.

Both New Zealand (+1.8%) and Australian (+2.8%) share markets continued their positive upward trend in August, despite New Zealand returning to varying levels of lockdown across the country. New Zealand shares also up +11.8% over the past 12 months, supported by a2 Milk and Fisher & Paykel, which make up 30% of the index.

Bond markets were mixed, with New Zealand (+0.8%) continuing to deliver positive returns, while Global Bonds (-0.7%) slipped as rates rose. The New Zealand 10-year bond yield finished lower at 0.61%, briefly touching a low of 0.55%, while the return on cash remained flat. Yet the US 10-year bond yield ended the month higher at 0.71%, rising as a result of better-than-expected economic data as US manufacturing activity continued to rebound from its pandemic lows.



Significant developments include:



United States

US Federal Reserve chairman, Jerome Powell, outlined an enhanced stance on monetary policy at the virtual Jackson Hole gathering of central bankers (from the key international economies). This included greater flexibility for temporary increases in inflation (rather than having a fixed target) allowing the US central bank to overshoot its 2% target for stubbornly low inflation. This further perpetuates the expectations that US rates will remain at very low levels for years to come.

Global

The global number of COVID-19 cases topped 25 million at month-end, with deaths exceeding 844,000. Just under a quarter of globally reported cases are in the US. Meanwhile, Australia has now confirmed over 25,000 cases, and New Zealand has over 1,700 in light of a recent Auckland cluster.

Australia

Australia officially entered into a technical recession (two consecutive quarters of declining economic growth) for the first time since 1991. The drop of a -7.0% reduction in output in the second quarter – the largest drop since records started in 1959 – followed a -0.3% decline in the first quarter, which was worse than the -6.0% drop expected by many economists.

Milestone Direct Monthly Commentary Ended 31 August 2020

The recent rocky period in financial markets has brought to the surface some familiar emotions for many, including a strong urge to try to “time the market”. The temptation is to sell just before investment markets fall, then buy in again just before they rise. You might have heard some people refer to this as “buy low and sell high”.

What’s more, the most seemingly well-informed people – the kind who religiously read the business and financial news – are usually the ones who feel most compelled to try and perfectly time their exit and entry points.

This suspicion that “sophisticated” investors are the most prone to try and outwit the market has been supported by numerous studies. You might think that those who were trading more actively would be more experienced, sophisticated and able to control themselves – but that seems not to be the case – as trading (the regular buying and selling process) becomes addictive. Some people might be prompted to try trading or similar activities after seeing success stories circulated on well-polished social media accounts – but even if those success stories are real, they aren’t a reality for most. That said, while most people don’t broadcast their failures on social media (or anywhere else for that matter!), Japanese billionaire Yusaku Maezawa recently bucked this trend and posted online that he’d lost the mammoth sum of NZ\$61 million through day trading – which he admitted he had not “familiarised” himself with. The likely behavioural issues that lead to such losses, and how they can impact all investors are well documented by financial researchers. Commonly cited traits include:

- lack of diversification,
- excessive trading,
- going by hunches,
- a reluctance to sell losers,
- responding to media stories, and
- buying based on past performance.

Mostly, these traits stem from over-confidence. So how do we get our egos and emotions out of the investment process?

You might not realise it, but if you’re reading this, you probably have a secret weapon when it comes to overcoming these investing issues: discipline. Study after study has shown that those who can exercise self-discipline and to avoid trying to time the market make the best long-haul investors.



Members of the NZDF saving schemes who:

- (i) Have taken advice from Milestone Direct or who have selected their investment option based on the fund selection tools made available for the scheme (including reviewing their selection annually, or if things change); and
- (ii) Are regularly contributing to their NZDF scheme investments, are definitely taking steps in the right direction to avoid the pitfalls of attempting to time the markets.

It would be our pleasure to discuss how you can make the most of a disciplined approach to your NZDF savings schemes investments, and/or other investments if you wish.

0508 MILESTONE (0508 645 378)
info@milestonedirect.co.nz

Joseph Darby
Chief Executive
Milestone Direct

Investment Returns For Periods Ended 31 August 2020

New Zealand Defence Force FlexiSaver Scheme

PIR	Fund	1 Month %	3 Months %	FYTD* %	1 Year %	3 Years %
28% prescribed investor rate (PIR)	Cash	0.00	-0.01	0.01	0.37	0.90
	Conservative	0.56	2.04	5.31	2.53	3.55
	Moderate	0.85	3.01	7.18	2.83	3.97
	Balanced	1.46	4.62	10.74	3.57	4.93
	Growth	2.14	5.99	14.21	3.96	5.71
	High Growth	2.63	7.07	16.97	4.50	6.53
	Shares	3.16	8.20	20.84	6.40	7.83
PIR	Fund	1 Month %	3 Months %	FYTD* %	1 Year %	3 Years %
17.5% prescribed investor rate (PIR)	Cash	0.00	-0.02	0.00	0.40	1.04
	Conservative	0.57	2.29	5.74	2.91	3.93
	Moderate	0.90	3.31	7.71	3.35	4.35
	Balanced	1.50	4.84	11.25	3.83	5.34
	Growth	2.19	6.29	14.93	4.62	6.14
	High Growth	2.69	7.41	17.61	5.36	7.01
	Shares	3.18	8.53	21.40	7.12	8.23
PIR	Fund	1 Month %	3 Months %	FYTD* %	1 Year %	3 Years %
10.5% prescribed investor rate (PIR)	Cash	0.00	-0.02	0.02	0.46	1.09
	Conservative	0.58	2.41	6.05	3.04	4.13
	Moderate	0.88	3.43	7.98	3.53	4.61
	Balanced	1.52	5.00	11.64	4.22	5.58
	Growth	2.19	6.48	15.18	4.96	6.35
	High Growth	2.70	7.73	18.17	5.66	7.21
	Shares	3.23	8.83	22.09	7.73	8.52

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 June differ from the actual after fees and tax returns achieved by individual investors.

* FYTD means Financial Year to Date, which is from 1 April 2020

Investment Returns For Periods Ended 31 August 2020

New Zealand Defence Force KiwiSaver Scheme

PIR	Fund	1 Month %	3 Months %	FYTD* %	1 Year %	3 Years %
28% prescribed investor rate (PIR)	Cash	0.01	0.01	0.05	0.48	1.02
	Conservative	0.54	2.12	5.40	2.71	3.66
	Moderate	0.85	3.05	7.28	3.26	4.17
	Balanced	1.47	4.56	10.76	3.44	5.00
	Growth	2.12	5.92	14.20	3.96	5.70
	High Growth	2.60	7.09	17.06	4.60	6.56
	Shares	3.19	8.24	20.73	6.58	7.85
PIR	Fund	1 Month %	3 Months %	FYTD* %	1 Year %	3 Years %
17.5% prescribed investor rate (PIR)	Cash	0.01	0.01	0.05	0.53	1.16
	Conservative	0.63	2.36	5.88	3.37	4.16
	Moderate	0.88	3.33	7.69	3.30	4.40
	Balanced	1.49	4.84	11.34	4.16	5.45
	Growth	2.19	6.28	14.93	4.42	6.11
	High Growth	2.65	7.49	17.76	5.37	7.00
	Shares	3.26	8.60	21.56	6.97	8.12
PIR	Fund	1 Month %	3 Months %	FYTD* %	1 Year %	3 Years %
10.5% prescribed investor rate (PIR)	Cash	0.01	0.01	0.05	0.60	1.27
	Conservative	0.62	2.50	6.21	3.53	4.38
	Moderate	0.92	3.54	8.14	3.79	4.72
	Balanced	1.55	5.08	11.72	4.18	5.55
	Growth	2.24	6.53	15.31	4.84	6.29
	High Growth	2.73	7.72	18.25	5.67	7.14
	Shares	3.23	8.77	22.03	7.19	8.27

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Investment Returns For Periods Ended 31 August 2020

Defence Force Superannuation Scheme

PIR	Fund	1 Month %	3 Months %	FYTD* %	1 Year %	3 Years %
28% prescribed investor rate (PIR)	Cash	0.01	0.01	0.05	0.49	1.02
	Conservative	0.56	2.17	5.43	2.65	3.64
	Moderate	0.86	3.12	7.29	3.06	4.12
	Balanced	1.48	4.62	10.82	3.57	5.09
	Growth	2.11	5.94	14.28	3.94	5.75
	High Growth	2.57	7.05	17.14	4.72	6.59
	Shares	3.15	8.26	21.11	6.60	7.84
PIR	Fund	1 Month %	3 Months %	FYTD* %	1 Year %	3 Years %
17.5% prescribed investor rate (PIR)	Cash	0.01	0.01	0.06	0.58	1.17
	Conservative	0.60	2.37	5.95	3.10	4.07
	Moderate	0.96	3.40	7.87	3.70	4.59
	Balanced	1.58	4.99	11.47	4.14	5.51
	Growth	2.19	6.37	15.03	4.81	6.23
	High Growth	2.66	7.55	18.02	5.66	7.11
	Shares	3.25	8.65	21.69	7.33	8.28
PIR	Fund	1 Month %	3 Months %	FYTD* %	1 Year %	3 Years %
10.5% prescribed investor rate (PIR)	Cash	-	-	-	-	-
	Conservative	-	-	-	-	-
	Moderate	0.89	3.43	8.03	3.66	4.73
	Balanced	1.48	5.02	11.70	4.30	5.65
	Growth	2.18	6.54	15.29	4.97	6.38
	High Growth	2.70	7.71	18.21	5.94	7.33
	Shares	3.24	8.83	22.08	7.96	8.57

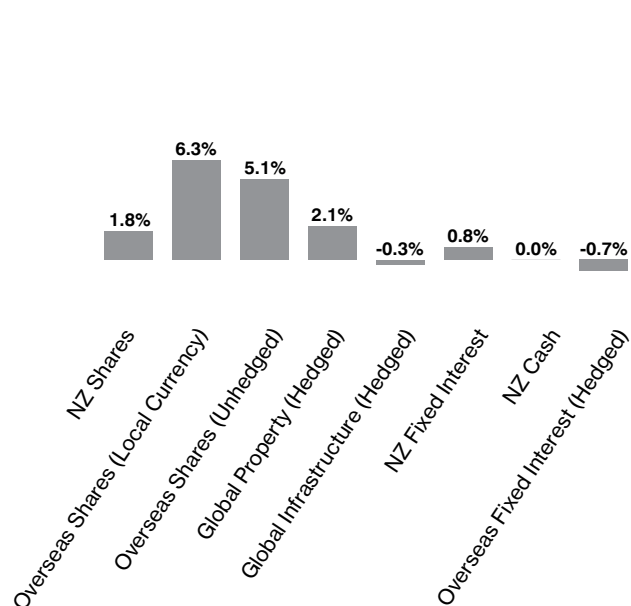
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- '-' indicates that investment option was not operating for the full period or did not have funds invested for the full period.

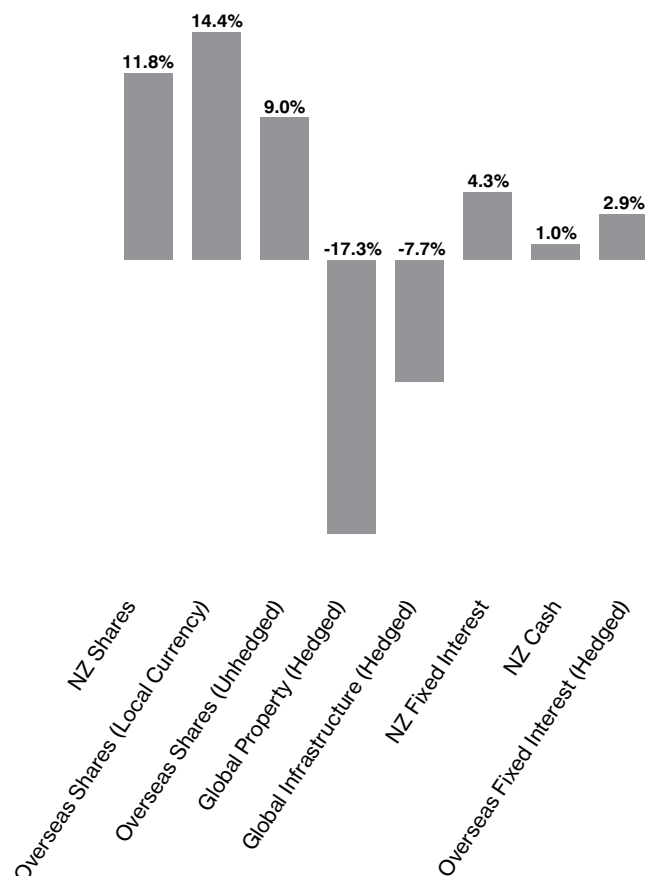
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Financial Markets For Periods Ended 31 August 2020

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

Bloomberg NZ Bond Composite

NZ CASH

ANZ 90 Day Bank Bills

OVERSEAS FIXED INTEREST (HEDGED)

Bloomberg Global Aggregate

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