



MONTHLY REPORT

FOR PERIODS ENDED 30 APRIL 2016

MONTH IN A SNAPSHOT

- Markets continue to recover
- All investment funds across all three schemes performed well and delivered positive returns
- NZ Shares were stand out performers

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



UPDATE FROM MILESTONE DIRECT

RISKS INCREASE BUT NEW ZEALAND STILL STRONG

April saw another good month of returns from the New Zealand Defence Force Savings Schemes. This is good news for investors. Unfortunately, good times do not continue for ever. The recently published Reserve Bank of New Zealand Financial Stability Report indicates that the risks to the global economy are increasing with slowing economic growth in many countries we trade with, extraordinarily low interest rates, and low commodity prices. Many dairy farmers are now facing a third season of losses and there will be an increasing level of problem loans in coming months. Add to this Auckland housing prices continuing to escalate out of reach of the average New Zealander and things start to sound pretty dire.

However, the Reserve Bank is closely monitoring developments and believes our financial system remains strong. We have record inflows of tourists and this helps to boost our economy. Our banks are profitable, well-funded and secure and this will enable them to handle the inevitable pressures that come from the negatives listed earlier.

Mark Twain (1835-1910) once said *“Plan for the future because that is where you are going to spend the rest of your life.”* This makes incredibly good sense as many investors make decisions using the rear view mirror (ie: investing based upon events that have already been) rather than realising that we are unable to predict the future with any sense of accuracy so the best way to prepare is to diversify our investments so we do not have “all our eggs in the one basket.” By this we mean using investments such as the New Zealand Defence Force KiwiSaver Scheme and New Zealand Defence Force FlexiSaver Scheme where your savings are invested into different asset classes such as cash, fixed interest, property and shares plus these are invested both locally and also overseas. These schemes use the skills and experience of Mercer (a global rather than just a New Zealand fund manager) to enable investors to smooth out the inevitable ups and downs in the market and obtain better returns over time than leaving money in the bank.

Morningstar (a global research company) have just published a report showing that investment returns achieved by New Zealand retail investors generally fall below published fund performance figures. They attribute this to the “fear and greed” behavioural cycle where people tend to buy and sell on recent fund performance results. What happens is investors are swayed by competing fund manager advertising promoting how well their fund has performed in recent times and as a result, they switch funds. Alternatively, they stay with their existing fund manager but when markets take a dip, they move their money to lower risk funds. This results in them buying or selling at the very worst time.

At Milestone Direct, we work closely with members to help them determine their long-term risk profile then encourage them to ‘hang in there’ when the markets go down. In fact, we encourage members to invest more in these dips as investing during these times is like buying on special at the supermarket.

Contact the Milestone Direct Ltd. 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 Ltd. financial adviser before making any financial decision. A Disclosure Statement is available on request and free of charge.

UPDATE FROM MERCER

After reaching 2016 highs in mid-April, global markets closed the month with modest gains and all three schemes performed as expected. All investment funds provided positive returns, with Growth, High Growth and Shares funds performing the strongest.

Rising oil prices, which were up 37% over the last 3 months (which will help the shale oil producers in the US) and a weaker US dollar (which will help US exports) contributed to improving investor sentiment. However, the news wasn't all good: disappointing earnings and revenue growth in the technology sector, renewed concerns over Greece, and the earthquakes in the southern islands of Japan, kept returns constrained.

HOW HAVE THE MAJOR ASSETS PERFORMED

New Zealand Shares

New Zealand Shares finished April at a new record high, up a further 1%. The New Zealand market has performed at an extraordinary pace (19.3%) over the last 12 months, with the strength of the domestic economy outweighing global market turbulence.

Global Shares

Global Shares returned 0.9% for the month (in local currency), as energy stocks and US Financials continued to recover from where they were in 2016. Markets seemed to focus more on positive changes, particularly in Europe, instead of declining corporate profits in the US.

Property and Infrastructure

Record low interest rates and low interest rates around the world have continued to fuel the global property market in recent years. Low interest rates have also helped fuel the NZ property market which has seen strong price increases over the past two years.

New Zealand Bonds and Cash

Most options in the NZDF Savings Scheme's invest into New Zealand Government Bonds, managed these returned +0.4% during the month, despite the Official Cash Rate being left unchanged. With little sign of inflation, continued strength of the New Zealand Dollar and indications of low business confidence, further rate cuts are expected in 2016. Given further rate cuts are expected, we would expect to see lower term deposit and savings rates at banks in the future.

SIGNIFICANT RECENT ITEMS INCLUDE:



▼ UNITED STATES

The US Federal Reserve (the central bank of the US) left its target rate unchanged at 0.25% – 0.5%, as expected, acknowledging the slowdown in global economic activity.

▼ JAPAN

The Bank of Japan surprised markets by not adopting new stimulus measures despite weak economic readings, deflationary pressure and a strong yen.

▼ NEW ZEALAND

The Reserve Bank surprised much of the market by keeping the Official Cash Rate unchanged.

▼ EUROPE

The Eurozone economy grew by 0.6% in the first quarter and its labour markets improved slightly, although inflation is still slipping. Inflation is important for an economy as it encourages people to spend their money, which boosts economic growth. When an economy is in deflation, which is when prices are falling, people put off spending as they know they can get their goods cheaper in the future. Policy rate cuts were announced across many emerging markets, including Hungary, India, Indonesia, Taiwan, Turkey and Brazil.

INVESTMENT RETURNS FOR PERIODS ENDED 30 APRIL 2016

DEFENCE FORCE SUPERANNUATION SCHEME

Investment options		1 Month	3 Months	FYTD*	1 Year	3 Years	5 Years
28% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.12%	0.45%	0.12%	-	-	-
	Conservative	0.32%	2.02%	0.32%	-	-	-
	Moderate	0.38%	2.50%	0.38%	-	-	-
	Balanced	0.51%	3.69%	0.51%	-0.59%	6.54%	5.99%
	Growth	0.58%	4.46%	0.58%	-	-	-
	High Growth	0.66%	5.20%	0.66%	-	-	-
	Shares	0.63%	6.32%	0.63%	-	-	-

Investment options		1 Month	3 Months	FYTD*	1 Year	3 Years	5 Years
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.13%	0.52%	0.13%	-	-	-
	Conservative	0.37%	-	0.37%	-	-	-
	Moderate	0.40%	2.78%	0.40%	-	-	-
	Balanced	0.56%	3.99%	0.56%	-0.78%	6.84%	6.53%
	Growth	0.62%	4.71%	0.62%	-	-	-
	High Growth	0.73%	5.60%	0.73%	-	-	-
	Shares	0.67%	6.69%	0.67%	-	-	-

Investment options		1 Month	3 Months	FYTD*	1 Year	3 Years	5 Years
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	-	-	-	-	-	-
	Conservative	-	-	-	-	-	-
	Moderate	-	-	-	-	-	-
	Balanced	0.60%	4.13%	0.60%	-0.99%	7.02%	6.89%
	Growth	-	-	-	-	-	-
	High Growth	0.77%	-	0.77%	-	-	-
	Shares	0.63%	6.87%	0.63%	-	-	-

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 30 APRIL 2016

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME

Investment options		1 Month	3 Months	FYTD*	1 Year
28% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.12%	0.44%	0.12%	–
	Conservative	0.32%	2.00%	0.32%	–
	Moderate	0.37%	2.42%	0.37%	–
	Balanced	0.49%	3.50%	0.49%	–
	Growth	0.56%	4.23%	0.56%	–
	High Growth	0.58%	5.04%	0.58%	–
	Shares	0.60%	6.01%	0.60%	–

Investment options		1 Month	3 Months	FYTD*	1 Year
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.13%	–	0.13%	–
	Conservative	0.36%	2.34%	0.36%	–
	Moderate	0.44%	2.69%	0.44%	–
	Balanced	0.51%	3.69%	0.51%	–
	Growth	0.64%	4.64%	0.64%	–
	High Growth	0.63%	5.45%	0.63%	–
	Shares	0.64%	6.52%	0.64%	–

Investment options		1 Month	3 Months	FYTD*	1 Year
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.15%	–	0.15%	–
	Conservative	0.39%	–	0.39%	–
	Moderate	0.41%	2.85%	0.41%	–
	Balanced	0.47%	3.80%	0.47%	–
	Growth	0.63%	4.97%	0.63%	–
	High Growth	0.75%	5.65%	0.75%	–
	Shares	0.72%	6.87%	0.72%	–

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 APRIL 2016

NEW ZEALAND DEFENCE FORCE FLEXISAVER SCHEME

Investment options		1 Month	3 Months	FYTD*
28% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.10%	0.39%	0.10%
	Conservative	0.27%	2.09%	0.27%
	Moderate	0.36%	2.52%	0.36%
	Balanced	0.46%	3.41%	0.46%
	Growth	0.57%	4.19%	0.57%
	High Growth	0.59%	5.03%	0.59%
	Shares	0.67%	6.27%	0.67%

Investment options		1 Month	3 Months	FYTD*
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.09%	0.38%	0.09%
	Conservative	0.32%	2.20%	0.32%
	Moderate	0.37%	2.73%	0.37%
	Balanced	0.56%	3.86%	0.56%
	Growth	0.67%	4.81%	0.67%
	High Growth	0.74%	5.54%	0.74%
	Shares	0.61%	6.56%	0.61%

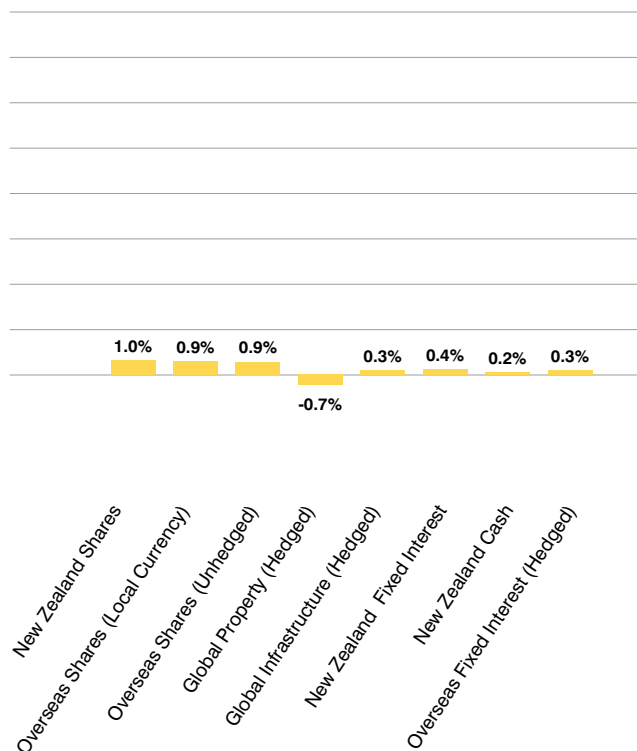
Investment options		1 Month	3 Months	FYTD*
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.13%	0.50%	0.13%
	Conservative	0.39%	2.38%	0.39%
	Moderate	0.49%	2.79%	0.49%
	Balanced	0.58%	4.06%	0.58%
	Growth	0.65%	4.96%	0.65%
	High Growth	0.75%	5.67%	0.75%
	Shares	0.74%	6.86%	0.74%

Notes

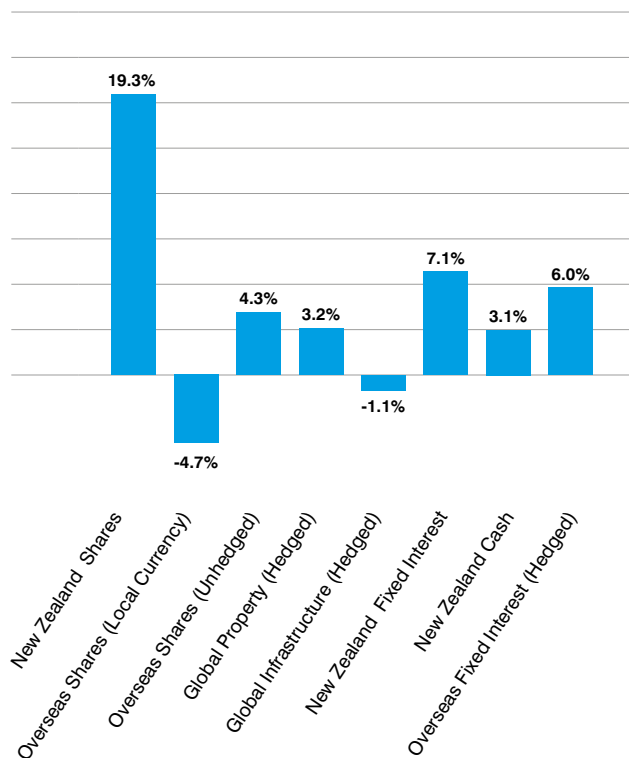
- The investment returns shown on this page are based on the unit price movements of each investment portfolio and are after tax at the rate indicated and after fund charges that are charged within the unit prices.
- Each investor's returns within an investment portfolio will depend on timing of contribution 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

FINANCIAL MARKETS FOR PERIODS ENDED 30 APRIL 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.

This document was prepared by Mercer (N.Z.) Limited (Mercer). The document has been published as a general information service and does not take account of the investment objectives, financial situation and/or particular needs of any person. Before making any investment decision, you should take financial advice as to whether your intended action is appropriate in light of your particular investment needs, objectives and financial circumstances. Neither Mercer nor any of its related parties accepts any responsibility for any inaccuracy.

Mercer (N.Z.) Limited