



## MONTHLY REPORT

FOR PERIODS ENDED 31 DECEMBER 2016

### MONTH IN A SNAPSHOT

- In New Zealand and Italy, December started with a bang. John Key's announcement of his resignation as Prime Minister and Leader of the National Party surprised many, though did not have a significant impact on investment market returns. The resignation of the Italian Prime Minister after a failed referendum put more fuel on an already hot fire in Europe after Brexit, though despite this, European share markets have continued to show resilience.
- Despite the continued political unrest, all investment options delivered positive returns across the three savings schemes. Investment options with more growth assets performed the best.

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



### MILESTONE DIRECT UPDATE IT'S BEEN A ROLLER COASTER OF A YEAR

2016 was a year of massive ups and downs in the investment markets and exchange rates. Good investment gains were made earlier in the year but much of that was given up in the last few months as the markets digested Brexit and the US elections. The outcome – overall a pretty ho-hum year for investments. Despite these factors the NZDF Savings Schemes still delivered creditable returns and this looks set to continue into 2017.

The good news is that the New Zealand economy is still in good shape and the world has not become a worse place in which to invest. We need to be mindful that the big investment gains we were making in the years up to 2016 are no longer achievable and we need to be prepared for lower returns over the next few years.

The good news is the cycle lives on. There will always be good and not so good years when investing for the long term. What matters is staying invested and continuing to save more as your pay increases. That way, over time, the 'power of compounding interest' will work wonders and the amount you have saved will increase exponentially.

The Christmas break is now long gone and if you have not already done so, now is a great time to set some New Year resolutions relating to improving your financial situation.

Milestone Direct has produced '**Your smart planning financial checklist**' to help you assess all aspects of your finances. Spending 10 minutes to work through the series of questions may be one of the smartest financial decisions you have made in your life time.

Download the checklist from [nzdf.milestonedirect.co.nz/documents](http://nzdf.milestonedirect.co.nz/documents) or from <http://www.nzdf.mil.nz/downloads/pdf/force4families/msd-smart-planning-financial-checklist.pdf>

Once you have completed the checklist, give the Milestone Direct team a call and we can help you implement the issues raised in the checklist.

A Disclosure Statement is available on request and free of charge.



**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)**

## MERCER COMMENTARY

Welcome to 2017! Apart from the resignation of the Italian Prime Minister, globally, December was a rather quiet month with no major political or macroeconomic events to surprise us all. In New Zealand it was a different story with John Key announcing his resignation on 5th December and Bill English taking on the new role of the Prime Minister from 12th December.

Most global markets delivered positive returns, supported by firm economic data which signals an improving international economy, improved inflation rates and the extension of quantitative easing in Europe. See *jargon busters* on why inflation and quantitative easing are important.

In the US, shares continued to move higher in the wake of encouraging economic and consumer confidence reports, as well as growing anticipation of tax reforms, higher infrastructure spending and deregulation from the Trump administration. The anticipation of more debt being issued by the US Government sent bond yields higher.

Locally, New Zealand Shares underperformed other developed markets such as UK and US, falling for the fourth straight month (down -0.2%), our share market has been negatively influenced by the rise in bond yields and selling from offshore investors. The NZDF Savings Schemes had less in New Zealand Shares in anticipation of the selloff.

Other high-yielding sectors like Global Listed Property and Global Listed Infrastructure were surprisingly unaffected by the increase in bond yields and continued to trend up reflecting positive US employment environment and expectations of expansionary fiscal policy, returned +3.7% and +3.1% respectively. New Zealand Government Bonds also fell, returning -0.7% reflecting a reduced prospect of future interest rate cuts (which would boost bond prices), while Global Aggregate Bonds finished the month up +0.4%.

### JARGON BUSTERS

#### FISCAL POLICY

It is the means by which a government adjusts its spending levels and tax rates to monitor and influence a nation's economy. It is the sister strategy to monetary policy through which a central bank influences a nation's money supply. Expansionary policies are policies which aim to expand the economy (e.g. increased government spending) while contractionary aims to do reduce inflation.

#### INFLATION RATE

The inflation rate is the rate at which prices increase over time, resulting in a fall in the purchasing value of money. Most countries target an ideal inflation rate which is high enough to ensure people spend money to keep the economy going but not so low that people will not buy something today if they believe they can get it cheaper tomorrow.

#### QUANTITATIVE EASING

It is a form of monetary policy where a Central Bank creates new money electronically to buy financial assets, like government bonds. This process aims to directly increase private sector spending in the economy due to the low interest rates it ensures and return inflation to target. Usually the continuation of quantitative easing is looked at positively by investors as it ensures low interest rates (which means businesses can borrow money cheaply).

#### BONDS

A bond is a commitment of a payment from one party to another. A popular type of bond is a Government Bond. When investors buy Government bonds, they usually receive interest (or coupon) payments and (hopefully) their money back at the end of the Bond's life assuming the Government remains solvent. Due to the risk of investors not getting their money back at the end, the risker the issuer of the debt, the higher the interest rate (or coupon) the investor will demand to compensate them for the risk. Typically when a Government issues more debt, this makes the bond investment less safe as a Government is more indebted. Usually low interest rates are good for share markets, this is for two reasons:

1. Companies can borrow debt at low interest rates to grow
2. Dividends of share market companies look more attractive (i.e. investors think, why put my money in the bank and get practically nothing when I can by a company that pays a 6% dividend)



## SIGNIFICANT RECENT ITEMS INCLUDE:



### ▼ UNITED STATES

The US Federal Reserve increased the interest rate Target Range by 25 basis points to 0.50% - 0.75% on 14 December and signaled the potential for three additional increases in 2017. The S&P 500, Dow Jones Industrial Average and NASDAQ (all US share markets) reached all-time highs during the month, increasing 2016 returns to +12.0%, +16.5% and +8.9%, respectively (all returns in USD).

### ▼ ITALY

The Italian Prime Minister, Matteo Renzi resigned bringing an end to nearly three years in office after he suffered a defeat in a referendum on his flagship constitutional reforms.

### ▼ EUROPE

Along with the Bank of England and Swiss National Bank, the European Central Bank (ECB) left its key interest rate unchanged in December. The ECB's decision to extend its quantitative easing program to December 2017 (an extra nine months) created downward pressure on the euro and gave European share markets a boost.

### ▼ NEW ZEALAND

John Key resigned as Prime Minister of New Zealand after eight years as of Monday, 12th December and stepped down as the leader of the National Party after ten years. Bill English has become the new Prime Minister and leader of the National Party.

# INVESTMENT RETURNS FOR PERIODS ENDED 31 DECEMBER 2016

## 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	0.10%	0.34%	1.09%	1.55%	–	–
	Conservative	0.58%	-0.14%	2.17%	3.62%	–	–
	Moderate	0.93%	0.19%	3.03%	4.65%	–	–
	Balanced	1.42%	0.69%	3.98%	5.84%	5.90%	8.24%
	Growth	2.10%	1.61%	5.40%	7.16%	–	–
	High Growth	2.36%	1.77%	5.98%	7.65%	–	–
	Shares	2.76%	2.07%	5.96%	7.45%	–	–

Investment options		1 Month	3 Months	FYTD*	1 Year	3 Years p.a.	5 Years p.a.
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.12%	0.38%	1.25%	1.80%	–	–
	Conservative	0.58%	-0.14%	2.48%	–	–	–
	Moderate	0.92%	0.18%	3.37%	5.24%	–	–
	Balanced	1.43%	0.67%	4.41%	6.41%	6.36%	8.80%
	Growth	2.08%	1.58%	5.74%	7.43%	–	–
	High Growth	2.38%	1.82%	6.59%	8.27%	–	–
	Shares	2.77%	2.22%	6.87%	8.53%	–	–

Investment options		1 Month	3 Months	FYTD*	1 Year	3 Years p.a.	5 Years p.a.
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.13%	0.42%	–	–	–	–
	Conservative	0.58%	-0.24%	–	–	–	–
	Moderate	0.92%	0.12%	–	–	–	–
	Balanced	1.42%	0.67%	4.68%	6.73%	6.65%	9.16%
	Growth	2.06%	1.64%	–	–	–	–
	High Growth	2.35%	1.98%	7.04%	–	–	–
	Shares	2.74%	2.24%	6.98%	8.74%	–	–

### 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

# INVESTMENT RETURNS FOR PERIODS ENDED 31 DECEMBER 2016

## NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME

Investment options		1 Month	3 Months	FYTD*	1 Year
28% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.10%	0.35%	1.06%	1.52%
	Conservative	0.53%	-0.20%	2.05%	3.55%
	Moderate	0.83%	0.08%	2.70%	4.15%
	Balanced	1.41%	0.62%	3.93%	5.47%
	Growth	2.04%	1.49%	5.06%	6.52%
	High Growth	2.37%	1.74%	5.67%	7.17%
	Shares	2.74%	1.99%	5.80%	7.00%

Investment options		1 Month	3 Months	FYTD*	1 Year
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.12%	0.39%	1.22%	–
	Conservative	0.57%	-0.31%	2.20%	4.00%
	Moderate	0.91%	0.13%	3.18%	4.87%
	Balanced	1.41%	0.60%	4.32%	6.02%
	Growth	1.99%	1.54%	5.69%	7.18%
	High Growth	2.36%	1.86%	6.11%	7.77%
	Shares	2.78%	2.18%	6.51%	7.88%

Investment options		1 Month	3 Months	FYTD*	1 Year
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.13%	0.41%	1.32%	–
	Conservative	0.57%	-0.29%	2.57%	–
	Moderate	0.91%	0.13%	3.38%	5.25%
	Balanced	1.40%	0.65%	4.45%	6.30%
	Growth	2.04%	1.58%	6.01%	7.83%
	High Growth	2.34%	1.97%	6.92%	8.45%
	Shares	2.69%	2.23%	6.83%	8.35%

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# INVESTMENT RETURNS FOR PERIODS ENDED 31 DECEMBER 2016

## NEW ZEALAND DEFENCE FORCE FLEXISAVER SCHEME

Investment options		1 Month	3 Months	FYTD*	1 Year
28% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.08%	0.29%	0.87%	1.32%
	Conservative	0.53%	-0.21%	1.95%	3.55%
	Moderate	0.90%	0.10%	2.67%	4.26%
	Balanced	1.41%	0.62%	3.62%	5.15%
	Growth	2.02%	1.46%	5.03%	6.35%
	High Growth	2.37%	1.79%	5.76%	7.10%
	Shares	2.77%	2.18%	5.90%	7.11%

Investment options		1 Month	3 Months	FYTD*	1 Year
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.10%	0.41%	1.14%	1.57%
	Conservative	0.55%	-0.28%	1.97%	3.88%
	Moderate	0.90%	-0.01%	2.79%	4.47%
	Balanced	1.42%	0.64%	4.37%	-
	Growth	2.04%	1.58%	5.70%	7.40%
	High Growth	2.34%	1.78%	6.16%	7.65%
	Shares	2.72%	2.16%	6.27%	7.66%

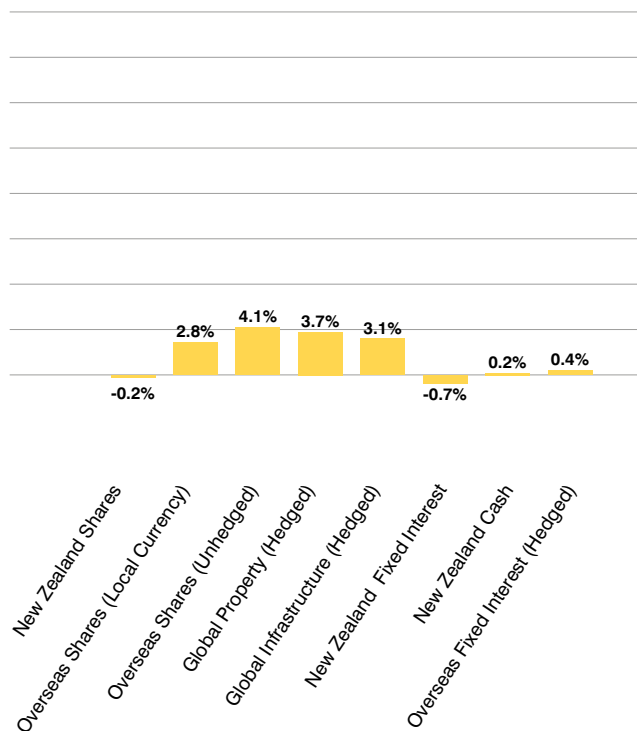
Investment options		1 Month	3 Months	FYTD*	1 Year
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.09%	0.34%	1.06%	1.54%
	Conservative	0.55%	-0.28%	2.45%	4.42%
	Moderate	0.82%	-0.05%	2.95%	4.78%
	Balanced	1.45%	0.68%	4.64%	-
	Growth	2.02%	1.62%	5.96%	-
	High Growth	2.32%	1.85%	6.56%	-
	Shares	2.71%	2.14%	6.76%	-

### Notes

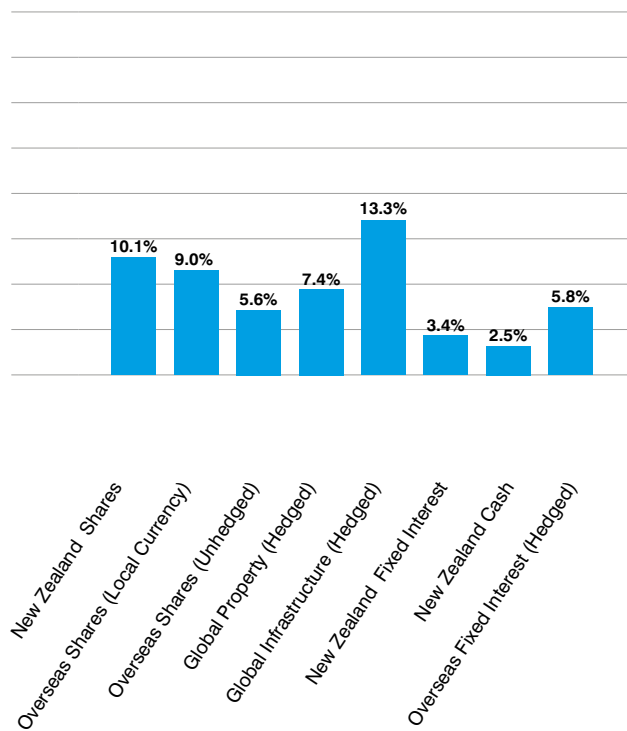
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# FINANCIAL MARKETS FOR PERIODS ENDED 31 DECEMBER 2016

## 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

## 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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