



MONTHLY REPORT

FOR PERIODS ENDED 31 JANUARY 2017

MONTH IN A SNAPSHOT

- In January, New Zealand sharemarket bounced back after several months of negative returns, while global investment markets continued to struggle.
- All NZDF Savings Schemes' funds had positive returns, other than the Conservative fund which was impacted by the bond market.
- The New Zealand Defence Force KiwiSaver Scheme now appears in the Morningstar's quarterly report. You can read more about how each fund performed for the year to 31 December 2016 and how it ranked compared to funds of other providers in this report.

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



MILESTONE DIRECT UPDATE

THE NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME KEEPS GETTING BETTER AND BETTER

When the New Zealand Defence Force KiwiSaver Scheme was launched in October 2015, it was regarded by the team at Milestone Direct Ltd as being a fantastic scheme. It had low fees, seven different funds to choose from, and a quality fund manager in the form of Mercer. Add in all the other bells and whistles such as CDF retention payments and eligibility to win prizes, then the scheme becomes a 'no-brainer' for serving NZDF members.

In recent weeks, two key research providers (Melville Jessop Weaver and Morningstar) have published comparative data of wholesale funds and also KiwiSaver Schemes and these show that the Mercer funds (of which the New Zealand KiwiSaver Scheme is a part) have performed extremely well.

We never want to get too excited about a fund outperforming its peers as this can sometimes be very short lived. What we like to see is the performance trend. The key is to perform in the top 25% of similar funds within that risk profile (we call that top quartile peer group performance) on a continuous basis. The longer a fund manager can do that, the more we like them.

The great news for NZDF members is that Mercer KiwiSaver funds and by implication the New Zealand Defence Force KiwiSaver Scheme funds are now in most cases consistently performing well.

The tables below provide a quick snap shot of performance.

The New Zealand Defence Force KiwiSaver Scheme fund rankings:

Fund	1 yr %	Ranking
Conservative	4.9	8 (out of 17)
Moderate	5.7	7 (out of 16)
Balanced	7.2	4 (out of 18)
Growth	8.4	3 (out of 20)
High Growth	9.1	4 (out of 10)
Shares	9.0	2 (out of 7)

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

The Mercer KiwiSaver scheme fund rankings:

Fund	1 yr %	Ranking	3 yr %	Ranking	5 yr %	Ranking
Conservative	5.4	3 (out of 17)	6.4	3 (out of 12)	6.9	2 (out of 10)
Moderate	5.9	5 (out of 16)				
Balanced	7.4	2 (out of 18)	8.0	4 (out of 17)	9.6	8 (out of 16)
Growth	8.7	2 (out of 20)				
High Growth	9.3	3 (out of 10)	9.9	2 (out of 7)	12.3	3 (out of 7)
Shares	9.2	1 (out of 7)				

Source: Morningstar KiwiSaver Report; 31 December 2016

Performance figures are after fees and before tax. Where there is no performance or ranking information, that is due to the funds being new and not operating for that period.

The small difference in performance between the Mercer and the NZDF funds is primarily due to the difference in fees. The NZDF scheme is very new and includes the set up costs and a portion of the FFH costs. The cost difference will reduce over time as the NZDF scheme grows in size.

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

MERCER COMMENTARY

STRONG PERFORMANCE AND CONSISTENT LONG TERM RETURNS

The good news is that NZDF funds generated positive returns during the month, with the exception of the Conservative fund (which was slightly negative). All funds outperformed their market benchmarks by considerable margins thanks to excess returns from our selected fund managers and portfolio positioning.

However retirement savings is a long term endeavour and Mercer focuses not just on great monthly returns and even annual returns. Mercer's investment specialists' aim is to deliver strong returns over time, using their global scale and reach to invest in a wide variety of managers and assets that others can't access. This diversified approach is designed to produce consistent returns, avoiding some of the ups and downs markets deliver.

The performance was helped by good returns from the fund managers Mercer uses, with the majority performing better than the market over the quarter and year. In particular, Global Shares and Unlisted Property managers which delivered strong returns.

According to the most recent Morningstar research, at the end of 2016, NZDF's KiwiSaver funds were ranked against funds of other providers in the same category:



The NZDF's KiwiSaver Cash fund didn't have members in the fund until recently, which means it doesn't have a rank at the moment.

Mercer was also named a finalist in the KiwiSaver category in the Morningstar Fund Manager of the Year Awards. Morningstar looks for the provider offering the best solution for New Zealanders' retirement savings. The winner will be selected based on qualitative research investor experience, performance, and fees.

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

New Zealand investment markets bounced back in January after a series of falls in late 2016. After four consecutive months of negative returns New Zealand sharemarket returned +2.5%, while the Kiwi dollar grew in value against all major currencies. Across the Tasman, the sharemarket fell -0.8% (AUD) reflecting lower than expected inflation and a deteriorating labour market outlook from the Reserve Bank of Australia.

Globally, share and bond markets struggled to advance. The US sharemarket was the only major developed market to perform well, surprisingly outdone by Emerging Markets over the month, which experienced their largest inflows in five months despite the uncertainty of future economic policy under the Trump administration.

SIGNIFICANT RECENT ITEMS INCLUDE:



▼ UNITED STATES

President Trump signed an order cancelling the US participation in the Trans Pacific Partnership (TPP). The US withdrawal effectively undermines the significance of TPP and partner countries like NZ will look to negotiate one to one trade agreements with the US.

▼ UNITED KINGDOM

On 24 January, the UK Supreme Court ruled on the activation of Article 50, which simply means that the government must hold a vote in the parliament before beginning the process of leaving the European Union (subsequently achieved with a large majority in the House of Commons).

▼ EUROPE

Economic confidence in the Eurozone surged to a six year high, led by Spain, Italy and the Netherlands. Across the Atlantic, positive market sentiment coupled with encouraging economic data helped push the Dow Jones Index above 20,000 for the first time despite increasing political controversy.

INVESTMENT RETURNS FOR PERIODS ENDED 31 JANUARY 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	0.11%	0.32%	1.20%	1.53%	–	–
	Conservative	-0.08%	0.34%	2.09%	3.82%	–	–
	Moderate	0.02%	0.88%	3.05%	5.23%	–	–
	Balanced	0.10%	1.66%	4.09%	7.39%	5.94%	8.03%
	Growth	0.15%	2.74%	5.56%	9.63%	–	–
	High Growth	0.22%	3.30%	6.22%	11.01%	–	–
	Shares	0.13%	3.86%	6.09%	12.09%	–	–

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%	0.37%	1.37%	1.76%	–	–
	Conservative	-0.04%	0.42%	2.44%	–	–	–
	Moderate	0.09%	0.96%	3.46%	5.91%	–	–
	Balanced	0.21%	1.78%	4.63%	8.20%	6.38%	8.56%
	Growth	0.31%	2.90%	6.07%	10.39%	–	–
	High Growth	0.43%	3.59%	7.06%	12.23%	–	–
	Shares	0.34%	4.20%	7.24%	13.65%	–	–

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%	0.40%	–	–	–	–
	Conservative	-0.02%	0.37%	–	–	–	–
	Moderate	0.13%	0.96%	–	–	–	–
	Balanced	0.27%	1.85%	4.97%	8.65%	6.64%	8.89%
	Growth	0.41%	3.04%	–	–	–	–
	High Growth	0.55%	3.78%	7.64%	–	–	–
	Shares	0.46%	4.31%	7.47%	14.13%	–	–

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 JANUARY 2017

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME

Investment options		1 Month	3 Months	FYTD*	1 Year
28% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.11%	0.33%	1.17%	1.50%
	Conservative	-0.07%	0.30%	1.98%	3.68%
	Moderate	0.01%	0.74%	2.72%	4.81%
	Balanced	0.09%	1.61%	4.02%	7.14%
	Growth	0.14%	2.62%	5.21%	9.04%
	High Growth	0.22%	3.23%	5.90%	10.59%
	Shares	0.06%	3.71%	5.87%	11.57%

Investment options		1 Month	3 Months	FYTD*	1 Year
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.12%	0.37%	1.34%	–
	Conservative	-0.04%	0.26%	2.16%	4.17%
	Moderate	0.08%	0.92%	3.27%	5.59%
	Balanced	0.19%	1.71%	4.52%	7.82%
	Growth	0.29%	2.83%	6.00%	10.21%
	High Growth	0.39%	3.56%	6.52%	11.62%
	Shares	0.32%	4.16%	6.84%	13.09%

Investment options		1 Month	3 Months	FYTD*	1 Year
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.13%	0.40%	1.45%	–
	Conservative	-0.02%	0.32%	2.54%	–
	Moderate	0.12%	0.93%	3.50%	6.01%
	Balanced	0.25%	1.83%	4.72%	8.18%
	Growth	0.41%	2.97%	6.44%	11.03%
	High Growth	0.53%	3.77%	7.49%	12.71%
	Shares	0.44%	4.33%	7.31%	13.85%

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INVESTMENT RETURNS FOR PERIODS ENDED 31 JANUARY 2017

NEW ZEALAND DEFENCE FORCE FLEXISAVER SCHEME

Investment options		1 Month	3 Months	FYTD*	1 Year
28% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.08%	0.27%	0.96%	1.25%
	Conservative	-0.11%	0.23%	1.84%	3.69%
	Moderate	0.01%	0.79%	2.67%	4.88%
	Balanced	0.09%	1.58%	3.72%	6.77%
	Growth	0.15%	2.59%	5.18%	8.97%
	High Growth	0.20%	3.25%	5.97%	10.65%
	Shares	0.06%	3.90%	5.96%	11.84%

Investment options		1 Month	3 Months	FYTD*	1 Year
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.10%	0.33%	1.24%	1.53%
	Conservative	-0.06%	0.31%	1.91%	3.81%
	Moderate	0.08%	0.76%	2.87%	5.29%
	Balanced	0.19%	1.74%	4.57%	-
	Growth	0.31%	2.87%	6.02%	10.39%
	High Growth	0.37%	3.46%	6.56%	11.64%
	Shares	0.24%	3.97%	6.52%	12.81%

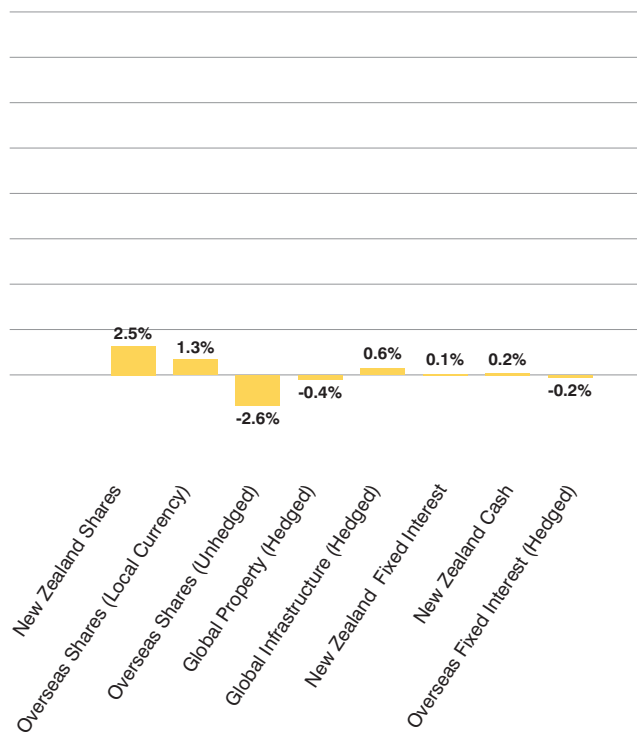
Investment options		1 Month	3 Months	FYTD*	1 Year
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.11%	0.32%	1.17%	1.54%
	Conservative	-0.05%	0.29%	2.41%	4.44%
	Moderate	0.06%	0.73%	3.02%	5.38%
	Balanced	0.26%	1.86%	4.91%	-
	Growth	0.39%	2.97%	6.38%	-
	High Growth	0.49%	3.61%	7.08%	-
	Shares	0.43%	4.18%	7.22%	-

Notes

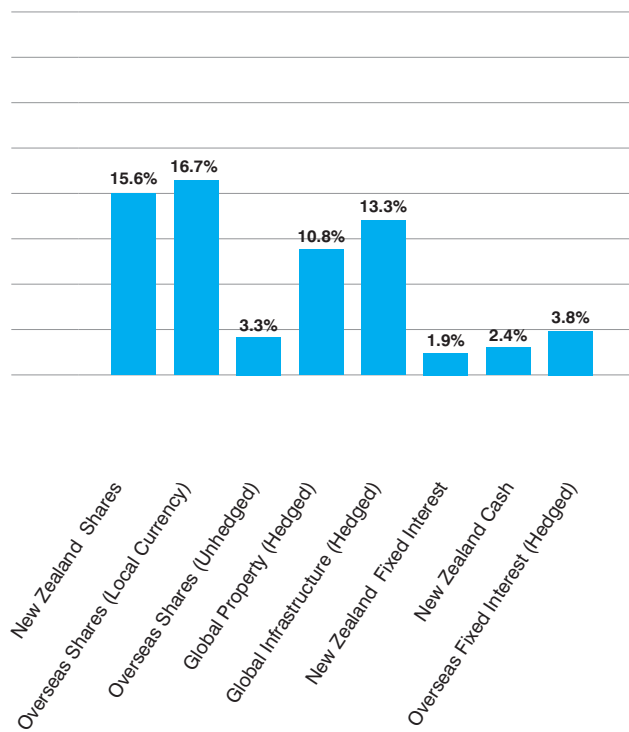
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FINANCIAL MARKETS FOR PERIODS ENDED 31 JANUARY 2017

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

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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