



MONTHLY REPORT

FOR PERIODS ENDED 31 MAY 2016

MONTH IN A SNAPSHOT

- All investment funds performed well, the stand out being the Shares fund
- Markets also continued to recover, however all eyes will be on the result of the Brexit referendum (the vote that determines if the UK remains in the European Union) on June 23rd

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



UPDATE FROM MILESTONE DIRECT

HOW WILL YOUR SAVINGS LOOK IN 2040?

May was another good month for investors in the New Zealand Defence Force (NZDF) Savings Schemes. All funds had a positive return and the return (other than the cash fund) for the past three months has been better than what most investors would get from a term deposit over 12 months. Term deposit rates are quoted before tax and before any penalty break fees whilst your NZDF Savings Scheme earning rates are quoted after tax and fees.

Your investment is performing well at present but we do not encourage you to look at investment performance over the short term as most NZDF scheme members have a longer term goal in mind for their money.

NZDF plans long term then adapts to short term issues. Consider your financial plan in a similar way.

The recently released Defence White Paper 2016 is trying to identify the strategic outlook in 2040 and what capability NZDF will require to deal with this. This is incredibly difficult to do as the number of unknowns are huge. Flexibility and regular review of the strategy will be required as no long term plan stays the same.

The same applies to all NZDF members and their savings schemes. What will your financial position look like in 2040? Do you actually have a plan on how to get there?

NZDF invests into good quality equipment and a skilled and sustainable workforce to help meet its 2040 strategic outlook. You invest into good quality savings solutions and professional financial advice to achieve your goals.

You have made a good start by enrolling in the NZDF Savings Schemes. The New Zealand Defence Force KiwiSaver Scheme and the Defence Force Super Scheme are both long term savings solutions designed to help you meet your own personal 2040 financial goal whilst the New Zealand Defence Force FlexiSaver Scheme is there to give you the flexibility to meet anything that may 'pop up' in the interim.

The NZDF Savings Schemes are all 'actively' managed using the investment skills of Mercer. It looks at the economic environment and will change the makeup of your savings schemes to increase the investment return without significantly altering the risk to you.

The team at Milestone Direct Ltd. (Milestone Direct) is there to provide you with tools and guidance to regularly reassess where and how you will get there when your circumstances change. We will show you how to do better with your finances and help you better understand what fund may be best for achieving your goals.

At a personal investor level, the markets go up and down plus events such as births, deaths, separation and retirement all necessitate you to readdress your plan and make some changes. Deal with the financial aspects of those by ringing the Milestone team. We are there to help you develop and achieve your 2040 financial plan.

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

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.

UPDATE FROM MERCER

Markets continued to perform well in May and this is due to a number of things:

1. Oil prices continued to surge, because of wildfires in Canada disrupting supply and unrest in Nigeria. Crude oil surpassed USD \$50/bbl in the last week of May and is up more than 85% from its lows in mid-February 2016.
2. Confidence remains on a knife-edge over Britain's possible exit from the European Union, referred to as "Brexit".
3. Markets also responded well to signs of improving growth in Europe and Japan.
4. In Greece, European finance ministers and the IMF agreed to provide \$11.4 billion in aid packages in exchange for another round of austerity and reform measures.
5. Finally, investors were seemingly unconvinced by gung-ho comments suggesting that the US Federal Reserve may soon raise interest rates.

HOW HAVE THE MAJOR ASSETS PERFORMED

Trans-Tasman Equities (NZ and Australian Shares)

The NZX 50 hit records highs in May breaching 7000 for the first time and finishing the month up +3.3%. The index continues to benefit from its relatively high dividend yield that has attracted a glut of international money in recent years. Mercer views the New Zealand share market as overvalued and has invested less money in it as a result.

Global Equities (Shares)

Global markets were positive for the month, returning +1.8%, led by Japan (+2.6%), the US and Europe (both +1.8%). US shares moved higher in May following news indicating that labour and housing markets were on solid footing, while first quarter GDP growth was also revised up from 0.5% to 0.8% (all good signs). European shares also advanced, reflecting relief in avoiding another Greek debt crisis.

Property and Infrastructure

Listed property performed broadly in line with global share markets during the month. Listed Property shares typically pay high dividends which have been popular with investors looking for investments with higher returns than what they are getting in the bank or by investing in bonds. Due to this dynamic, returns in Property stocks have been extremely strong since the Global Financial Crisis.

New Zealand Bonds and Cash

New Zealand Bonds provided positive returns as bond prices edged forward during the month. Yields declined throughout the month with the 10 year bond yield finishing the month at 2.58% (down from 2.86%). At month end investors were weighing up whether the RBNZ would look to cut rates again in June.

Global Bonds

It was a positive month for global bonds as global yields declined slightly during the month (a positive for returns) and credit spreads narrowed (credit spreads reflect the risk of a bond issued by a company, vs. the bonds issued by a government, when spreads narrow, this reflects people are buoyant about the economy).

SIGNIFICANT RECENT ITEMS INCLUDE:



▼ JAPAN

Economic data in Japan exceeded expectations with the economy growing at an annualized rate of 1.7% over the first quarter of the year, a strong sign for an economy which has struggled to grow for decades. Markets now anticipate a new stimulus package in June or July to maintain the positive growth trajectory.

▼ BRAZIL

The Brazilian Senate voted to impeach President Dilma Rousseff, with Vice-president Michel Temer taking over. Markets welcomed the decision, but question whether a new administration will be able to battle systemic corruption and lead the country out of its deep recession.

▼ RUSSIA

Russia's inflation and consumer demand remains weak despite tentative signs of stabilisation. Low oil prices and international sanctions have severely impacted Russia's budget and liquidity. The Central Bank of Russia is widely expected to cut rates at its next meeting in June.

▼ NEW ZEALAND

The New Zealand dollar weakened against the Pound and Euro during the month, but strengthened against the AUD and JPY. After reaching a 10 month high early in May the New Zealand dollar declined against the greenback as markets wait for the Fed and Reserve Bank of New Zealand (RBNZ) decisions in June. The New Zealand dollar finished the month at 67.66 cents against the US Dollar. NZ GDP growth rates for the last quarter were released on 16 June and showed growth of 0.7%, higher than expected by a number of commentators. Higher than expected GDP growth may also influence investment returns.

INVESTMENT RETURNS FOR PERIODS ENDED 31 MAY 2016

DEFENCE FORCE SUPERANNUATION SCHEME

Investment options		1 Month	3 Months	FYTD*	1 Year	3 Years	5 Years
28% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.14%	0.44%	0.26%	-	-	-
	Conservative	0.79%	2.23%	1.11%	-	-	-
	Moderate	0.89%	2.86%	1.28%	-	-	-
	Balanced	1.07%	4.09%	1.58%	-0.18%	6.87%	6.56%
	Growth	1.50%	5.22%	2.09%	-	-	-
	High Growth	1.89%	6.44%	2.56%	-	-	-
	Shares	2.49%	8.30%	3.14%	-	-	-

Investment options		1 Month	3 Months	FYTD*	1 Year	3 Years	5 Years
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.17%	0.52%	0.31%	-	-	-
	Conservative	0.82%	2.42%	1.20%	-	-	-
	Moderate	0.93%	3.00%	1.33%	-	-	-
	Balanced	1.10%	4.31%	1.67%	-0.04%	7.30%	7.08%
	Growth	1.49%	5.41%	2.12%	-	-	-
	High Growth	1.93%	6.76%	2.67%	-	-	-
	Shares	2.50%	8.55%	3.19%	-	-	-

Investment options		1 Month	3 Months	FYTD*	1 Year	3 Years	5 Years
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	-	-	-	-	-	-
	Conservative	-	-	-	-	-	-
	Moderate	-	-	-	-	-	-
	Balanced	1.11%	4.44%	1.71%	-0.03%	7.56%	7.42%
	Growth	-	-	-	-	-	-
	High Growth	1.90%	6.81%	2.68%	-	-	-
	Shares	2.43%	8.48%	3.08%	-	-	-

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 MAY 2016

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME

Investment options		1 Month	3 Months	FYTD*	1 Year
28% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.13%	0.43%	0.25%	–
	Conservative	0.76%	2.23%	1.09%	–
	Moderate	0.86%	2.77%	1.23%	–
	Balanced	1.18%	4.10%	1.67%	–
	Growth	1.50%	5.13%	2.07%	–
	High Growth	1.86%	6.34%	2.46%	–
	Shares	2.48%	8.10%	3.09%	–

Investment options		1 Month	3 Months	FYTD*	1 Year
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.15%	0.47%	0.28%	–
	Conservative	0.73%	2.33%	1.08%	–
	Moderate	0.83%	2.94%	1.28%	–
	Balanced	1.18%	4.22%	1.69%	–
	Growth	1.50%	5.37%	2.16%	–
	High Growth	1.80%	6.49%	2.45%	–
	Shares	2.45%	8.33%	3.11%	–

Investment options		1 Month	3 Months	FYTD*	1 Year
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.16%	0.51%	0.31%	–
	Conservative	0.84%	2.49%	1.23%	–
	Moderate	0.94%	3.05%	1.36%	–
	Balanced	1.21%	4.23%	1.69%	–
	Growth	1.52%	5.57%	2.16%	–
	High Growth	1.85%	6.79%	2.62%	–
	Shares	2.34%	8.54%	3.08%	–

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INVESTMENT RETURNS FOR PERIODS ENDED 31 MAY 2016

NEW ZEALAND DEFENCE FORCE FLEXISAVER SCHEME

Investment options		1 Month	3 Months	FYTD*
28% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.10%	0.37%	0.21%
	Conservative	0.75%	2.23%	1.02%
	Moderate	0.83%	2.76%	1.19%
	Balanced	1.04%	3.82%	1.50%
	Growth	1.48%	5.08%	2.06%
	High Growth	1.88%	6.35%	2.47%
	Shares	2.47%	8.22%	3.16%

Investment options		1 Month	3 Months	FYTD*
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.10%	0.34%	0.19%
	Conservative	0.78%	2.29%	1.10%
	Moderate	0.85%	2.88%	1.22%
	Balanced	1.20%	4.32%	1.76%
	Growth	1.51%	5.51%	2.19%
	High Growth	1.90%	6.69%	2.65%
	Shares	2.39%	8.28%	3.01%

Investment options		1 Month	3 Months	FYTD*
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.14%	0.48%	0.27%
	Conservative	0.81%	2.48%	1.20%
	Moderate	0.85%	2.94%	1.34%
	Balanced	1.23%	4.41%	1.81%
	Growth	1.47%	5.49%	2.13%
	High Growth	1.83%	6.75%	2.60%
	Shares	2.41%	8.49%	3.16%

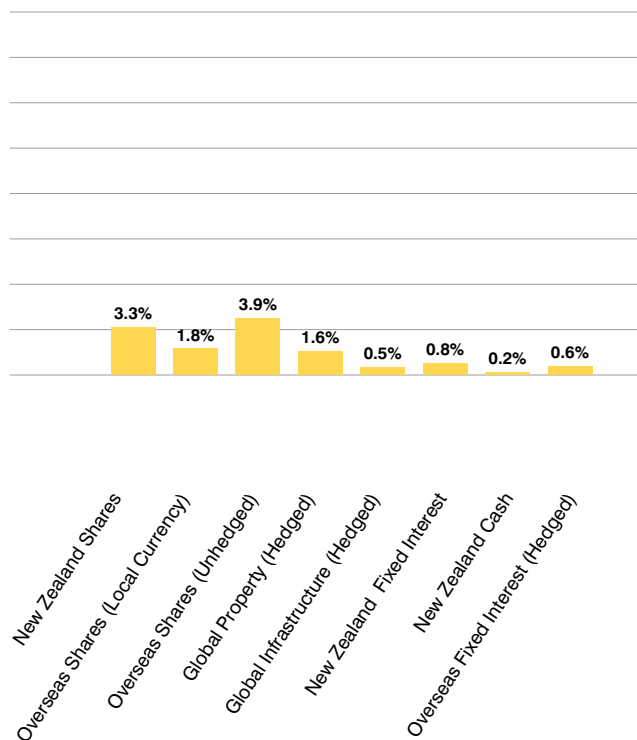
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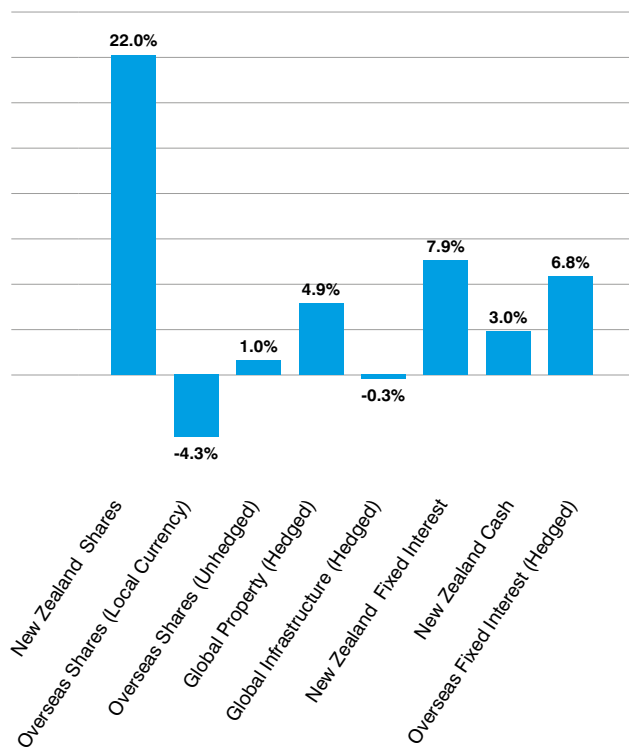
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FINANCIAL MARKETS FOR PERIODS ENDED 31 MAY 2016

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.

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