



MONTHLY REPORT

FOR PERIODS ENDED 30 NOVEMBER 2016

MONTH IN A SNAPSHOT

- This has been truly a year of political surprises – Brexit, election of Trump into the White House, Italian Prime Minister announcing his resignation on the same day as our own Prime Minister announced his. Most political shocks impact the financial markets and returns you as investor will receive.
- The conservative and moderate funds delivered marginally negative returns over the month. This was due to the increase in longer term interest rates, mostly in the US which saw bonds deliver negative returns. Longer term interest rates spiked in the US due to the belief that Trump will rack up more government debt which will increase the supply of bonds to investment markets.
- Some share markets had a torrid time during the month, New Zealand and Property shares were amongst the poorest performing. The NZDF Savings Schemes offer some of the most diversified funds in the New Zealand market, so as a member of the NZDF Savings Schemes your funds are not concentrated in any individual stock, country or market, this helps in times of volatility and helped some of the more growth orientated funds deliver some strong returns over the month.

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 has seen 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.

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 Milestone Direct team will take a well-earned break from 1700hr Thursday 22 December until 0830hr Monday 9 January 2017. However, if you have any urgent queries during that period then ring our number and the phone will be diverted to an 'on-call adviser'.

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

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



MERCER COMMENTARY ENDED 30 NOVEMBER 2016

November didn't disappoint and delivered yet another political surprise with the election of Donald Trump into the White House. While the initial market reaction was intensely negative (US shares market falling more than 5% in the early hours of 9 November), it rebounded quickly as President-elect Trump presented a very different figure from campaign Trump.

It is expected uncertainty will continue while investors around the world try and work out what a Trump administration means for US economic, trade and geopolitical policies. With Trump already retreating from some of his campaign promises, the guessing game will only continue.

While any significant share market volatility has yet to materialise, US 10-year bond yields surged almost 0.5% post-election, back to levels last seen in July 2015. This reflects the fact that many investors believe Trump's plans will increase spending, and debt levels and raise inflation. Increased spending and debt levels increase interest rates as typically, the more debt a country has, the higher interest rate an investor will demand a higher rate of return (yield) to compensate them for the additional risk. Higher inflation also leads to higher interest rates, as central banks will usually increase interest rates to slow down spending (i.e. people tend to save more and borrow less when interest rates are high). Asset classes with higher interest rate sensitivity (like New Zealand Shares and Global Listed Property) delivered negative returns over the month.

It was a very mixed month for the New Zealand dollar, which fell against the US dollar (-0.9%) and British pound (-3.2%), while appreciating against all other major currencies, most notably the Japanese yen (+7.4%). In recent months the kiwi has benefited from major central banks maintaining their near-zero interest rate policies. However, the surprise resignation from John Key in early December is likely to add some volatility to the New Zealand dollar.



SIGNIFICANT RECENT ITEMS INCLUDE:



▼ JAPAN

Japan continued to outperform the rest of the developed market, returning +5.8%, benefited from the weakening of Japanese Yen against its major trading partners. We continue to watch closely Japans contribution to global economic growth. Japan is currently the world's third or fourth largest economy (depending on survey) and still has the potential to significantly impact on global growth.

▼ ITALY

Italy's constitutional referendum on 4 December concluded with a "no" vote, resulting in Prime Minister Matteo Renzi handing in his resignation. This could potentially start an Italian version of Brexit and hinder the stability of the Euro zone.

▼ NEW ZEALAND

The Reserve Bank of New Zealand announced another cut in the Official Cash Rate (OCR) in November, dropping to 1.75%. This is likely to be the end of the current OCR reduction cycle; we can expect a low and steady cash return for the next 12 months.

Prime Minister John Key surprised the nation early in December by announcing his resignation. We may see an increase in volatility within the domestic market due to uncertainties around the election next year; however we do not see this as being a major driver of investment returns in the NZDF Savings Schemes.

INVESTMENT RETURNS FOR PERIODS ENDED 30 NOVEMBER 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	0.12%	0.34%	0.99%	1.56%	–	–
	Conservative	-0.15%	-0.75%	1.59%	2.54%	–	–
	Moderate	-0.06%	-0.70%	2.08%	2.87%	–	–
	Balanced	0.13%	-0.70%	2.52%	3.13%	5.56%	8.26%
	Growth	0.48%	-0.45%	3.23%	2.92%	–	–
	High Growth	0.70%	-0.54%	3.54%	2.95%	–	–
	Shares	0.94%	-0.61%	3.11%	2.02%	–	–

Investment options		1 Month	3 Months	FYTD*	1 Year	3 Years p.a.	5 Years p.a.
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.13%	0.39%	1.13%	1.84%	–	–
	Conservative	-0.12%	-0.73%	1.89%	2.79%	–	–
	Moderate	-0.04%	-0.70%	2.43%	3.65%	–	–
	Balanced	0.14%	-0.70%	2.95%	3.81%	6.02	8.86
	Growth	0.49%	-0.42%	3.59%	3.37%	–	–
	High Growth	0.74%	-0.50%	4.12%	3.78%	–	–
	Shares	1.05%	-0.53%	3.99%	3.10%	–	–

Investment options		1 Month	3 Months	FYTD*	1 Year	3 Years p.a.	5 Years p.a.
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.14%	–	–	–	–	–
	Conservative	-0.19%	–	–	–	–	–
	Moderate	-0.08%	-0.76%	–	–	–	–
	Balanced	0.15%	-0.70%	3.22%	4.21%	6.32%	9.24%
	Growth	0.55%	-0.33%	–	–	–	–
	High Growth	0.84%	-0.26%	4.58%	–	–	–
	Shares	1.06%	-0.42%	4.13%	3.90%	–	–

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 NOVEMBER 2016

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME

Investment options		1 Month	3 Months	FYTD*	1 Year
28% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.12%	0.35%	0.96%	1.48%
	Conservative	-0.17%	-0.77%	1.51%	2.44%
	Moderate	-0.11%	-0.73%	1.86%	2.46%
	Balanced	0.11%	-0.75%	2.48%	2.85%
	Growth	0.43%	-0.51%	2.96%	2.41%
	High Growth	0.62%	-0.62%	3.22%	2.84%
	Shares	0.88%	-0.84%	2.99%	1.64%

Investment options		1 Month	3 Months	FYTD*	1 Year
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.13%	0.40%	1.10%	–
	Conservative	-0.27%	-0.91%	1.62%	3.00%
	Moderate	-0.07%	-0.74%	2.26%	3.26%
	Balanced	0.12%	-0.76%	2.87%	3.40%
	Growth	0.53%	-0.41%	3.63%	3.37%
	High Growth	0.78%	-0.40%	3.66%	3.40%
	Shares	1.02%	-0.58%	3.62%	2.51%

Investment options		1 Month	3 Months	FYTD*	1 Year
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.14%	0.43%	1.19%	–
	Conservative	-0.23%	-0.87%	1.98%	–
	Moderate	-0.10%	-0.79%	2.44%	–
	Balanced	0.17%	-0.74%	3.01%	3.68%
	Growth	0.50%	-0.44%	3.89%	3.98%
	High Growth	0.86%	-0.30%	4.48%	4.22%
	Shares	1.14%	-0.48%	4.03%	3.18%

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INVESTMENT RETURNS FOR PERIODS ENDED 30 NOVEMBER 2016

NEW ZEALAND DEFENCE FORCE FLEXISAVER SCHEME

Investment options		1 Month	3 Months	FYTD*	1 Year
28% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.10%	0.31%	0.79%	1.43%
	Conservative	-0.19%	-0.78%	1.41%	2.64%
	Moderate	-0.11%	-0.78%	1.75%	–
	Balanced	0.07%	-0.79%	2.18%	2.33%
	Growth	0.41%	-0.53%	2.94%	2.28%
	High Growth	0.66%	-0.54%	3.31%	2.76%
	Shares	1.04%	-0.71%	3.04%	1.67%

Investment options		1 Month	3 Months	FYTD*	1 Year
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.13%	0.40%	1.04%	1.64%
	Conservative	-0.18%	-0.93%	1.41%	3.31%
	Moderate	-0.21%	-0.94%	1.87%	2.82%
	Balanced	0.13%	-0.74%	2.91%	–
	Growth	0.50%	-0.42%	3.58%	3.54%
	High Growth	0.71%	-0.55%	3.73%	3.33%
	Shares	0.98%	-0.65%	3.46%	2.48%

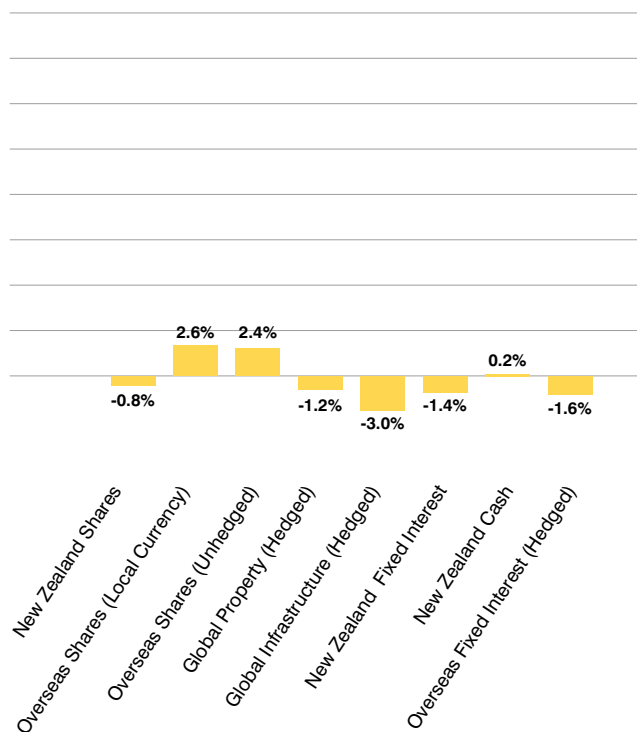
Investment options		1 Month	3 Months	FYTD*	1 Year
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.12%	0.36%	0.97%	1.45%
	Conservative	-0.21%	-0.89%	1.89%	3.54%
	Moderate	-0.16%	-0.90%	2.12%	3.46%
	Balanced	0.14%	-0.73%	3.14%	–
	Growth	0.54%	-0.36%	3.87%	–
	High Growth	0.76%	-0.42%	4.14%	–
	Shares	1.00%	-0.53%	3.94%	–

Notes

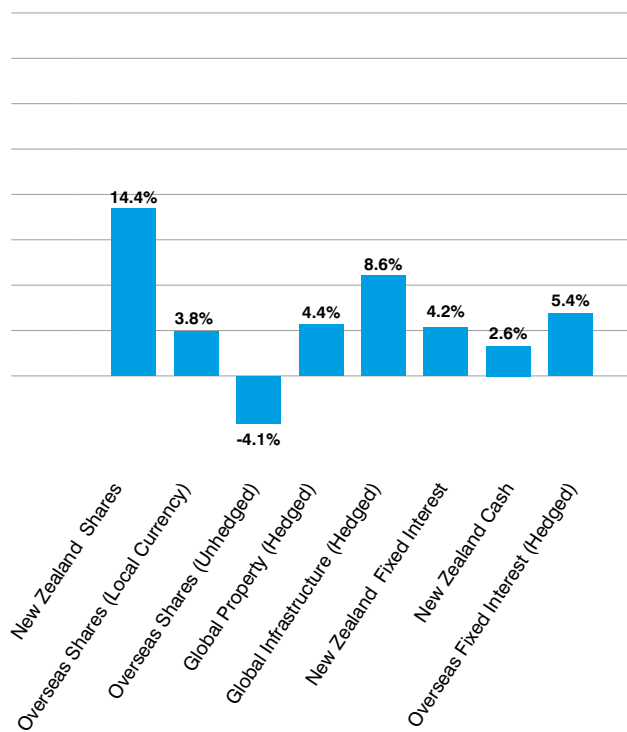
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FINANCIAL MARKETS FOR PERIODS ENDED 30 NOVEMBER 2016

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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