



MONTHLY REPORT

FOR PERIODS ENDED 30 SEPTMEBER 2016

MONTH IN A SNAPSHOT

- In September you could almost say we've been here before, as for most part the events of August continued to play out in September. The last week of the month however showed the vulnerability of global markets.
- In September, returns were close to zero for all investment options as shares and bond markets practically finished the month where they began.
- Over the last three-months and scheme year-to-date all options had positive returns. Although the KiwiSaver and FlexiSaver Schemes are not quite a year old, the Defence Force Superannuation Scheme Balanced Fund has now been managed by Mercer for 12 months, in this time it has delivered returns (after asset based fees and tax) of between 6.59% and 7.98% depending on the PIR (tax) rate used. A strong result amid the market volatility.

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



DOUBLE DIGITS DISAPPEAR

It is less than two years ago that we were used to seeing double digit returns from investment funds—including KiwiSaver Schemes. Today, we have much lower interest rates, rapidly fluctuating exchange rates and lower earnings from shares. This is just a sign of the times in which we are currently living.

Fortunately, the NZDF scheme funds are performing well in comparison to competitor funds and cash savings schemes. Performance may not be what you are used to seeing, but it is generally above average and is consistent.

The great thing with the NZDF funds is the courage to publish returns after fees and also after tax. Too often, we see fund managers with out of date returns on their websites, or returns that are before tax and fees or at best after fees and before tax. NZDF schemes are very transparent— every month— they tell it as it is— both the good and the bad.

If you, your work mates, your friends and family have money in other managed funds, then look closely at how they are performing. Check the date that the returns are published to so you are comparing apples with apples. Then check how risky your other funds are in comparison to the NZDF scheme funds and you may be somewhat surprised. In many instances, once everything is compared, you may find that the NZDF funds are actually outperforming the high profile funds sold to you by a bank or via a smart advertising campaign.

If not sure how to obtain a true comparison between what you have elsewhere and your NZDF scheme, then give Milestone Direct a call. We are here to provide you with an unbiased view of all your investments. Over the past 12 months, we have handled over 2000 phone calls helping NZDF scheme members invest wisely and choose the right NZDF scheme fund to meet their risk profile and goals.

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 SEPTEMBER 2016

September was another month where returns were flat across most major asset classes. On the positive side, some less than desirable performances from Republican Presidential Candidate Donald Trump pointing to a pending defeat were well received by investment markets, as a Trump election victory will not be well received by investment markets due to the disruption it is expected to cause (though nobody should count him out yet). While on the negative side, news hit the market that German banking giant, Deutsche Bank was in financial difficulties, a development that caused a lot of concern as banks are a key part of the financial system (as they provide lending and hold peoples savings) and Deutsche Bank is one of the largest banks in the Euro Zone.

The New Zealand share market had a flat month of performance in September; a rare event indeed, given our share market has been a top performer around the world, up a staggering 33.2% over the past 12 months. Interestingly, despite all the news about Auckland house prices, over the past five years the NZX50 (New Zealand Share index) has delivered a total return of 135%, compared to Auckland house prices which have delivered, a low, but still impressive 98% return (growth in values).

Recently, Mercer made an asset allocation decision to reduce the exposure to New Zealand Shares (for all funds except cash, which doesn't hold any) this is a reflection that the valuation of the market has reached a point where we believe better value can be found elsewhere. Mercer makes these decisions not only in an aim to generate strong returns but also provide smoother returns.



SIGNIFICANT RECENT ITEMS INCLUDE:



▼ NEW ZEALAND

It was a tale of two halves for New Zealand Shares in September, with declines in the first half of the month followed by gains in the second – resulting in a flat month for investors.

▼ UNITED KINGDOM

The reality of “Brexit” is starting to sink in, with early indications that British Prime Minister Theresa May could opt for a “hard” (i.e. faster than expected) exit of the European Union. Much like the US Presidential Election, we expect the developments around Brexit to lead to some ups and downs in performance in the near term.

▼ EUROPE

The financial difficulties facing Deutsche Bank led investors to shy away from bank shares and as a result we saw a sharp decline in bank shares all around the world.

▼ JAPAN

The Bank of Japan, which has struggled for nearly two decades to bring about steady inflation (a key ingredient to get people spending and stimulating the economy), announced a revamp of its monetary policy.

INVESTMENT RETURNS FOR PERIODS ENDED 30 SEPTEMBER 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	0.11%	0.37%	0.75%	-	-	-
	Conservative	-0.03%	1.34%	2.32%	-	-	-
	Moderate	0.02%	1.91%	2.83%	-	-	-
	Balanced	0.03%	2.69%	3.27%	6.59%	6.73%	8.60%
	Growth	0.03%	3.47%	3.73%	-	-	-
	High Growth	0.03%	4.16%	4.14%	-	-	-
	Shares	0.06%	4.73%	3.81%	-	-	-

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%	0.41%	0.86%	-	-	-
	Conservative	-0.02%	1.43%	2.63%	-	-	-
	Moderate	0.03%	2.04%	3.18%	-	-	-
	Balanced	0.05%	2.84%	3.71%	7.48%	7.26%	9.20%
	Growth	0.06%	3.57%	4.09%	-	-	-
	High Growth	0.05%	4.34%	4.69%	-	-	-
	Shares	0.00%	5.03%	4.54%	-	-	-

Investment options		1 Month	3 Months	FYTD*	1 Year	3 Years p.a.	5 Years p.a.
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	-	-	-	-	-	-
	Conservative	-	-	-	-	-	-
	Moderate	0.03%	-	-	-	-	-
	Balanced	0.04%	2.91%	3.98%	7.98%	7.59%	9.59%
	Growth	0.08%	-	-	-	-	-
	High Growth	0.10%	4.42%	4.97%	-	-	-
	Shares	0.07%	5.07%	4.64%	-	-	-

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 SEPTEMBER 2016

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME

Investment options		1 Month	3 Months	FYTD*	1 Year
28% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.11%	0.34%	0.71%	–
	Conservative	-0.04%	1.27%	2.26%	–
	Moderate	0.02%	1.74%	2.62%	–
	Balanced	0.03%	2.63%	3.28%	–
	Growth	0.03%	3.28%	3.52%	–
	High Growth	0.00%	4.03%	3.86%	–
	Shares	-0.12%	4.52%	3.74%	–

Investment options		1 Month	3 Months	FYTD*	1 Year
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.13%	0.41%	0.83%	–
	Conservative	-0.03%	1.38%	2.52%	–
	Moderate	0.03%	1.94%	3.05%	–
	Balanced	0.03%	2.77%	3.70%	–
	Growth	0.03%	3.53%	4.08%	–
	High Growth	0.08%	4.14%	4.17%	–
	Shares	0.01%	4.78%	4.23%	–

Investment options		1 Month	3 Months	FYTD*	1 Year
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.14%	0.44%	0.90%	–
	Conservative	-0.01%	1.49%	2.87%	–
	Moderate	-0.02%	1.98%	3.25%	–
	Balanced	0.01%	2.75%	3.78%	–
	Growth	0.02%	3.60%	4.36%	–
	High Growth	0.06%	4.34%	4.86%	–
	Shares	-0.02%	4.96%	4.51%	–

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INVESTMENT RETURNS FOR PERIODS ENDED 30 SEPTEMBER 2016

NEW ZEALAND DEFENCE FORCE FLEXISAVER SCHEME

Investment options		1 Month	3 Months	FYTD*
28% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.10%	0.27%	0.58%
	Conservative	-0.05%	1.21%	2.16%
	Moderate	0.01%	1.76%	2.56%
	Balanced	0.00%	2.53%	2.99%
	Growth	0.02%	3.29%	3.52%
	High Growth	0.03%	4.04%	3.90%
	Shares	-0.13%	4.46%	3.64%

Investment options		1 Month	3 Months	FYTD*
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.08%	0.39%	0.73%
	Conservative	-0.11%	1.13%	2.25%
	Moderate	-0.04%	1.78%	2.80%
	Balanced	0.02%	2.74%	3.71%
	Growth	0.04%	3.46%	4.06%
	High Growth	0.00%	4.04%	4.30%
	Shares	-0.11%	4.69%	4.02%

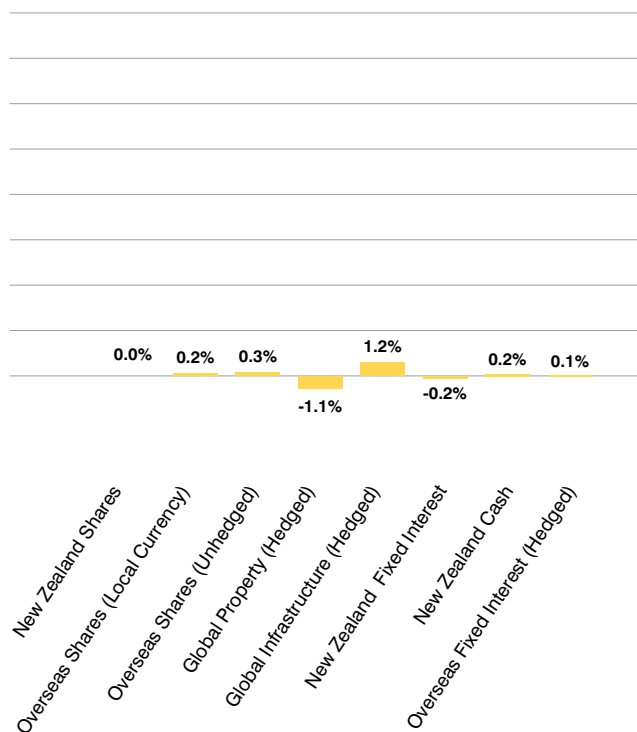
Investment options		1 Month	3 Months	FYTD*
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.12%	0.33%	0.72%
	Conservative	-0.06%	1.43%	2.74%
	Moderate	-0.04%	1.78%	3.00%
	Balanced	0.03%	2.79%	3.94%
	Growth	0.03%	3.56%	4.28%
	High Growth	0.04%	4.14%	4.62%
	Shares	0.03%	4.90%	4.53%

Notes

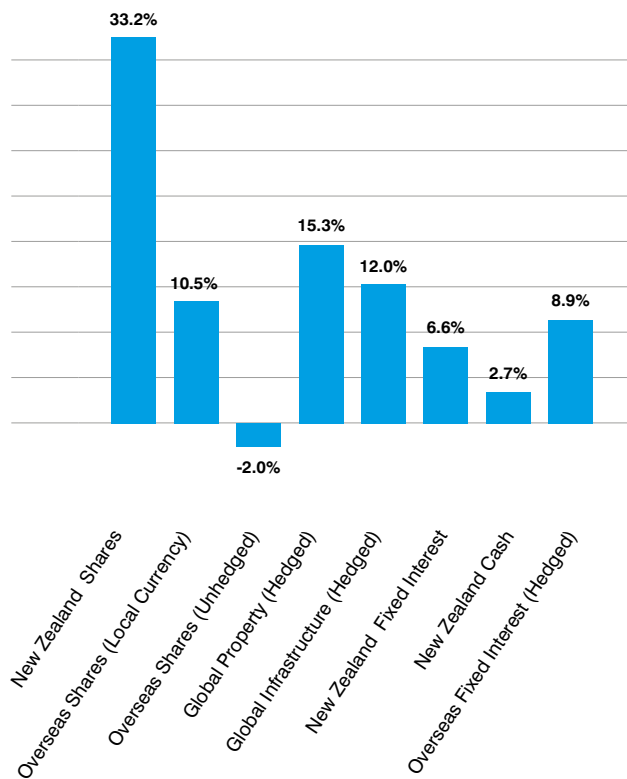
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FINANCIAL MARKETS FOR PERIODS ENDED 30 SEPTEMBER 2016

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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