



MONTHLY REPORT

FOR THE PERIOD ENDED 30 SEPTEMBER 2017

MONTH IN A SNAPSHOT

- In September share markets have continued to perform well, while bonds markets slowed with the anticipation of rising interest rates giving investors more options.
- All the New Zealand Defence Force Savings Scheme's investment options returned positive results for members.
- With weather warming and holiday season now insight, take the time to review your accounts. Engaging actively with your savings now can make a big difference to how much you'll have in the future, but also ensure you are eligible for monthly prize draws. More information about the prize draws can be found on the www.nzdf.superfacts.co.nz where each month a list of all the winners is published.
- You may have seen recent comments from the NZ Financial Markets Authority (independent regulator) that many KiwiSaver investors are too conservative with their investments and have left their funds in the default option rather than to seek more active or aggressive investment of their funds. Many members of the NZDF KiwiSaver Scheme also fall into that category. A reminder that you are able to obtain advice from Milestone Direct Ltd on what is the best investment option for you. Phone Milestone on 0508 645 378.

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



For more information call 0800 333 787 or visit www.nzdf.superfacts.co.nz

MERCER MONTHLY COMMENTARY ENDED 30 SEPTEMBER 2017

With no real signs of slowing down, global share markets marched onwards and upwards in September delivering positive returns to investors. The latest OECD world economic growth rate for 2018 is forecast to be 3.7%. This is supported by recent positive business and share market sentiment and it is the strongest rate since 2011, well above recent levels. Strong economic growth is typically supportive of share markets. In contrast, global bond markets fell in September, as improving economic conditions have increased expectations of interest rate rises in many of the world's major economies (giving investors options on where to seek stronger returns). Higher interest rates tend to result in lower bond rates.

The MSCI World Index performed well in September, up +2.3% (in local currency terms). Energy stocks were the best performers over the month as oil prices spiked following a series of natural disasters.

Despite some volatility early in the month, the New Zealand market took the uncertain election outcome in its stride, largely keeping pace with other developed markets in September, returning +1.8%.

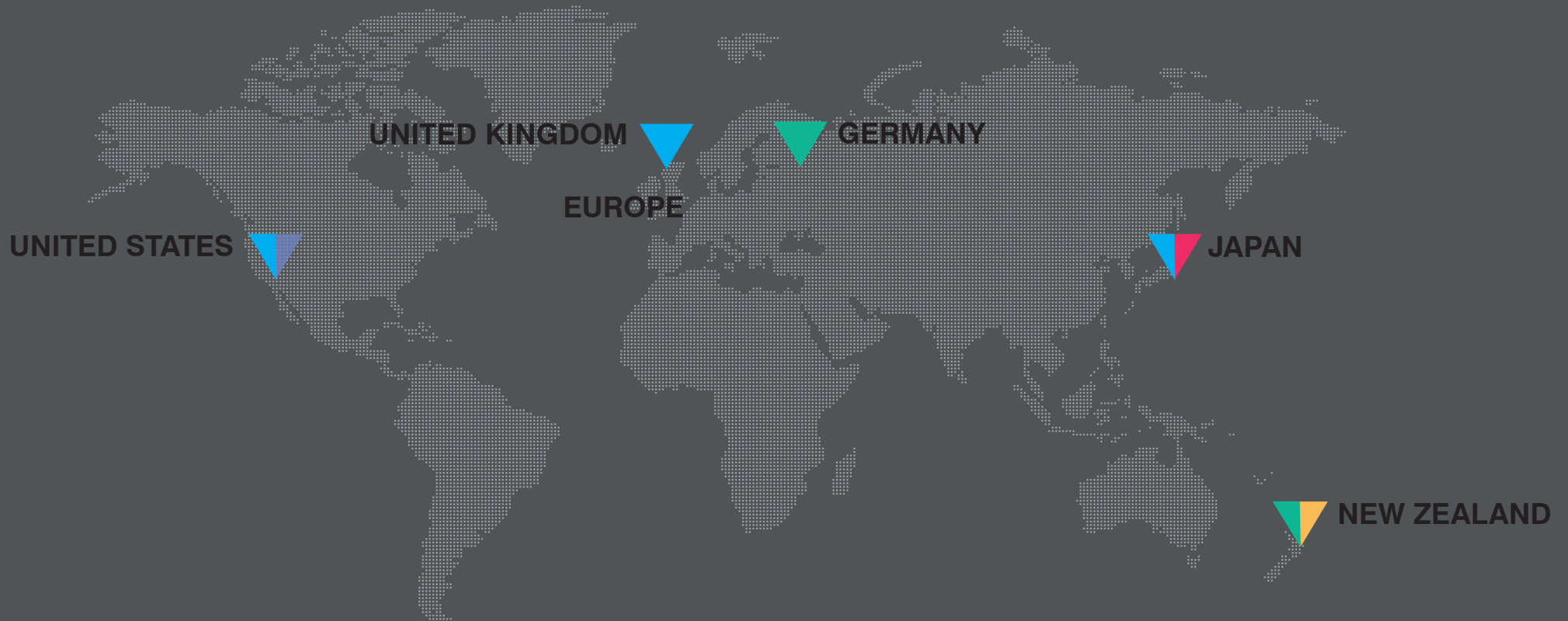
Across the ditch, the ASX 200 Index delivered a near zero return for the month. Rising household debt (now collectively more than 100% of Australian GDP) threatens to constrain future economic growth.

Global Listed Property and Global Listed Infrastructure declined over the month, down -0.1% and -1.5% respectively, both well behind the broader global equity market. Signs of increasing official interest rates have hurt these sectors, as rising global yields allow investors to seek stronger returns elsewhere.



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SIGNIFICANT RECENT ITEMS INCLUDE:



▼ US, UK, EUROPE & JAPAN

As expected, central banks in the US, UK, Europe and Japan all left their respective interest rates on hold in September. Market expectations are for a further US rate hike in December, with the Fed (the US independent bank which sets overall interest rates) also set to begin unwinding its US\$4.5tn bond portfolio in October. This signals a tightening of the money supply, usually the first response to a heating domestic market.

▼ UNITED STATES

The US Republican tax plan, released on 27 September, promises to dramatically reduce corporate tax rates. While the net economic effect of the proposal is difficult to predict, if passed through Congress it should provide a material boost to corporate earnings in the US.

▼ JAPAN

In late September, Japanese Prime Minister Shinzo Abe - well ahead in current opinion polls - called for a snap election on 22 October. The election will decide whether Japan continues with Abe's stimulatory economic policies.

▼ NEW ZEALAND AND GERMANY

NZ and Germany:
The New Zealand and German elections in late-September both resulted in hung parliaments, despite the ruling parties in both countries achieving clear margins over their nearest rivals. While political uncertainty can often lead to market volatility, both countries' share markets have continued to rise post the elections.

▼ NEW ZEALAND

The New Zealand dollar strengthened against most major currencies in September, despite material falls (c.1.5%) following the uncertain election outcome. The only major currency the New Zealand dollar lost value against was the British pound, falling by -3.1% for the month and bringing the currency back to a similar level as at 30 June 2016 (one week after the Brexit vote).

MILESTONE DIRECT MONTHLY COMMENTARY ENDED 30 SEPTEMBER 2017

PLEASEINGLY, THIS MONTH ALL THE NZDF SAVINGS SCHEME'S OPTIONS ACHIEVED POSITIVE RESULTS.

Looking forwards, the New Zealand political scene has been the topic of a couple of investment questions sent our way lately. It pays to be mindful that even recent significant international political events that weren't foreseen by most commentators, such as Brexit and the election of President Trump, had the opposite short-term impact than many had imagined beforehand. While the long-term effect of such events remains to be seen, the fact remains that political changes of comparable magnitude are not likely in New Zealand, and therefore the impacts are likely to be even less noticeable on investments. This is because:

- Most of our political parties are reasonably centrist, and compared with political parties overseas, they basically say the same things in different ways.
- Many of the factors driving current good investment performance will continue under the new government, as these factors were either in place prior to the election or are factors outside the control of any government.
- Our New Zealand-owned companies can be expected to continue to perform well for at least the next 12 months as they have good consumer demand in front of them, tax rates are favourable, and exporters have managed to adapt reasonably well to fluctuating exchange rates.
- The housing market, especially in Auckland, will take a pause as house prices readjust to their long-term average. A slowing of immigration and lack of affordability will lower demand, but the current lack of housing supply and the delays in building new homes will help to offset any drop in values.
- The loan-to-value (LVR) ratio may be tweaked because of future political pressure, but the reality is that most housing lending is provided by the big Australian-owned banks. For the next 12 months at least, they are tightening their lending criteria as they rejig their balance sheets to meet Australian regulatory requirements.
- The deals that must be struck with smaller parties to assemble the new government may cause some eyebrows to raise, but the decisions that are made will not have a significant detrimental impact on your investments in the short-term.

The big things that can, in the short-term, impact on investment performance are largely outside the control of the New Zealand government. These are things like:

- Major catastrophes;
- War - especially if it involves a major trading nation or super power such as the USA;
- Radical changes in major currencies such as the US\$;
- A significant fall in major stock markets or rise in international bond rates (look to the USA for this); or
- The likes of President Trump making some outrageous statements or committing an outrageous act that throws the financial markets into turmoil.

New Zealand has, economically, performed well in recent years. Obviously, this great performance cannot continue forever, but a new coalition government will not suddenly precipitate a collapse and economic downturn. Our economy and the businesses that operate within it are far too resilient for a group of politicians to turn things to custard overnight.

If you'd like to discuss this, or anything else further, give us a call on **0508 MILESTONE (0508 645 378)** or email info@milestonedirect.co.nz and we can talk through the issues and how these might impact on you.

Joseph Darby
Chief Executive
Milestone Direct

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INVESTMENT RETURNS FOR PERIODS ENDED 30 SEPTEMBER 2017

DEFENCE FORCE SUPERANNUATION SCHEME

PIR	Fund	1 Month %	3 Months %	FYTD %	1 Year %	3 Years %	5 Years %
28% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.11	0.32	0.65	1.34	-	-
	Conservative	0.21	1.10	2.09	3.37	-	-
	Moderate	0.30	1.57	2.68	4.94	-	-
	Balanced	0.50	2.49	3.91	7.52	5.65	7.94
	Growth	0.72	3.06	4.66	10.52	-	-
	High Growth	0.97	3.86	5.75	12.65	-	-
	Shares	1.33	4.76	6.80	15.20	-	-

PIR	Fund	1 Month %	3 Months %	FYTD %	1 Year %	3 Years %	5 Years %
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.12	0.37	0.75	1.53	-	-
	Conservative	0.23	1.15	2.28	3.66	-	-
	Moderate	0.34	1.62	2.92	5.17	-	-
	Balanced	0.57	2.48	4.16	7.80	6.02	8.38
	Growth	0.78	3.14	4.99	10.78	-	-
	High Growth	1.05	3.82	6.04	12.99	-	-
	Shares	1.45	4.73	7.24	15.96	-	-

PIR	Fund	1 Month %	3 Months %	FYTD %	1 Year %	3 Years %	5 Years %
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.13	0.42	0.82	1.67	-	-
	Conservative	0.25	1.25	2.41	3.72	-	-
	Moderate	-	-	-	-	-	-
	Balanced	0.61	2.44	4.24	7.89	6.22	8.64
	Growth	-	-	-	-	-	-
	High Growth	1.17	3.86	6.19	13.31	-	-
	Shares	1.51	4.72	7.30	16.01	-	-

INVESTMENT RETURNS FOR PERIODS ENDED 30 SEPTEMBER 2017

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME

PIR	Fund	1 Month %	3 Months %	FYTD %	1 Year %	3 Years %	5 Years %
28% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.11	0.34	0.66	1.37	-	-
	Conservative	0.21	1.14	2.09	3.31	-	-
	Moderate	0.29	1.63	2.68	4.70	-	-
	Balanced	0.48	2.43	3.83	7.48	-	-
	Growth	0.72	3.19	4.80	10.40	-	-
	High Growth	0.97	3.87	5.65	12.39	-	-
	Shares	1.26	4.64	6.79	14.98	-	-

PIR	Fund	1 Month %	3 Months %	FYTD %	1 Year %	3 Years %	5 Years %
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.12	0.37	0.76	1.54	-	-
	Conservative	0.23	1.17	2.27	3.46	-	-
	Moderate	0.30	1.61	2.87	5.07	-	-
	Balanced	0.55	2.42	4.05	7.71	-	-
	Growth	0.82	3.16	5.02	10.70	-	-
	High Growth	1.08	3.84	5.94	12.80	-	-
	Shares	1.41	4.66	6.91	15.33	-	-

PIR	Fund	1 Month %	3 Months %	FYTD %	1 Year %	3 Years %	5 Years %
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.13	0.40	0.82	1.67	-	-
	Conservative	0.24	1.19	2.39	3.63	-	-
	Moderate	0.36	1.62	3.00	5.23	-	-
	Balanced	0.60	2.42	4.16	7.83	-	-
	Growth	0.88	3.15	5.20	10.95	-	-
	High Growth	1.12	3.80	6.08	13.05	-	-
	Shares	1.49	4.61	7.16	15.79	-	-

INVESTMENT RETURNS FOR PERIODS ENDED 30 SEPTEMBER 2017

NEW ZEALAND DEFENCE FORCE FLEXISAVER SCHEME

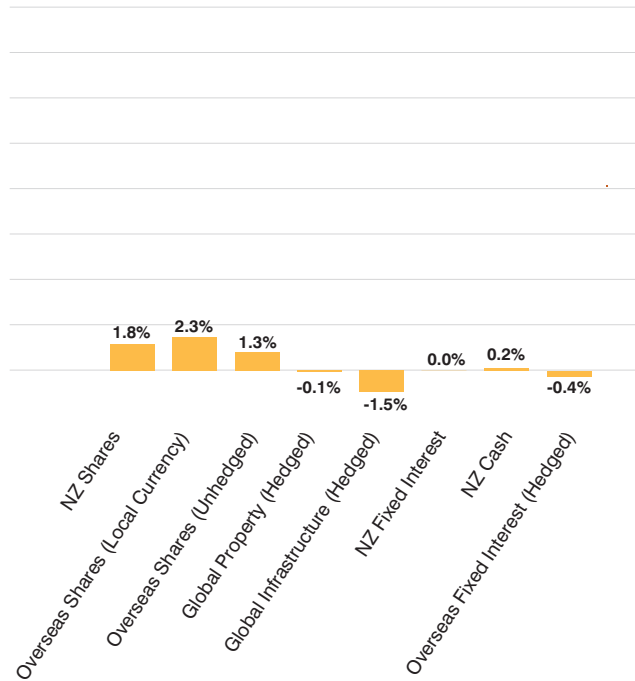
PIR	Fund	1 Month %	3 Months %	FYTD %	1 Year %	3 Years %	5 Years %
28% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.09	0.27	0.53	1.15	-	-
	Conservative	0.21	1.03	1.79	2.98	-	-
	Moderate	0.28	1.55	2.59	4.71	-	-
	Balanced	0.44	2.38	3.60	7.26	-	-
	Growth	0.71	3.17	4.77	10.48	-	-
	High Growth	0.94	3.81	5.55	12.39	-	-
	Shares	1.32	4.68	6.66	15.11	-	-

PIR	Fund	1 Month %	3 Months %	FYTD %	1 Year %	3 Years %	5 Years %
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.12	0.38	0.71	1.57	-	-
	Conservative	0.21	1.15	2.19	3.40	-	-
	Moderate	0.27	1.57	2.82	4.89	-	-
	Balanced	0.53	2.38	3.98	7.70	-	-
	Growth	0.82	3.13	4.93	10.75	-	-
	High Growth	1.11	3.78	5.80	12.60	-	-
	Shares	1.43	4.67	7.05	15.48	-	-

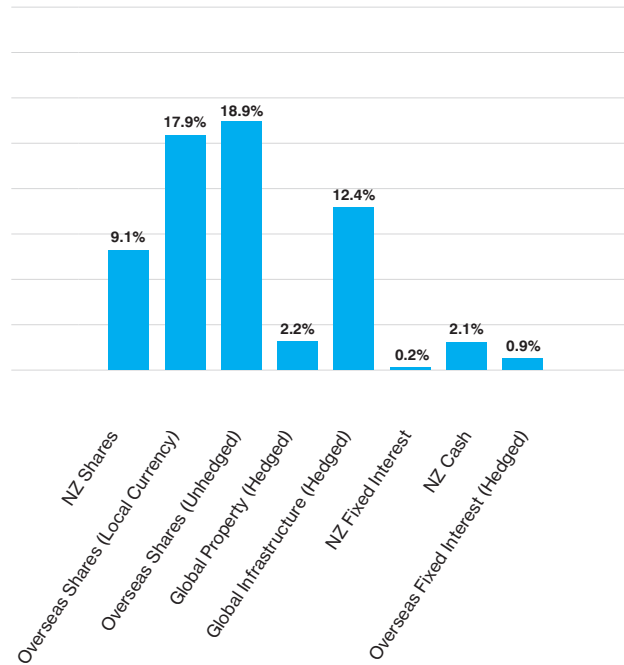
PIR	Fund	1 Month %	3 Months %	FYTD %	1 Year %	3 Years %	5 Years %
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.09	0.33	0.72	1.45	-	-
	Conservative	0.22	1.14	2.31	3.56	-	-
	Moderate	0.35	1.64	2.97	4.91	-	-
	Balanced	0.60	2.41	4.09	7.87	-	-
	Growth	0.88	3.13	5.21	11.09	-	-
	High Growth	1.12	3.81	6.11	13.00	-	-
	Shares	1.52	4.76	7.23	15.78	-	-

FINANCIAL MARKETS FOR PERIODS ENDED 30 SEPTEMBER 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)
Bloomberg Global Aggregate

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