

# MONTHLY REPORT

For the period ended 31 December 2017

## Month in a snapshot

- Good bye 2017, a great year for investors! To close out the year, we'll have a look at what's happened during the month of December and over the last 12 months in this report. December was no exception, with share markets having another positive month. The share rally that began in 2009 is one of the longest and largest on record; US shares for example had risen for 14 consecutive months as of December, their longest ever monthly winning streak.
- All the New Zealand Defence Force Savings Scheme's investment options returned positive results for members in December.
- Welcome 2018! We expect shares to rise modestly in 2018, largely due to the continuing economic strength that should lead to another year of strong earnings growth in most economies. You can read more about the outlook for 2018 on the Force Financial Hub.

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



# Monthly Commentary Ended 31 December 2017

December was another positive month for share markets, rounding off a bumper year in 2017. US President, Donald Trump's promised overhaul of US tax policy was officially signed before year end. While the changes are likely to support US shares in 2018, there is some debate about whether the ongoing impact of the new policies will be as positive as the government is predicting. The US Federal Reserve (the Fed) has started raising interest rates, which is a sign that their economy is strong. The test for 2018, is whether they can raise interest rates without firstly affecting growth and secondly, spooking financial markets. If the Fed fails on either counts, we could see some periods of markets going up and down (volatility).

The New Zealand share market performed strongly in December, with the NZX50 Index returning +2.6% for the month. A2 Milk finished as the top performer of the NZX50 for 2017, having risen 279% over the period; 81% ahead of the next best performer, Pushpay. In Australia, the ASX200 Index also performed well, delivering a +1.8% return for the month. As a member of the Defence Force Savings Schemes, depending on the investment option(s) you have selected you can invest up to 26% of your savings in the Trans-Tasman Shares Fund which invests in New Zealand and Australian Shares.

Positive sentiment continues to sustain the global economy, although rising inflation remains a looming threat in developed markets over the coming year.

Emerging market shares (e.g India and Brazil) outperformed the majority of developed market shares (e.g Australia or USA) in December, returning +2.6% in local currency, capping off a strong 12 months for the sector (+30.6%).

Global Listed Property performed well in December, despite the interest rate rise in the US, returning +1.0%, and outperforming Global Listed Infrastructure (-1.7%). Both real asset sectors remain well behind the broader global share market over the last 12 months. Despite falling in December, Infrastructure performed better than Property in 2017, boosted by rising inflation expectations. We view infrastructure as a good inflation hedge as the cashflows for infrastructure assets have some degree of link to inflation. All investment options with the exception of Cash and Shares, have investments in Unlisted Infrastructure, these are assets which are not listed on stock exchanges such as Melbourne Airport, Finerge (Portuguese Windfarm), Anglian Water Group (UK Water) and First Gas (NZ Natural Gas Assets).

The New Zealand dollar rose against all major currencies over the month, supported by the news of well-respected New Zealand Superannuation Fund Chief, Adrian Orr, filling the position of governor at the RBNZ. The strongest rise was against the Japanese Yen (+4.3%). The New Zealand Dollar has fallen against all major currencies except for the USD (+2.0%) over the last 12 months, all funds (with the exception of cash) have exposure to foreign assets and therefore currencies, and this is a great way to diversify the portfolios, though we do hedge the foreign currency on most of these assets.



# Significant recent items include:



## ● Europe and Australia

The European Central Bank (ECB) and Reserve Bank of Australia left their respective interest rates (0% and 1.5%) unchanged in December, with the ECB noting that it expects its rate to remain at present levels for an extended period of time.

## ● United States

In his first major legislative win since taking office in January, US President Donald Trump signed the US\$1.5 Trillion Tax Cuts and Jobs Act in December. If it works as expected, the US should see increased corporate earnings and a modest boost to economic growth.

## ● United States

Also in the US, the Federal Reserve raised the Fed Funds Rate for the third time in 2017. The key interest rate now sits at 1.5%, well ahead of most other major developed markets. The Fed is forecasting three further rate rises in 2018.

## ● Russia

Russian President Vladimir Putin announced he intends to run for re-election in March 2018. At this stage, Putin is likely to win the upcoming election and become the nation's longest serving leader since Soviet dictator Josef Stalin.



# Milestone Direct Monthly Commentary Ended 31 December 2017

Overall, the NZDF Savings Schemes continue to perform strongly. Pleasingly, their performance after fees and tax remains strong in comparison with the remainder of the investment market.

One area we have been recently questioned about is the fees charged on investments, including those in the NZDF Savings Schemes. It's no secret that some fund managers have quite aggressive marketing around the low fees on their investment offerings. However, fees are only one of the many areas to consider before making an investment decision. Focusing on fees can quite literally come at the expense of other areas, and can create a hazardous situation where an investor finds themselves with a cheap, but potentially undesirable investment.

Of course, rather than looking at headline price, the **main thing** that an investor should truly care about when investing is their return after fees and tax, and ensuring they haven't accepted undue risk to get that return. In other words, while the fees on the NZDF Savings Schemes are low, it's the net investment return (the return after all fees and taxes have been paid) that should be focused upon. This is where the NZDF Savings Schemes are performing solidly, and especially in the Growth, High Growth, and Shares investment options. Pleasingly, these are the funds where the active decisions of a fund manager usually have the largest difference. This reflects Mercer's skill as investors – which is supported by independent research of their investment team.

Additionally, some of the cheap investment providers with cut-price offerings have significant constraints or drawbacks, such as minimum investment amounts, contribution fees (basically a hidden fee), and limited assistance available to the investors. One such fund manager doesn't even have a phone number, and if someone has a query the provider makes people enter their details online for a callback later! Compare this with the NZDF Savings Schemes where members have: flexible investments with no minimum thresholds, instant access to professional financial advice from Milestone Direct, and no hidden fees. Add-in the other benefits of the NZDF offerings such as prize draws, and the overall package is impressive.

So, the next time you hear of something going cheap, keep in mind what your overall aim is – otherwise you could end up costing yourself a lot more over the long run. While past performance is no guarantee of future returns, the impressive returns of the NZDF Savings Schemes in comparison to most other offerings, below average fees, and the high rating of Mercer as a fund manager are all very good signs for the future.

If you'd like to discuss anything mentioned above, or to discuss something else, give us a call on **0508 MILESTONE (0508 645 378)** or email [info@milestonedirect.co.nz](mailto:info@milestonedirect.co.nz).

Joseph Darby  
Chief Executive  
**Milestone Direct**



# Investment Returns For Periods Ended 31 December 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	0.33	0.98	1.33	-	-
	Conservative	0.07	1.56	3.68	5.13	-	-
	Moderate	0.09	2.14	4.88	6.97	-	-
	Balanced	0.09	3.19	7.22	10.20	5.65	8.10
	Growth	0.04	4.11	8.97	13.24	-	-
	High Growth	0.12	4.93	10.97	16.15	-	-
	Shares	0.02	6.04	13.25	19.69	-	-
PIR	Fund	1 Month %	3 Months %	FYTD %	1 Year %	3 Years %	5 Years %
17.5% prescribed investor rate (PIR)	Cash	0.12	0.37	1.12	1.51	-	-
	Conservative	0.12	1.63	3.95	5.50	-	-
	Moderate	0.16	2.19	5.17	7.28	-	-
	Balanced	0.20	3.22	7.51	10.52	5.88	8.52
	Growth	0.18	4.12	9.31	13.55	-	-
	High Growth	0.30	4.97	11.31	16.48	-	-
	Shares	0.22	6.06	13.74	20.31	-	-
PIR	Fund	1 Month %	3 Months %	FYTD %	1 Year %	3 Years %	5 Years %
10.5% prescribed investor rate (PIR)	Cash	0.13	0.40	1.22	1.65	-	-
	Conservative	0.15	1.69	4.15	5.73	-	-
	Moderate	-	-	-	-	5.98	8.75
	Balanced	0.27	3.22	7.60	10.63	-	-
	Growth	-	-	-	-	-	-
	High Growth	0.41	5.00	11.49	16.66	-	-
	Shares	0.36	6.05	13.79	20.34	-	-

### 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 2017

# Investment Returns For Periods Ended 31 December 2017

## New Zealand Defence Force KiwiSaver Scheme

PIR	Fund	1 Month %	3 Months %	FYTD %	1 Year %
28% prescribed investor rate (PIR)	Cash	0.11	0.33	0.99	1.35
	Conservative	0.07	1.54	3.66	5.11
	Moderate	0.09	2.11	4.85	6.83
	Balanced	0.08	3.14	7.09	10.17
	Growth	0.03	4.10	9.09	13.24
	High Growth	0.12	4.90	10.83	15.88
	Shares	0.02	5.97	13.16	19.46
PIR	Fund	1 Month %	3 Months %	FYTD %	1 Year %
17.5% prescribed investor rate (PIR)	Cash	0.12	0.37	1.13	1.52
	Conservative	0.12	1.59	3.89	5.43
	Moderate	0.16	2.12	5.05	7.15
	Balanced	0.19	3.17	7.35	10.45
	Growth	0.18	4.19	9.42	13.59
	High Growth	0.29	4.93	11.16	16.20
	Shares	0.18	5.98	13.31	19.62
PIR	Fund	1 Month %	3 Months %	FYTD %	1 Year %
10.5% prescribed investor rate (PIR)	Cash	0.13	0.40	1.22	1.66
	Conservative	0.14	1.65	4.08	5.65
	Moderate	0.20	2.19	5.26	7.40
	Balanced	0.26	3.14	7.43	10.50
	Growth	0.28	4.13	9.54	13.74
	High Growth	0.40	4.87	11.25	16.27
	Shares	0.35	6.00	13.58	20.06

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# Investment Returns For Periods Ended 31 December 2017

## New Zealand Defence Force FlexiSaver Scheme

PIR	Fund	1 Month %	3 Months %	FYTD %	1 Year %
28% prescribed investor rate (PIR)	Cash	0.09	0.28	0.81	1.14
	Conservative	0.07	1.55	3.37	4.79
	Moderate	0.10	2.10	4.74	6.79
	Balanced	0.05	3.04	6.76	9.84
	Growth	0.03	4.10	9.07	13.37
	High Growth	0.12	4.87	10.69	15.80
	Shares	0.03	5.99	13.05	19.41
PIR	Fund	1 Month %	3 Months %	FYTD %	1 Year %
17.5% prescribed investor rate (PIR)	Cash	0.12	0.35	1.06	1.50
	Conservative	0.12	1.58	3.80	5.32
	Moderate	0.16	2.15	5.04	7.16
	Balanced	0.20	3.14	7.25	10.37
	Growth	0.19	4.17	9.31	13.58
	High Growth	0.29	4.91	11.00	16.05
	Shares	0.25	5.99	13.47	19.81
PIR	Fund	1 Month %	3 Months %	FYTD %	1 Year %
10.5% prescribed investor rate (PIR)	Cash	0.13	0.33	1.05	1.45
	Conservative	0.11	1.60	3.95	5.51
	Moderate	0.20	2.19	5.23	7.26
	Balanced	0.27	3.14	7.35	10.50
	Growth	0.30	4.15	9.58	13.86
	High Growth	0.40	4.94	11.36	16.43
	Shares	0.35	6.00	13.67	20.16

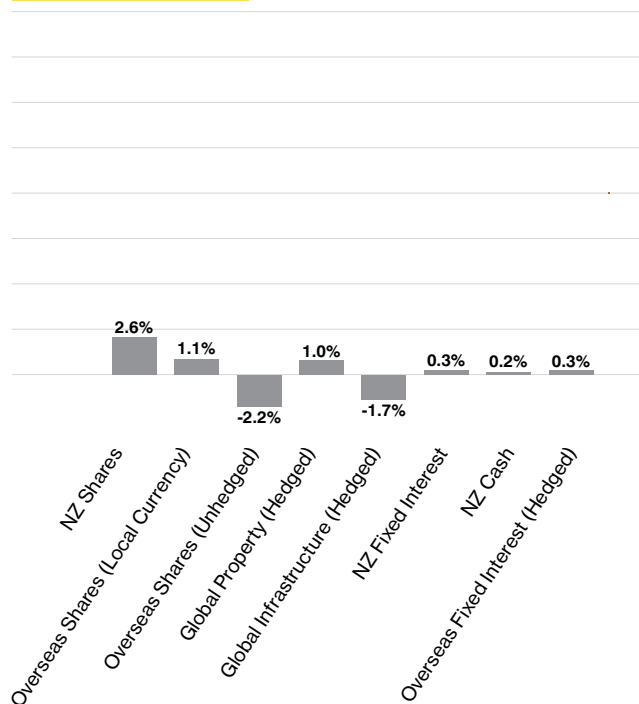
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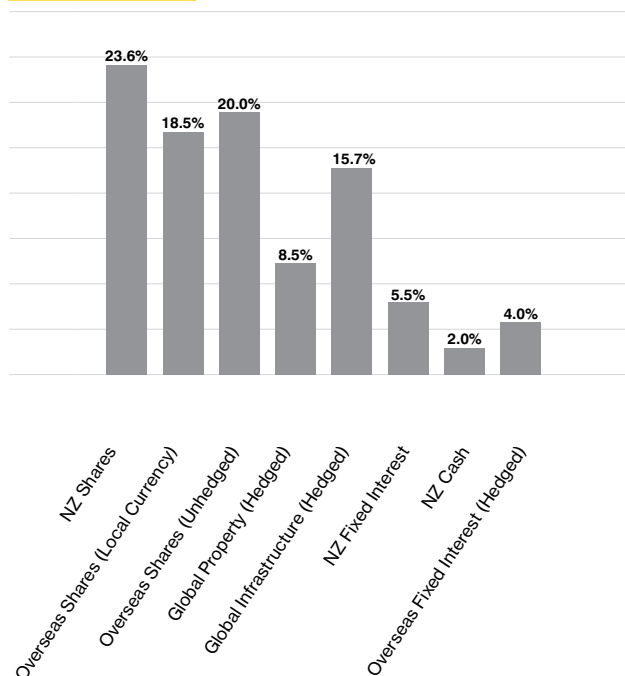
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# Financial Markets For Periods Ended 31 December 2017

## 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

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