



MONTHLY REPORT

FOR PERIODS ENDED 31 JANUARY 2016

UPDATE FROM MILESTONE DIRECT

TURMOIL CREATES OPPORTUNITY

If we put the blinkers on and focus very short term, then there is no doubt about it – January 2016 was a shocker of a month for investment returns. Most funds with a high exposure to shares probably suffered a loss and the NZDF savings schemes were no exception.

Those worried about these very short term market ups and downs should leave their money in the bank as that is the safest place to be if you need to spend it all in the next month or so. However, those thinking about their medium or long term future need to be exposed to the financial markets to some degree so that over time, their money can outperform bank term deposit rates.

A good spread of investments with exposure to cash, shares, fixed interest and property is the prudent way to go and that is what Mercer excels at doing for members of NZDF via the NZDF savings schemes.

MONTHLY REPORT FOR PERIODS ENDED 31 JANUARY 2016

The default fund for NZDF members is the balanced fund. It is a bit like Goldilocks – neither too hot nor too cold – it is about right. In investment terms, it is reasonably evenly split between growth investments (like shares and property) and income investments (like cash and fixed interest). However, even a balanced fund has nowhere to hide when markets gyrate like they have done in December and January.

No one can tell with any great certainty when these gyrations will lessen. What we can say is:

- It is now better value switching into a NZDF savings scheme than what it was in October last year as values have fallen. It is like buying specials at the supermarket – when things are cheap – we tend to buy more.
- The world is not coming to an end and according to many reputable commentators, we are not facing a global recession. Milestone Direct has an excellent article from Harbour Asset Management about this. Give us a call and we can send you a copy.
- Markets will always go up and down and we are in that part of the longer term market cycle where the prices of investments need to come back down to their long term trend levels as investment markets cannot keep going up forever without taking a breather.

The concept of ‘dollar cost averaging’ works really well when markets are going up and down like right now. Dollar cost averaging is where you put the same amount into your NZDF FlexiSaver account every pay. When your investment unit price is high, you buy fewer units for your money but when unit prices fall like now, your money goes further and buys more units.

David Greenslade, the chairman of Milestone Direct has just opened a NZDF FlexiSaver account and is saving into the Share fund. We asked him “Why now and why the share fund?” His reply:

“I’m saving for the long-term, I understand the ups and downs of the markets, I don’t need this money for at least 10 or more years, and I understand how the team at Mercer works and have confidence in their investment philosophy. This was surplus money to my day to day needs and if I did not capture it now and invest it, then I would just spend it on useless things like cars, stereos, meals out – things that never increase in value. It was a matter of use it or lose it! However, not everyone is happy to see their investments go up and down like at present so they should ring the Milestone team and chat through their concerns.”

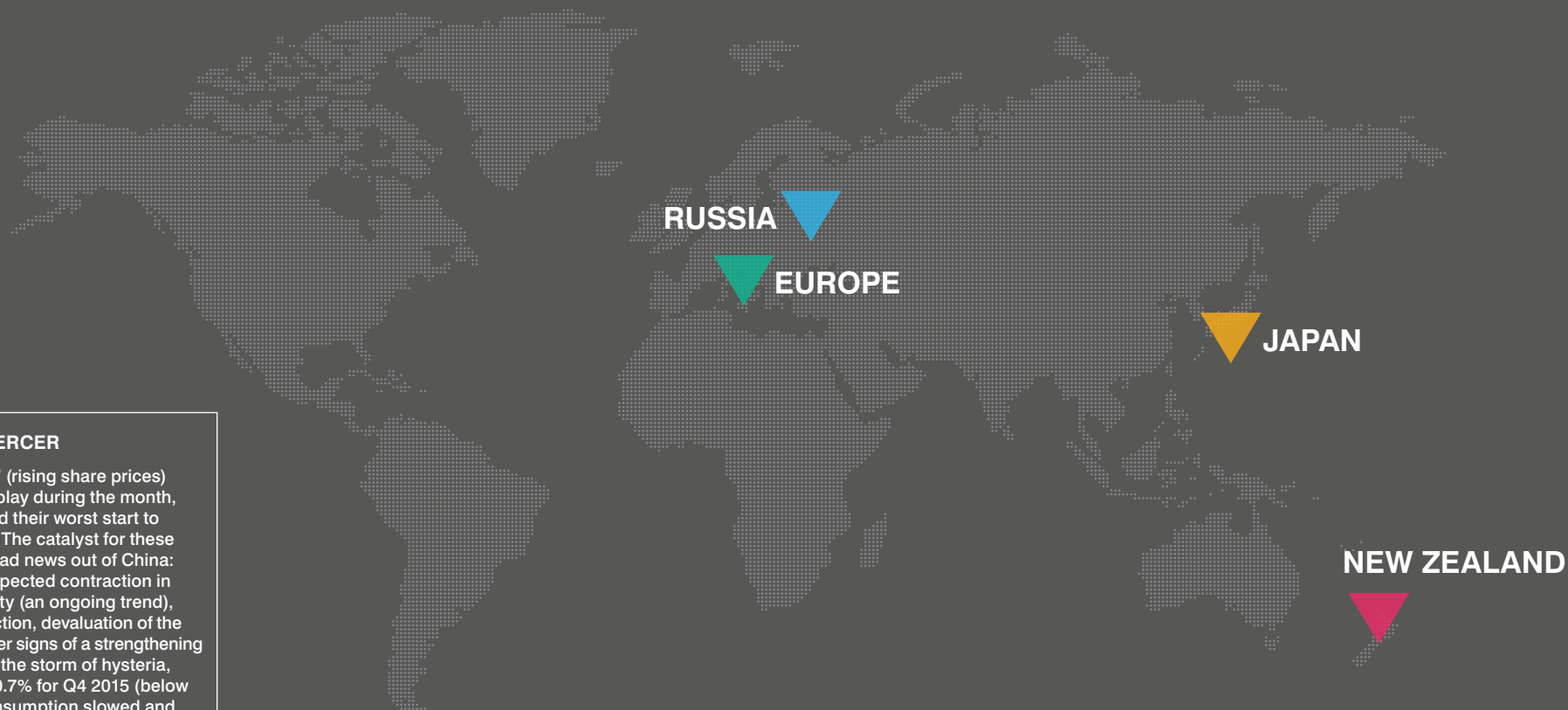
If you are worried about the short term fall in your investment value, then give the Milestone Direct team a call on **0508 MILESTONE (0508 645 378)** and we will help you select the risk profile and fund to meet your needs.

Disclosure

A disclosure statement is available upon request and free of charge. This article is not intended to be personalised financial advice. It is recommended you contact a Milestone Direct financial adviser before making any investment decision.

SIGNIFICANT RECENT ITEMS INCLUDE:

An estimate of a Balanced Fund gross index return based on selected market indicators for January was -0.7%.



UPDATE FROM MERCER

“The January effect” (rising share prices) was certainly not in play during the month, as Global Shares had their worst start to the year since 2009. The catalyst for these falls was a wave of bad news out of China: first, a larger than expected contraction in manufacturing activity (an ongoing trend), then, perhaps in reaction, devaluation of the Chinese yuan – neither signs of a strengthening economy. Adding to the storm of hysteria, US GDP came in at 0.7% for Q4 2015 (below expectations) as consumption slowed and exports were soft due to the strong USD.

▼ EUROPE

The unemployment rate in the Eurozone has fallen to its lowest rate since October 2011 (the depths of the Sovereign Debt Crisis), though at 10.5% is still high. Spain (lowest unemployment rate in a decade) and Ireland (lowest since 2008) were two of the marked improvers.

▼ RUSSIA

Oil fell to below US\$30 per barrel during the month. The low oil price has made it difficult to generate inflation globally, put a strain on oil exporters such as Venezuela and Russia, and has made the once booming US “frackers” unprofitable.

▼ JAPAN

Japan became the third country (Switzerland and Sweden are the others) with a negative interest rate. The Bank of Japan cut its call rate to -0.1% and did not rule out further cuts, as it remains woefully short of its 2% inflation target.

▼ NEW ZEALAND

The New Zealand economy continues to generate some bright spots outside of the dairy sector. Net migration reached a record high of 64,900 for 2015, tourism numbers are at record highs, and the lower New Zealand dollar has benefitted non-dairy exports.

INVESTMENT RETURNS FOR PERIODS ENDED 31 JANUARY 2016

DEFENCE FORCE SUPERANNUATION SCHEME

Investment options		1 Month %	3 Months %	FYTD* %	1 Year %	3 Years %	5 Years %
28% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.12	0.42	-	-	-	-
	Conservative	-0.27	-0.42	-	-	-	-
	Moderate	-0.53	-0.88	-	-	-	-
	Balanced	-1.34	-1.95	-3.61	-1.49	6.59	5.91
	Growth	-2.12	-3.26	-	-	-	-
	High Growth	-2.81	-3.90	-	-	-	-
	Shares	-4.02	-4.86	-	-	-	-

Investment options		1 Month %	3 Months %	FYTD* %	1 Year %	3 Years %	5 Years %
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.16	0.49	-	-	-	-
	Conservative	-	n/a	-	-	-	-
	Moderate	-0.55	n/a	-	-	-	-
	Balanced	-1.45	-1.98	-4.00	-1.63	6.94	6.45
	Growth	-2.38	-3.36	-	-	-	-
	High Growth	-3.11	-4.00	-	-	-	-
	Shares	-4.18	-5.02	-	-	-	-

Investment options		1 Month %	3 Months %	FYTD* %	1 Year %	3 Years %	5 Years %
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	-	n/a	-	-	-	-
	Conservative	-0.09	n/a	-	-	-	-
	Moderate	-	n/a	-	-	-	-
	Balanced	-1.50	-1.98	-4.28	-1.74	7.16	6.81
	Growth	-	n/a	-	-	-	-
	High Growth	-	n/a	-	-	-	-
	Shares	4.29	n/a	-	-	-	-

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 2015

INVESTMENT RETURNS FOR PERIODS ENDED 31 JANUARY 2016

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME

Investment options		1 Month %	3 Months %	FYTD* %	1 Year %
28% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.13	n/a	-	-
	Conservative	-0.20	n/a	-	-
	Moderate	-0.62	n/a	-	-
	Balanced	-1.47	-1.81	-	-
	Growth	-2.18	-3.98	-	-
	High Growth	-2.88	-3.51	-	-
	Shares	-4.03	n/a	-	-

Investment options		1 Month %	3 Months %	FYTD* %	1 Year %
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	-	n/a	-	-
	Conservative	-0.21	n/a	-	-
	Moderate	-0.60	n/a	-	-
	Balanced	-1.49	-2.38	-	-
	Growth	-2.46	-3.48	-	-
	High Growth	-3.08	-4.03	-	-
	Shares	-4.30	-5.09	-	-

Investment options		1 Month %	3 Months %	FYTD* %	1 Year %
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	-	n/a	-	-
	Conservative	-	n/a	-	-
	Moderate	-0.60	n/a	-	-
	Balanced	-1.49	n/a	-	-
	Growth	-2.48	n/a	-	-
	High Growth	-3.26	n/a	-	-
	Shares	-4.41	n/a	-	-

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 2015

INVESTMENT RETURNS FOR PERIODS ENDED 31 JANUARY 2016

NEW ZEALAND DEFENCE FORCE FLEXISAVER SCHEME

Investment options		1 Month %	3 Months %	FYTD* %
28% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.16	n/a	–
	Conservative	–0.25	n/a	–
	Moderate	–0.59	n/a	–
	Balanced	–1.42	n/a	–
	Growth	–2.26	n/a	–
	High Growth	–3.02	n/a	–
	Shares	–4.18	n/a	–

Investment options		1 Month %	3 Months %	FYTD* %
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.14	n/a	–
	Conservative	0.01	n/a	–
	Moderate	–0.70	n/a	–
	Balanced	–1.45	n/a	–
	Growth	–2.41	n/a	–
	High Growth	–3.21	n/a	–
	Shares	–4.34	n/a	–

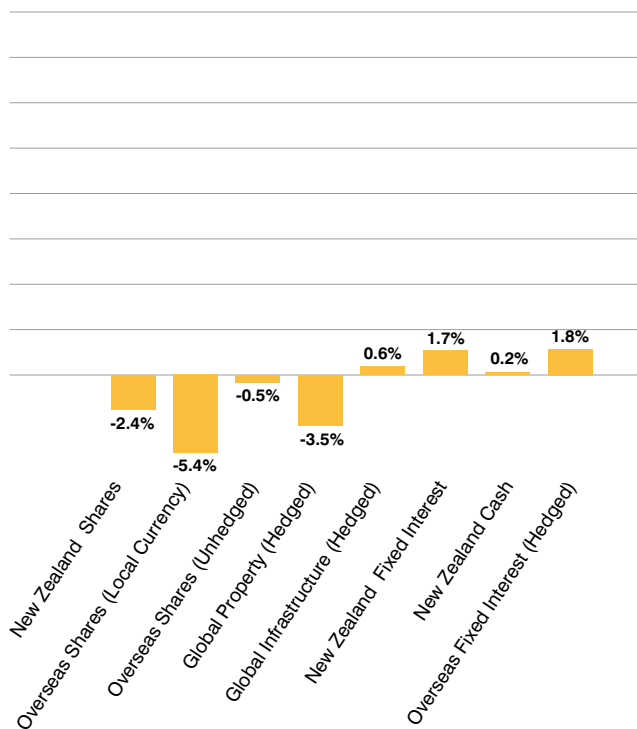
Investment options		1 Month %	3 Months %	FYTD* %
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	–	n/a	–
	Conservative	–0.06	n/a	–
	Moderate	–0.51	n/a	–
	Balanced	–1.50	n/a	–
	Growth	–2.27	n/a	–
	High Growth	–3.26	n/a	–
	Shares	–4.30	n/a	–

Notes

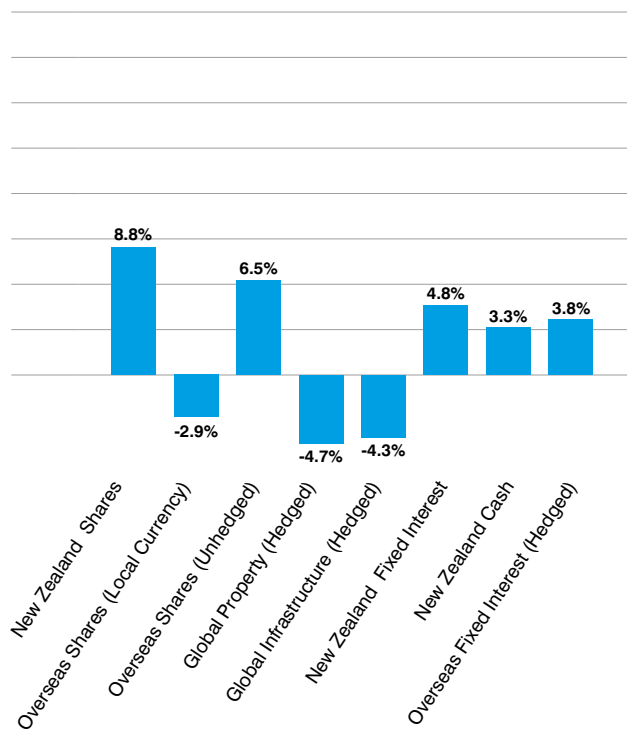
- The investment returns shown on this page are based on the unit price movements of each investment portfolio and are after tax at the rate indicated and after fund charges that are charged within the unit prices.
 - Each investor's returns within an investment portfolio will depend on timing of contribution 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 2015

FINANCIAL MARKETS FOR PERIODS ENDED 31 JANUARY 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.

This document was prepared by Mercer (N.Z.) Limited (Mercer). The document has been published as a general information service and does not take account of the investment objectives, financial situation and/or particular needs of any person. Before making any investment decision, you should take financial advice as to whether your intended action is appropriate in light of your particular investment needs, objectives and financial circumstances. Neither Mercer nor any of its related parties accepts any responsibility for any inaccuracy.

Mercer (N.Z.) Limited