



# MONTHLY REPORT

FOR PERIOD ENDED 30 JUNE 2017

## MONTH IN A SNAPSHOT

- Six months in to the 2017 year and June delivered mixed returns for New Zealand investors including members of the NZDF Savings Schemes. This is due to an increased caution from global investors, who continue to closely monitor what's going on in the US and Europe.
- Most of the NZDF Savings Schemes' funds delivered slightly negative returns, with only Cash delivering positive returns across all three savings schemes and all tax rates.
- It is important not to panic and stick to your long-term investment strategy. If you've not reviewed your investment strategy or risk profile you can do this on the Force Financial Hub (simply Google Force Financial Hub) or on the [www.nzdf.superfacts.co.nz](http://www.nzdf.superfacts.co.nz) website.

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



## MILESTONE DIRECT COMMENTARY

### THE BEAUTY OF DIVERSIFICATION

**All New Zealand Defence Force Savings Scheme funds (other than the Cash Funds) produced a negative return for June. The good news is that they are all still positive over a three- and 12-month period.**

You may not like to see negative returns but the reality is that market-linked investments, other than cash, will have their ups and downs. This is a normal part of investing. The key is to not get spooked when the funds go down. Mercer is a quality fund manager and the money in each fund is highly diversified so it is not all invested into one thing. Good management and diversification pays for itself when there is a bad month in the markets. By way of example, the New Zealand Defence Force KiwiSaver Scheme Shares Fund suffered a loss of -0.237% after tax and fees, for June 2017. This fund is 74% invested into global shares and 26% into trans-Tasman shares. The global sharemarket as measured by the MSCI World Index fell 2.7% for the June month while the Australian and New Zealand sharemarkets were up for the same month. Of greater significance is the three-month return.

Global shares were down -0.7% while the Shares Fund was up 2.058% after fees and tax. When investment markets start to get a bit rocky, diversification helps to minimise the loss.

When investing, focus on the longer term and ignore the monthly yo-yo effect of the markets. Over time, there will be more ups than downs. When the market is down and the value of your fund has temporarily fallen, then that is when every additional dollar you invest goes further as you can buy more units for the same amount of money. It is like going to the supermarket and buying things when they are on special.



**Give the team** at Milestone Direct a call to discuss any investment or other financial advice issues you may have.

Call **0508 MILESTONE (0508 645 378)** or email **[info@milestonedirect.co.nz](mailto:info@milestonedirect.co.nz)**

A Disclosure Statement is available on request and free of charge

### MERCER COMMENTARY

Global sharemarkets trended sideways in June as investors displayed some caution in response to rising US interest rates and political goings on across Europe (including the UK election results).

Business sentiment remained mildly positive as year over year inflation and PMI indexes (which measure the health of a country's manufacturing sector) rose across the world's larger economies. Bond markets didn't do as well and reversed recent gains as pressure to increase interest rates put downward pressure on bond prices.

New Zealand shares outperformed developed markets, returning +2.7%, while New Zealand Government Bonds fell -0.7% over the month. Global aggregate and Government bonds also fell, returning -0.2% and -0.3% respectively. Global Listed Property outperformed the broader sharemarket, up +0.5%, while Global Listed Infrastructure underperformed, falling -1.1%.

Overall, a mixed result.



## SIGNIFICANT RECENT ITEMS INCLUDE:



### ▼ UNITED STATES

The US Federal Reserve (responsible for setting monetary policy in the US) raised the target rate by 25 basis points (0.25%) to 1.25%. The announcement was well anticipated and priced-in by the market. “The Fed” also confirmed that balance sheet normalisation (the reverse of Quantitative Easing) will commence later this year. US economic growth (measured by gross domestic product or “GDP”) for quarter one of 2017 was revised up for a second time in June. Improved consumer spending was the main driver of the latest revision, which raised the annual rate to 1.4%, compared to the April, was 0.7%.

### ▼ AUSTRALIA

Moody’s (credit rating agency) downgraded the credit rating of Australia’s “Big Four” banks (ANZ Banking Group, Commonwealth Bank, National Australia Bank and Westpac) to Aa3 – three grades below the highest rating of Aaa – from Aa2, citing “elevated risks” in the household sector. This could lead to higher funding costs for their New Zealand subsidiaries (ANZ, ASB, BNZ and Westpac).

### ▼ NEW ZEALAND

New Zealand business confidence climbed to a nine month high as sentiment improved. The NZ Reserve Bank left the Official Cash Rate (OCR) unchanged at 1.75% at its June meeting and indicated that monetary policy will remain accommodative for a considerable period. The New Zealand dollar strengthened in June. The largest rise was against the Japanese yen (+4.8%). The +3.2% gain against the US dollar and +2.5% gain against the British pound reflected optimism in the domestic economy. The strong New Zealand dollar reduced returns for unhedged investors who are exposed to fluctuations in the value of foreign currencies. On a trade-weighted basis, the New Zealand dollar rose +2.0%.

# INVESTMENT RETURNS FOR PERIOD ENDED 30 JUNE 2017

## 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	0.10%	0.33%	0.33%	1.38%	–	–
	Conservative	-0.01%	0.98%	0.98%	3.61%	–	–
	Moderate	-0.05%	1.10%	1.10%	5.29%	–	–
	Balanced	-0.11%	1.39%	1.39%	7.73%	5.34%	8.51%
	Growth	-0.25%	1.56%	1.56%	10.96%	–	–
	High Growth	-0.19%	1.82%	1.82%	12.97%	–	–
	Shares	-0.30%	1.95%	1.95%	15.17%	–	–

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%	0.38%	0.38%	1.57%	–	–
	Conservative	0.04%	1.11%	1.11%	3.94%	–	–
	Moderate	0.01%	1.28%	1.28%	5.61%	–	–
	Balanced	-0.02%	1.64%	1.64%	8.17%	5.60%	9.03%
	Growth	-0.14%	1.80%	1.80%	11.24%	–	–
	High Growth	-0.04%	2.14%	2.14%	13.56%	–	–
	Shares	-0.07%	2.39%	2.39%	16.29%	–	–

Investment options		1 Month	3 Months	FYTD*	1 Year	3 Years p.a.	5 Years p.a.
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.13%	0.40%	0.40%	–	–	–
	Conservative	0.07%	1.15%	1.15%	–	–	–
	Moderate	–	–	–	–	–	–
	Balanced	0.03%	1.76%	1.76%	8.39%	5.74%	9.35%
	Growth	–	–	–	–	–	–
	High Growth	0.06%	2.24%	2.24%	13.92%	–	–
	Shares	0.03%	2.46%	2.46%	16.40%	–	–

### 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 PERIOD ENDED 30 JUNE 2017

## NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME

Investment options		1 Month	3 Months	FYTD*	1 Year
28% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.10%	0.32%	0.32%	1.37%
	Conservative	-0.01%	0.94%	0.94%	3.44%
	Moderate	-0.04%	1.04%	1.04%	4.81%
	Balanced	-0.11%	1.37%	1.37%	7.69%
	Growth	-0.22%	1.56%	1.56%	10.51%
	High Growth	-0.19%	1.72%	1.72%	12.56%
	Shares	-0.24%	2.06%	2.06%	14.85%

Investment options		1 Month	3 Months	FYTD*	1 Year
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.11%	0.38%	0.38%	1.58%
	Conservative	0.04%	1.08%	1.08%	3.67%
	Moderate	0.02%	1.24%	1.24%	5.41%
	Balanced	-0.02%	1.59%	1.59%	8.07%
	Growth	-0.11%	1.80%	1.80%	11.10%
	High Growth	-0.03%	2.02%	2.02%	13.12%
	Shares	-0.13%	2.15%	2.15%	15.46%

Investment options		1 Month	3 Months	FYTD*	1 Year
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.13%	0.41%	0.41%	1.71%
	Conservative	0.07%	1.19%	1.19%	3.94%
	Moderate	0.07%	1.36%	1.36%	5.60%
	Balanced	0.05%	1.70%	1.70%	8.19%
	Growth	-0.02%	1.99%	1.99%	11.44%
	High Growth	0.06%	2.19%	2.19%	13.64%
	Shares	0.07%	2.43%	2.43%	16.17%

### 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 PERIOD ENDED 30 JUNE 2017

## NEW ZEALAND DEFENCE FORCE FLEXISAVER SCHEME

Investment options		1 Month	3 Months	FYTD*	1 Year
28% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.09%	0.26%	0.26%	1.15%
	Conservative	-0.02%	0.76%	0.76%	3.17%
	Moderate	-0.06%	1.02%	1.02%	4.92%
	Balanced	-0.13%	1.20%	1.20%	7.42%
	Growth	-0.24%	1.55%	1.55%	10.61%
	High Growth	-0.20%	1.68%	1.68%	12.64%
	Shares	-0.26%	1.89%	1.89%	14.87%

Investment options		1 Month	3 Months	FYTD*	1 Year
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.11%	0.33%	0.33%	1.58%
	Conservative	-0.02%	1.02%	1.02%	3.37%
	Moderate	0.00%	1.23%	1.23%	5.10%
	Balanced	-0.03%	1.57%	1.57%	8.08%
	Growth	-0.12%	1.75%	1.75%	11.11%
	High Growth	-0.11%	1.95%	1.95%	12.87%
	Shares	-0.03%	2.28%	2.28%	15.50%

Investment options		1 Month	3 Months	FYTD*	1 Year
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.12%	0.39%	0.39%	1.45%
	Conservative	0.05%	1.16%	1.16%	3.85%
	Moderate	0.04%	1.31%	1.31%	5.05%
	Balanced	-0.01%	1.63%	1.63%	8.26%
	Growth	-0.03%	2.01%	2.01%	11.55%
	High Growth	0.02%	2.22%	2.22%	13.36%
	Shares	-0.01%	2.36%	2.36%	15.93%

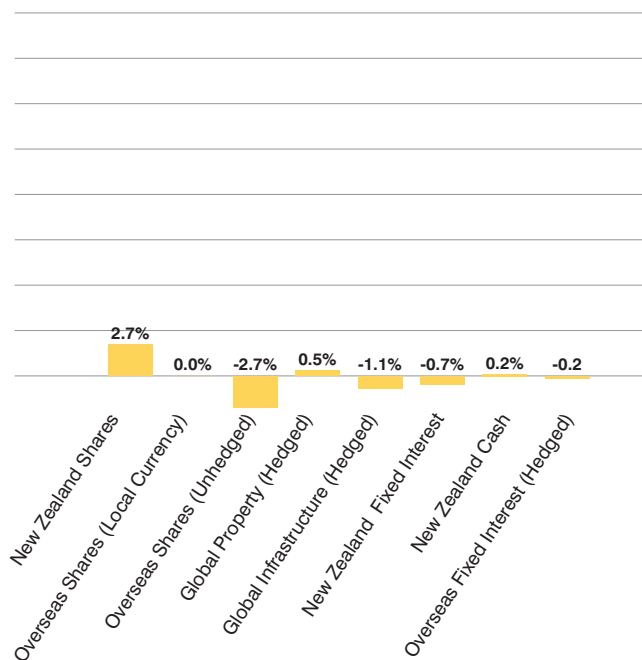
### Notes

- 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.

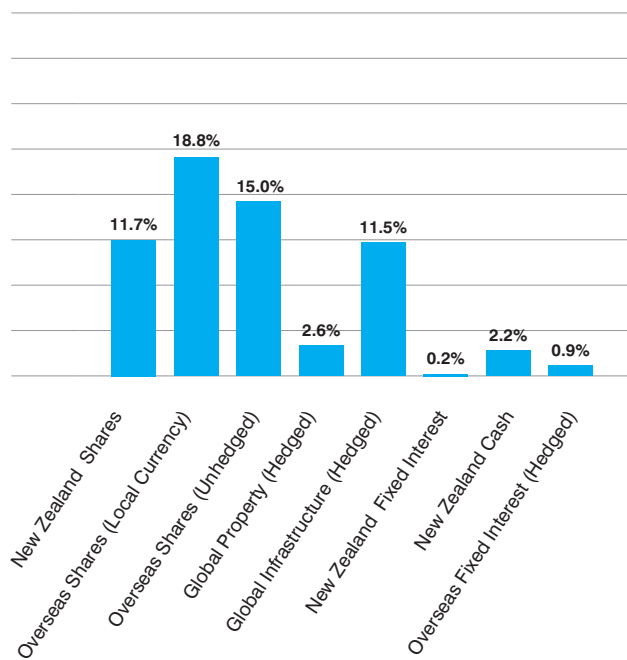
\* FYTD means Financial Year to Date, which is from 1 April 2017

# FINANCIAL MARKETS FOR PERIOD ENDED 30 JUNE 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



## JARGON BUSTERS

### BOND

A bond is a security issued by a government or company to raise money. The purchaser of the bond effectively lends money to the government or company issuing the bond and receives interest at a fixed rate until a specific date (maturity), when the investor receives back the amount of the original loan. The price of bonds fluctuates as interest rates move. If rates rise, bond prices fall. If rates fall, bond prices rise.

### YIELD

Return on an investment compared to either the original investment or the market value of the investment.

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