

SELECTED MARKET INDICATORS FOR PERIODS ENDED 31 DECEMBER 2017

MONTHLY REPORT

MERCER COMMENTARY

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.

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).

MAKE TOMORROW, TODAY



MERCER COMMENTARY

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 Mercer 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 outperformed the majority of developed market shares 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 & 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.

▼ US

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.

▼ US

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.

INVESTMENT RETURNS

MERCER KIWISAVER SCHEME

MERCER-MANAGED INVESTMENT OPTIONS		1 MONTH	1 YEAR	5 YEARS
28% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.12%	1.49%	2.03%
	Conservative	0.06%	5.51%	5.07%
	Moderate	0.10%	7.20%	na
	Balanced	0.10%	10.43%	8.11%
	Growth	0.04%	13.52%	na
	High Growth	0.13%	16.37%	11.25%
	Shares	0.03%	19.84%	na

MERCER-MANAGED INVESTMENT OPTIONS		1 MONTH	1 YEAR	5 YEARS
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.14%	1.70%	2.38%
	Conservative	0.11%	5.81%	5.66%
	Moderate	0.18%	7.55%	na
	Balanced	0.22%	10.77%	8.78%
	Growth	0.20%	13.86%	na
	High Growth	0.31%	16.76%	11.96%
	Shares	0.24%	20.30%	na

MERCER-MANAGED INVESTMENT OPTIONS		1 MONTH	1 YEAR	5 YEARS
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.15%	1.84%	2.58%
	Conservative	0.14%	5.99%	5.99%
	Moderate	0.23%	7.77%	na
	Balanced	0.29%	10.98%	9.13%
	Growth	0.31%	14.15%	na
	High Growth	0.43%	16.98%	12.26%
	Shares	0.35%	20.50%	na

Notes

- The investment returns shown on this page are based on the unit price movements of each investment portfolio and are net of tax at the rate indicated and net of 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 net returns shown are therefore indicative of investment results but may differ from the actual net of fees and tax returns achieved by individual investors.
- 'na' indicates that investment option was not operating for the full period or did not have funds invested for the full period.

INVESTMENT RETURNS MERCER SUPER TRUST

MERCER-MANAGED INVESTMENT OPTIONS		1 MONTH	1 YEAR	5 YEARS
28% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.09%	1.11%	1.70%
	Conservative	0.06%	5.03%	4.84%
	Moderate	0.08%	6.92%	6.65%
	Balanced	0.08%	10.15%	8.13%
	Growth	0.02%	13.29%	9.66%
	High Growth	0.10%	16.10%	11.36%
	Shares	0.02%	19.76%	14.04%

MERCER-MANAGED INVESTMENT OPTIONS		1 MONTH	1 YEAR	5 YEARS
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.10%	1.26%	1.91%
	Conservative	0.12%	5.39%	5.30%
	Moderate	0.17%	7.19%	7.14%
	Balanced	0.18%	10.38%	8.58%
	Growth	0.18%	13.63%	10.17%
	High Growth	0.28%	16.30%	11.75%
	Shares	0.19%	20.02%	14.46%

MERCER-MANAGED INVESTMENT OPTIONS		1 MONTH	1 YEAR	5 YEARS
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.11%	1.37%	2.04%
	Conservative	0.14%	5.47%	5.57%
	Moderate	0.19%	7.32%	7.36%
	Balanced	0.26%	10.57%	8.88%
	Growth	0.28%	13.65%	10.43%
	High Growth	0.40%	16.47%	12.06%
	Shares	0.34%	20.28%	14.72%

Notes

- The investment returns shown on this page are based on the unit price movements of each investment portfolio and are net of tax at the rate indicated, net of investment management fees and net of any administration fees that are charged within the unit prices. Administration charges can vary between plans in Mercer Super Trust and portions of such fees may be rebated through the granting of extra units to investors.
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- Fees may be deducted by redeeming units.

INVESTMENT RETURNS

MERCER FLEXISAVER

MERCER-MANAGED INVESTMENT OPTIONS		1 MONTH	1 YEAR	2 YEARS
28% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.09%	1.14%	1.23%
	Conservative	0.07%	4.79%	4.17%
	Moderate	0.10%	6.79%	5.52%
	Balanced	0.05%	9.84%	7.47%
	Growth	0.03%	13.37%	9.80%
	High Growth	0.12%	15.80%	11.36%
	Shares	0.03%	19.41%	13.09%

MERCER-MANAGED INVESTMENT OPTIONS		1 MONTH	1 YEAR	2 YEARS
17.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.12%	1.50%	1.53%
	Conservative	0.12%	5.32%	4.60%
	Moderate	0.16%	7.16%	5.81%
	Balanced	0.20%	10.37%	8.28%
	Growth	0.19%	13.58%	10.45%
	High Growth	0.29%	16.05%	11.77%
	Shares	0.25%	19.81%	13.58%

MERCER-MANAGED INVESTMENT OPTIONS		1 MONTH	1 YEAR	2 YEARS
10.5% PRESCRIBED INVESTOR RATE (PIR)	Cash	0.13%	1.45%	1.49%
	Conservative	0.11%	5.51%	4.96%
	Moderate	0.20%	7.26%	6.01%
	Balanced	0.27%	10.50%	8.56%
	Growth	0.30%	13.86%	10.89%
	High Growth	0.40%	16.43%	12.19%
	Shares	0.35%	20.16%	14.12%

Notes

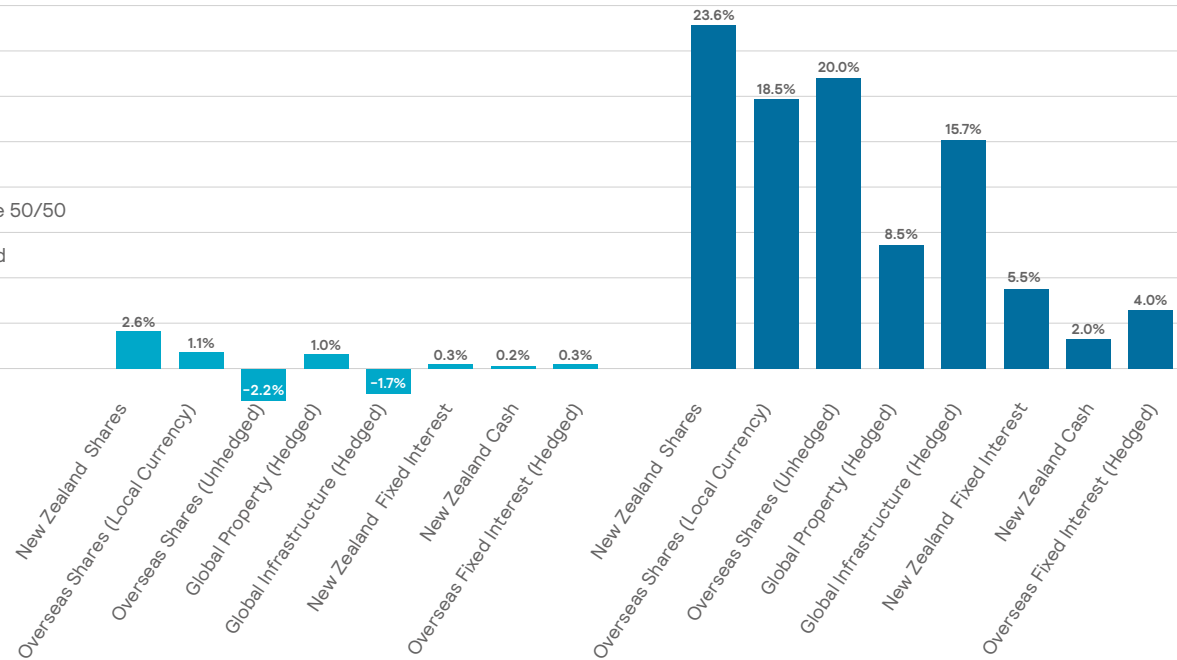
- The investment returns shown on this page are based on the unit price movements of each investment portfolio and are net of tax at the rate indicated, net of investment management fees and net of any administration fees that are charged within the unit prices. Certain fund charges can vary between investors in Mercer FlexiSaver and portions of such fees may be rebated through the granting of extra units to investors.
- 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 net returns shown are therefore indicative of investment results but may differ from the actual net of fees and tax returns achieved by individual investors.
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FINANCIAL MARKETS

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	S&P/NZX 90 Day Bank Bills
OVERSEAS FIXED INTEREST (HEDGED)	Bloomberg Global Agg



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