MILFORD

Milford Unit Trust PIE Funds Monthly Review
June 2019

Market and Economic Review

Milford's funds generally delivered flat to positive returns in May and you'd be forgiven for thinking it was a quiet month. In reality we've had a stream of news flow to digest and navigate across the range of assets we invest into.

The month began with hope of a resolution to the US-China trade war. However, the situation quickly deteriorated, and we end the month with the two sides as far apart as they have been at any point during the negotiations and tariffs on both sides set to escalate over the coming weeks.

This, and the fading momentum in global economic growth, has seen global equities reprice lower - the MSCI World Net Total Return Index was down 5.7% in May.

Over the ditch in Australia we saw the pollsters confounded yet again with a surprise victory by the incumbent Liberal-led coalition. This has likely a positive (or less negative) impact on the housing market and the banking sector so it was unsurprising to see the Australian share market outperform in May – the ASX 200 Index was up 1.7% – benefitting our significant Australian share holdings.

There was also an election in India and victory for the incumbent Modi is positive for the economy – our global team like Indian bank shares and have been adding to these in May.

Closer to home we saw the Reserve Bank of New Zealand cut interest rates by 0.25%, surprising the market and igniting interest in high dividend yielding shares. Contact Energy is Milford's biggest shareholding and the shares were up 9.8% in the month. NZ shares in general remain in demand with the NZX 50 Gross Index up 1.0% in May.

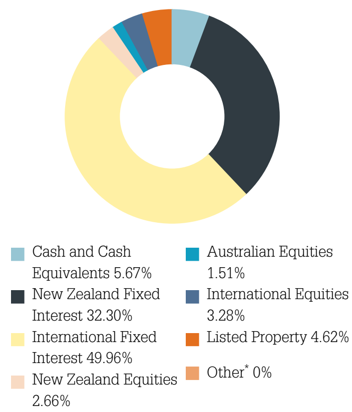
Demand for high dividend yielding shares was intensified by the global bond market which extended its year to date rally as fears of fading growth are exacerbated by the escalating trade war. Strong share performance was a key factor boosting the performance of the Diversified Income Fund this month.

The investment team remains on the cautious side, growth is clearly slowing and risks remain. However, valuations are around average levels and falling interest rates should cushion the economy and the share market. We continue to focus on finding companies that can perform well regardless of the economic environment.

Conservative Fund

Portfolio Manager: Paul Morris

Actual investment mix [1]



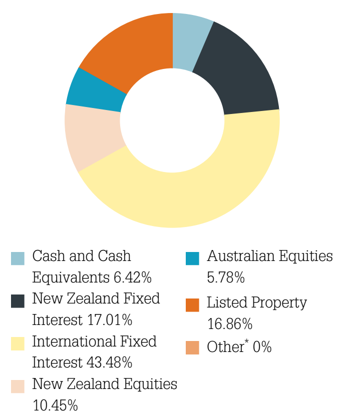
The Fund returned 0.6% in May, and is now up 6.0% over 1-year. The re-emergence of risks which had receded into the background (notably the US-China trade war and Brexit) and softer economic data has precipitated a drop in investor confidence.

Expectations have risen that central bank monetary policy action will be needed to support economic growth and the market moved to price in an even lower path for interest rates. This supported the Fund's Australasian shares (given a weighting towards income shares) and both its Australasian and global corporate bonds (albeit global bonds underperformed government bonds). The small global share allocation was however a drag on returns as global shares were weak. We modestly increased this exposure in early May but as that was through options, the negative impact was limited.

We remain wary of valuations across parts of the financial markets and are cognisant of late cycle risks which have clearly increased in May. We hold a lower allocation to shares than the long run average but rather than increasing cash we stay invested in corporate bonds, with a focus on lower risk. For now, supportive monetary policy and reasonable corporate earnings should support returns. Nevertheless, given valuations (e.g. the market is already pricing in significant rate cuts), returns are likely to be lower than in recent months.

Diversified Income Fund

Portfolio Manager: David Lewis



The Fund returned 0.9% in May, and has returned 8.9% in the past year. While global share markets were very weak this month, returns for Australasian shares, and in particular income-oriented shares, were solid. This was partly due to declines in global market interest rates, as investors grew more concerned about the impact on global growth from the heightened trade war. In the short-term, these lower interest rates support returns from our bond investments (for example global corporate bonds rose 1.4% this month). However, the ongoing push lower in yields does create a headwind for future returns.

Highlights this month in the Fund's share portfolio included our largest holding Contact Energy (+9.8%), NZ retail landlord Investore (+9.1%), and Australian property landlord/developer Mirvac (+7.1%). On the negative side, global retail landlord Unibail-Rodamco-Westfield, which is exposed to a potentially weaker US and European consumer, fell 11.7%. Sydney Airport was down modestly (-2.8%) after it announced weaker passenger growth.

In trading activity, the Fund was active across various asset classes this month including adding protection through a low-cost insurance strategy in the US market (put options) and adding US interest rate exposure. We took profits in some Australasian holdings that have performed well (Contact and Mirvac) and added to select lower-risk bond exposures such as US bank JP Morgan. Looking ahead our strategic view remains 'moderately cautious', reflected in exposures to shares (32%) and high-yield bonds (15%) that are reasonably low relative to our longer-term targets.

*Other includes currency derivatives used to manage foreign exchange risk.

[1] The actual investment mix incorporates the notional exposure value of equity derivatives and credit default swaps, where applicable.

Balanced Fund

Portfolio Manager: Mark Riggall

The Fund was down by 0.1% in May with 1-year returns of 5.5%. Global shares were the biggest drag as a reignited trade war caused investors to take profits on the strong year-to-date rally in shares. In contrast, Australia and New Zealand share markets performed strongly and the Fund's heavy exposure to these assets helped cushion the fall from global shares.

In Australia, the surprise win by the incumbent government reduced the risk of unfriendly business and housing policies and the share market responded well. Milford's Australian funds performed strongly in the month, notably the Dynamic Fund which was up 2.8%. Fears over the slowing pace of global growth has driven investors to seek the safe haven of government bonds, sending market-based interest rates lower. This benefited the Fund's exposure to bonds, as well as boosting the performance of high dividend yielding shares in the month.

Although we remain cautious on the outlook, the valuations of global shares look more appealing than those of local Australian and New Zealand companies and we recognise the strong outperformance of Australasian shares recently. Whilst the outlook is increasingly uncertain, underlying global economic growth remains robust and the trade war uncertainty can be removed as quickly as it was created. Therefore, the Fund is selectively adding to global shares at relatively attractive levels.

Actual investment mix [1]

- Cash and Cash Equivalents 11.29%
- New Zealand Fixed Interest 9.26%
- International Fixed Interest 25.12%
- New Zealand Equities† 13.63%
- Australian Equities 7.77%
- International Equities 23.37%
- Listed Property 9.56%
- Other* 0%

Active Growth Fund

Portfolio Manager: Jonathan Windust

The Fund rose 0.1% in May with the strong performance from NZ (+1.0%) and Australian (+1.7%) shares offset by negative returns from global shares (-5.7%). The Fund benefited from good company selection during the month with key positives including; Contact Energy (+9.8%), Vista Group (+14.5%), Aristocrat Leisure (+12.9%) and Indian Bank HDFC (+8.3%).

Aristocrat, the Australian electronic game manufacturer, rose after a strong result with earnings up 16.8%. HDFC benefited from the election win of incumbent Prime Minister Narendra Modi. Modi's win gave the market comfort that the Indian economy will continue to grow strongly. During the month the Fund added to holdings in Mirvac and BHP. Mirvac is a well-run Australian property company that should benefit from lower interest rates whilst BHP, a diversified mining company, is benefiting from strong iron ore prices.

The exposure to global and Australian shares was reduced during the month following strong performance of the Australian market and trade uncertainty in global markets. The short-term outlook for shares is supported by lower interest rates and government stimulus, however, remains uncertain with concerns over slowing growth and trade wars. Reflecting this environment, the Fund remains cautious with a lower than average weight in shares.

Please note this Fund is closed to new investors.

- Cash and Cash Equivalents 9.69%
- New Zealand Fixed Interest 4.55%
- International Fixed Interest 18.81%
- New Zealand Equities‡ 24.75%
- Australian Equities 12.82%
- International Equities 21.92%
- Listed Property 7.46%
- Other* 0%

†Includes unlisted equity holdings of 0.30% ‡Includes unlisted equity holdings of 2.05% *Other includes currency derivatives used to manage foreign exchange risk.

[1] The actual investment mix incorporates the notional exposure value of equity derivatives and credit default swaps, where applicable.

Australian Absolute Growth Fund

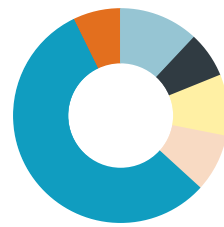
Portfolio Manager: William Curtayne & Wayne Gentle

The ASX 200 Index increased 1.7% in May, significantly outperforming global share markets as the surprise election result supported Australian shares. The Fund performed better again with a 3.2% return, driven by a higher exposure, compared to the market, to companies that benefited from the election result.

The Coalition victory is positive for sectors exposed to the Australian housing market as Labor's policies were expected to result in further house price declines. This means the housing market may already have seen its bottom, or if not, is close to it. Shares in industries exposed to housing rallied such as banks, mortgage brokers, residential developers, building materials and automotive retailers. The Fund benefited through recent purchases of bank shares and a substantial position in mortgage broker Australian Finance Group which rallied 39.6%. We also had strong returns from Evolution Mining (+21.3%) and Aristocrat Leisure (+12.9%), which reported a better than expected result.

Looking forward, the continuation of a Coalition Government should continue to benefit domestic housing related sectors which the Fund is well positioned for. However, we do not expect a substantial acceleration from the Australian economy over the next couple of years. With the strong year-to-date rally in Australian shares, we have cashed in gains on some of our higher-risk investments and have a portfolio strongly weighted to higher quality businesses.

Actual investment mix [1]



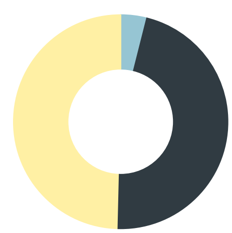
Trans-Tasman Bond Fund

Portfolio Manager: Paul Morris

Global and Australasian bonds were stronger in May, supporting a strong return of 1.1% in the month. The breakdown in US-China trade talks, renewed hard Brexit risk and weaker economic data supported the safe haven of bonds.

Market interest rates fell on expectations central banks may need to cut their cash rates in order to offset increased risks to growth and inflation. Australasian bonds benefited further from (i) the Reserve Bank of New Zealand cash rate cut and (ii) the Reserve Bank of Australia signalling a high probability of a June rate cut. The Fund remains primarily invested in corporate bonds. Australasian corporate bonds generally kept up with the strength in government and local authority bonds. There was however some underperformance in offshore corporate bonds, but the Fund is still holding a smaller exposure here than its long run neutral.

We continue to switch out of expensive bond holdings into better value opportunities, including this month's new issues from Vector and National Australia Bank. The Fund's focus remains on lower risk bonds with a preference for Australasian over offshore. Looking forward, the coming months are likely to see a moderation in returns as the market is already pricing significant rate cuts. That said, Fund returns should be underpinned by supportive monetary policy in addition to reasonable supply and demand.



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Global Corporate Bond Fund

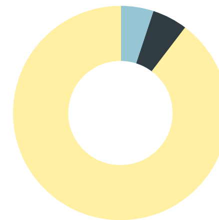
Portfolio Manager: Paul Morris

The US-China trade war, renewed hard Brexit risks and weaker economic data have driven market interest rates lower. Expectations have increased that central banks will react to support growth and inflation. This was good for government bonds but corporate bonds lagged, especially weaker rated bonds.

Fund performance was however cushioned by a lower exposure to riskier corporate bonds (such as high yield) than the long run neutral. The Fund did benefit from falling interest rates as its interest rate exposure was kept close to its neutral. That helped the 0.6% return in May which was 0.4% more than its benchmark.

Looking forward, active management in a backdrop of low interest rates, low inflation and supportive central bank policy should underpin moderate returns that beat the benchmark, but with lower risk. We do remain wary of extended valuations in parts of the bond market which coupled with late cycle risks (including elevated company leverage) mean it remains prudent to limit credit exposure to better quality companies. Nevertheless, we continue to find attractive low risk opportunities to generate returns, including this month's new Euro issue from Fidelity National Information Services (a global payment services company). Fund interest rate exposure is still close to its neutral, but we are wary of extending as markets are now pricing significant rate cuts.

Actual investment mix [1]



Global Equity Fund

Portfolio Manager: Felix Fok

The Fund lost 3.3% in May, as the tariff battle between the US and China heated up and markets gave back some of the stellar year-to-date performance.

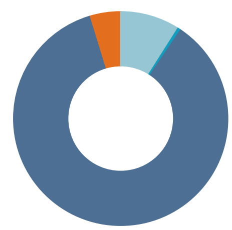
Positive contributors included Indian bank, HDFC (+8.3%), which rallied after incumbent, reformist Prime Minister Narendra Modi emerged victorious from the May election. Modi's pro-growth agenda should support domestic progress and investment in the Indian economy for years to come.

Zillow (+28.8%) surged after reporting a strong Q1 result, with investors beginning to see value in the radical business model shift from being a pure marketplace towards a full-service model, which includes buying and selling homes. We will be meeting the company in Seattle on our June research trip.

Detractors from performance included the Chinese e-commerce giant Alibaba (-19.6%) and Noah (-29.6%), a leading wealth and asset management service provider in China. Despite being domestic-oriented businesses, both were impacted by the escalating trade tensions between the US and China and concerns that Chinese growth may slow.

Managers weren't immune to the broader market sell off, although both Wellington Strategic European (-4.7%) and Vontobel Emerging Markets (-6.4%) outperformed their respective benchmarks.

Overall, although the economic picture remains reasonably healthy, there is more uncertainty in the outlook as geopolitical tensions continue to escalate. The portfolio remains focused on our key investment themes and dominant companies.



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Trans-Tasman Equity Fund

Portfolio Manager: Sam Trethewey & Wayne Gentle

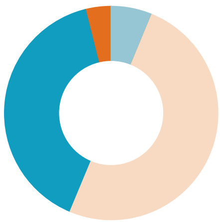
The Fund delivered a strong return of 1.5% in May. This compared to the NZX 50 Gross Index which rallied 1.0% and a return of 1.7% from the ASX 200 Index. The Fund has now returned 12.1% over the past 12 months. The key event of the month was a surprise victory in the Australian election by the incumbent Liberal-led coalition. The election outcome saw housing related exposures across the market rally as the market perceived the Liberal party policy to be less negative for the Australian housing market. The Australian banks rallied around 5% on post-election optimism.

The Fund's performance was driven by good stock selection. Key winners included Aristocrat Leisure (+12.9%), Xero (+9.8%) and Mainfreight (+9.7%). All three companies delivered financial results ahead of market expectations and have a growth path of many years ahead of them.

During the month the Fund participated in a $400m capital raising by Infratil to fund the acquisition of Vodafone NZ. Infratil have the opportunity to generate attractive returns from Vodafone NZ by increasing leverage and allowing CEO Jason Paris to increase profitability by rolling out the playbook he learnt during his time at Spark NZ. The Fund reduced its holding in Fletcher Building into strength following the unexpected outcome of the Australian election and reduced oil exposure Woodside Petroleum.

Looking ahead we continue to focus on stock selection. The challenge at present is domestic cyclical exposures appear priced for a weakening outlook while growth companies in some cases earn a premium to global peers due to their scarcity. The approach has been to reduce the number of individual holdings and concentrate the Fund where we have conviction.

Actual investment mix [1]



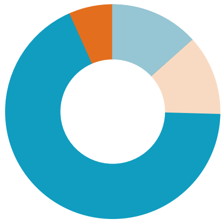
Dynamic Fund

Portfolio Manager: William Curtayne & Michael Higgins

We were pleased to deliver a return of 2.8% in May, outperforming the small cap industrial benchmark return of -1.3%. The 4.1% outperformance was led by a number of our companies that either announced positive updates or were beneficiaries of the Coalition victory in the Australian election.

Performance was led by companies such as mortgage broker AFG (+39.6%), offshore payments provider EML (+33.7%), gold miner Evolution Mining (+21.3%) and fast food retailer Collins Foods (+6.7%). The Coalition victory is generally positive for most sectors of the economy, but most keenly felt across housing related companies such as AFG which generate earnings from mortgage volumes. Labor's policies were expected to add further pressure to house prices given the proposed changes to negative gearing and capital gains tax. EML rallied on the announcement of an accretive acquisition and a multi-year contract win.

Detractors for the month included travel company Webjet (-11.9%), Bluescope Steel (-21.6%) and Afterpay (-5.6%). While we expect the Coalition government to provide a degree of stability to the Australian economy in the near term, we still favour offshore earners which provide a degree of insulation from the low growth nature of the domestic economy. We'll continue searching for attractive company specific opportunities that can prosper regardless of the broader economy.



Upcoming Distributions	Target	Payment Date
Trans-Tasman Bond Fund	0.75 cents (Quarterly)	19/06/2019
Global Corporate Bond Fund	0.75 cents (Quarterly)	19/06/2019
Conservative Fund	0.75 cents (Quarterly)	18/07/2019
Diversified Income Fund	1.6 cents (Quarterly)	20/08/2019
Trans-Tasman Equity Fund	1.5 cents (Biannually)	19/09/2019

*Other includes currency derivatives used to manage foreign exchange risk.

[1] The actual investment mix incorporates the notional exposure value of equity derivatives and credit default swaps, where applicable.

Milford Unit Trust PIE Funds Monthly Review as at 31 May 2019

Fund Performance

	Past month	1 year	3 years (p.a.)	5 years (p.a.)	Since Fund inception (p.a.)	Unit price $	Fund size $
Multi-Asset Funds							
Conservative Fund*	0.57%	6.03%	6.17%	—	6.54%	1.1454	260.9 M
Diversified Income Fund*	0.91%	8.95%	8.55%	10.37%	11.49%	1.7421	2204.1 M
Balanced Fund	-0.14%	5.46%	7.98%	9.26%	9.78%	2.2682	624.3 M
Active Growth Fund#	0.12%	5.90%	9.43%	10.70%	12.47%	3.6850	1,050.3 M
Australian Absolute Growth Fund	3.17%	3.82%	—	—	5.07%	1.0616	146.3 M
Cash and Fixed Income Funds							
Cash Fund	0.19%	—	—	—	—	1.0053	39.7 M
Trans-Tasman Bond Fund*^	1.07%	6.05%	4.82%	5.48%	5.71%	1.1540	471.6 M
Global Corporate Bond Fund*^	0.59%	4.98%	—	—	4.79%	1.0439	390.8 M
Equity Funds							
Global Equity Fund†	-3.33%	2.66%	7.94%	7.56%	7.57%	1.5521	458.8 M
Trans-Tasman Equity Fund*	1.54%	12.15%	13.94%	12.37%	11.37%	2.8888	336.7 M
Dynamic Fund	2.80%	2.37%	10.66%	11.32%	12.13%	1.8934	228.6 M

For details of how investment performance is calculated, and returns at each PIR please see www.milfordasset.com/funds-performance/view-performance#tab-performance.
Performance figures are after total Fund charges have been deducted and at 0% PIR.
Please note past performance is not a guarantee of future returns.
Inception dates for the Funds: Active Growth Fund: 1 October 2007, Trans-Tasman Equity Fund: 1 October 2007, Balanced Fund: 1 April 2010, Diversified Income Fund: 1 April 2010, Global Equity Fund: 12 April 2013, Dynamic Fund: 1 October 2013, Trans-Tasman Bond Fund: 2 December 2013, Conservative Fund: 1 September 2015, Global Corporate Bond Fund: 1 February 2017, Australian Absolute Growth Fund: 1 March 2018, Cash Fund: 1 March 2019.
*Performance figures include the reinvestment of the Funds' distribution.
^Returns prior to 1 March 2018 are from when the Fund was previously offered to wholesale investors only and have been adjusted for current Fund charges.
†Returns prior to 1 October 2018 are from when the Fund was structured to achieve an absolute return.
#The Active Growth Fund is closed to new investors.

Key Market Indices

	Past month	1 year	3 years (p.a.)	5 years (p.a.)	7 years (p.a.)
S&P/NZX 50 Gross Index (with imputation credits)	1.10%	18.04%	14.15%	15.73%	17.87%
S&P/ASX 200 Accumulation Index (AUD)	1.71%	11.08%	10.60%	7.74%	11.47%
S&P/ASX 200 Accumulation Index (NZD)	2.39%	9.45%	10.31%	7.08%	8.41%
MSCI World Index (local currency)*	-5.70%	1.10%	9.42%	7.26%	11.62%
MSCI World Index (NZD)*	-3.59%	7.33%	10.36%	11.36%	12.65%
S&P/NZX 90-Day Bank Bill Rate	0.17%	2.00%	2.07%	2.57%	2.61%
Bloomberg Barclays Global Aggregate Bond (USD-Hedged)	1.44%	6.50%	3.12%	3.60%	3.48%
S&P/NZX NZ Government Bond Index	1.22%	7.82%	4.15%	5.53%	4.25%

*With net dividends reinvested

Top Security Holdings (as a percentage of the Fund's Net Asset Value)

Conservative Fund	Diversified Income Fund	Balanced Fund	Active Growth Fund	Australian Absolute Growth Fund	Cash Fund
ASB Bank 6.65% 2024 3.80%	Contact Energy 2.81%	Contact Energy 2.28%	Contact Energy 4.35%	BHP Group 5.03%	Kiwibank 2.45% 2019 7.80%
NAB Float 2029 1.85%	QBE 6.75% 2044 1.78%	a2 Milk Company 1.74%	iShares MSCI EAFE Min Vol ETF 3.30%	CSL 4.75%	TSB Bank CD 2019 7.78%
Vector 3.45% 2025 1.76%	ASB Bank 5.25% 2026 1.76%	Spark New Zealand 1.55%	Spark New Zealand 2.86%	Commonwealth Bank 4.52%	Westpac CMD 2019 7.59%
NZ Govt. Inflation Indexed 2% 2025 1.64%	Meridian Energy 1.75%	iShares MSCI EAFE Min Vol ETF 1.46%	a2 Milk Company 2.50%	National Australia Bank 3.80%	Port of Tauranga CD 2019 7.53%
QBE 6.75% 2044 1.43%	Spark New Zealand 1.66%	Meridian Energy 1.06%	CYBG 8% 2049 1.60%	Transurban Group 3.62%	Auckland Airport CD 2019 7.52%
ANZ 2.78% 2019 1.35%	Mirvac Group 1.54%	Wellington Strategic Euro 0.92%	Westpac 5% 2027 1.45%	Rio Tinto 3.04%	ANZ 2.91% 2019 5.90%
ANZ Bank 3.03% 2024 1.25%	Argosy Property 1.44%	Vontobel Sust. EM Leaders 0.92%	Alphabet 1.31%	Contact Energy 2.41%	Fonterra CD 2019 5.78%
Investore Property 4.40% 2024 1.20%	Westpac 4.695% 2026 1.44%	Wellington Global Health Care 0.88%	Delegat Group 1.29%	Evolution Mining 2.39%	Bank Of China 3.19% 2019 5.05%
IAG Float 2045 1.13%	Kiwi Property Group 1.43%	Fisher & Paykel Healthcare 0.81%	NAB Float 2029 1.27%	Australian Finance Group 2.26%	Bank Of China 3.19% 2019 5.04%
BNZ 3.648% 2023 1.10%	ANZ 2.91% 2019 1.30%	Kiwi Property Group 0.80%	Fisher & Paykel Healthcare 1.26%	a2 Milk Company 2.24%	ANZ 2.82% 2019 4.55%

Top Security Holdings (as a percentage of the Fund's Net Asset Value)

Trans-Tasman Bond Fund	Global Corporate Bond Fund	Global Equity Fund	Trans-Tasman Equity Fund	Dynamic Fund
NZ Govt. Inflation Indexed 2% 2025 3.53%	BMO Float 2021 2.59%	Wellington Strategic Euro 5.24%	a2 Milk Company 9.54%	Bapcor 4.09%
ASB Bank 6.65% 2024 2.76%	Microsoft 2.875% 2024 2.22%	Vontobel Sust. EM Leaders 5.20%	Fisher & Paykel Healthcare 5.37%	Collins Foods 3.49%
ANZ Bank 3.03% 2024 2.41%	RBLN 2.75% 2024 2.07%	Wellington Global Health Care 5.02%	BHP Group 4.83%	Credit Corp Group 3.47%
Spark New Zealand 3.37% 2024 2.20%	AT&T 3.45% 2023 1.93%	Financial Select SPDR 3.23%	CSL 4.50%	Australian Finance Group 3.17%
BNZ 3.648% 2023 2.12%	Apple 3.7% 2022 1.92%	iShares US Real Estate ETF 2.44%	Commonwealth Bank 4.04%	IDP Education 3.04%
Transpower 2.73% 2024 2.00%	Aroundtown 4.5% 2025 1.88%	iShares Global Infrastructure 2.27%	Contact Energy 3.90%	Afterpay Touch Group 3.03%
NAB Float 2024 1.95%	McDonald's 3% 2024 1.86%	Crown Castle 2.24%	Spark New Zealand 3.81%	Evolution Mining 2.85%
Suncorp-Metway 3% 2023 1.89%	Bank of America Float 2024 1.86%	Alphabet 2.17%	Auckland Airport 3.58%	Seven Group Holdings 2.77%
Vector 3.45% 2025 1.85%	Verizon Float 2023 1.81%	HDFC Bank 2.06%	Mainfreight 3.47%	EQT Holdings 2.73%
Westpac Float 2024 1.81%	Seagate 4.75% 2025 1.68%	Amazon 2.01%	Meridian Energy 2.40%	Contact Energy 2.65%

Note: Fixed interest securities are reported in the following format: Issuer name, interest (coupon) rate, maturity year, size of fund holding (as % of total portfolio).

Milford and Milford staff have approximately $27.3 million invested across our Unit Trust PIE Funds as at the end of May 2019.

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