MILFORD

Milford Unit Trust PIE Funds Monthly Review
August 2019

Market and Economic Review

July saw Milford's funds continue the recent string of strong monthly performances with positive returns from all funds.

Growth companies lead the share market rally in July. Global companies reported quarterly profits, there was some concern the ongoing trade war could be felt in weaker results. In aggregate, global companies exceeded investor expectations, with notable performance from the technology sector. Google closed the month up 12.6% and semi-conductor company ASML was up 10.4%, both of which are Milford holdings.

In Australia growth companies also had a strong month. Smaller Australian companies outperformed and the Dynamic Fund as a result ended the month up 4.9%. New Zealand shares in general continue to benefit from investor inflows and the index was up 3.4%, led by index heavyweight a2 Milk which was up 22.8%. Milford continues to hold a favourable long-term view of the company.

Looking ahead, August is reporting season for Australian and NZ companies and with the recent strong performance in these regions there is likely to be some stock volatility which we will look to take advantage of.

Market interest rates around the world continue to fall and central banks in Australia and the US cut interest rates by 0.25% in July. Further cuts are expected, and low levels of interest rates continue to drive investors towards potentially higher returning investments such as company bonds and shares.

Although global economic growth has slowed this year, data released in July showed economic weakness to be largely contained within the global manufacturing sector – a symptom of the ongoing US-China trade tensions. The global consumer remains in good shape, supported by full employment, reasonable wage growth and falling interest rates.

Weaker growth and low inflation enable central banks to lower interest rates, whilst growth appears to be robust enough to enable companies to grow profits. If this situation persists we see the potential for further gains in shares and bonds. However, the path ahead is uncertain – the trade war could deteriorate, or weaker business investment could start to curb jobs growth. After the strong year to date returns in shares, we have selectively reduced some exposure across the funds.

Conservative Fund

Portfolio Manager: Paul Morris

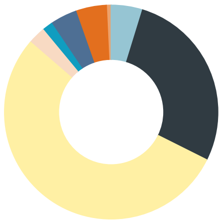
The Fund returned 1.0% in July, contributing to 1-year return of 7.7%. Its bonds and shares continue to benefit from falling market interest rates on expectations for looser central bank monetary policy. A lower projected path for interest rates is driving investors to hunt for yield with an increasing proportion of global bonds now at negative or negligible interest rates.

This backdrop was notably supportive for the Fund's global and Australasian corporate bonds (its dominant exposure) which outperformed government bonds. The Fund's share exposure also benefited, especially Australasian shares. Looking forward, the economic backdrop remains uncertain as economic growth is slowing. Event risks are still elevated, most notably Brexit and tariff/trade wars.

Mindful of the Fund's conservative risk profile, it will retain slightly cautious positioning, irrespective of a likely supportive monetary policy backdrop. This means holding less shares and more corporate bonds relative to the Fund's long run average and also a lower exposure to higher risk corporate bonds.

The outlook for returns remains positive but we would reiterate that after another month of strong gains across bonds and shares it may start to moderate. Through active management and security selection we have, and will continue to aim to deliver reasonable but lower risk returns.

Actual investment mix [1]



- Cash and Cash Equivalents 4.77%
- New Zealand Fixed Interest 27.60%
- International Fixed Interest 53.96%
- New Zealand Equities 2.65%
- Australian Equities 1.57%
- International Equities 4.05%
- Listed Property 4.67%
- Other* 0.73%

Diversified Income Fund

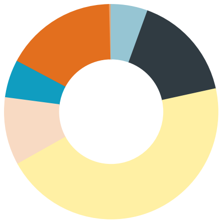
Portfolio Manager: David Lewis

July was a strong month returning 1.2%, and returns were positive across the key asset classes in which the Fund invests.

Within our share portfolio, the standout this month was a2 Milk (+22.8%). a2 has been a core holding in the Fund for some time, albeit given its higher risk and return profile, we have kept a small to moderate position size over time.

Other notable gains came from Origin Energy (+8.6%), new investment Growthpoint Properties (+6.6%) and Aventus (+7.9%). Aventus owns a portfolio of homeware-oriented shopping centres in Australia; and is being boosted by an improved outlook for the Australian housing sector following interest rate cuts and higher confidence. The Fund reduced its exposure to certain Australasian property stocks early in the month following a very strong run, and we have since been adding back to these positions after moderate price falls.

In terms of strategy, we feel the recent strong run in markets may be due a pause in the short term as the scope for further upside from monetary policy support - a key driver of recent gains - now seems low. Event risk remains, notably Brexit and the ongoing trade war. However, the low level of interest rates is driving investors globally to invest in higher-risk assets and these flows are likely to remain supportive. Bringing this together, our overall strategic view remains 'moderately cautious', reflected in a share allocation at 33% of the Fund and high-yield bonds at 17%.



- Cash and Cash Equivalents 5.57%
- New Zealand Fixed Interest 16.02%
- International Fixed Interest 45.29%
- New Zealand Equities 10.19%
- Australian Equities 5.67%
- Listed Property 16.84%
- Other* 0.42%

*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.

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Balanced Fund

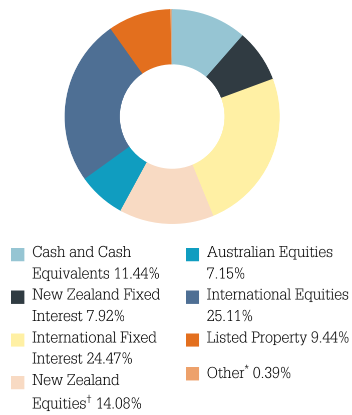
Portfolio Manager: Mark Riggall

The Fund returned 1.4% in July, taking 1-year returns to 8.3%. Returns over the past few months have been generated by both share and bond investments in the Fund. Lower interest rates around the world, coupled with a slow but not recessionary economic growth picture has pushed global investors to seek higher returns by investing into shares and company bonds. This process continued in July and better earnings from tech companies saw them lead the returns for global shares this month.

Recently the Fund has been increasing its exposure to NZ shares and small company Australian shares and this move was rewarded in July. In NZ, a2 Milk rose 22.8%, driving the index up 3.4%. Australian small companies (which are more growth orientated) also outperformed and the Dynamic Fund was up 4.9% in July. The bond portfolio also continues to deliver strong returns, exemplified by the Trans-Tasman Bond Fund which returned 1.1% in July and 7.3% over the past year.

Our outlook for shares and corporate bonds remains positive but given the stronger run in all assets since the beginning of the year, the Fund has reduced some exposure to shares. The Fund starts the month with a slightly elevated cash position, allowing for investments into shares or bonds at more attractive prices over the course of the next few weeks.

Actual investment mix [1]



Active Growth Fund

Portfolio Manager: Jonathan Windust

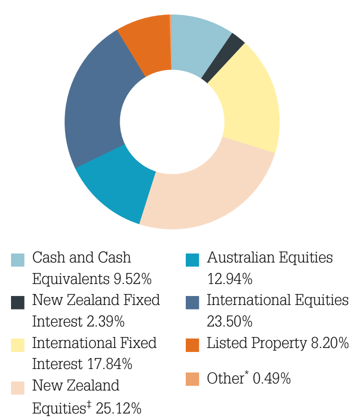
The Fund rose 1.6% in July, benefiting from strong share markets in Australia and New Zealand. Share markets remain supported by investors seeking alternatives to low interest rates. The Fund's investment in the Dynamic Fund performed strongly rising 4.9% for the month.

Key company performers during the month included a2 Milk (+22.8%) and Ebos (+7.7%) in New Zealand, Australian property company Aventus (+7.9%) and Google's parent company Alphabet (+12.6%). a2 shares rebounded as the market speculated they will deliver a strong earnings result in August whilst Google rose following a strong quarterly earnings report.

During the month the Fund took advantage of strong share market performances to reduce exposure to New Zealand and Australian shares - in particular, we trimmed holdings in a2 Milk and Contact Energy.

Looking forward we believe shares will be supported by very low interest rates, reasonable dividend yields and positive economic growth. Key headwinds for shares are relatively high valuations, slowing economic growth and political uncertainty. Given this backdrop and the rise in share market valuations this year, the Fund is cautious with a lower than average weight toward shares. Looking forward we continue to work hard to isolate those companies which we believe have strong prospects and will deliver strong returns.

Please note this Fund is closed to new investors.



†Includes unlisted equity holdings of 0.26% ‡Includes unlisted equity holdings of 1.89% *Other includes currency derivatives used to manage foreign exchange risk.

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Australian Absolute Growth Fund

Portfolio Manager: William Curtayne & Wayne Gentle

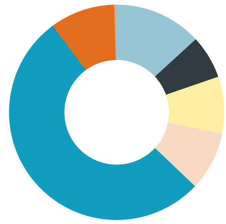
The Fund produced a return of 3.3% in July which was ahead of the ASX 200 Accumulation Index return of 2.9%. This brings the calendar year return to 13.5%. Our main contributors for the month were Australian Finance Group (+23.2%), a2 Milk (+22.8%), National Australia Bank (+6.7%) and our gold mining stocks which rallied strongly for the third consecutive month.

Australian Finance Group (AFG) continued its post-election rally and is now up 42% this year. Signs of an improving housing market and increased demand for financing have improved the outlook for mortgage brokers. Despite this rally, AFG is only on 10 times earnings with net cash and an improving outlook so we have retained our full holding.

a2 Milk retraced its April and May declines and reached new highs as the market became increasingly optimistic of a strong result in August. National Australia Bank (NAB) announced the appointment of New Zealander Ross McEwan as its next CEO which we view favourably.

Low interest rates in Australia should continue to support equity returns but the sharpness of this year's rally creates some risk of a pullback in the near term. The Fund aims to manage downside market risk, so we have reduced our equity exposure slightly over the month and retain a portfolio weighted to high quality businesses.

Actual investment mix [1]



Trans-Tasman Bond Fund

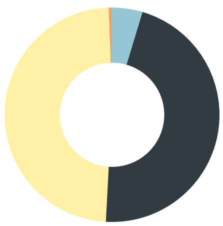
Portfolio Manager: Paul Morris

Australasian bond markets continue to benefit from falling market interest rates. That benefited the Fund's close to neutral interest rate exposure (similar to its benchmark's), supporting a return of 1.1% in July.

Expectations remain for global and local Australasian central bank monetary stimulus which drove another leg higher in bond prices. The Fund remains primarily exposed to corporate bonds which outperformed government and local authority bonds, in part due to their higher interest rates as investors hunt for yield. Combined with active management and bond selection, it resulted in a Fund return 0.2% higher than the benchmark.

Irrespective of central bank support, elevated valuations and an uncertain economic backdrop mean that while the Fund is close to fully invested, its focus remains on lower risk bonds. Exposure to offshore bonds of Australasian issuers was increased further given an improved (central bank supported) return outlook but remains below the long run neutral. The Fund retains close to benchmark interest rate exposure.

We continue to find active management opportunities, switching expensive holdings to better value alternatives. The coming months may see a moderation in returns as markets already price lower interest rates, however, near term returns should be underpinned by supportive monetary policy and strong investor demand.



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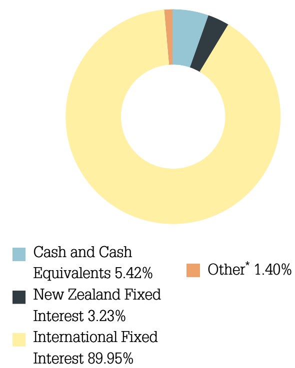
Global Corporate Bond Fund

Portfolio Manager: Paul Morris

Actual investment mix [1]



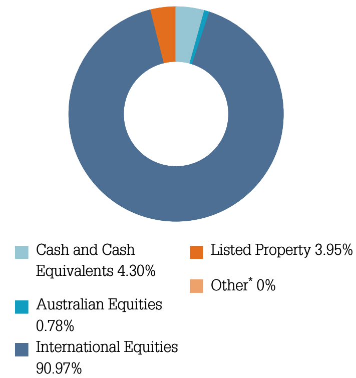
Expectations remain elevated for a wave of global central bank monetary stimulus. The proportion of global bonds trading at negative yields to maturity continues to increase, underpinning a hunt for yield. Given corporate bonds generally offer a higher interest rate (or yield to maturity) than government bonds, they enjoyed a strong month which underpinned the Fund's return of 0.8% in July. Supported by active management and security selection the return was 0.4% more than that of the benchmark.

Acknowledging the myriad of known risks (including slowing global growth, Brexit and trade wars) and noting elevated company leverage (debt levels) through parts of the global corporate bond market, we continue to adopt a slightly cautious fund credit exposure. This means lower exposure to lower rated bonds than the long run neutral, as they could underperform in a weak economy. July saw Fund UK exposure reduced while we switched more expensive holdings for some attractively priced new issues, including from Commerzbank (German bank) and Ardagh Group (global packaging).

Valuations across sections of the bond market remain stretched but underpinned by central banks, the near return outlook remains reasonable, although we reiterate on a medium term it should moderate. Therefore, the Fund remains close to fully invested with an interest rate exposure close to its long run neutral.

Global Equity Fund

Portfolio Manager: Felix Fok



The Fund gained 1.1% in July in what was a mixed month for global share markets.
Positive contributors included mega-cap Alphabet (+12.6%), the parent company of Google, which sprang back to life after reporting a resurgence in its core advertising business. Google Cloud (outsourced computing) also continues to grow at a significant rate, reaching an $8bn revenue run rate which is double that of late 2017.

Globally, consumer spending remained a bright spot in July, as coffee giant Starbucks (+13.0%) highlighted the strongest traffic growth in three years following a roll out of cold beverage innovation and focusing on digital engagement.

Detractors from performance included Indian bank HDFC, which fell 11.4% after reporting a moderation in loan growth and pointing to a general macro consumption slowdown which could impact asset quality. We remain positive on the long-term outlook for the Indian economy and believe HDFC Bank is an excellent way to tap into the growth.

Amongst managers, emerging market specialist MTX continued its outperformance of its benchmark, now ahead over 5% year to date. Healthcare specialist Wellington Global Healthcare also had a good relative month and is ahead over 4% versus its benchmark year to date.

Overall, although the economic picture remains reasonably healthy, we continue to monitor closely geopolitical tensions. The portfolio remains focused on our key investment themes and dominant companies.

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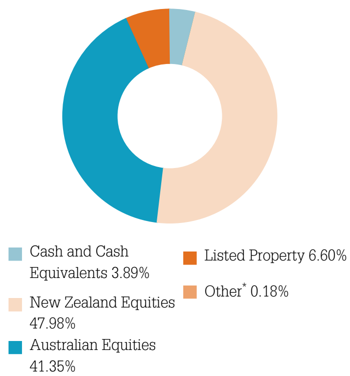
Trans-Tasman Equity Fund

Portfolio Manager: Sam Trethewey & Wayne Gentle

Actual investment mix [1]



The Fund delivered another strong return of 3.7% in July. This compares to the NZX 50 Gross Index return of +3.4% and the ASX 200 Accumulation Index return of 2.9%. Both markets are seeing strong inflows due to the low interest rate environment.

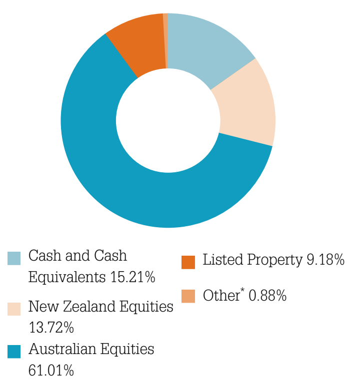
Key winners included a2 Milk (+22.8%, our largest holding) and Xero (+8.3%). a2 Milk was supported by several broker upgrades and the publication of a clinical study that compared the consumption of a2 milk vs 'conventional' milk in Chinese preschool children. The results indicated the consumption of a2 only protein milk was highly beneficial in reducing gastrointestinal symptoms and improved cognitive performance. The largest detractor was Gentrack (-14.5%) which reversed the prior month's gains following an earnings downgrade due to ongoing contract delays.

Changes over the month included increasing our holding in Xero and reducing Woolworths and Fisher & Paykel Healthcare into strength. We have high conviction on Xero's long-term prospects while Woolworths was reduced on valuation grounds. Resmed, a competitor of Fisher & Paykel in the obstructive sleep apnoea space, released its quarterly result and demonstrated market share gains likely at the expense of Fisher & Paykel.

Over the past few months the number of holdings in the Fund has reduced, preferring to concentrate in names where we have conviction. The challenge at present is domestic cyclicals appear priced for a weakening outlook while growth companies in some cases earn a premium to global peers due to their scarcity.

Dynamic Fund

Portfolio Manager: William Curtayne & Michael Higgins



July was exceptionally strong for the Fund returning 4.9%, consolidating a 9.6% return for the quarter. We were pleased to outperform the small cap industrial benchmark by 1.1%. Underpinning the strong performance was a broad spread of small caps, not just the narrow band of expensive technology stocks.

Our winners for the month comprised a healthy blend of both growth and value core positions including mortgage broker Australian Finance Group (+23.2%), a2 Milk (+22.8%) and auto-parts retailer Bapcor (+12.4%). AFG has rerated higher as the domestic property market shows signs of stabilisation. Over the past two weeks, clearance activity across Sydney and Melbourne has held above 70% – rates not seen since mid-2017. While a rebound in clearance rates is clearly encouraging and is typically a leading indicator, we note that volumes remain very low.

Detractors for the month included debt collector Credit Corp (-5.2%), promising biotech Next Science (-25.5%) and Wellcom (-3.7%). We have modest expectations leading into reporting season, however, have begun the month nicely with a takeover of Wellcom at a 32% premium. Our current elevated cash weighting leaves us well positioned to take advantage of the typical market volatility in August. We will continue to focus on companies with excellent multi-year growth outlooks and those we consider good value with resilience through the cycle.

Upcoming Distributions	Target	Payment Date
Trans-Tasman Bond Fund	0.75 cents (Quarterly)	19/09/2019
Global Corporate Bond Fund	0.75 cents (Quarterly)	19/09/2019
Conservative Fund	0.75 cents (Quarterly)	17/10/2019
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.

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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*	1.05%	7.71%	6.40%	—	6.95%	1.1673	293.7 M
Diversified Income Fund*	1.17%	11.29%	8.93%	10.64%	11.70%	1.8045	2,418.8 M
Balanced Fund	1.45%	8.27%	8.92%	9.95%	10.11%	2.3688	691.5 M
Active Growth Fund#	1.58%	8.29%	10.45%	11.68%	12.73%	3.8622	1,101.5M
Australian Absolute Growth Fund	3.29%	7.59%	—	—	8.97%	1.1271	156.9 M
Cash and Fixed Income Funds							
Cash Fund	0.19%	—	—	—	—	1.0087	40.3 M
Trans-Tasman Bond Fund*^	1.09%	7.34%	4.95%	5.59%	5.87%	1.1674	583.1 M
Global Corporate Bond Fund*^	0.82%	6.68%	—	—	5.34%	1.0584	424.9 M
Equity Funds							
Global Equity Fund†	1.15%	5.64%	9.88%	8.83%	8.29%	1.6386	533.8 M
Trans-Tasman Equity Fund*	3.73%	16.23%	15.63%	14.04%	11.91%	3.1137	381.0 M
Dynamic Fund	4.89%	7.39%	11.60%	12.47%	12.99%	2.0177	256.4 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)	3.41%	22.92%	15.21%	17.43%	18.79%
S&P/ASX 200 Accumulation Index (AUD)	2.94%	13.26%	11.68%	8.55%	11.74%
S&P/ASX 200 Accumulation Index (NZD)	2.91%	8.39%	11.34%	7.52%	8.34%
MSCI World Index (local currency)*	1.18%	4.68%	10.96%	8.63%	11.84%
MSCI World Index (NZD)*	2.27%	6.89%	13.73%	12.58%	13.80%
S&P/NZX 90-Day Bank Bill Rate	0.16%	1.95%	2.02%	2.52%	2.59%
Bloomberg Barclays Global Aggregate Bond (USD-Hedged)	0.79%	8.61%	3.02%	3.94%	3.63%
S&P/NZX NZ Government Bond Index	0.72%	8.53%	4.11%	5.78%	4.51%

*With net dividends reinvested

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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
Westpac 2.22% 2024 1.72%	Contact Energy 2.32%	Contact Energy 2.00%	Contact Energy 3.92%	National Australia Bank 5.18%	Fonterra CD 2019 8.44%
NZ Govt. Inflation Indexed 2% 2025 1.60%	Spark New Zealand 1.81%	a2 Milk Company 1.99%	a2 Milk Company 3.06%	CSL 4.52%	Kiwibank 2.45% 2019 7.73%
Vector 3.45% 2025 1.54%	Meridian Energy 1.68%	Spark New Zealand 1.50%	iShares MSCI EAFE Min Vol ETF 3.03%	BHP Group 3.98%	TSB Bank CD 2019 7.70%
ANZ Bank 3.03% 2024 1.45%	QBE 6.75% 2044 1.60%	Meridian Energy 1.05%	Spark New Zealand 2.75%	Transurban Group 3.85%	Westpac CMD 2019 7.52%
NAB Float 2024 1.43%	JPMorgan 1.09% 2027 1.36%	Financial Select SPDR 0.95%	Alphabet 1.49%	Contact Energy 2.39%	Auckland Airport CD 2019 7.44%
JPMorgan 5% 2024 1.37%	Argosy Property 1.36%	Vontobel Sust. EM Leaders 0.85%	Westpac 5% 2027 1.42%	a2 Milk Company 2.33%	SBS Bank CD 2019 7.43%
Transpower 2.73% 2024 1.35%	Westpac 4.695% 2026 1.34%	Wellington Strategic Euro 0.84%	CYBG 8% 2049 1.37%	Australian Finance Group 2.31%	NZLGFA CD 2019 7.43%
NAB Float 2029 1.31%	Kiwi Property Group 1.25%	Fisher & Paykel Healthcare 0.84%	Delegat Group 1.34%	Bluescope Steel 2.04%	Port of Tauranga CD 2019 7.42%
QBE 6.75% 2044 1.30%	Bank of America 3.458% 2025 1.22%	Wellington Global Health Care 0.83%	Visa 1.28%	Macquarie Group 2.02%	ANZ 2.55% 2019 6.72%
BMO 4.8% 2024 1.15%	ASB Bank 5.25% 2026 1.21%	Alphabet 0.75%	Fisher & Paykel Healthcare 1.23%	Newcrest Mining 1.91%	Bank Of China 3.19% 2019 5.00%

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 3.45%	RBLN 2.75% 2024 1.89%	Vontobel Sust. EM Leaders 4.72%	a2 Milk Company 9.69%	Collins Foods 3.43%
Westpac 2.22% 2024 3.12%	AT&T 3.45% 2023 1.78%	Wellington Strategic Euro 4.65%	Fisher & Paykel Healthcare 4.76%	Credit Corp Group 3.26%
ANZ Bank 3.03% 2024 2.89%	Aroundtown 4.5% 2025 1.76%	Wellington Global Health Care 4.58%	CSL 4.30%	Australian Finance Group 3.19%
NAB Float 2024 2.85%	Apple 3.7% 2022 1.76%	Financial Select SPDR 4.22%	Auckland Airport 4.09%	IDP Education 3.04%
Transpower 2.73% 2024 2.80%	McDonald's 3% 2024 1.72%	Euro Stoxx 50 ETF SPDR 2.48%	BHP Group 3.85%	Webjet 2.74%
BNZ 3.648% 2023 2.37%	Bank of America Float 2024 1.70%	Microsoft Corp 2.27%	Commonwealth Bank 3.72%	a2 Milk Company 2.73%
Spark New Zealand 3.37% 2024 1.82%	Verizon Float 2023 1.64%	iShares US Real Estate ETF 2.25%	Mainfreight 3.71%	Bapcor 2.70%
Westpac 3.72% 2023 1.76%	BNZ 0.375% 2024 1.61%	Consumer Discretionary Selt 2.20%	Contact Energy 3.46%	EQT Holdings 2.69%
Vector 3.45% 2025 1.54%	HCA 4.75% 2023 1.54%	Alphabet 2.18%	Xero 3.22%	Xero 2.56%
Suncorp-Metway 3% 2023 1.53%	Seagate 4.75% 2025 1.54%	iShares Global Infrastructure 2.08%	Spark New Zealand 2.83%	Contact Energy 2.56%

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 $28.5 million invested across our Unit Trust PIE Funds as at the end of July 2019.

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