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Milford Investment Funds Monthly Review
September 2019

Market and Economic Review

August was another hectic month in financial markets. Investors were presented with a deluge of information, from trade war tweets to local company earnings updates. Milford funds navigated the volatility well, generally outperforming their underlying markets and ending the month in positive territory.

Risks from the escalating trade war, coupled with a softening global growth outlook has seen bond investments continue to deliver strong returns as investors retreat to these perceived safe havens. Central banks have been quick to try and get ahead of the global economic slowdown by lowering interest rates. This includes the Reserve Bank of New Zealand which delivered a surprise 0.5% rate cut during the month to encourage spending by businesses and consumers.

With declining returns available from holding cash, investors continue to hunt down better return opportunities elsewhere. This includes bonds with longer maturities - demand for higher yielding 10-year US bonds has caused an 'inversion' in the US yield curve (where longer dated bonds offer lower interest rates than shorter dated bonds) – something that previously has been a signal of impending US recession. Company bonds also benefit from the search for yield - they have outperformed shares over the past month and year.

August saw Australian and NZ companies report their results. As usual there were some surprises, both positive and negative, but overall the outlook from Australian companies has improved in the last six months, whilst in NZ the outlook felt a bit more subdued.

Stock selection in our Australian funds was particularly strong, driven by performance of stocks such as Wellcom, Australian Finance Group and Credit Corp.

Looking ahead, we remain cautious as global growth continues to slow, particularly with trade war tensions escalating. Low interest rates help, but we may have already seen the benefits of lower interest rates via strength in global consumer spending recently. Nonetheless, a slowing but still positive global growth picture, coupled with low interest rates, remains a reasonable environment in which to invest. We continue to look for attractive companies that can deliver strong returns, either from dividend income or earnings growth, or in some cases a bit of both.

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Conservative Fund

Portfolio Manager: Paul Morris

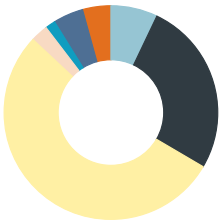
The Fund returned 1.0% in August, contributing to a strong 1-year return of 7.8%. Global and Australasian market interest rates (represented by bond yields) fell further in August on increased concern that geopolitical risks (most notably the US-China tariff war) will weigh on global growth and inflation.

This supported a strong return from the Fund's corporate bond holdings (bond prices rise when yields fall), albeit they underperformed government bonds. It also underpinned much of the Fund's Australasian share exposure which is oriented towards income shares and generally benefits from lower interest rates. Global share performance was more mixed but offset by the Fund's foreign currency exposure which benefited from a lower NZ dollar.

Given an ongoing uncertain economic backdrop and multiple known risks we believe it is prudent to retain slightly cautious positioning. We acknowledge likely supportive monetary policy but think this approach is consistent with the Fund's conservative risk profile. We believe through active management the Fund can still deliver reasonable returns, albeit with lower risk.

Near term, we also reiterate that after yet another month of strong gains (especially in bonds) returns should moderate. We note that the Fund will be reducing the level of its quarterly distributions to reflect lower yields available in the market. Milford has sent additional details to clients invested in the Fund.

Actual investment mix [1]



- Cash and Cash Equivalents 7.09%
- Australian Equities 1.53%
- New Zealand Fixed Interest 26.37%
- International Equities 4.69%
- International Fixed Interest 53.53%
- Listed Property 4.15%
- New Zealand Equities 2.64%
- Other* 0%

Diversified Income Fund

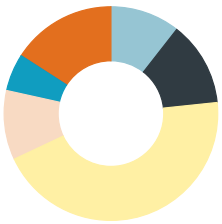
Portfolio Manager: David Lewis

The Fund returned a solid 1.0% for August, taking the 1-year return to 11.4%. Trade tensions drove some softness in global markets with NZ, Australian and global share markets all lower. Market interest rates fell globally and are now negative in many countries. Falling interest rates are positive for short-term returns in the Fund as our bond holdings and dividend-oriented share exposures all saw strong investor demand and resulting higher prices. This has been a key driver throughout 2019 and we are very pleased with how the Fund has been positioned for this trend. However, we continue to emphasise that lower interest rates and dividend yields do imply lower future returns over time.

At the company level, this month has been focussed on profit announcements across Australasia. Key positives included NZ electricity generators and Spark (+11.1%), which announced solid profit growth and sustainability of its dividend. In Australia several key real estate holdings including Charter Hall Long WALE REIT (+14.0%), Charter Hall Group (+11.7%) and Aventus (+6.1%) performed well after reporting strong results. On the negative side there were meaningful declines for two smaller holdings, packaging company Orora (-17.5%), and a2 Milk (-19.8%). We believe valuation and medium-term prospects for these two companies remain attractive.

On the bond side, it was an active month, with holdings increased in Lend Lease and ASB Bank, amongst others. In addition, we have made some minor changes to the way the bond portfolio is managed. The Fund has increased its allocation to the Trans-Tasman Bond Fund (from 5% to 8%) and the Global Corporate Bond Fund, from (7% to 12%). At the same time, the Fund has exited several smaller positions across its directly held bond portfolio. This allows for more efficient management of the Fund's fixed income exposures, while at the same time keeping the overall risk and style unaffected.

Looking ahead, our strategic view remains "moderately cautious", as the negatives of slower growth, increased economic uncertainty, and higher valuations in some markets are offset by near term support from central bank stimulus and low interest rates. We also note that the Fund will be reducing the level of its quarterly distributions, reflecting lower interest rates discussed above. Milford has sent additional details on this change to clients invested in the Fund.



- Cash and Cash Equivalents 10.57%
- Australian Equities 5.81%
- New Zealand Fixed Interest 12.78%
- International Equities 0.36%
- International Fixed Interest 44.65%
- Listed Property 15.35%
- New Zealand Equities 10.48%
- Other* 0%

*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 returned 1.0% in August, bringing the 1-year return to 7.9%. Fund returns continue to be boosted by the performance of bonds. Global economic growth is slowing and risks to the outlook are increasing via the escalating trade war and impending Brexit deadlines.

To combat this, central banks the world over have moved to cut interest rates. This is a significant shift in tone over the past nine months and investors have ratcheted up expectations of further rate cuts ahead. The impact has been twofold, firstly, bond prices move up when interest rates fall. Secondly, falling interest rates mean investors have rushed to buy higher yielding bonds, or assets such as company bonds and high dividend yielding shares to generate returns.

Within the Fund, this has been very beneficial for the income portfolio which remains heavily invested in company bonds. It has also benefited the share portfolio which is tilted towards higher dividend paying shares such as Contact Energy or Real Estate Investment Trusts. Although interest rates are unlikely to fall significantly further, the valuations of higher dividend shares remain attractive and so the Fund remains invested.

The outlook is uncertain, so we will continue to invest cautiously as the backdrop of low growth, but supportive interest rates provides a reasonable investment backdrop.

Actual investment mix [1]

- Cash and Cash Equivalents 11.50%
- Australian Equities 8.61%
- New Zealand Fixed Interest 6.76%
- International Equities 26.15%
- International Fixed Interest 24.70%
- Listed Property 9.00%
- New Zealand Equities† 13.28%
- Other* 0%

Active Growth Fund

Portfolio Manager: Jonathan Windust

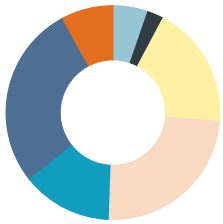
The Fund rose 0.9% in August which was a good result given falls in Australian (-2.4%), New Zealand (-0.9%) and global (-1.9%) share market indices. Shares fell in response to escalating trade tensions and softening global growth. Falls were cushioned by strong returns from bond markets, the fall in the NZ dollar, good company selection and cautious positioning.

The performance of the Fund's investment in the Dynamic Fund was particularly strong rising 3.0%, compared to a 3.1% fall for the Australian Small Industrials Index. Key company performers during the month included Contact Energy (+11.3%) and Spark (+11.1%), which benefited from good results announcements and the low interest rate environment.

During the month, the Fund took advantage of market falls to increase exposure to Australian and global share markets. Looking forward we believe shares will be supported by low rates, reasonable dividends and positive economic growth (whilst we expect growth to slow, we do not forecast a recession). Key headwinds for shares are relatively high valuations, slowing company earnings growth and political uncertainty.

In this environment the strategy of the Fund is to remain active to take advantage of market volatility and opportunities. We remain focused on identifying those companies that offer strong risk adjusted returns.

Please note this Fund is closed to new investors.



- Cash and Cash Equivalents 5.31%
- Australian Equities 13.68%
- New Zealand Fixed Interest 2.46%
- International Equities 27.78%
- International Fixed Interest 18.58%
- Listed Property 8.00%
- New Zealand Equities‡ 24.19%
- Other* 0%

†Includes unlisted equity holdings of 0.25% ‡Includes unlisted equity holdings of 1.84% *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

Volatility returned in August with the ASX 200 Accumulation Index falling as much as 5.5% before rallying to end the month down 2.4%. The Fund performed very well during this volatility with a positive return of 0.9%.

The Fund was well positioned early in the month with higher cash levels, some ASX 200 put options and light positioning in sectors that were hardest hit in the sell-off such as mining and technology companies. Stock picking played a large role in this month's returns as most of our investments reported their full year results.

We had particularly strong results and performances from Australian Finance Group (+16.0), Smartgroup (+22.0%), Charter Hall Long WALE REIT (+14.0%), Credit Corp (+16.6%) and Downer EDI (+6.8%). These businesses are all exposed to the domestic Australian economy, which is showing some signs of recovery following the housing downturn that began in mid-2017 and bottomed in May this year. Early figures indicate that August will be the first month of house price appreciation in Sydney since mid-2017. On the back of this improving sentiment, companies exposed in some way to the housing market generally performed strongly.

During the month we used market weakness to buy resources and technology companies plus companies where we saw opportunities following their results. This leaves the Fund more fully invested at the beginning of September.

Actual investment mix [1]

- Cash and Cash Equivalents 10.18%
- Australian Equities 55.61%
- New Zealand Fixed Interest 6.10%
- Listed Property 11.86%
- International Fixed Interest 7.95%
- Other* 0%
- New Zealand Equities 8.30%

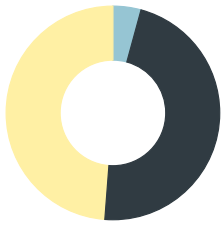
Trans-Tasman Bond Fund

Portfolio Manager: Paul Morris

Global market interest rates (represented by bond yields) fell again in August as increased geopolitical risks (most notably the US-China tariff war) heightened concern for the global growth and inflation outlooks. Australasian bond yields fell in sympathy, even as both Australasian central banks separately suggested a near term pause to further rate cuts, to measure the impact of recent actions. These falling interest rates benefited the Fund's close to neutral interest rate exposure, supporting a return of 1.1% in August.

The Fund is still primarily exposed to corporate bonds. August saw a partial hand back of recent outperformance over government/local authority bonds which was a small headwind relative to the benchmark (which has a larger local authority exposure). Irrespective of likely further central bank support, due to elevated valuations and the uncertain economic backdrop, the Fund's exposure is focussed on lower risk corporate bonds. Interest rate exposure is close to neutral but was reduced a little as markets already price significantly lower interest rates.

Looking forward, returns may be underpinned by supportive monetary policy and strong investor demand, but they should moderate. We note the Fund's quarterly distributions will be reduced to reflect lower market bond yields. Milford has sent additional details to clients invested in the Fund.



- Cash and Cash Equivalents 4.24%
- Other* 0%
- New Zealand Fixed Interest 46.97%
- International Fixed Interest 48.79%

*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.

Global Corporate Bond Fund

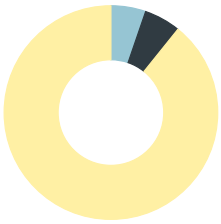
Portfolio Manager: Paul Morris

Increased geopolitical risks in a slowing global growth backdrop have pushed market interest rates lower again. Further escalation of the US-China tariff war, increased hard Brexit risk and Hong Kong protests were some of the developments benefiting the relative safety of government bonds in August. This also supported corporate bonds and the Fund returned 1.1% in the month.

Corporate bonds did however underperform government bonds as their yields fell by less. The underperformance was more pronounced for bonds of lower credit rated companies, illustrated by better returns from investment grade rated bonds compared to high yield. The Fund's lower exposure to high yield was a notable contributor to its 0.4% extra return compared to the benchmark in the month. We believe such positioning remains prudent given myriad known risks and a slowdown in company earnings growth in the context of generally still elevated debt levels.

Looking forward, supportive central bank policy action should underpin Fund returns but as that is now expected by markets, bond valuations do appear somewhat stretched. We have therefore slightly reduced interest rate exposure (to just less than the benchmark) and anticipate Fund returns will moderate. We also note the Fund's quarterly distributions will be reduced to reflect lower market bond yields. Milford has sent additional details to clients invested in the Fund.

Actual investment mix [1]



Cash and Cash Equivalents 5.27%
Other* 0%
New Zealand Fixed Interest 5.51%
International Fixed Interest 89.22%

Cash Fund

Portfolio Manager: Paul Morris

The Fund continues to successfully deliver on its objective to deliver a return in excess of the Reserve Bank of New Zealand Official Cash Rate (OCR) after fees. In August, the Fund returned 0.15%, ahead of its benchmark by 0.05%.

During the month the OCR was reduced to 1.0% from 1.5%. This was a surprise to the market which had been expecting a reduction of just 0.25 percentage points. We now anticipate the OCR will be unchanged until November when our expectation is for a further 0.25% cut.

The management of the Fund is focussed on maintaining a low risk investment strategy built on a diversified portfolio of cash, short dated debt securities and term deposits so as to protect capital.

We believe this could be a tax efficient (as a PIE vehicle), liquid (meaning investors have access to funds on request unlike term deposits) and low risk alternative to bank term deposits.

Cash and Cash Equivalents 19.37%
Other* 0%
New Zealand Fixed Interest 80.63%

*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.

Global Equity Fund

Portfolio Manager: Felix Fok

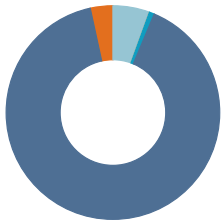
The Fund gained 1.5% in August as a 4.6% drop in the NZ dollar buffered declines in global share markets. Positive contributors included US financial exchange CME (+11.8%). Stock and futures exchanges can benefit from market volatility, a valuable trait in times of uncertainty. As investors trade and reposition portfolios, an exchange facilitates the transactions and takes a small fee.

Telecommunications towers Crown Castle (+8.9%) and American Tower (+8.8%) were solid performers in a down month for markets. This group offers a healthy balance between yield and growth, helped by usage of mobile phones and data consumption.

Detractors from performance included US real estate services company Zillow (-31.1%). Zillow is changing its business model to try capture more of the value in a residential property transaction. The market is sceptical. The Fund has appropriately sized this investment and continues to monitor.

Amongst Managers, the two developed market strategies (European equities and Global Healthcare) underperformed their respective benchmarks. MTX Sustainable Emerging Market Leaders outperformed. Overall, the economic backdrop remains one of slowing economic growth and elevated geopolitical tensions, offset by lower interest rates. In this environment, volatility is likely to stay elevated. The portfolio remains focused on our key investment themes and dominant companies.

Actual investment mix [1]



Cash and Cash Equivalents 5.55%
Listed Property 3.41%
Other* 0%
Australian Equities 0.77%
International Equities 90.27%

Trans-Tasman Equity Fund

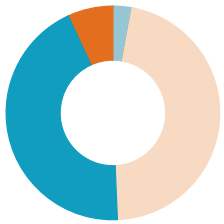
Portfolio Manager: Sam Trethewey & Wayne Gentle

The Fund fell 1.3% in August. This compares to the NZX 50 Gross Index return of -0.9% and the ASX 200 Accumulation Index return of -2.4%. It was a heavy news flow month with the ongoing trade war, an interest rate cut by the Reserve Bank of New Zealand and August financial reporting season.

The Fund outperformed the local markets despite a considerable headwind from a2 Milk (-19.8%). The stock gave back July's gain as the company surprised investors with guidance for lower future profitability. The company indicated it has become more optimistic about its market opportunity in China and the US, and will pursue these markets more aggressively. However, more will be spent on marketing to further enhance the brand, forgoing short term profitability.

Key winners included biotech exposure CSL (+4.9%), Contact Energy (+11.3%) and Afterpay Touch Group (+15.9%). CSL delivered a strong financial result and confident guidance for the year ahead while Contact Energy was a key beneficiary of the RBNZ interest rate reduction and is likely to grow earnings over the next three years via a geothermal development. The Fund decreased its exposure to Australian Banks in favour of the NZ electricity companies, particularly Meridian Energy. Comments by several of the management teams indicated that the current strong local wholesale power prices are likely to persist improving total dividend sustainability.

August reporting season confirmed our view that stock selection will be increasingly important to generating attractive returns in coming months. We have concentrated the Fund in positions where we have conviction around the company's competitive position and medium-term growth prospects.



Cash and Cash Equivalents 2.88%
Listed Property 6.88%
New Zealand Equities 46.45%
Other* 0%
Australian Equities 43.79%

*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.

Dynamic Fund

Portfolio Manager: William Curtayne & Michael Higgins

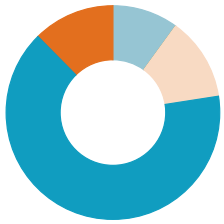
We were pleased to deliver a positive performance of 3.0% in August, outperforming the small cap industrial benchmark return of -3.1%. The 6.1% outperformance was led by a number of our key longer-term stock picks such as Australian Finance Group (+16.0%), Wellcom (+29.3%), EML Payments (18.8%) and Credit Corp (+16.6%) in addition to some of the more exciting new additions to the Fund over the past six months such as Polynovo (+26.9%) and Nanosonics (+21.1%).

Australian Finance Group rallied on the announced acquisition of mortgage aggregator Connective. If regulatory hurdles are overcome, the combined businesses will write 1 in 5 of all residential loans in Australia once complete. Wellcom received a takeover offer for a 32% premium, rounding out a 18% p.a. return since we first invested in 2013. Other domestically exposed businesses rallied on signs that the housing downturn may have stabilised.

Detractors for the month included two NZ growth companies which downgraded future guidance and were treated accordingly; a2Milk (-19.8%) and cinema software company Vista Group (-34.8%).

With the market selling off strongly early in the month (-7.2%), we took the opportunity to increase our equity exposure. The strategy worked well given we added more weight to our core positions which subsequently performed well. We are now sitting at a more fully invested position at the beginning of September.

Actual investment mix [1]



Upcoming Distributions	Target	Payment Date
Conservative Fund	0.5 cents (Quarterly)	17/10/2019
Diversified Income Fund	1.1 cents (Quarterly)	20/11/2019
Trans-Tasman Bond Fund	0.45 cents (Quarterly)	19/09/2019
Global Corporate Bond Fund	0.45 cents (Quarterly)	19/09/2019
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.

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*	1.00%	7.81%	6.54%	—	7.06%	1.1788	345.0 M
Diversified Income Fund*	1.02%	11.41%	9.11%	10.56%	11.71%	1.8060	2,220.5 M
Balanced Fund	0.99%	7.87%	9.19%	9.73%	10.13%	2.3917	705.5 M
Active Growth Fund#	0.88%	7.42%	10.52%	11.37%	12.72%	3.8946	1,113.3 M
Australian Absolute Growth Fund	0.95%	7.15%	—	—	9.13%	1.1373	161.5 M
Cash and Fixed Income Funds							
Trans-Tasman Bond Fund*^	1.07%	7.60%	5.07%	5.65%	5.98%	1.1799	606.4 M
Global Corporate Bond Fund*^	1.14%	7.32%	—	—	5.63%	1.0705	576.6 M
Cash Fund	0.15%	—	—	—	—	1.0102	43.8 M
Equity Funds							
Global Equity Fund†	1.48%	5.16%	10.63%	8.56%	8.43%	1.6627	565.3 M
Trans-Tasman Equity Fund*	-1.27%	11.42%	15.51%	13.22%	11.70%	3.0730	413.2 M
Dynamic Fund	3.05%	5.35%	12.42%	11.71%	13.36%	2.0786	260.8 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)	-0.85%	16.66%	14.62%	16.98%	18.07%
S&P/ASX 200 Accumulation Index (AUD)	-2.36%	9.04%	11.38%	7.90%	11.02%
S&P/ASX 200 Accumulation Index (NZD)	-0.17%	6.82%	12.51%	6.92%	8.11%
MSCI World Index (local currency)*	-1.95%	1.28%	10.08%	7.64%	11.21%
MSCI World Index (NZD)*	2.51%	5.48%	14.87%	12.33%	13.62%
S&P/NZX 90-Day Bank Bill Rate	0.15%	1.94%	2.01%	2.48%	2.58%
Bloomberg Barclays Global Aggregate Bond (USD-Hedged)	2.27%	10.74%	3.81%	4.16%	3.92%
S&P/NZX NZ Government Bond Index	2.22%	9.53%	4.82%	6.06%	4.77%

*With net dividends reinvested

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

Multi-Asset Funds

Conservative Fund	Diversified Income Fund	Balanced Fund	Active Growth Fund	Australian Absolute Growth Fund
Westpac 2.22% 2024 1.58%	Spark New Zealand 2.42%	Contact Energy 2.12%	Contact Energy 4.32%	National Australia Bank 4.89%
NZ Govt. Inflation Indexed 2% 2025 1.49%	Contact Energy 2.40%	Spark New Zealand 1.91%	Spark New Zealand 3.45%	Transurban Group 4.84%
Bank Of China 3% 2020 1.48%	QBE 6.75% 2044 1.78%	a2 Milk Company 1.66%	iShares MSCI EAFE Min Vol ETF 3.13%	BHP Group 4.59%
QBE 6.75% 2044 1.45%	Meridian Energy 1.77%	Meridian Energy 1.20%	a2 Milk Company 3.09%	CSL 4.16%
Vector 3.45% 2025 1.38%	Mirvac Group 1.55%	Financial Select SPDR 0.93%	Alphabet 1.56%	Contact Energy 2.90%
ING Group 1.45% 2024 1.36%	Charter Hall Long Wale REIT 1.48%	Wellington Strategic Euro 0.88%	Visa 1.45%	Newcrest Mining 2.52%
ANZ Bank 3.03% 2024 1.34%	Charter Hall Education Trust 1.37%	Vontobel Sust. EM Leaders 0.87%	CYBG 8% 2049 1.39%	Commonwealth Bank 2.51%
JPMorgan 5% 2024 1.26%	JPMorgan 1.09% 2027 1.28%	Wellington Global Health Care 0.86%	Transurban Group 1.36%	Australian Finance Group 2.44%
Westpac Float 2029 1.24%	Bank of America 3.458% 2025 1.25%	Transurban Group 0.84%	HCA Holdings 1.27%	a2 Milk Company 2.41%
ANZ Bank Float 2024 1.22%	Mirvac Group 3.625% 2027 1.18%	QBE 6.75% 2044 0.83%	Westpac 5% 2027 1.21%	Macquarie Group 2.24%

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).

Cash and Fixed Income Funds

Trans-Tasman Bond Fund	Global Corporate Bond Fund	Cash Fund
NZ Govt. Inflation Indexed 2% 2025 3.40%	AT&T 3.45% 2023 2.45%	Auckland Airport CD 2019 7.73%
Westpac 2.22% 2024 3.06%	ING Group 1.45% 2024 2.32%	Kiwibank 1.85% 2019 7.08%
ANZ Bank 3.03% 2024 2.83%	Dell Float 2023 2.31%	TSB Bank CD 2019 7.06%
ANZ Bank Float 2024 2.47%	Sprint Spectrum 4.738% 2025 2.28%	Westpac CMD 2019 6.92%
BNZ 3.648% 2023 2.31%	Seagate 4.75% 2025 2.10%	SBS Bank CD 2019 6.84%
ING Group 1.45% 2024 2.20%	McDonald's 3% 2024 2.04%	NZLGFA CD 2019 6.84%
ASB Bank 1.83% 2024 2.07%	Downer Group 4.50% 2022 1.96%	Port of Tauranga CD 2019 6.83%
NZLGFA 1.5% 2029 1.96%	QBE 6.75% 2044 1.82%	Mercury CD 2019 6.83%
Spark New Zealand 3.37% 2024 1.76%	Aroundtown 4.5% 2025 1.56%	ANZ 2.55% 2019 6.19%
Westpac 3.72% 2023 1.71%	RBLN 2.75% 2024 1.48%	ANZ 2.64% 2019 4.58%

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).

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

Equity Funds

Global Equity Fund	Trans-Tasman Equity Fund	Dynamic Fund
Wellington Strategic Euro 4.50%	a2 Milk Company 8.01%	Credit Corp Group 3.66%
Vontobel Sust. EM Leaders 4.45%	CSL 4.65%	Australian Finance Group 3.63%
Wellington Global Health Care 4.41%	Spark New Zealand 3.92%	Collins Foods 3.30%
Financial Select SPDR 3.84%	Fisher & Paykel Healthcare 3.88%	Wellcom Group 3.15%
Consumer Discretionary Selt 2.58%	Contact Energy 3.79%	IDP Education 2.96%
Euro Stoxx 50 ETF SPDR 2.42%	Mainfreight 3.73%	Bapcor 2.93%
iShares US Real Estate ETF 2.41%	Auckland Airport 3.59%	Contact Energy 2.91%
Vanguard Com. Serv. ETF 2.32%	Xero 3.34%	EQT Holdings 2.80%
Alphabet 2.13%	Meridian Energy 3.14%	Charter Hall Group 2.71%
Microsoft Corp 2.12%	Transurban Group 2.93%	EML Payments 2.59%

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 $26.6 million invested across our Investment Funds as at the end of August 2019.

Frances Sweetman
Senior Analyst

Investment Highlight - Spark NZ

One of our top performers on the NZX over reporting season has been Spark. It is one of our largest New Zealand holdings, although the stable nature of its earnings means it doesn't feature in our monthly updates very frequently.

Globally, telecommunications companies (telcos) have been less popular investments in recent years than other companies with stable cashflows and attractive dividends.

Telecommunications markets are often highly competitive with low barriers to entry, and the investment required to upgrade mobile networks to 5G could be substantial. The ability of telcos to monetise 5G investment via higher prices or new revenue streams is uncertain. This means investors have less confidence in the long-term earnings and dividend outlook.

Spark is a highlight among global telcos. The company faced significant disruption a number of years ago with the arrival of a new mobile competitor, 2Degrees, in 2009 and the separation from its fixed line infrastructure with the creation of Chorus in 2011.

The company's navigation of these challenges has been impressive. Under former CEO Simon Moutter, the company re-branded from Telecom to Spark, launched a new mobile brand 'Skinny' to compete with 2Degrees, grown a corporate digital business, and has undertaken an internal transformation from a traditional bureaucratic structure to a lower cost, agile, retail business. This has allowed it to maintain stable earnings and, utilising its strong balance sheet, pay out an attractive dividend of 25c per share for the last four years.

The investment case for Spark this year has hinged on its ability to maintain its 25c dividend into the future without using debt to top it up, as it approaches its self-imposed gearing limit. Other factors for investors to consider have been the change in ownership of Vodafone New Zealand, its largest competitor, which was bought by the NZX listed company Infratil and Brookfield earlier this year. CEO Simon Moutter has also been replaced by Jolie Hudson, an executive that has been with Spark since 2013. This has seen the share price underperform its NZX peers. However, confirmation at its recent earnings update it can continue to support a 25c dividend saw its share price increase 10% in the week following.

Spark is a good example of how a high calibre management team can drive performance. We continue to hold the stock as we expect this to continue, despite ongoing challenges in its operating environment. Importantly, debt levels remain conservative, reducing risk and providing the ability to diversify into new technology and grow earnings in the future.

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