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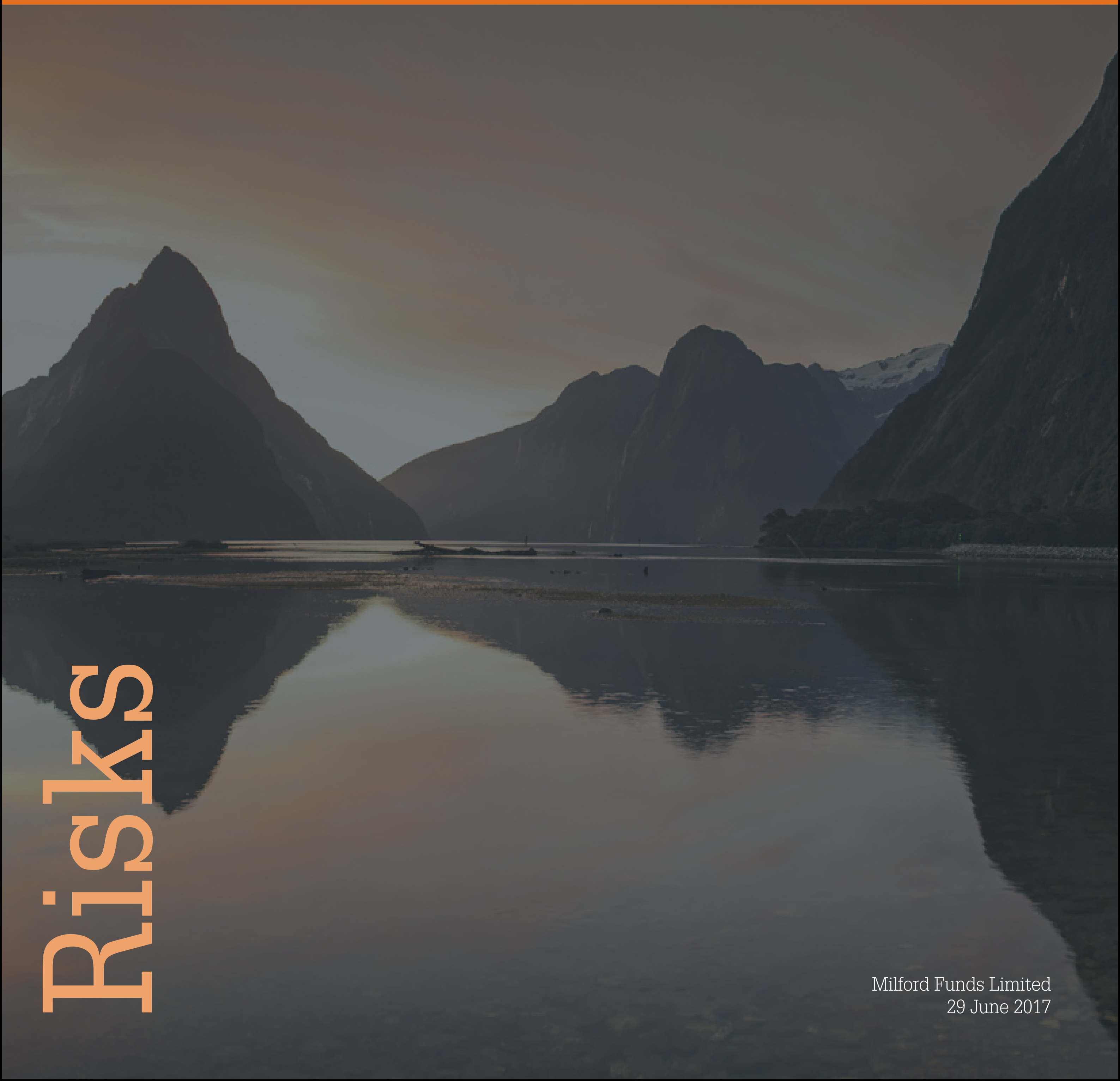
Milford Unit Trust PIE Funds
Risks



Milford Funds Limited
29 June 2017

General Information

In this document

This document provides a general overview of the types of risks associated with investing in the Milford Unit Trust PIE Funds ('Funds') and how they affect your investment. This document should be read in conjunction with the Product Disclosure Statement ('PDS').

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Risks

Risks and your Investment

There are risks associated with investing.

The underlying assets of a Fund may rise or fall in value and returns may be negative from time to time. Returns are not guaranteed and you may get more or less than the amounts you have contributed when you withdraw from the Fund. The following sections supplement section 4 of the PDS – "What are the risks of investing?".

In the PDS, we set out what we believe are the more significant investment risks that apply to investing in a Fund. These investment risks are those risks that may cause a Fund's value to move up or down, and which may affect the Fund's risk indicator. In this document under "General Investment Risks" we cover those more significant investment risks, as well as examples of other general investment risks, that we believe apply to the Funds.

We also highlight a specific risk that is particular to the Funds compared to other funds that is not reflected in the risk indicator. This specific risk is a circumstance which we believe exists or is likely to arise to significantly increase the risk on returns to investors. In this document, this is set out in a table format under "Other Specific Risks".

In addition, under "Other General Risks" this document sets out examples of other general risks that are not covered in the PDS. This document does not cover all risks, but it does cover the risks we believe to be the most important.

General Investment Risks

The main risks that you face are that you may not receive the returns you expect, that the capital value of your investments may end up less than you originally invested, or that you may be unable to get your money back when you need it.

Returns and risks vary, depending on the types of assets a Fund invests in.

Generally, the level of risk is related to the potential return from the investment. Income assets such as cash and fixed interest typically provide more consistent yet lower returns. Growth assets such as equity and property have the potential for higher returns however they can fluctuate significantly in value and have a greater possibility of a negative return.

Before investing, you should carefully consider the following risk factors which will affect returns positively or negatively and which may affect your ability to recover money invested in the Funds. As set out in the PDS, there are different types of risks that contribute to investment risk. We believe the investment risks that apply to the Funds are described below.

Risk	Description of the Risk
Investment return risk	Past performance is not a guarantee of future performance. As Milford is an active manager, there is a risk that a Fund may underperform compared with its investment objective or with the market.
Market risk	Returns of a Fund will be affected by the performance of the investments chosen for that Fund which may in turn, be affected by the performance of the investment markets generally. This risk, related to market performance, includes demand and supply in the market and economic and regulatory conditions, including market sentiment, inflation, interest rates, employment, political events, environmental and technological issues and consumer demands.
Interest rate risk	This refers to the risk that the market value of the investments of a Fund can change due to changes in interest rates. The market value of fixed interest securities can fluctuate significantly with relatively small changes in interest rates.
Credit risk	The value of debt securities may be impacted by the issuer's ability to pay interest and principal owed as they become due. If there is a negative perception of the issuer's ability to meet its payment obligations, the value of the debt security may decrease.
Liquidity risk	Some investments may not be easily converted into cash with little or no loss of capital and minimum delay, because of insufficient availability of buyers, suspension of trading on request from the market regulator or the entity involved, fund outflows, or disruptions in the market place. Securities of small entities in particular may, and especially in falling markets, become less liquid. Milford may hold a small number of unlisted securities that are far less liquid than listed securities.
Currency risk	Where underlying investments are invested in jurisdictions outside of New Zealand, the returns may be affected by movements between the other currencies and the New Zealand dollar.
Entity risk	A Fund's investment in an entity may be affected by unexpected changes in that entity's operations or business environment, including the risk that the entity may become insolvent. If this occurs, the Fund may receive a smaller or no return from, or it may lose, its investment in the entity.
Underlying managed fund performance risk	When we select other managers there is a risk the manager underperforms relative to the market or relevant fund's objective.
Counterparty risk	A counterparty to a contract may fail to meet their obligations under it, causing loss to a Fund. This potentially arises with various investments including derivatives and fixed interest.

Risk	Description of the Risk
Country concentration risk	Funds which invest in essentially only one country will have greater exposure to market, political, legal, economic and social risks of that country than a Fund which diversifies country risk across a number of countries. There is a risk that a particular country may impose foreign exchange and/or conversion controls or regulate in such a way as to disrupt the way the markets in that country operate.
Derivative risk	Because we may use derivative instruments such as futures and options, the investment movements may be more volatile than if a Fund is invested solely in equities or bonds. This means that our use of derivatives can lead to higher gains or losses than a portfolio that does not use derivatives.
Small and medium sized entities risk	There are risks associated with investing in small and medium sized entities as the prices of securities associated with such entities are usually more volatile (compared to those of larger entities), and the securities are generally less liquid.

Other Specific Risks

The information in this section forms part of the PDS for the Funds. It describes the other specific risk that we are aware exist or are likely to arise that significantly increases the risk to investors' returns, other than the general investment risks described above that have been reflected in the risk indicator.

Risk	Description of the Risk	How we seek to mitigate the risk
Fund of funds risk	The Funds invest primarily into Milford Wholesale Funds. The Funds may also invest into externally managed funds. An investment of a Fund in an underlying managed fund may be affected by unexpected changes in that underlying managed fund's operations or business environment. There may also be a risk that the underlying managed fund may have its assets frozen for a period of time or the manager of that fund may suspend withdrawals. This may have an impact on your ability to withdraw, or switch between the Funds.	To reduce this risk we have adopted an External Manager Policy that establishes criteria for the underlying funds. We regularly monitor such funds for compliance with the policy.

Other General Risks

The value of your investment and your ability to withdraw funds may be affected by some or all of the following risks. The below table sets out the other general risks which we believe may affect the Funds along with our approach to seek to reduce the risk.

Risk	Description of the Risk	How we seek to mitigate the risk
Service provider risk	You could be adversely affected if any of the various parties involved in the operation of a Fund, including us, or underlying administration managers and underlying investment managers, fail to perform their obligations. This could impact your returns or the ability to withdraw your funds.	Milford actively monitors and reviews the performance of all key service providers in performing their agreed contractual arrangements.
Operational Risk	This is the risk of technological or process failure or impacts from the wider financial market in general. This could impact your returns or the ability to withdraw your funds.	We have a risk management policy that incorporates our business continuity plan in order to minimise business disruption from failures or unforeseen events.
PIE status risk	If a Fund loses its status as a PIE, then the Fund will be taxed as a company rather than under the PIE regime and the tax treatment of investors will differ accordingly. This could reduce the after-tax returns to investors.	To reduce this risk, PIE tax eligibility rules are monitored within the business monthly and incorporated within our compliance plan.
Regulatory and tax risk	Fund performance may be affected by regulatory changes and changes to tax legislation in New Zealand or other global jurisdictions, which could have an impact on the value of your investment.	To reduce these risks, our investment process takes into account the tax and regulatory implications of our investment decisions.
Borrowing risk	A Fund may have the ability to borrow. Such borrowing may increase the volatility of the return that can be expected from that Fund.	No borrowing arrangements are in place for the Conservative, Diversified Income, Balanced or Trans-Tasman Funds. The other Funds can borrow up to 25% of the Fund's assets.

Risk	Description of the Risk	How we seek to mitigate the risk
Valuation risk	A Fund may invest in unquoted and/or illiquid investments which have a risk of mispricing. In such situations an objective, verifiable source of market value may not be available. This could impact your returns on withdrawal.	Milford has a valuation policy. Any exceptions are reviewed by our Pricing Committee and external verification sought as appropriate and are reported to the Investment Committee.
Fund liquidity and repayment risk	This is the risk that a Fund cannot make withdrawal payments on time. This is due to a mismatch between the maturity profile of the investments and the amounts required to meet repayments. We have the right to defer repayments, switches and transfers if we believe the realisation of assets to meet the repayment is not practicable, would be materially prejudicial to all investors, or is not desirable for the protection of the relevant Fund.	Milford aims to have the Funds primarily invest in liquid assets and markets with appropriate diversification. We also monitor the liquidity profile of each Fund and the historic withdrawal profile.
Insolvency risk	This is the risk that a Fund becomes insolvent and is placed in receivership, liquidation or statutory management, making it unable to meet its financial obligations. If a Fund becomes insolvent, you may not recover the full amount of your investment in the Fund.	Milford seeks to have the Funds primarily invest in liquid assets.

The above risks are not exhaustive. Because of the risks set out in this document, it is foreseeable that you may receive back less than you invest into a Fund.

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