



Milford KiwiSaver Plan Monthly Review

March 2018

Market and Economic Review

February was a volatile month with the NZX 50 Gross Index down 0.8%, the ASX 200 Accumulation Index off 1.0% and the MSCI World Net Total Return Index declining 1.8%. The last two index numbers are in New Zealand dollar terms.

The pullback was due to the sharp increase in US Government 10-year bond rates, a proxy for US interest rates. The US 10-year rate increased from an inter-day low 2.61% on 25 January to an inter-day high of 2.94% on 15 February. Its February close was 2.86%. Higher US interest rates have been in response to the upturn in domestic economic activity and market expectation that the Federal Reserve will raise its target rate by 75 basis points this year, from 1.50% at present, to 2.25%.

Milford's Funds performed reasonably well during the month with the Active Growth Fund down 0.1%, the Conservative Fund off 0.4% and the Balanced Fund declining 0.6%. On a twelve month basis the three KiwiSaver Funds appreciated as follows; Active Growth 15.1%, Balanced 11.4% and Conservative 7.1%.

The other highlights during the month were the New Zealand and Australian earnings announcements. The a2 Milk Company produced the best New Zealand result by a wide margin as it benefited from the strong growth of its infant formula product and expanding profit margins. Summerset and Delegat also announced pleasing results and had positive outlook statements. Fletcher Building and Sky TV had disappointing results with the latter facing fierce competition from several sources, including Netflix.

Results across the Tasman were in line with forecast with a2 Milk's share price appreciating 47.5% on the ASX in response to the company's strong earnings performance. Corporate Travel Management, which represents around 4% of the Dynamic Fund, also had a strong result and its share price appreciated 25.7%.

Markets have entered a stage of uncertainty because of rising interest rates and threats of further import duties being imposed by President Trump. Our Portfolio Managers continue to monitor these developments carefully with the aim of taking defensive action if the situation deteriorates.



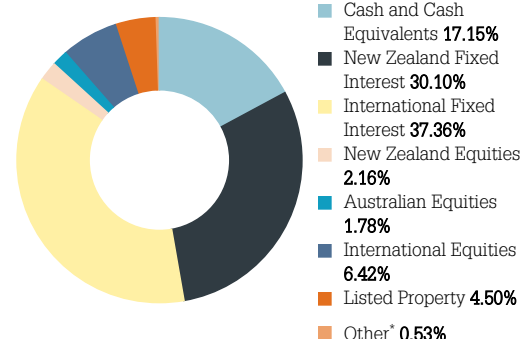
Conservative Fund **Portfolio Manager: Paul Morris**

The Fund lost 0.4% in February but returned 7.1% over 12 months. During February a combination of factors, including inflation fears and rising US government bond yields, saw an extended period of low market volatility broken.

The Fund had been defensively positioned, cognizant of elevated valuations and its conservative risk profile. Relative to its long-term neutral, it held a higher allocation to cash and fixed income (primarily through Australasian corporate bonds but with interest rate exposure limited) and a lower share exposure. Unfortunately, in February weakness in its share and global bond holdings outweighed a small positive contribution from cash and Australasian corporate bonds. Given likely ongoing near-term market uncertainty we will retain this more cautious approach, but believe there is room for near-term market consolidation at current levels.

We will continue to limit the Fund's interest exposure as waning monetary policy support means the threat remains for further rises in global bond yields. That said with New Zealand and Australian cash rates likely unchanged through 2018, we will contemplate an increased allocation to Australasian income shares on any further weakness, given increasingly attractive risk adjusted yields. Through active management we believe near-term returns should remain reasonable, albeit lower than the past year.

Actual investment mix

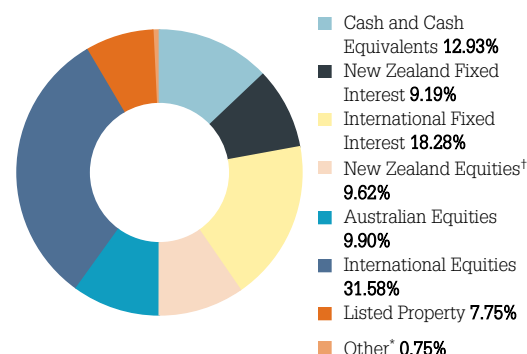


Balanced Fund **Portfolio Manager: Mark Riggall**

The Fund returned -0.6% in February, bringing the 1-year return to 11.4%. February saw significant volatility in global sharemarkets, partially driven by investors digesting the prospect of rising inflation and interest rates. Despite this volatility, the fund returns were only modestly negative, owing to a number of active strategies.

In times of market stress, balanced funds tend to mitigate sharemarket losses with profits on their bond portfolios. In February though, markets saw losses from both shares and bonds. The impact of falling bonds was cushioned by a reduction in interest rate exposure in the bond portfolios. In shares, the Fund had purchased put options in January (effectively insurance) and these protected the Fund from market losses, allowing investments to be made at lower price levels.

February also saw companies reporting earnings in NZ and Australia and good stock picking delivered strong performances, notably in NZ where significant holdings in a2 Milk benefited from the companies 43.8% appreciation. Looking forward, we expect that market volatility will continue to be elevated and we will look for opportunities to be active at a market and stock level. Interest rates are likely to trend higher which will be a headwind. Nonetheless, the economic backdrop remains favourable and we are cautiously optimistic on the outlook for risk assets.

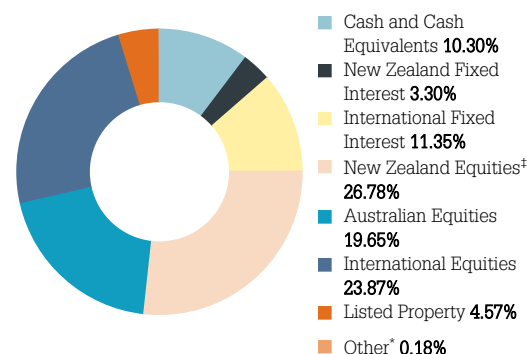


Active Growth Fund **Portfolio Manager: Jonathan Windust**

The Fund fell 0.1% in February and was negatively impacted by global and NZ share markets falling 3.5% and 0.8% respectively. Global shares reversed some of their recent strong gains in response to concerns over rising US interest rates and full market valuations.

The star company was a2 Milk (+43.8%) due to a strong earnings result and news that it had partnered with Fonterra to grow its sales in Southeast Asia. In Australia, Corporate Travel Management (+25.7%) rose after it beat the markets earnings estimates and presented a strong outlook. During the month, we took advantage of market falls to increase our investment in US shares, having reduced the previous month. The S&P 500 fell over 10% from its peak but recovered to be down 3.7% for the month; it is up 1.8% year to date.

We believe the correction in share markets were largely due to technical and not fundamental factors and believe the outlook for shares remains positive supported by good economic growth, company earnings and low interest rates. The key risk for share markets is that interest rates rise faster than expected which may cause continued short-term volatility in returns. The Fund remains active to take advantage of this market volatility and purchase companies we believe will deliver good returns over the medium-term.



Milford KiwiSaver Plan Monthly Review as at 28 February 2018

Fund Performance

	Past month	1 year	3 years (p.a.)	5 years (p.a.)	Since Fund inception (p.a.)	Unit price \$	Fund size \$
Conservative Fund	-0.41%	7.15%	6.10%	9.47%	10.08%	1.6585	48.4 M
Balanced Fund	-0.56%	11.35%	8.50%	11.15%	10.59%	2.1457	196.7 M
Active Growth Fund	-0.09%	15.08%	10.64%	13.16%	13.16%	3.4073	875.4 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.

*Total Fund charges do not include the \$36 p.a. Administration and Registry fee.

Inception dates for the Funds: Active Growth Fund: 1 October 2007^, Balanced Fund: 1 April 2010, Conservative Fund: 1 October 2012.

^The performance is based on the performance of the AonSaver AMT Milford Aggressive Fund until 31 March 2010 and the Milford Aggressive KiwiSaver Fund from 1 April 2010. The investment policy of the Milford KiwiSaver Aggressive Fund replicates that of the AonSaver AMT Milford Aggressive Fund, in place since 1 October 2007. On 1 October 2011 this Fund was renamed the Milford KiwiSaver Active Growth Fund.

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)	-0.81%	18.25%	13.93%	15.60%	15.37%
S&P/ASX 200 Accumulation Index (AUD)	0.36%	10.10%	5.07%	8.01%	7.93%
S&P/ASX 200 Accumulation Index (NZD)	-1.02%	11.74%	6.56%	5.13%	4.47%
MSCI World Index (local currency)*	-3.53%	13.58%	7.81%	11.80%	9.98%
MSCI World Index (NZD)*	-1.77%	17.52%	9.89%	13.80%	9.45%
S&P/NZX 90-Day Bank Bill Rate	0.15%	2.00%	2.55%	2.77%	2.76%

*With net dividends reinvested

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

Conservative Fund	Balanced Fund	Active Growth Fund
ASB Bank 5.25% 2026 1.91%	iShares MSCI EAFE Index Fund 5.37%	Vanguard Intl Select Excl Index Fund 3.80%
Westpac 4.695% 2026 1.72%	Vanguard Intl Select Excl Index Fund 3.88%	iShares MSCI EAFE Min Vol ETF 3.67%
ANZ Bank 5.28% 2049 1.67%	Vanguard FTSE Emerging Markets ETF 1.23%	Spark New Zealand 2.12%
ASB Bank 6.65% 2024 1.48%	Wellington Strategic Euro^ 1.11%	Contact Energy 1.98%
Precinct Properties 4.42% 2024 1.22%	ASB Bank 5.25% 2026 1.07%	a2 Milk Company 1.95%
ANZ Term Deposit 3.08% 06/18 1.17%	a2 Milk Company 1.02%	Air New Zealand 1.78%
NAB Float 2023 1.15%	Contact Energy 1.01%	CYBG 8% 2049 1.56%
Genesis 5.7% 2022 1.12%	Spark New Zealand 1.01%	iShares MSCI EAFE Index Fund 1.43%
IAG 5.15% 2043 1.09%	Charter Hall Group 0.97%	Tourism Holdings 1.43%
United Energy 3.85% 2024 1.05%	Antipodes Global Fund^ 0.94%	Delegat Group 1.39%

^Externally managed fund.

Milford staff have approximately \$8.1 million invested in the Milford KiwiSaver Plan as at the end of February 2018.

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Milford's KiwiSaver Plan Sets New Record

Milford's KiwiSaver Plan set a record at Morningstar's 2018 investment awards after being named KiwiSaver Fund Manager of the Year for the fourth time.

Morningstar KiwiSaver Fund Manager of the Year - Winners

2008 – AMP Financial Services	2014 – Milford Asset Management
2009 – AXA	2015 – ANZ Investment
2010 – OnePath	2016 – Milford Asset Management
2012 – OnePath	2017 – ASB
2013 – Milford Asset Management	2018 – Milford Asset Management

Morningstar is the leading investment research company in Australasia. Their annual KiwiSaver award goes to *“the provider that offers the best solution for New Zealanders’ retirement savings needs.”* The winner is determined by researching and assessing KiwiSaver providers on their transparency, disclosure, investor experience, fees and fund performance.

The KiwiSaver market is extremely competitive and the performance of KiwiSaver providers is becoming increasingly important to New Zealanders’ overall ability to retire comfortably. Therefore, we are delighted to again be recognised by Morningstar as the best solution for New Zealanders’ retirement savings.

Milford is not a default KiwiSaver provider. This means all our KiwiSaver members have actively chosen to invest with us. Not surprisingly, we believe we have the savviest members in the country and we thank you for your ongoing support.

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