MILFORD

Milford KiwiSaver Plan Monthly Review
December 2017

Market and Economic Review

November was another good month for Milford's funds, with all three KiwiSaver funds producing positive returns. The Active Growth, Balanced and Conservative funds reported returns of 0.9%, 0.9% and 0.7% respectively for the month and 15.2%, 14.6% and 9.1% respectively for the year ended 30 November.

The funds have performed well, partly because several of our larger shareholdings have had strong performances over the past twelve months. These include a2 Milk, Fisher & Paykel Healthcare, Serko and Tourism Holdings. Milford's Australian investment team has also identified several companies that performed exceptionally well.

Share markets are responding to strong economic growth throughout most of the world, with major forecasters indicating that this growth will continue into the 2018 year. The major predictions are as follows;

- The OECD is forecasting global growth of 3.7% in 2018 compared with an estimated 3.6% for 2017
- The International Monetary Fund (IMF) is also projecting world output growth of 3.7% next year
- The World Bank is a bit more cautious and is projecting world GDP growth of 2.9% next year, slightly above its projected 2.7% for the current year
- Year-end broker reports are also forecasting higher levels of global growth in 2018

These forecasts, albeit they are not from the same base, are consistently optimistic. The 2019 forecasts are also optimistic.

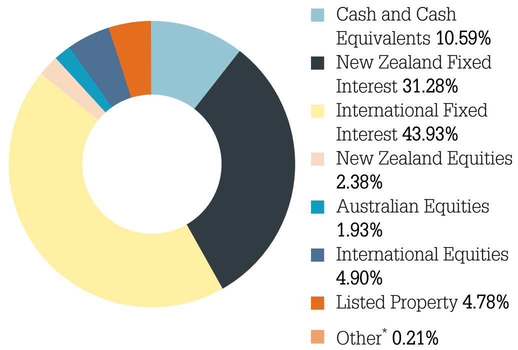
The IMF World Economic Outlook, which was published in October, had this to say: "The global cyclical upswing that began midway through 2016 continues to gather strength. Only a year and a half ago, the world economy faced stalling growth and financial market turbulence. The picture now is very different, with accelerating growth in Europe, Japan, China and the United States".

These positive economic conditions have boosted business confidence, capital investment and company profitability. We continue to closely monitor global economic conditions and are prepared to adopt a more defensive investment strategy if there are any signs that global growth is easing.

Milford KiwiSaver Plan Monthly Review as at 30 November 2017

Conservative Fund **Portfolio Manager: Paul Morris**

Actual investment mix

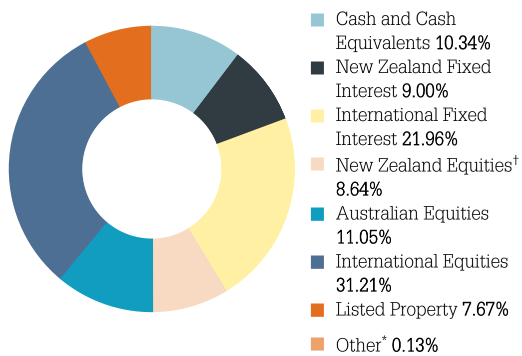


The Fund returned 0.7% in November, bringing the one year return to 9.1%. The broad asset classes into which the Fund is invested contributed positively again in November.

Australasian corporate bonds had a reasonable month, outperforming global peers, supported by expectations official cash rates will remain on hold for an extended period. This expectation also benefited the Fund's Australasian income shares, including notable returns of above 8% from both Charter Hall Group (Australian property) and Stride (NZ property). Global shares extended their gains but the contribution from global corporate bonds was more muted than in October, in part due to weakness in high yield. That served as a reminder that the extra yield from high yield bonds has contracted to less attractive levels. We have been trimming more expensive holdings and will look to further increase average Fund credit rating. The Fund's foreign currency exposure was reduced but contributed to returns on NZD weakness.

Looking forward, near term returns should remain reasonable, albeit lower than the last year. We remain underweight shares due to valuations but note low inflation, economic growth and slow monetary policy normalization are supportive. The biggest risk is that higher inflation precipitates faster policy tightening. To protect against this, we have limited interest rate exposure.

Balanced Fund **Portfolio Manager: Mark Riggall**

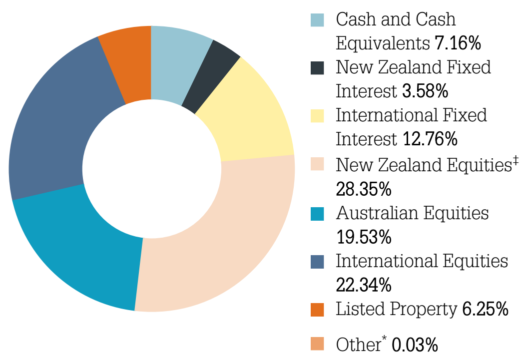


The Fund returned 0.9% in November, bringing the one year return to 14.6%. After strong gains in October, the pace slowed in November but markets remained broadly positive.

Global growth continues to improve but market interest rates are subdued, providing a strong backdrop for the Diversified Income Fund. The Balanced Fund's core investment into this Fund delivered the bulk of this month's performance. Global shares continue to perform well, particularly in the US on hopes that Trump will deliver tax reform. Local NZ and Australian shares were largely unchanged. Exposure to offshore currencies continues to provide a tailwind to performance as the NZD underperformed the Yen and Euro last month. The bond portfolios delivered solid returns from security selection, despite weaker corporate credit conditions and weaker government bonds.

Going forward, we are cautiously optimistic on risk assets because although global economic growth looks good, asset valuations are reasonably elevated and it is unlikely that interest rates can continue to be this low in the face of increased global growth. We remain overexposed to global shares and have reduced our holdings in NZ shares as the relative outlooks continue to diverge. Volatility is likely to pick up going forward after a benign 12 months. We have moved NZD exposure back to neutral in light of typical December strength.

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



The Fund rose 0.9% during November, benefiting from rising share markets, which had good economic momentum, positive company earnings, low interest rates and in the US the prospect of tax cuts.

Key positive company investments were Serko (+74.5%), Summerset (+8.4%), Origin Energy (+12.5%) and Charter Hall Group (+8.8%). Serko benefited from a positive result that demonstrated positive cash flow, strong revenue growth and a significant northern hemisphere market opportunity. Origin Energy benefited from rising oil prices and a positive investor day. The major detractor was Living Cell Technologies (-85.5%) which fell after disappointing results from trials for its Parkinson's treatment. During the month, we took advantage of weakness to increase holdings in select New Zealand shares; Fletcher Building, Contact Energy, Chorus and Spark. We also added to our Australian shares as we identified attractive opportunities.

At month end, the Fund had approximately 76% invested in shares with a higher than average weight in global shares and lower than average weight towards NZ. The outlook for shares remains supported by good economic growth, earnings and low interest rates with full valuations being the key headwind. On balance, we believe share markets will generate solid returns albeit strong gains require good company selection.

† Includes unlisted equity holdings of 0.23% ‡ Includes unlisted equity holdings of 2.37% * Other may include swaps and currency contracts.

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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 $
Conservative Fund	0.74%	9.06%	7.59%	10.26%	10.49%	1.6511	41.0 M
Balanced Fund	0.94%	14.61%	10.28%	12.27%	10.83%	2.1290	186.3 M
Active Growth Fund	0.87%	15.25%	11.62%	14.01%	13.20%	3.3179	819.4 M

For details of how investment performance is calculated, and returns at each PIR please see www.milfordasset.com/fund-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)	0.56%	20.22%	16.14%	16.58%	15.54%
S&P/ASX 200 Accumulation Index (AUD)	1.64%	14.60%	8.72%	10.56%	8.60%
S&P/ASX 200 Accumulation Index (NZD)	0.50%	21.64%	9.34%	7.53%	6.26%
MSCI World Index (local currency)*	1.57%	20.44%	8.96%	13.46%	11.42%
MSCI World Index (NZD)*	1.99%	27.72%	13.15%	15.82%	11.77%
S&P/NZX 90-Day Bank Bill Rate	0.17%	2.03%	2.70%	2.80%	2.81%

*With net dividends reinvested

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

Conservative Fund	Balanced Fund	Active Growth Fund
ASB Bank 5.25% 2026 2.12%	iShares MSCI EAFE Index Fund 5.82%	iShares MSCI EAFE Min Vol ETF 4.17%
KPGNZ 4% 2023 2.10%	Vanguard Intl Select Excl Index Fund 4.18%	Vanguard Intl Select Excl Index Fund 3.90%
Westpac 4.695% 2026 1.85%	Wellington Strategic Euro^ 1.26%	Spark New Zealand 2.26%
ANZ Bank 5.28% 2049 1.76%	ASB Bank 5.25% 2026 1.11%	CYBG 8% 2049 1.76%
QBE 6.115% 2042 1.73%	Antipodes Global Fund^ 1.02%	Air New Zealand 1.64%
ASB Bank 6.65% 2024 1.57%	Hawkes Bay Investors^ 0.98%	iShares MSCI EAFE Index Fund 1.63%
Precinct Properties 4.42% 2024 1.55%	GMO Systematic Global Macro^ 0.93%	Contact Energy 1.41%
NAB Float 2023 1.42%	Magellan Infrastructure^ 0.91%	Tourism Holdings 1.39%
Genesis 5.7% 2022 1.13%	Spark New Zealand 0.91%	JPMorgan 5.15% 2023 1.38%
Sydney Airport 3.76% 2020 1.06%	Charter Hall Group 0.90%	Delegat Group 1.38%

^Externally managed fund.

Milford staff have approximately $7.5 million invested in the Milford KiwiSaver Plan as at the end of November 2017.

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Milford KiwiSaver members leading the pack

On 24 November, the New Zealand Herald published a report on KiwiSaver under the heading "KiwiSaver providers say children's accounts to blame for low average balances". The report was based on the Workplace Savings NZ KiwiSaver Survey for the quarter ended 30 September 2017.

The following table highlights the main figures from the report;

As at September 2017	Milford	Industry	Milford %
Total funds ($m)	971	43,481	2.2%
Total members	19,761	2,704,663	0.7%
Average balance per member ($)	49,120	16,076	-
Contributions for the year ($m)	211	5,242	4.0%

The Workplace NZ KiwiSaver Survey accounts for around 97% of total KiwiSaver assets.

Milford has 0.7% of KiwiSaver members, 2.2% of KiwiSaver funds in dollar terms and 4.0% of net contributions in the twelve months ended September 2017. Consequently, Milford has the highest average balance of $49,120, which compares to an industry average of $16,076.

By comparison, the banks have 71.4% of KiwiSaver members, 66.6% of funds under management and a $15,006 average balance per member.

Milford members have the highest average balance for several reasons including;

- 76% of Milford members are regular contributors compared with an industry average of 59%
- Our Active Growth Fund has returned 13.2% per annum since inception in October 2007
- The Milford Balanced Fund has returned 10.8% per annum since its establishment in April 2010
- Milford's KiwiSaver Conservative Fund has returned 10.5% per annum since its October 2012 inception

Milford's primary objective is to continue to have strong investment returns and to have the highest KiwiSaver balances.

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