Milford KiwiSaver Plan Monthly Review
February 2018

Market and Economic Review

January was a good month for Milford's KiwiSaver funds with all three reporting positive returns as follows;

- The KiwiSaver Active Growth Fund was up 1.1% in January and 16.2% for the last twelve months
- The KiwiSaver Balanced Fund recorded returns of 0.8% and 14.0% respectively
- The KiwiSaver Conservative fund appreciated 0.7% in January and 8.7% for the year to 31 January.

The positive figures were due to a combination of buoyant share markets, the strong performance of several investee companies and some key asset allocation decisions by our portfolio managers, particularly an increased allocation to global share markets. Global share markets have had a remarkable run since the end of 2016 with the Wall Street's Dow Jones Industrial Average (DJIA) recording twelve up months out of thirteen, particularly January 2018 when it gained 5.9%. This was its best month since October 2015 when it appreciated 8.6%.

Since the end of 2016, the MSCI World Net Total Return Index has had thirteen positive months out of thirteen, the ASX 200 Accumulation Index eight out of thirteen, and the NZX 50 Gross Index thirteen positive months in a row. Global share markets have been driven by expanding global growth, the United States tax cuts, low interest rates and an encouraging outlook for company profitability.

Investors received a boost in January when US companies reported solid earnings increases for the December 2017 year and made positive predictions for 2018 and 2019. Investors also received a boost from an optimistic economic report from the International Monetary Fund (IMF). The IMF stated that "The pickup in growth has been broad based, with notable upside surprises in Europe and Asia" and "The U.S. tax policy changes are expected to stimulate activity". These comments are encouraging but financial markets are due for a correction after their strong run in recent years. Milford believes that a downturn will be a market correction, rather than a bear market, but we will continue to monitor developments on a daily basis.

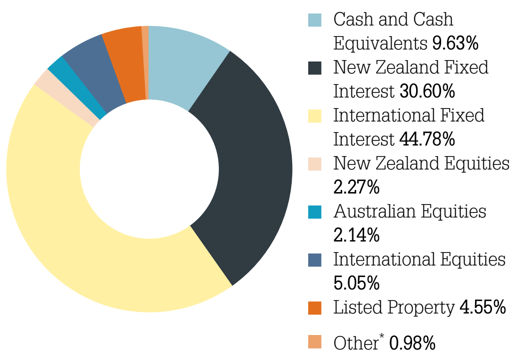
Conservative Fund **Portfolio Manager: Paul Morris**

The Fund returned 0.7% in January, bringing the one year return to 8.7%. January was notable for rising bond yields as markets anticipated potentially reduced monetary stimulus and the inflationary risks from synchronised global growth. However, this backdrop was supportive for global shares, albeit Australasian shares underperformed given a weighting towards bond-like income shares.

The Fund was reasonably well positioned for these market outcomes, even if a small foreign currency exposure was a headwind as the NZD appreciated. To protect from rising bond yields and benefit from improved global growth, we further reduced interest rate exposure and added to global shares. Against this, we retained an overweight to cash and fixed interest. Our fixed interest exposure is primarily to corporate bonds, which outperformed government bonds. We remained underweight Australasian shares, given their sensitivity to rising bond yields.

Looking forward, near term returns should remain reasonable through active management. We will look to take profit on some gains from the global share allocation and retain an overweight to cash and fixed interest, but with limited interest rate exposure. We will remain underweight Australasian shares but may contemplate cheaper income shares on further weakness.

Actual investment mix

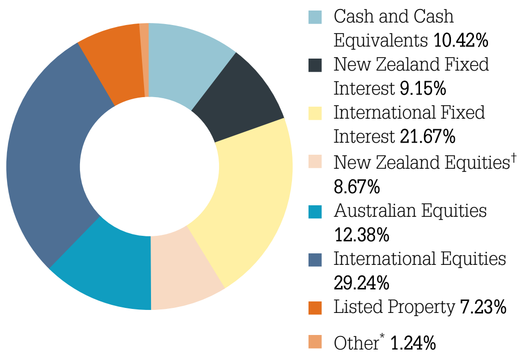


Balanced Fund **Portfolio Manager: Mark Riggall**

The Fund returned 0.8% in January, bringing the one year return to 14.0%. Global markets started the year on a very strong note, led by US shares which surged higher on improved earnings. Other global share markets were also significantly higher, reflecting the accelerating global economic growth environment.

The Fund's increased exposure to global shares delivered the bulk of the performance this month - the Milford Global Retail Fund was up 2.4%. Improving global growth is also being reflected in interest rate markets where increasing inflation expectations are causing bonds to be sold off. This process accelerated in January but is something we have been wary of and have taken precautions to protect against such falls. Given that, the bond portfolios delivered a positive performance for the month. Local share markets underperformed, partly due to their higher sensitivity to interest rates.

Looking forward, the Fund has reduced some share exposure given the strong run, but we still prefer global shares over NZ and are neutral on Australian shares. We remain negative on the NZD and have used recent strength to increase the Fund's offshore currency exposure. We expect markets to be more volatile this year, but we remain cautiously optimistic, using weakness in share markets to top up investments.

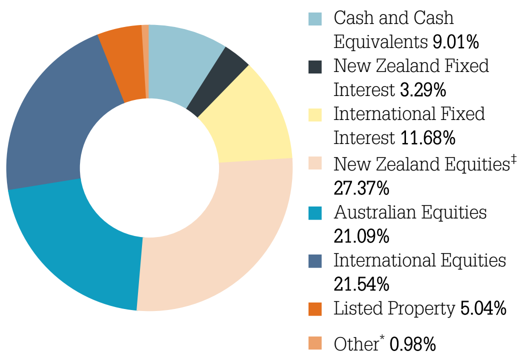


Active Growth Fund **Portfolio Manager: Jonathan Windust**

The Fund rose 1.1% during January, benefiting from strong returns from global share markets which were up 3.8% in local currency. Returns from NZ and Australian shares were more subdued, at +0.5% and - 0.4% respectively, as income producing shares fell in response to rising long-term interest rates.

Key company performers for the month were a2 Milk (+14.0%), Google (+11.8%) and Xero (+7.9%), as investors focused on high growth shares. The Fund also benefited from strategies to take advantage of rising long-term US interest rates. During the month, we added to our holdings in airlines Qantas and Air New Zealand as we believe they are attractively valued and oversold on concerns around rising oil prices. In January, we also reduced our exposure to shares and, in particular, the US market following its strong run during the month (+5.7%).

The outlook for share markets remains supported by good and robust economic growth, positive company earnings prospects, low interest rates and plenty of liquidity. The key risks for share markets are the prospect of further rate rises in the US, relatively high company valuations and in NZ, the housing market. On balance, we believe share markets will generate solid returns although we remain active within the portfolio to capture new opportunities and manage downside risks.



†Includes unlisted equity holdings of 0.23% ‡Includes unlisted equity holdings of 2.27% *Other may include swaps and currency contracts.

Milford KiwiSaver Plan Monthly Review as at 31 January 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	0.66%	8.73%	6.87%	9.79%	10.32%	1.6655	42.1 M
Balanced Fund	0.83%	13.98%	9.74%	11.60%	10.78%	2.1581	194.8 M
Active Growth Fund	1.08%	16.17%	11.56%	13.49%	13.27%	3.4108	869.4 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)	0.53%	21.26%	15.13%	16.15%	15.67%
S&P/ASX 200 Accumulation Index (AUD)	-0.45%	12.18%	7.31%	9.07%	8.23%
S&P/ASX 200 Accumulation Index (NZD)	-0.96%	18.54%	7.99%	6.35%	5.71%
MSCI World Index (local currency)*	3.77%	21.38%	11.21%	12.93%	11.00%
MSCI World Index (NZD)*	1.17%	24.65%	11.11%	14.55%	10.72%
S&P/NZX 90-Day Bank Bill Rate	0.16%	2.00%	2.59%	2.78%	2.78%

*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 2.01%	iShares MSCI EAFE Index Fund 5.00%	Vanguard Intl Select Excl Index Fund 3.86%
Westpac 4.695% 2026 1.80%	Vanguard Intl Select Excl Index Fund 3.97%	iShares MSCI EAFE Min Vol ETF 3.71%
ANZ Bank 5.28% 2049 1.72%	Wellington Strategic Euro^ 1.16%	Spark New Zealand 2.04%
ASB Bank 6.65% 2024 1.51%	Charter Hall Group 1.08%	Contact Energy 1.71%
NAB Float 2023 1.38%	ASB Bank 5.25% 2026 1.06%	Air New Zealand 1.62%
Precinct Properties 4.42% 2024 1.26%	Contact Energy 0.95%	CYBG 8% 2049 1.59%
Genesis 5.7% 2022 1.21%	Antipodes Global Fund^ 0.95%	iShares MSCI EAFE Index Fund 1.47%
ANZ Term Deposit 3.08% 06/18 1.17%	Spark New Zealand 0.90%	Tourism Holdings 1.44%
IAG 5.15% 2043 1.11%	Wellington Wolf Creek Shares^ 0.90%	Delegat Group 1.36%
United Energy 3.85% 2024 1.06%	GMO Systematic Global Macro^ 0.88%	Chorus 1.32%

^Externally managed fund.

Milford staff have approximately $7.9 million invested in the Milford KiwiSaver Plan as at the end of January 2018.

Beating the Market

One of the questions often asked is why don't KiwiSaver funds regularly beat the main share market indices. The answer to that question is that KiwiSaver is a long-term investment scheme and most portfolio managers endeavour to achieve consistent and superior long-term returns rather than beating an index in the short-term. The Milford KiwiSaver Active Growth Fund, which aims to achieve a return of 10% per annum after fees over the medium-term, is a good example of this with the following table showing its returns over the first ten calendar years since KiwiSaver began.

Year	Share Markets			Milford KWS Active Growth Fund
	MSCI World Net TR Index	ASX 200 Accumulation Index	NZX 50 Gross Index	
2017	22.4%	11.8%	22.0%	15.6%
2016	7.5%	11.8%	8.8%	6.2%
2015	-0.90%	2.6%	13.6%	14.0%
2014	4.9%	5.6%	17.6%	14.7%
2013	26.7%	20.2%	16.5%	20.0%
2012	15.8%	20.3%	24.2%	26.8%
2011	-5.5%	-10.5%	-1.0%	3.4%
2010	11.8%	1.6%	2.4%	6.1%
2009	30.0%	37.0%	18.9%	22.0%
2008	-40.7%	-38.4%	-32.8%	2.1%
Total Return	63.4%	50.0%	107.8%	233.8%

The KiwiSaver Active Growth Fund, which represents 79% of Milford's KiwiSaver funds, aims to capture most of the upside in positive markets and ensure that losses are minimal when markets fall. This is difficult to achieve. but the Fund has managed to achieve this since inception.

It had positive returns in 2008 and 2011 when markets were negative and had an overall return of 233.8% over the decade, well ahead of the major share market indices. This performance was recognised in Morningstar's December Quarter 2017 KiwiSaver Survey which stated "It is most appropriate to evaluate the performance of a KiwiSaver scheme by studying its long-term returns. Milford Active Growth KiwiSaver tops all multisector categories during the trailing 10 years". Milford's aim is to be the best performing KiwiSaver provider over the next decade, not just the next month or quarter.

Level 17, 41 Shortland Street, Auckland
PO Box 960, Shortland Street, Auckland 1140
Free phone **0800 662 346**
milfordasset.com

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