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Milford KiwiSaver Plan Monthly Review
May 2018

Market and Economic Review

April was another positive month for the Milford funds with the Milford Active Growth KiwiSaver fund up 1.5%, the Balanced Fund 1.5% and the Conservative Fund 0.5%.

As noted on the back page of this report, our KiwiSaver funds continue to perform extremely well. Equity fund performances were against a positive global background, particularly the meeting of the North Korean and South Korean leaders and reduced concerns about a trade war. Economic data also remains positive in the US and other parts of the world, although there are signs that New Zealand's economic growth rate is flattening out.

The best performing NZX 50 stocks were Synlait, Fletcher Building, Kathmandu, Gentrack and Trade Me while the worst performing were Pushpay, Fisher & Paykel Healthcare, a2 Milk, Scales and the Fonterra Shareholders' Fund. The domestic market received a boost from the proposed takeover for Tegel Group Holdings and expectations that there will be more takeover activity through the remainder of the year.

The best performing ASX 100 companies during April were Heathscope, Santos, South32, Xero and Macquarie Atlas Roads while the worst were AMP, Perpetual, IOOF, BT Investment Management and Boral. The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry has had a negative impact on financial stocks, which appreciated only 0.2% during the month. The ASX Energy sector was the best performer as WTI crude oil prices soared 5.6%. Higher oil prices had a negative impact on inflation expectations and interest rates, which has resulted in a more difficult month for bond funds.

US corporate profits have been positive as S&P 500 company earnings are 25% ahead of the March 2017 quarter, with 55% of companies having reported. Nearly 80% of these results were ahead of expectations, with only 14% below. Strong corporate earnings are a positive feature for global markets although Trump remains a major risk. The "Trump Factor" is expected to contribute to market volatility in the months ahead with our portfolio managers constantly monitoring developments. Our objective is to quickly identify any developments that could have a negative long-term impact on markets.

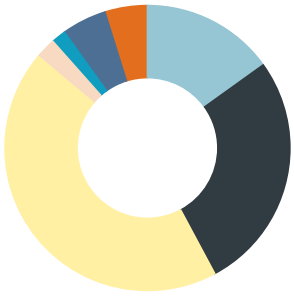
Conservative Fund

Portfolio Manager: Paul Morris

Despite the notable headwind of rising bond yields, the Fund returned 0.5% in April, contributing to a one year return of 5.5%. It was a challenging month for fixed interest, which represents around 80% of the Fund's exposure, contributing to a minimal return as global and Australasian bond yields rose, pushing prices lower. Weakness in US treasuries was the primary catalyst, largely due to increased market inflation expectations, and this weighed on other bond markets. As inflation recovers and monetary policy support wanes, the risk remains for a further drift higher in bond yields. To protect against this, we will continue to limit interest rate exposure.

The Fund's exposure to Australasian income and property shares has been increased on increasingly attractive valuations. In April this exposure contributed positively, an impressive performance given rising bond yields typically drag on their prices. Global shares also contributed positively during the month as earnings generally delivered. The Fund also benefited from a small foreign currency exposure as the NZD was weaker. Looking forward, rising bond yields, elevated valuations across many asset classes and geopolitical risks mean volatility may remain elevated. Cognisant of the Fund's conservative risk profile we will therefore retain cautious positioning; favouring fixed interest and cash versus shares.

Actual investment mix[1]



- Cash and Cash Equivalents **15.09%**
- New Zealand Fixed Interest **27.08%**
- International Fixed Interest **43.93%**
- New Zealand Equities **2.34%**
- Australian Equities **1.65%**
- International Equities **5.07%**
- Listed Property **4.83%**

Balanced Fund

Portfolio Manager: Mark Riggall

The Fund returned 1.5% in April bringing the one-year return to 8.8%. April saw interest rates moving higher on the back of rising oil prices and increasing US inflation data. This was a headwind for the bond portfolio (bond prices fall when interest rates rise) but despite this, the bond funds maintained a flat return for the month. Income shares performed relatively well, outperforming corporate bond investments. Australian shares in general had a good month, up 3.3% (Australian Equity Fund), bouncing back from a weaker March. Global shares have been slow to recover their poise from the sell-off in February, with ongoing concerns over rising interest rates, trade war rhetoric, slowing pace of global economic growth and tech sector regulation. Nonetheless, the Global Equity Fund was up 1.8% in April.

Finally, the USD had a strong April and the Funds offshore currency exposure was a boost to performance. On the positive side, company earnings have been strong, share valuations are more attractive and the global economy remains in good shape. Further volatility is expected (potentially driven by rising interest rates) but sentiment has turned more negative and therefore, we remain cautiously optimistic on the outlook for shares.

- Cash and Cash Equivalents **13.04%**
- New Zealand Fixed Interest **7.86%**
- International Fixed Interest **20.97%**
- New Zealand Equities[†] **10.97%**
- Australian Equities **9.95%**
- International Equities **28.77%**
- Listed Property **8.44%**

Active Growth Fund

Portfolio Manager: Jonathan Windust

The Fund rose 1.5% in April benefiting from positive returns from the Global, NZ and Australian share markets, despite rising long-term interest rates. Shares continue to benefit from good economic growth and company earnings. Key company contributors during the month were oil companies EOG Resources in the US (+12.3%) and Woodside Petroleum in Australia (+10.2%) benefiting from the higher oil price. Xero shares also performed strongly, benefiting from a more optimistic view taken by Australian investors and analysts. The Fund also benefited from the fall in the NZD during the month which boosted the returns from unhedged global shares.

During the month we reduced our holdings in airlines, Qantas and Air New Zealand following good performance and rising oil prices. The outlook for shares remains generally positive, supported by good economic growth, company earnings and reasonable company valuations. The key risk for shares remains that interest rates rise faster than expected, which may cause continued short-term volatility. The Fund remains active to take advantage of opportunities and to identify the companies which we believe will deliver good future returns relative to their risk.

- Cash and Cash Equivalents **11.55%**
- New Zealand Fixed Interest **3.06%**
- International Fixed Interest **11.36%**
- New Zealand Equities[‡] **27.04%**
- Australian Equities **19.52%**
- International Equities **22.20%**
- Listed Property **5.28%**

[†]Includes unlisted equity holdings of 0.26% [‡]Includes unlisted equity holdings of 2.39% [*]Other may include interest rate derivatives and currency contracts.

[1]The actual investment mix incorporates the notional exposure value of equity derivatives and credit default swaps, where applicable.

Milford KiwiSaver Plan Monthly Review as at 30 April 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	0.47%	5.53%	5.91%	8.64%	9.85%	1.6657	51.6 M
Balanced Fund	1.52%	8.81%	8.60%	10.49%	10.50%	2.1674	203.1 M
Active Growth Fund	1.48%	14.40%	11.15%	12.42%	13.10%	3.4554	903.5 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)	1.51%	15.78%	14.81%	14.26%	14.80%
S&P/ASX 200 Accumulation Index (AUD)	3.91%	5.46%	5.70%	7.53%	7.87%
S&P/ASX 200 Accumulation Index (NZD)	4.62%	3.75%	6.88%	4.93%	4.30%
MSCI World Index (local currency)*	1.94%	10.75%	7.44%	10.51%	9.77%
MSCI World Index (NZD)*	3.56%	10.32%	10.36%	13.66%	10.31%
S&P/NZX 90-Day Bank Bill Rate	0.16%	1.96%	2.45%	2.74%	2.73%

*With net dividends reinvested

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

Conservative Fund	Balanced Fund	Active Growth Fund
Investore Property 4.40% 2024 1.86%	Vanguard Intl Select Excl Index Fund 3.84%	Vanguard Intl Select Excl Index Fund 3.78%
Westpac 4.695% 2026 1.73%	iShares MSCI EAFE Index Fund 3.67%	iShares MSCI EAFE Min Vol ETF 3.76%
ASB Bank 6.65% 2024 1.48%	Spark New Zealand 1.27%	Spark New Zealand 2.45%
Precinct Properties 4.42% 2024 1.22%	a2 Milk Company 1.20%	a2 Milk Company 2.19%
ANZ Term Deposit 3.08% 06/18 1.20%	Contact Energy 1.16%	Contact Energy 2.15%
NAB Float 2023 1.17%	Wellington Strategic Euro^ 1.07%	CYBG 8% 2049 1.56%
BNZ 3.375% 2021 1.15%	ASB Bank 5.25% 2026 0.97%	Delegat Group 1.41%
Genesis 5.7% 2022 1.13%	Aventus Retail Property Fund 0.93%	Sydney Airport 1.37%
United Energy 3.85% 2024 1.05%	Charter Hall Group 0.93%	Tourism Holdings 1.24%
Sydney Airport 3.76% 2020 1.02%	Antipodes Global Fund^ 0.91%	JPMorgan 5.15% 2023 1.19%

^Externally managed fund.

Milford staff have approximately $8.4 million invested in the Milford KiwiSaver Plan as at the end of April 2018.

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Milford Producing Strong Returns

The March Quarter 2018 Morningstar KiwiSaver Survey clearly demonstrates that we continue to produce superior investment returns as highlighted below.

Milford Fund	1-year		3-years		5-years		10-years	
	Return	Rank	Return	Rank	Return	Rank	Return	Rank
Conservative	6.0%	1st/21	5.9%	1st/16	9.1%	1st/13	-	-
Balanced	8.8%	4th/25	8.2%	1st/19	10.7%	1st/18	-	-
Active Growth	13.8%	1st/26	10.6%	1st/22	12.8%	1st/20	13.2%	1st/17

Three, five and ten-year returns are on a per annum basis.

Morningstar stated: "It is most appropriate to evaluate the performance of a KiwiSaver scheme by studying its long-term returns" and "Milford Active Growth KiwiSaver tops all multisector categories during the trailing 10 years". Your Active Growth Fund had a 13.2% p.a. return over the ten-year period with the second placed KiwiSaver fund producing 9.9% p.a.

In the year to March 2018, our KiwiSaver funds had superior performance compared with the average of the two major passive managers included in the Morningstar survey;

- Milford Conservative Fund - a 6.0% return compared with the passive conservative fund average of 4.6%
- Milford Balance Fund - an 8.8% return compared with the passive balanced fund average of 7.6%
- Milford Active Growth Fund - a 13.8% return compared with the passive growth/aggressive fund average 9.6%.

Over the ten-year period the Milford Active Growth Fund had a 13.2% p.a. return compared with 7.4% p.a. for the major passive fund (the other passive fund doesn't have a ten-year record).

There continues to be a huge amount of debate about active versus passive management. We believe that our active management style will continue to deliver superior returns, compared to passive funds, on an after fees basis. KiwiSaver is a complex investment process involving asset allocation, stock selection, fixed interest securities, currency hedging and the assessment of other investment opportunities.

We have an extremely strong investment team, of 22 across Sydney and Auckland, while passive funds usually have a limited number of investment specialists. Our investment team is committed to delivering superior long-term returns to our KiwiSaver members.

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