



Milford KiwiSaver Plan Monthly Review

June 2018

Market and Economic Review

May was a positive month for global markets as they responded to a de-escalation in global trade issues and robust economic data, although emerging markets fell as the USD appreciated.

Our Kiwisaver funds performed well with the Active Growth Fund delivering a 2.0% return for the month, the Balanced Fund 1.4% and the Conservative Fund 0.5%.

The local reporting season generally delivered solid earnings announcements from the New Zealand companies that reported results for the financial year to 31 March. The results reflected the high economic growth we are continuing to experience, and companies remain positive about the outlook. While we do see some softening in the forward looking economic surveys and data we monitor, the companies we speak to give us no cause for concern.

The semi-annual review of the MSCI World Index, a weighted stock market index that includes companies from 23 developed markets, took place during the month and provided some opportunities to add value as a number of companies were removed or added. The inclusion of China A Shares in the index for the first time was a milestone for the credibility of the Chinese market and may help to increase the low level of foreign ownership of Chinese stocks and bonds. Locally, the inclusion of The a2 Milk Company saw the company well traded, but any positive effect was offset by a trading update that disappointed investors due to the impact of a change in packaging.

The 'Trump Factor' was beneficial to markets for most of the month. Trade talks between the US and China delivered a joint statement declaring the nations would proactively seek to resolve economic and trade concerns. However, the month ended with the US imposing the promised steel and aluminium tariffs on trade partners, and little progress has been made as the deadline for the imposition of Chinese tariffs looms. We continue to monitor these developments and ensure our funds are well placed to capitalise on any resulting volatility in markets.



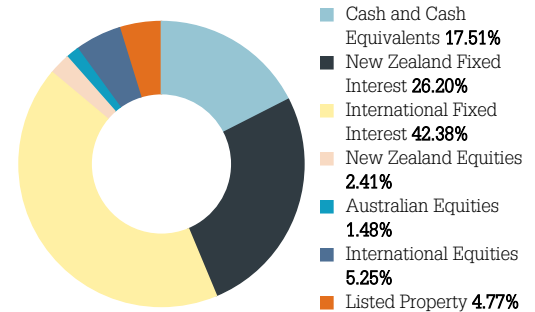
Conservative Fund

Portfolio Manager: Paul Morris

The Fund returned 0.5% in May, contributing to a 1-year return of 5.2%. Its largest exposure is to New Zealand and Australian corporate bonds. These provided a reasonable return contribution as their yields generally fell. Impacted by geopolitical events, most notably the Italian political crisis, the Fund's smaller exposure to global corporate bonds was a modest performance drag. The allocation to Australasian income shares (including property) was a strong return contributor, as was the exposure to global shares.

Looking forward, the risk of rising bond yields, arguably elevated valuations across many asset classes, and geopolitical risks mean markets may face increased volatility. We therefore still retain cautious positioning. Relative to the Fund's long run neutral, that translates to an underweight share allocation and an overweight to cash and fixed income. This stance means the Fund may miss out on some return if share markets rise, but it should help reduce downside risks. We are aware that fixed income may also face challenges from rising interest rates, even if New Zealand and Australian cash rates may remain on hold well into 2019. Therefore, we continue to limit the Fund's interest rate exposure below its long run neutral. We have also increased cash to protect against underperformance of corporate bonds relative to government bonds.

Actual investment mix¹

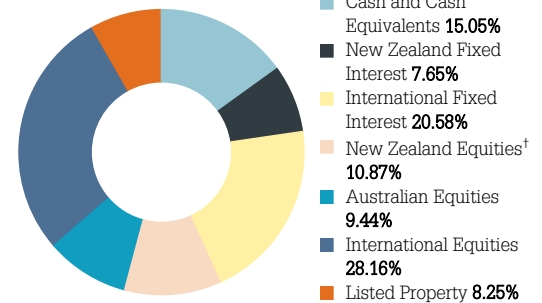


Balanced Fund

Portfolio Manager: Mark Riggall

The Fund returned 1.4% in May bringing the 1-year return to 9.4%. Recent returns have been driven largely by the growth (share) portfolio with notable contribution from Australian small cap stocks this month. The ongoing Australian Royal Commission into the financial services industry has seen the large cap banks shunned in favour of other parts of the market. US shares also performed well as US economic growth continues to be strong. The building Italian political crisis finally spilled over into the broader market in May as investors fled European shares and bank bonds. This adversely impacted the Funds bond portfolio but losses were avoided by rising government bond prices and the positive performance of income stocks.

Offshore currency exposure has delivered good performance recently but this exposure has now been reduced. Going forward we continue to be cautiously optimistic on the outlook for investments, global economic growth remains strong although the pace is slowing (notably in Europe). Interest rates are rising but at a relatively measured pace whilst share valuations are moderate. The Fund is increasing exposure to the more active Milford funds to capture the expected increasing volatility in markets. The Fund retains a slight bias towards growth over income but any further rises in interest rates will be used to rotate back into income.

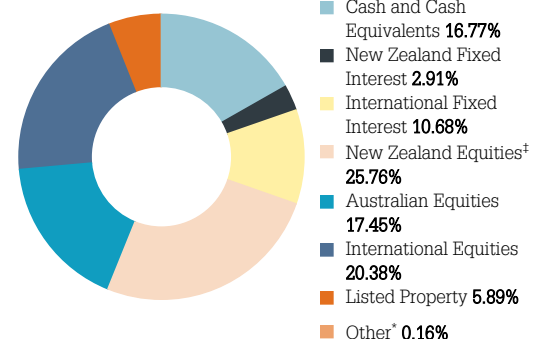


Active Growth Fund

Portfolio Manager: Jonathan Windust

The Fund rose 2.0% in May benefiting from investments in Global, New Zealand and Australian shares. Shares continue to benefit from good economic growth, good company earnings and investor optimism. There were a number of strong company performances during the month including Serko (+20.2%), Vista Group (+16.7%) and Aristocrat Leisure (+13.0%). Serko and Aristocrat reported strong earnings during the month with Serko producing revenue growth of 25% and delivering its first profit. Aristocrat delivered a 32% increase in its profits. Vista rose as investors recognised its dominant position in the global cinema software market and strong growth outlook.

The key detractor for the month was a2 Milk (-10.5%) which provided a sales update which disappointed investor expectations due in part to a change in the company's packaging. We continue to believe in a2's long-term prospects. During the month, we generally took profits on our share investments after strong performances, with the weight in shares around 70% (inclusive of property) at month end. This is below our expected long-term average of 80% in shares. The outlook for shares remains generally positive, supported by positive economic conditions and company earnings. However this is increasingly being reflected in company valuations. We remain active to isolate companies that are attractively valued relative to their risks.



[†]Includes unlisted equity holdings of 0.25% [‡]Includes unlisted equity holdings of 2.35% ^{*}Other may include interest rate derivatives and currency contracts.

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

Milford KiwiSaver Plan Monthly Review as at 31 May 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%	5.16%	5.70%	8.63%	9.79%	1.6734	52.4 M
Balanced Fund	1.39%	9.41%	8.16%	10.65%	10.57%	2.1971	209.1 M
Active Growth Fund	2.00%	15.50%	10.91%	12.67%	13.20%	3.5233	937.0 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)	2.61%	18.09%	15.42%	15.36%	15.08%
S&P/ASX 200 Accumulation Index (AUD)	1.09%	9.63%	5.94%	8.76%	8.34%
S&P/ASX 200 Accumulation Index (NZD)	1.77%	12.76%	6.01%	6.43%	5.54%
MSCI World Index (local currency)*	1.27%	10.52%	7.44%	10.47%	10.17%
MSCI World Index (NZD)*	1.05%	12.86%	8.15%	12.24%	11.10%
S&P/NZX 90-Day Bank Bill Rate	0.17%	1.96%	2.40%	2.73%	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 1.89%	Vanguard Intl Select Excl Index Fund 3.57%	iShares MSCI EAFE Min Vol ETF 3.61%
Westpac 4.695% 2026 1.73%	iShares MSCI EAFE Index Fund 2.98%	Spark New Zealand 2.47%
ASB Bank 6.65% 2024 1.49%	Spark New Zealand 1.37%	Contact Energy 2.44%
QBE 6.75% 2044 1.28%	Contact Energy 1.34%	a2 Milk Company 2.41%
Precinct Properties 4.42% 2024 1.21%	a2 Milk Company 1.17%	Vanguard Intl Select Excl Index Fund 1.70%
ANZ Term Deposit 3.08% 06/18 1.20%	Wellington Strategic Euro [^] 1.03%	CYBG 8% 2049 1.44%
BNZ 3.375% 2021 1.16%	Energy Select SPDR 0.97%	Delegat Group 1.42%
United Energy 3.85% 2024 1.06%	Aventus Retail Property Fund 0.96%	Z Energy 1.32%
Sydney Airport 3.76% 2020 1.03%	SPDR S&P Regional Banking ETF 0.92%	BHP Billiton 1.16%
BOQ Float 2028 1.00%	ASB Bank 5.25% 2026 0.91%	Woodside Petroleum 1.14%

[^]Externally managed fund.

Milford staff have approximately \$8.6 million invested in the Milford KiwiSaver Plan as at the end of May 2018.

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Measuring your KiwiSaver manager

During May, you will have received your annual KiwiSaver member statement. This year your annual member statement shows the fees you paid in dollar terms. This initiative provides greater transparency for investors, which we support. However, when building your savings for retirement the key is to focus on maximising investment returns after fees. This is what's called your net return.

In this regard, the Milford KiwiSaver Plan has been delivering strong results. Milford KiwiSaver funds all ranked first in their respective fund category over the 3 and 5 year periods (and over 10 years for the longer running Active Growth Fund) in the March 2018 Morningstar KiwiSaver Report.

Consumer NZ's People's Choice Award

Milford is also committed to providing our clients with high quality service. Which is why we were delighted to be awarded the 2018 Consumer NZ's People's Choice Award for highest KiwiSaver customer satisfaction.

To determine the winner, Consumer NZ surveyed a representative sample of the public on how satisfied they were with their KiwiSaver provider. The survey covered factors such as service, communications and fund performance. Milford's 80% customer satisfaction score was well ahead of the KiwiSaver provider average score of 52%.

Member Tax Credits

Finally, now is a good time to check whether you have contributed enough to receive the maximum Member Tax Credit (MTC) of \$521.43 from the Government. If eligible, you'll need to have contributed at least \$1,042.86 between 1 July 2017 and 30 June 2018. You can check your contributions for this period online via your Client Portal.

This is essentially a government top-up to your account each year so it is definitely worth making sure you've contributed enough.

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