MILFORD

Milford Unit Trust PIE Funds Monthly Review
January 2018

Market and Economic Review

The 2017 calendar year was another excellent period for investors, with most of the world's major share markets producing double digit returns. The benchmark NZX 50 Gross Index appreciated 22.0%, the ASX 200 Accumulation Index 11.8%, the Dow Jones Industrial Average Total Return Index 28.1%, the NASDAQ Composite Total Return Index 29.6% and the MSCI World Net Total Return USD Index by 22.4%.

All Milford's funds beat their respective performance benchmarks for the year, with the Trans-Tasman Fund, jointly managed by Sam Trethewey and Wayne Gentle, performing particularly well. This Australasian equity fund reported a return of 25.8% for the 2017 year compared with its benchmark of 20.4%, a 5.4% outperformance. The double digit returns of most of our funds has been against a backdrop of low inflation and interest rates, an uptick in global economic growth and high investor cash levels globally.

Our stock selection has also contributed positively, with holdings in the NZX 50 Index's five best performing companies in 2017 – a2 Milk, Tourism Holdings, Fisher & Paykel Healthcare, Air New Zealand and Restaurant Brands – boosting the performance of Milford's funds. Additionally, Milford investors own 8.4% of Serko, which was the best performing non-NZX 50 company with a total return of 655.2% in 2017.

As global share markets have had six consecutive years of positive returns, one may expect a meaningful correction is due. However, for the following reasons we are cautiously optimistic for 2018;

- Global economic growth is trending upwards, with most countries participating in the upturn
- The improved economic outlook should boost company earnings
- Business investment, which is an important ingredient in any economic upturn, is finally picking up
- Takeover activity is expected to increase and there will be a limited number of IPOs, particularly on the NZX, to divert investor returns from existing investments
- Interest rates will increase but these increases are expected to be modest.

Although we are cautiously optimistic about the year ahead, we are fully aware that share markets have corrections from time to time. We will continue to monitor economic and political developments daily as the protection of investors' capital, on a medium-term basis, is one of Milford's main objectives.

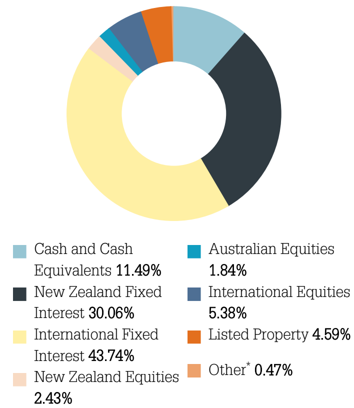
Milford Unit Trust PIE Funds Monthly Review as at 31 December 2017

Conservative Fund **Portfolio Manager: Paul Morris**

The Fund returned 0.2% in December, bringing its one year return to 8.7%. December saw mixed performance across asset classes. Shares contributed positively again (albeit more moderately than recent months), with only minimal return from corporate bonds. Global government and corporate bond performance was mixed, with notable weakness in Australia and outperformance in NZ.

In 2017, the Fund benefited from ongoing extraordinary global monetary policy, lower than anticipated inflation and improving global economic growth. The expected weakness in government bonds did not materialise, in turn supporting a global hunt for yield which underpinned both corporate bonds and shares. Looking ahead at 2018, synchronised global economic growth increases the inflationary threat, while monetary policy support is likely to wane. The impact on markets may be gradual, as global liquidity remains high, but given the Fund's conservative risk profile, along with bond and share valuations, we continue to err on the side of caution. To that end, we retain an overweight to cash and fixed interest versus shares, compared to our long run neutral allocation, but with a limited interest rate exposure and an increased average credit rating among our bond holdings. Looking forward, near term returns should remain reasonable, but likely lower than the last year.

Actual investment mix

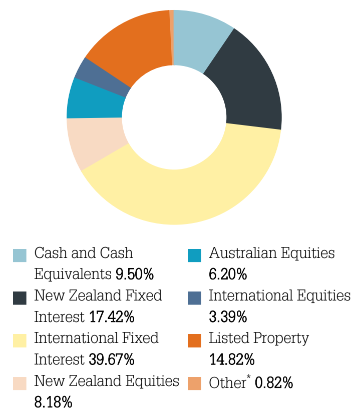


Diversified Income Fund **Portfolio Manager: David Lewis**

The Fund returned 0.5% in December and 11% over the past year. Performance this month was driven by our equity holdings, as the NZ share market in particular had a strong finish to 2017.

At the company level, the largest single contributor was Westfield, the global shopping centre owner. It rose 13.2% for the month, following a takeover offer from French competitor, Unibail. This was a pleasing result as Westfield was a relatively recent addition to the Fund following several site visits that we undertook alongside our Australian research team. There was also strong performance from some of the more cyclical holdings in NZ, including Scales (apple exporter) and Tourism Holdings (camper van operator). These are small positions (less than 0.3% of the Fund), reflecting their higher risk, but with gains of 24.5% and 19.8% respectively this month, provided a boost to portfolio returns.

On the negative side were modest declines (3-4%) for some of the Fund's Australian property shares, including GPT Group and Aventus. In asset allocation this month, the Fund reduced its share exposure (now approximately 33%) and added to cash and investment grade bonds. Looking ahead, we still think return prospects remain reasonable especially compared to low interest rates. However, given higher valuations and our expectation for tighter central bank policy in 2018, our strategy remains slightly cautious.

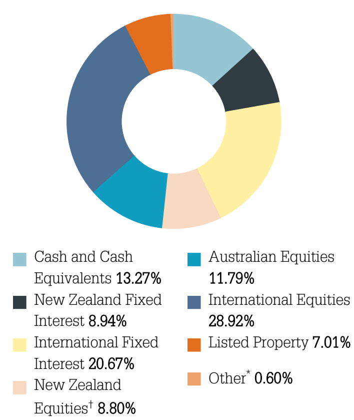


Balanced Fund **Portfolio Manager: Mark Riggall**

The Fund returned 0.6% in December bringing the one year return to 13%. December continued the year-long theme of buoyant markets. In the US, we saw the Trump administration deliver tax reform – a positive catalyst for US stocks. In Australia, we saw some major cross border merger action with a bid for Westfield corporation from French competitor, Unibail. Both of these events generated positive returns for the Fund in the month.

The Dynamic Fund, in particular, continued its run of strong returns, gaining 3.4% during the month. Given the continued strength in the global economy, it was unlikely that the recent trend of lower market interest rates would continue and in December, we saw a modest fall in global bond prices (bond prices move inversely to interest rates). Despite this, Milford's bond funds delivered positive returns in the month. The NZ dollar was strong recently as it tends to be at this time of year and this was a mild headwind to performance.

The 2017 year has been characterised by strong global markets and a distinct lack of volatility. Whilst the outlook for the global economy looks good, this period of calm is unlikely to persist indefinitely. Therefore, we continue to invest with caution - positioning the Fund with a mildly lower allocation to shares and corporate bonds than its neutral position.

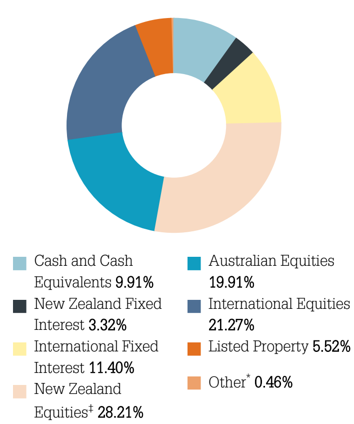


Active Growth Fund **Portfolio Manager: Jonathan Windust**

The Fund rose 1.7% during December to end up 15.6% for the year. It was another good month for share markets which benefited from good economic momentum, good company earnings, low interest rates and tax cuts in the US.

Key company positives were Tourism Holdings (+19.8%), Trilogy (+21.5%) and Fletcher Building (+9.5%). Trilogy rose following a takeover offer, Tourism Holdings as a beneficiary from lower US tax rates, and Fletcher Building in part due to share purchases from the new CEO. During the month, we added to our holdings in Xero, taking advantage of price declines due to selling as it was removed from the NZ share market index. At month end, the Fund had approximately 75% invested in shares, with a higher than average weight in global shares and lower than average weight towards NZ shares.

The outlook for share markets in 2018 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 the NZ housing market. On balance, we believe share markets will generate solid returns although we remain active within the Fund to capture new opportunities and manage any downside risks.



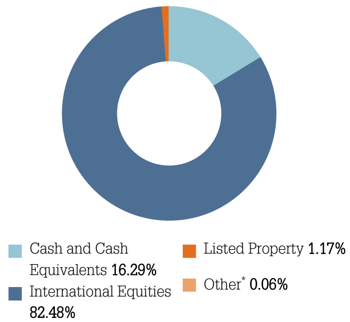
†Includes unlisted equity holdings of 0.23% ‡Includes unlisted equity holdings of 2.26% *Other may include swaps and currency contracts.

Milford Unit Trust PIE Funds Monthly Review as at 31 December 2017

Global Fund **Portfolio Manager: Felix Fok**

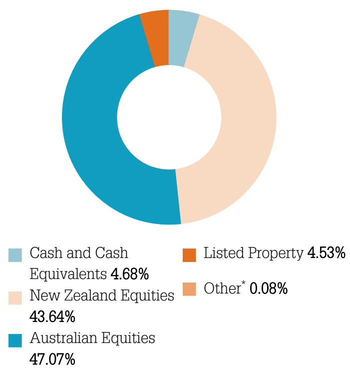
The Fund fell 0.8% in December but was up 17.3% for the 2017 year. The strength of the NZ dollar was a headwind during the month. However, our currency hedging did protect the Fund to some extent.
Direct stocks were slightly disappointing in December. Positive contributors included Whitbread (+12.1%), the owner of UK hotel chain, Premier Inn, and the Costa Coffee chain. Our recent stay at the Premier Inn ("Hub") hotel in London confirmed our view; their hotels offer great value for money and we are excited about the growth potential from their recent entry into the much larger German market. Japanese financial services group, SBI Holdings (+18.1%), was another strong performer. We recently met SBI management in Hong Kong and were impressed with their corporate culture and client centric focus and see potential in their investments in new technologies such as blockchain and cryptocurrencies.
In external managers, GMO, our global macro manager, was up 1.2% in December. Negative contributors included Magellan Infrastructure (-3%) giving back some of their recent strong gains, and healthcare specialist Hawkes Bay (-2.3%). Our Energy ETF (+5.2%) and Indian ETF (+4.5%) were the standouts of our index portfolio. Overall, the backdrop for shares remains supportive, with rising global economic growth, low interest rates and improving corporate earnings.

Actual investment mix



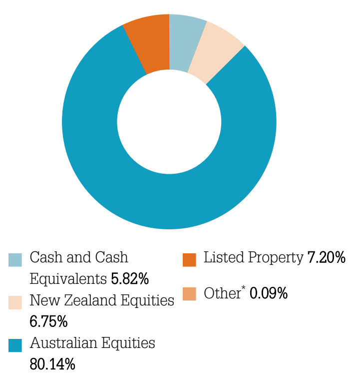
Trans-Tasman Fund **Portfolio Manager: Sam Trethewey & Wayne Gentle**

The Fund finished the year with a strong performance, returning 2.7% in December and 25.8% over 2017. Our local markets remain well supported; the NZX 50 Gross Index continued to grind higher (+2.6%), led by strong returns from large cap stocks, while the ASX 200 Accumulation Index rallied 1.8%, mostly from strength in resources stocks and corporate activity in several large names.
The Fund benefited from good stock selection, however weakness in the Australian dollar was a small headwind. Highlights included Tourism Holdings (+19.8%) and Wagners Holdings (+39.5%). The US subsidiary of Tourism Holdings, El Monte, is a significant beneficiary of the US tax reforms. The change is expected to deliver a material uplift in earnings over 2018. Wagners Holdings listed in early December and performed incredibly well due to exposure to infrastructure construction, mostly in Queensland.
Cash was deployed into Xero after its removal from the NZX 50 index created an attractive buying opportunity, and Orica which had come off significantly, allowing an entry point into the world's largest explosives company. The Fund took profit on Fletcher Building and lowered exposure to large banks as better opportunities arose. Looking ahead, we remain optimistic on the local equity markets and will work hard to identify new opportunities for the Fund.



Dynamic Fund **Portfolio Manager: William Curtayne**

The Fund finished the year strongly with a further 3.4% gain in December, which was the 10th consecutive month of positive returns. The Fund was helped by its position in Westfield which received a takeover offer last month, providing us with a 26% return from our purchase in October.
After a subdued start, 2017 ended up being a very pleasing year for the Dynamic Fund, with a 19% return. Our key contributors for the year were a2 Milk (+278.9%), Hub24 (+84%), MNF Group (+37%) and WiseTech Global (+151.6%). Our key detractors were Site Group International (-70.8%), Aveo Group (-17.4%) and iSelect (-20.6%).
We have a reasonably optimistic view on the Australian market for 2018. The economy is in better shape today than it was this time last year, with improvements seen in employment and business activity, although we have yet to see any improvements in the consumer sector. The Australian share market is a bit more expensive than recent history, but equities remain attractive relative to low interest rates and we are still finding reasonably priced companies to invest in on a regular basis. As such, the Dynamic Fund heads into 2018 fully invested, but we will be carefully watching for any negative developments – namely a large spike in inflation or greater than expected slowing of growth in China – and will manage the portfolio accordingly.



*Other may include swaps and currency contracts.

Upcoming Distributions	Target	Payment Date
Conservative Fund	0.75 cents (Quarterly)	18/01/2018
Diversified Income Fund	1.6 cents (Quarterly)	21/02/2018
Trans-Tasman Fund	1.5 cents (Biannually)	21/03/2018

Milford Unit Trust PIE Funds Monthly Review as at 31 December 2017

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*	0.22%	8.73%	—	—	7.42%	1.1127	167.4 M
Diversified Income Fund*	0.53%	10.98%	10.50%	12.11%	12.22%	1.6702	1777.1 M
Balanced Fund	0.55%	12.98%	9.87%	11.68%	10.51%	2.1006	487.3 M
Active Growth Fund	1.71%	15.57%	11.63%	13.81%	13.17%	3.3444	902.7 M
Global Fund	-0.81%	17.29%	7.91%	—	8.66%	1.4711	393.1 M
Trans-Tasman Fund*	2.68%	25.80%	15.31%	14.44%	11.47%	2.5608	312.2 M
Dynamic Fund	3.36%	18.96%	14.30%	—	14.53%	1.7650	206.5 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. *Performance figures include the reinvestment of the Funds' distribution. Inception dates for the Funds: Active Growth Fund & Trans-Tasman Fund: 1 October 2007, Diversified Income Fund & Balanced Fund: 1 April 2010, Global Fund: 12 April 2013, Dynamic Fund: 1 October 2013, Conservative Fund: 1 September 2015.

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)	2.63%	23.60%	16.12%	17.07%	15.73%
S&P/ASX 200 Accumulation Index (AUD)	1.81%	11.78%	8.63%	10.22%	8.32%
S&P/ASX 200 Accumulation Index (NZD)	1.21%	18.37%	10.41%	7.30%	5.63%
MSCI World Index (local currency)*	1.10%	18.47%	9.64%	13.28%	10.72%
MSCI World Index (NZD)*	-2.20%	20.01%	12.76%	15.00%	11.06%
S&P/NZX 90-Day Bank Bill Rate	0.16%	2.02%	2.65%	2.79%	2.79%

*With net dividends reinvested

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

Conservative	Diversified Income	Balanced	Active Growth	Global	Trans-Tasman	Dynamic
ASB Bank 5.25% 2026 2.09%	ASB Bank 5.25% 2026 2.45%	iShares MSCI EAFE Index Fund 5.39%	Vanguard Intl Select Excl Index Fund 3.90%	Wellington Strategic Euro^ 5.65%	a2 Milk Company 4.65%	Xero 3.12%
Westpac 4.695% 2026 1.84%	Westpac 4.695% 2026 1.90%	Vanguard Intl Select Excl Index Fund 3.89%	iShares MSCI EAFE Min Vol ETF 3.81%	Antipodes Global Fund^ 4.60%	Commonwealth Bank of Australia 4.27%	MNF Group 3.10%
ANZ Bank 5.28% 2049 1.73%	Charter Hall Group 1.89%	Wellington Strategic Euro^ 1.14%	Spark New Zealand 2.19%	GMO Systematic Global Macro^ 4.28%	National Australia Bank 3.98%	Bingo Industries 2.93%
QBE 6.115% 2042 1.51%	Argosy Property Trust 1.55%	ASB Bank 5.25% 2026 1.06%	Contact Energy 1.60%	Hawkes Bay Investors^ 4.19%	BHP Billiton 3.97%	Coporate Travel Management 2.91%
ASB Bank 6.65% 2024 1.50%	Contact Energy 1.54%	Spark New Zealand 0.94%	Tourism Holdings 1.56%	Magellan Infrastructure^ 4.00%	Fisher & Paykel Healthcare 3.81%	Eclipx Group 2.70%
NAB Float 2023 1.36%	Kiwi Property Group 1.50%	Antipodes Global Fund^ 0.93%	Air New Zealand 1.56%	Wellington Wolf Creek Shares^ 3.62%	Westpac Banking Corp 3.51%	3P Learning 2.66%
Precinct Properties 4.42% 2024 1.26%	Meridian Energy 1.44%	Contact Energy 0.88%	CYBG 8% 2049 1.56%	SPDR DJIA ETF Trust 3.10%	Spark New Zealand 3.44%	Bapcor 2.55%
Genesis 5.7% 2022 1.20%	Aventus Retail Property Fund 1.43%	GMO Systematic Global Macro^ 0.86%	iShares MSCI EAFE Index Fund 1.49%	Energy Select SPDR 2.87%	Xero 2.73%	HUB24 2.54%
ANZ Term Deposit 3.08% 06/18 1.12%	JPMorgan 5.15% 2023 1.34%	Hawkes Bay Investors^ 0.85%	Delegat Group 1.41%	SPDR Euro Stoxx 50 ETF 2.62%	Auckland Airport 2.58%	Australian Finance Group 2.51%
IAG 5.15% 2043 1.12%	Spark New Zealand 1.29%	Charter Hall Group 0.84%	Chorus 1.39%	Financial Select SPDR 2.42%	Contact Energy 2.35%	Collins Food 2.33%

^Externally managed fund.

Milford and Milford staff have approximately $32.8 million invested across our Unit Trust PIE Funds as at the end of December 2017.

Level 17, 41 Shortland Street, Auckland
PO Box 960, Shortland Street, Auckland 1140
Free phone **0800 662 345**
milfordasset.com

MILFORD