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Milford Unit Trust PIE Funds Monthly Review
June 2018

Market and Economic Review

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

It was a good month for the funds, particularly in Australia with the Dynamic Fund delivering a 5.3% return and the Australian Absolute Growth Fund 2.4%. The ASX 200 Accumulation Index delivered 1.1%, but the outperformance of small companies and wide dispersion of returns between sectors benefitted the performance of the Funds.

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.

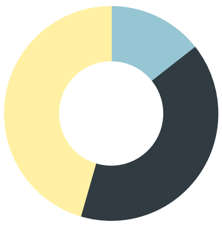
The semi-annual review of the MSCI World Index, a weighted stock market index that includes companies from 23 developed markets, took place during the month and provided some opportunities to add value as a number of companies were removed or added. The inclusion of China A Shares in the index for the 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.

Trans-Tasman Bond Fund

Portfolio Manager: Paul Morris

Actual investment mix[1]



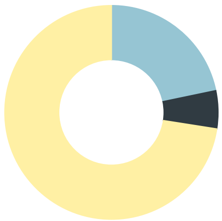
New Zealand and Australian bond yields generally fell in May, contributing to a 0.4% Fund return in the month. That was slightly less than the benchmark due to a small exposure to offshore bonds of Australasian issuers. This exposure is typically (i) weighted towards Australasian banks and insurance companies and (ii) provides a higher NZD-hedged yield relative to domestic peers. Unfortunately, in May, global corporate bonds were negatively impacted by geopolitical events (including Italian politics) so the exposure underperformed.

Global monetary policy support for bonds may be waning and inflation slowly rising, however, higher global economic risks and ongoing low NZD and AUD cash rates mean it was prudent to have the Fund's interest rate exposure closer to its benchmark. That said, we are wary of the risks of rising interest rates and may look to reduce this on a fall in yields.

The Fund remains actively managed to deliver better risk adjusted returns. We further reduced expensive subordinated bond holdings into ongoing retail investor demand and participated in new offers, including from Christchurch International Airport and ANZ Bank. Looking forward, while Australasian corporate bonds look expensive relative to offshore, they are likely to continue to benefit from supportive demand, low gearing and a benign economic backdrop.

Global Bond Fund

Portfolio Manager: Paul Morris



May saw renewed pressure on corporate bonds as they underperformed government bonds. The Fund returned -0.2% but it has returned 2.7% over the past year. Relative to its benchmark the Fund is structured with a higher corporate bond exposure. This led to recent underperformance relative to its benchmark, including 0.5% in May, but the Fund has outperformed its benchmark by 1.4% over 1 year.

Waning monetary policy support and recovering inflation would likely be weighing on government bonds, but in May they were offset by safe haven flows away from geopolitical risks, notably US tariffs and an Italian political crisis. These risks, coupled with elevated issuance of new corporate bonds into weaker demand have weighed on corporate bonds. That was especially true for banks and insurance companies to which the Fund has a high exposure.

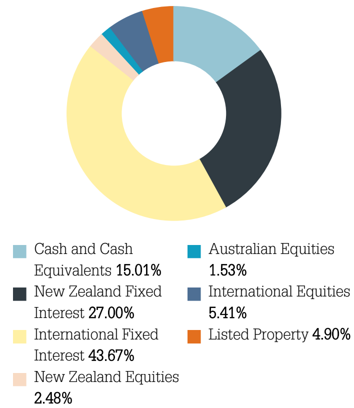
Medium term we still believe actively managed corporate bonds will outperform the benchmark. However, for now market uncertainty remains a headwind for corporate bond returns. We have continued to reduce higher credit risk holdings and hold increased cash. The increased market uncertainty saw 10-year US treasury yields briefly reach the highest since 2011, before closing the month lower. In the face of increased economic uncertainties, we have increased slightly the Fund's interest rate exposure, albeit it remains lower than benchmark.

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

Milford Unit Trust PIE Funds Monthly Review as at 31 May 2018

Conservative Fund
Portfolio Manager: Paul Morris

Actual investment mix[1]

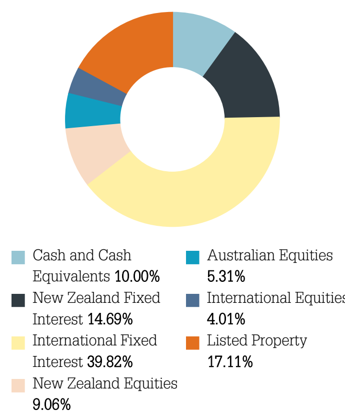


The Fund returned 0.5% in May, contributing to a 1-year return of 5.3%. Its largest exposure is to New Zealand and Australian corporate bonds. These provided a reasonable return contribution as their yields generally fell. Impacted by geopolitical events, most notably the Italian political crisis, the 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.

Diversified Income Fund
Portfolio Manager: David Lewis



The Fund returned 0.9% in May and 6.9% over the past year. In terms of asset classes, NZ and Australian shares were the best performers this month. We saw lower but still positive returns from NZ and Australian bonds, and modest losses in the Fund's international bond holdings. In particular, the Fund's holdings in European bank bonds (5% of the Fund, with a further 7% in UK banks) were weak following political uncertainty in Italy.

At the company level, returns this month were boosted by strong profit results in the NZ property sector including Argosy (+5.9%) and Investore (+4.9%). In addition, Qantas (+10.9%), Contact Energy (+7.1%) and the Fund's largest holding, Charter Hall Group (+8.0%), a diversified property owner and fund manager in Australia, performed well.

At the other end, a2 Milk fell (-10.5%), giving back earlier gains following the announcement of weaker than expected sales. This remains a small holding at 0.5% of the Fund. The Fund increased its exposure to interest rates this month, as we believe that global interest rates are now less likely to increase quickly in the face of slightly higher economic uncertainties and given interest rate rises overseas earlier this year.

The Fund retains a modestly cautious outlook, although we remain confident that the Fund can deliver a return in excess of cash over the recommended three-year investment timeframe.

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Milford Unit Trust PIE Funds Monthly Review as at 31 May 2018

Balanced Fund

Portfolio Manager: Mark Riggall

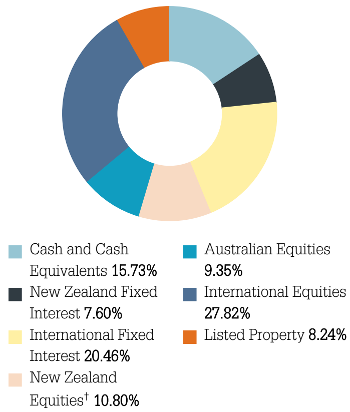
The Fund returned 1.4% in May bringing the 1-year return to 9.3%. Recent returns have been driven largely by the growth (share) portfolio with notable contribution from Australian small cap stocks this month. The ongoing Australian Royal Commission into the financial services industry has seen the large 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.

Actual investment mix[1]



Active Growth Fund

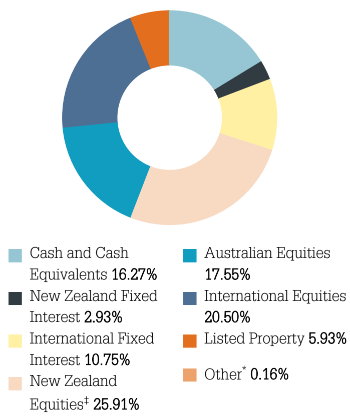
Portfolio Manager: Jonathan Windust

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.

Please note this Fund is closed to new investors.



†Includes unlisted equity holdings of 0.25% ‡Includes unlisted equity holdings of 2.37% *Other may include interest rate derivatives and currency contracts.

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Australian Absolute Growth Fund

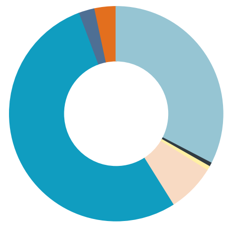
Portfolio Manager: William Curtayne & Wayne Gentle

May was a strong month for the Fund with a return of 2.4% compared to 1.1% by the ASX 200 Accumulation Index.

While the Royal Commission into the banking industry continued to negatively impact the banks, it is having a positive impact on two of our investments. Independent investment platform providers HUB24 and Netwealth will likely win new business as financial advisors leave the banks and AMP to join independent advice firms – many of whom are clients of HUB24 and Netwealth. Both companies rallied 24.3% and 25.7% respectively last month as the market anticipated this positive trend. Aristocrat Leisure continued its great performance this year. Its shares rallied 13.0% last month on the back of a 33% increase in its half-year profit and strong outlook for the full year.

a2 Milk released revenue guidance for its June 2018 result that fell slightly short of market expectations. a2 is changing the label on its infant formula tins which is expected to cause some sales disruption for the next couple of months. We commented last month that any disappointment would create a significant share price reaction. And this is what has occurred, with a2 Milk shares (ASX) declining (-12.2%) last month. It is likely that we will see further volatility in the a2 share price until they deliver their full year result in August. Our long-term view on the business is unchanged so we have maintained our investment position.

Actual investment mix[1]



Global Equity Fund

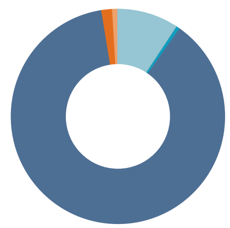
Portfolio Manager: Felix Fok

The Fund posted a solid gain in May up 1.4% and has now returned 10.5% over the past year. In what was a mixed month for global share markets, our direct stocks performed strongly in May.

Positive contributors included Mastercard (+6.7%), that continued to benefit from global consumer spending growth and the shift from cash to electronic payments. Martin Marietta (+14.7%), one of America's largest aggregate producers also performed strongly boosted by management comments that construction demand continues to strengthen. Another standout was IT solutions provider CDW (+12.6%), a key beneficiary of the recently announced tax reform in the US. Two of our plays on pet spending literally "hit the woof" in May with pet diagnostics company Heska (+31.0%) and pet insurer Trupanion (+20.9%).

The biggest detractor to performance was Chinese internet company 58.com (-7.1%) giving back some of its recent strong gains. Amongst our managers, health care specialist Hawkes Bay performed well (+2.6%), and financials specialist Wolf Creek gained (+1.4%). However, Emerging Market specialist MTX had a difficult month (-2.9%).

Overall, the backdrop for shares remains supportive, with steady global economic growth, moderate interest rates, and solid corporate earnings. However, concerns over inflation and protectionism are likely to lead to a bumpier road ahead.



*Other may include interest rate derivatives and currency contracts.
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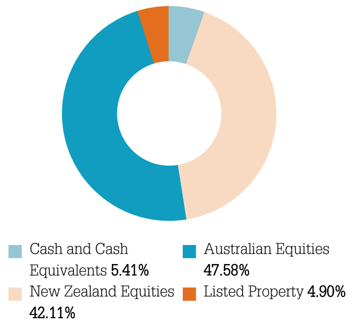
Trans-Tasman Equity Fund

Portfolio Manager: Sam Trethewey & Wayne Gentle

Actual investment mix[1]



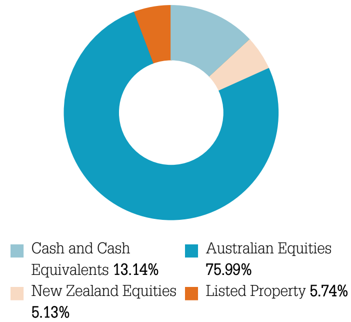
The Fund had another strong month in May, returning 2.3% and has returned 19.6% over the past twelve months. The NZX 50 Gross Index rallied 2.5% on heavy passive fund buying, while the ASX 200 Accumulation Index rose 1.1.%. In Australia, the Royal Commission continues to weigh on the Australian banks, however the remainder of the market was well supported.

Key highlights for the Fund included: Mainfreight (+7.3%) following a strong result that demonstrated market share gains in Australia; Serko (+20.2%) after the company announced its intention to list on the ASX in June and; IDP Education (+26.0%) which was well supported by index buying. The key detractor was a2 Milk (-10.5%). The company released a trading update and guidance for FY18 that fell short of market expectations. The cause of the decline (a packaging change) has no implications for our long-term view and the decline was a result of the company's own success (market expectations had become very high). We continue to monitor the performance of a2 closely via channel checks.

The Fund increased its holding in Boral on weakness associated with weather events. Profit was taken on Meridian Energy, Z Energy and Challenger. A new position in Bellamy’s was added. Looking ahead, we expect the local markets to continue to be well supported and will focus on stock selection.

Dynamic Fund

Portfolio Manager: William Curtayne & Michael Higgins



May was exceptional for the Fund returning 5.3%, bringing the Fund to a 24.2% return over the past year. We were pleased to outperform the ASX Small Industrials Index benchmark by 1.4% given our relative higher cash weighting. We tactically took some profits in February and March by trimming some winners post reporting season.

Outperformance was led by key picks including independent investment platforms HUB24 (+24.3%) and Netwealth (+25.7%) which continue to gain traction from financial advisers exiting the big banks and AMP. Other strong performers include Emeco (+26.5%) which provides exposure to a resurgent resources sector and its appetite for in-demand yellow equipment; and student placement and English test provider IDP Education (+26.0%). IDP has returned 123% over the past 12-months and while we have taken profits along the way, we like its exposure to maturing emerging markets.

Detractors include Clearview Wealth (-14.1%) which fell on market disappointment around M&A; and a2 Milk (-10.5%) which released revenue guidance that fell short of market expectations. It is likely that we will see further volatility in the a2 share price until full year results in August. Our long-term positive view remains unchanged. Attendance at several conferences in May were fruitful, with June providing an excellent time to reassess existing companies and develop new investment cases.

Upcoming Distributions	Target	Payment Date
Trans-Tasman Bond Fund	0.75 cents (Quarterly)	20/06/2018
Global Bond Fund	0.75 cents (Quarterly)	20/06/2018
Conservative Fund	0.75 cents (Quarterly)	19/07/2018
Diversified Income Fund	1.6 cents (Quarterly)	21/08/2018
Trans-Tasman Equity Fund	1.5 cents (Biannually)	20/09/2018

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

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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 $
Trans-Tasman Bond Fund*^	0.44%	4.00%	4.43%	—	5.64%	1.1177	360.6 M
Global Bond Fund*^	-0.21%	2.68%	—	—	4.64%	1.0243	299.3 M
Conservative Fund*	0.49%	5.31%	—	—	6.73%	1.1106	188.3 M
Diversified Income Fund*	0.88%	6.88%	9.23%	10.81%	11.81%	1.6654	1814.6 M
Balanced Fund	1.37%	9.31%	7.94%	10.29%	10.32%	2.1564	541.1 M
Active Growth Fund	2.00%	15.48%	10.69%	12.51%	13.10%	3.4917	941.0 M
Australian Absolute Growth Fund	2.42%	—	—	—	—	1.0241	46.5 M
Global Equity Fund	1.43%	10.46%	5.68%	8.36%	8.55%	1.5143	423.6 M
Trans-Tasman Equity Fund*	2.30%	19.56%	13.28%	12.72%	11.30%	2.6146	345.8 M
Dynamic Fund	5.29%	24.18%	10.83%	—	14.33%	1.8515	220.0 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.
*Performance figures include the reinvestment of the Funds' distribution.
Inception dates for the Funds: Active Growth Fund: 1 October 2007, Trans-Tasman Equity Fund: 1 October 2007, Balanced Fund: 1 April 2010, Diversified Income Fund: 1 April 2010, Global Equity Fund: 12 April 2013, Dynamic Fund: 1 October 2013, Trans-Tasman Bond Fund: 3 December 2013, Conservative Fund: 1 September 2015, Global Bond Fund: 1 February 2017, Australian Absolute Growth Fund: 1 March 2018.
^Returns prior to 1 March 2018 are from when the Fund was previously offered to wholesale investors only and have been adjusted for current Fund charges.

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)

Trans-Tasman Bond Fund	Global Bond Fund	Conservative Fund	Diversified Income Fund	Balanced Fund
ANZ Term Deposit 3.08% 06/18 2.53%	Citigroup 5.95% 2049 1.71%	Investore Property 4.40% 2024 1.95%	ASB Bank 5.25% 2026 2.15%	Vanguard Intl Select Excl Index Fund 3.41%
ASB Bank 6.65% 2024 2.09%	Microsoft 2.875% 2024 1.66%	Westpac 4.695% 2026 1.79%	Aventus Retail Property Fund 2.07%	iShares MSCI EAFE Index Fund 2.99%
Westpac 3.795% 2021 1.99%	HSBC Float 2024 1.61%	ASB Bank 6.65% 2024 1.54%	Charter Hall Group 2.02%	Spark New Zealand 1.36%
United Energy 3.85% 2024 1.98%	Sprint Spectrum 4.738% 2025 1.51%	QBE 6.75% 2044 1.32%	Contact Energy 1.99%	Contact Energy 1.34%
Downer Group 5.75% 2018 1.93%	Bank of America 6.10% 2025 1.44%	Precinct Properties 4.42% 2024 1.25%	Westpac 4.695% 2026 1.85%	a2 Milk Company 1.16%
Investore Property 4.40% 2024 1.89%	Westpac 4.695% 2026 1.42%	ANZ Term Deposit 3.08% 06/18 1.24%	Spark New Zealand 1.80%	Wellington Strategic Euro^ 1.01%
BNZ 3.375% 2021 1.85%	JPMorgan 5.15% 2023 1.42%	BNZ 3.375% 2021 1.20%	Argosy Property Trust 1.74%	Energy Select SPDR 0.96%
NZLGFA 6% 2021 1.84%	Macquarie Group 3.25% 2022 1.39%	United Energy 3.85% 2024 1.09%	Mirvac Group 1.66%	Aventus Retail Property Fund 0.95%
Suncorp-Metway 3.75% 2019 1.82%	Aviva 3.875% 2044 1.38%	Sydney Airport 3.76% 2020 1.06%	Kiwi Property Group 1.55%	ASB Bank 5.25% 2026 0.91%
Sydney Airport 3.76% 2020 1.74%	Swiss Re 5.75% 2050 1.36%	BOQ Float 2028 1.03%	Meridian Energy 1.42%	SPDR S&P Regional Banking ETF 0.91%

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

Active Growth Fund	Australian Absolute Growth Fund	Global Equity Fund	Trans-Tasman Equity Fund	Dynamic Fund
iShares MSCI EAFE Min Vol ETF 3.64%	Amcor 3.99%	Wellington Strategic Euro^ 5.15%	a2 Milk Company 6.28%	Coporate Travel Mgmt 3.97%
Spark New Zealand 2.48%	Orora 3.91%	Energy Select SPDR 4.40%	BHP Billiton 4.24%	Seven Group Holdings 3.16%
Contact Energy 2.46%	Credit Corp Group 3.33%	Antipodes Global Fund^ 4.33%	Commonwealth Bank of Australia 3.76%	Smartgroup Corp 3.10%
a2 Milk Company 2.42%	Smartgroup Corp 3.18%	Wellington Wolf Creek Shares^ 4.29%	Spark New Zealand 3.21%	Credit Corp Group 3.02%
Vanguard Intl Select Excl Index Fund 1.71%	Origin Energy 3.00%	Hawkes Bay Investors^ 4.23%	Fisher & Paykel Healthcare 3.20%	Collins Foods 2.62%
CYBG 8% 2049 1.45%	Boral 2.90%	Magellan Infrastructure^ 4.12%	National Australia Bank 2.92%	Pinnacle Investment Mgmt 2.61%
Delegat Group 1.43%	Sydney Airport 2.46%	GMO Systematic Global Macro^ 4.10%	Westpac Banking Corp 2.88%	Bellamy's Australia 2.60%
Z Energy 1.33%	Transurban Group 2.45%	Vontobel Sust. EM Leaders^ 3.17%	Contact Energy 2.79%	Amcor 2.60%
BHP Billiton 1.17%	Collins Food 2.26%	SPDR Euro Stoxx 50 ETF 2.87%	Summerset Group Holdings 2.67%	HUB24 2.38%
Woodside Petroleum 1.15%	Mirvac Group 2.13%	Vanguard Info Tech ETF 2.77%	Auckland Airport 2.53%	Boral 2.35%

^Externally managed fund.

Milford and Milford staff have approximately $32.0 million invested across our Unit Trust PIE Funds as at the end of May 2018.

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