Milford KiwiSaver Plan Monthly Review
July 2018

Market and Economic Review

June was another positive month for your KiwiSaver funds with the Active Growth Fund appreciating 1.6%, Balanced Fund 1.0% and Conservative Fund 0.5%. Bond markets faced headwinds in a rising interest rate environment while equity funds benefited from the relatively strong performances of the New Zealand and Australian share markets.

The big question is whether these favourable share market conditions will continue. The outlook for global economic growth remains solid, although there are signs that growth has become more mixed on a region by region basis. The US economy continues to perform well, mainly because of tax cuts, deregulation and business investment. Meanwhile, growth seems to have peaked in other regions, notably Europe, Japan and New Zealand but economic activity in these areas has eased, rather than fallen dramatically. The Reserve Bank of NZ reported domestic GDP growth of 2.6% for the March 2018 year compared with 3.1% for the same period in Australia (reported by the Reserve Bank of Australia). We expect New Zealand's growth to moderate further but to remain above 2.0% for the March 2019 year, while the economic outlook across the Tasman has improved over the past few months.

We remain marginally positive on share markets but expect further volatility. Milford continues to prefer US markets because of the country's strong economic growth but acknowledge that company valuations are high, particularly for technology companies. We have become slightly more positive on European stocks, mainly on a valuation basis, while there continues to be more attractive opportunities in Australia than New Zealand.

Milford expect interest rates to continue to drift higher, mainly in the United States because of its accelerating growth and increasing inflationary pressures. Meanwhile, official interest rates are expected to remain on hold in New Zealand and Australia until mid-2019. The NZD is expected to remain softer over the medium-term, particularly against the USD, as interest rates in the world's largest economy are expected to rise more rapidly than in other countries. It is important to remember that Milford is an active investment manager, with our 23-person investment team monitoring economic and market conditions on a day-by-day basis. Our aim is to respond quickly to any deterioration in economic and market conditions.

Milford KiwiSaver Plan Monthly Review as at 30 June 2018

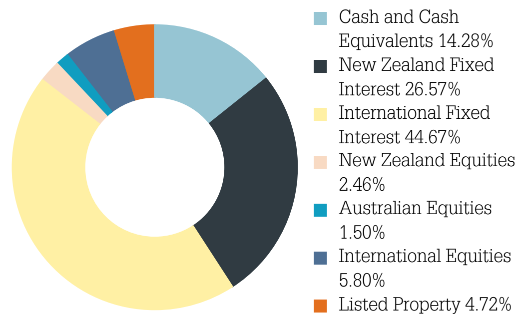
Conservative Fund

Portfolio Manager: Paul Morris

The Fund returned 0.5% in June and has returned 5.8% over the past year. Fixed interest posted a moderate return in the month, albeit primarily from its Australasian corporate bonds as global corporate bond returns were close to zero. Globally, 2018 has been challenging for fixed interest but Australasian bonds have benefited from expectations that cash rates will remain on hold deep into 2019. This has also supported the Fund's Australasian shares, given a focus on income shares. In June, these shares contributed strongly to Fund returns, although they underperformed growth shares. Irrespective of some notable headwinds, including an escalation of tariff wars, the Fund's global shares enjoyed a reasonable month. It also benefited from a small foreign currency exposure as the NZD was weaker.

Looking forward, we remain cautiously positive for moderate returns. Nevertheless, considering the Fund's conservative profile, arguably elevated valuations and near-term known risks (including the tariff war and less certainty on global growth outlook) we remain underweight in shares compared to the long-run neutral. This is against an overweight in cash and fixed interest. Within fixed interest we are limiting interest rate exposure, cognisant of the ongoing risks to returns from rising global interest rates, even though Australasian cash rates may remain on hold well into 2019.

Actual investment mix[1]

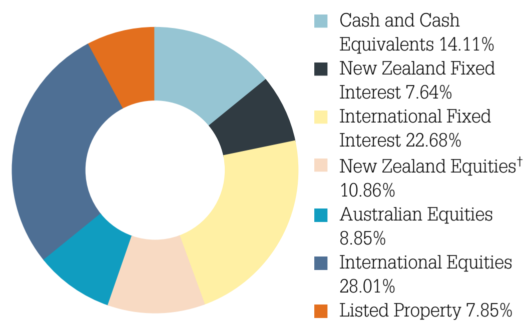


Balanced Fund

Portfolio Manager: Mark Riggall

The Fund returned 1.0% in June bringing the 1-year return to 10.9%. The key theme during the month was the escalation in the US centred trade war that has been building for months. Unlike previous episodes of rising market risks, this has been different as we are seeing markedly different reactions by various asset classes. The NZD (and AUD) has weakened due to our economy's significant reliance on trade. This benefited the unhedged portion of global shares in the Fund. In addition, local NZ and Australian shares performed well as global investors valued their more defensive attributes compared to other Asian share markets. Government bonds were largely unchanged but company bonds underperformed due to an increase in supply.

Going forward, the risk of further escalation in the trade spat is increasing and accordingly the Fund is cautiously positioned. Global shares continue to look more attractive than local shares, due to improving US growth and fading NZ/Australian growth, coupled with high valuation levels for NZ/Australian shares. Corporate bonds now look more attractive after a period of underperformance. The Fund has a largely neutral currency position, having trimmed exposure following the recent falls in the NZD. Medium term, whilst our expectations are for increased volatility, we retain a positive outlook with shares likely to outperform bonds and cash.

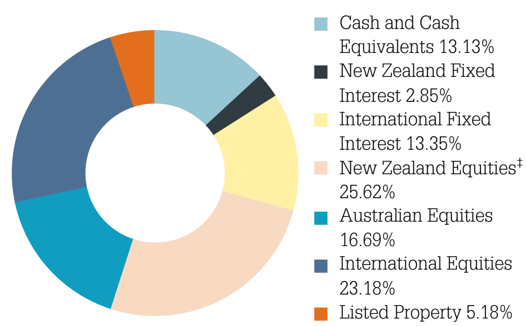


Active Growth Fund

Portfolio Manager: Jonathan Windust

The Fund rose 1.6% during the month benefiting from strong returns in the NZX 50 Gross Index and ASX 200 Accumulation Index, both up 3.3%. These markets benefited from good investor demand, despite uncertainty and risk aversion in global markets caused by politics and trade wars. Global shares were relatively flat, up 0.3%, but rose strongly in NZD terms due to the fall in the value of the NZ currency. The NZD fell due to the strength in the US economy, where further rate rises are likely. Key company performers during the month were Kathmandu (+21.8%) and oil companies Sundance Energy (+10.1%) and Woodside Petroleum (+9.4%). Kathmandu rose following a strong trading update where it increased its full year earnings guidance, which points to growth of over 30%.

During the month, we took advantage of market strength to reduce exposure to Australian shares which reached our price targets, including Scentre Group and Corporate Travel Management. The outlook for shares remains generally positive, supported by robust economic conditions and company earnings, with the key headwinds being rising valuations (particularly in New Zealand) and political/trade uncertainty. Reflecting this uncertainty, and rising valuations we have a lower weight in shares and property (approximately 70%) than average. We continue to remain active to isolate companies that are attractively valued relative to their risks.



[†]Includes unlisted equity holdings of 0.26% [‡]Includes unlisted equity holdings of 2.26%

[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 $
Conservative Fund	0.54%	5.79%	6.38%	9.00%	9.74%	1.6823	52.7 M
Balanced Fund	1.01%	10.85%	9.28%	11.14%	10.60%	2.2186	213.6 M
Active Growth Fund^	1.57%	16.46%	12.45%	13.32%	13.26%	3.5772	974.0 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. Total Fund charges do not include the $36 p.a. Administration and Registry fee.
Please note past performance is not a guarantee of future returns.
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)	3.37%	18.87%	17.42%	16.48%	16.08%
S&P/ASX 200 Accumulation Index (AUD)	3.27%	13.01%	9.04%	9.98%	9.12%
S&P/ASX 200 Accumulation Index (NZD)	4.48%	17.66%	7.57%	8.18%	6.47%
MSCI World Index (local currency)*	0.33%	10.86%	8.64%	11.09%	10.47%
MSCI World Index (NZD)*	3.58%	20.14%	8.44%	12.87%	11.98%
S&P/NZX 90-Day Bank Bill Rate	0.16%	1.96%	2.35%	2.72%	2.72%

*With net dividends reinvested

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

Conservative Fund	Balanced Fund	Active Growth Fund
Westpac Float 2028 2.24%	iShares MSCI EAFE Index Fund 2.92%	iShares MSCI EAFE Min Vol ETF 3.52%
Investore Property 4.40% 2024 1.89%	Vanguard Intl Select Excl Index Fund 1.97%	Contact Energy 2.49%
ASB Bank 6.65% 2024 1.45%	Contact Energy 1.37%	a2 Milk Company 2.33%
QBE 6.75% 2044 1.29%	Spark New Zealand 1.32%	Spark New Zealand 2.21%
BNZ 3.375% 2021 1.18%	a2 Milk Company 1.19%	Vanguard Intl Select Excl Index Fund 1.70%
Vector 4.996% 2024 1.12%	Wellington Strategic Euro^ 1.03%	CYBG 8% 2049 1.37%
NZLGFA 2.75% 2025 1.11%	Energy Select SPDR 1.01%	Delegat Group 1.37%
United Energy 3.85% 2024 1.05%	Aventus Retail Property 0.95%	Z Energy 1.23%
Auckland Council 3.17% 2023 1.03%	Regional Banking ETF SPDR 0.92%	Westpac Float 2028 1.15%
Sydney Airport 3.76% 2020 1.03%	ASB Bank 5.25% 2026 0.89%	JPMorgan 5.15% 2023 1.14%

^Externally managed fund.

Milford staff have approximately $8.8 million invested in the Milford KiwiSaver Plan as at the end of June 2018.

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New Zealand versus Australia

Our KiwiSaver portfolio managers face several important decisions, two of which are the performances of the New Zealand economy and the NZX compared with the Australian economy and the ASX. The following table shows how these economies and share markets have performed since 2009.

New Zealand & Australia: Share market and GDP performances

	Gross share market returns			Real GDP growth		
	New Zealand NZX 50 Gross	Australia ASX 200 Accumulation	Best	New Zealand	Australia	Best
2018	17.5%	13.0%	**NZ**	2.6%	3.1%	**Australia**
2017	10.4%	14.1%	**Australia**	3.0%	1.8%	**NZ**
2016	20.4%	0.6%	**NZ**	4.0%	2.7%	**NZ**
2015	11.4%	5.7%	**NZ**	3.7%	2.5%	**NZ**
2014	15.8%	17.4%	**Australia**	3.2%	2.8%	**NZ**
2013	30.6%	22.8%	**NZ**	1.8%	2.3%	**Australia**
2012	(1.4%)	(6.7%)	**NZ**	3.1%	4.6%	**Australia**
2011	16.0%	11.7%	**NZ**	1.3%	2.0%	**Australia**
2010	6.3%	13.1%	**Australia**	1.7%	2.0%	**Australia**
Total	**219.8%**	**132.9%**	**NZ**	**27.2%**	**26.5%**	**NZ**

Share market returns are for the years ending 30 June while GDP figures are for years ending 31 March.
Source: Share market returns – Bloomberg. Real GDP – rbnz.govt.nz and rba.gov.au

GDP performances have been remarkably similar with the New Zealand economy expanding by 27.2% over the nine year period compared with Australia's 26.5% while the Australian economy performed better in five of the nine years and NZ in the other four.

However, the gross performance of the NZX has been far superior for a number of reasons. These include the poor performance of Australia's mining companies, with the ASX's gross resources index declining 0.5% in the nine year period, and the strong performance of the NZX's high dividend yielding stocks. The momentum seems to be swinging in favour of the Australian economy as mining prices and activity has picked up over the past twelve months. This is confirmed by NZ net permanent migration figures which show a net loss 1,614 across the Tasman in the first five months of 2018 compared with a net loss of 958 in the same period in 2017 and a net loss of only 185 in the January to May 2016 period.

New Zealanders move to Australia when job opportunities improve across the Tasman and recent net migration figures show that this trend is accelerating. We will be watching the net migration figures closely as it is an important indicator of the performances of the Australasian economies and equity markets.

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