Milford Unit Trust PIE Funds Monthly Review
March 2018

Market and Economic Review

February was a volatile month with the NZX 50 Gross Index down 0.8%, the ASX 200 Accumulation Index off 1.0% and the MSCI World Net Total Return Index declining 1.8%. The last two index numbers are in New Zealand dollar terms.

The pullback was due to the sharp increase in US Government 10-year bond rates, a proxy for US interest rates. The US 10-year rate increased from an inter-day low 2.61% on 25 January to an inter-day high of 2.94% on 15 February. Its February close was 2.86%. Higher US interest rates have been in response to the upturn in domestic economic activity and market expectation that the Federal Reserve will raise its target rate by 75 basis points this year, from 1.50% at present, to 2.25%.

Milford's Funds performed reasonably well during the volatile month with the Dynamic Fund being the best performer, while the Global Equity Fund was down 2.0%. The Dynamic Fund reported a return of 23.6% for the year ended February while the Global Equity Fund appreciated 13.6%.

The other highlights during the month were the New Zealand and Australian earnings announcements. The a2 Milk Company produced the best New Zealand result by a wide margin as it benefited from the strong growth of its infant formula product and expanding profit margins. Summerset and Delegat also announced pleasing results and had positive outlook statements. Fletcher Building and Sky TV had disappointing results with the latter facing fierce competition from several sources, including Netflix.

Results across the Tasman were in line with forecast with a2 Milk's share price appreciating 47.5% on the ASX in response to the company's strong earnings performance. Corporate Travel Management, which represents around 4% of the Dynamic Fund, also had a strong result and its share price appreciated 25.7%.

Markets have entered a stage of uncertainty because of rising interest rates and threats of further import duties being imposed by President Trump. Our Portfolio Managers continue to monitor these developments carefully with the aim of taking defensive action if the situation deteriorates

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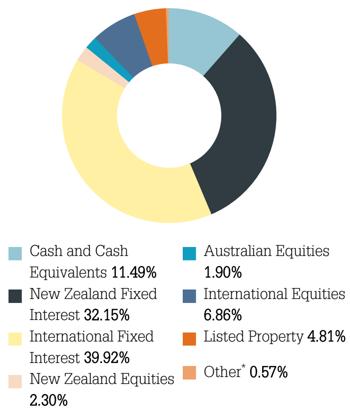
Conservative Fund Portfolio Manager: Paul Morris

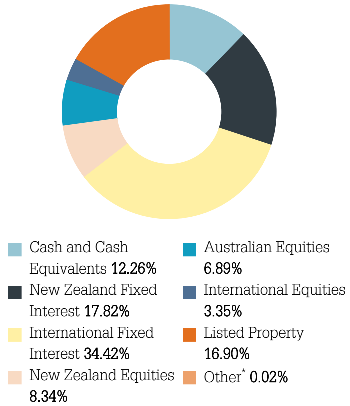
The Fund lost 0.4% in February but returned 7.3% over 12 months. During February a combination of factors, including inflation fears and rising US government bond yields, saw an extended period of low market volatility broken.
The Fund had been defensively positioned, cognizant of elevated valuations and its conservative risk profile. Relative to its long term neutral, it held a higher allocation to cash and fixed income (primarily through Australasian corporate bonds but with interest rate exposure limited) and a lower share exposure. Unfortunately, in February weakness in its share and global bond holdings outweighed a small positive contribution from cash and Australasian corporate bonds.
Given likely ongoing near-term market uncertainty we will retain this more cautious approach, but believe there is room for near-term market consolidation at current levels. We will continue to limit the Fund's interest exposure as waning monetary policy support means the threat remains for further rises in global bond yields. That said with New Zealand and Australian cash rates likely unchanged through 2018, we will contemplate an increased allocation to Australasian income shares on any further weakness, given increasingly attractive risk adjusted yields. Through active management we believe near-term returns should remain reasonable, albeit lower than the past year.

Actual investment mix



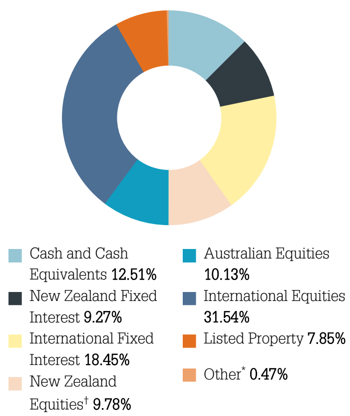
Diversified Income Fund Portfolio Manager: David Lewis

February was a difficult month (-0.6%), taking the 1-year return to 8.2%. The month brought weakness in global fixed income markets, global corporate bonds fell 1.0% (NZD hedged), as well as many higher dividend paying shares. For example, property companies in NZ fell by 3.2%, and by 7.7% in the US. These moves were driven by investor concerns regarding higher interest rates and less supportive monetary policy.
With this in mind, the Fund has been running a more cautious strategy in recent quarters, reducing exposure to high-yield bonds and certain yield-driven shares. Despite this, the Fund will not be immune to potential sharp downward moves in key asset classes in which we invest, such as utilities and property companies.
At the company level, a2 Milk (+43.8%) and Qantas (+11.8%) were key positives, albeit these are smaller positions. Key negatives were in the NZ telecom sector (Spark -6.6%, Chorus -9.3%) and utilities (Contact Energy -5.6%, Mercury -8.1%). Looking ahead, we see two key positives.
Firstly, improved valuations support the medium-term return outlook. Secondly, higher levels of volatility increase opportunities for the Fund's active investment strategy. However, we believe US interest rates will increase further over 2018. This is likely to provide a headwind to returns in the shorter term. Partly due to this, the Fund retains a modestly cautious outlook.



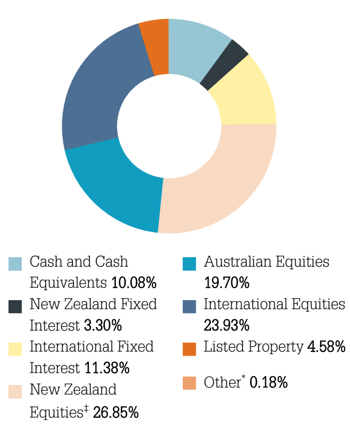
Balanced Fund Portfolio Manager: Mark Riggall

The Fund returned -0.5% in February, bringing the 1-year return to 11.2%. February saw significant volatility in global sharemarkets, partially driven by investors digesting the prospect of rising inflation and interest rates. Despite this volatility, the fund returns were only modestly negative, owing to a number of active strategies.
In times of market stress, balanced funds tend to mitigate share market losses with profits on their bond portfolios. In February though, markets saw losses from both shares and bonds. The impact of falling bonds was cushioned by a reduction in interest rate exposure in the bond portfolios. In shares, the Fund had purchased put options in January (effectively insurance) and these protected the Fund from market losses, allowing investments to be made at lower price levels.
February also saw companies reporting earnings in NZ and Australia and good stock-picking delivered strong performances, notably in NZ where significant holdings in a2 Milk benefited from the companies 43.8% appreciation. Looking forward we expect that market volatility will continue to be elevated and we will look for opportunities to be active at a market and stock level. Interest rates are likely to trend higher which will be a headwind. Nonetheless, the economic backdrop remains favourable and we are cautiously optimistic on the outlook for risk assets.



Active Growth Fund Portfolio Manager: Jonathan Windust

The Fund fell 0.1% in February and was negatively impacted by global and NZ share markets falling 3.5% and 0.8% respectively. Global shares reversed some of their recent strong gains in response to concerns over rising US interest rates and full market valuations.
The star company was a2 Milk (+43.8%) due to a strong earnings result and news that it had partnered with Fonterra to grow its sales in Southeast Asia. In Australia, Corporate Travel Management (+25.7%) rose after it beat the markets earnings estimates and presented a strong outlook. During the month, we took advantage of market falls to increase our investment in US shares, having reduced the previous month. The S&P 500 fell over 10% from its peak but recovered to be down 3.7% for the month; it is up 1.8% year to date.
We believe the correction in share markets were largely due to technical and not fundamental factors and believe the outlook for shares remains positive supported by good economic growth, company earnings and low interest rates. The key risk for share markets is that interest rates rise faster than expected which may cause continued short-term volatility in returns. The Fund remains active to take advantage of this market volatility and purchase companies we believe will deliver good returns over the medium-term.



†Includes unlisted equity holdings of 0.24% ‡Includes unlisted equity holdings of 2.28% *Other may include interest rate derivatives and currency contracts.

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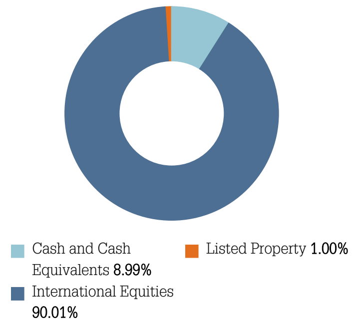
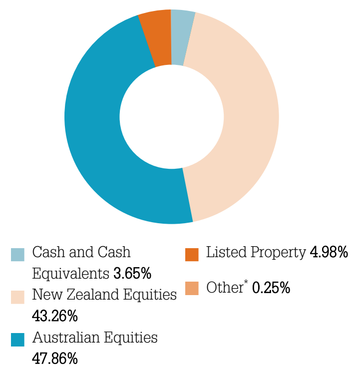
Global Equity Fund Portfolio Manager: Felix Fok

Actual investment mix



The Fund fell 2.0% in February. After a strong January, volatility returned in February, with the trigger being stronger wage data indicating inflation was accelerating in the US.
Direct stocks slightly underperformed in February after strong performance over the past year. The top contributor was CME (+8.3%), the dominant derivative exchange in the US for trading futures and options. CME is somewhat unique in that it benefits from market volatility, as this leads to an increase in trading volumes boosting revenue as it "clips the ticket" on every transaction. Mastercard (+4.0%) was also a strong contributor, as markets reacted positively to strong earnings, beating analyst estimates. Negative contributors included UK consumer company Reckitt Benckiser (-15.1%) the manufacturer of well known "power" brands such as Vanish, Dettol, Nurofen & Strepsils. While 2017 was a tough year for the company, restructuring efforts should bear fruit in 2018 and reward shareholders for their patience.
In external managers, GMO (+0.4%), our global macro manager provided good defence in a choppy month. Negative contributors included Magellan Infrastructure Fund (-1.9%) as investors sold dividend yield companies. Overall, the backdrop for shares remains supportive, with rising global economic growth, moderate interest rates and improving corporate earnings. However, concerns over inflation are likely to lead to a bumpier road ahead.

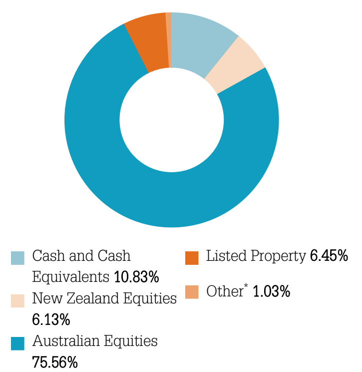
Trans-Tasman Equity Fund Portfolio Manager: Sam Trethewey & Wayne Gentle



The Fund returned 0.5% in February and has now returned 22.0% over the past year. This was a very good month for the Fund compared to the local equity markets. The NZX 50 Gross Index fell 0.8% due to a material move higher in offshore interest rates impacting high dividend paying companies; while the ASX 200 Accumulation Index rose 0.4% following a better than expected reporting season. Weakness in the AUD was a small headwind.
The Fund's strong performance was driven by stock selection. Key contributors included a2 Milk (+43.8%) and Lend Lease (+14.8%). We also avoided (or hold very little of) large detractors such as Fletcher Building (-16.7%) and Sky TV (-13.1%). a2 Milk reported a stunning financial result and announced a deal with Fonterra for the supply of its products into Southeast Asia. Lend Lease reported a strong result in their development division plus announced a buyback. Cash was deployed into a2 Milk during market volatility and into English language testing provider IDP Education. Air New Zealand and Spark Infrastructure were both trimmed into strength.

Looking ahead, we will continue to focus on stock selection and identifying new opportunities for the Fund. Periods of interest rate driven weakness may continue to impact high dividend paying companies, a number pay dividends in March and we will be watching how they trade closely.

Dynamic Fund Portfolio Manager: William Curtayne



Despite the wild ride over the last month for Australian shares, we were pleased to record our 12th consecutive month of positive returns. The Fund returned 1.1% in February, outperforming the broader Small Cap Industrial benchmark which declined -0.1%.
Reporting season was the best in recent memory and offered a great opportunity to reassess the investment thesis' in our core holdings and peruse the inevitable fallen angels. A challenge for us to manage is that a number of our investments with excellent multiyear growth outlooks tend to have the highest risk. We therefore took the opportunity to trim the number of investments in the portfolio post positive news and subsequently raise some cash and reduce risk. We look forward to redeploying cash over the coming months following our regular management catch ups.
Winners for the month include the a2 Milk Company (+43.8%), Corporate Travel Management (+25.7%) and IDP Education (+19.9%). Detractors include WiseTech Global (-31.3%), EML Payments (-27.3%) and SmartPay (-20.0%). In October, we wrote about our decision to reduce our WiseTech holding in the portfolio following extraordinary performance and the heightened risk from very optimistic expectations. We will review this business following its recent share price decline to see if it has fallen enough to create another buying opportunity.

*Other may include interest rate derivatives and currency contracts.

Upcoming Distributions	Target	Payment Date
Conservative Fund	0.75 cents (Quarterly)	20/04/2018
Diversified Income Fund	1.6 cents (Quarterly)	23/05/2018
Trans-Tasman Equity Fund	1.5 cents (Biannually)	21/03/2018

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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*	-0.42%	7.30%	—	—	7.03%	1.1079	178.0 M
Diversified Income Fund*	-0.58%	8.15%	9.19%	11.32%	11.89%	1.6458	1783.0 M
Balanced Fund	-0.49%	11.21%	8.26%	10.78%	10.33%	2.1070	501.7 M
Active Growth Fund	-0.09%	15.08%	10.42%	12.98%	13.06%	3.3769	913.3 M
Global Equity Fund	-2.02%	13.61%	6.13%	—	8.43%	1.4755	401.9 M
Trans-Tasman Equity Fund	0.52%	22.04%	12.77%	12.89%	11.32%	2.5703	323.6 M
Dynamic Fund	1.06%	23.62%	12.09%	—	14.23%	1.7837	204.1 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)	-0.81%	18.25%	13.93%	15.60%	15.37%
S&P/ASX 200 Accumulation Index (AUD)	0.36%	10.10%	5.07%	8.01%	7.93%
S&P/ASX 200 Accumulation Index (NZD)	-1.02%	11.74%	6.56%	5.13%	4.47%
MSCI World Index (local currency)*	-3.53%	13.58%	7.81%	11.80%	9.98%
MSCI World Index (NZD)*	-1.77%	17.52%	9.89%	13.80%	9.45%
S&P/NZX 90-Day Bank Bill Rate	0.15%	2.00%	2.55%	2.77%	2.76%

*With net dividends reinvested

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

Conservative	Diversified Income	Balanced	Active Growth	Global Equity	Trans-Tasman Equity	Dynamic
ASB Bank 5.25% 2026 2.04%	ASB Bank 5.25% 2026 2.46%	iShares MSCI EAFE Index Fund 5.37%	Vanguard Intl Excl Index Fund 3.81%	Wellington Strategic Euro^ 5.40%	a2 Milk Company 7.52%	Coporate Travel Mgmt 4.07%
Westpac 4.695% 2026 1.84%	Charter Hall Group 2.38%	Vanguard Intl Excl Index Fund 3.78%	iShares MSCI EAFE Min Vol ETF 3.68%	Antipodes Global Fund^ 4.58%	Westpac Banking Corp 4.02%	Xero 4.02%
ANZ Bank 5.28% 2049 1.79%	Westpac 4.695% 2026 1.89%	Vanguard FTSE EM ETF 1.24%	Spark New Zealand 2.12%	Wellington Wolf Creek Shares^ 4.32%	National Australia Bank 3.92%	Eclipx Group 3.00%
ASB Bank 6.65% 2024 1.59%	Mirvac Group 1.72%	Wellington Strategic Euro^ 1.11%	Contact Energy 1.98%	GMO Systematic Global Macro^ 4.22%	BHP Billiton 3.82%	Australian Finance Group 2.82%
Precinct Properties 4.42% 2024 1.30%	Aventus Retail Property Fund 1.63%	ASB Bank 5.25% 2026 1.08%	a2 Milk Company 1.95%	Hawkes Bay Investors^ 4.13%	Commonwealth Bank of Australia 3.78%	Bingo Industries 2.74%
ANZ Term Deposit 3.08% 06/18 1.25%	Contact Energy 1.59%	a2 Milk Company 1.03%	Air New Zealand 1.78%	Magellan Infrastructure^ 4.13%	Fisher & Paykel Healthcare 3.33%	MNF Group 2.65%
NAB Float 2023 1.23%	Argosy Property Trust 1.48%	Contact Energy 1.02%	CYBG 8% 2049 1.56%	SPDR Euro Stoxx 50 ETF 2.86%	Spark New Zealand 2.78%	3P Learning 2.54%
Genesis 5.7% 2022 1.20%	Kiwi Property Group 1.44%	Spark New Zealand 1.02%	iShares MSCI EAFE Index Fund 1.43%	iShares Edge MSCI MV EM ETF 2.64%	Xero 2.52%	HUB24 2.43%
IAG 5.15% 2043 1.17%	Aventus Capital Float 2025 1.41%	Charter Hall Group 0.98%	Tourism Holdings 1.43%	Vanguard Info Tech ETF 2.63%	Contact Energy 2.51%	Smartgroup Corp Ltd 2.37%
United Energy 3.85% 2024 1.12%	Scentre Group 1.40%	Antipodes Global Fund^ 0.94%	Delegat Group 1.39%	Energy Select SPDR 2.36%	Summerset Group Holdings 2.25%	Aveo Group 2.31%

^Externally managed fund.

Milford and Milford staff have approximately $33.0 million invested across our Unit Trust PIE Funds as at the end of February 2018.

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