Milford KiwiSaver Plan Monthly Review
April 2018

# Market and Economic Review

President Trump and Facebook's privacy issues weighed heavily on share markets at the end of the March quarter. The US S&P 500 Total Return Index was down 2.5% for the month, the tech heavy Nasdaq Composite Total Return Index was off 2.8%, the ASX 200 Accumulation Index declined 3.8% while the NZX 50 Gross Index eased 0.7%. The Nasdaq Composite was the best performer on a twelve month basis with a return of 20.9%. The NZX 50 had a return of 15.6%, the S&P 500 Index appreciated 14.0%, while the ASX 200 Index was up only 2.5%.

The Milford KiwiSaver funds had the following returns for the month and the year to 31 March; the Active Growth Fund was up 0.1% for the month and up 13.8% for the year, the Balanced Fund was -0.4% and +8.8% and Conservative Fund slightly negative and +6.0%.

The ASX's disappointing performance partly reflects the relatively unstable political environment across the Tasman. Political uncertainty in the US, particularly the upcoming November mid-term elections, is also contributing to increased volatility.

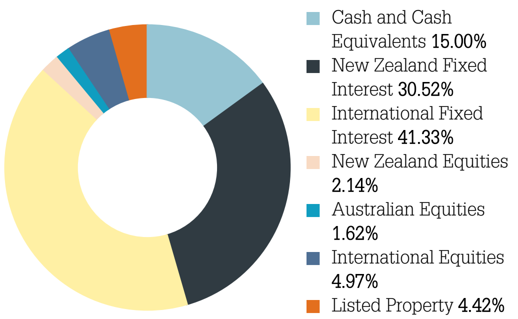
Economic activity continues to pick up throughout most of the world, particularly North America. US unemployment has declined to 4.1%, core inflation remains at only 1.6% and annual rolling GDP growth of 3.1% is predicted for the next quarter. US company earnings for the March quarter, which will be released from mid-April onwards, will benefit from this expanded economic activity. Australia is showing signs of an economic recovery although political developments continue to weigh on business and consumer confidence. Meanwhile, most NZ economic data remain at elevated levels.

Trump remains the biggest market risk, his tax cuts had a positive impact on share markets, but his import tariffs and attack on Amazon and other companies, remain a concern. The 'Trump Factor' is expected to contribute to market volatility in the months ahead with Milford's portfolio managers monitoring developments on a daily basis. Our objective is to try and identify any 'Trump Factor' developments which could have a long-term negative impact on markets.

# Conservative Fund

**Portfolio Manager: Paul Morris**

**Actual investment mix[1]**



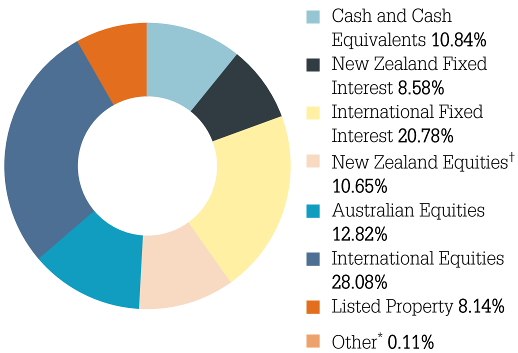

The Fund was close to unchanged in March but returned 6.0% over the year. During the month, the Fund benefited from modest contributions from its Australasian corporate bonds and New Zealand shares with Chorus' share price rising over 10% being a notable performer. These were offset by weakness in global corporate bond holdings and both Australian and global shares.

Market volatility was reduced in March from the extremes seen in February. Nevertheless, volatility remains elevated and markets now face escalating global trade tensions and headwinds for technology shares post Facebook's data security breach. This is in addition to the ongoing expectation for less supportive monetary policy, evidenced by the US raising interest rates in March. Cognisant of the Fund's conservative risk profile, we have remained cautiously positioned with a higher allocation to cash and fixed income.

Higher yields on corporate bonds and more attractive risk adjusted yields on some Australasian income shares means we have continued to cautiously allocate away from cash. This included participating in recent new bond issues from Investore Property and Westpac. We believe near term returns should improve but will be lower than last year.

# Balanced Fund

**Portfolio Manager: Mark Riggall**



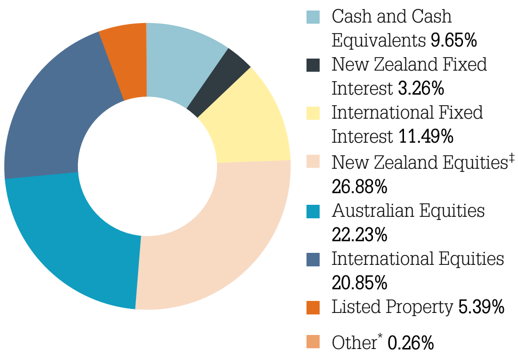

The Fund returned -0.4% in March bringing the one-year return to 8.8%. Global share markets continued their recent bout of volatility, driven by increasing fears of trade wars and concerns that US tech companies may face increasing regulation.

The protracted volatility spilled over into other asset classes, driving demand for government bonds and weakening corporate bonds. Growth assets were generally weak - Australian shares were the biggest drag as the Royal Commission weighed on the banks and industrial metal prices underperformed. The Fund's global shares outperformed the market due to good stock selection and NZ shares outperformed owing to their defensive nature. Income assets were largely unchanged providing stability within the Fund.

In terms of outlook, global growth remains robust but is no longer accelerating and inflation is expected to rise but the risk of overheating has moderated slightly. Global markets remain fragile and at risk of an escalating trade war. Inflation is expected to rise but we are vigilant of an acceleration which would potentially cause central banks to raise interest rates at a quicker pace. However, share valuations have improved, sentiment is more negative and combined with the strong economic backdrop we remain invested as we approach the upcoming US company earnings season. The Fund is currently positioned close to its neutral stance.

# Active Growth Fund

**Portfolio Manager: Jonathan Windust**




The Fund returned 0.1% in March which was a good result given negative returns from New Zealand, global and Australian share markets of -0.7%, -2.3% and -3.8% respectively. Global shares were negatively impacted by potential trade wars and a correction in technology shares after a strong run.

The Fund benefited from some of our more defensive company holdings including Chorus (+10.4%) and Meridian (+5.4%). Retirement village operator Summerset also performed well (+9.6%) following on from its good result in February. During the month, we increased our holding in shares and in particular oil companies in response to the rising oil price.

Looking forward, we believe shares will remain supported by good economic growth, company earnings and low interest rates. However, we expect markets may remain volatile in the short-term given potential rate rises in the US, political uncertainty and in some cases relatively full valuations.

The strategy of the Fund is to remain active and take advantage of market volatility to purchase companies which we believe will deliver good returns over the medium-term.

†Includes unlisted equity holdings of 0.25% ‡Includes unlisted equity holdings of 2.44% *Other may include interest rate derivatives and currency contracts.

**[1]The 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 March 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 | -0.02% | 6.04% | 5.91% | 9.08% | 9.91% | 1.6579 | 51.0 M |
| Balanced Fund | -0.43% | 8.83% | 8.16% | 10.67% | 10.41% | 2.1352 | 198.9 M |
| Active Growth Fund | 0.07% | 13.75% | 10.56% | 12.80% | 13.05% | 3.4059 | 880.8 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) | -0.30% | 16.93% | 13.96% | 14.89% | 14.94% |
| S&P/ASX 200 Accumulation Index (AUD) | -3.77% | 2.54% | 3.76% | 7.66% | 7.23% |
| S&P/ASX 200 Accumulation Index (NZD) | -5.11% | -0.06% | 5.26% | 4.33% | 3.58% |
| MSCI World Index (local currency)* | -2.31% | 9.90% | 7.13% | 10.69% | 9.82% |
| MSCI World Index (NZD)* | -2.06% | 10.07% | 9.37% | 13.04% | 9.52% |
| S&P/NZX 90-Day Bank Bill Rate | 0.15% | 1.98% | 2.49% | 2.75% | 2.74% |

*With net dividends reinvested

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

| Conservative Fund | Balanced Fund | Active Growth Fund |
|---|---|---|
| ASB Bank 5.25% 2026 1.88% | Vanguard Intl Select Excl Index Fund 3.75% | iShares MSCI EAFE Min Vol ETF 3.72% |
| Investore Property 4.40% 2024 1.86% | iShares MSCI EAFE Index Fund 3.60% | Vanguard Intl Select Excl Index Fund 3.70% |
| Westpac 4.695% 2026 1.73% | Spark New Zealand 1.14% | Spark New Zealand 2.19% |
| ANZ Bank 5.28% 2049 1.69% | a2 Milk Company 1.12% | a2 Milk Company 2.00% |
| ASB Bank 6.65% 2024 1.48% | Contact Energy 1.12% | Contact Energy 1.99% |
| Precinct Properties 4.42% 2024 1.23% | ASB Bank 5.25% 2026 1.09% | CYBG 8% 2049 1.58% |
| ANZ Term Deposit 3.08% 06/18 1.19% | Wellington Strategic Euro^ 1.06% | Delegat Group 1.46% |
| NAB Float 2023 1.15% | Charter Hall Group 0.92% | Sydney Airport 1.40% |
| Genesis 5.7% 2022 1.13% | Antipodes Global Fund^ 0.89% | Tourism Holdings 1.24% |
| United Energy 3.85% 2024 1.06% | Wellington Wolf Creek Shares^ 0.86% | JPMorgan 5.15% 2023 1.19% |

^Externally managed fund.

**Milford staff have approximately $8.3 million invested in the Milford KiwiSaver Plan as at the end of March 2018.**

# Responsible Investing

Milford has always paid attention to environmental, social and governance (ESG) issues but in recent months we have formalised our policies in these areas. This includes two major developments;

- Becoming a signatory to the United Nations Principles for Responsible Investment (PRI)
- Becoming a member of Responsible Investment Association Australasia (RIAA).

We became a United Nations PRI signatory as we believe ESG issues can impact on the performance of companies we invest in. In other words, companies with strong ESG standards should perform better than companies neglecting these issues. As part of our commitment to responsible investing, we will incorporate ESG issues into investment analysis & decision-making processes. We have formally committed to several other objectives, including a policy to encourage companies to commit to greater disclosure on ESG issues.

We became a member of RIAA as it seeks to promote the concept of responsible investment across the finance industry and to the investing public, with the objective of increasing the uptake and impact of social investment. We also have an exclusion list of companies we will not invest in. This includes all Milford funds. Companies involved in the following activities are on the list;

- Production or sale of anti-personnel land mines that are not compliant with the Anti-Personnel Mines Prohibition Act 1998
- Production, design, testing, assembly or refurbishment of nuclear explosive devices
- Production or development of cluster munitions
- Processing of whale meat
- Manufacture of tobacco
- Manufacture of recreational cannabis products.

To the extent that it is feasible and commercially prudent, we will avoid indirect investment in companies included in this exclusion list (i.e. either through Exchange Traded Funds (ETFs) or other collective investment vehicles). These types of investments are assessed on a case-by-case basis and any potential for indirect exposure is carefully considered and factored into investment decisions.

You can find information on our responsible investing policies, including our exclusion list on our web site;
www.milfordasset.com/about-us/responsible-investing
www.milfordasset.com/new-to-investing/our-investment-approach

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